

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

**Competitive Products Price Changes
Rates of General Applicability**

Docket No. CP2008-3

**COMMENTS OF PITNEY BOWES INC. IN RESPONSE TO NOTICE
AND ORDER CONCERNING CHANGE IN RATES OF GENERAL APPLICABILITY
FOR ALL COMPETITIVE PRODUCTS**

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I. INTRODUCTION

On March 12, 2008, the United States Postal Service (Postal Service) filed with the Postal Regulatory Commission (Commission) its Notice of Governors' Decision No. 08-3 (USPS Notice), providing notice of the changes in rates of general applicability and of classification changes for all competitive products. The USPS Notice, filed pursuant to 39 C.F.R. § 3015.2, represents the Postal Service's first exercise of its new authority under the Postal Accountability and Enhancement Act (PAEA)¹ to change competitive products prices of general applicability. *See* 39 U.S.C. §3632(b)(2).

Pursuant to section 3632 of the PAEA and part 3015.2 of the Commission's Rules of Practice and Procedure, the Commission issued its Notice and Order Concerning Change in Rates of General Applicability for All Competitive Products (March 13, 2008)(Docket No. CP2008-3). *See* 39 U.S.C. § 3632; 39 C.F.R. § 3015.2.

Pitney Bowes Inc. (Pitney Bowes) is pleased to provide these comments in response to PRC Order No. 65 (March 13, 2008). These comments address the price adjustments proposed for the Postal Service's Express Mail and Priority Mail offerings.

II. DISCUSSION

Pitney Bowes supports the Postal Service's exercise of its pricing flexibility and commends the Postal Service for proposing ambitious, market-responsive price changes for its Express Mail and Priority Mail products. The structural changes and pricing incentives proposed for these products should enhance the Postal Service's competitive position by providing incentives for more efficient, high-volume "commercial" mail.

¹ *See* Pub. L. No. 109-435, 120 Stat. 3198 (Dec. 20, 2006).

Providing these and other pricing incentives will promote the adoption of cost effective and value-added payment evidencing methods and encourage increased mail volumes.

A. Express Mail

Although the Express Mail price changes were relatively modest (3.1 percent), the Postal Service introduced several important substantive changes to better align prices with costs. Specifically, the Postal Service proposed zoned pricing and pricing incentives for “commercial” payment evidencing and increased volumes.

The Postal Service proposes to replace the current unzoned retail price structure with zoned prices. As noted by the Postal Service, “[z]oning Express Mail prices is consistent with the standard industry practice for expedited products, and aligns the pricing structure with customer expectations. In addition, it reflects the higher costs of transporting mail longer distances.” USPS Notice, Attachment A, at 3-4. Recognizing the higher cost of distant zones, the proposed price increases are concentrated in Zones 5 through 8 (mail transported more than 600 miles). *See id.*, at 3-4. The Postal Service further notes that any decline in volume or revenue for long-distance shipments should be offset by increased volumes for more cost-competitive Express Mail to Zones 1 through 4. *See id.* Pitney Bowes supports the Postal Service’s recognition of the relationship between cost and distance.

As a result of these proposed pricing changes for Express Mail, the rate design for every major class of mail except First-Class Mail² now recognizes the effect of distance on cost. Deaveraging rates by distance to reflect transportation related costs provides mailers with incentives to minimize the total cost of printing and distributing and protects

² Although classified as part for “First-Class Mail,” Priority Mail, which does have zoned rates, is distinct from First-Class Mail letters, flats, parcels and comprises less than one percent of “First-Class Mail” volume.

the Postal Service from an adverse selection problem. With increasing transportation costs caused by increasing fuel costs and constrained by a price cap, deaveraging rates should be in the Postal Service's interests. Pricing signals that encourage mailers to prepare their mail closer to the delivery destination, via zoned rates or drop ship incentives, also promotes the Postal Service's efforts to improve its "environmental footprint" and to promote enhanced sustainability. Accordingly, while beyond the scope of this proceeding, the Postal Service should also adopt distance related zoned pricing or drop ship discounts for First-Class Mail.

The Postal Service is also proposing structural changes to Express Mail prices to provide incentives for "commercial" payment evidencing methods and volume incentives. Specifically, the Postal Service has proposed a 3 percent reduction in the "retail" price for Express Mail products, for customers purchasing Express Mail service through alternative retail channels. *See* USPS Notice, Attachment A, at 5. These prices reward current "commercial" customers with established relationships (via an authorized corporate account) and encourage other customers to switch to payment evidencing systems that provide more detailed customer information. These pricing incentives should help promote the statutory goals of expanding retail access alternatives and reducing costs by encouraging more efficient payment evidencing. Providing these pricing incentives to all "commercial" and electronic payment evidencing methods, including on-line payment evidencing, postage meters, and kiosks will promote adoption of these cost effective and value-added payment evidencing channels. Because non-retail "commercial" transactions will encourage customers to avoid a separate trip to the Postal Service, these pricing incentives will also contribute to a reduction in gas and carbon

emissions, thereby complementing the Postal Service's commitment to minimize the environmental impact of mail.

The Postal Service is also offering progressive pricing incentives (“commercial volume incentives”) for customers who use an authorized corporate account and whose Express Mail volume exceeds a minimum threshold. *See id.* As with the zoned pricing, these structural pricing changes will conform Express Mail pricing with industry practices and should incentivize increase mail volumes.

B. Priority Mail

The Postal Service has also proposed significant pricing changes for its Priority Mail product. Priority Mail already has zoned pricing. But similar to Express Mail, the Postal Service is proposing new prices for “commercial” Priority Mail pieces.

Specifically, the Postal Service has provided pricing incentives for customers who use electronic payment evidencing. “Commercial” Priority Mail rates will face an average price increase of 2.2 percent, in comparison to average retail price increase of 6 percent. The Postal Service is to be commended for adopting pricing incentives that reflect the costs associated with retail payment evidencing and which will encourage increased volumes of data-rich mail.

As with Express Mail, providing these pricing incentives to all “commercial” and electronic payment evidencing methods, including on-line payment evidencing, postage meters, and kiosks will promote adoption of these cost effective and value-added payment evidencing channels and encourage increased mail volumes. As above, these pricing incentives complement the Postal Service's commitment to minimize the

