

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

**Consideration of Technical Methods to Be
Applied in Workshare Discount Design**

Docket No. RM2010-13

**REPLY COMMENTS OF THE AMERICAN BANKERS ASSOCIATION, THE
BANK OF AMERICA CORPORATION, THE DIRECT MARKETING
ASSOCIATION, DISCOVER FINANCIAL SERVICES, THE MAJOR MAILERS
ASSOCIATION, THE NATIONAL ASSOCIATION OF PRESORT MAILERS,
AND THE NATIONAL POSTAL POLICY COUNCIL
(April 4, 2011)**

The American Bankers Association, the Bank of America Corporation, the Direct Marketing Association, Discover Financial Services, the Major Mailers Association, the National Association of Presort Mailers, and the National Postal Policy Council (collectively, Joint Commenters) respectfully submit these reply comments pursuant to Order No. 537.

These comments address the broad-based theoretical consensus among the initial comments on two key issues: (1) that the Commission's determination that Bulk Metered Mail (BMM) is "obsolete" and no longer a valid base group is correct, and (2) that "Metered" mail should serve as the new base group for purposes of measuring workshare-related cost avoidances for First-Class Mail Presort Letters.¹

¹ The Joint Commenters continue to believe that Order No. 536 erred in finding a worksharing relationship between Single-Piece and Presort First-Class Mail letters. Presort mail is a distinct, mature product separate from Single-Piece First-Class Mail. The Joint Commenters further believe that the amount of mail that could potentially convert from Single-Piece to Presort is small and that the notion that significant volumes of Presort mail would revert to Single-Piece is no longer credible in a world with alternative electronic communications channels. For purposes of the Joint Commenters' participation in this proceeding only, these comments presume the validity of Order No. 536.

These comments also respond to the initial comments of the American Postal Workers Union, AFL-CIO (APWU) and, in particular, to APWU's claims that the text and structure of the Postal Accountability and Enhancement Act (PAEA) require the retention of the BMM benchmark and that the adoption of any other base group will harm the Postal Service financially. Both claims are entirely without merit.

I. The Commission Correctly Held that the BMM Benchmark Is No Longer Valid

As one of the principal conclusions of Order 536, the Commission stated: “[p]revious analysis of the First-Class Bulk Mail discount structure assumed that Bulk Business Mail is representative of the portion of Single-Piece First-Class Mail that could convert to Presort (the non-workshared “benchmark”). The Commission concludes that this assumption is no longer valid.” Order 536 at 3-4. The majority of the initial comments filed by mailers and mailer groups confirmed that this determination was correct. *See* Joint Comments at 4-7; Postal Service Comments at 6; Pitney Bowes Comments at 1-4; Public Representative Comments at 1-2; GCA Comments at 10; Presort Services Comments at 4; TC Delivers Comments at 4; On-Line Data Comments at 3; United Mailing Services Comments at 3.

The Commission's determination that the BMM benchmark is no longer valid is also confirmed by the empirical data submitted by the Joint Commenters. The data, which are the only record evidence before the Commission, confirm that BMM, a low-cost subset of Single-Piece First-Class Mail, is not representative of the mail at the margin of conversion. The data confirm that less than four percent of the mail at the margin of converting to presort First-Class Mail is BMM. The typical Single-Piece mail piece at the margin of conversion is more like collection mail, not BMM. Thus the Commission correctly determined that BMM

was “obsolete.” Order 536 at 8. Having determined that BMM is no longer valid, the Commission must identify a new base group.

II. The Consensus Position, Supported by Empirical Data, Identifies “Metered” Mail as the New Base Group

The initial comments of the majority of mailers and mailer groups reveal a broad-based theoretical consensus in support of “Metered” mail as the new base group for purposes of measuring First-Class Mail workshare discounts.² See Joint Comments at 19-21; Postal Service Comments at 8-10; Pitney Bowes Comments at 4; Public Representative Comments at 2; GCA Comments at 13.

The selection of “Metered” mail as the new base group is also supported by the empirical data submitted by the Joint Commenters. The data confirm that “Metered” mail is an appropriate base group because its characteristics most closely approximate the identified characteristics of the mail at the margin of converting to presort. The data reveal that an appropriate base group must have the specific characteristics of smaller mailings for which collection is frequently required. Moreover, the data show that the appropriate base group consists of letters that are not well organized (not trayed and faced) and not particularly “clean” (lacking address hygiene and design characteristics that facilitate efficient mail processing and delivery). The data confirm that the majority of this mail is metered, but some is stamped. “Metered” mail reflects these characteristics.

“Metered” mail also satisfies the broad theoretical consensus regarding the specific “characteristics that the base category should have.” Order 537 at 2. The Postal Service

² There appears to be some confusion over the definition of “Metered” mail and “IBI” mail. As explained by the Postal Service, “Metered” mail as defined in the Postal Service’s cost systems includes metered mail, information based indicia (IBI) mail, and PVI mail. See Dkt. No. RM2010-13, Response to CHIR No. 1 (Jan. 18, 2011) at 4 (IBI mail as discussed in the Postal Service’s response to CHIR No. 1 includes costs for digital meters and PC Postage solutions that use an IBI). Absent a specific distinction, the parties appear to be treating the terms “Metered” mail and “IBI mail” as synonymous.

identifies four preferred characteristics of the new base group: “(1) The base group comparison should be theoretically correct[;] (2) Measurements should be replicable from year to year[;] (3) The measurement framework should be empirically based and rely on data available from postal data systems[; and] (4) The measured costs should be stable.” Postal Service Comments at 8-9. These attributes complement the specific characteristics identified by GCA – stability, historical validation, minimal use of cost proxies, and directly measurable costs, and the Joint Comments – “theoretically correct,” “empirically based,” and “measurable and verifiable with cost characteristics, to the extent possible, readily traceable to the Postal Service’s existing cost systems.” *See* GCA Comments at 13-16; Joint Comments at 7. “Metered” mail satisfies these attributes because it is a stable mailstream, it represents the best proxy for the cost of mail at the margin of conversion, it is empirically based, and its costs are readily traceable to the Postal Service’s existing cost systems. *Accord* Pitney Bowes Comments at 4.

III. Collection Costs Should be Included in a “Metered” Mail Base Group

Notwithstanding the broad-based theoretical consensus regarding the selection of “Metered” mail as the preferred base group, some important distinctions remain as to the calculation of the avoided costs. Specifically, the Postal Service proposes to exclude from the delivery costs of “Metered” mail the “Single-Piece ‘metered’ collection costs . . . on the premise that the mail that is converting to Presort was not likely to have accessed the collection system.” Postal Service Comments at 9. The Postal Service provides no data or analysis to support the premise that these collection costs should be excluded.

In contrast, the empirical data submitted by the Joint Commenters establish that a significant percentage of mail at the margin currently incurs collection costs. The NAPM

survey data confirm that almost half of the mail that converted to worksharing during the last year required collection by the Postal Service. The GMU survey data likewise confirm that approximately 60 percent of the total volume of mail from small-to-medium sized non-household mailers who would consider converting to presort currently requires collection. Because these collection costs would be avoided by the Postal Service if the mail were entered as Presort, the costs should be included as part of the base group.

In Order 536, the Commission observed that collection costs would likely be relevant: “[a]mong the elements of avoided costs that will be considered for inclusion are collection costs.” Order 536 at 8. The Commission was correct; the data support the inclusion of collection costs as part of a new base group for measuring First-Class Mail workshare discounts.

IV. Retention of the BMM Benchmark Is Not Required by Law, Not Supported by the Record Evidence, and Not in the Best Interests of the Postal Service

The APWU renews its claim that the PAEA requires the use of the BMM benchmark. Although the Commission implicitly rejected that contention in Order 537, the Commission should take this opportunity to explicitly reject any notion that the BMM benchmark enjoys a special statutory status. Nothing in the PAEA requires retention of an obsolete and factually unsound benchmark.

APWU argues that the use of the BMM benchmark is necessary to ensure compliance with the fundamental postal policy objectives of sections 101 and 404 of the PAEA. *See* APWU Comments at 2-4. This argument is unsupportable. As an initial matter, nothing in the plain language of sections 101(a), 101(b), or 404(c) requires the selection of any particular base group for purposes of measuring workshare discounts. The “fundamental policy” provisions of sections 101(a) and 101(b) are unaffected by the selection of an

appropriate base group. Section 404(c) requires that the Postal Service maintain a class of mail “[t]he rate for [which] shall be uniform throughout the United States, its territories, and possessions.” 39 U.S.C. § 404(c). As the Commission has long recognized, Single-Piece First-Class Mail satisfies that requirement. The selection of a new base group will have no bearing on the maintenance of a uniform Single-Piece First-Class Mail rate.

APWU argues that the uniform rate requirement of section 404(c) is given meaning through the use of the BMM letter benchmark because it ensures that Single-Piece and Presort First-Class Mail letters are “required to make the same contribution to institutional costs” APWU Comments at 3-4. This reading fails on two levels. First, the statement finds no support in the plain language of section 404(c). Second, the statement has no factual basis. Rather than preserve equal contribution, the use of the BMM benchmark, a low-cost subset of Single-Piece First-Class Mail, has increased the disparity in the relative contribution from Single-Piece and Presort First-Class Mail. Whether the APWU is aware or not, the FY 2010 ACR data confirm that while both Single-Piece and Presort First-Class Mail provide significant contribution to Postal Service institutional costs (\$4.977 billion for Single-Piece Letters and Cards and \$10.576 billion for Presort Letters and Cards), the total contribution from Presort is more than double the contribution from Single-Piece. *See* FY 2010 ACR at 18. The cost coverage is also much higher on a percentage basis for Presort (164.0 percent for Single-Piece Letters and Cards as compared to 295.9 percent for Presort Letters and Cards). *See id.* This disparity reflects not only the larger volumes of Presort Letters and Cards, but also the larger unit contribution. The average unit contribution from Presort First-Class Mail Letters is 5.5 cents more than the unit contribution from Single-Piece Letters (22.9 cents per piece as compared to 17.4 cents per piece). *See id.*

The APWU correctly states that the “use of [efficient component pricing (ECP)] in setting workshare discounts is generally believed to be the best way to achieve the highest possible efficiency in the overall postal system.” APWU Comments at 6. These comments are consistent with the Commission’s observation that the workshare limitations in section 3622(e) were intended to codify the Commission’s long-standing regulatory practice of using ECP to promote economic efficiency. *See* Order 536 at 20-21 and 48. It does not follow, however, that the use of ECP is linked to inefficiencies associated with current excess labor capacity. Nor does it follow that excess capacity is due to “excessive workshare discounts.” APWU Comments at 6. Excess capacity is due to decreasing mail volumes. And the solution to excess capacity issues is not for the Postal Service to increase prices on its more price sensitive and profitable presort mail, which would merely aggravate the problem by driving more mail away. Instead, the solution is for the Postal Service to address the issue of excess capacity, and use its pricing flexibility to lower prices to stimulate growth of its most profitable mail.

The statement that “BMM letter remains the mail piece most like workshared mail” is simply wrong. APWU Comments at 6. The APWU offers no empirical support for this statement and there is none. The undisputed data provided by the Joint Commenters conclusively establish that less than four percent of the “mail at the margin” shares all of the characteristics of BMM. The data confirm that the typical piece of Single-Piece mail at the margin is more like collection mail, not BMM.

Finally, the APWU argues that the retention of the BMM benchmark is necessary to protect the financial viability of the Postal Service. *See* APWU Comments at 8. In fact, the opposite is true. Under a linked rate design, the use of the BMM benchmark -- a low-cost

subset of Single-Piece First-Class Mail – jeopardizes the Postal Service’s financial position. The FY 2010 ACR data discussed above confirm the value of workshare. The Direct Marketing Association demonstrated not long ago that optimizing the pricing of more profitable First-Class Mail (by lowering Presort letter prices) could increase the total contribution from First-Class Mail by nearly \$400 million. *See* PRC Dkt. No. RM2009-3, Comments of the Direct Marketing Association (Sept. 11, 2009), at 5-6. And recent demand data filed by the Postal Service confirm that First-Class Mail Presort Letters are much more price sensitive than Single-Piece First-Class Mail Letters. *See* Econometric Demand Equation Tables for Market Dominant Products as of January 2010, <http://www.prc.gov/Docs/66/66502/MarketDominant.zip> (filed Jan. 20, 2010). At a time when mail volume declines continue to threaten the financial stability of the Postal Service, it is critical that the Postal Service do everything possible to preserve mail volumes and increase contribution from its most profitable products. The retention of the BMM benchmark would frustrate these goals because it leads to higher prices on Presort First-Class Mail Letters.

V. Conclusion

In Order No. 536, the Commission concluded that a worksharing relationship exists between First-Class Mail Presort Letters and Single-Piece First-Class Mail Letters, but that the BMM benchmark was no longer valid. The Commission stated that a “factual inquiry to identify an appropriate base group” is required.

The Joint Comments responded by providing empirical data derived from a series of surveys collecting information from small business mailers, mail service providers, and large production mailers. The data, which are the only record evidence before the Commission, confirm (1) that the BMM benchmark is obsolete, and (2) that “Metered” mail is an

appropriate base group because its costs most closely approximate the identified cost characteristics of the Single-Piece mail at the margin of converting to Presort. Accordingly, the Joint Commenters respectfully request that the Commission adopt “Metered” mail, including collection costs, as the new base group for purposes of measuring First-Class Mail workshare discounts.

Respectfully submitted:

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