

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

Postal Regulatory Commission
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**Service Standards and Performance
Measurement for Market Dominant
Products**

Docket No. PI2007-1

REPLY COMMENTS OF ADVO, INC.

ADVO, Inc., a wholly owned subsidiary of Valassis, Inc., hereby submits its reply comments in response to the Commission's Request for Comments on Modern Service Standards and Performance Measurement for Market Dominant Products.

The initial comments of the various parties make clear the obvious: mailers want good, reliable service at affordable rates. Achieving these two interlinked goals within a CPI-U price cap regime is in the Postal Service's interest; indeed, it is critical to the Postal Service's survival. Regardless of any legal or regulatory requirements, the Postal Service as a matter of good business practice should closely monitor its service performance and strive to meet its service standards, working in conjunction with its customers.

The task of maintaining good service at affordable rates, however, will not be easy given the challenges the Postal Service faces in the marketplace and in the new regulatory environment. The Postal Service's ability to succeed will depend not only on its management of the system but upon the cooperation of mailers, postal workers, and the Commission.

The Commission should take care that the "service" element within its jurisdiction not be transformed into a costly regulatory bog. In this respect, we concur with the cautionary notes expressed by the American Postal Workers Union that "service

standards impose a cost on the Postal Service,” and that “the Postal Service and the Commission should consider the cost” of any measurement systems that may be adopted. APWU Comments at 2, 4. In particular, the Commission should reject proposals such as the OCA’s that would encrust the process with elaborate service measurement schemes and econometric analyses of customer satisfaction surveys.

We have no specific comment at this time on the level of detail that should be incorporated into the service standards, except to note that there is a tradeoff. If elaborate standards are codified by regulation, the Postal Service may, ironically, find itself inflexibly bound to adjust its operations regardless of costs to attain a targeted measurement score, undermining its ability to achieve the necessary cost-effective balance between affordable rates and good service. Some element of flexibility to manage the system is essential.

The tougher question is what to do when service standards are not met (as will in some circumstances inevitably be the case). All parties appear to agree that imposition of fines on the Postal Service is self-defeating. The other available regulatory remedy – ordering a reduction in rates due to failure to meet service standards – carries risks as well. Reduced revenue means less funds available to the Postal Service to rectify service problems. For these reasons, we believe the Commission should exercise its authority lightly, focusing on monitoring and identifying service problems rather than on regulating service and imposing sanctions. As we stated in our initial comments to the Commission’s first advance notice of proposed rulemaking:

“Even on other aspects such as service compliance, the Commission should use the Section 3653 compliance review process primarily as a means to alert the Postal Service and parties to issues that need to be addressed, rather than issuing a

noncompliance finding that could lead to sanctions detrimental to mailers and the Postal Service. Only if there is a persistent and serious problem that the Postal Service has failed in reasonable time to rectify should the Commission invoke the sanctions of Sections 3653 and 3662.”

Advo Initial Comments, Docket RM2007-1, at 8-9.

Respectfully submitted,

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