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BEFORE THE POSTAL REGULATORY COMMISSION
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Annual Compliance Report, 2016 | **Docket No. ACR2016**

COMMENTS OF PITNEY BOWES INC.
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I. INTRODUCTION

Pitney Bowes Inc. (Pitney Bowes) respectfully submits these comments on the Annual Compliance Report for Fiscal Year 2016, filed by the United States Postal Service on December 29, 2016 (FY2016 ACR). These comments address the First-Class and Standard Mail Automation Letters rate design, and the discrepancy in the cost coverage and unit contribution of First-Class Mail Single-Piece and Presort Letters / Cards.

II. DISCUSSION

A. First-Class Mail and Standard Mail Automation Letter Rate Design

The FY2016 ACR shows a passthrough for the First-Class Mail AADC Letters discount that is above 100 percent, *see* ACR at 15; USPS-FY16-3, FY16 3 Worksharing Discount Tables.xls, "FCM Bulk Letters, Cards." The FY2016 ACR further shows that the discount for First-Class Mail 5-Digit Automation Letters with a passthrough of only 67.6 percent of the costs avoided. *See id*. The Standard Mail Automation Letters rate design follows a similar pattern with AADC and 5-Digit passthroughs of 121.4 percent and 73.1 percent,[1] respectively. *See* USPS-FY16-3, FY16 3 Worksharing Discount Tables.xls, "Standard Mail Letters."

Reviewing the FY2016 ACR data in concert with the recently implemented market dominant price adjustments highlights several areas of improvement in the Automation Letter rate design. Following the recent price adjustment, the First-Class Mail AADC passthrough is now in compliance with section 3622(e)(2). 39 U.S.C. § 3622(e)(2). The 5-Digit Automation Letters is also substantially improved. The passthrough for 5-Digit Automation Letters is now

[1] The FY2016 ACR appropriately measures the 5-Digit Automation Letters from a weighted average benchmark of AADC and 3-Digit Letters; however, because the 3-Digit Automation rate was eliminated in the most recent price adjustment, the Commission should confirm that Automation AADC Letters is the appropriate benchmark going forward.

88 percent of the modeled costs avoided.[2] There is still room for improvement for 5-Digit Automation Letters, but the most recent price adjustment was an important first step in the direction of moving the passthrough closer to 100 percent. Increasing the discount and reducing the effective price of 5-Digit Automation Letters is especially critical because it is the most important price for the Postal Service's largest commercial mailers and because it accounts for the majority of all First-Class Mail Presort Letters volume, which represents over two-thirds of all First-Class Mail Letters volume.

The Standard Mail rate design also shows some improvement. After the recent price adjustment, the passthroughs for Standard Mail AADC and 5-Digit Automation Letters are 121.4 percent and 76.9 percent, respectively. Again, there is more that can be done, but these adjustments are important steps in the right direction and Pitney Bowes commends the Postal Service for making these changes.

The Postal Accountability and Enhancement Act (PAEA) prohibits, subject to specific statutory exceptions, workshare discounts that exceed 100 percent of the estimated costs avoided. Discounts below avoided costs are also inconsistent with and fail to achieve the objectives of the modern rate system established in section 3622(b)(1)("maximize incentives to reduce costs and increase efficiency"), section 3622(b)(5)("to assure adequate revenues, . . . to maintain financial stability"), and section 3622(b)(8)("just and reasonable schedule of rates"). 39 U.S.C. 3622(b)(1), (5), and (8). Similarly, discounts set below avoided costs fail to take into account the modern rate system factors set out in section 3622(c)(4)("the available alternative means of sending and receiving letters and other mail matter at reasonable costs"), section 3622(c)(5)("the degree of preparation of mail for delivery into the postal system performed by the mailer and its

[2] Using an Automation AADC Letter benchmark would increase the 5-Digit cost avoidance and reduce the passthrough below 88 percent.

effect upon reducing costs to the Postal Service"), and section 3622(c)(12)("the need for the Postal Service to increase its efficiency and reduce its costs, including infrastructure costs, to help maintain high quality, affordable postal services"). 39 U.S.C. 3622(c)(4), (5), and (12).

Discounts set below avoided costs also raise competition policy concerns because they have the effect of excluding more efficient providers (in-house mail preparation or mail service providers) from competitive upstream services (presorting, prebarcoding, handling, or transportation of mail). Because setting discounts below avoided costs is a form of exclusionary pricing, it has a short-term negative effect on the productive efficiency of the postal sector and a longer-term negative effect of slowing or reversing the shift in value added from the Postal Service to the private sector.[3]

The Commission has long recognized the importance of setting workshare discounts equal to avoided costs to maximize efficiency.[4] In past ACR's Pitney Bowes has encouraged the Commission to do so. In the pending 10-year review of the modern rate system the Commission should use its statutory authority under section 3622 to require that workshare discounts be set equal to, or as close as practicable to, 100 percent of the modeled costs avoided as calculated in the most recent annual compliance determination.[5] Doing so would further the statutory objectives of the PAEA and benefit mailers and the Postal Service by promoting efficiency, lowering the total combined costs for mailers, and encouraging the retention and growth of the Postal Service's most profitable market dominant products.

[3] *See* Docket No. ACR2011, Comments of John C. Panzar Submitted on Behalf of Pitney Bowes (Feb. 3, 2012) at 5.
[4] *See* Docket No. ACR2015, Annual Compliance Determination (Mar. 28, 2016) at 10; Docket No. ACR2014, Annual Compliance Determination (Mar. 27, 2015) at 76-77.
[5] Exceptions could be made, as necessary, where the Commission has approved a change in an analytical principal since the most recent annual compliance determination (e.g. a change in a benchmark).

B. FY2016 ACR Data Confirm a Disparity in the Unit Contribution and Cost Coverage of First-Class Single-Piece and Presort Letters

The FY2016 ACR data confirm that First-Class Mail Presort Letters / Cards remain much more profitable than Single-Piece First-Class Mail Letters / Cards. In FY2016 the unit contribution for First-Class Mail Presort Letters / Cards was 27.1 cents, 5.9 cents greater than the 21.2 cent unit contribution of Single-Piece First-Class Mail Letters / Cards. *See* ACR at 12, Table 1; USPS-FY16-1. Public-FY16CRA, “Cost1.” The FY2016 ACR data also confirm a disparity in the cost coverage between Presort Letters / Cards and Single-Piece Letters / Cards. For FY2016 the cost coverage for Presort Letters / Cards is 336.8 percent, as compared to the cost coverage for Single-Piece Letters / Cards of 175.4 percent. *See id*.

This persistent disparity in unit contribution and cost coverage harms the Postal Service financially and discourages the growth and retention of the most profitable First-Class Mail products. This disparity justifies the Postal Service’s decision in its most recent price adjustment to rebalance the cost coverage and unit contributions among First-Class Mail products by lowering prices on more profitable and price sensitive Presort letters. The recent price adjustment should help stimulate and maintain Presort letters volume, which would improve the Postal Service’s financial position. The recent adjustment also created a more equitable price schedule by reducing the disparity in cost coverage.

III. CONCLUSION

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

Respectfully submitted:

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