

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

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**POSTAL RATE AND FEE CHANGES, 2006**

**DOCKET NO. R2006-1**

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**REPLY COMMENTS OF POSTCOM ON  
THE BOARD OF GOVERNORS REQUEST FOR RECONSIDERATION OF  
STANDARD MAIL FLAT RATES**

The Association for Postal Commerce (PostCom) hereby files these reply comments regarding the Postal Service's request for reconsideration of Standard Mail flat rates.

The Postal Service (and those commenting parties who seemingly support its view of "rebalancing") got it half – but only half – right: it is beyond question that the Commission's assessment of the extent to which mailers of flat-shaped pieces would be able to "convert" their mail into letters – an assessment induced by the Postal Service's own testimony (see PostCom Initial Comments at 2-3) – was overly optimistic. The Board of Governors remand order concedes as much and the comments the Commission has received on remand confirm this. Where the Postal Service and its supporters founder is in advocating that mitigation of the flats rates should be "offset" by an increase in the Standard Regular and Non-profit letter rates. This proposition is nothing less than a claim that only a mechanistic "rebalancing" of letters and flats can achieve the Postal Service's revenue requirement.

This position completely ignores the many qualitative judgments that entered into the Postal Service's evidence and the Commission's analysis leading to the results originally recommended by the Commission. There is absolutely no evidentiary or legal

barrier to the Commission exercising its judgment to reconsider its recommendations and reach the result for which PostCom and others contend: the Commission can and should mitigate the harm that will otherwise be caused to flats mailers under the current rates, in a way that does not cause harm to any other type of mailer or to the Postal Service.

The Postal Service offers a rebalancing proposal that would increase letter rates by \$.007 per piece. An increase of that magnitude over Commission's recommended rates is not "modest." Initial Statement of the United States Postal Service on Reconsideration (March 28, 2007) at 10. While the Postal Service has been more specific in how and in what amount it believes the letter and flat rates should be adjusted, it has not otherwise based its rebalancing proposals on the record in this case. Clearly, the Postal Service *believes* that rebalancing as it is proposed is necessary to maintain revenue neutrality. However, belief is no substitute for analytic support and the absence of analysis for the Postal Service's proposal makes it all but impossible to replicate its revenue effects.

It appears that the Postal Service believes rate adjustments will have no effect on the volumes of both letters and flats forecasted by the Commission in its Recommended Decision. See Opinion and Recommended Decision at Appendix G; *cf.* Postal Service Initial Comments at 4; n. 7. This is utterly irrational in both dimensions. The need for mitigation of the flats rates exists precisely because of the fact that since flats cannot – for technological, marketing and financial reasons – be *ipso facto* reshaped as letters, the Postal Service will not realize either the flats or letter volume forecast by the Commission. The corollary (conveniently ignored by the Postal Service and its adherents) is equally true: if the letter rates are increased, this is very likely to naturally

reduce letter volume and cost the Postal Service not only potential revenues, but contribution to institutional costs. These conclusions – that prices affect volumes of both letters and flats – cannot be derived from the demand models; but they are plainly unassailable as a matter of exercise of judgment in light of more than 35 years of experience under the Postal Reorganization Act. As the Postal Service itself grudgingly admits, rate impacts are “a two-way street.” Postal Service Initial Comments at 4.

In short, there is nothing in this record, and the Postal Service points to nothing, to support the Postal Service’s claim that the only way or even the best way to maintain revenue neutrality is through the “rebalancing” proposal that it has advanced.

What is called for in this situation is not the task of rerunning the Postal Service’s demand models using a different set of rates and imposing arbitrary assumptions in order to arrive at a predetermined revenue outcome. In fact, the demand models are useless to the task the Commission now has before it. As PostCom stated in its Initial Comments, the Postal Service’s demand model operates at the subclass level, not by shape of mailpiece. USPS-T-7 at 103. Both the Commission and the Postal Service already recognize the weaknesses of revenue forecasts by shape. Opin. and Rec. Dec. Vol. 2, App. I at ¶ 15 *et seq.*; USPS-T-7 at 365. The shape-based volume projections, and the resulting revenue projections, are largely based on judgments that the Commission can reasonably reassess – and thereby achieve more just and reasonable results.

Accordingly, given the issue in front of it, the sound and reasoned exercise of Commission judgment compels the conclusion that the flats rate should be mitigated and the letter rates should be left utterly undisturbed. That approach, and only that approach, provides the best assurance that revenue neutrality will be achieved. This is

not a “zero sum” issue. Order 13 at 12. That would be true if, but only if, the issue here involved an intra-class subsidy. But there is no claim that mitigation of the flats rates will result in that category failing to cover its attributable costs. And, the Postal Service does not contend that the Commission’s analysis of the costs of letters and flats was wrong.

Rather, what the Commission is confronted with is the task of reaching a result which mitigates the harm to mailers of flat pieces while providing the Postal Service with a reasonable prospect that it can achieve the forecast revenues for Standard Regular and non-profit subclasses. It is not the Commission's responsibility to guarantee the Postal Service achieves that level of revenues. A forward looking test year necessarily entails the exercise of judgment not only as to the robustness of demand models and reliability of volume projections, but as to a myriad of other uncertainties which demand the exercise of judgment. The contingency reserve is the Postal Service's cushion against potential misjudgments and uncertainties. If the Commission blindly supported mechanical adherence to models, it would have recommended a zero contingency. Given that the Commission declined to mechanically recommended a zero contingency, it should not now decline to weigh the considerations expressed by the participants, and should exercise its judgment on reconsideration of Standard Mail Regular and Nonprofit flat rates.

Thus, the Postal Service’s claim that the letter rates should be increased should be rejected. PostCom does concur with the Postal Service that “rebalancing” within flats is unworkable. Flats rates should be adjusted downward at each rate cell preserving the rate relationships within or between the flats categories. The attempt to moderate certain rate cells by increasing rates in other rate cells (e.g., by shifting revenues from piece rated to

pound rated flats) threatens to “solve” one problem by creating others. Adjustments or changes in relationships within the flats categories is very likely to alter mailer behavior in ways which not only affect volumes but, more importantly, Postal Service costs. The deficiencies and limitations of the demand models, and the inherently uncertain nature of forecasts that compels that the letter rates be left as they are equally compels rejection of “rebalancing” within the flats category.

### **CONCLUSION**

For the reasons set forth above, as more fully set forth in PostCom’s Initial Comments, the Commission should recommend downward adjustment of Standard Mail Regular and Nonprofit flat rates, reducing the rates for flats at each rate cell, but should leave its recommendations for Standard Mail letters undisturbed.

Respectfully submitted,

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