

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

Notice of Price Adjustment

Docket No. R2011-2

COMMENTS OF BANK OF AMERICA CORPORATION

Pursuant to Order No. 653, Bank of America Corporation (BAC) respectfully submits these comments in response to the United States Postal Service's (Postal Service) January 13, 2011 Notice of Market-Dominant Price Adjustment (Notice). These comments discuss the proposed price adjustments for First-Class Mail Letters and Standard Mail Letters. Although the average price increase for letter mail is relatively modest, in both classes the proposed pricing adjustments represent missed opportunities to send the correct pricing signals to mailers and to help improve the Postal Service's financial situation.

First-Class Mail

Although First-Class Mail is comprised of six products, in FY 2010 Single-Piece Letters and Cards and Presort Letters and Cards accounted for over 95 percent of the volume (74.810 billion pieces of a total of 78.549 billion pieces) and over 84 percent of the revenue (\$28.728 billion of a class total of \$34.025).¹ See FY 2010 ACR at 18. And while both products provide substantial contribution to Postal Service overheads (\$4.977 billion for Single-Piece Letters and Cards and \$10,576 billion for Presort Letters and Cards); the total contribution from Presort is almost double the contribution from Single-Piece. See *id.* This disparity reflects not only the

¹ See United States Postal Service FY 2010 Annual Compliance Report (Dec. 29, 2010)(FY 2010 ACR).

larger volumes of Presort Letters and Cards (28.585 billion for Single-Piece as compared to 46.225 billion for Presort) but also the larger unit contribution for Presort – 22.9 cents per piece as compared to 17.4 cents per piece. *See id.* Because the Postal Service collects more than a nickel more for every Presort Letter, it should price this product to grow volumes.

In its Notice, however, the Postal Service proposes increasing prices for Single-Piece Letters and Cards by only .461 percent, while increasing prices for Presort Letters and Cards by 1.796 percent. *See* Notice at 12. The Postal Service acknowledges that the proposed price increases on Presort Letters may accelerate diversion and result in reduced mail volumes from large commercial mailers. *See id* at 13. Unfortunately, those concerns may prove prescient. Presort Letters are much more price sensitive than Single-Piece Letters;² thus, if approved, the proposed price adjustments will likely drive an increasing share of more profitable presort mail out of the system.

Standard Mail

Standard Mail Letters account for over 58 percent of the volume, over 53 percent of the revenue, and over 74 percent of the contribution to overhead costs for all Standard Mail products. Standard Mail Flats, by contrast, continue to lose money. Standard Mail Flats have a cost coverage of only 81.6 percent. *See* FY 2010 ACR at 23.

The Commission has repeatedly admonished the Postal Service to take steps to improve the pricing relationship between Standard Mail Letters and Flats. In its FY 2008 and FY 2009 Annual Compliance Determinations (ACD), the Commission expressed concern that a disproportionate share of the institutional cost burden is placed on letters. *See* FY 2008 ACD at 62; FY 2009 ACD at 86-87. The Commission has directed the Postal Service to either decrease

² The current demand elasticity for Single-Piece (-.182) as compared to Presort (-.346) is significant. *See* Postal Service, Econometric Demand Equation Tables for Market Dominant Products as of January 2011.

the disparity between letters and flats, identify a basis to justify the disparate treatment (e.g., empirical evidence regarding market characteristics or other non-cost factors), and to develop a specific plan to improve the cost coverage of Standard Flats. *See id.*

Yet the disparity between letters and flats has continued to grow. For example, the unit contribution made by Standard Mail Letters was 8.1 cents in FY 2009 compared with negative 7.9 cents per piece from Standard Mail Flats. In FY 2010, the unit contribution made by Standard Mail Letters was 8.5 cents, compared with negative 8.3 cents per piece from Standard Mail Flats. *See* FY 2010 ACR at 23.

Despite the Commission's repeated warnings, the current proposed pricing adjustments are a large step in the wrong direction. The proposed price adjustments would exacerbate the disparity between Standard Mail Letters and Flats. In its Notice, the Postal Service proposes price increases for Standard Mail Flats of only .835 percent. *See* Notice at 17. The proposed price increase for Standard Mail Letters is 1.810. *See id.* BAC is sympathetic to the economic difficulties facing catalogue mailers, but these same challenges face all companies. The Postal Service has presented no evidence of any kind is included to support a finding that catalogues are uniquely price sensitive or are otherwise entitled to preferential rates. The proposed prices are self-defeating. The Postal Service cannot afford to continue offering Standard Mail Flats at a loss, and it is not fair to continue to ask Standard Mail Letters to carry a disproportionate burden.

Also troubling is the Postal Service's suggestion that it has no plan to improve the cost coverage for Standard Mail Flats in the future. *See* FY 2010 ACR at 8-9. The notion that the pricing proposals contained in exigency request were the only possible solution for Standard Mail Flats strains credulity. *See id.* The proposed 5.1 percent price increase for Standard Mail

Flats in the exigency request was below the overall average increase requested and was only .1 percent greater than the pricing increase proposed for Standard Mail Letters (5.0 percent).

The Commission has provided the Postal Service every opportunity to address this issue, but it has failed to do so. Accordingly, the Commission should direct the Postal Service to revise the proposed pricing adjustments to require Standard Mail flats to cover their attributable costs. This would result in an above-average increase for Standard Mail Flats and a below-average increase for Standard Mail Letters. The unit contribution of Standard Mail Letters would still significantly exceed the unit contribution of Standard Mail Flats, but requiring Standard Mail Flats to cover their attributable costs would signal an important, incremental move in the right direction.

BAC appreciates the Commission's consideration of these comments.

Respectfully submitted:

/s/
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DATED: February 2, 2011