

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

**Regulations Establishing A System
Of Ratemaking**

Docket No. RM2007-1

Initial Comments Of Major Mailers Association

Pursuant to Order No. 26,¹ Major Mailers Association (MMA) hereby submits its initial comments on the proposed regulations to establish a modern system of ratemaking for market dominant and competitive products in accordance with the Postal Accountability and Enhancement Act, Public. Law No. 109-435 (PAEA).

MMA recognizes the difficult task that faces the Postal Regulatory Commission (PRC) in implementing PAEA and thanks the Commissioners for the insightfulness and thoroughness reflected in the proposed regulations set forth in Order No. 26. MMA also appreciates the Commission's efforts to promulgate regulations implementing a new, modern system of ratemaking before the 18-month deadline prescribed by Congress. MMA agrees with the Commission that early implementation of the new framework can benefit all stakeholders by obviating the need for the Postal Service to file a final omnibus rate increase proceeding under existing statutory authority of the Postal Reorganization Act. See Order No. 26 at 1.²

MMA strongly supports the PRC's proposal to use the moving average method of calculating the CPI-U limitation on rate adjustments for market dominant products, which is incorporated in the proposed rules. See Order No. 26 at 27. As the Commission correctly concludes (id):

This method provides mailers with stable and predictable rates, and also grants the Postal Service the same benefits. The moving average method does not impose any undue administrative burden on the Postal Service and does not inhibit transparency. The Commission finds the increased predictability and stability resulting from use of the moving average

¹ *Regulations Establishing a System of Ratemaking*, Docket No. RM2007-1, Order Proposing Regulations To Establish A System Of Ratemaking, issued August 15, 2007 (Order No. 26).

² See also Transcript of June 22, 2007 Field Hearing in Kansas City, Missouri at 72 (testimony of Mury Salls, Senior Vice President of DST Mailing Services and President of MMA).

method are quite valuable, and directly further the specific objectives of the PAEA.

MMA also supports the Commission's conclusion (Order No. 26 at 32) that "unused rate authority for a given class of mail may only be applied to the class where it originated." This principle is consistent with the spirit and letter of PAEA because it ensures equitable treatment of all classes of mail.

With respect to general principles applicable to establishment of appropriate workshare discounts, MMA agrees with the comments of John Panzer regarding the importance of worksharing and the use of the Efficient Component Pricing Rule (ECPR) as an effective method for encouraging efficient mailing practices.³ MMA also concurs with the statement of John Campo, Pitney Bowes' Vice President of Postal Relations, that "regulations should encourage the Postal Service to adopt pricing incentives or work sharing discounts to fully reward mailer activity that reduces total postal system costs."⁴

Of additional concern to very high volume workshare mailers, including MMA members, is the ineluctable fact that the current formula for setting workshare discounts gives no credit for important worksharing activities that benefit the Postal Service and all other mailers.⁵ Large mailers are often required to go beyond what is required in the Domestic Mail Manual (DMM) to further streamline acceptance and processing of the mail for the Postal Service. Most of the following items constitute additional worksharing that very high volume workshare mailers (as contrasted not just with single piece mail but also mail sent out by low volume workshare mailers) routinely perform in order to qualify for First Class automation, presort, and workshare discounts:

- mail piece designs that adhere to strict standards
- addresses of the highest quality and accuracy assured by deploying CASS certified software and ensuring guidelines from the DMM and Pub 28 are met

³ See Initial Comments of John C. Panzar on behalf of Pitney Bowes, dated April 6, 2007.

⁴ Transcript of July 9, 2007 Wilmington, Delaware Field Hearing at 10

⁵ Of immediate concern to MMA is the fact that the PRC's R2006-1 methodology for measuring cost savings artificially understates relevant cost savings, especially delivery cost savings. MMA addressed this important issue in its June 18, 2007 comments but, to date, the Commission has not even acknowledged MMA's comments. We urge the Commission to address the issue and remedy the problem as part of implementing the PAEA.

- mail placed in trays right side up, sealed and in sequential order according to the Keyline for manifested mail
- full trays that are required to be sleeved and strapped
- trays that are assigned air transportation **by the mailer** using the USPS PostalOne! transportation system with equipment purchased by the mailer
- trays that are sorted onto the appropriate pallets, according to the placard for that pallet, which contains the first 3 digits of the zip code;
- full presorted pallets holding up to 48 trays of mail are then shrink wrapped;
- heavy-duty fork lifts and labor provided by workshare mailer to load finalized, shrink-wrapped pallets from the mailer's loading dock onto Postal Service trucks.
- Additionally, high volume workshare mailers routinely honor local Business Mail Entry Unit (BMEU) requests for additional pallet sortations, entire truck sortations and other changes in sortation schemes that directly benefit the Postal Service by lowering mail processing and transportation costs

Because many of these worksharing practices are not documented in the DMM, large workshare mailers must rely on their local BMEUs for guidance and instruction. Furthermore, since these guidelines are not documented, they vary from district to district. Therefore, what may be acceptable in one BMEU facility may not be acceptable in another BMEU facility. Large mailers who have more than one site cannot standardize procedures because of these variances. MMA urges the Commission (and the Postal Service) to recognize that additional cost savings inure to the Postal Service as a result of the extraordinary efforts of large workshare mailers and give them adequate credit in the rate setting process.

First Class mail historically has borne a larger institutional cost burden than other mail classes. Moreover, the First Class workshared mail category makes the largest contribution to institutional costs. Postal Service revenues from First Class workshare mail are approximately three times the cost of providing this service. This relationship means that workshared mail has a very positive impact on postal finances and helps to maintain a viable postal system that benefits all mailers, including those in other classes. Indications are that workshare mail will be even more crucial to the financial

well being of the postal system in the future. While workshare mail volumes have been able to maintain modest growth, First Class single piece volumes have declined significantly and are not expected to recover in the foreseeable future. For example, the data for the first three quarters of PFY 2007 show that, as compared to the same period in PFY 2006, First-Class single piece volumes are down by 4.0% while workshared letter volumes are up, but only by a relatively anemic 0.5%. See Quarterly Statistics Reports, Quarter 3, FY 2007, dated 7/23/2007 (Table 1-A, p.1), filed with the Commission on September 13, 2007.

The complexity and cost to mailers of worksharing has changed over time and likely will continue to do so as new, expensive technologies and procedures are implemented. New mail preparation requirements usually reduce USPS costs while increasing costs for workshare mailers. Workshare discounts *should* recognize and give mailers credit for the resultant cost savings in the rates they pay. Unfortunately, too often this has not been the case. For example, the Postal Service has told workshare mailers that they will be required to deploy the Intelligent Mail Bar Code (IMBC), and Seamless Acceptance, by January 2009 in order to be eligible for postal discounts. There has been no formal communication concerning this new requirement.⁶ While MMA and all large mailers support technological advances that reduce postal costs and make mail processing and delivery more efficient, these new requirements appear to be yet another example of the Postal Service requiring more from workshare mailers (thus adding to the costs of participating in the worksharing program) without providing mailers any incentive to implement IMBC and Seamless Acceptance.

MMA generally agrees with the PRC's position on rate adjustments due to exigent circumstances. In particular, MMA supports the PRC's proposal to hold a public hearing in such cases.⁷ MMA also supports putting on the Postal Service a heavy burden to explain in detail and justify the highly unusual, unforeseeable and unavoidable circumstances that warrant extraordinary rate relief. Finally, MMA concurs

⁶ Formal notification of the IMBC and Seamless acceptance should be communicated via a Federal Register Notice.

⁷ MMA does have reservations regarding some of the specific procedures contemplated in the proposed regulations. For example, the regulations envision a procedure whereby interested parties would submit written questions to the Commission to be asked of USPS witnesses by the Commission at the public hearing. It is hard to comprehend how such a procedure could even begin to make up for the follow up and clarification questions that typically are a part of normal cross-examination.

with the proposed requirement in Section 3100.61 (6) that, as an integral part of its filing for exigent rate relief, the Postal Service provide “[a]n explanation of when, or under what circumstances, the Postal Service expects to be able to rescind the exigent increases in whole or in part.”

MMA recognizes that part of the PAEA’s modern system of ratemaking involves extremely tight timeframes for Commission action – 45 days in the case of annual CPI-U regular rate adjustments and just 90 days in the case of exigent rate adjustments. So long as these cases are limited to relatively “simple” rate adjustments, these time frames might be sufficient for large mailers to make necessary software and other changes necessary to implement the new rates. However, the Postal Service should and the Commission must recognize that even 90 days likely will not be sufficient, especially if there are software changes concerning the make-up rules i.e. mail preparation and sortation changes, not just rate changes. MMA members experienced this during the rate change that took effect May 14, 2007. Instead of preparing overflow trays with fewer than 150 pieces, workshare mailers were allowed to include these pieces in the next tray level if it resulted in a full tray. Unfortunately, the software vendors did not have the “logic” in place to accommodate this change in requirements and the mailers had to make this significant, costly adjustment within a very short timeframe. MMA members and other large workshare mailers require a longer lead times to avoid this type of “fire drill.” Most large mailers have many different and varied platforms and architecture structures that require more time to implement necessary changes. For example, all MLOCR equipment will need to be modified in order to print an IMBC.

Although nothing has been formally communicated to mailers concerning the Postal Service’s Flats Sequencing System (FSS) initiative, MMA submits that 90 days notice simply is not sufficient to implement some of the changes being discussed. For example, MMA understands that the address placement on flats may be changing as part of FSS. Large mailers must vie for limited IT time with other major departments and special projects within their respective companies and, based on the shortened timeframes allowed for past implementations of this nature, MMA is concerned about the adverse impact this change will have on member company operations.

The simple solution to this problem is to limit CPI-U and exigent rate adjustments to rate changes and not permit other changes, such as new mail preparation, mail handling and transportation requirements, to be part of those proceedings. There is no apparent logical or factual reason of which MMA is aware that would justify material mail preparation and other requirements changes as part of these rate adjustments. Moreover, since such changes likely will result in additional cost savings for the Postal Service, workshare mailers and the Commission should be given an adequate opportunity to examine the new requirements and determine what impact, if any, implementation of the requirements will have on workshare cost savings and rates..

Workable Negotiated Service Agreements (NSA) are crucial to the continued viability of the Postal Service. The rules promulgated for NSAs must streamline the approval process and reduce the administrative and economic burden of implementing NSAs. MMA is encouraged that the Commission has taken an enlightened approach to NSAs in the proposed regulations. Periodic audits during the NSA should suffice to verify that the claimed benefits for the Postal Service are being realized in fact. This approach to NSAs properly balances the policies reflected in the PAEA by providing the Postal Service with the necessary pricing flexibility while preserving the PRC's oversight function.

Respectfully submitted,

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