

**BEFORE THE  
POSTAL REGULATORY COMMISSION  
WASHINGTON, DC 20268-0001**

**Stamped Stationery and Stamped Cards  
Classifications**

**Docket No. MC2006-7**

**DOUGLAS F. CARLSON  
INITIAL BRIEF**

**May 4, 2007**

**I. INTRODUCTION**

In Order No. 1475, the Commission indicated that “novel pricing approaches” may be appropriate for stamped stationery products.<sup>1</sup> After observing an apparent recent price change by the Postal Service for a stamped stationery product, the Commission suggested testing “rate bands” as an appropriate mechanism to allow the Postal Service to adjust the price of stamped stationery products. *Id.* at 14. The Commission suggested, hypothetically, that “the fee structure might include a floor, *e.g.*, recovering costs, including a not-nominal contribution to overhead, and a cap, *e.g.*, a multiple of the existing first ounce First-Class Mail rate.” *Id.*

When the Commission suggested that the rate cap might be a multiple of the First-Class rate, the Commission had no information on the cost consistency, or similarity, of various stamped stationery products. See Order No. 1475 at 12–13.

On February 22, 2007, the Postal Service filed a request for an opinion and recommended decision. Although the Commission had correctly observed

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<sup>1</sup> Order No. 1475 at 13, filed August 24, 2006.

that “it may be worthwhile to consult with participants [before filing this request] in an effort to fashion a broadly acceptable pricing approach,” Order No. 1475 at 15, the Postal Service did not consult with any participants in this proceeding and instead filed a proposal that is entirely unilateral.<sup>2</sup> Witness Yeh proposes a fee range for premium stamped stationery of two to three times the first-ounce First-Class letter rate and a rate band for premium stamped cards of one to three times the first-ounce First-Class card rate. USPS-T-1 at 4–5.

Unfortunately, the unit costs of stamped stationery products vary widely. The Postal Service has issued two stamped stationery products: *The Art of Disney: Friendship* stationery and the Garden Bouquet stationery. Witness Yeh provided a unit cost of \$0.36 for the Garden Bouquet stationery. *Id.* at 5. However, witness Yeh’s testimony was conspicuously silent on the cost of the Disney stationery. An interrogatory from the Office of the Consumer Advocate forced the Postal Service to reveal that the unit cost of the Disney stationery is just \$0.22. OCA/USPS-T1-8. At a First-Class rate of 41 cents, the rate band that the Postal Service proposes for stamped stationery would result in a cost coverage of 456 percent on the lower end and a staggering 559 percent on the upper end. OCA/USPS-T1-9. The current cost coverage of this product is between 317 and 389 percent.<sup>3</sup> The cost coverage for the Garden Bouquet stationery would range from 300 percent to 342 percent. OCA/USPS-T1-7.

The Postal Service’s unit costs for stamped stationery include window selling costs. USPS-T-1 at 6. However, the Postal Service sells over half the packages of stationery by mail order through Stamp Fulfillment Services in Kansas City. DBP/USPS-1. Asked why the unit cost for stamped stationery should include window selling costs for packages sold through Stamp Fulfillment

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<sup>2</sup> The Postal Service offered a variety of reasons why it did not consult with participants prior to filing its request. Request of the United States Postal Service for a Recommended Decision to Establish Classifications and Fees for Premium Stamped Stationery and Premium Stamped Cards at 4 (“Request”), filed February 22, 2007. However, the Postal Service fails to explain why, if it in fact “very much wanted to pursue” the Commission’s suggestion, Request at 3, the agency did not ask potential participants to support a motion to extend the filing deadline.

<sup>3</sup> The range is a result of uncertainty about total attributable cost.

Services, witness Yeh claims that “window-service selling costs are a reasonable proxy for Stamp Fulfillment Services sales costs.” DFC/USPS-T1-10.

Questioned further, the Postal Service admits that no products are on sale for which the Stamp Fulfillment Services selling costs are attributed directly to those products. DFC/USPS-T1-11. Rather, the costs are institutional. *Id.* The Postal Service has provided no justification for setting a new precedent and attributing Stamp Fulfillment Services selling costs to stamped stationery products but not to other products. Therefore, the Postal Service’s unit costs for the Disney and Garden Bouquet stationery are inflated, and the proposed cost coverages are even higher than those discussed previously

Unit costs for premium stamped cards vary widely as well, thus raising the same problem of widely varying cost coverages if the fee for premium stamped cards is based on an arbitrary number such as the postage rate for First-Class cards. See DBP/USPS-46.

## **II. PRICING DISCUSSION**

In principle, I support the Commission’s suggestion to test flexible pricing for stamped stationery and card products.<sup>4</sup> The Postal Service should have the freedom to take new stamped stationery products to market without seeking Commission approval for a fee for every single product.

If the Commission recommends a fee range, the Postal Service will be free to establish a price for every stamped stationery product at any point in the approved range. The Commission, therefore, must establish a fee range that ensures that the selling price of every stamped stationery product — whether it is priced at the bottom of the range, the top of the range, or somewhere in between

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<sup>4</sup> When the Commission suggested a rate band, the Commission was assuming that the Postal Service would change the price of a stamped stationery product during the sale life of the product. See Order No. 1475 at 14. In reality, the Postal Service does not expect to change the price of a stamped stationery product once it sets the price. DFC/USPS-T1-25. The change in this fundamental assumption does not necessarily remove the concept of a rate band from consideration, although the case for rate bands may now be weakened.

— comports with the statutory pricing criteria. A cost coverage of 300 percent, let alone a cost coverage of 456 percent or 559 percent, would be too high.

While the Postal Reorganization Act does not specifically mention the term “cost coverage,” this concept has been central for over 35 years to judging whether particular rates and fees are fair, equitable, reasonable, and otherwise compliant with the pricing criteria of the Act. Moreover, the Postal Service has been, and still is, a government agency whose primary mission is public service, not profit taking. A reasonable profit is in the public interest. Excessive profits are not.

The Postal Service attempts to dodge the high cost coverages it proposes by conveniently claiming that the proposed fees are not based on cost coverages. DFC/USPS-T1-7. Witness Yeh’s response to OCA/USPS-T1-23 suggests that the Postal Service interprets the Commission’s call for “novel pricing approaches” as a license to skim as much profit from stamped stationery as the market will bear. In reality, novel pricing approaches should provide flexibility and speed in placing new products on the market. Novel pricing approaches should not, however, permit the Postal Service to charge the highest cost coverages of any postal service in the 36-year history of the Postal Reorganization Act.

The Commission’s order could be read to open the door ever so slightly to unusually high prices for stamped stationery. The Commission noted that “[c]omparable substitutes abound” and that “no mailer is required to purchase” stamped stationery. Order No. 1475 at 13. The Commission also stated, “The distinctions between this type of specialty product and market dominant essential communications services may justify substantially different rates as well as a variety of novel pricing approaches.” *Id.* The Commission should proceed down this path carefully — if at all. The only postal service for which other options arguably do not exist is First-Class Mail, although some consumers who pay all their bills on-line, carry a portable electronic device capable of sending e-mail,

and own a scanner or fax machine may believe that alternatives exist for all postal services. Some partial or complete substitute exists for practically every other postal service, including Parcel Post, Priority Mail, Express Mail, Delivery Confirmation, Signature Confirmation, Certified Mail, Return Receipt, stamped envelopes, stamped cards, and so on. Alternatives even exist among and between the Postal Service's product line — e.g., Return Receipt for Merchandise, Signature Confirmation, Certified Mail, Certificate of Mailing, and Delivery Confirmation. Stamped stationery undoubtedly is an optional service, too. This observation responds to Criterion 5, which requires the Commission to consider “the available alternative means of sending and receiving letters and other mail matter at reasonable costs.” 39 U.S.C. § 3622(b)(5). However, for all the other optional services for the past 36 years, this criterion has never been read as a blank check to allow cost coverages of 300 percent or more. Criterion 5 permits a cost coverage higher than the cost coverage for a monopoly service, but it is one of many factors, including Criterion 1, which requires rates to be fair. 39 U.S.C. § 3622(b)(1). The Commission must assess fairness with a constant eye to the Postal Service's public-service mission.

The elephant in the room is philately. The Postal Service clearly sells stamped stationery and cards to provide a product for stamp collectors to buy. Without stamp collectors, the Postal Service would not market these stamped stationery products. Some stamp collectors derive enjoyment from the hobby by purchasing every new stamp issue, every new stamped stationery issue, or every new issue related to a particular subject. Based on their own definition of their obligation to their hobby, these collectors may feel compelled to purchase stamped stationery and cards to complete their collection. Collectors benefit, albeit indirectly, from the pricing criteria of the Postal Reorganization Act when they are collecting postal products as well as when they are sending mail. For example, philatelists who collect stamped cards benefit when the fee is fair and reasonable, even if they never mail the cards. Collectors of stamped stationery products may not agree that the availability of substitute means of sending mail

and the absence of any legal requirement to purchase stamped stationery should give the Postal Service license to price stationery products more than 5.5 times above cost. When evaluating the statutory pricing criteria, the Commission should not ignore the primary target audience of stamped stationery products when it evaluates the weight to assign to the availability of alternatives to stamped stationery for sending mail.

### **III. PRICING RECOMMENDATION**

I urge the Commission to approve a fee range for premium stamped stationery and premium stamped cards of 150 to 250 percent of the unit cost of the product. A high cost coverage of 250 percent is reasonable because the product apparently has a high value of service, and many alternatives exist. While on the high end of historically approved cost coverages, this cost coverage is fair. A cost coverage of 150 percent would comply with the policies of the Act as well because some services, such as Priority Mail, arguably provide a higher value of service than stamped stationery, yet they have a cost coverage lower than 150 percent (149.8 percent for Priority Mail in Docket No. R2006-1<sup>5</sup>). The range that I recommend is reasonable and justified on the upper end as well as the lower end.

A fee range based on cost coverages will be just as flexible and convenient as a fee range based on an unrelated factor, such as the First-Class rate. However, a fee range based on cost coverages will provide improved stability and longevity because the fee range will never diverge too greatly from the underlying cost coverage — the fundamental measure of fairness of a fee.

As the Commission noted, the use of rate bands for stamped stationery products is a test. The preceding discussion demonstrates why a rate band should be linked to the underlying cost of the product, not an arbitrary and unrelated number such as the First-Class Mail rate. This proceeding already has

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<sup>5</sup> PRC Op. R2006-1 at 198.

been a good test of the concept, and the Postal Service's request shows why the concept needs refinement.

The Commission should approve a fee range for premium stamped stationery and premium stamped cards of 150 to 250 percent of the unit cost of the product.

Respectfully submitted,

Dated: May 4, 2007

DOUGLAS F. CARLSON