

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

Notice of Market Dominant
Price Adjustment

Docket No. R2017-1

COMMENTS OF PITNEY BOWES INC.
(November 1, 2016)

Pursuant to Order No. 3565, Pitney Bowes Inc. (Pitney Bowes) respectfully submits these comments in response to the United States Postal Service's (Postal Service) October 12, 2016 Notice of Market-Dominant Price Adjustment (Notice).

These comments address two elements of the First-Class Mail rate design: (1) the price differential between Single-Piece Stamped and Machinable Metered Letters (Metered Letters), and (2) the First-Class Mail Presort Letters rate design. These changes will further the statutory objectives and factors to encourage increased mail volume and operational efficiency.

I. The Increased Price Differential for Metered Letters Will Help Encourage Small and Medium-Size Business Mailers to Grow Mail Volumes, Reduce Postal Service Costs, and Shrink the Contribution Gap Between Single-Piece and Presort Letters

The Postal Service is reducing the rate for one-ounce Metered Letters from 46.5 cents to 46 cents. *See* Notice at 16. As a result the price differential between Stamped and Metered Letters will increase to three cents. This price differential will allow the Postal Service to better segment its retail and commercial single-piece First-Class Mail customers. A three cent price differential will provide a meaningful incentive for small and medium-sized business (SMB) mailers to stay in the mail and to use the mail in new ways to help grow their businesses.

As the Postal Service correctly observed, SMB mailers that use meters are more likely “to maintain or increase their First-Class Mail use” because they enjoy more efficient access, Notice at 17, and they are more likely to use the Postal Service’s competitive shipping products, including Priority Mail, *see id.* SMB mailers that use meters are also using a more secure, efficient postage payment channel that helps the Postal Service avoid the costs associated with “stamp production, distribution, and cancellation.” *Id.* Additionally, as noted by the Postal Service, the roughly six percent discount off the stamp price for Metered Letters is conservative in relation to the experience of other posts such as Canada Post that have introduced pricing differentials for more efficient sales channels including metered mail.

The Metered Letters category also serves an important function as a more appropriate benchmark for setting First-Class Mail Presort Letter prices. Because the Metered Letters rate is the benchmark for all First-Class Mail Presort Letter prices, increasing the price differential for Metered Letters will have the effect of reducing presort prices. This rate design will help reduce the disparity in unit contribution and cost coverage between First-Class Single-Piece and Presort Letters. Reducing the disparity in unit contribution and cost coverage by reducing the average price of Presort Letters will also help the Postal Service financially by encouraging the retention and growth of its most profitable and price sensitive First-Class Mail product, Presort Letters.

II. Improved Presort Discounts Should Encourage More Efficient Mail Preparation and Reduce Postal Service Costs

The First-Class Mail Presort Letters rate design is substantially improved. The rate design is a significant step in the direction of setting prices to promote efficiency and reduce the total combined costs for postal services.

The Postal Service notes that the passthrough underlying the 5-Digit Automation Letters discount has moved farther away from 100 percent of the modeled avoided costs in recent years. *See* Notice at 19. The Postal Service cites to the Commission’s statement in the last rate adjustment proceeding that “passthroughs below 100 percent may send inefficient price signals to mailers and therefore [the Commission] encourages the Postal Service to adjust discounts to bring passthroughs closer to 100 percent.” Notice at 20 (citations omitted).

The Postal Service’s decision to set the 5-Digit Automation Letters discount closer to avoided costs will “send[] more efficient price signals to mailers,” Notice at 21, and benefit the Postal Service by encouraging mailers to produce a lower-cost, higher-contribution mailstream.

Increasing the discount and thereby reducing the effective price of 5-Digit Automation Letters is critical because it is the most important price for the Postal Service’s largest commercial mailers and accounts for the substantial majority of all First-Class Mail Presort Letters.

III. Conclusion

Pitney Bowes commends the Postal Service for making changes to the First-Class Mail Letters rate design that will help keep more SMB customers in the mail; provide more appropriate incentives to reduce costs and increase efficiency; and shrink the inappropriate gap in unit contribution between First-Class Mail Single-Piece Letters and Presort Letters.

Respectfully submitted:

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