

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

**Notice of Market-Dominant
Price Adjustment**

Docket No. R2015-4

COMMENTS OF PITNEY BOWES INC.

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I. INTRODUCTION

Pursuant to Order No. 2327, Pitney Bowes Inc. (Pitney Bowes) respectfully submits these comments in response to the United States Postal Service's (Postal Service) January 15, 2015 Notice of Market-Dominant Price Adjustment (Notice). As the Commission noted in Order No. 2327, this rate adjustment is more complicated than a typical rate adjustment because of the interaction with and the uncertainty around the existing surcharges imposed by the exigent rate case (Dkt. No. R2013-11).

Unfortunately, the rate design proposed by the Postal Service results in disproportionate price increases on commercial mailers and continues the disparity in the cost coverage and unit contribution of First-Class Mail Presort Letter and Cards relative to First-Class Mail Single-Piece Letter and Cards. As discussed in Pitney Bowes' comments in Dkt. No. ACR2014, this harms the Postal Service financially by discouraging the growth and retention of the most profitable First-Class Mail products and leads to inefficient economic outcomes.¹ The Postal Service should revise this rate design in the next rate adjustment.

The price differential between stamped letters and metered letters should be increased, or at a minimum restored to one cent, in the next price adjustment to encourage small and medium-sized mailers to continue to use mail to manage and grow their businesses.

Pitney Bowes commends the Postal Service for providing advance notice on its proposed promotions for calendar year 2015; the advanced notice should enable interested customers to fully participate in the promotions.

¹ See Dkt. No. ACR2014, Comments of Pitney Bowes Inc. (Pitney Bowes ACR2014 Comments) (Feb. 2, 2015) at 1-4.

II. DISCUSSION

A. Presort Prices Should Encourage the Retention and Growth of the Most Efficient, Profitable Products

The proposed First-Class Mail Presort Letters rate design fails to maximize efficiency or lower the total combined costs for postal services, because the Postal Service's decision not to increase the Single-Piece First-Class Mail Letters rate results in a disproportionate increase for commercial mailers. The overall increase proposed for Presort Letters, 2.4 percent, is well above the overall average increase for First-Class Mail. Significantly, the proposal imposes the largest percentage increase, 2.7 percent on 5-Digit Automation Letters, the most finely-presorted, efficient, and profitable Presort product. This means that the proposed rate design is difficult to reconcile with the Postal Service's stated recognition that 5-Digit Automation Letters are the most important product to its largest First-Class letter mail customers.²

The Notice states that the "prices in Presort Letters / Postcards reflect the costs that the Postal Service avoids when customers presort or otherwise prepare their mail for automation processing (Factor 5)." Notice at 19. This is incorrect. The proposed discount for the 5-Digit Automation Letters passes through only 74.2 percent of the costs avoided. *See* Notice, Attachment B.xls ("Attachment B"), "FCM Bulk Letters, Cards."

In fact, the rate design results in a discount for 5-Digit Automation Letters that would move even farther away from full recognition of the costs avoided by the Postal Service than the existing discount which passes through 80.6 percent. Notwithstanding the Postal Service's recognition that Commission Rule 3010.14(b) "requires the Postal Service to explain discounts

² *See* Dkt. No. R2011-2, United States Postal Service Notice of Market Dominant Price Adjustment (Jan. 13, 2011), at 13.

that are set “substantially” below 100 percent of avoided costs,” Notice at 43, no explanation is provided for the proposed 5-Digit discount which at 74.2 percent is set “substantially” below of the avoided costs.

The Postal Service’s decision to set the 5-Digit Automation Letters discount below avoided costs will result in increased costs to mailers; discouraging the use of the mail and reducing Postal Service revenue and contribution. Persistent deficiencies in the 5-Digit Automation Letters rate design are significant. The 5-Digit Automation Letters discount is the most important price within First-Class Mail. It affects over 90 percent of all First-Class Mail Presort letters.³ Setting the discount below avoided costs fails to adequately compensate mailers performing the work to qualify for the 5-Digit Automation rate and it fails to provide the appropriate incentive for mailers to convert mail from AADC / 3-Digit to 5-Digit.

Setting discounts below avoided costs also raises important competition policy concerns.⁴ By setting the discount below avoided costs the Postal Service is excluding more efficient providers (in-house mail preparation or mail service providers) from competitive upstream postal markets. Because the antitrust laws do not cover market dominant products, the Commission must play a more active role to ensure fair competition in these upstream markets.

Finally, setting work share discounts below avoided costs is also inconsistent with the objectives and factors of the Postal Accountability and Enhancement Act.⁵ As proposed, the First-Class Mail Presort Letters rate design fails to achieve the objectives of the modern rate system described in section 3622(b)(1)(“maximize incentives to reduce costs and increase

³ See Notice, CAPCALC-FCM.xls, “Presort Ltrs & Crds” (the volume of 5-Digit Automation Letters and its benchmark rate category (AADC and 3-Digit Automation Letters) represent over 33.4 billion pieces of the total First-Class Mail Presort Letters volume of 36.2 billion pieces).

⁴ See Dkt. No. ACR2011, Comments of John C. Panzar on behalf of Pitney Bowes Inc. (ACR2011 Panzar)(Feb. 3, 2012) at 5.

⁵ See Pub. L. No. 109-435, 120 Stat. 3198 (Dec. 20, 2006) The PAEA amends various sections of title 39 of the United States Code. Unless otherwise noted, section references in these comments are to sections of title 39.

efficiency”), and section 3622(b)(5)(“to assure adequate revenues, . . . to maintain financial stability”). 39 U.S.C. §§ 3622(b)(1) and (5). The proposed rate design also fails to take into account the modern rate system factors described in section 3622(c)(4)(“the available alternative means of sending and receiving letters and other mail matter at reasonable costs”), and section 3622(c)(5)(“the degree of preparation of mail for delivery into the postal system performed by the mailer and its effect upon reducing costs to the Postal Service”). 39 U.S.C. §§ 3622(c)(4)-(5).

The rate design proposed for Standard Mail Automation Letters is subject to the same flaws because it also reflects a persistent practice of setting discounts below avoided costs. The Standard Mail 5-Digit Automation Letters discount will pass through only 86.4 percent of avoided costs.

The Postal Service should revisit these Presort rate design issues in the next rate adjustment.

B. The Price Differential for Metered Single-Piece Letters Should be Increased, Or at a Minimum Restored to One Cent, To Encourage Small and Mid-Size Business Mailers to Grow Mail Volumes and Reduce Postal Service Costs

The proposed decrease in the price differential for the Metered Single-piece letters appears to be another casualty of the Postal Service’s decision to keep the Stamped Single-piece letters price at 47 cents. As proposed, the price for metered letters will increase by half a cent from 46 to 46.5 cents; thus, the price difference between stamped letters and metered letters will decrease to a half of a cent. The reduction in this price differential is a step in the wrong direction. This decrease diminishes the benefits that were beginning to be realized from the introduction of a separate Metered Single-piece letters price. The price differential between stamped and metered letters should be restored and increased at the next opportunity.

The Notice refers to the Metered Single-piece letters price as the “benchmark for the calculation of FCM Automation Letter prices.” Notice at 18. As the benchmark the Metered Single-piece letters price allows the Postal Service to develop more accurate and improved prices for large commercial mailers. But the Metered Single-piece letters price is more than just a benchmark. The Metered Single-piece letters price is also important in its own right, as an additional incentive for small and medium-sized business (SMB) mailers to continue to use mail to manage and grow their businesses. Pitney Bowes has particular expertise in serving the SMB market and believes that this is a market that represents an opportunity for the Postal Service to stimulate new mail volume as was shown by the introduction of Every Door Direct Mail. An attractive Metered Single-piece letters price will add value to the mail for this market.

As discussed in Pitney Bowes’ comments on the FY2014 Annual Compliance Report, billing determinants from the two full quarters in which the metered letters price was in effect show that the metered mail component of single-piece, nonresidual letters increased.⁶ The data suggest that the increase in metered letters volume was in response to the meaningful price differential between metered letters and stamped letters. The data are also consistent with the experience internationally where posts have introduced channel-based pricing and with incentives for metered letters. In those instances SMB mailers report increased meter throughput and a slower rate of decline of mail usage.⁷ With the introduction of a separate price for Metered Single-piece letters the Postal Service joins posts around the world in recognizing the value of metered mail. The Postal Service should follow the lead of other posts by offering larger pricing incentives to encourage increased use of this efficient mail.

⁶ See Pitney Bowes ACR2014 Comments at 4.

⁷ See *id.* at 4-5.

The Postal Service should restore and increase the price differential between stamped mail and metered letters in its next rate adjustment. Doing so will stimulate mail volume growth from SMB mailers and help reduce Postal Service costs by driving mail to a more efficient, secure payment channel.

C. Providing Advance Notice of Promotions and Incentives is Sound Pricing Policy

The Postal Service seeks approval for four promotions in the upcoming calendar year. *See* Notice at 6-9. Pitney Bowes supports the Postal Service's innovative use of its pricing flexibility in advancing these promotions. The promotions offer mailers the opportunity to increase the value of their mailings and to further integrate physical mail with emerging technologies. The Notice states that the Postal Service is providing advance notice of the promotions to ensure that interested mailers will be able to fully participate in these programs. *See id.*, at 6-7. Pitney Bowes commends the Postal Service for providing the advance notice in response to mailer concerns and stands ready to help its clients take advantage of these offerings.

III. CONCLUSION

Pitney Bowes appreciates the Commission's consideration of these comments.

Respectfully submitted:

/s/

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