

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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DIRECT MARKETING ASSOCIATION, INC.  
REPLY COMMENTS  
PURSUANT TO PRC ORDER NO. 8  
(May 11, 2007)

The Direct Marketing Association, Inc. (“DMA”) respectfully submits these Reply Comments pursuant to PRC Order No. 8 in this proceeding, specifically responding to some of the points made by the Postal Service in its Initial Comments filed on May 4, 2007.<sup>1</sup>

**I. The Postal Service’s Initial Comments Contain a Critical Flaw.**

DMA agrees that the “automation, presort, and drop-ship discounts”<sup>2</sup> initially recommended by the Commission should not be modified upon reconsideration.

Also, DMA agrees with the Postal Service that the Commission “applied ECP in some instances believed to be inappropriate for strict adherence to the principle.”<sup>3</sup> In particular, ECP does not apply to “passing through cost differences between letters and flats.”<sup>4</sup>

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<sup>1</sup> Initial Comments of the United States Postal Service on Reconsideration of Rates for Standard Mail (May 4, 2007) (“USPS Comments”).

<sup>2</sup> *Id.* at 6.

<sup>3</sup> *Id.*

<sup>4</sup> *Id.*

However, DMA believes it is not necessary to raise Standard Regular letter rates by 0.7 cents per piece, or by any amount whatsoever, in order to reduce Standard Regular flat rates by 3 cents per piece. DMA calculates that a rate decrease for Standard Regular flats of 3 cents per piece would reduce Postal Service revenues by approximately \$350 million.<sup>5</sup> As DMA demonstrated in its Initial Comments, the Commission can reduce Standard Regular flat rates by substantially more than this amount and still leave with the Postal Service with a substantial revenue cushion in the Test Year. Thus, a reduction of 3 cents per piece is an *a fortiori* case.

DMA has a much better solution than that offered by the Postal Service. The Commission should definitely provide rate relief for Standard Regular flats, but it need not, and should not, increase the rates for Standard Regular letters. The rebalancing that should occur is with the overall amount of revenue to be received by the Postal Service during the Test Year, simply reducing the size of the revenue cushion that the Commission built into its initial Recommended Decision. In that way, the Commission upon reconsideration would be recommending rates that are reasonable and for which there is solid support in the record, and these rates (together with the other postal rates) would produce more than enough revenue to meet the “break even” standard established by section 3621.<sup>6</sup>

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<sup>5</sup> This calculation is based on the volume estimates used by the PRC, which are the only volumes figures available at this time. DMA would like to re-emphasize, however, its concern that the Commission has used volume estimates for Standard Regular flats that are unrealistically high and that do not take into account the impact on volume that out-of-range rate increases will have on own-price elasticities.

<sup>6</sup> DMA would like to emphasize that there is no basis for an argument that Standard Regular flat rates should be left at the levels recommended by the Commission in order to avoid “cross-subsidization” of flats by letters. At the (substantially lower) rates initially proposed by the Postal Service, Standard Regular flat mail covered its attributable costs and made a substantial contribution to institutional costs. The current issue regarding flat rates does not involve section 3622(b)(3). It is a pricing matter, not a costing matter, and involves section 3622(b)(2) and (4).

**II. Conclusion.**

For the reasons stated above and in DMA's Initial Comments filed on May 4, 2007, the Commission upon Reconsideration should recommend the rates for Standard Regular flats proposed by the Postal Service. At the same time, it is not necessary to recommend changes in the rates it recommended for any other class or subclass of mail, including Standard Regular letters.

Respectfully submitted,

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