

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Notice of Price Adjustment)
Standard Mail Incentive Pricing Program)

Docket No. R2010-3

**VALPAK DIRECT MARKETING SYSTEMS, INC. AND
VALPAK DEALERS' ASSOCIATION, INC.
COMMENTS REGARDING
STANDARD MAIL VOLUME INCENTIVE PRICING PROGRAM
(March 22, 2010)**

BACKGROUND

On February 26, 2010, the Postal Service filed with the Commission a Notice of Market-Dominant Price Adjustment of its intention to implement a temporary price adjustment for Standard Mail letters and flats (the 2010 "summer sale" program), pursuant to the Commission Rules of Practice and Procedure, 39 C.F.R. Part 3010. On March 2, 2010, the Commission issued Order No. 416, Notice and Order Concerning Standard Mail Volume Incentive Pricing Program, and set March 18, 2010 as the deadline for public comment. The Commission subsequently extended the deadline to March 22, 2010 in Order No. 422 (Mar. 16, 2010). Valpak Direct Marketing Systems, Inc. and Valpak Dealers' Association, Inc. (hereinafter "Valpak") jointly submit these comments in response to Order No. 416.

COMMENTS

1. Valpak generally supports the Postal Service's 2010 Summer Sale program. This Summer Sale program appears to be an appropriate exercise of the Postal Service's pricing

flexibility. The additional month's advance notice this year (as compared to last year's summer sale) will help more mailers participate than otherwise.

2. However, it is difficult to see the business logic behind offering sale prices to encourage additional volume of products which already lose money. The Postal Service acknowledges that Standard Flats were "underwater" in FY 2009, but chose to offer sale prices to those products because it "finds that these mailers view Standard and Carrier Route Flats as essentially the same product." Notice, p. 7. Of course, how the Postal Service thinks some mailers may view its products is not controlling. These are legally different products. The Postal Service justifies losing more money on a money losing product by stating that "excluding them from the Sale would reduce the benefit of the incentive to the customer and potentially result in unintended consequences." *Id.* In response to Chairman's Information Request No. 1, question 2, the Postal Service estimated that the sale will incentivize flat volumes as follows: Standard Flats, 40 percent versus Carrier Route flats, 60 percent. The Commission could ask the Postal Service how it believes losses from Standard Flats would compare with additional contribution from Carrier Route flats. Then the Commission could better understand the magnitude of the problem of discounting both flat products. Further, the Commission could also inquire of the Postal Service whether it is capable administratively of granting the rebate only for Carrier Route flats but not Standard Flats. The Postal Service also argues that this volume is for catalogs which essentially have a multiplier effect. *Id.*, p. 8. Many mailers can argue their mail has a multiplier effect, but without evidence, this factor cannot be taken to be more than a *post hoc* rationalization. If possible, the Postal Service

should not incentivize additional volume of any product which does not cover its attributable costs.¹

3. In other forums, the Postal Service has expressed its disappointment with the pre-approval process of the Commission.² Valpak does not believe such observations are well founded. In the rare case where there is delay, it is often caused by the Postal Service providing insufficient information with its initial filing for the Commission to conduct its analysis. In Docket No. 2009-3, the Postal Service provided certain data only in response Chairman's Information Request No. 1 therein. In Order No. 219 approving that sale, the Commission stated that it "expects the Postal Service to provide this level of detail in future **initial filings**." (Emphasis added.) Yet, in the instant docket, the Postal Service has provided certain information — such as that sought by the Public Representative's request and the Chairman's Information Request No. 1 — which should have been provided with its initial filing. Delay in providing information makes review by mailers and the Commission more difficult.

¹ The Postal Service again plans to evaluate the summer sale program using short-run marginal costs, which raises a variety of methodological issues. Valpak would again urge the Commission to explore those issues in a separate proceeding.

² *See, e.g.*, Docket No. ACR2009, Attachment USPS-FY09-43, Ensuring a Viable Postal Service for America: An Action Plan for the Future (Mar. 3, 2010), p. 15.

Respectfully submitted,

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