

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON DC 20268-0001

ANNUAL COMPLIANCE REPORT, 2015

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Docket No. ACR2015

REPLY COMMENTS OF
MPA—THE ASSOCIATION OF MAGAZINE MEDIA

(February 12, 2016)

Pursuant to Order No. 2968, MPA—The Association of Magazine Media (“MPA”) respectfully submits these reply comments on the Postal Service’s FY 2015 Annual Compliance Report (“ACR”). These comments discuss two points involving Periodicals Mail.

(1)

The initial comments reveal agreement among mailers—including Valpak, which has not traditionally been allied with MPA on Periodicals pricing issues—that the Postal Service needs to revamp its rate structures for flat-shaped mail to give mailers stronger incentives to engage in cost-saving practices such as Carrier Route preparation and sorting, and needs to take a harder look at the Postal Service’s policy of forcing flat-shaped mail in FSS zones to be processed on FSS equipment. *Cf.* MPA initial comments at 3-6; PostCom initial comments at 1-3 (explaining how dysfunctional rate structure for Standard Mail Flats, particularly in FSS zones, gives price signals for inefficient mailer behavior); Valpak initial comments at 13-14 (noting the failure of the FSS deployment to

reduce the costs of flat-shaped Standard Mail and the failure of FSS pricing to improve the cost coverage for the Standard Mail Flat product). These comments underscore the urgent importance of greater attention to these issues.

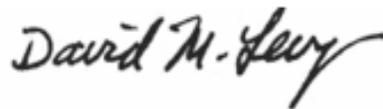
(2)

Both NPPC and Valpak make reference to using incremental costs, rather than attributable costs, to assess whether market-dominant products are covering their costs. NPPC initial comments at 10; Valpak initial comments at 26, 29, 36. NPPC and Valpak are correct that the incremental cost floor is a separate and independent test for cross-subsidy. The relevance of this insight for Periodicals Mail is limited, however. First, as Prof. John Panzar (whom Valpak cites five times in its comments) has explained, the “difference between the current measure of attributable costs and a more economically precise measure of incremental costs appears to have little practical significance” except when “the increment of volume represents a large share of total Postal Service volume.” Docket No. RM2016-2, Declaration of John C. Panzar for Amazon Fulfillment Services, Inc. (filed Jan. 27, 2016) at 7; John C. Panzar, *The Role of Costs for Postal Regulation* 23-25 (2014). Periodicals Mail, of course, comprises only a small fraction of total Postal Service volume.

Second, for the reasons explained by MPA in previous annual compliance review proceedings, the Commission may not impose class-average rate increases that exceed increases in inflation as measured by the CPI—All Urban Consumers even if current rate levels fail to cover the attributable costs of the class as reported to the Commission. See, e.g., Reply Comments of MPA and ANM in ACR2014 (filed Feb. 13, 2015), Appendix A (explain the legal primacy of the CPI cap of 39 U.S.C. § 3622(c) over the attributable cost

floor of 39 U.S.C. § 3622(c)(2). *A fortiori* the objective of covering incremental costs may not trump the CPI cap. For the completeness of the record, MPA incorporates by reference its February 13, 2015 reply comments in ACR2014, which are available at www.prc.gov/docs/91/91456/15-02-13%20MPA-ANM%20reply%20comments.pdf.

Respectfully submitted,

A handwritten signature in black ink that reads "David M. Levy". The signature is written in a cursive, flowing style.

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