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

Annual Compliance Report, 2016 **Docket No. ACR2016**

REPLY COMMENTS OF PITNEY BOWES INC.
(February 13, 2017)

Pitney Bowes Inc. (Pitney Bowes) respectfully submits these reply comments in response to the comments filed by the Greeting Card Association (GCA) in opposition to the rate for Metered Single-Piece First Class Mail Letters price.[1]

The Commission approved the establishment of the Metered Letters price in Docket No. R2013-10.[2] In response to previous GCA challenges, the Commission has held that the establishment of a policy-based price differential between Stamped and Metered Single-Piece First-Class Mail Letters is "an appropriate exercise of the Postal Service's pricing flexibility."[3] GCA fails to raise any new arguments here; rather, it seeks to rehash the very same arguments that the Commission has previously considered and rejected.

GCA contends that the price differential between Stamped and Metered Letters violates the statutory objective to ensure the Postal Service has "adequate revenues" (39 U.S.C. 3622(b)(5)) and the statutory objective for a "just and reasonable schedule of rates" (39 U.S.C. 3622(b)(8)). Neither argument is persuasive.

GCA's "adequate revenues" argument fails because there is no "revenue sacrifice" or "revenue loss" associated with the Metered Letters price. GCA Comments at 4. As GCA concedes

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[1] *See* Initial Comments of the Greeting Card Association (Feb. 2, 2017)(GCA Comments).
[2] *See* Dkt. No. R2013-10, Order No. 1890 (Nov. 21, 2013) at 46.
[3] Dkt. No. ACR2014, Annual Compliance Determination Report (Mar. 27, 2015) at 68.

under a revenue-based price cap the Postal Service has every incentive to "set prices to as close to the cap as it can." *Id*., at 5. GCA's real complaint is that a reduction in the Metered Letters price leads to an off-setting increase in other First-Class rates. But that complaint only confirms that rate deaveraging within First-Class Mail is revenue neutral under the statutory price cap; thus, there is no basis to assert a violation of 39 U.S.C. 3622(b)(5). *See id.*

GCA's argument that the meter rate violates the statutory objective for a "just and reasonable schedule of rates" because the reduction in the Metered Letters price may lead to an increase in the price for Stamped Letters also fails as a matter of law. Under the PAEA market-dominant products are protected from excessive price increases by the CPI price cap. The Commission has consistently held that the Postal Service has the pricing flexibility to make non-uniform price adjustments within a class.[4] Indeed, section 3622(b)(8) expressly contemplates changes of "unequal magnitude within, between, or among classes of mail." 39 U.S.C. 3622(b)(8).

If anything, the "just and reasonable" statutory objective supports the larger price differential for Metered Letters because it allows the Postal Service to reduce the disparity in unit contribution and cost coverage between Single-Piece and Presort Letters. As pointed out in Pitney Bowes' initial comments, the unit contribution of Presort Letters is nearly six cents greater than that of Single-Piece Letters, a margin that more than exceeds the three cent pricing differential for Metered Letters.[5] Certainly it is "just" to use pricing flexibility to level the contribution required from different First-Class Mail products, and "reasonable" to try to drive mail to convert from a less profitable product to a more profitable one. The extent to which this use of pricing flexibility succeeds can only be examined if the differential remains in place for a reasonable period of time and, even then, simple trend analysis would likely be insufficient. As noted below, this has not been the case in the past and in any event is not necessary for compliance.

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[4] *See* Dkt. No. ACR2012, Annual Compliance Determination Report (May 7, 2013) at 82.

[5] *See* Dkt. No. ACR2016, Initial Comments of Pitney Bowes Inc. (Feb. 2, 2017) at 5.

GCA's empirical critique should also be rejected because it is irrelevant for purposes of assessing compliance. GCA cannot cite to any legal authority for the position that the efficacy of the price differential is determinative for compliance purposes, because there is none. GCA's empirical criticisms are also premature. The current price differential for Metered Letters has been in effect for less than a month. As GCA concedes, the price differential which was introduced in late 2014, fluctuated between one cent and one half cent before the Postal Service adopted the current, more meaningful price differential. GCA is also forced to admit that the most recent volume trend data support a finding that Metered-eligible mail volume is declining at a slower pace than the rate of decline for non-eligible Single-Piece First-Class Mail Letters. *See* GCA Comments at 2-3.

For the reasons cited above, Pitney Bowes respectfully requests that the Commission affirm its position that the pricing differential for Metered Letters is a lawful and appropriate exercise of the Postal Service's pricing flexibility.

Respectfully submitted:

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