



## **Association for Postal Commerce**

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### **WHY 23 PERCENT RATE INCREASES SHOULDN'T EVEN BE DISCUSSED**

*The following is from a memorandum to the PostCom Board of Directors from PostCom Executive Vice President Jessica Lowrance.*

There have been rumors within the industry that it should expect or budget for a 23 percent increase for Standard Mail flats during the next annual USPS price change early in 2012. This type of rumor can have disastrous consequences for mail volume as businesses begin media choices for 2012 across the nation. To a novice postal user or out-of-the-loop type of mailer, this type of news may force their hand in leaving mail altogether or test other media at a more accelerated pace.

The USPS or the Postal Regulatory Commission is not in a position, nor would it would to put itself in the position, of imposing a 23 percent price increase at any given time to Standard Mail flat mailers. The 23 percent figure that is being rumored to occur within the industry is a misunderstanding of what the Commission wants from the Postal Service. It has directed the Postal Service, in its Annual Compliance Determination (ACD), to take appropriate action to end the intra-class cross subsidy *as soon as practicable*. According to the PRC, “in Docket No. R2010-4, the Postal Service presented a plan to increase Flats prices and reduce costs that was estimated to achieve at least 100 percent cost coverage in five years.” Key elements of that plan presented by the Postal Service were:

1. cost reductions
2. 5.1 percent proposed price increase
3. increases of for Flats of 2 percent above the change in CPI in the next five market dominant price adjustments

Yet in the 2010 Annual Compliance Report, the Postal Service changed its tune and said “[w]ith the Commission’s denial of the Postal Service’s exigent rate increase request in Docket No. R2010-4, the Postal Service’s plan for bringing the fourteen products to full attributable cost coverage is no longer workable. . . . Therefore, it seems most appropriate for the Commission to determine whether it can exercise any of its powers to remedy the cost coverage shortfall of the products in question.” Thus Flat mailers show a below-average increase in the last annual price change.

According to the Commission, in the ACD:

The Commission has repeatedly encouraged the Postal Service to use its pricing flexibility to improve cost coverage for Standard Flats. Despite this encouragement, the Postal Service has failed to utilize the pricing flexibility granted to it by the PAEA to address this issue, and the negative contribution per piece continues to grow. Furthermore, the recently approved price changes are unlikely to improve cost coverage. For these reasons, the Commission finds that the prices in effect in FY 2010 for Standard Flats do not comply with section 101(d) of title 39. Pursuant to section 3653(c), the Commission directs the Postal Service to increase the cost coverage of the Standard Mail Flats product through a combination of above-average price adjustments, consistent with the price cap requirements, and cost reductions until such time that the revenues for this product exceed attributable costs.

The Commission directs the Postal Service to have Standard Mail flats comply with cost coverage rules through a combination of above-average price adjustments and cost reductions. This does not mean a one-time percentage increase that would mimic the R2006 price increase, which many within the industry would point to as starting the downward spiral for Standard Mail flats.

The Commission goes further in saying that “as embodied in the Postal Service’s “Flats Strategy,” above-CPI increases will be necessary to increase the cost coverage of the Flats product, and should be accompanied by efforts to streamline operations to capture efficiency and reduce costs.” The Commission also said it “. . . expects that Postal Service to design future Flats prices that will comply with the factors and objectives of the PAEA, *including the need to mitigate rate*

*shock and to maintain predictable and stable prices.* In requiring the Postal Service to take remedial action, the Commission *does not impose a specific deadline.*”

The Postal Service has 90 days (June 27) to present a schedule of future above-CPI price increases for Standard Mail Flats. The Commission wants the schedule to take the following form:

<b>Year</b>	<b>Planned Flats Average Price Increase</b>
2012	CPI-U + X percent
2013	CPI-U + Y percent
etc.	

The Postal Service, nor the Commission, want to see Standard Mail Flats subject to extreme measures to comply with the Postal Accountability and Enhancement Act. The PRC has laid out a framework it believes the Postal Service, in the exigency case, laid out itself but did not follow through on when that case was denied. Although some budgeting efforts are beginning for 2012, the industry should wait until June 27 before jumping to extreme conclusions that a 23 percent increase is being planned.

[http://www.prc.gov/Docs/72/72382/PRC\\_ACD\\_2010.pdf](http://www.prc.gov/Docs/72/72382/PRC_ACD_2010.pdf)