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POSTAL REGULATORY COMMISSION
Washington, DC 20268-0001

Notice of Market Dominant	:	
Price Adjustment	:	Docket No. R2013-10

COMMENTS OF THE GREETING CARD ASSOCIATION

The Greeting Card Association (GCA) files these comments pursuant to Order No. 1842 (September 27, 2013). That Order encourages participants to comment on mail classification issues, and "particularly whether these changes have any rate implications" (p. 15). These Comments discuss a classification change which directly affects rates, and will do so again in the companion Docket, No. R2013-11. We expect to address it in that proceeding as well. Since the Postal Service has, in effect, layered the increases proposed in the exigency case on top of those presented here, we believe the issue should be brought to the Commission's attention in this docket.[1] GCA is not raising issues with regard to compliance with the price cap.

I. THE RATE DIFFERENTIAL IN FAVOR OF "METERED" LETTERS

In this proceeding the Postal Service proposes a "new price"[2] within the Single-Piece First-Class Letter category. Metered letters would continue to pay the present rates, while Stamped[3] letters would pay $0.01 cent more. The differential would apply throughout the weight range for First-Class Letters, up to 3.5

[1] Docket No. R2013-11, Renewed Exigent Request of the United States Postal Service in Response to Commission Order No. 1059 ("Request"), p. 7; and see p. 15, fn. 24.

[2] Docket No. R2013-10, United States Postal Service Notice of Market-Dominant Price Adjustment ("Notice"), p. 18.

[3] In these Comments we adopt the convention of capitalizing "Stamped" and "Metered" when referring to the specific new rate categories the Postal Service proposes to create.

ounces. The Service states that only those letters bearing uncancelled stamps or PVI indicia would be charged the Stamped Letter rate.

GCA believes that this bifurcation of Single-Piece Letters –

- Is a substantial rate discrimination not adequately supported in the materials filed by the Postal Service, and as such

- Contravenes the "just and reasonable schedule of rates and classifications" requirement of 39 U.S.C. sec. 3622(b)(8); and

- In addition, given its stated objectives, is not rationally designed.

A. The Metered/Stamped Letters differential is a classification change

At the outset, we would note that labeling this change a "new price" is something of an oversimplification. A "new price" need be nothing more than an increase in the rate for an existing, unchanged product. For example, the provision of a "free second ounce" for Presort Letters in Docket R2012-3 did not introduce any change in the defining characteristics of either Single-Piece or Presort. What the Postal Service is doing here is not so simple. Subdividing Single-Piece Letters by indicia, and attaching different rates to them depending on which indicia they bear, adds a significant eligibility distinction between two subtypes of Single-Piece Letters, not previously distinguished from one another, either in rates or in the Mail Classification Schedule. It is thus clearly a classification change. [4]

[4] It is true that the footnote in Order No. 1320 on which the Postal Service relies speaks of "setting the rate for the Metered Mail base group." Notice, p. 19. It seems clear, however, that the Commission was not discussing the question in light of the criteria for appropriate mail classification. It pointed out that "[t]he convention of setting the rate for the Metered Mail base group equal to the single-piece letter rate is not an issue that was explored on this record." Its observation that there did not appear to be "any obvious legal barrier" to setting different rates for that group and the remainder of Single-Piece should not be taken to mean that nothing but a simple rate adjustment would be involved in doing so; it is entirely consistent with the proposition that this

Informational requirements for a classification change. Since the proposed bifurcation is a classification change, it would more appropriately be reviewed under the Commission's rules for such changes, codified at 39 CFR Part 3020. Section 3020.32 sets out the informational requirements for such a change. The materials filed by the Postal Service when it proposes a classification change are to demonstrate compliance with the policies and applicable criteria of 39 U.S.C. ch. 36 (Rule 3020.32(a)), and to show (i) that it is consistent with each requirement of sec. 3622(d) and (ii) that it advances the objectives of sec. 3622(b), taking into account the sec. 3622(c) factors (Rule 3020.32(b)). The filed information, and the statements of reasons and bases supporting the change, must "fully inform the Commission of the nature, scope, significance, and impact of the proposed modification" (Rule 3020.32(i)).

The Postal Service filing in this Docket would fall well short of meeting these requirements. Even the more modest requirements of Rule 3010.14(b)(7)[5], governing price-capped rate adjustments, are not fully satisfied.

B. The "just and reasonable schedule" question

At pp. 11 et seq. of the Notice, the Postal Service provides a generalized discussion of how its proposed rate adjustments help achieve the objectives of sec. 3622(b) and take proper account of the sec. 3622(c) factors. One of these objectives (sec. 3622(b)(8)) is the establishment and maintenance of a just and reasonable schedule for rates and classifications. This objective is quoted at p.

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action would be a classification change and subject to Commission review as such. The exercise of "pricing flexibility," to which the Commission also referred, likewise does not necessarily exclude classification changes.

[5] Rule 3010.14(b)(7) requires the Postal Service to file

> (7) A discussion that demonstrates how the planned rate adjustments are designed to help achieve the objectives listed in 39 U.S.C. 3622(b) and properly take into account the factors listed in 39 U.S.C. 3622(c)[.]

12 of the Notice, but neither it nor the issues it raises are ever mentioned again. Yet the Postal Service is proposing to discriminate in price between those Single-Piece First-Class customers who can and perhaps soon will – or, significantly, already do -- use meters and those who, as a practical matter, cannot.

Benefits for business mailers only. The Postal Service clearly identifies the expected beneficiaries of the proposed Metered Letter rate. It says the new rate "is expected to encourage the adoption of metered mail by small businesses."[6] More specifically, it states that

> Senders of metered letters are generally small to medium-sized businesses; whereas, stamped letters are generally sent by individuals or small businesses. The purpose of introducing a relatively lower metered rate is to encourage small businesses to convert from using stamps to meters, thus fostering a more consistent use of the postal system for the transmission of outgoing messages and to grow their mail volume in the long run.[[7]]

The same objective is clear from the Postal Service's description of the advantages it sees in the proposed rate differential. Two of these would benefit the Postal Service itself; we discuss them below. The other two apparently concern the small or medium-sized business user. The Service says that the Metered Letter rate would produce "customer convenience and productivity gains for mailers, particularly small and mid-size businesses" and "more cross-selling opportunities."[8]

This discussion makes it clear that the proposal is not intended to benefit users of Single-Piece Letters as a whole, but rather one segment of the business user community. The Postal Service does not indicate the size of the business

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[6] Notice, p. 19.

[7] Id., p. 20.

[8] Ibid. The nature of these cross-selling opportunities is not further described. We are assuming that they would accrue to the businesses which adopt meters in place of stamps.

component which might be induced to substitute metering for stamp usage. The Service is able, using RPW data, to show a breakdown between Stamped and Metered letters. The results appear in the recomputed billing determinants for First-Class Single-Piece: about 12.0 billion Stamped letters and 9.6 billion Metered letters, or 55.6 and 44.4 percent, respectively, of the total. How many of the 12.0 billion Stamped letters are sent by potentially meter-using "small and mid-size businesses," however, is not estimated. So far as appears from the Notice, the Postal Service has not attempted to quantify this potential submarket. The question is significant, however, since only the stamp-using mailer is subjected to an increase. It is thus worthwhile to seek at least a general notion of how large the targeted business submarket might be and, in particular, how large in relation to the body of mail users who would pay the increased (47-cent) rate.

On the basis of the FY 2011 *Household Diary Study* – the latest available at the time of writing – households sent 15.6 billion pieces of First-Class mail. Assuming, as seems reasonable in the case of households, that this was practically all letters and cards, it would account for 60.5 percent of the 25.8 billion Single-Piece Letters and Cards sent that year.[9] Few if any of these 15.6 billion pieces will have been paid otherwise than with stamps (or PVI indicia). It seems likely, therefore, that by far the greater proportion of the stamped letters which are the target of the proposed differential are sent by households, for whom conversion from stamps to meters is, to put it no more strongly, a highly improbable supposition.

The result is that the proposed stamp tax[10] would be levied largely on users who are not in a position to avoid it by taking advantage of the purported incentive. This is a situation which rather clearly calls for justification under the

[9] See FY 2011 *Household Diary Study,* Tables 1.2 and 1.5.

[10] Inasmuch as the Postal Service is proposing to raise the rate for non-metered Letters only, it would seem at least as appropriate to call the move a *disincentive* to use stamps.

"just and reasonable schedule" objective of sec. 3622(b)(8), but the Postal Service has offered none.

The stated objectives of the "Stamp Tax". One of the objectives the Postal Service cites is "customer convenience and productivity gains for mailers, particularly small and mid-size businesses[.]" If postage meters were a novel technology, whose direct advantages to the user were not fully understood but might lead to an increase in mail volume once the small business community had internalized that information, a promotional rate might be plausible. But postage meters have been available for over 90 years.[11] Their makers energetically promote them to small businesses, as a few minutes' review of Pitney Bowes', Neopost's, and other relevant corporate websites makes clear. If we assume that present-day small businesses behave rationally in deciding how to manage their mail, it seems likely that most such businesses which perceive any savings in substituting a meter for stamps will have already done so.

The Postal Service, however, does not seem to have inquired how far this might be true. Its filing provides no information on how far the process of meter adoption has progressed within the targeted small- and mid-size-business community. But before the Commission sanctions a substantial rate discrimination against stamp users – that is, largely, against the household mailer – it should be provided with at least a plausible estimate of this statistic.

Is the Postal Service preaching to the choir? Because the Notice contains no estimate of how much *new* metered mail might result from the rate differential – that is, how many small-business-origin pieces now paid with stamps might convert – there is an appreciable risk that business mailers will be rewarded with a lower rate for something they are already doing without a price incentive. We

[11] We take as a convenient starting date the Pitney Bowes Model M meter, introduced in 1920, and designated as an International Historic Mechanical Engineering Landmark by the American Society of Mechanical Engineers in 1986. Its technological roots go back to the nineteenth century.

showed above that it is likely that an extremely high proportion of the stamped letters now in the system originate with households. This suggests, in turn, that a similarly high proportion of the 9.6 billion Metered letters already reflected in the billing determinants originate with businesses – including, for all that can be seen to the contrary, a great many of the small and medium-sized businesses the Service believes the differential will *convert* to metering.

While the Postal Service proposes the rate differential as a promotional price and not a worksharing discount, the problem its Notice presents bears some resemblance to that encountered in the early days of presort discounts. The Commission, in those cases, followed a distinctly conservative path; the ruling concerns were to avoid imposing an undue institutional cost burden on non-presorted mail and to hold the discount strictly to capturable cost savings.[12] Where, as here, the activity proposed to be encouraged through a rate adjustment is already common among mailers, there is an obvious risk that mailers already performing it will continue to do so, enjoy a lower price, and yet produce no new cost savings. In this Docket, there is nothing in the record to alleviate the suspicion that a substantial number of meter-using small and medium-sized businesses would enjoy a rate reduction without contributing any offsetting cost savings. The Commission, therefore, should exercise due skepticism in evaluating the proposed rate differential.

Benefits to the Postal Service. These considerations naturally lead to discussion of the benefits the Postal Service expects for its own operations: reduced cancellation and stamp distribution costs, and greater revenue security. GCA does not dispute that on a per-piece basis there could be some saving in processing cost if the piece bears meter indicia rather than a stamp. But once again, there is no estimate in the Notice of how many pieces would fall into this converted category – and, even more important, of how many already-metered letters would simply enjoy an (unearned) price reduction. Consequently, there is

[12] See PRC Op. R84-1, ¶¶ 5136 et seq.

no way to judge, even approximately, the cost reduction benefit hoped for from the rate differential.

To subject to a one-cent-per-ounce stamp tax all stamp-using Single-Piece mailers, and particularly the household mailers who neither are nor could practicably be the target of the proposal is neither just nor (especially on this meager record) reasonable. The Commission should not approve it.

C. The design of the differential is irrational

Quite apart from the question of justness and reasonableness, the design of the Metered vs. Stamped differential, as presented in both this Docket and Docket R2013-11, is irrational. The Postal Service has proposed a one-cent differential for the first ounce, and then applied to the resulting two rates the existing (in this case) or increased (in the exigency docket) extra-ounce charge, all the way up the weight scale for Letters.

From the standpoint of advantage to the Service, there is no need for the differential to affect more than the first ounce. The Postal Service cites reduced cancellation and distribution costs as an expected benefit. But a two-ounce stamped letter does not have to be cancelled twice, nor is there anything in the record to suggest that it costs more to cancel than a one-ounce letter. It need not bear more than one stamp, and so there is no guarantee of reduced need for stamps and hence reduced risk of their being stolen. The evident effect of the proposed structure would thus be to give up about $5 million in revenue with no prospect of a compensatory benefit.[13]

[13] Using FY 2012 RPW data, the proportion of extra-ounce letters other than stamped or PVI (i.e., the proportion of "Metered") letters to all Single-Piece letters is calculated. This proportion is applied to the Metered letters component and the resulting volumes multiplied by one, two, or three cents, according to weight increment.

II. CONCLUSION

GCA is of course aware that the Commission focuses its operative decision in price cap cases primarily on the question of cap compliance vel non.[14] However, because the differential has been introduced in this case, and seemingly incorporated as a (somewhat qualified) *fait accompli* in Docket R2013-11, we outline our arguments against it in the present Comments.[15] Our suggestion, therefore, is that if the Commission does not finally reject it in this Docket, it should be prepared to do so when the issue resurfaces in the companion exigency proceeding.

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Respectfully submitted,

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[14] 39 CFR sec. 3010.11(c), (k).

[15] GCA expects at least to renew them in the exigency case.