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BEFORE THE POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Annual Compliance Report	)
Docket No. ACR2016	)

Reply Comments of Stamps.com Inc.
(February 13, 2017)

Stamps.com Inc. ("Stamps.com") submits these reply comments pursuant to Commission Order No. 3717, "Notice of Postal Service's Filing of Annual Compliance Report and Request for Public Comments" (Dec. 30, 2016). They are directed to the "Initial Comments of the Greeting Card Association" (Feb. 2, 2017) ("GCA"), which discuss the rates for Single-Piece First-Class Letters and question the included meter rate, for which PC Postage qualifies. We disagree. We thank the Commission for this opportunity to reply.

Stamps.com and the Meter Rate

Stamps.com is the largest provider of PC Postage. For over a decade, we have sought recognition in rates of mailer usage of PC Postage, which costs mailers, saves costs for the Postal Service, has a number of desirable characteristics, and could have more.[1] A step in that direction, we think a belated step, was the implementation in Docket No. R2013-10 of a "meter" rate. Since nearly all meters in the United States

[1] For a discussion of these characteristics, and of a proposal for a category designated "Qualified PC Postage" (QPCP) that would recognize them, *see* Stamps.com's initial comments in Docket No. ACR2014 (Feb. 2, 2015), especially at 4-6, and cites therein.

have now migrated to IBI meters,[2] the meter rate is essentially an IBI rate. PC Postage has an IBI.[3] Stamps.com favors the meter rate being continued and remains hopeful that steps beyond recognizing the IBI will be taken.

The meter rate is equal to the rate for Single-Piece First-Class Letters minus a meter discount. This discount, along with all other First-Class rates and discounts, was recognized fully in the price-cap calculations. These rates and discounts are considerably constrained. First, they are constrained by a price cap that is *low* in this case, that thus provides little freedom. Second, they are constrained by a rounding convention on the Single-Piece First-Class Letter rate. GCA's members have been affected by the rounding constraint since Postal Reorganization in 1970, sometimes finding the constraint likable and sometimes not. Rounding is acknowledged in section 3622(d)(2)(A) (of the PAEA). Third, these rates are constrained by the worksharing constraints in section 3622(e). Fourth, they are constrained by the relative volumes of the categories, which are also recognized in the calculations. It was Congress that stated clearly that the cap is to be applied at the class level, which frames the role of

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[2] In its Table A (at 3), GCA shows that the volume from non-IBI meters is declining rapidly and is now a negligible 0.4 percent of IBI volume.

[3] Another line in GCA's Table A (at 3) shows the volume for an "Other" category of mail that receives the meter rate. In its comments in Docket No. R2017-1, which shows the same table but for earlier years, GCA "assum[ed] that much or most of [Other] mail bears PC postage" (at 4). As this line is just under 0.3 percent of the mail receiving the meter rate, its trend is mostly irrelevant. However, we believe that PC Postage is <u>not</u> in it, because PC Postage qualifies fully as IBI mail (of the highest caliber, in fact) and Stamps.com's own meter-rate volume is well above the volume shown for "Other."

Within a group of mail that does not receive the meter rate, GCA's Table A also shows a line for PVI mail, which is about 0.5 percent of the non-meter Single-Piece volume. This too seems an irrelevant category.

We also note that GCA explains that it "omitted Permit Imprint volume, on the ground that it represents mostly larger mailers already likely to use meters" (at 3). We do not understand this statement. Single-piece Permit Imprint volume qualifies fully for the meter discount (*see* USPS Notice at 18, Docket No. R2013-10). The RPW source of GCA shows 1.1 billion single-piece Permit Imprint pieces. We believe a significant portion of this may be (prepaid) Permit Reply Mail, which pays the meter rate.

relative volumes. Since the metered volume is large, it has a sizable influence, consistent, we would add, with its beneficial role in helping to provide a low-cost postal mailstream.

In Order No. 1320 (Doc. No. RM2010-13) the Commission established the cost of metered mail as the benchmark for the presort discounts in First-Class Letters and opined (at 11, fn. 22) that metered mail could have a separate rate. When it established such a rate, the Postal Service explained simply that "[t]his Metered price is expected to encourage the adoption of metered mail by small businesses … thus fostering a more consistent use of the Postal system … and to grow [small business] volume in the long run" (Notice, Sept. 26, 2013, at 19-20).

GCA Comments

The umbrella under which GCA structures its comments is that the meter rate is understood to be a promotion. GCA uses the term promotion (or promotional) 12 times. We find no basis for this. The Postal Service did not use the term. The Commission did not use the term. No one we can find has used the term, or an associated notion, except GCA.

GCA believes that *if* the rate is a promotion, it should be possible to determine by measurement whether the rate "succeeded" (at 2), and suggests the possibility of examining volume changes, volume shifts, cost changes, and revenue changes. It then presents "Table A" (at 3) that shows IBI and stamped volume for two years. Table A also shows other volumes, but, as explained in footnotes above, they are largely irrelevant.

Several difficulties exist. First, as noted above, the meter rate is not a promotion. Second, no expectations or criteria for success have been established for the meter rate, nor do we believe any can be constructed. Third, a volume analysis would be difficult and would require more data than exist. For the latter two reasons, GCA is able to come to no conclusion. Fourth, we see the justification for the meter rate as a matter of recognizing the characteristics of the mail. Good economics has always advised doing this, and we see no reason for not following that advice here.

We also note that GCA did not point to the survey Stamps.com presented in its initial comments in Docket No. ACR2014, when the discount had been 1 cent, showing that about half of our new customers were aware of the discount, that 32 percent of those said it influenced them, and that 64 percent of the latter group said it was very important or somewhat important (*see* Comments at 3).

Whether a rate is high or low, whether it is an increase or a decrease, and whether the category to which the rate applies is new or not, the setting of a rate has implications. Under the 1970 law, the rates overall were designed to break even in a prospective year during which the rates would be in effect. Even absent a breakeven concept, the relative levels of the rates was assessed on costs and volumes estimated for the prospective period. Under the PAEA, using past volumes and looking at past costs, the rates must satisfy worksharing constraints and a price-cap constraint at the class level. We explained these constraints, and several others, above.

Though the costs and volumes used to apply the constraints are matters of the past, the financial health of the Postal Service is a matter of the future, short-term and long-term. The Postal Service is not barred from considering the future when it selects rates, indeed it would be derelict if it did not consider trends and mailer responses. For example, the Postal Service has explained many times that it usually wishes to avoid spending its cap (using volume weights from the past) on mail categories that are declining. In other words, revenue will not materialize from volume that is not there.

GCA talks about the revenue loss of a one-half cent increase in the meter discount, all other things being equal, although such an increase has not occurred (at 4). It wonders if a volume increase caused by a rate reduction might lead to an increase in revenue (at 5). It underlines the Public Representative saying similar things in a previous docket (at 5). And despite the fact that the full cap was used, and all volumes and prices were recognized properly in the cap calculations, it asks whether the rate selected is at odds with the "adequate revenues" objective of section 3622(b)(5) (at 5-6). Finally, still thinking in terms of the meter rate being "promotional," it refers to the rate increase received by non-users of meters as a "tax" and asks if this tax is "just and reasonable" under section 3622(b)(8), a section aimed at the system for ratesetting, not at specific rates (at 6).

Based on a lack of clarity about whether the promotion it sees succeeded and an interest in shrinking the tax it sees on non-meter mailers, it argues that the Commission should find the meter rate non-compliant and direct the Postal Service to "discontinue it, or, at the least, scale it down" (at 6).

Conclusion

When it is realized that the meter rate is not promotional, that rates paid are not a tax, and that the constraints faced in ratesetting are considerable, it becomes clear that

GCA's discomfort is not a basis for a finding of non-compliance. The meter rate is a legitimate rate, based on important mail characteristics.

Respectfully submitted,

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