

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

NOTICE OF PRICE ADJUSTMENT

**Docket No. R2011-2**

**COMMENTS OF THE ASSOCIATION FOR POSTAL COMMERCE**

The Association for Postal Commerce ("PostCom") hereby submits these comments in response to the United States Postal Service's ("Postal Service") Notice of Market-Dominant Price Adjustment, filed January 13, 2011, and Commission Order No. 653, establishing this docket and requesting comment. PostCom believes that -- with the exception of the Standard Mail Parcel Rates -- the proposed price adjustments comply with the Postal Accountability and Enhancement Act ("PAEA"). PostCom nevertheless believes that several of the rates and rate relationships do not make sense from a business perspective. Before these rates can be addressed, however, the Commission must complete its work in the several pending dockets in which aspects of the Postal Service's workshare design and data collection methods are currently being examined.

**I. There Are Serious Defects In The Postal Service's Standard Mail Rate Proposals**

The Postal Service appears to have complied with the PAEA's mandate that the increases do not exceed the percentage change in CPI at the class level. *See* 39 U.S.C. §

3622(d)(2)(A) (“[T]he annual limitations . . . shall apply to a class of mail.”). Under 39 U.S.C. § 3622(d)(1)(C)(iii), the Commission’s authority with respect to its review of a notice of price adjustment submitted by the Postal Service is with very narrow exceptions, limited to ensuring that the new prices comply with the price cap limitation of 39 U.S.C. § 3622(d)(1)(A). So long as the Postal Service has not made classification or other changes that are outside the scope of the activities permissible with respect to a Notice of Rate Change, the statute contemplates that the rates proposed should be allowed to take effect.<sup>1</sup> While in some circumstances changes in the rate relationships between products could rise to the level of a classification change that would be inappropriate to include with a notice of rate change, it is not clear that the prices changes with respect to Standard Letters and Flats set forth by the Postal Service reach this level. In any event, as discussed further below, such issues cannot be properly resolved until more fundamental issues regarding the Postal Service’s cost-tracking methods and workshare discount design have been investigated. Thus, on the information currently available, it appears that the Postal Service’s proposed Standard Mail Rates (other than the rates applicable to Standard Mail Parcels) rates meet the requirements of Title 39 and are lawful.

Because the Postal Service has complied with the price cap in application to Standard Mail except for parcels, PostCom does not object to the new rates for Standard Mail Letters and Flats taking effect on April 17, as proposed by the Postal Service.

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<sup>1</sup> There is a point at which alternations in rate relationships become so irrational and arbitrary that the rates violate the anti discrimination provision of PAEA. 39 USC 403(c). As the Parcel Shippers Association (“PSA”) spells out in its comments, certain of the rates proposed by the Postal Service applicable to Standard Mail Parcels involve price gouging that amounts to an abuse of market power. PSA urges the Commission not to accept these rate proposals. Postcom agrees.

Nevertheless, PostCom believes that the rates filed by the Postal Service contain serious deficiencies that highlight the need for the Commission to take action in other dockets to ensure the continued viability of mail as a medium to meet the needs of business customers.

It does not follow from the conclusion that, simply because the proposed rates are lawful, that they are well-reasoned. There are a number of rates and rate relationships embedded in the new prices that just do not make business sense. While the Commission should not adjust these rates in the current docket -- not least of all because the issue affecting letter and flats rates stem from more fundamental problems with Postal Service costing and pricing philosophy than can be addressed here -- PostCom nevertheless believes that the Commission should be made aware of these issues going forward.

For instance, the Postal Service continues to undervalue drop-entry activities undertaken by mailers, Standard Mail dropship “discounts” only pass between 62.5% and 79.4% of the Postal Service’s avoided costs through to mailers. Drop-entry is an activity that results in significant savings for the Postal Service. As such, it is an activity that should be strongly encouraged. The Postal Service’s rates, however, fail to send this signal. Indeed, because of increases in fuel costs – ignored by the Postal Service in its proposals – the drop entry incentives proposed may have precisely the opposite effect: discouraging drop entry. Particularly in the Market Dominant categories, attempted profit maximization must be viewed with skepticism, especially when the division of

labor resulting from the failure to properly pass through avoided costs is inefficient and works to the detriment of both mailers and the Postal Service.

Similar problems exist with respect to the alterations the Postal Service has proposed regarding the incentives provided to mailers to presort their mail. The alteration of historic rate relationships include, for example, the narrowing of the differential between the rate for Basic ECR flats and Five Digit Automation flats. While this and similar alterations might not, in formal terms, constitute changes in the definition of a “product” under the PAEA, they are of concern: these alternatives result in cost shifting from the Postal Service to mailers thereby affecting the value of mail as a promotional and marketing medium, and, in turn, reducing the volume of mail entered into the system.

In addition, the Postal Service’s service performance results for 2010 raise issues of concern. Poor Service – and there is no doubt that service for Standard Mail in 2010 was, if the reports are to be believed, even worse than poor – by definition depreciates the value of mail. That, in turn, simply adds to the question of whether the alteration in rate relationships and cost shifting make business sense.

## **II. The Issues Concerning Worksharing Cost Shifting and Rate Relationships Must Be Explored In The Appropriate Dockets**

As these anomalies illustrate, the Postal Service’s rate design is plagued by serious issues, including irrational relationships between rates and the failure to properly recognize worksharing activities performed by mailers. However, these issues cannot

and should not be addressed here. Indeed, because of the importance of these issues, the Commission *must* refrain from addressing them in this docket, as doing so would have the effect of prejudging the outcome of pending dockets in which the Commission has the opportunity to fully address the fundamental reforms needed.

Two ongoing dockets in particular present the Commission with an opportunity to resolve some of the fundamental problems inhibiting the Postal Service's ability to design prices that will encourage the growth of the mail by meeting the needs of Postal customers. In Docket No. RM2010-13, the Commission is considering analyses, arguments, and proposals concerning technical issues that relate to the design of workshare discounts. This docket presents an opportunity to replace the traditional predilection in postal ratemaking to focus on top-down costing and the provision of "discounts" from a benchmark rate with a more functional, product- and market-focused approach to costing. In other words, where the Commission currently sees one product at a single level of worksharing, it should instead see numerous products serving separate markets. In this product-oriented view, discounts are no longer tied to costs avoided by particular activities. Rather, consistent with the PAEA, the separate products can be priced based on the "bottom-up" costs incurred by the Postal Service and the demand characteristics of the individual products. This approach would assist the Postal Service in developing products and prices that reflect the lowest combined cost for the service. It would provide mailers with rational incentives to prepare and enter mail in the most efficient manner. Thus, rationalizing the Commission and Postal Service's approach to recognizing workshare-type activities in this manner will reward mailers for their

investments and encourage mail growth through the provision of products that meet the business needs of postal customers.

The Commission has also convened Docket No. RM2011-13 to examine ways in which the process of collecting and reporting data compiled in the Postal Service's periodic reports to the Commission can be improved. PostCom believes that the development of more accurate costing estimates is critical to realization of the goals of the PAEA. Only through the use of reliable and accurate data, reflecting current operating realities, can mailers be assured increased that the Postal Service's prices make good business sense. And, as with workshare discount design, the better the Postal Service can ensure that its prices reflect the costs incurred, the better it will be able to develop products that meet the needs of its customers and provide the proper incentives with respect to mail preparation and drop-entry.

These dockets present a prime opportunity to rationalize the Postal Service's rate design and enable it to tailor its prices to the business realities of its customers. The Commission must be careful, however, to avoid making any ruling in the present docket that would have the effect of limiting the investigation allowed in, or prejudging the outcome of, these other proceedings. Only through a full and careful exploration of these issues can the Commission fulfill its mandate to ensure the efficient operation of the Postal Service going forward.

### **III. Conclusion**

For the reasons set forth above, PostCom requests that – with the exception of the Standard Mail Parcel Rates -- the Commission accept the Postal Service’s proposed price changes while keeping in mind the need to revisit some of the Postal Service’s fundamental assumptions regarding rate design and cost development. The Commission should undertake this activity in other dockets, however, where these issues can be fully explored, rather than in the limited context of a notice of rate change.

Respectfully submitted,

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