

**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

**JOINT 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
(February 18, 2011)**

By Order No. 537, dated September 14, 2010, the Postal Regulatory Commission (Commission) established a proposed rulemaking to consider technical issues that relate to the design of workshare discounts. 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 comments in response to Order No. 537.

I. INTRODUCTION

Issues concerning the applicability or identification of a correct “benchmark” or “base group” for measuring cost avoidances in First-Class Mail have been a matter of some controversy. In Docket Nos. R2008-1, ACR2007, R2009-2, and ACR2008, the Postal Service proposed prices or presented cost avoidance estimates that abandoned the use of the

bulk metered mail (BMM)¹ benchmark in calculating workshare discounts and instead based the discounts on First-Class Mail Presort Letters delinked from Single-Piece First-Class Mail Letters.² The Postal Service asserted that a delinked rate design was appropriate under the Postal Accountability and Enhancement Act (PAEA)³ because First-Class Mail Presort and Single-Piece Letters are separate products under the statutory definition in section 102(6), a determination the Commission had previously upheld.⁴ The Postal Service further asserted that because First-Class Mail Presort and Single-Piece Letters were separate products the limitations of section 3622(e) were inapplicable. The Postal Service asserted that limiting the application of section 3622(e) was consistent with the structure of the PAEA and the specific workshare compliance reporting requirements of section 3652(b) which require workshare-related cost avoidance information with respect to “each market-dominant product.”⁵

Numerous parties filed comments in support of and in opposition to the Postal Service’s approach. Given the expedited nature of those proceedings, the Commission declined to make a determinative ruling;⁶ instead, it initiated a rulemaking, Dkt. No. RM2009-3, to solicit comments on the legal, factual, and economic underpinnings of the

¹ BMM is a conceptual proxy for a low-cost subset of Single-Piece First-Class Mail. It is assumed to consist of machinable, homogeneous, non-barcoded pieces with machine-printed addresses, properly trayed and faced, and delivered to the Postal Service in bulk. See Dkt. No. R2005-1, Response of the United States Postal Service of Witness Abdirahman to Interrogatories of American Postal Workers Union, AFL-CIO, June 24, 2005, at responses to APWU/USPS-T21-8 (APWU/USPS-T21-8).

² See Dkt. No. ACR2007, FY2007 Annual Compliance Report (Dec. 28, 2008), at 20-22; Dkt. No. R2008-1, Notice of Market Dominant Price Adjustment (Feb. 11, 2008), at 26; Dkt. No. R2009-2, Response to CHIR No. 1 (Feb. 20, 2009) at 2-3; Dkt. No. ACR2008, FY2008 Annual Compliance Report (Dec. 29, 2009), at 50-51.

³ See Pub. L. 109-435, 120 Stat. 3198 (Dec. 20, 2006).

⁴ See 39 U.S.C. § 102(6); Dkt. No. RM2007-1, Order No. 43 at ¶ 4017.

⁵ See *e.g.*, Dkt. No. R2009-2, Response of the United States Postal Service to Chairman’s Information Request No.1, February 20, 2009; and Dkt. No. ACR2008, Response of the United States Postal Service to Commission Order No. 169, January 21, 2009, at 17-18 (Response to Order No. 169).

⁶ See *e.g.*, Dkt. No. ACR2007, Annual Compliance Determination FY2007, March 27, 2008, at 18; Dkt. No. R2008-1, Review of Postal Service Notice of Market Dominant Price Adjustment, March 17, 2008, at 19.

methodologies used by the Postal Service to develop its proposed First-Class Mail discount rates.⁷

Many of the Joint Commenters filed comments in support of the position that Presort First-Class Mail Letters are a separate product from Single-Piece First-Class Mail Letters under the PAEA because the two products serve separate and distinct markets.⁸ These comments further agreed with the Postal Service's view that section 3622(e) did not apply across products and, thus, a cost-based linkage between Single-Piece and Presort First-Class Mail Letters was inappropriate. These comments also discussed the deleterious effects that measuring cost differentials across products will likely have on the Postal Service's ability to develop market-responsive pricing and, ultimately, on the Postal Services finances if it is forced to continuously raise prices on its most price sensitive and profitable products.

After successive rounds of public comments, that rulemaking culminated with Order No. 536.⁹ In Order No. 536, the Commission concluded that the pricing constraint on workshare discounts under section 3622(e) did apply within or across products.¹⁰ The Commission further concluded that a worksharing relationship exists between First-Class Mail Presort Letters and Single-Piece First-Class Mail Letters, but that the BMM benchmark that was previously used to measure presort First-Class Mail avoided costs is "obsolete" and,

⁷ See Dkt. No. RM2009-3, Order No. 192, Notice of Proposed Rulemaking on Application of Workshare Discount Rate Design Principles (Mar. 16, 2009).

⁸ See 39 U.S.C. §§ 102(6); 3642(b)(3)(B).

⁹ See Dkt. No. RM2009-3, Order No. 536 (Sept. 14, 2010).

¹⁰ The Joint Commenters believe Order No. 536 was wrongly decided. The Commission's decision to impose pre-PAEA cost-based linkages across products misreads the statute, usurps the pricing flexibility granted to the Postal Service by the PAEA, and harms the long-term financial viability of the Postal Service. On October 13, 2010, the Postal Service filed a notice of appeal of Order No. 536 with the United States Court of Appeals for the District of Columbia Circuit, pursuant to section 3663. See 39 U.S.C. § 3663; *United States Postal Service v. Postal Regulatory Commission*, Case No. 10-1324 (Oct. 13, 2010)(D.C. Cir.). The National Postal Policy Council (NPPC) has formally intervened in that appeal. Nothing in these comments should be construed as affecting, implicating, or prejudicing in any way the positions that NPPC may take during the course of that appeal. Rather, for the purposes of the Joint Commenters' participation in this proceeding only, this document presumes the validity of Order No. 536.

therefore, no longer valid.¹¹ The Commission initiated the instant rulemaking to establish a new benchmark or “base group” for First-Class Mail workshared mail. The Commission stated that a “factual inquiry to identify an appropriate base group” is required, and requested that interested parties provide information on “specific cost characteristics” of the base group of First-Class Mail.¹² These comments respond to the Commission’s call for a fact-based inquiry.

II. SUMMARY OF POSITION

Empirical data compiled by the Joint Commenters confirm that the Commission’s determination that BMM is “obsolete” and no longer a valid base group is inarguably correct. The use of BMM, a low-cost subset of Single-Piece First-Class Mail, as the base group is not empirically based. Less than four percent of the mail at the margin of converting to presort First-Class Mail is BMM. The data confirm that the typical Single-Piece mail piece at the margin of conversion is more like collection mail, not BMM. The data reveal that an appropriate base group must have the specific cost 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.

In view of these characteristics and the complexity associated with the heterogeneity of Single-Piece First-Class Mail Letters, the Joint Commenters recommend that the Commission adopt “Metered” mail as the new base group for purposes of measuring

¹¹ See Order No. 536, at 40.

¹² See *id.* at 21.

workshare-related cost avoidances for First-Class Mail Presort Letters. “Metered” mail as defined in the Postal Service’s existing cost systems includes metered mail, information based indicia mail (IBI mail) and PVI mail.¹³ “Metered” mail is an appropriate base group because its costs most closely approximate the identified cost characteristics of the mail at the margin of converting to presort and because its costs are directly identifiable from the Postal Service’s existing cost system.

III. DISCUSSION

A. The Importance of Identifying an Appropriate Base Group

Establishing an appropriate point of comparison or benchmark (now “base group”) has been a critical issue for First-Class Mail rate design since the advent of worksharing. Because workshare-related cost avoidances must be measured from some reference point, a benchmark or base group is necessary as a standard for computing cost savings. Proper identification of the base group takes on added importance under the PAEA because section 3622(e) generally limits workshare discounts to measured costs avoided; thus, workshare-related costs avoided in First-Class Mail must be measured from an appropriate base group to assess compliance with the statutory workshare limitation. Pursuant to Order No. 536, the base group for First-Class Mail Presort Letters is a subset of Single-Piece First-Class Mail.

In First-Class Mail Letters, the Commission has historically defined the base group as the “mail most likely to convert to worksharing, but also, to what category current worksharing mail would most likely revert if the discounts no longer outweigh the cost of performing the worksharing activities.”¹⁴ Thus, the mail represented by the base group is the

¹³ 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 information based indicia).

¹⁴ See Dkt. No. R2006-1 Op. & Rec. Decis. at ¶ 5109 (*quoting* R2000-1 Op. & Rec. Decis. ¶ 5089). Independent of the importance of identifying an appropriate base group for Single-Piece First-Class Mail

mail at the margin of converting to presort First-Class Mail. For over 20 years, the Commission has designated BMM as the base group for First-Class Mail.¹⁵ BMM is not a category of mail but is merely a conceptual proxy for a low-cost subset of Single-Piece First-Class Mail which is assumed to consist of machinable, homogeneous, non-barcoded pieces with machine-printed addresses, properly trayed and faced, and delivered to the Postal Service in bulk.¹⁶ As such, it is not directly measured by postal costing systems, but must be constructed using a variety of estimation techniques, which means that the costs of such mail are not readily identifiable or picked up by costing systems that measure “real” categories of mail.

The Commission’s decision in Order No. 536 recognizes that First-Class Mail Presort Letters is a mature product and that Single-Piece First-Class Mail that was at the margin of converting to presort many years ago has long since converted.¹⁷ The Commission further recognizes that shifts in the mail mix have occurred simultaneously as mail has stabilized around specific cost profiles and “self-sorting” costs – notably the marked increase in IBI mail volumes.¹⁸ Accordingly, the Commission concludes that a new base group must be established because BMM is no longer representative of the mail most likely to convert to presort.

converting to presort, the notion that significant volumes of workshared mail would revert to Single-Piece is no longer credible. With the explosion of alternative electronic communications media, *reversion* has generally been supplanted by *diversion* for non-household transactional mail. Likewise for First-Class Mail marketing pieces, the alternative is Standard Mail, not Single-Piece First-Class Mail. But if mail were to revert to Single-Piece from workshare, at the margin it would most likely have characteristics similar to mail that last converted, which we discuss below..

¹⁵ See Dkt. No. R90-1 Op. & Rec. Decis. at ¶ 5088.

¹⁶ See Dkt. No. R2005-1, Response of the United States Postal Service of Witness Abdirahman to Interrogatories of American Postal Workers Union, AFL-CIO, June 24, 2005, at responses to APWU/USPS-T21-8 (APWU/USPS-T21-8).

¹⁷ See Order No. 536 at 53.

¹⁸ See Order No. 536 at 52-53.

Having correctly concluded that BMM is “obsolete,” the Commission must now identify a new base group. As the Commission notes in Order No. 536, this is a factual determination that should be based on empirical evidence. The Commission has long recognized that the task of identifying an appropriate base group is complicated by the significant heterogeneity in Single-Piece First-Class Mail.¹⁹ These concerns persist today.

To mitigate these concerns, an ideal base group should have the following three attributes. First, the base group should be theoretically correct. In order to maximize incentives for productive efficiency, the Commission must identify a base group that most closely approximates the cost of the marginal Single-Piece First-Class Mail. An accurate base group is necessary to ensure that presort rate differentials can be modeled appropriately. Using a base group that skews too far in either the direction of a high-cost or low-cost (BMM) subset of Single-Piece First-Class Mail will produce significant inefficiencies.

Second, the base group should be empirically based. As noted by the Commission, the selection of an appropriate benchmark should be a factual determination based on empirical evidence of mail that is at the margin today.

Third, the base group should be measurable and verifiable with cost characteristics, to the extent possible, readily traceable to the Postal Service’s existing cost systems.

For the reasons discussed below, “Metered” mail, as defined above, satisfies all three of these attributes. It represents the best proxy for the cost of the marginal Single-Piece First-Class Mail, it is empirically based, and its costs are readily traceable to the Postal Service’s existing cost systems.

¹⁹ See, e.g., Dkt. No. R2006-1, Op. & Rec. Decis., Vol. 1, at 133-134, ¶ 5109 (“The Commission accepts that this benchmark is not perfect due to First-Class Mail heterogeneity and the need to use a proxy in developing bulk metered mail costs.”); see John C. Panzar, *Efficient Worksharing Discounts with Mail Heterogeneity*, in *Liberalization of the Postal and Delivery Sector*, 121-134 (M. Crew & P. Kleindorfer eds., 2006).

B. A Fact-Based Inquiry: Three Industry Surveys

The Joint Commenters present data from three separate surveys. Each of the three surveys was designed to gather empirical data to inform the selection of an appropriate base group. Each of the three surveys, while related, serves a slightly different purpose. A description of the survey purpose and sampling frame for each of the three surveys follows. The survey instruments and data are being filed as exhibits to these comments. All numbers presented below are derived from the empirical analysis of the survey results. The raw data and data analysis of the NAPM and NPPC / MMA surveys are being filed as non-public materials under part 3007.22 of the Commission's Rules of Practice and Procedure.

1. NAPM Survey

NAPM conducted a survey of its members to solicit information on the characteristics of mail from customers who had most recently converted to presort – not customers who had switched from other presorters or who had previously presorted themselves – on the mail volumes and characteristics of this mail while it was still entered as Single-Piece First-Class Mail Letters. The NAPM survey also solicited information about current industry practices regarding minimum volumes and customer education initiatives.

The purpose of the NAPM survey was to identify the characteristics and cost profile of the mail that has most recently converted from Single-Piece to Presort First-Class Mail. The empirical data collected regarding the characteristics of this mail are important because it is likely that the mail that will next convert to presort will have characteristics and a cost profile very much like those of the mail that most recently converted.

Thirty-six NAPM members participated in the survey. These respondents provided empirical information on 90 customers who had converted from Single-Piece to Presort First-Class Mail within the past year. All survey results were aggregated by a third party. A copy

of the NAPM survey instrument is attached as Exhibit 1. The NAPM survey data and data analysis are being filed as Exhibits NP-1 and NP-2, respectively, as non-public material pursuant to part 3007.22 of the Commission's Rules of Practice and Procedure.

2. George Mason University Survey

A second survey was performed by the Center for Social Science Research at George Mason University (GMU). The GMU survey solicited information from small-to-medium-sized businesses regarding their mailing practices. Specifically, the survey elicited information about the characteristics and cost profile of First-Class Mail Letters used by these mailers. For respondents who were currently mailing Single-Piece First-Class Mail, they were asked a series of questions regarding their willingness to convert to workshared mail. To be eligible, businesses participating in the survey had to have had at least one mailing of 500 or more First-Class Mail Letters in a typical month.

The purpose of the GMU survey was to identify the characteristics and cost profile of the mail that is currently being sent as Single-Piece First-Class Mail, because this non-household mail presumably would be much more likely to convert to presort than household mail. Similarly, data regarding the characteristics and cost profile of the mail from those willing to convert to presort provides important information regarding the mail that might convert next.

GMU collected 225 complete surveys between December 1, 2010 and January 6, 2011. The GMU survey instrument is attached as Exhibit 2. The GMU Survey Methodology Report is attached as Exhibit 3. The raw survey data from the GMU survey is attached as Exhibit 4. The data analysis compiled from the GMU survey is attached as Exhibit 5.

3. NPPC / MMA Survey

NPPC and MMA conducted a joint survey of their respective members to solicit information on their total First-Class Mail Letter volumes, the split between Single-Piece and Presort First-Class Mail Letters. The survey also collected data regarding the characteristics of what Single-Piece First-Class Mail Letters the members mail and asked a series of questions to determine whether the mail entered as Single-Piece was a candidate for conversion to presort.

The purpose of the NPPC / MMA survey was to identify the total volume, characteristics, and cost profile of the Single-Piece First-Class Mail currently being sent by large sophisticated mailers.

Eighteen mailers participated in the NPPC / MMA survey. These respondents provided information on approximately 8 billion pieces of First-Class Mail, roughly twenty percent of all presort and automation First-Class Mail Letters volume. All survey results were aggregated by a third party. A copy of the NPPC / MMA survey instrument is attached as Exhibit 6. The NPPC / MMA survey data and analysis is being filed as Exhibit NP-3, as non-public material pursuant to part 3007.22 of the Commission's Rules of Practice and Procedure. .

C. Survey Results

1. Characteristics of First-Class Mail Letters That Have Recently Converted to Workshare

The empirical analysis of the data compiled in the NAPM survey regarding the characteristics of First-Class Mail Letters that have recently converted to workshare conclusively establishes that the Commission's finding that BMM is "obsolete" is correct.

By volume, *less than four percent* of the mail that recently converted from Single-Piece to Presort was metered, trayed, faced and entered in bulk with the Postal Service.

a. Small Volume Mailings, Not Entered in Bulk

The NAPM data confirm that mailings that converted were typically entered as part of small mailings before they converted. The NAPM survey provides information on 90 customers that converted from Single-Piece to Presort First-Class Mail Letters. In aggregate, they reported mailing 152,109 Single-Piece Letters per day before converting. Assuming that each customer entered mail each day, the average mailing comprised 1,690 pieces. The largest customer who converted reported volumes of 25,000 pieces per day, but 16 customers reported 100 pieces or fewer per day and 49 reported between 101 and 1,000 pieces per day. Thus, the average mailing that converted comprised five or six trays per day, but 16 customers reported average mailings of well less than a full tray per day. And without the one large mailer, the average pieces per day would have been about half as big.

This empirical data confirm the Commission's observation in Order No. 536:

Traditionally, it has been assumed that bulk submission of single-piece mail to the Postal Service directly by the single-piece mailer was one of the prerequisites for considering mail a likely candidate to convert to presort. This assumption helped confine the benchmark used for calculating the costs avoided by presorting to BMM. The rise of the industry consolidating First-Class Mail shows that bulk submission directly by the mailer may no longer be an essential characteristic of mail that is subject to conversion, and that the pool of single-piece mail that should be considered a candidate for conversion is considerably broader than BMM.²⁰

Smaller and smaller mailings can convert to worksharing because presort bureaus are more willing to take smaller amounts of mail as they continue to chase a shrinking share of mail at the margin. Of those respondents with daily volume minimums, no minimum was greater than 500 pieces per day (less than two full trays) and nine respondents had minimums

²⁰ Order No. 536, at 52, n.36.

in the range of 1 to 100 pieces with an additional nine in the range of 101-200 pieces a day.

Table 1 shows the distribution with respect to piece minimums as reported in the survey.

Table 1: Frequency Distribution of Minimum Volumes

Range	Daily	Weekly	Monthly	Annually
1-100	9	3		
101-200	9			
201-300	3			
301-400	3			
401-500	21			2
501-1,000			6	
1001-10,000		3	9	

The data further confirm a trend toward acceptance of smaller volume mailings. In the last two years, 44 percent of those who responded had reduced their minimum volume requirements. The reasons varied, but the most prevalent explanation is the most intuitive, the respondents are chasing smaller volumes to attract more business.

b. Collection Required, Not Presented to USPS

The data also test the assumption that Single-Piece mail at the margin of converting is regularly presented to the Postal Service and, thus, avoids collection costs. In fact, roughly half of all pre-conversion Single-Piece First-Class Mail required collection by the Postal Service. Customers tendered this mail in a wide variety of ways, as shown in Table 2 below.

Table 2: Mail Presented to USPS by Method / Volume

USPS Picked Up	Vol %
Customer's Loading Dock	44.52%
Tubs/Sacks/Trays in Lobby	28.15%
Tubs/Sacks/Trays in Lobby & Customer's Loading Dock	9.49%
Handed to carrier	9.41%
Blue Collection Boxes, Customer Mailbox, Mail Chutes, & Handed to Carrier	2.92%
Blue collection boxes	1.95%
Handed to Carrier & Tubs/Sacks/Trays in Lobby	1.35%
Blue Collection Boxes, Handed to Carrier, Tubs/Sacks/Trays in Lobby	1.25%
Customer Mailbox & Handed to Carrier	0.36%
Blue Collection Boxes & Handed to Carrier	0.29%
Customer Mailbox, Tubs/Sacks/Trays in Lobby, & Customer's Loading Dock	0.15%
Handed to Carrier, Tubs/Sacks/Trays in Lobby, Customer's Loading Dock	0.15%
No Answer	0.01%

These data are significant because, over the past 20 years, the base group has traditionally been calculated with reference only to the mail processing and delivery cost differences because it was assumed that those were the costs that would most likely be affected by workshare-related activities in First-Class Mail Letters. Thus, the use of BMM as the benchmark actually may in the past have assumed away potentially significant cost differences between Single-Piece and Presort First-Class Mail Letters, because it inherently assumed that mail at the margin of converting is regularly presented to the Postal Service and, thus, avoids all collection costs. Whatever its merits in the past, that assumption does not comport with the empirical data today.

c. Payment Evidencing Variations

The BMM benchmark assumed that all mail at the margin was metered. The NAPM data reveal a greater variety in payment evidencing: 35.6 percent of the respondents reported entering 43.2 percent of the mail using “Stamps and meters.” While 40 percent of the respondents reported entering 40.6 percent of the mail using solely “meters,” ten percent of the respondents reported entering 8.2 percent of the mail using solely “stamps.” The data confirm that much of the mail at the margin is metered, but some is stamped. This is significant because stamped mail has a very different cost profile.

d. “Clean” Mail is the Exception, Not the Rule

The survey data also reveal that mail was not particularly “clean” before conversion. An empirical analysis of the data illustrates that more than half of the pre-conversion mail was reported to have issues with address hygiene and mail piece design. Table 3 below shows selected issues respondents identified as areas of customer education focus.

Table 3: Customer Education Issues

Issues	Cust %	Vol %
Move Update	82.22%	79.86%
Address placement	58.89%	66.75%
Barcode clear zone	64.44%	57.38%
Font size	42.22%	52.57%
Color of envelope/font	35.56%	46.06%
Other (please specify)	17.78%	39.26%
Envelope size	30.00%	28.92%
Barcode Skew	10.00%	9.83%

e. Presentation: Not Well Organized

The NAPM survey data also show that pre-conversion mail was not particularly well ordered. The BMM benchmark assumed that mail at the margin was homogeneous, non-barcoded pieces, properly faced, and entered in trays. The data tell a different story. While approximately 67 percent of the pre-conversion mail was entered in trays, only about 30 percent of the mail was properly faced (imputing missing values). The percentage of pre-conversion mail that was both properly faced and entered in trays was approximately 29 percent; this implies that most pre-conversion mail that was properly faced was also presented in trays.

2. Characteristics of Undiscounted Non-Household First-Class Mail Letters

The GMU survey collected information from a variety of business users: those who use only undiscounted First-Class Letter Mail, those who use only discounted mail, and those who use both. The information that is most relevant to the base group inquiry comes from those who use undiscounted mail only, since it is this mail that is a candidate for conversion.

Consistent with the findings above, non-household mailers who mailed only Single-Piece First-Class Mail confirmed that they generate only a small amount of mail a day on average: slightly more than 77 pieces. Of the 133 respondents who provided data on this

question, only two produced more than 1,000 pieces a day on average (one 2,500 and one 1,500). Five respondents indicated that they generated between 375 pieces and 750 pieces and the remaining 126 respondents produced fewer than 300 pieces per day.

The GMU survey data confirm that collection is generally necessary for non-household Single-Piece Mail users. Approximately 40 percent of the mail (by volume) was dropped off at the Postal Service for entry, the remaining 60 percent of the mail needed to be collected. Of the mail that needed to be collected, approximately 38 percent was deposited in blue boxes; slightly less was handed directly to the mail carrier.

As above, the GMU survey data confirm that postage meters and PC postage accounted for almost 90 percent of the postage evidencing, but almost 10 percent was stamped.

With respect to mail preparation, of those respondents who knew how the addresses were placed on the envelope, approximately 85 percent said the addresses were machine-printed, but approximately 15 percent were handwritten. By volume, approximately 20 percent of the respondents indicated that they were presenting undiscounted metered pieces with machine-printed addresses, properly faced, and entered in trays to the Postal Service.

3. Characteristics of Undiscounted Non-Household First-Class Mail Letters from Those Who Would Consider Using a Presort Bureau

Respondents who self-identified as users of undiscounted non-household mail who would consider using a presort bureau also generated only a small amount of mail a day on average: slightly more than 181 pieces, considerably less than a full tray of mail.

Within this group of respondents, approximately 60 percent require collection services; only 40 percent bring their mail to the Postal Service. Approximately 70 percent of collection mail for these respondents is deposited in blue collection boxes.

Of those who knew how the addresses were placed on the envelope, approximately 80 percent, by volume, had machine-printed addresses. The rest were handwritten. With regard to postage evidencing, postage meters and PC postage accounted for approximately 95 percent of the total volume; only 5 percent were stamped.

All total, approximately 25 percent of this mail had all of the characteristics of BMM (except perhaps being delivered in bulk).

4. Characteristics of Single-Piece First-Class Mail Sent by Larger Mailers

Respondents to the NPPC / MMA survey collectively accounted for approximately 8 billion pieces of First-Class Mail in the last fiscal year. Of that total volume, only 2.5 percent (approximately 200 million pieces) were entered as Single-Piece First-Class Mail. On average, each respondent mailed about 11.6 million pieces of Single-Piece Letter Mail each year, or about 45,000 pieces per day.

While nearly 66 percent of their Single-Piece Mail had all of the attributes of BMM – metered, trayed, faced, and entered at the Postal Service in bulk²¹ – this mail is not a candidate for conversion to Presort because this mail is sent Single-Piece for reasons independent of price. For example, with respect to transaction mail that was sent Single-Piece, approximately 65 percent could not qualify for discounted rates because of an inability to satisfy Move Update requirements or because attempts to generate a barcode were unsuccessful. For marketing and correspondence mail, the percentage of “residual” Single-Piece mail was closer to 90 percent. Respondents identified a number of other legal / regulatory compliance, operational or system constraints that prevented the successful

²¹ These large mailers clearly know how to prepare and mail letters at Presort and Automation rates. That these letters are sent at Single-Piece rates plainly is not because of a lack of access or opportunity to send at Bulk rates, which means that reasons other than price are determinative. The majority of this “residual” mail is sent Single-Piece because it cannot be sent as presort; therefore, these pieces cannot seriously be considered candidates for “conversion.”

conversion of this mail from Single-Piece to presort. Overall, volume splits demonstrate that these mailers appreciate the economic incentives of worksharing. Yet, the foregone discounts on the Single-Piece volumes exceed \$12 million per year even at the entry level automation rates. Accordingly, the data support the inference that the apparent volumes of BMM submitted by large mailers cannot and will not convert to worksharing in response to marginal price changes.

D. Implications of the Surveys on the Selection of an Appropriate Base Group

1. Attributes of the Base Group

The empirical analyses of the survey data conclusively establish that BMM is no longer a valid base group for First-Class Mail Letters. As noted above, the NAPM survey data reveal that, by volume, *less than four percent* of the mail that recently converted from Single-Piece to Presort was metered, trayed, faced and entered in bulk with the Postal Service in the manner necessarily assumed when BMM is used as a benchmark. The GMU survey similarly confirmed that less than ten percent of the volume that non-household Single-Piece mailers would even consider converting to presort shared all of the attributes of BMM. Data from both surveys also show that mail at the margin is not being presented to the Postal Service in bulk as the BMM benchmark assumed. And the mail that is being entered as BMM by large mailers is not mail that can or will convert in response to marginal pricing signals. For large mailers, BMM volumes, as such, represent “residual” mail that could not, for a variety of legal, operational, and business reasons, convert from Single-Piece to presort. Thus, the data strongly support the Commission’s decision to replace BMM with a more accurate base group.

Empirical analyses of the survey data reveal several salient characteristics of an appropriate base group. First, an appropriate base group should reflect the reality that mail at the margin is being produced and entered in smaller and smaller volumes. Because this is a dynamic environment, the mailings that are converting to worksharing will likely become even smaller over time as the industry continues to evolve.

Table 4: Daily Volumes

	NPPC/MMA Workshared	NPPC/MMA Single Piece	NAPM Converters	Non-Household Undiscounted: Would Consider Presort	Non-Household Undiscounted Only
Average Daily Volume Per Mailer	1,755,185	46,468	1,690	181	77

Second, the appropriate base group for First-Class Mail must account for the fact that a significant percentage of mail at the margin currently incurs collection costs. The Commission correctly ascertained that collection costs would be relevant: “[a]mong the elements of avoided costs that will be considered for inclusion are collection costs.”²² The empirical data bear this out. The NAPM survey data confirm that almost half of the mail that converted to worksharing during the last year was collected by the Postal Service and thus incurred collection costs. The GMU survey data likewise establish that close to 60 percent of the total volume of conversion mail for small-to-medium sized non-household mailers requires collection. Thus, the data show that the base group must include mail that is collected.

Third, the new base group should reflect the current variety in payment evidencing for mail on the margin of converting to workshare. The survey data show that mail at the margin contains both metered and stamped mail. While the NAPM survey data (including imputations) suggest the percentage of meter use is higher, the GMU survey data shows that

²² Order No. 536 at 8.

only about 50 percent of the mailers who say they would consider converting to worksharing through a presort bureau report using a meter; the other 50 percent use stamps. Thus, the data show that the base group is not exclusively metered and, if the base group were developed as a composite of specific cost attributes, the cost profile for stamped mail must be included in the base group.

The data also confirm that mail at the margin is often not very “clean,” and that in some cases significant education and remediation regarding address hygiene and mail piece design is necessary to allow pre-conversion mail to qualify as workshared. In its initial state, this mail is far from homogeneous, non-barcoded, machine-printed mail that is simply waiting to be fed through the Postal Service’s automation processes. Additionally, a new base group must reflect the realities of mail preparation. Data confirm that the significant majority of mail at the margin is not presented to the Postal Service properly faced and trayed.

2. Recommended Base Group

Armed with this data, the Commission could construct a composite base group that reflected the specific cost characteristics of mail with the attributes identified above. But this is a messy process, and while the data is illuminating many lines remain blurred. For example, much of the mail at the margin requires collection, but not all; some mail is clean, some is not; a significant percentage of the mail is metered, but some requires stamps. Further, a composite base group that represents an amalgam of distinct cost characteristics is subject to imprecision due to data limitations and the heterogeneity of Single-Piece First-Class Mail. Another drawback of this type of composite proxy is that it is not directly

traceable to the Postal Service's existing cost systems; thus, measurement, verification, and replication over time may be difficult.

An alternative approach would be to develop a weighted averaged or mixed proxy. But a weighted averaged or mixed proxy suffers from the shortcomings of both imprecision and uncertainty, lacking a clear foundation in the existing cost models. Based on the empirical analysis of the survey data, to the extent an averaged proxy is selected, the appropriate weighted average would have to include "Metered" mail and stamped Single-Piece First-Class Mail because of the prevalence of stamped pre-conversion mail volumes. Order No. 537 references the possibility of a weighted average of BMM and "Metered" mail.²³ While this would be a slight improvement over the former BMM benchmark, it would still represent an unjustifiably narrow, low-cost subset of Single-Piece First-Class Mail and, therefore, would frustrate the Postal Service's ability to establish presort differentials in a way that maximizes incentives for productive efficiency.

For these reasons, the Joint Commenters recommend that the Commission adopt a single proxy to represent the cost characteristics of the base group.²⁴ A single proxy can be used to smooth variations due to mail heterogeneity and to avoid the complexity and data limitations inherent in modeling a composite cost proxy. The single proxy that most closely approximates the cost characteristics of an empirically derived base group is "Metered" mail. The new base group should reflect the mail processing (cost segment 3), carriers' in-office (cost segment 6), and collection (cost segments 7 and 10) costs for "Metered" mail.²⁵ These

²³ See Order No. 537 at 2.

²⁴ The Joint Commenters recognize that this is a more conservative benchmark than a weighted average which includes "Metered" mail and Single-Piece.

²⁵ The Joint Commenters are not advocating that street delivery costs be part of the base group costs. In the overwhelming number of cases, converting a piece from Single-Piece to presort should have no effect on its address or any characteristics that are likely to affect delivery costs once it gets to the street.

costs are directly tied to the Postal Service's existing cost systems. In fact, "Metered" mail has already served as the proxy for mail processing costs for BMM. "Metered" mail costs should also be used for carrier's in-office costs and collection costs.²⁶

IV. CONCLUSION

For the foregoing reasons, the Commission correctly held that the BMM benchmark was no longer valid. The data confirm that the typical Single-Piece mail piece at the margin of conversion is more like collection mail, not BMM. Under a linked rate design, the Joint Commenters recommend that the Commission adopt "Metered" mail as the new base group for purposes of measuring workshare-related cost avoidances for First-Class Mail Presort Letters. The use of "Metered" mail as a proxy is appropriate because its costs most closely approximate the identified cost characteristics of the mail at the margin of converting to presort and because its costs are directly identifiable from the Postal Service's existing cost system.

²⁶ The empirical analysis regarding the mail most likely to convert also compels a reexamination of the proxy used to calculate delivery cost savings. In short, there is no longer any rational basis for using a workshared proxy for deriving delivery cost savings.

Respectfully submitted:

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