Postal Regulatory Commission
Submitted 5/11/2007 2:52:37 pm
Filing ID: 56577
Accepted 5/11/2007

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

POSTAL RATE AND FEE CHANGES, 2006	))	Docket No. R2006-1

REPLY COMMENT OF AMERICAN BANKERS ASSOCIATION ON THE RECONSIDERATION OF STANDARD MAIL FLATS RATES
(MAY 11, 2007)

In response to the Commission's order dated April 27, 2007, the American Bankers Association (ABA) submits its reply comments regarding the Commission's reconsideration of the rates that have been recommended for Standard Mail Flats.

The core issues to be resolved by the Commission on remand from the Board of Governors are twofold:

- Whether the Commission should takes steps to mitigate the possibility of "rate shock" for light weight catalogs that might be caused by the Standard Mail Flat rates recommended by the Commission's in its April 27, 2006 decision; and

- Should the Commission find mitigation appropriate, whether it should recommend reinstating a subsidy of rates for flats by revenues generated by letter mail that it eliminated in its April 27th decision.

In submitting its recommended rate structure for Standard Mail to the Board of Governors, the Commission recognized that the pricing of Standard Mail products – via the adoption of shape-based rates – was intended to reflect the cost distinctions in processing each type of mail. The Commission noted that

> Standard Mail consists entirely of bulk mailings with rates intended to reflect cost distinctions. The Postal Service proposes that new, separate shape-based rate schedules be added to Standard Mail to better reflect costs. The Commission recommends this improvement. Recommended Standard rates vary from those suggested by the Postal Service in that smaller increases are recommended for the more efficient (lower cost) pieces, while some less efficient pieces face larger increases.[1]

ABA believes that it would truly be a retrograde step for the Commission to penalize more efficient letter mailers (and other industries) by adopting a recommendation that backs away from recognizing cost distinctions in the different Standard mail products and forces letter mailers to subsidize flat mailers, especially given the existence of appropriate alternatives to raising letter mail rates.

ABA is especially concerned with the proposal submitted by the United States Postal Service to "rebalance" the Standard mail rates by raising the price for automation and nonautomation machinable letters by $0.007 per piece.[2] As a significant user of Standard letter mail, the banking industry would be among the largest industries affected by a price increase. Applying the proposed increase to the 50 billion-plus automation and nonautomation machinable Standard Mail letters carried by the Postal Service in FY 2005[3] results in an annual increase that may be conservatively estimated at $350 million for all commercial Standard letters. A significant portion of that total would be paid by individual banking institutions – institutions that will in many cases see their annual postal costs increase by several *millions* of dollars *per bank* as a result of

---

[1] *Opinion and Recommended Decision,* Docket No. R2006-1 (Feb. 27, 2007), p. iii.
[2] *Initial Comments of the United States Postal Service On Reconsideration of Rates for Standard Mail*, Docket No. R2006-1 (May 4, 2007).

the reintroduction of this one subsidy.[4]

The most frustrating aspect of the Postal Service's proposal is that a "rebalancing" of the Standard Mail flat rates need not be achieved by raiding the rates for any other mail class or category, including letter-shaped Standard Regular Mail. First, as suggested in ABA's initial comments, the desired result may be achieved via a rebalancing among the flats rates and not from an increase in letter rates. The Commission first should first seek to rebalance rates via adjustments within the rate structure that applies to flat pieces before burdening letter mailers.

Second, the Commission should consider looking to the "contingency" provision contained in its projected financial statements for the test year. The decision by the Board of Governors approved the Commission's estimate that

> its recommended rates and fees would result in a test-year surplus of $2.3 million, after recovery of $9.374 million for prior years' losses, and including a provision for contingencies of $768 million, or 1 percent of total accrued costs, as requested by the Postal Service.[5]

---

[3] *See* PRC-LR-15, *Standard Regular and Nonprofit Rate Design*.

[4] For example, Capital One has previously reported in the context of a Negotiated Service Agreement proceeding in 2002 that it sent 947,706,521 solicitations via Standard mail in the year 2001. *Errata to Testimony of Witness Stuart Elliott (COS-T-2) Exhibit 2: Capital One Volume of Customer Mail and Solicitations: October 1999 to September 2002*, Docket No. MC2002-2. Multiplying this volume by the $.007 per piece increase proposed by the Postal Service yields an annual additional cost to Capital One for Standard mail of $6,663,945.00. Based upon a survey of its members, ABA believes that the Standard mail usage within the banking industry has materially grown since 2001, which amplifies the impact of any rate increase.

[5] *Decision of the Governors of the United States Postal Service on the Opinion and Recommended Decision of the Postal Regulatory Commission on Changes in Postal Rates and Fees,* Docket No. R2006-1, p. 2.

Comments submitted by both the Direct Marketing Association ("DMA")[6] and PostCom[7] suggest that this $768 contingency is excessive given the current financial health of the Postal Service. DMA proposes that the Commission should reduce the rates for Standard Regular flats to the levels originally proposed by the Postal Service without increasing any other rates, arguing that the Postal Service would still be left with a substantial "cushion" to meet unforeseen events.[8] While ABA does not necessarily agree with all of the positions taken by DMA and PostCom in this proceeding, it does agree that the contingency fund should be looked to as a source for any "rebalancing" of the Standard flat rates before raising letter rates.

Finally, should the Commission decide to mitigate the impact of the new rate structure on catalog mailers, it is clear that any revised Standard mail rates would have to be implemented after the May 14, 2007 date when the rates recommended by the Commission on February 26 for Standard Mail are scheduled to take effect. Thus, it is apparent that that implementing any rate "rebalancing" would necessarily entail several rate changes for Standard Mail within a short period of time. This is hardly an attractive option for Standard Mail letter mailers; there is a substantial cost inherent in such an effort, not only in terms of direct costs (new rate schedules, reprogramming of hardware and rewriting of software, customer education) but also in terms of indirect costs (disrupted marketing plans, decisions to change channels out of mail, lost standard

---

[6] *Direct Marketing Association Inc., Initial Comments Pursuant To PRC Order No. 8,* Docket No. R2006-1 (May 4, 2007).

[7] *Initial Comments of PostCom on the Board of Governors' Request for Reconsideration of Standard Mail Flat Rates, Docket No. R2006-1*, (May 4, 2007).

[8] *Direct Marketing Association Inc., Initial Comments Pursuant To PRC Order No. 8,* Docket No. R2006-1 (May 4, 2007), at p. 4.

letter volume, lost faith in the reliability and stability of mail rates) that would be a direct loss to both the mailers and the Postal Service. These additional costs are caused not by the higher rates, but by the simple process of unexpectedly changing rates several times within a short period of time.

ABA understands and sympathizes with the concerns of flats mailers regarding the size of the rate increases for their mail. However, we submit that the Commission should resist efforts to reintroduce any subsidy of flat rates by revenues generated by letter mail. The Commission's Recommended Decision properly took steps to eliminate some of the unfair (and inefficient) under-pricing of flats and overpricing of letters, and there is little reason to deviate from that path now, given the clear mandate of the ***Postal Accountability and Enhancement Act of 2006*** to require each category of mail carry its share of costs. It would highly ironic if the Commission, on the eve of implementing a price cap structure, took steps to *increase* the amount of cross-subsidy in standard mail rates instead of decreasing the amount of cross-subsidy. Using the contingency fund as a funding source for mitigation for the catalog industry would still result in subsidizing flat mailers, but at least it would not be doing so at the expense of Standard Mail letter mailers, and it would thus not do any harm to Standard Mail letter mailers, nor to anyone else.

Respectfully submitted,

_/s/Gregory Taylor________

Gregory F. Taylor
American Bankers Association
1120 Connecticut Ave.,
N.W. Washington, D.C. 20036
(202) 663-5028

May 11, 2007

e-mail: Gtaylor@aba.com