

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

PRICE ELASTICITIES AND INTERNET DIVERSION

Docket No. RM2014-5

**REPLY IN SUPPORT OF PETITION**

(May 19, 2014)

The National Postal Policy Council (“NPPC”), the Association for Mail Electronic Enhancement (“AMEE”), the Association of Marketing Service Providers (AMSP), GrayHair Software, Inc. (GrayHair), the Greeting Card Association (“GCA”), the International Digital Enterprise Alliance, Inc. (“IDEAlliance”), the Major Mailers Association (“MMA”), and the National Association of Presort Mailers (“NAPM”) (collectively “Petitioners”) hereby respectfully reply to the “Answer of the United States Postal Service In Opposition To Petition To Initiate A Proceeding Regarding Postal Demand Analysis” filed on May 9.

On May 2, 2014, the Petitioners filed, pursuant to section 3050.11 of the rules of practice (39 C.F.R. §3050.11), a “Petition To Improve Econometric Demand Equations For Market-Dominant Products And Related Estimates Of Price Elasticities And Internet Diversion.” The Petition asked the Commission to initiate and conduct a proceeding to review and improve the model and the associated factors relating to price elasticity estimates and Internet diversion used by the Commission and Postal Service.

In its Answer, the Postal Service opposes the Commission taking any steps to improve the current demand forecast model. Evidently, the Postal Service believes that the current iteration of its trend- and intervention-factor dependent model is perfectly acceptable as it is, and cannot be improved upon by anyone in the postal community. The Postal Service also ignores the substantial criticisms of its model by this Commission and mailers in Docket No. R2013-11, as well as the conflicts between its model and its own surveys (which it avoids filing with the Commission) regarding electronic diversion and the effects on price and volume. Electronic diversion may be the single most important factor driving declines in First-Class Mail, and the current demand model does no more than relegate it to a meaningless trend variable. As a result, it likely generates incorrect measures of price elasticity and does not accurately reflect the factors that drive mail demand.

Indeed, the Postal Service's opposition is surprising because it previously welcomed Commission review of its demand model. In Docket No. R2008-4, the Postal Service said, regarding the possibility of Commission review of the demand model:

The Commission, of course, would have the opportunity to react to the Postal Service's demand analysis materials in the ACD, or later in the year at a time of its own choosing. Over the years, the Postal Service has consistently endeavored to respond to the Commission's identification of areas of possible improvement in demand analysis and forecasting, and there is no reason to believe that the Postal Service would forgo the benefits of that practice. While this may not be 'advance' input like that provided in the proposed costing rulemakings, it could perform an essential similar function.

Initial Comments of the United States Postal Service In Response To Order No. 104 at 29, n.6 (Oct. 16, 2008).

There is no dispute that the analytic principles used in postal demand modeling and volume forecasting methods are subject to the jurisdiction of the Commission. See, e.g., Order No. 203, Docket No. RM2008-4 at 41 (April 16, 2009). Instead, the Postal Service opposes the Petition by conjuring phantom worries.

First, to the extent that the Postal Service worries that the Commission may prescribe a demand model by regulation, such a worry is greatly premature. Although the Petition observed that a rule eventually could result from this proceeding, such is hardly foreordained. The Commission is unlikely to prescribe a regulation unless the circumstances truly warrant it. But that does not mean that the Commission cannot or should not endeavor to improve whatever model is used. There is no obvious requirement, for example, that the Commission use the same model in its analyses that the Postal Service uses for its purposes.

Second, the Postal Service fears that this proceeding might be a collateral attack on the Commission's decision in Docket No. R2013-11, now on appeal. That is not the point of this proceeding. Petitioners are fully confident that, if a remand were required and the volume methodology an issue, the Commission understands the legal requirements that it base its decision on the record and not on non-record material. More importantly, however, Petitioners believe that any remand would likely be complete before this proceeding reaches any conclusions. And, even in the event that conclusions drawn in this proceeding

were to affect a future decision on remand, it is hard to see how the Postal Service or the mailing community would be harmed if a more accurate demand model were used.

Finally, the Postal Service says that the Commission should do nothing now, asserting that parties are free to develop their own analyses for the Commission's consideration. This is unrealistic. It does not make sense, nor is it affordable, for mailers to model the Postal Service's demand across all classes when the Commission has jurisdiction and the ability to conduct a thoughtful review. And, to Petitioners' knowledge, the Commission has never used a competing volume model submitted by either mailers or the Public Representative (or its predecessor the Office of the Consumer Advocate). Only a few have been offered, and the Commission has not relied upon any of them in lieu of the Postal Service's model. Over the years, surveys or analyses submitted by mailers in rate proceedings have been found to be not entirely persuasive because the samples were too small, or the analysis limited to too few products. As a result, the Commission in practice has had little alternative to using the Postal Service's model, flawed as it may be.

It may suit the Postal Service's tactical objectives for it to control the only demand model, but neither it nor the Commission nor the postal community is served by a demand model that relies heavily on economically meaningless terms and conflicts with real-world information from mailers. Nor is the Commission or postal community well served if the prevailing demand model is

reviewed – if at all – only within the condensed time frame of an exigency proceeding.

After more than seven years of operation under the Postal Accountability and Enhancements Act of 2006, now would be “a time of its own choosing” for the Commission to consider improvements to the demand model. The interval between active rate cases and annual compliance determination affords it an opportunity to attempt to understand mailer behavior and, where appropriate, correct known problems. Although Petitioners would not expect this proceeding to be completed until sometime next year, the Commission’s availing itself of this opportunity to improve the modeling of demand for postal products and their sensitivity to price changes in general would serve all stakeholders and the public by promoting greater accuracy going forward. And, per its comments in Docket No. R2008-4, the Postal Service should welcome, not oppose, a Commission proceeding with that purpose.

Respectfully submitted,

By: /s/ William B. Baker

Lawrence G. Buc  
SLS Consulting, Inc.  
1920 N Street, N.W.  
Washington, D.C. 20036  
(202) 349-7321

William B. Baker  
WILEY REIN LLP  
1776 K Street, N.W.  
Washington, D.C. 20006-2304  
(202) 719-7255  
Counsel for NATIONAL POSTAL  
POLICY COUNCIL

Arthur B. Sackler  
Executive Director  
NATIONAL POSTAL POLICY COUNCIL  
1101 17<sup>th</sup> Street, N.W.  
Suite 1220  
Washington, D.C. 20036  
(202) 955-0097

Ken Garner  
President and CEO  
Association of Marketing Service Providers  
1800 Diagonal Road, Suite 320  
Alexandria, VA 22314-2806  
(703) 836.9200 x201  
[www.AMSP.org](http://www.AMSP.org)

Cameron Bellamy  
President and CEO  
GrayHair Software, Inc.  
124 Gaither Drive, Suite 160  
Mount Laurel, NJ 08054  
(856) 727-9372

MAJOR MAILERS ASSOCIATION  
Mury Salls  
DST Mailing Services  
3531 Kilpatrick Lane  
Snellville, GA 30039  
MLSalls@dstmailingservices.com

Steven J. Krejcik  
President  
ASSOCIATION FOR MAIL  
ELECTRONIC ENHANCEMENT  
(AMEE)  
3605 Forest Avenue  
Brookfield, IL 60513-1603  
(708) 485-4764

David J. Steinhardt  
President and CEO  
IDEAlliance  
1600 Duke Street, Suite 420  
Alexandria, VA 22314  
(703) 837-1066

David F. Stover  
Counsel  
Greeting Card Association  
2970 South Columbus Street  
# 1B  
Arlington, VA 22206-1450  
(703) 998-2568  
[postamp@crosslink.net](mailto:postamp@crosslink.net)

Robert Galaher  
Executive Director and CEO  
NATIONAL ASSOCIATION OF  
PRESORT MAILERS  
P.O. Box 3552  
Annapolis, MD 21403-3552