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

NOTICE OF PRICE ADJUSTMENT	Docket No. R2011-2

COMMENTS OF THE
NATIONAL POSTAL POLICY COUNCIL
(February 2. 2011)

The National Postal Policy Council[1] hereby respectfully submits its comments on the Postal Service's notice of rate adjustments for market-dominant products.[2] NPPC submits:

– That although rate increases for Commercial First-Class letter mail (Automation and Presort) are within the allowed cap, the increases will likely harm the long-term interests of the Postal Service by motivating its most profitable mailers to accelerate their shift to electronic delivery;

– That commercial First-Class letters will continue, under these rates, to pay an excessive cost coverage and much more in contribution than Single-Piece mailers;

– The fact that the base Single-Piece rate did not change at all in the first rate filing made with no "benchmark" in effect for the purpose of "linking" First-Class commercial bulk letters to Single-Piece rates should eliminate concerns that Single-Piece mailers would suffer in a delinked world; and

[1] The National Postal Policy Council is an association of large business users of letter mail, primarily Bulk First-Class Mail using the Automation rate category, with member companies from the telecommunications, banking and financial services, utilities, insurance, and mail services industries. Composed of approximately 30 of the largest customers of the Postal Service with aggregated mailings of more than 30 billion pieces, NPPC supports a robust postal system as a key to its members' business success and to the health of the economy generally.

[2] United States Postal Service Notice of Market-Dominant Price Adjustment, Docket No. R2011-2 (January 13, 2011) ("*USPS Notice*"). The Commission gave notice of these rate adjustments in Order No. 653.

– The Postal Service is responding to customer concerns by retaining the POSTNET barcode and by not reducing the IMb rate differential, although the differential should expand to offset the compliance costs being imposed on mailers.

I. THE RATE ADJUSTMENTS FOR FIRST-CLASS COMMERCIAL AUTOMATION AND PRESORT LETTERS, WHILE WITHIN CAP LIMITS, WILL ACCELERATE ELECTRONIC DIVERSION

The Postal Service proposes an average increase of 1.796 percent for the First-Class commercial bulk product consisting of Automation and Presort letters. Considered on its own, this increase would exceed the permissible cap. The Postal Service offsets this above-cap increase with smaller or zero increases in other First-Class rates to bring the average class increase within the legal cap. Accordingly, the Postal Service is legally entitled to these increases.

Whether the Postal Service is *wise* to insist on the above-average rate increase for its most profitable mail product is another matter. The relatively large increase for First-Class Automation and Presort letter mail will surely increase the impetus for the largest First-Class mailers to convert to electronic alternatives. Such is particularly true for Mixed AADC and AADC Automation letters, for which the increase of 2.2 percent (*USPS Notice* at Table 6) is well above the rate of inflation. The Postal Service did somewhat moderate the increase for 5-digit Automation letters, the largest rate category within the product, to 1.5 percent in a nod to the need to retain those mailers. *USPS Notice* at 13.[3] However, mailings that cannot be prepared to the 5-digit level are hurt by the above-average and above-inflation increases.

[3] This was accomplished, at least in part, by increasing the pass-through for 5-digit letters from the 83.6 percent reported in FY2010 to 96.2 percent.

This is the second time in less than a year in which the Postal Service has proposed above-inflation rate increases on First-Class Automation and Presort letters.[4] The Postal Service appears determined to continue to charge, apparently in perpetuity, rates for First-Class commercial bulk letters that bear exorbitant cost coverages (295 in 2010). (By comparison, the Single-Piece letters/card product had a cost coverage of 164 in FY2010, according to the ACR). Perhaps in past years the Postal Service could safely maintain high rates for First-Class Automation and Presort mail with no real risk of adverse consequences, but those days are gone. The more the Postal Service insists on squeezing as much as possible from its most profitable customers through ever-increasing rates and extremely high cost coverages for Automation and Presort mailers, the more those mailers will find non-postal options that cost far less.

This practice is puzzling to NPPC because the Postal Service often makes statements that seem to recognize the need to retain Automation and Presort letters. For example, only last summer a Postal Service witness said that "the prospect of losing large volumes of presort First-Class Mail has elevated the importance of pricing decisions aimed at preventing volume loss."[5] But one waits in vain for a Postal Service rates proposal truly that implements the stated

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[4] The Postal Service also proposed excessively high rate increases on commercial Bulk letter mail in its exigent rate increase, which the Commission rejected in Docket No. R2010-4.

[5] Statement of James A. Kiefer on behalf of the United States Postal Service, Docket No. R2010-4 at 13 (filed July 6, 2010) ("The importance of First-Class Mail in the Postal Service's financial results means that the Postal Service cannot afford to drive mail out of the system by increasing prices too much"); *accord* Statement of Postmaster General/CEO-Designate Patrick R. Donahoe before the Subcommittee on Federal Financial Management, Government Information, Federal Services, and International Security, United States Senate at 3 (Dec. 2, 2010) (noting concern that volume for First-Class Mail, its most profitable product, continues to decline combined with a change in mail mix to less profitable Standard mail).

desire to retain First-Class commercial bulk letters by holding rates steady, or even reducing them. Instead, the Postal Service repeatedly proposes rate increases that will only drive them away.

Under Section 3622(b) of the PAEA, rates under the current system for market-dominant mail must form a “just and reasonable” rate schedule. Continually imposing an exorbitant cost coverage on a single product whose volume is declining, year after year, is not “just and reasonable.” NPPC urges the Postal Service to pay greater attention the just and reasonableness of the commercial letter cost coverages. In addition, the Commission should consider using its authority to moderate cost coverages to preserve a just and reasonable rate schedule, especially where the high cost coverages are for a product whose volumes are declining year after year.

Finally, this is the Postal Service’s first filing under the Postal Accountability and Enhancements Act made without a benchmark in place for the purpose of “linking” Presort and Automation letter rates to Single-Piece rates under the erroneous impression that the former are workshared derivatives of the latter. This has happened because in Order No. 536, the Commission ruled that the previous benchmark – a fictitious category called Bulk Metered Mail – was no longer valid. *See Order No. 536* at 3-4. The Commission is currently conducting Docket No. RM2010-13 to identify what might serve as a new benchmark, but during the pendency of that proceeding no benchmark exists.

Despite the fears of some, it is evident that the absence of a linkage to a benchmark caused no harm to Single-Piece mailers. On the contrary, it is the commercial bulk product – Automation and Presort letters – that receives an above-cap rate increase while the Single-Piece 44 cent rate remains unaltered. The Commission has properly rejected the notion that Section 3622(e) is intended to "protect" Single-Piece mailers. *Order No. 536* at 14 & n.8.[6] The newly proposed rates demonstrates that the fear that Single-Piece rates would experience steep increases if not linked to Automation and Presort rates is unfounded.

II. THE POSTAL SERVICE'S IS BEING RESPONSIVE TO MAILERS REGARDING THE IMB, BUT A LARGER INCENTIVE IS NEEDED TO OFFSET COMPLIANCE COSTS

The Postal Service plans to retain the current 0.003 cent per piece full-service IMb rate incentive. NPPC commends the Postal Service for doing so. NPPC also commends the Postal Service for continuing to allow use of the POSTNET barcode to qualify for Automation rates after May 2011.

The number of pieces using the full-service IMb grew steadily during FY2010, reaching 4.3 billion pieces in the fourth quarter. Despite that growth, less than 45 percent of total Automation letters during that period used the IMb. Uptake is increasing, but much remains to be done.

The Postal Service's retention of the IMb incentive and its relaxation of the former May 2011 deadline for conversion (and elimination of the POSTNET barcode) shows that it has been listening to mailers on the difficulty of complying with IMb within the Postal Service's initial, optimistic, timeframe. NPPC members

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[6] NPPC disagrees, however, with the Commission's further conclusion that First-Class Automation and Presort letters are in a worksharing relationship with Single-Piece letters, an issue currently under review in the U.S. Court of Appeals.

(and others) have explained to postal management on many occasions that complying with IMb requirements is quite difficult, requires much time and planning (not to mention justifying the expense to corporate financial leaders in order to obtain the necessary budget during a difficult economy), and involves substantial costs, often running into the seven or even eight figures for large mailers.

The Postal Service should seriously consider increasing the IMb differential. The current 0.003 cents per piece simply does not allow most mailers to recover their costs of investing in the software and making all of the other operational and equipment changes necessary for IMb. Mailing departments have difficulty obtaining the corporate funding necessary to implement IMb when they cannot demonstrate that, at the Postal Service rates, IMb will show a return on the mailer's investment, or that any return will not happen until well beyond a business's normal budgetary horizon.

NPPC commends the Postal Service for listening to mailers regarding the timetable for implementing IBb, and why it is difficult for mailers to adjust to IMb at the Postal Service's rates. The Postal Service could help improve the rate of uptake to IMb by increasing the financial return to the mailer for doing so, enabling the mailer to be show a return on the investment in compliance costs. That would make it easier for the mailing department to obtain the necessary internal financial support. To date, however, the Postal Service has declined to do so.

III. CONCLUSION

For the foregoing reasons, the National Postal Policy Council recognizes that the rates proposed are within the constraints of the law, but urges the Postal Service to take action to maintain affordable Automation and Presort rates in the future, and for both it and the Commission to consider the applicability of the "just and reasonable" criterion to products facing a high cost coverage and declining volumes. Furthermore, the Postal Service should continue to be responsive to concerns expressed by mailers on the implementation of full-service IMb, and to provide a financial incentive for IMb sufficient to justify the costs of conversion.

Respectfully submitted,

NATIONAL POSTAL POLICY COUNCIL

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