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

Classification and Price Adjustments for First-Class Mail and Standard Mail Initiatives	:	Docket No. R2011-1

REPLY COMMENTS OF THE SATURATION MAILERS COALITION AND VALASSIS DIRECT MAIL, INC. TO AMERICAN CATALOG MAILERS ASSOCIATION AND NEWSPAPER ASSOCIATION OF AMERICA

(December 1, 2010)

The Saturation Mailers Coalition and Valassis Direct Mail, Inc. hereby submit their reply comments on the Postal Service's proposal to implement a volume incentive program for Standard Saturation and High-Density mail. These comments address aspects of the initial comments filed by the American Catalog Mailers Association (ACMA) and the Newspaper Association of America (NAA).

A. ACMA Is Correct That No Adjustment In The Price Cap Is Warranted On Account Of The Incentive Program, But Wrong In Suggesting An Alternative Adjustment Limited To Saturation Mail.

In its comments, ACMA has presented a compelling analysis of the policy and economic-ratemaking reasons why the proposed Saturation and High-Density Incentive Program should not result in any adjustment to the rate-cap limitation. We would add one other reason. The incentive program is temporary, limited to just one year. By contrast, any upward adjustment to the rate cap would become permanently imbedded in the general rates forever. Thus, the volumes generated by this temporary program should be treated in the same manner as those from Negotiated Service Agreements – as if they paid the general-schedule rates. For this and the other reasons set forth by ACMA, the rate cap should not be adjusted.

Toward the end of its otherwise-sound comments, however, ACMA has inexplicably presented an "alternative" proposal that would make a rate-cap adjustment that is applicable only to Saturation and High-Density mail. This is wholly inconsistent with its correct analysis that no adjustment is warranted in any circumstance. Moreover, such an adjustment would completely undermine the objectives of the incentive program. Maintaining affordable general-schedule rates over the long term is of paramount concern to the saturation mail industry, far more critical than the proposed one-year incentive-rate program. If short-term incentive proposals like this were to be conditioned on a permanent price-cap increase in general saturation rates, we would have no choice but to vigorously oppose such incentive efforts – depriving mailers and the Postal Service of the opportunity to stimulate volume growth. ACMA's ill-considered alternative actually underscores the correctness and wisdom of its primary position: no adjustment in the rate cap is justified in any case.

B. NAA's Claims Of Unfairness And Favoritism Are Bogus.

NAA has used its comments supporting the Postal Service's incentive proposal as a launching pad to vent about alleged unfair treatment of newspaper TMC programs, claiming that the Postal Service has engaged in "favoritism" toward saturation mailers who compete with newspapers for advertising. Because NAA's contentions far exceed a mere stretching of the facts, we feel compelled to set the record straight.

With respect to the original Saturation Incentive program introduced in May 2009, NAA claims that newspaper TMC programs that primarily used High-Density rates "were effectively ineligible" for the program. NAA Comments at 2. That is demonstrably false. The truth is that the program, as implemented by the Postal Service, greatly favored newspapers. Not only were High-Density newspaper TMC mailers allowed to participate in the incentive program, but they were given an advantage over full-saturation mailers. Specifically, the Postal Service allowed a high-density mailer who merely added a few pieces to its mailing up to the saturation level to receive a rebate on the *entirety* of its mail volume – including that portion of *pre-existing* High-Density volume that simply changed from the High-Density rate to the Saturation rate. By contrast, full-saturation mailers were restricted to rebates only on *new incremental* mail volumes.

The magnitude of this advantage for High-Density mailers is revealed in the Postal Service's summary of the results of that incentive program. Of the total "commercial flats" volumes qualifying for that incentive program, 97.5% were High-Density flats.[1] Only 2.5% were Saturation flats. This nearly 40-to-1 disparity in favor of High-Density was the result of the rebates on pre-existing High-Density "anyhow volume" (or more aptly, "already there" volume) that merely converted to Saturation.

NAA's companion claim that newspaper High-Density volume losses have been due to an "unwarranted competitive rate advantage" favoring Saturation mail is likewise demonstrably false. The Postal Service's billing determinants for FY2009 versus FY2008 show a different picture. Although commercial High-Density flats volume did decline 10.3%, Saturation flats declined by 8.9%. That nearly-identical drop for both products was, of course, due primarily to the recession, not to any purported rate advantage. Moreover, the percentage declines tell only part of the story. In terms of *total* volumes, the Postal Service lost 984.9 million pieces of Saturation mail, nearly five-

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[1] *See* USPS-R2011-1-2_Std-Mail_Worksheets (HD-Sat Incentive Data tab), filed with the Commission in this docket on November 2, 2010.

times greater than the 204.7 million drop in High-Density volumes.[2] The Postal Service *should* be more concerned about the loss of saturation volumes.

C. **The Commission Should Clarify And Require That Rebates Under The Incentive Program Will Apply Only For Net Incremental Growth In Total Volume Above The Threshold.**

In applauding the current incentive proposal, NAA states:

> "A particularly useful feature of the proposal is newspaper TMC programs will *have the flexibility* to qualify *either* their High-Density and Saturation rate mailings, or both, for the incentive program."
> Comments at 4 (emphasis added).

Given the unfairness of the original incentive proposal that allowed High-Density mailers to get rebates on pre-existing volumes, this "either-or" characterization by NAA raises the specter of another rate scam. Consider, for example, the following scenario. A TMC mailer who in the prior incentive program added a few pieces to its High-Density mailings to reach the Saturation level and thereby got a rebate on its *entire* volume now decides to reverse the process. By cutting volume and reverting to High-Density rates, its putative "High-Density-only" volume will have grown at the expense of Saturation volume. If that mailer were allowed the "flexibility" to apply for the program only on its High-Density volume, ignoring the actual reduction in total volume, it would be getting paid rebates for *cutting* total volumes.

We believe that the Postal Service's new proposal is intended to preclude rebates except on truly new incremental volume. But to avoid any misunderstanding, the Commission should clarify that the Postal Service, in administering the program,

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[2] Compare USPS-FY09-4 with USPS-FY08-4, Dockets ACR2009 and ACR2008. We would further note that the most recent billing determinant data for the 3rd Quarter of 2010 versus 2009 shows that Saturation flat volume has dropped by 5.6% while High-Density flats *grew* by 6.9%.

must restrict rebates to “new incremental volumes” regardless of rate-category, taking into account the changes in the mailer’s totality of High-Density-plus-Saturation mail volumes.

Respectfully submitted,

Thomas W. McLaughlin
Burzio McLaughlin & Keegan
1054 31st Street, N.W., Suite 540
Washington, DC 20007
(202) 965-4555
bmklaw@verizon.net

Counsel for Valassis Direct Mail, Inc.
and the Saturation Mailers Coalition