

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

**Regulations Establishing System
Of Ratemaking**

Docket No. RM2007-1

**Comments
of
National Association of Presort Mailers**

The National Association of Presort Mailers (NAPM) is pleased to respond to PRC Order No. 15, the Postal Regulatory Commission's (Commission) Second Advanced Notice of Proposed Rulemaking (Docket No. RM2007-1).

The second advanced notice invites interested persons to comment on specific aspects of the implementation of the modern rate system under the Postal Accountability and Enhancement Act (PAEA), Pub. L. No. 109-435, 120 Stat. 3198 (Dec. 20, 2006). Among other issues, the Commission has invited interested parties to comment on the provisions related to workshare discounts. More specifically, the Commission is seeking comments on (1) what information or data must be provided and (2) when such information should be provided with respect to new and existing workshare discounts. These issues are of critical importance to the presort mailing industry and to its customers.

NAPM represents a variety of presort mailers, the majority of which are independent presort bureaus, but some of whom process mail "in-house.". Our knowledge of the industry, therefore, is multifaceted and based on experience. It is that experience that has allowed our members to become an important resource for the Postal Service. By inserting prebarcoded mail with clean addresses farther into the postal system, we save the Postal Service billions of dollars. Over the span of one year, our members presort more than 25 billion pieces of mail and more than 23.75 billion are prebarcoded mail pieces.

The Commission consistently has recognized the contribution of the presort mailers by supporting the provision of workshare discounts through partnerships that promote quality and efficiency. Likewise, the PAEA builds on this foundation and encourages the provision of workshare discounts in furtherance of its statutorily delineated objectives and factors, which include the tenets of efficiency, cost reduction, and reduced administrative burdens.

NAPM appreciates the opportunity to contribute to the administrative record by submitting the below comments addressing the importance of workshare discounts and reporting requirements.

I. CONGRESS STATUTORILY RECOGNIZED WORKSHARING ACTIVITY AND THE COMMISSION'S EFFORTS IN THIS AREA.

For the first time, Congress has explicitly recognized the contributions of worksharing in legislation. Congress's recognition of these mutually beneficial partnerships will encourage companies to find new and innovative ways to assist the Postal Service in meeting its universal service obligation in a cost-effective and efficient manner. The PAEA defines "workshare discounts" as "rate discounts provided to mailers for presorting, prebarcoding, handling, and transportation of mail as further defined by the Postal Regulatory Commission." 39 U.S.C. § 3622(e)(1). Thus the statutory definition codifies the Commission's historical view of qualifying workshare activities.

II. THE STATUTORY LIMITATION ON "WORKSHARE DISCOUNTS" IS NARROWLY DEFINED AND SUBJECT TO IMPORTANT EXCEPTIONS.

The PAEA further provides that with respect to statutorily-defined workshare discounts, the Commission "shall ensure that such discounts do not exceed the cost that the Postal Service avoids as a result of workshare activity[.]" 39 U.S.C. § 3622(e)(2). This limitation on workshare discounts is, however, subject to certain enumerated exceptions. See 39 U.S.C. § 3622(e)(2-3).

The PAEA affords the Postal Service the flexibility to establish discounts in excess of costs avoided in special circumstances relating to a "new postal service" or "new workshare initiative." See 39 U.S.C. § 3622(e)(2)(A)(i). The PAEA also provides an exception to the workshare limitation when necessary for a limited duration as a means to "to induce mailer behavior that furthers the efficient operation of the Postal Service," see 39 U.S.C. § 3622(e)(2)(A)(ii).

Consistent with the Commission's historical practice, the PAEA also affords the Postal Service the pricing flexibility to establish discounts above costs avoided for a limited duration to "mitigate rate shock." See 39 U.S.C. § 3622(e)(2)(B). Similarly, discounts greater than costs avoided are permitted for mail consisting exclusively of educational, cultural, scientific, or informational value. See 39 U.S.C. § 3622(e)(2)(C).

The PAEA also expressly allows discounts to exceed costs avoided where a "reduction or elimination of the discount would impede the efficient operation of the Postal Service," see 39 U.S.C. § 3622(e)(2)(D).

A broad exception to the general limitation is also provided in the Act where the reduction or elimination of a workshare discount would "lead to a loss of volume in the affected category . . . and reduce the aggregate contribution to the institutional costs of the . . . category subject to the discount," see 39 U.S.C. § 3622(e)(3)(A), or where the result of such reduction or elimination would "result in a further increase in the rates

paid by mailers not able to take advantage of the discount,” see 39 U.S.C. § 3622(e)(3)(B).

In developing and implementing a modern rate system, the Commission must acknowledge and give effect to these enumerated exceptions to the general limitation. The enumerated exceptions are as much a part of the modern rate system contemplated by the PAEA as is the general limitation. NAPM respectfully submits that the Commission should address the specific exceptions and limitations under section 3622(e)(2) and (3) on a case-by-case basis.

Moreover, in developing and implementing the workshare provisions, the Commission must ensure that just as workshare discounts should generally not exceed avoided costs, neither should workshare discounts fail to pass through, without some extenuating circumstance, the full measure of the Postal Service’s avoided costs. As discussed in NAPM’s previous comments and below, in addition to enforcing the statutory limitation on workshare discounts, the Commission’s regulations should encourage the Postal Service to establish rates and discounts consistent with the Efficient Component Pricing Rule (ECPR).

III. THE COMMISSION MUST BALANCE THE IMPORTANCE OF DATA COLLECTION WITH THE ADMINISTRATIVE BURDEN IMPOSED BY THE WORKSHARE REPORTING OBLIGATIONS.

Accurate and timely Postal Service cost data and information regarding workshare discounts is critically important to the presort industry, its customers and the Postal Service as well as the Commission if it is to fulfill its obligations under the PAEA. The Commission should exercise caution, however, that the administrative burden of the reporting obligations placed on the Postal Service does not unintentionally dissuade the Postal Service from offering new and innovative product offerings.

The PAEA requires the Postal Service to provide data and costing information for all workshare discounts in the context of the annual report under section 3652. Additionally, the PAEA provides for additional specific reporting of data and costing information associated with new workshare discounts. See 39 U.S.C. § 3622(e)(4). Importantly, the PAEA distinguishes between the data and cost information that the Postal Service is required to provide for new workshare discounts and the data and information required for existing workshare discounts. Specifically, section 3622(e)(4) provides, “[w]henever the Postal Service establishes a workshare discount rate, the Postal Service shall at the time it publishes the workshare discount rate, submit to the Postal Regulatory Commission a detailed report” 39 U.S.C. § 3622(e)(4).

The detailed reporting for new discounts must accomplish three goals: (1) the report must state the “reasons for establishing the rate,” (2) provide “the data, economic analysis, and other information relied on by the Postal Service to justify the rate,” and (3) certify “that the discount will not adversely affect rates or services provided to users of postal services who do not take advantage of the discount rate.” 39 U.S.C. § 3622(e)(4)(A-C).

The PAEA also distinguishes between new workshare discounts and existing workshare discounts for purposes of determining when the data and cost information must be provided. The detailed report required for new worksharing discounts must be provided “at the time it publishes the workshare discount rate[.]” 39 U.S.C. § 3622(e)(4). In other words, the Postal Service must submit the detailed report for new workshare discounts in conjunction with the notice of rate adjustment. See 39 U.S.C. § 3622(d)(1)(C)(i). There is no stated time for the submission of cost data for preexisting workshare discounts other than in connection with the annual report under section 3652. Thus the Postal Service’s reporting obligations for existing workshare discounts is coextensive with its reporting obligations under the annual report.

IV. ECPR IS CONSISTENT WITH THE PAEA GENERALLY AND WITH THE WORKSHARE COST DATA REQUIREMENTS SPECIFICALLY.

For all of the reasons set forth in NAPM’s previous submissions, an ECPR pricing standard is consistent with the modern rate system contemplated by the PAEA. Nowhere is this more evident than in the cost-based workshare limitation and cost data reporting requirements of section 3622(e).

First, an ECPR pricing rule would not require the Postal Service to provide any additional data or cost information than that required under section 3622(e). Second, an ECPR pricing rule is the most effective means of encouraging a viable presort industry to take advantage of workshare discounts, when that course will promote economic efficiency, improve postal operations and service, and result in lowest combine costs. Third, a rebuttable presumption that rates which satisfy the ECPR rule and pass-through 100% of the Postal Service’s costs avoided is completely consistent with the workshare limitation of section 3622(e). Fourth, an ECPR pricing rule also has the advantage of creating predictability and stability in rates, reducing the administrative burden of the ratemaking process and promoting efficiency and high quality service standards.

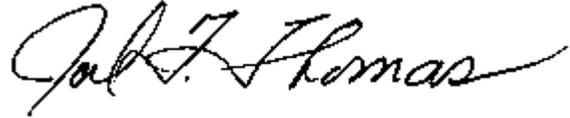
V. COMMENTS OF THE MAJOR MAILERS ASSOCIATION

The National Association of Presort Mailers is aware that the Major Mailers Association is also filing comments pursuant to Order 15 in this docket and wishes to express its agreement with issues raised by the MMA and with the importance of establishing a reasonable and comprehensive framework that includes all costs avoided by the USPS as a result of worksharing in order to determine whether workshare discounts are consistent with the requirements of the PAEA.

CONCLUSION

NAPM values the opportunity to contribute to the dialogue surrounding implementation of the new postal regulatory system and looks forward to participating further in this proceeding and in the development of this record.

Respectfully submitted,

A handwritten signature in black ink that reads "Joel T. Thomas". The signature is written in a cursive, flowing style with a prominent initial "J" and a long, sweeping underline.

Joel T. Thomas
Executive Director
National Association of Presort Mailers