

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

NOTICE OF PRICE ADJUSTMENT

Docket No. R2013-1

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 October 11, 2012, and Commission Order No. 1501, establishing this docket and requesting comment. PostCom believes that the proposed price adjustments generally comply with the Postal Accountability and Enhancement Act ("PAEA"), in that the proposed rate increases appear to be consistent with the Postal Service's price cap authority. At least one party and the Commission have raised, once again, the issue of the rates proposed by the Postal Service for Standard Mail Flats and in particular for the Standard Mail Flats Automation product. For the practical and legal reasons discussed below, PostCom submits that prudence dictates that the Commission take no action with respect to the Standard Mail Flats proposed rates.

The Commission's Information Request No. 1 suggests that the Commission is concerned with the approach the Postal Service has taken to Standard Mail Flats pricing in this docket. In particular, the Commission has asked the Postal Service to explain how the proposed prices will move Standard Mail Flats toward full cost coverage, and it has asked for further explanation of

the Postal Service's reliance on the need to manage the price gap between Standard 5-Digit automation flats and Carrier Route flats as justification for not implementing higher price increases for the Flats product.

PostCom suggests that the Commission need not address these issues in this docket. As explained below, organic changes within the industry counsel for delaying any action to improve Flats coverage beyond that achieved by the price increases proposed by the Postal Service.

Ultimately, the low cost coverage of the Standard Mail Flats Automation product may be a problem that resolves itself. The entire discussion of whether the proposed rates move Standard Flats closer to break even misses a fundamental change that is occurring in the mix of mail. Specifically, due to existing price incentives and improvements in co-mailing and co-palletization, a substantial portion of flats volume – including catalogs – has migrated from Standard Mail Flats to Carrier Route.

PostCom members have indicated that nearly 70% of catalog mail is now being sent as Enhanced Carrier Route. The billing determinants submitted by the Postal Service in this docket and data from RPW reports support this anecdotal evidence. Most noticeably, the RPW Report for the third quarter of Fiscal Year 2012 shows a 10.3% decrease in Standard Mail Flats volume over Q3 FY 2011 while Carrier Route volume increased by 8.1% over the same time period. This trend is apparent going back to 2010: even though there were declines in both categories of mail for much of this time period, Enhanced Carrier Route volumes declined at a significantly lower rate. *See, e.g.*, RPW Report for Q2 FY 2012 (Year-to-date declines over the same period of FY2011 of 13.6% for Flats and only 8.4% for Carrier Route); Final RPW for 4Q 2010 (showing declines of 10.1% for Flats and only 5.3% for Carrier Route over FY 2009 volumes).

The price incentives contained in the Notice of Rate Adjustment are likely to continue this shift. The Postal Service notes that the price gap between 5-digit Automation Flats and Carrier Route Flats widens from 8.2 to 8.3 cents under the proposed rates. Notice of Price Adjustment at 24. Though the Postal Service maintains that it does not intend to allow this gap to increase in the future, the proposed differential will likely incent additional Flats pieces to move to Carrier Route. In fact, the incentive to move to Carrier Route is even greater for pieces over 3.3 ounces (which includes many catalogs). The differential between the per-pound rate for pound-rated pieces for Flats and Carrier Route increases from 4.4 cents to 5.3 cents under the proposed prices. *See* USPS-LR-R2013-1/2 – Standard Mail Cap Compliance.

In addition to the rate differential, these volume shifts are attributable to increased co-mailing and co-palletization by catalog mailers. As long as the incentives for these activities remain in place, the migration of Flats to Carrier Route should continue. Accordingly, rather than attempt to micromanage Flats and Carrier Route prices to achieve a predetermined result, the Commission should allow this migration to continue organically. Once it has run its course, the Commission can evaluate the effects of this migration and determine whether, and if so, what, further action is necessary to achieve the purposes of the PAEA.

Such a laissez-faire approach is further warranted by uncertainty surrounding the Commission's authority to order the Postal Service to alter rates that comply with the price cap in an annual price adjustment docket. Arguably, the Commission's sole review role in this docket is to ensure that the proposed prices comply with the cap at the class level, and the Commission may only direct the Postal Service to modify its prices for other reasons by instituting a complaint proceeding on the Commission's own motion. *See* 39 U.S.C. § 3622(d)(1)(C)(iii) (providing an opportunity for the Commission only to inform the Postal

Service of non-compliance with the price cap limitation during its review of price changes). But rather than foment further legal disputes over this matter, which would not serve the interest of any party, most especially the mailers, the Commission should simply ask the Postal Service to continue to track the migration. Then, if there is still a need for remedial action once this migration has steadied, the Commission will likely have a clearer understanding of exactly what is required to bring Standard Mail Flats to full cost coverage.

Finally, one question raised in the Commission's Information Request No. 1 deserves separate, but brief, attention. In question 5, the Commission asked the Postal Service to "confirm that a worksharing relationship does not exist between Standard Mail 5-Digit automation Flats and Carrier Route Flats and that this is not a legal requirement." The Postal Service confirmed this statement in its answer. The Commission's intent in asking this question appears to be to demonstrate that the price gap between 5-Digit Automation Flats and Carrier Route Flats is one managed by the Postal Service for business reasons, and not a requirement imposed by 39 U.S.C. § 3622(e)(2). But the existence of a formal worksharing relationship is irrelevant to the continued migration of Flats mail to Carrier Route in the real world. The fact is that due to co-mailing, co-palletization, and price incentives, the migration to Carrier Route has been occurring and will continue to occur. What catalog mail that continues to be sent as Standard Mail Flats will likely be residual pieces where the mailer could not meet the eligibility requirements for Carrier Route Flats. The Commission should refrain from jumping to the conclusion that a workshare relationship exists between these products simply because certain mailers use both rate categories. Instead, it should direct the Postal Service to track the migration of Flats to Carrier Route, study the causes and effects of this migration, and only take

such action as is warranted once a clearer picture of the future mailing patterns of catalogs and other Flats mailers emerges.

Respectfully submitted,

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