

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

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OFFICE OF THE SECRETARY

**POSTAL RATE AND FEE CHANGES, 2000**

**Docket No. R2000-1**

**REPLY BRIEF OF PITNEY BOWES INC.**

In its Initial Brief, Pitney Bowes has shown that its proposed one-cent discount for pieces on which First-Class single-piece postage is applied by means of a postage meter or PC Postage device fully satisfies the legal and policy predicates for rate de-averaging through the introduction of discounts, serves broad policy goals and, above all, is fair and equitable to users of metering technology and stamps alike. The Postal Service is the only party opposing this proposal. However, the Postal Service itself admits that the Metering Technology Discount fully satisfies the dictates of Section 3622(b)(3) of the Act concerning cost apportionment, conforms to Commission policy concerning the measurement of avoided costs, and fully satisfies the mandate of the Act concerning ease of administration of the rate schedule. Therefore, as we show in this Reply Brief, it is the Metering Technology Discount -- not the Postal Service's invalid preference for a "single-rate" -- that conforms to the first and foremost of the statutory criteria, that the rate schedule recommended by the Commission be "fair and equitable." 39 U.S.C. § 3622(b)(1). The Metering Technology Discount should be recommended.

## I. The Metering Technology Discount is Fair and Equitable

The Postal Service's opposition to the Metering Technology Discounts rests principally upon the proposition that other categories within First-Class mail and other subclasses of mail do not "contribute to stamp production and distribution costs" and, therefore, should enjoy "direct rate benefit" for their worksharing efforts. Postal Service Brief at VII-53.<sup>1</sup> This claim ignores the simple and unassailable fact that all of the rate categories of First-Class mail (except the single piece category) and all other subclasses of mail (whether or not listed on witness Miller's Table 5) make little or no use of stamps. Therefore, those categories receive none of, or a negligible assignment of, the attributable costs arising from the manufacture and distribution of stamps. Initial Brief of Pitney Bowes at 8-9.<sup>2</sup> As a result, the bulk First-Class category and all other subclasses *do* enjoy "direct rate benefit" now.

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<sup>1</sup> The Postal Service makes no attempt to support its assertion that witness Heisler's estimate of mailer response to the Metering Technology Discount is "unreliable" and that if those projections are overstated, the loss of contribution would be greater than the \$156 million to which Dr. Haldi testified. Postal Service Brief at VII-52, footnotes 41 and 42. The reason underlying the Postal Service's disinclination to elaborate upon these arguments is self-evident. Dr. Staisey's criticisms of the Pitney Bowes market survey are without merit; the Heisler study provides the Commission and the Board of Governors with reasonable assurances that mailers will respond favorably to the Metering Technology Discount and that a very substantial volume of single-piece First-Class mail will migrate from stamps to metering technology. Pitney Bowes Brief at 10-14. Moreover, even if no migration from stamps to meters is assumed, the proposed one-cent discount would impose no significant burden on other mailers. Pitney Bowes Brief at 15.

<sup>2</sup> The Postal Service explicitly concedes that "little of the attributable costs" of stamps is assigned to the presort categories of First-Class mail as Dr. Haldi testified. Postal Service Brief at VII-52. This conclusion is supported by the Postal Service's own witness. See USPS-T-11 at Wp.A-2, 35-36. The suggestion that the Metering Technology Discount improperly fails to reflect the savings associated with permit imprint mail (Postal Service Brief at VII-53, fn. 43) is also misguided -- permit imprint cannot be used for single-piece mail.

The Postal Service does not attempt to dispute this elemental fact. Instead, it argues that stamps "could be" used if mailers in those rate categories or subclasses "hypothetically reverted back" to stamps. It claims that it is "indefensibly discriminatory" to deny these hypothetical mailers eligibility to the Metering Technology Discount. Postal Service Brief at VII-53.

The Commission cannot, as a matter of law, accept this analysis. The anti-discrimination provision of the Postal Reorganization Act (39 U.S.C. § 403(c)) does not apply to hypotheticals. That provision compels the Commission to compare two categories of mail users who *are* -- not "could be" -- similarly situated. See Pitney Bowes Initial Brief at 10. Because First-Class single-piece category mailers bear an overwhelming proportion of stamp manufacture and distribution costs, this group is not similarly situated in relation to stamp costs with users of other rate categories within First-Class mail or to users of other subclasses of mail. Single-piece First-Class mail is the only rate category in which rate de-averaging through a discount is legally and factually warranted.

The Postal Service's further claim that the Metering Technology Discount is contrary to Commission precedent is equally infirm. Postal Service Brief at VII-53. The Commission's decision in Docket R77-1 emphatically does not stand for the proposition that avoided stamp procurement costs may not serve as the basis for a discount. Rather, the issue in that case was whether it was proper for the Postal Service to seek to include those costs as a part of the basis for measuring the proper depth of a presort discount. The Commission noted the obvious lack of any causal nexus between the use of metering or permit imprint technology

and presortation: It stated that, as a factual matter, "these cost effects [avoided stamp costs] are present regardless of presorting." It held that, because of this absence of a causal link, the Postal Service's attempt to add stamp procurement costs to avoided mail processing costs "was not consistent with the cost avoidance concept." *PRC Opinion in Docket R77-1, Volume 1* at 258-59.

On its face, this decision has no relevance to the Pitney Bowes Metering Technology Discount. Pitney Bowes does not seek to add avoided stamp costs to some other, wholly unrelated, worksharing function, as was the case in R77-1. Here, as the Postal Service itself concedes, there is a direct and immediate causal nexus between the Metering Technology Discount and the avoidance of stamp manufacture and distribution costs. The Postal Service also admits that the discount is based solely on -- and actually passes through less than -- the undisputed and indisputable unit costs that the Postal Service actually saves. Pitney Bowes Brief at 5-7. In this case, therefore, the Metering Technology Discount is fully "consistent with the cost avoidance concept." *PRC Opinion in Docket R77-1, Volume 1* at 258-59.

Indeed, the Postal Service does not contend otherwise. Rather, it attempts to extrapolate from the Commission's very narrow holding in Docket R77-1 to a very broad and unsupportable principle. It argues that the Commission's discussion of presorting discounts in R77-1 stands for the policy that if mailers have a reason independent of a proposed discount to engage in worksharing activities then rate de-averaging is unnecessary. It concludes from this putative policy that the Metering Technology Discount should not be

recommended because "single piece mailers who use metering technology would continue to do so for all the same reasons they do now." Postal Service Brief at VII-54.

Neither the Commission's discussion in R77-1 nor any other Commission decision supports this newly invented policy. There is a simple reason for this. The policy would invalidate virtually, if not literally, all of the worksharing discounts now in effect. In many cases, mailers have reasons, independent of the discount, for worksharing efforts, but in all such cases, discount have nonetheless been adopted. For example, mailers drop enter Standard (A) mail because this improves service quality and some mailers would drop enter mail even if the current drop entry discounts did not exist. However, the drop entry discounts -- and all other discounts -- are maintained because they provide an incentive for other mailers to benefit themselves and the Postal Service. See, generally, *PRC Opinion in MC73-1* at 13; *PRC Opinion in MC95-1* at IV-97. Similarly, the Metering Technology Discount will plainly provide an incentive for stamp users to migrate to the more efficient metering technology. Pitney Bowes Brief at 4. Thus, the claim that the Metering Technology Discount should be rejected because users of metering technology may continue to do so without a discount finds no support in Commission precedent or policy.

For these reasons, as detailed more fully in our Initial Brief, the Postal Service's assertion that the maintenance of "a single-rate" for all single-piece First-Class mail "is the more fair and equitable" solution is wrong as a matter of fact, law and policy. It must be rejected.

**II. The Metering Technology Discount Proposal Compares Favorably to the Other Proposals for Rate De-Averaging of the Single-Piece First-Class Rate Category**

In addition to the Metering Technology Discount advanced by Pitney Bowes, there are two other proposals to de-average the First-Class single-piece rate category pending before the Commission -- the courtesy envelope mail discount ("CEM") proposed by the Office of Consumer Advocate and the differing versions of the PC Postage discount advanced separately by E-Stamp and Stamps.com.

Pitney Bowes' Metering Technology Discount is compatible with either of these other approaches to rate de-averaging of the single-piece First-Class rate category. This is because the Metering Technology Discount is based upon avoided stamp manufacture and distribution costs. By contrast, both the CEM and PC Postage discounts are based upon perceived savings to the Postal Service in the processing of single-piece mail meeting the Postal Service's automation criteria. For this reason, Pitney Bowes does not take a position on the merits of these other approaches.

It is clear that the Metering Technology Discount compares favorably to these proposals on two grounds. First, the Metering Technology Discount is easily administrable by the Postal Service and readily usable by residential and small business mailers. Even if the Postal Service has exaggerated the cost associated with consumer education and revenue assurance, its claim that CEM will complicate its administration of the rate schedule cannot be entirely ignored.

By contrast, the Postal Service does not, and cannot, make any such claims of consumer confusion or of difficulties in administering the Metering Technology Discount. Pitney Bowes Initial Brief at 6.

Second, both the CEM and PC Postage proposals are more narrow in application than the underlying principle would warrant. That is, neither proposal extends eligibility to all single-piece First-Class mail meeting the Postal Service's automation compatibility standards. In particular, mailers who use a meter in conjunction with a software program such as Pitney Bowes' SmartMailer® not only can, but in fact do, produce mail that is just as automation compatible as that produced by a courtesy reply envelope or an open PC Postage system. But these mailers would not be eligible for either the CEM or PC Postage discounts.

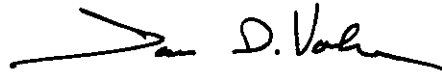
Therefore, if a discount for automation compatible mail is to be established within the First-Class single-piece rate category, such a discount should be open to all automation compatible mail regardless of the postage evidencing application used by the mailer. Neither the CEM nor the PC Postage proposals are open to all mailers who enable the Postal Service to avoid mail processing costs. By contrast, the Metering Technology Discount is open to all single-piece mailers who enable the Postal Service to avoid stamp production costs.

Because it is readily administrable and open to all, the Metering Technology Discount compares favorably with the CEM and PC Postage proposals.

## CONCLUSION

The Metering Technology Discount satisfies all of the criteria of the Act. It meets the fundamental predicate of fairness and equity. It should be recommended.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ian D. Volner". The signature is written in a cursive style with a long horizontal line extending to the left.

Ian D. Volner  
N. Frank Wiggins  
Venable, Baetjer, Howard & Civiletti, LLP  
1201 New York Avenue, N.W.  
Suite 1000  
Washington, DC 20005-3917

Counsel for Pitney Bowes Inc.

Dated: September 22, 2000



**CERTIFICATE OF SERVICE**

I hereby certify that I have this day served the foregoing document upon all participants of record in this proceeding in accordance with Section 12 of the rules of practice.

  
Ian D. Volner