

Before the
POSTAL REGULATORY COMMISSION
Washington, DC 20268-0001

**Rate Adjustment Due to Extraordinary
Or Exceptional Circumstances**

Docket No. R2010-4

REPLY COMMENTS OF THE PARCEL SHIPPERS ASSOCIATION

The Parcel Shippers Association (PSA) submits these reply comments. They respond to the comments of other parties, the Revised Response of the United States Postal Service to Follow-Up Question Posed by PSA – Errata, August 27, 2010 (“The Errata”), and the implications of the recently-filed Transfer Request.¹

Rate Shock

The PAEA required the Commission to observe several “factors” in establishing the modern system of rate regulation including one that says it shall take into account “the effect of rate increases upon the general public, business mail users, and enterprises in the private sector of the economy engaged in the delivery of mail matter other than letters.” 39 U.S.C. §3622(c)(3). The comments of numerous parties address the *adverse* effect the proposed price increases would have on business mail users.²

¹ Docket No. MC2010-36, Request of the United States Postal Service to Transfer Commercial Standard Mail Parcels to the Competitive Product List, filed August 16, 2010 (“Transfer Request”).

² See *generally*. Comments of the Affordable Mail Alliance (August 17, 2010); Comments of the National Postal Policy Council in Opposition to the Exigent Rate Increase (August 17, 2010); Initial Comments of the American Catalog Mailers Association (ACMA) (August 17, 2010); Initial Comments of the Saturation

And most of those parties face price increases in the 4-8 percent range. See PSA Comments at 8-9. The adverse effect on mailers of a 23.3 percent increase is several orders of magnitude more severe and, in the case of mailers of Standard Mail NFM/Parcels, the size of the increase was a “shocking” surprise.³ If ever there was a case of rate shock, this is it.

Moreover, there is no legal requirement that these parcels receive a 23.3 percent increase so they can reach full cost coverage. As the Postal Service itself stated:

- a. The Postal Service's understanding is that this provision [39 U.S.C. §101 (d)] does not require that all products maintain a positive contribution at all times, in all seasons, with no possibility of allowing for balancing the effects of compelling 100-percent-and-above cost coverages right away, with other factors, such as the long run health of our customers and whether the Postal Service can expect positive contributions from them in the long run.

Answer to Question 12 a, Responses of the United States Postal Service to Questions 1-32 of Presiding Officers Information Request No. 5 (August 25, 2010).

The Errata

On Friday, August 27, the Postal Service filed errata to its response to a follow-up question from PSA (“The Errata”). In it, the Postal Service concedes two points made in PSA’s comments:

- (1) the Standard Mail NFM/Parcels rates that were used in the development of its initial response to the follow-up question and, more importantly, witness

Mailers Coalition and Valassis Direct Mail, Inc. (August 17, 2010); Comments of the American Bankers Association (August 17, 2010);

³ See e.g., Comments of Publishers Clearing House on R2010-4 (August 18, 2010); Comments of DHL Global Mail (August 18, 2010).

Masse's revenue forecasts for Standard Mail NFMs/Parcels were incorrect; and

- (2) the May 2009 Standard Mail NFMs/Parcels price increase was huge, not the three percent increase the Postal Service incorrectly calculated in its initial response to the question.

The Postal Service's revised response also is accompanied by completely revised projections of FY 2010, FY 2011 (Before Rates) and FY 2011 (After Rates) Standard Mail NFMs/Parcels volumes, costs, revenues, and coverages. PSA noted in its comments the "data and methodology underlying the proposed [Standard Mail NFMs/Parcels] increases inspire no confidence the proposed prices will achieve the stated goals." See PSA Comments, Section III.d. This recent Postal Service reestimation, filed less than a week before the deadline for filing reply comments, is further testament that one cannot rely on the Postal Service to determine what price increase would ensure that Standard Parcel NFMs/Parcels will cover their cost, even if one thought that was a desirable outcome at this time.

Perhaps the Postal Service will employ this revised response so that despite the many mistakes it has made in forecasting Standard Mail NFMs/Parcels costs and revenues, it can claim "no harm, no foul" in the reply comments it is expected to file today. We shall see.

In any event, the revised forecasts, like the originals, are unreliable as they still do not address many of the flaws identified in our initial Comments. As a result, the Postal Service continues to inaccurately estimate Standard Mail NFMs/Parcels costs and revenue.

Additionally, our latest review, hindered as it was, identified two significant errors.⁴

- In forecasting FY 2010, FY 2011 (Before Rates), and FY 2011 (After Rates) revenues, the Postal Service assumed that origin-entered, 3-Digit and 5-Digit NFM/Parcels would pay, respectively, the 3-Digit and 5-Digit piece rates and origin-entered pound rate. This is incorrect. Beginning in May 2009, these pieces were required to pay the much higher NDC-presort piece rates.⁵
- The Postal Service's FY 2011 (After Rates) revenue forecast is even worse because it mistakenly uses current (May 2009), rather than the much-higher proposed (R2010-4 Proposed), rates in calculating the revenue for a significant number of rate categories, including origin-entered, 3-Digit and 5-Digit NFMs and parcels.⁶

The Transfer Request

The day before the deadline for filing comments in this proceeding the Postal Service filed its request to transfer Standard Mail commercial Fulfillment Parcels to the competitive product list ("Transfer Request"). Our review of the Transfer Request reaffirms our position that the Commission should ignore the proposed transfer in making its decision in this adjustment proceeding.

In its Transfer Request, the Postal Service asserts that, despite its current dominance of the under-one-pound parcel market,⁷ the market would "likely" be more

⁴ The review was significantly impeded by the Postal Service not providing fully-linked spreadsheets that fully documented its analysis.

⁵ NDC rates were previously referred to as ADC, BMC, and ADC/BMC rates.

⁶ The mistakes are in Rev.PSA.Std.Parcel.Prices.xls, "R2010-4", cells E11, E16, E19, E24, E38, E45, E50, E53, E58, E75, E80, E83, E88, E96, E101, E104, E109, G38, G45, G50, G53, G58, G96, G101, G104, G109, J11, J16, J19, J24, J38, J45, J50, J53, J58, J75, J80, J83, J88, J96, J101, J104, J109, L38, L45, L50, L53, L58, L96, L101, L104, and L109. This spreadsheet was filed as part of The Errata on August 27, 2010.

⁷ The Postal Service shows that its share of revenue in the under-one-pound parcel market is approximately eighty percent. Since USPS prices are lower than its competitors, its share of volume in this market segment is even higher.

competitive if Standard Mail commercial Fulfillment Parcels prices covered their estimated attributable costs.⁸ Based upon this assertion, the Postal Service argues that the Standard Mail commercial Fulfillment Parcel product does not meet the statutory definition of a market-dominant product: which is:

The market-dominant category of products shall consist of each product in the sale of which the Postal Service exercises sufficient market power that it can effectively set the price of such product substantially above costs, raise prices significantly, decrease quality, or decrease output, without risk of losing a significant level of business to other firms offering similar products. The competitive category of products shall consist of all other products.

39 U.S.C. §3642(b)(1).

The Request, however, is not accompanied by any studies or analyses proving this point. Thus, the record in that proceeding will need to be substantially developed before an informed decision can be made on whether the proposed transfer is appropriate. Until this occurs, the proposed transfer should be given no weight when evaluating the unreasonable, inequitable, and unnecessary rate increases for Standard Mail NFMs/Parcels proposed by the Postal Service in this docket.

Two aspects of the Request, however, provide further support for PSA's position⁹ that a 23.3 percent price increase is not necessitated by the proposed transfer, even if it is approved. First, the Postal Service proposes to transfer only a portion of the Standard Mail NFMs/Parcels product. Because this portion almost certainly has a higher cost coverage than the product as a whole,¹⁰ a smaller price increase for these

⁸ See p. 6, Attachment B, Request, and the statement "the market shares of FedEx and UPS for under one pound parcels products would likely increase."

⁹ See Comments of the Parcel Shippers Association (August 17, 2010), Section III.d.

¹⁰ Standard Mail commercial Fulfillment Parcels almost certainly have higher cost coverage than the rest of the Standard Mail NFMs/Parcels product -- NFMs and Nonprofit Parcels. This is because (1) the rates for the same exact preparation are higher for Commercial Parcels than for NFMs and Nonprofit Parcels;

commercial fulfillment parcels than the average 23.3 percent originally proposed would be sufficient to bring them to full cost coverage. In other words, the Postal Service proposed to unnecessarily charge too much.

Second, the Postal Service asserted that these products would be “required” to cover costs if transferred to the competitive product list. But this is not correct either. As PSA noted in its comments, the cost coverage requirement for competitive products – §3633(a)(2) – applies at the product level. The Postal Service proposes that these fulfillment parcels be included as part of an existing competitive product, Parcel Select.

In that case, the cost coverage requirement does not apply separately to Standard Mail commercial Fulfillment Parcels.

Conclusion

We thank the Commission for its consideration of these comments and the thoughtful and comprehensive consideration it has given this docket under unusual circumstances. We again urge the Commission to disapprove the price increases proposed for Standard Mail NFM/Parcels and order the Postal Service to submit a reasonable and equitable and necessary price schedule with an average increase no more than the largest average “moderate” increase for other products. This action is justified because of (1) the rate shock the proposed increases would visit upon mailers, (2) as discussed in PSA’s initial comments, the proposed price increases are unreasonable, inequitable, and unnecessary and would turn the statutory objectives of the system on their head with respect to rate predictability, stability and a just and

and (2) Commercial Parcels are heavier than NFMs and Nonprofit Parcels (and it is generally understood that the revenue from additional weight is much higher than the additional cost).

reasonable system, (3) due to repeated misestimation, the record does not establish that the proposed increases are necessary to achieve the Postal Service's stated goal of full cost coverage for NFMs/Parcels, and (4) in any event, full cost coverage is not required by law and is not necessary to accommodate the proposed transfer of Standard Mail commercial Fulfillment Parcels to the Competitive Products list.

Respectfully submitted,

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