Postal Regulatory Commission
Submitted 3/3/2008 3:43:15 pm
Filing ID: 59148
Accepted 3/3/2008

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

Notice Of Price Adjustment **Docket No. R2008-1**

Comments Of Major Mailers Association

Pursuant to Order No. 59,[1] Major Mailers Association (MMA) submits the following comments on the Postal Service's Notice Of Market-Dominant Price Adjustment, dated February 11, 2008 (USPS Price Adjustment Notice). MMA's comments will focus upon the Postal Service's proposals that impact First Class products.

This is the Postal Service's first annual rate adjustment pursuant to the Postal Accountability and Enhancement Act (PAEA) and the Commission's new regulations implementing the Act. What happens in this case is likely to form a template for future CPI-U rate adjustments. This case likely will be the forum in which bedrock principles governing CPI-U rate adjustments become established.

For the reasons set out herein and in MMA's Initial Comments (IC) and Reply Comments filed in ACR2007, [2] the reduced First Class workshare discounts that the Postal Service has proposed to implement in this case are unlawful because they violate elementary principles of due process and are not consistent with the objectives and policies of PAEA. Rather than forcing Presort mailers to pay price adjustment amounts that cannot be charged to single piece due to the integer constraint, the Postal Service should maintain the current Automation discounts and, instead, bank the revenue shortfall from single piece. Table 1 shows the resulting discounts and percentage price adjustments if the Postal Service had pursued this entirely reasonable course.

---

[1] *Notice Of Price Adjustment*, Docket. No. R2008-1, Notice And Order On Planned Rate Adjustments For Market Dominant Postal Products And Limited Classification Changes, issued February 14, 2008.

[2] *See* Initial Comments Of Major Mailers Association, dated January 30, 2008 (MMA ACR2007 IC), and Reply Comments Of Major Mailers Association, dated February 13, 2008 (MMA ACR2007 RC). In the interests of administrative economy, MMA hereby incorporates its ACR2007 Initial and Reply Comments by reference in this proceeding.

Table 1
First-Class Rates If Single Piece Revenue Shortfall Is Banked And Current Automation Letter Discounts Are Maintained (Cents)

First-Class Letter Category	Current Rates	Suggested Rates	Current & Suggested Rate Discounts	Proposed Increase
Single Piece	41.0	42.0		2.40%
Mixed AADC	36.0	37.0	5.0	2.78%
AADC	34.1	35.1	6.9	2.93%
3 Digit	33.4	34.4	7.6	2.99%
5 Digit	31.2	32.2	9.8	3.21%
Total Auto Letters				3.02%
Total Auto Flats				-1.14%
Total Automation				**2.87%**

As Table 1 shows, Single Piece would still be increased by 2.4%, as the Postal Service proposes, and Automation rates would increase by exactly 2.9%, the indicated CPI-U increase.

The Postal Service ***should have*** taken special care to make sure that the results of apportioning the additional revenue responsibility were as fair as possible to all concerned. Unfortunately, the Postal Service's proposed rate adjustments for First Class, particularly First Class workshare mail, demonstrate that the Postal Service failed to carefully balance all applicable objectives that must be considered in rate adjustment filings pursuant to PAEA. Accordingly, the Postal Regulatory Commission (Commission) can and should provide leadership and appropriate guidance to the Postal Service.

1. Overview Of USPS Proposed Rate Adjustments For First Class Mail

The Postal Service is proposing to adjust rates by approximately 2.9%, the change in the CPI-U index for the most recent twelve months. For First Class, the Postal Service proposes to increase the basic single piece rate by one penny, to 42 cents. It also proposes to reduce the discounts that workshare mailers earn for Automation letters by as shown in Table 2.

Table 2
Comparison of Current and USPS Proposed Automation Letter Discounts (Cents)

First-Class Letter Category	Current Rate Discounts	USPS Proposed Rate Discounts	USPS Proposed Change
Nonautomation Mach	3.7	2.6	(1.1)
Mixed AADC	5.0	5.1	0.1
AADC	6.9	6.9	0.0
3 Digit	7.6	7.4	(0.2)
5 Digit	9.8	9.6	(0.2)

The 1-cent increase in the basic single piece rate represents an adjustment of 2.4%, almost ***20% less*** than the overall 2.9% adjustment. In contrast, the resulting increase to the rates paid by First Class Automation letters is 3.5%, ***20% more*** than the overall adjustment. The Postal Service characterizes the single piece rate adjustment as "slightly less than CPI" and characterizes the increase for presort as "a modest above-the-cap increase." *See* USPS Adjustment Notice at 13. Notwithstanding the Postal Service's euphemistic mischaracterizations of what is being done here, the First Class presort product is faced with a percentage rate increase that is 46% more than First Class single piece. In essence, the Postal Service is proposing to transfer additional revenue responsibility of approximately $85 million[3] from First Class single piece letters to Presort letters.

The Postal Service justifies a below average increase for First Class single piece because single piece rates are subject to an integer constraint. It apparently justifies increasing rates for presort by a disproportionate amount based on the cost savings developed in its ACR2007 filing and PAEA's general dictum that workshare discounts should not exceed avoided costs.[4] The Postal Service's ACR2007 presort cost savings do not provide any logical or factual reason for reducing presort discounts at this time; they are unreliable for several reasons. Under these circumstances, the Postal Service should bank the difference between (a) the estimated revenues from single piece mail if it paid the full 2.9% CPI-U rate increase, and (b) the estimated revenues from single

3 See Exhibit I

4 The Postal Service proposes a limited exception for 5-digit Automation Letters. *See* USPS Adjustment Notice at 26-27. To its credit, the Postal Service has also proposed reducing the additional ounce rate for presorted letters, from 17 cents to 12.5 cents. *Id*. at 13.

piece at the first ounce rate of 42 cents. This amount to be banked is approximately $71 million.[5]

2. The Special Circumstances Of First Class Require Special Application Of CPI-U Rate Adjustments

Unique circumstances in First Class warrant extra careful treatment of CPI-U rate adjustments. First Class is the only mail class for which a very substantial portion of the potential revenues is subject to the integer constraint. In the context of percentage increases based upon changes in cost indices, it is unlikely that application of the indicated percentage increase to the currently effective basic rate will ever result in exactly a full cent increase for single piece. Therefore, unless there is another reason to shift some of the remaining revenue responsibility to another subclass, the Postal Service should bank the difference so that it can be collected from single piece mailers in future CPI-U rate adjustments. The amount banked in R2008-1 for First-Class Single Piece should be approximately $71 million, ***a mere 0.465% of total First Class revenues***.

3. The Postal Service's ACR2007 Cost Savings Are Understated

The Commission has asked the Postal Service to provide specific support for workshare discounts where the passthroughs *exceed* 100% of the related cost savings. *See* Commission Information Request No. 1, issued February 26, 2008 (CIR No. 1). MMA recognizes the need for such support but respectfully submits that the Commission is putting the passthrough "cart" before the cost savings "horse." The Commission should not merely ***assume***, as CIR No. 1 mistakenly does, that the ACR2007 cost savings are reasonable and accurate. ***Unless and until the Commission has satisfied itself that the cost savings have been measured accurately, there is absolutely no basis for concluding that particular discounts exceed the avoided costs.***

In fact, all relevant evidence indicates that the cost savings derived in ACR2007 are demonstrably inaccurate; if anything, the cost savings are substantially higher than the current Automation letter discounts. Accordingly, the Commission should be asking the

[5] See Exhibit I

Postal Service to explain why the adjusted lower discounts it is proposing pass through significantly less that the associated cost savings.

MMA demonstrated (ACR2007 IC at 6 -7; Attachment I) that the Postal Service made numerous, unexplained changes to the model inputs used to derive presort cost savings. These input changes had a *material* impact on the derived cost savings. As Table 3 shows, if the Postal Service had not made these changes, the derived cost savings for 3-digit and 5-digit Automation Letters would be higher by 0.1 and 0.2 cents, respectively, than the cost savings derived by the Postal Service.[6]

Table 3
Comparison of First-Class Bulk Discounts
(Cents)

First-Class Letter Category	Current Rate Discounts	Discounts Based on ACR2007 Model Inputs	Discounts Based on R2006-1 Model Inputs	USPS Proposed Rate Discounts
Benchmark (BMM)				
Nonautomation Mach	3.7	5.2	5.6	2.6
Mixed AADC	5.0	5.1	5.0	5.1
AADC	6.9	6.9	6.9	6.9
3 Digit	7.6	7.4	7.5	7.4
5 Digit	9.8	9.5	9.7	9.6

In other words, but for these changes, which no party has been allowed to review or question, the derived cost savings would have been higher by 0.1 cents for 3-digit letters and by 0.2 cents for 5-digit letters. Such differences are extremely significant. It simply is not acceptable that the Postal Service has refused to provide any explanation or support for these changes.

The problem with the Postal Service's cost savings is that the Service has not offered *any* explanation for these changes, much less the substantive support that should be required before the Commission can rely upon the resulting cost savings. MMA, Pitney Bowes Inc. (PB) and National Association Of Presort Mailers all expressed

[6] Table 3 also shows that, under the Commission's R2006-1 methodology, the cost savings for mixed AADC letters is 0.1 cent lower than the Postal Service's revised ACR2007 "methodology." The difference is attributable to the fact that, according to the Postal Service, delivery cost savings for this rate category were ***negative*** 0.14 cents. Such obviously nonsensical results cannot be used to reduce presort discounts.

concern about the Postal Service's model updates. *See* PB ACR2007 IC at 6-7; NAPM ACR2007 IC at 3-4. Nevertheless, despite the fact that MMA identified the model inputs changed by the Postal Service and quantified the net impact of all such changes on derived cost savings, the Postal Service failed to provide even a scintilla of support for the changes in its February 13, 2008 Reply Comments. ***Significantly, in its ACR2007 Reply Comments, the Postal Service did not quarrel with the MMA's analysis of the impact of these numerous changes on the derived cost savings.*** It has simply refused to supply any relevant information about these changes.[7]

MMA recognizes that, after making this correction to reverse the impact of unexplained model input changes, the cost savings for 3-digit and 5-digit Automation Letters are both 0.1 cent less than the current discounts. There may be a very rational reason for these minor differences. As MMA and several other parties discussed in the Initial Comments filed in ACR2007, there is a basic mismatch between the derived cost savings which were based on volumes from the 2007 Postal Fiscal Year (PFY) and rates that reflected rates from the R2005-1 and R2006-1 omnibus rate proceedings under the Postal Reorganization Act (PRA) and the discounts which are intended to be effective for the twelve month period beginning May 12, 2008. MMA did not quantify the impact of, or attempt to correct for, this mismatch. Nevertheless, it is reasonable to conclude that, after making proper adjustments, the resulting cost savings might be at least 0.1 cents higher. In this regard, the cost savings derived from FY 2007 cost data will certainly increase by the time the proposed rate changes will take effect, over halfway through PFY 2008. Using the change in the average clerk-mailhandler wage rate between FY 2007 ($35.912) and R2006-1 TY 2008 ($38.185), cost savings could be expected to increase by approximately 6.3%.

All of these facts support retention of the existing presumptively lawful discounts ***established in R2006-1 less than one year ago.***

[7] The Postal Service's decision to update model inputs has done absolutely nothing to increase the mail flow models' accuracy. In fact, the variance between the model-derived unit costs and actual CRA costs is even larger. In ACR2007, reconciling the model-derived costs to the CRA requires use of a **1.616** CRA Proportional Adjustment factor. By comparison, the CRA Proportional Adjustment factor used by the Commission in R2006-1 was only **1.301**. In other words, the difference between the model-derived and CRA unit costs has grown from 30% in R2006-1 to over 60% in ACR2007. ***Therefore, updating the model inputs has made the models even more inaccurate than they were less than a year ago***.

4. The Real Cost Savings Are Significantly Higher When Two Fundamental Flaws In The Commission's R2008-1 Methodology Are Corrected

MMA's Initial Comments in ACR2007 identified two significant problems with the Commission's existing methodology for determining workshare cost savings that can and must be corrected to make the comparison of current workshare discount levels with cost savings reasonable.

a. Problems With Deriving Processing Cost Savings

In R2006-1, the Commission broke with its consistent past practice of using two CRA proportional adjustment factors to reconcile the theoretical cost results produced by the Postal Service's mail flow models with actual costs reported in the CRA and, without providing any explanation, simply accepted the use of one CRA adjustment factor.[8] This unfortunate break with consistent prior practice has produced nonsensical results and arbitrarily reduced mail processing cost savings due to worksharing. The fundamental flaw in the Postal Service's mail flow models that needs to be addressed and corrected is simply too obvious to ignore. ***The Postal Service models show that, if nonprebarcoded letters are prebarcoded, they cost more to process than the nonprebarcoded letters.*** This illogical result cannot withstand even the most elementary scrutiny. The ***only*** way to correct for this inherent problem with the existing models is to reconcile the model-derived unit costs to actual costs ***separately*** for non-prebarcoded NonAutomation letters and prebarcoded Automation letters.

---

8 In its ACR2007 comments, MMA explained why it is not proper to use NAMMA delivery costs as a proxy for BMM delivery costs. Aside from the obvious unfairness of using the costs for a workshare category (NAMMA) to measure delivery cost savings due to worksharing, MMA pointed to a substantial difference in the model-derived costs for processing NAMMA and BMM letters, which everyone agrees should be virtually identical because both NAMMA and BMM are processed in the same manner. *See*. MMA ACR2007 IC at 11-14 In its ACR2007 Reply Comments, the Postal Service tried but failed to explain away the material different processing costs. The Postal Service asserted that BMM and NAMMA costs are so different because Metered Mail Letter costs that the Commission uses as a proxy for BMM costs are overstated. Specifically, the Postal Service claimed that (1) MML contains nonmachinable letters and machinable letters whereas BMM is "is generally regarded to be machinable" and (2) MML costs include cancellation and meter prep costs. USPS ACR2007 RC at 13. The Postal Service is wrong on both counts. First, MML and BMM are both generally considered to be machinable. Moreover, what the Postal Service's argument ignores is the fact that a substantial and growing percentage of MML consists of prebarcoded Courtesy Reply Mail (CRM). Like QBRM, prebarcoded CRM bypasses the entire Remote Barcode System, resulting in considerable savings. Second, cancellation and meter prep costs amount to a 0.67 cents per piece difference. Obviously, these small costs cannot explain the 3.5 cent, 48% differential between NAMMA (7.27 cents) and BMM (10.75 cents) adjusted unit costs.

Table 4
Summary of Corrections to the USPS ACR2007 Derived Letter Cost Savings
(Cents)

	[1]	[2]	[3]	[4]	[5]
First-Class Workshared Category	**USPS ACR2007 Cost Savings**	**Elimination of USPS Model Input Updates**	**Correction To Delivery Cost Savings**	**Correction to Mail Processing Cost Savings**	**Cumulative Corrected Cost Savings [1]+[2]+[3]+[4]**
Auto Mixed AADC	5.06	-0.11	0.65	0.23	5.84
Auto AADC	6.90	-0.05	0.58	0.19	7.62
Auto 3-Digit	7.37	0.17	0.57	0.18	8.29
Auto 5-Digit	9.50	0.20	0.55	0.12	10.37

b. Problems With Deriving Delivery Cost Savings

In R2006-1, the Commission improperly disregarded actual data regarding Delivery Point Sequencing (DPS %) - the percentages of workshared letters that are successfully processed on automation. The result of turning a blind eye to actual data was a wholly artificial reduction in delivery cost savings due to worksharing. *See* MMA ACR2007 IC at 15-17.[9] Failure to give proper regard to readily available actual DPS % data also produced patently nonsensical results, such as the entirely counter intuitive ***negative*** delivery cost savings that the Postal Service's shows for mixed AADC letters, using the Commission R2006-1 methodology. Column 3 of Table 4 shows what happens when the Postal Service's erroneous ACR2007 cost savings are corrected just for the Commission's failure to reconcile the model-derived DPS %s to actual DPS %s.

Column 5 of Table 4 shows the cumulative cost savings that result from reversing the Postal Service's untested model inputs and making the methodological corrections to the derivation of processing and delivery cost savings discussed above.

[9] The Postal Service (USPS ACR2007 RC at 13) has suggested that ignoring actual DPS % and using theoretical DPS %s instead is somehow consistent with the Commission's practice in the last four omnibus rate cases. The short answer to that argument is that actual DPS %s did not become available until the R2006-1 case. Accordingly, the Commission and parties had to rely upon theoretical DPS %s in R2000-1. R2001-1 and R2005-1 were settled. The Postal Service's claim that the Commission relied upon theoretical DPS %s in those cases violates the specific terms of those settlements. *See*. e.g. *Postal Rate And Fee Changes,* Docket No. R2005-1, Stipulation and Agreement, dated July 22, 2005, p. 7, ¶ 13 and 14. Moreover, the actual DPS %s prove that the theoretical DPS %s are too high. This, in turn, causes the models to overstate the percentage of letters that can be processed by automation and explains why the models consistently produce derived unit mail processing costs that are significantly understated.

Finally, as Table 5 shows, the cumulative corrected cost savings (shown in Column 5 of Table 4) exceed the current discounts by a wide margin and the passthroughs for all Automation Letter categories are well below 100%.

Table 5
Comparison of Current Automation Letter Discounts and Corrected Cost Savings, Including No Model Input Changes As Provided by the Postal Service in ACR2007
(Cents)

First-Class Workshared Category	Current Discounts	Corrected Cost Savings	% Passthrough
Auto Mixed AADC	5.0	5.8	86%
Auto AADC	6.9	7.6	91%
Auto 3-Digit	7.6	8.3	92%
Auto 5-Digit	9.8	10.4	95%

MMA has not presented these analyses to support increasing the current discounts in this price adjustment proceeding. Rather, MMA wants the Commission ***and the Postal Service*** to realize that the Service's "case" for lower cost savings in ACR2007 and a reduction in the discounts in this proceeding is a flimsy house of cards that collapses under even the most cursory scrutiny. The point that the Commission should take away from these comments is that the Postal Service's ACR2007 cost savings are far from the precise measurement that the Commission apparently believes them to be.

5. The Postal Service's Reduced Discounts For First Class Presort Mail Are Not Consistent With The Objectives, Factors And Policies Of PAEA

PAEA § 3622 (b) sets forth the following objectives of the modern system of ratemaking for market dominant products:

(1) To maximize incentives to reduce costs and increase efficiency.

(2) To create predictability and stability in rates.

(3) To maintain high quality service standards established under section 3691.

(4) To allow the Postal Service pricing flexibility.

(5) To assure adequate revenues, including retained earnings, to maintain financial stability.

(6) To reduce the administrative burden and increase the transparency of the ratemaking process.

(7) To enhance mail security and deter terrorism.

(8) To establish and maintain a just and reasonable schedule for rates and classifications, however the objective under this paragraph shall not be construed to prohibit the Postal Service from making changes of unequal magnitude within, between, or among classes of mail.

(9) To allocate the total institutional costs of the Postal Service appropriately between market-dominant and competitive products.

The Postal Service's proposal to reduce presort discounts runs counter to several of these objectives.

Presort mail in general, and Automation mail in particular, is the postal equivalent of the Aesop's fabled Goose that laid the Golden Eggs. First Class Automation letters are by far the most profitable product offered by the Postal Service, generating almost $3.00 in revenues for every $1.00 the Postal Service incurs to perform this service. Moreover, First Class Automation mail contributes 21.1 cents per piece to recovery of institutional costs, almost 20% more than the unit contribution made by Single Piece mail (17.7 cents), even though Automation mail pays a lower effective rate. This disparity in the unit contributions of these two products indicates that workshare mailers already are bearing a disproportionate share of the revenue responsibility apportioned to First Class.

Like Aesop's Golden Goose, First Class workshare mailers have enriched the entire postal system. In recent years, First Class workshare mailers have played an increasingly important role in ensuring the financial health of the Postal Service and achievement of other Postal Service goals. As Single Piece volumes plummeted, growth in the volume of the much more profitable Automation letter mail has helped to offset the loss of single piece revenues. *See* MMA ACR2007 IC at 9.

Nevertheless, we all know what happened to Aesop's Golden Goose. The Postal Service and Commission must take all reasonable and responsible steps to avoid killing off the workshare mail program. While Presort is still a very valuable resource to mailers and the entire postal system, workshare mail volumes are not immune to the contraction experienced in single piece. In this regard, the Postal Service's latest RPW

Report[10] is extremely relevant to the core issues presented here. The RPW report shows that, compared with the same period last year, not only have single piece volumes declined precipitously, by 6.2%, but bulk First Class volumes are down by 1.8%. Since the first quarter includes Christmas and is normally a period when volumes are highest, these results are especially alarming.

Workshare mailers have made, and continue to make, significant investments in basic infrastructure, equipment, software systems and employee education in order to qualify as much of their mail as possible for the highest discount categories. In that regard, 90% of total Automation letters qualify for the 3-digit or 5-digit discounts. For these mailers, trends in the movement of Automation discounts are very important to their willingness to continue participating in the Presort program. Perhaps even more important are mailers' ***perceptions*** about the likely future changes in discount levels. These mailers are rational, risk averse and very aware that mail is only one of several methods they can use to communicate with their customers. These mailers simply cannot continue making the significant investments necessary to participate in the Presort program unless there is a reasonable certainty that postal rates will change in a predictable manner and they have confidence that the procedures for setting postal rates and discounts are rational and transparent. The Postal Service's refusal to offer any explanation for the numerous changes in the mail flow model inputs and its willingness to reduce discounts with impunity will not instill confidence in workshare mailers. If the Commission fails to hold the Postal Service to even the barest minimum standards of due process, workshare mailers will have no choice but to conclude that this bold new experiment with a modern system of ratemaking is a sham. Being rational business people, they will begin voting with their feet and leave the workshare program as soon as they can. Such a result will leave the postal system a mere shadow of the vital system it is today.

In terms of the PAEA factors, the Postal Service proposal to reduce Presort discounts, especially the discounts for 3-digit and 5-digit Automation letters, obviously

---

[10] Preliminary Revenue, Pieces and Weight by Classes of Mail and Special Services for Quarter 1, FY 2008 (Oct. 1, 2007-Dec. 31, 2007) Compared with the Corresponding Period of FY 2007, dated February 29, 2008, dated February 29, 2008.

runs afoul of Objective 8 - maintaining a just and reasonable rate schedule – because workshare mailers, who already bear a disproportionate share of the revenue responsibility in First Class, are being forced to assume additional revenue responsibility that cannot be assigned to single piece due to the integer constraint, based solely upon highly questionable methodological changes that the Postal Service has failed to justify.

The Postal Service proposal is also contrary to Objective 1 – maximizing incentives to reduce costs and increase efficiency – because basing discounts on suspect changes in model inputs is likely to result in having the Postal Service do work that workshare mailers can do much more efficiently and at a lower cost. Such inefficient practices will raise postal costs unnecessarily, fail to provide workshare mailers with discount incentives commensurate with the cost savings the Postal Service enjoys, and result in an inefficient allocation of valuable societal resources.

The goals of Objective 2 – creating stable and predictable rates – and Objective 6 – increasing transparency in the ratemaking process -- are not achieved by rates based upon numerous, unexplained changes from the Commission's R2006-1 cost savings methodology and, in the case of QBRM, use of a methodology that the Commission rejected outright in R2006-1. The Postal Service's cost savings calculus is the antithesis of transparent ratemaking. Rate setting methods that the Postal Service fails to even explain, much less support, cannot help but produce rates that are inherently unstable and unpredictable.

Finally, at least in the longer term, achievement of Objective 5 -- assuring adequate revenues to maintain financial stability – could be jeopardized by workshare mail rates that are unpredictable. Essentially "black box" rates like those proposed here can easily cause workshare mailers to move their mail to other electronic alternatives that have more predictable and controllable costs.

PAEA § 3622 (c) sets out 14 "Factors" that the Commission must take into account in establishing or revising the modern system of ratemaking. The Factors that appear to be most relevant here are Nos. 1-3, 5, 11 and 13, for reasons discussed above. In addition, the high profitability of the Presort product, particularly Automation letters, makes it possible for the Postal Service to enjoy the financial security that advances achievement of the important goals underlying several other PAEA Factors.

In addition to specific Objectives and Factors, there are workshare-related provisions of PAEA § 3622 (e) that need to be addressed. Congress was careful, and wise, to insure that workshare discounts would not have to be reduced if doing so would injure workshare mailers and/or the postal system's financial well being. Therefore, PAEA provides that workshare discounts need not be reduced even when they exceed avoided costs if the discount is

1. necessary to induce mailer behavior that furthers the economically efficient operation of the Postal Service and the portion of the discount in excess of the cost that the Postal Service avoids as a result of the workshare activity will be phased out over a limited period of time. § 3622 (e) (2) (A) (ii)
2. the amount of the discount above costs avoided— (i) is necessary to mitigate rate shock; and (ii) will be phased out over time. § 3622 (e) (2) (B); or
3. reduction of the discount would impede the efficient operation of the Postal Service. § 3622 (e) (2) (D).

Finally, § 3622 (e) (3) contains the following limitation on the general requirement that discounts cannot exceed avoided costs:

> LIMITATION.— Nothing in this subsection shall require that a work share discount be reduced . . . if the reduction . . . of the discount would—
>
> (A) lead to a loss of volume in the affected category or subclass of mail and reduce the aggregate contribution to the institutional costs of the Postal Service from the category or subclass subject to the discount below what it otherwise would have been if the discount had not been reduced or eliminated; or
>
> (B) result in a further increase in the rates paid by mailers not able to take advantage of the discount.

In the instant Price Adjustment Notice, the Postal Service has proposed to reduce the discount for 5-digit Automation letters by 0.2 cents (from 9.8 to 9.6 cents) rather than by 0.3 cents to 9.5 cents, the level indicated by the Service's derived cost savings in ACR2007. *See* USPS Price Adjustment Notice at 26. It has justified that departure from the general rule "on the basis that it is necessary to induce mailer behavior that furthers the economically efficient operation of the Postal Service through an incentive to create more efficiently-handled mailings." Id. at 26-27.

MMA agrees with the Postal Service that it is appropriate to maintain the current 2.2 cents differential between the 3-digit and 5-digit discounts. Indeed, as Table 3 (*supra*, p. 5) shows, if the Postal Service had acted reasonably and not tried to confuse things by injecting numerous model "updates" that it has failed to explain, the indicated 100 % passthrough discounts for 3-digit and 5-digit would naturally maintain the same 2.2 cent differential that the Postal Service must make a special exception for using its flawed ACR2007 cost savings.

What is missing from the Postal Service's Price Adjustment Notice is a frank discussion of why, given the unique circumstances of this case and ACR2007, it is not reasonable or necessary to maintain the existing discounts. In this regard, conspicuously absent from the USPS Price Adjustment Notice is any assessment of the adverse impacts[11] that that reducing the Automation letter discounts in the manner and to the extent proposed will have upon workshare mailers and, concomitantly, the Postal Service's efforts to achieve its efficiency goals and minimize costs. Also absent from the Postal Service's Price Adjustment Notice is any suggestion, much less a well-reasoned demonstration, that reducing the discounts will not lead to a loss of volume in the affected workshare categories and/or reduction in the aggregate contribution to the institutional costs of the Postal Service from the affected categories below what they otherwise would have been if the discount had not been reduced.

Arbitrarily reducing the discounts under the unique transitional circumstances of this case undoubtedly will send exactly the wrong message to workshare mailers. Mailers look to the Postal Service to demonstrate leadership and make sound business judgments. It appears, however, that the Postal Service has failed workshare mailers in this case. It apparently has become mesmerized by its own untried cost savings methodology (despite the fact that it cannot explain why the numerous input changes are necessary or reasonable) and opted for adherence to the unfortunate consequences of that flawed methodology rather than exercising the leadership that Congress intended it do.

[11] *See* also MMA ACR2007 RC at 4 (discussing the rate shock in store for QBRM recipients who are facing more than a 20% reduction in the discount (from 3.0 to 2.3 cents) based on the Postal Service's improper use of a cost savings methodology rejected by the Commission in R2006-1).

CONCLUSION

For all of the foregoing reasons and those set forth in MMA's comments in ACR2007, the Commission should find that the Postal Service's proposal to reduce First Class Presort discounts is not consistent with sound ratemaking principles or the policies and principles embodied in PAEA and, therefore, unlawful. Instead of reducing First Class workshare discounts, the Postal Service should bank approximately $71 million, which represents the amount of the 2.9% price adjustment that cannot be collected from single piece due to the integer constraint. Doing so will produce rates that meet the just and reasonable standards of PAEA.

Respectfully submitted,

Major Mailers Association

By: ______________________________

Michael W. Hall
35396 Millville Road
Middleburg, Virginia 20117
540-687-3151

Counsel for
Major Mailers Association

Dated: Middleburg, Virginia
March 3, 2008

Computation of Revenue Transfer Between Single Piece Letters and Automation Letters
($000)

				If Equal Increases	
First-Class Letter Category	Revenue @ Current Rates	Revenue @ Proposed Rates	Proposed Revenue Increase	Proposed Revenue Increase	Transfer of Revenue Required
Single Piece	15,199,114	15,569,238	370,124	15,654,049	(84,811)
Automation	15,766,023	16,322,738	556,715	16,237,927	84,811
Total	30,965,137	31,891,976	926,839	31,891,976	-

Source: CAPCAL-FCM-FY2008v4

Compution of "Banked" Revenue from First-Class Single Piece If Raised By 2.9%
($000)

First-Class Category Letter	Revenue @ Current Rates	Revenue @ Proposed Rates	Revenue @ 2.9% Increase	Amount of "Banked" Revenue	% of Rev @ Current Rates
Single Piece	15,199,114	15,569,238	15,639,888	70,651	0.465%

Source: CAPCAL-FCM-FY2008v4