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UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Notice of Market Dominant
Price Adjustment — Docket No. R2017-1

COMMENTS OF THE ASSOCIATION FOR POSTAL COMMERCE
(November 1, 2016)

Pursuant to Order No. 3565, the Association for Postal Commerce ("PostCom") submits these comments on the Postal Service's Notice of Market Dominant Price Adjustment. While PostCom has not identified any instances in which the proposed prices violate the price cap limitation of the Postal Accountability and Enhancement Act, PostCom submits these comments to bring certain features of the price change to the Commission's attention.

I. FSS AND FLATS PRICING

PostCom fully supports the Postal Service's decision to remove the FSS price categories in Standard Mail, Periodicals, and Bound Printed Matter, returning to the pre-R2015-14 Flats pricing structure. *See* Notice of Price Adjustment at 11. The Postal Service is correct that the FSS pricing disrupted incentives and led to unintended mailer behavior that caused FSS volumes to decline. This volume decline, in turn, has exacerbated cost issues associated with Flats mail and impacted the efficiency of FSS processing. PostCom appreciates the Postal Service's recognition of these issues and decision to revert to its previous price structure.

PostCom also supports the Postal Service's decision to increase the maximum weight of Standard Mail Flats that pay piece rates only to 4.0 ounces.

II. WORKSHARE DISCOUNTS

At the direction of the Commission, the Postal Service has worked to reduce the passthroughs for a number of workshare discounts where those passthroughs have historically exceeded 100% of avoided costs. While PostCom understands the desire to ensure workshare discounts comport with the general principle stated in 39 U.S.C. § 3622(e)(2) that "discounts do not exceed the cost that the Postal Service avoids as a result of the workshare activity," the Commission must recognize that reductions in the discounts available for drop entry could have unintended consequences that could result in additional costs and inefficiencies being imposed on the Postal Service.

In the current price change, the difference between an origin-entered and DSCF-entered 5-digit Automation Standard Mail letter has decreased from 4.4 cents to 3.4 cents.[1] Obviously, this decrease means mailers will have less incentive to enter at mail at the DSCF, and more mail may be shifted to origin entry. While this shift might appear to be economical based on calculated cost avoidances, in reality, there are limits to the Postal Service's ability to efficiently accept and process origin-entered mail. If sufficient volume moves to origin entry, the Postal Service will incur additional costs, not currently reflected in the reported costs of origin entered mail, to handle this mail. Additionally, increases in origin-entered mail will have impacts on service, as drop-entry plays a significant role in assisting the Postal Service in meeting service standards.

PostCom cannot identify whether the flattening of certain drop-entry discounts in the current rate filing will have such effects. Nevertheless, it is worried that a too narrow focus on reducing passthroughs above 100% of avoided costs will have serious unintended consequences.

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[1] The difference between origin entry and DNDC entry for this piece has decreased from 3.5 cents to 2.6 cents.

PostCom further notes that the Commission is currently considering proposed changes to analytical principles in Docket No. RM2016-12 that could reduce the amount of transportation costs attributed to certain products. If approved, this change could have the effect of reducing the reported costs avoided for workshare activities, as transportation costs represent a significant portion of these costs. If this result obtains, the Postal Service may find itself under further pressure to reduce drop entry discounts, further pushing mail to origin entry.

In a worst-case scenario, origin-entered volume would exceed the Postal Service's processing capability, causing it to fall further behind in meeting service standards. Mailers dependent on service would then be faced with a choice: enter mail deeper into the system even though the cost savings of doing so might not be justified by the discount provided, or pull mail out of the system. If mail is forced out of the system, per unit costs will only increase, and a downward spiral may begin.

While these impacts are speculative at this time, they are not unforeseeable. In evaluating the compliance of the workshare discounts contained in the Postal Service's filing, the Commission should mind these potential impacts as well as 39 U.S.C. § 3622(e)(2)(D), which allows discounts to exceed avoided costs where "reduction or elimination of the discount would impede the efficient operation of the Postal Service," and § 3622(e)(3)(A), which provides that a discount need not be reduced if doing so would "lead to a loss of volume in the affected category or subclass of mail" that would reduce that category's contribution to institutional costs below what it would have been had the discount not been reduced.

III. NAME CHANGE FOR STANDARD MAIL

Finally, PostCom notes that it cannot, at this time, support the Postal Service's proposal to change Standard Mail to USPS Marketing Mail. While PostCom is generally unconcerned with how the Postal Service designates its products for internal purposes, the current proposal will require changes to indicia, which is a recipient-facing change. Not only must mailers bear the costs of making these changes (and associated changes to marketing materials, internal manuals, etc.), but the Postal Service has not evaluated how these changes will impact response rates. If the "Marketing Mail" indicia causes recipients to view mailpieces as "junk mail," their value will be reduced immeasurably. While PostCom is addressing these issues with the Postal Service in other forums, it asks the Commission to require the Postal Service to better justify this change.

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Respectfully submitted,

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