

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

Annual Compliance Report, 2008

Docket No. ACR2008

REPLY COMMENTS OF PITNEY BOWES INC.

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I. INTRODUCTION

Pitney Bowes Inc. (Pitney Bowes) respectfully submits these reply comments concerning the Postal Service's Annual Compliance Report (ACR) for Fiscal Year 2008 (FY 2008), filed by the Postal Service on December 29, 2008. *See* PRC Docket No. ACR2008, Annual Compliance Report, 2008; PRC Order No. 161, Notice of Filing of Annual Compliance Report by the Postal Service and Solicitation of Public Comment (issued December 31, 2008).

II. DISCUSSION

A. The Postal Service Should Provide Pricing Incentives for Efficient, Low Cost, Secure Single-Piece First-Class Mail

Stamps.com urges the Postal Service to provide pricing incentives for efficient, low cost, secure Single-Piece First-Class Mail. Pitney Bowes has consistently advocated in favor of deaveraging the price of Single-Piece First-Class Mail letters to extend the benefits of worksharing to small business and consumer mailers who purchase postage or present mail in a manner that improves the efficiency and reduces the costs of the Postal Service, such as by using kiosks, postage meters, and on-line postage. *See* PRC Dkt. No. R2000-1, Direct Testimony of John Haldi (PB-T-2) Concerning Proposal to Institute a Discount for First-Class Single Piece Metered Mail on Behalf of Pitney Bowes Inc., (May 22, 2000); PRC Dkt. No. R2006-1, Revised Direct Testimony of Lawrence G. Buc (PB-T-3) on Behalf of Pitney Bowes Inc. (November 6, 2006).

Deaveraging Single-Piece First-Class Mail rates would allow the Postal Service to exercise its pricing flexibility to establish prices that better reflect costs and promote efficient behavior within this important segment of the mailstream. For example, under a deaveraged Single-Piece pricing structure the Postal Service could use its pricing flexibility to promote: enhanced address hygiene, widespread adoption of Intelligent Mail barcodes and information-

based indicia for small mailers, avoided transaction costs via the use of alternative retail postage sales channels, and enhanced mailstream security via sender-identified mail.

Stamps.com observes that the statutory objectives and factors of the modern ratemaking system under the Postal Accountability and Enhancement Act (PAEA) support a pricing incentive for efficient, low cost, secure Single-Piece First Class Mail.¹ *See* Stamps.com Comments at 2-4. Pitney Bowes agrees. The first objective of section 3622(b) is to maximize incentives to reduce costs and increase efficiency. *See* 39 U.S.C. § 3622(b)(1). As Pitney Bowes has consistently and repeatedly urged, this objective may be realized by introducing an expanded retail access discount for Single-Piece First-Class Letter Mail first-ounce postage evidencing purchased through retail sales channels (e.g., kiosks, postage meters, on-line postage) that avoid the transaction costs incurred by stamps sold at Postal Service retail windows. Deaveraging the cost of postage evidencing across retail sales channels would promote efficiency and reduce costs. A pricing incentive of this nature would represent the first “universal” workshare discount because it could be made available to small business and consumer mailers without regard to minimum volumes. Further, such an incentive would be environmentally beneficial to the extent that it induces mailers to forego trips to Post Offices and reduces the Postal Service’s building energy use.

Pricing incentives for information-rich, secure Single-Piece First-Class Mail would likewise satisfy the statutory objective of section 3622(b)(7) to enhance mail security and the statutory factor of section 3622(c)(13) to promote the value of intelligent, secure, sender-identified mail. *See* 39 U.S.C. §§ 3622(b)(7), 3622(c)(13). Current kiosk, postage meter, and on-line postage technologies allow for the preparation of an information-rich, secure Single-

¹ *See* Pub. L. No. 109-435, 120 Stat. 3198 (Dec. 20, 2006). The PAEA amends various sections of title 39 of the United States Code. Unless otherwise noted, section references in these comments are to sections of title 39.

Piece First-Class Mail mailstream which would enhance mail security, deter terrorism and protect the critical infrastructure of the mailstream. These technologies also improve mail security by preventing revenue fraud. A pricing incentive for secure, sender-identified Single-Piece First-Class Mail would induce small business and consumer mailers to use the most secure payment evidencing technologies.

Similarly, the Postal Service should use its pricing flexibility to promote an information-rich Single-Piece First-Class Mail mailstream. Increased visibility into the Single-Piece First-Class Mail mailstream will help the Postal Service improve operational efficiency and reduce costs. Pricing incentives that encourage the expansion of an information-rich mailstream to small business and consumer mailers will drive the benefits and efficiencies of technology to a broader segment of the mailing community which ultimately inures to the benefit of the entire postal system.

A pricing incentive for small business and consumer mailers who prepare efficient, low cost, secure Single-Piece First-Class Mail would also satisfy section 3622(c)(5), the statutory factor pertaining to the degree of preparation of the mail for delivery into the postal system and the effect of the mailer activities in reducing postal costs. *See* 39 U.S.C. § 3622(c)(5).

For all of these reasons, Pitney Bowes strongly supports deaveraging the price of Single-Piece First-Class Mail letters to extend the benefits of worksharing to small business and consumer mailers who purchase postage or present mail in a manner that improves the efficiency, reduces the costs and energy use of the Postal Service, and that promotes a greener mail stream.

B. The Postal Service’s Decision to Delink Single-Piece First-Class Mail From Presort First-Class Mail is Appropriate and Consistent with the PAEA, the Proposed Mail Classification Schedule, and Commission Precedent

APWU asserts that the workshare discounts for First-Class Mail Presort Letters presented by the Postal Service in the FY08 ACR “do not comply with the requirements of the PAEA[.]” on the basis of its assumption that rate differentials between Single-Piece First-Class Mail and Presort First-Class Mail are subject to the statutory limitation imposed on workshare discounts under section 3622(e). APWU Comments at 1; 39 U.S.C. § 3622(e). This is incorrect.

Section 3652(b) requires the Postal Service to report information relating to workshare discounts “with respect to *each market-dominant product* for which a workshare discount was in effect during the period covered by such report[.]” 39 U.S.C. § 3652(b)(emphasis added). Presort First-Class Mail and Single-Piece First Class Mail are two separate products under the proposed Mail Classification Schedule. *See* PRC Dkt. No. RM2007-1, United States Postal Service Submission of Initial Classification Schedule in Response to Order No. 26 (September 24, 2007). The relationship between two distinct products is analogous to separate “subclasses” under the prior rate structure. Consistent with the Commission’s long-standing practice, the ACR workshare-related cost avoidances presented in this ACR have been measured within a given product (subclass), but not among or across different products (subclasses). Under the PAEA, the Commission has previously approved rate differentials based on this approach (over APWU objections the same as in this docket) involving the very same products. *See* PRC Dkt. No. R2008-1, Order No. 66, at 22 (March 17, 2008) (holding that de-linked rate structure

