

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

**Consideration of Workshare Discount
Methodologies**

Docket No. RM2009-3

Initial Comments Of Major Mailers Association

By Order No. 192¹, issued March 16, 2009, the Postal Regulatory Commission (PRC or Commission) instituted this rulemaking proceeding to “to examine methodologies underlying the calculation of workshare discounts.” Order No. 192 at 1. As the Commission indicates (Order No. 192 at 3), the primary purpose of this proceeding is to provide the Postal Service and other interested parties “an opportunity to address the legal, factual, and economic underpinnings” of the methodologies used by the Postal Service to develop discounted rates for First Class and Standard Mail in R2009-2.

Major Mailers Association (MMA) appreciates the opportunity afforded by the Commission to address these critically important rate design matters. MMA’s Initial Comments are focused primarily on supporting the Postal Service’s methodology for deriving the discounted rates for First Class bulk mail.²

MMA expects that the Postal Service and other parties will explore at length the legal and economic justifications for the Postal Service’s discounted rate methodology for First Class Presort. In this regard, MMA has reviewed and generally agrees with the legal, factual, economic and policy considerations set forth in the Initial Comments of National Postal Policy Council. Accordingly, in the interests of administrative economy,

¹ *Consideration of Workshare Discount Methodologies*, Docket No. RM2009-3, Notice Of Proposed Rulemaking On Application Of Workshare Discount Rate Design Principles, issued March 16, 2009, 74 Fed. Reg. 12295 (March 24, 2009) (Order No. 192).

² At the outset, MMA needs to correct the Commission’s erroneous impression that MMA is opposed to the methodology underlying the Postal Service’s discounted rates for First Class bulk mail presented in R2009-2. In Order No. 192 (at 1, fn 3), the Commission mistakenly classified MMA as one of the parties that opposed the Postal Service’s R2009-2 rate discounts. The Commission’s mistake apparently is based upon MMA’s January 30, 2009 Initial Comments in ACR2008. Of course, at that time the Postal Service had not even filed the rates it proposed in R2009-2. Those rates were proposed in the Notice Of Price Adjustment filed on February 10, 2009. In fact, MMA filed no comments in R2009-2.

MMA will focus on practical considerations and basic operational differences that warrant separate pricing treatment for First Class Single Piece and Presort Mail, which the Commission correctly recognized are separate products under the Postal Accountability and Enhancement Act (PAEA), over the objections of APWU.³

MMA's Operations And Interests In This Proceeding

MMA members are among the very largest mailers of First Class Presort mail. In order to handle consistently high volume mailings, MMA members have made, and continue to make, significant investments in cutting edge software, including sophisticated address correction programs, computer systems and mail handling equipment. As a result, these mailers produce the highest quality, most accurate mail pieces in the industry. MMA members also work closely with the Postal Service to test and adopt new postal service programs such as PostalOne!, which is designed to reduce postal costs by streamlining the mail acceptance process and routing high volume mailings to the least cost transportation mode, all with the aid of advanced electronic communications that eliminate cumbersome, expensive paper-based processes. Finally, several MMA members have made very significant investments in time and money to have their facilities and personnel certified under the Postal Service's Mail Piece Total Quality Management (MPTQM) program and related programs⁴ that assure their operations are as efficient as possible for the benefit of the Postal Service.

Many MMA members use First Class presort mail primarily to send service bills and account statements to their own customers. For them, mailing is not their core business, simply a tool they use to exchange information with, and receive payments from, their customers. Other MMA members perform mailing services where their mail

³ *Regulations Establishing A System of Ratemaking*, Docket No. RM2007-1, Order No. 43, issued October 29, 2007 at 102-04. MMA notes that in an October 31, 2007 Errata, the Commission struck paragraphs 4015 and 4016 as "duplicative." That correction did not alter the Commission's findings that the Postal Service's proposals to classify First Class single piece and presort as separate products "comply with the definition, and represent postal services with distinct cost or market characteristics" and that "the Postal Service has appropriately described product lines applicable to First-Class Mail." *Id.* at 104, paragraph 4017.

⁴ MMA members are also very involved in the design of mail pieces that must meet very stringent requirements dictated by the Postal Service's Mail piece Quality Control Program. Indeed, so knowledgeable are some MMA representatives that they instruct Postal Service personnel on the applicable mail piece design requirements.

owner clients have outsourced that function to them. Although mailing traditionally was the core business of these firms, this is changing rapidly. To continue providing valuable services for their clients, these firms increasingly have evolved by designing and offering electronic delivery of account statements and online bill presentation and payment options for their clients. In fact, their clients now **require** them to provide alternative electronic solutions. See R2006-1 Tr. 38/13190-191.

Fundamental Differences Between First Class Single Piece And Presorted Mail Support The Postal Service's Pricing Of These Two Distinct Products

A. Evolution Of The Presort Mail Market

The First Class workshared mail market has evolved since the Commission first adopted a 1-cent discount in MC73-1 based on cost avoidance principles. At that time, there were approximately 1.8 billion qualifying pieces, representing less than 0.5% of all First Class letter mail. See R2006-1, USPS-T-8 at 43 (Table 3, First Class Letters).

As the concept of workshare mail expanded and discounts grew over the next two decades, the volumes of First Class presorted mail grew dramatically. By FY 1995, when the Postal Service began the mail reclassification process in MC95-1, First Class workshared mail volumes had grown to 37.4 billion pieces, over 41% of all First Class letters. During this same time period First Class single piece letter volumes grew from 49.9 billion to just 56 billion pieces (1993), an anemic growth rate especially when compared to the robust growth rate of the workshare letter market. See, R2006-1, USPS-T-7 at 43-44.

Table I shows that the relationship between the markets for First Class single piece and presort mail has undergone a further dramatic change since FY 1995.

Table I
First-Class Volumes Since 1995

Fiscal Year	Single Piece Volumes (Mil)	Workshared Volumes (Mil)	Total Volumes (Mil)	Single Piece Proportion %	Workshared Portion %
1995	53,527	37,388	90,915	59%	41%
1996	53,848	37,998	91,846	59%	41%
1997	54,504	38,648	93,152	59%	41%
1998	53,936	40,421	94,357	57%	43%
1999	53,413	42,685	96,098	56%	44%
2000	52,370	45,676	98,046	53%	47%
2001	50,946	47,075	98,021	52%	48%
2002	49,253	47,658	96,911	51%	49%
2003	46,558	47,288	93,846	50%	50%
2004	45,162	47,334	92,496	49%	51%
2005	43,376	49,066	92,442	47%	53%
2006	41,930	49,862	91,792	46%	54%
2007	40,122	49,978	90,100	45%	55%
2008	36,716	49,163	85,879	43%	57%

As Table I shows, the proportion of First Class Mail represented by single piece has declined significantly, from 59% in 1995 to 43% in 2008, while the proportion of presort mail has increased from 41% to 57%. In terms of volumes, by the end of FY 2008, the relationship between single piece and presort was the mirror image of what it had been just 12 years before.

The Postal Service explained the latest disappointing results in its 2008 Annual Report:⁵

First-Class Mail revenue decreased \$226 million, or 0.6%, while volume decreased by 4.6 billion pieces, or 4.8%, in 2008. ***The revenue decrease occurred in spite of two price increases. . . . The most significant decline was in single-piece First-Class letters, with a decrease of over 3 billion pieces of mail.*** The long-term continued decline in single-piece volume reflects the impact of electronic diversion as businesses, nonprofit organizations, governments, and households continue to move their correspondence and transactions to electronic alternatives, such as Internet bill payment, automatic deduction, and direct deposit. The rate of decline accelerated significantly in 2008 as the economy weakened. Presorted First-Class Mail also decreased. This is a reflection of the general curtailment of advertising spending.

⁵ United States Postal Service Annual Report 2008 at 31 (emphasis added).

The Postal Service's most recent quarterly report to the Securities and Exchange Commission paints an even more dismal picture of the Single Piece market and its future prospects. As its Form 10-Q Report for the fiscal second quarter ended March 31, 2009 explains:⁶

While the economy is the major culprit for the current revenue and volume contraction, electronic diversion has also played a role in the current mail volume decline and remains a long term threat for the Postal Service. For example, in Quarter II the largest decline in First-Class Mail volume came from the U.S. Treasury, mostly the Internal Revenue Service. Americans are increasingly filing their tax returns electronically, including a 16.7% increase in e-filed tax returns by self-preparers this year, compared to the same period last year. Many of these filers will also receive refunds electronically.

* * *

First-Class Mail revenue decreased \$762 million or 7.8% in Quarter II, on a volume decline of 2.3 billion pieces or 9.9%, compared to the same period last year. Reflecting the economy, all subgroups under First-Class Mail experienced revenue and volume declines, with the exception of single-piece outbound international letters which had a minimal volume increase. Single-piece First-Class letters declined \$308 million or 8.6% on a decrease of 923 million pieces or 10.9% for the quarter compared to Quarter II 2008. ***This is the worst quarterly decline since Postal Reorganization in 1971.*** Single-piece First-Class Mail volume, including bills, statements, confirmations, orders, and rebates, has been in decline for over a decade. While price has some effect on First-Class Mail volume, in this environment the economy is the primary driver behind the volume decline with technology as a secondary driver. ***We anticipate any positive impacts of an economic recovery on single-piece First-Class Mail may be largely offset by the continuing technology-driven decline in single-piece First-Class.*** For the six months ended March 31, 2009, revenue for First-Class single-piece letters was \$7,108 million compared \$7,727 million for the same period last year, a decline of \$619 million or 8.0% on a volume decrease of 10.3%

In sum, the First Class workshared market looks *nothing* like it did when the first presort discount anchored in cost avoidance principles was implemented. Indeed, this market has changed dramatically just over the past decade.

⁶ Postal Service 10-Q Report at 18 (emphasis added).

It also appears that, while the Postal Service believes there is reason to expect that volumes of First Class presort mail will recover as the economy improves, a belief that MMA members share, it has no such optimistic expectation for single piece volumes. To the contrary, the Postal Service apparently expects any improvement in single piece will be offset by “the continuing technology-driven decline in single-piece.”

It may have been expedient to use a strict cost avoidance approach to setting prices for First Class presort mail when workshare discounts were first introduced and thereafter as the Presort market matured. However, in today’s environment and for the foreseeable future, it makes no sense to disregard the existence of other important cost drivers and cost sparing characteristics of presort mail in order to revert to an outmoded formula that links the rates of First Class Single Piece and Presort mail. This is especially true because, as MMA has argued for so long, the cost avoidance approach favored by the Commission before passage of PAEA is flawed, produces unreasonable results and significantly understates the true cost savings. To continue on that path would be the regulatory equivalent of having the Single Piece tail wag the Presort dog.

More importantly, continuing to shield First Class Single Piece mailers from the real costs of that product at the expense of Presort Mailers would not do any favors for Single Piece mailers in the long term. First Class Presort is the most profitable product the Postal Service offers. Temporary palliatives in the form of rate design policies that provide preferential treatment to Single Piece mailers will not serve to grow the Single Piece mail market, which is in a decade long decline for reasons that have little to do with the basic stamp price. However, such shortsighted regulatory policies definitely will send the wrong price signals to Presort mailers regarding the value of their worksharing contribution to Postal efficiencies as well as their contributions to the financial security of the Postal Service.

B. The Single Piece And Presort Markets Are Different By Design

Separate pricing for Single Piece and Presort mail is warranted because, by design and inherent day-to-day operational necessity, these are entirely different products. The key to these differences lies in the degree to which the Postal Service controls the two different mail products.

From the perspective of the mailer, Single Piece is by far the more flexible product because the Postal Service basically accepts whatever shape, color and style (hand addressed or typewritten) of letter the mailer presents at locations (collection boxes, rural residential mailboxes, and post office windows complete with courteous, knowledgeable Postal Service representatives to assist mailers) and at times that are convenient for the customer. Then, the Postal Service aggregates and “upgrades” the stream of single piece letters using its internal mechanisms and processes, including expensive high tech systems such as the Remote Barcode Sorting System (RBCS), so that the letters can be properly faced, trayed, barcoded, sorted as required, transported and delivered to the intended recipients in a timely fashion.

In stark contrast, the Presort mail product is subject to rigorous, pervasive controls that are vigorously enforced by the Postal Service. Control of Presort mailers begins with detailed, strict specifications that govern all aspects of mail piece design and production. As MMA witness David Gorham explained in R2006-1,⁷

Each new mailing application must be approved in advance by the Postal Service’s Mail Piece Design Analyst (MPDA) to ensure all automation requirements are met. This entails providing an actual pre-production sample of the proposed mail (piece including the insert) to the MPDA. The MPDA examines the sample to be sure that it meets all USPS requirements for mail piece design, including “reflectance,” paper and ink color, print quality, paper stock, and placement of the address and prebarcode. . . . If our sample mail piece is not approved, we must re-design the mail piece and re-apply to the MPDA until approval is obtained.

Equally stringent requirements apply to all the steps involved in preparing mailings for acceptance by the Postal Service – properly facing the mailpieces, insuring that each tray contains enough but not too many envelopes, sleeving and banding the trays, removing old and applying new Destination and Routing tags, entering the mail at specific times dictated by the Postal Service – in other words a myriad of tasks that postal employees routinely perform for Single Piece mailers, tasks for which Presort

⁷ R2008-1 Tr. 38/13188.

mailers receive no credit because they are conveniently subsumed in the unrealistic criteria for the BMM benchmark mailpiece used in calculating workshare cost savings.⁸

There are still other distinguishing requirements which the Postal Service can and has imposed upon Presort mailers but which simply would not work for Single Piece mailers. For example, over the last decade and a half, the Postal Service has exercised ever tighter control over address hygiene through increasingly complex regulations, specifically the Move Update Program, as part of which the Postal Service requires presort automation mailers periodically to match their mailing lists against the latest USPS address information in order to verify the accuracy of, and correct as necessary, the addresses, zip codes and prebarcodes used in their mailings. Initially, the Postal Service's Move Update Program required mailers to have successfully completed the address updating process within 185 days of a particular mailing. Effective November 23, 2008, the Postal Service tightened Move Update requirements even further by increasing the frequency of data matching from 185 days to 95 days. See 72 Fed. Reg. 55055 (September 28, 2007).

In 1998, an independent study commissioned by the Postal Service Office of Address Management at the National Customer Support Center in Memphis, Tennessee, reviewed problems caused by and efforts to reduce the volume and expense associated with undeliverable-as-addressed mail. See R2000-1 Library Reference USPS-LR-I-82 ("1998 UAA Study"). The 1998 UAA Study estimated that the Postal Service's Move Update programs saved the service over \$1.5 Billion in forwarding and return costs in FY 98 alone. Obviously, the Postal Service's new requirement that Presort mailers increase the frequency of address matching is an effort to squeeze even greater savings from the Move Update process. Significantly, single piece mailers are not subject to any of the Postal Service's Move Update requirements and therefore cannot deliver the substantial savings that Presort mailers have year-in and year-out.

There can be no argument that better addresses and more accurate prebarcodes contribute to the lower costs exhibited by Presort Mail. Yet under the narrow pre-PAEA

⁸ Appendix A contains a more complete flow oriented description of the numerous tasks that Presort mailers perform for the Postal Service day in and day out and the same tasks that postal service employees must perform for Single Piece mailers.

formula for calculating workshare cost savings, Presort mailers received no credit in discounts for their extraordinary efforts in reigning in UAA costs. Under PAEA and specifically under a rate setting regime that recognizes inherent cost differences between distinct products, these cost sparing efforts can and should be rewarded. Obviously, the goal of the Postal Service's Move Update Program is not simply to have more accurate addresses for postal clerks to read. Rather, the goal is to optimize the accuracy and reliability of the prebarcode that Presort mailers apply to each outgoing piece so this mail can be successfully handled by automated sorting equipment from induction into the postal system through the delivery point sequencing function.⁹

Volume is another significant cost driver for the Presort mail product but not for Single Piece. In this regard, some Presort mailers routinely present high volume mailings to the Postal Service. Where this is the case, the Postal Service and mailers have put together important cost sparing procedures. For high volume mailers, the Postal Service has established Detached Mail Entry Units (DMEU) which allow mailings to be tendered at the mailers' facilities rather than the local Business Mail Entry Units (BMEU) located at postal facilities where smaller mailings must be entered. With entry of high volume mailings at DMEUs come important benefits for the Postal Service. For example, MMA mailers typically place trays on pallets, shrinkwrap the pallets so trays are secure during transport and use special bulk handling equipment to load the pallets onto large trailer trucks provided by the Postal Service. In addition, these mailers routinely arrange for the least cost transportation mode on behalf of the Postal Service. Such mailers routinely cooperate with Postal Service requests for special pallet and even entire truck sortations so that the mail bypasses not just the local post office but also intermediate HASPS.¹⁰ Such smart mail practices have helped the Postal Service to limit capital expenditures, optimize the size of postal facilities, and reduce expenditures on other infrastructure and operating expenses that otherwise doubtless would have been required to deal with such routine high volume mailings. These

⁹ Automation Mail has the added advantage of bypassing many sortations thereby enhancing the probability that the mail will be successfully sorted by automation equipment throughout not only mail processing operations but delivery point sequencing as well.

¹⁰ See R2006-1, Initial Brief Of Major Mailers Association On Issues Regarding First Class Presort Rates, dated December 21, 2006 at 58-61.

considerations are significant today and will be even more significant going forward as the Postal Service grapples with potential excess mail processing capacity associated with the continuing decline in First Class single piece volumes.

Finally, the Postal Service has regulated First Class Presort in a manner specifically designed to provide additional cost benefits to Single Piece mail. The Postal Service requires Presort mailers who wish to include a reply envelope as a convenience to their customers in their outgoing mail pieces to enclose pre-approved Courtesy Reply Mail (CRM) pieces that meet all applicable standards for outgoing Presort mail pieces, including a unique prebarcode. Inclusion of these specially prepared CRM envelopes in the Single Piece mailstream confers substantial cost savings on the Postal Service. Presort mailers pay for providing and distributing the envelopes, but do not currently receive any share of these cost savings. To add insult to injury, Presort Mailers often must pay the additional ounce rate if the total weight of their outgoing mail pieces exceeds one ounce because of the inclusion of the CRM. Such an unfair distribution of benefits and burdens may have been tolerated in the pre-PAEA world but should not be countenanced any longer.

C. The Postal Service Needs Adequate Flexibility To Keep Presort Mail Competitive With Readily Available Electronic Alternatives

When the workshared discount was initiated and for almost two decades thereafter, mailers' choices were extremely limited. Essentially, the Postal Service was the only game in town for the vast majority of First Class workshared mailers. The advent and amazingly rapid acceptance of the Internet and email represents a sea change. The Internet and email have proven well suited for delivery of financial statements and for bill presentation and payment, the mainstays of First Class workshared letters for the Postal Service. As the Postal Service's latest Form 10-Q filing candidly admits, electronic diversion "remains a long term threat for the Postal Service."

Certainly, the growth of electronic bill presentment and payments has been explosive during the past few years. However, while electronic diversion may be a threat to the Postal Service's ability to retain Presort mail volumes, MMA believes that this threat should be manageable ***if the Postal Service has sufficient pricing flexibility to respond to that threat.*** MMA does not anticipate that the Postal Service

will be forced to cut Presort mail rates drastically in order to stay competitive with electronic alternatives. After all, Presort Mail and available electronic alternatives are not perfect substitutes for each other. In this regard, MMA members expect to build upon the mutually beneficial partnerships they have forged with the Postal Service for over three decades. Use of First Class mail for delivery of financial account statements and bill presentation and payment will continue to be an important component of presort mail because MMA members and many other presort mailers are involved directly or indirectly in service businesses where customer choice is key. Moreover, presort mail has uniquely valuable characteristics that make using the mail superior in some respects to a more impersonal interaction with customers over the Internet.

MMA expects that, with adoption of enlightened pricing policies, use of First Class presort mail will resume its pattern of healthy annual volume growth as the economy recovers. However, by pursuing ill-considered, unduly rigid rate setting policies, the Commission could disrupt this recovery process and hasten conversion of transactions now involving presort mail to Internet, email, and other electronic-based processes. Controlling costs is an imperative for MMA members and, we believe, almost all First Class workshared mailers. Postage is just one of the costs of doing business. Mailers are not interested in why postage costs have increased generally or the intricacies of postal ratemaking in particular. They are concerned about what increased postage costs mean for their bottom lines. An even more important consideration is mailers' perceptions about where postage costs are likely to go. Even the perception that postage costs cannot be controlled will drive mailers' decisions to seek out, and promote vigorously, alternatives such as the Internet and email, which offer them greater control over costs. If such decisions are made, very likely they will be permanent.

Unlike decades past, simplistic assumptions that the worst that could happen would be for presort mail to revert to single piece are not relevant to informed rate-making in the electronic age. If the Commission were to shrink discounts, First Class presort letters might revert to single piece, but only temporarily, until Presort mailers permanently remove these transactions from the postal system to the Internet and other

less expensive electronic alternatives. Such an unwise policy would wreak havoc on the entire postal system and its infrastructure.

Alternative Cost Savings Methodologies

In Order No. 192 (at 3), the Commission stated that interested parties, including the Postal Service, “may submit alternative workshare discount rate design and cost avoidance calculation methodologies.” As discussed at length above, MMA supports adoption of the methodology the Postal Service utilized in R2009-2 and is satisfied with the resulting discounted prices for Presort Mail. Therefore, MMA does not intend to offer an alternative methodology unless, contrary to reason and its own precedent, the Commission were to reject the Postal Service’s methodology.

In Order No. 192, the Commission emphasized that “the intent of this proceeding is to provide a forum for a thorough examination of these important issues.” MMA takes the Commission at its word. However, inviting parties to offer alternative rate design or cost savings methodologies at this point would seem premature in several important respects. First, submitting alternative methodologies at this time, before the Commission has resolved the important threshold issue, may be useless and a wasteful tax on the parties’ and Commission’s limited resources. Second, Parties must be free to discover the facts necessary to fully develop and support their positions. In several critical areas, relevant information simply is not currently available because the Postal Service was not required to provide it in its Annual Compliance Reports. Other relevant sources of workshare cost savings, such as cost savings due to mail handling and transportation, were never properly explored because the Commission and the Postal Service have not acknowledged their existence and parties like MMA that steadfastly maintained these cost savings are real and relevant have no way to quantify them. It will take time and the cooperative efforts of affected presort mailers, the Postal Service and other interested parties under the guidance of the Commission and its staff to properly examine these issues. Similarly, there are other issues that the Commission has never focused on despite MMA’s repeated good faith efforts to bring problems to the Commission’s attention. In this category, MMA includes legitimate concerns about unrealistic assumptions regarding the effectiveness, efficiency and costs associated

with the RBCS system that have been built into the Postal Service's mail flow models. MMA's January 30, 2009 Initial Comments in ACR2008 identify several other serious problem areas where study is required before parties can formulate positions on the issues.

In other respects, it has already taken an inordinate amount of the time to address and remedy problems with the pre-PAEA workshare cost savings method. MMA's position that the pre-PAEA formula for deriving workshare cost savings was fatally flawed is no secret. In ACR2007, MMA offered comments and analyses identifying the most egregious flaws and presenting concrete recommendations for fixing those problems. See *Annual Compliance Report*, Docket No. ACR2007, Initial Comments Of Major Mailers Association, dated January 30, 2008. Among other things, MMA pointed out that in R2006-1, the Commission had failed to even acknowledge much less rule upon MMA's evidence showing that theoretical delivery point sequencing percentages (DPS %) have been demonstrated to be unreliable and must be reconciled to actual data that are now available. Once again, MMA carefully explained the rationale for using actual DPS %s and demonstrated that substituting the actual DPS %s for the theoretical DPS %s had a significant impact upon the derived workshared cost savings. Although the Commission generally declined to take any action with respect to MMA's proposals, on this issue it stated: "[T]he use of sampled DPS'd delivery percentages rather than DPS'd percentages developed in mail processing models may be appropriate for the development of unit delivery costs. ***The Postal Service should review this issue prior to its next annual report.***"¹¹

Later in 2008, the Postal Service filed several proposed changes to certain analytical principles for attributing costs in preparation for ACR2008, but said nothing about where it stood on satisfying the Commission's directive in the 2007 ACD. When MMA filed comments pointing out the Postal Service's omission, the Commission dismissed its concerns stating ""the near-term regulatory workload of the Commission and the Postal Service makes it difficult to evaluate these issues adequately at this

¹¹ Commission Annual Compliance Determination, issued March 27, 2008 (2007 ACD), Appendix B, p. 9 (emphasis added).

time" and directing MMA and another concerned mailer to wait until after April 2009 to represent their cases.¹²

Part of the Commission's apparent lack of concern about the issue MMA has raised is that it considers using theoretical DPS %s to be an established Commission practice. See 2007 ACD, Appendix B, p. 9. The Commission's understanding is not entirely accurate.

By way of background, MMA had been concerned about using theoretical model derived DPS % for a number of years. In R2005-1, MMA formally asked the Postal Service whether actual DPS % data were available. From the Postal Service's response, MMA concluded that actual data were not available.

Although MMA had been prepared to take "no" for an answer, in reviewing the Postal Service's case-in-chief in R2006-1, MMA discovered that the Postal Service itself had used actual DPS %s to distribute carrier in-office costs to various categories of mail.¹³ In other words, it was the Postal Service, not MMA, that first used actual DPS %s in place of the "customary" theoretical DPS %s. Since the Postal Service affirmatively proposed to substitute the use of actual DPS % for the use of theoretical DPS %, it is hardly fair for the Postal Service to object to use of actual DPS %s on the ground that using theoretical DPS %s was the established practice or for the Commission to stand on ceremony and defer consideration of MMA's legitimate grievance. Moreover, use of theoretical DPS %s in Docket Nos. R2001-1 and R2005-1, two proceedings that were settled, cannot bolster claims that using theoretical DPS % to derive delivery cost savings is the established methodology or settled practice, because the settlements in both proceedings explicitly precluded giving precedential effect in future proceedings to

¹² *Periodic Reporting*, Docket No. RM2008-2, Order No. 115, issued October 10, 2008 at 2-3.

¹³ See USPS-LR-L-67, File UDCInputs.USPS, tab DPS%, where the actual DPS%s are determined, and File UDCModel.USPS, tab 17.In-Office Detail, where total in-office casing costs are attributed to NonAutomation and Automation letters based on the DPS %s. MMA also notes that in the original files containing the R2006-1 mail flow models where theoretical DPS %s had been derived in Docket Nos. R2001-1 (USPS-LR-J-60 and USPS-LR-J-84) and R2005-1 (USPS-LR-L-48 and USPS-LR-L-110), there were none provided. Obviously, the Postal Service did not even derive the theoretical DPS %s in its R2006-1 filing because it relied upon the **actual** DPS %s.

the use of any methodology used to derive delivery cost savings.¹⁴ Once MMA had joined the issue in R2006-1, it deserved acknowledgement by the Commission that an issue existed and a reasoned explanation for the Commission's policy choice.

There is nothing controversial about using actual DPS %s rather than theoretical model derived DPS %s to measure delivery cost savings due to worksharing. Indeed, using actual data to reconcile the results of theoretical mail models is entirely consistent with well-established Commission practice. The Postal Service first began using mail flow models to derive workshared cost savings in R97-1. From the inception of this practice, the theoretical costs produced by the mail flow models did not square with actual costs as reported in the Postal Service's Cost and Revenue Analysis (CRA). Therefore, as the Postal Service and Commission have recognized, the model-derived costs **must** be reconciled with actual CRA costs to maintain accuracy and credibility.

What MMA is proposing for delivery costs is no different. MMA's methodology effectively reconciles the theoretical DPS %s produced by the mail flow models to readily available actual DPS %s. There simply is no legitimate reason to rely on demonstrably inaccurate theoretical data when the actual data are readily available.

Obviously affording parties a full and fair hearing on all the important issues involved in deriving fair workshare cost savings will not be easy or quick. By addressing this one isolated issue in these initial comments, MMA is **not** trying to secure summary judgment on the issue. However, MMA is concerned about the Commission's statement (Order No. 192 at 3) that "the established methodologies will continue to be employed until (and if [sic]) changed." Frankly, MMA is not certain what the Commission means by

¹⁴ For example, the July 22, 2005 Stipulation and Agreement in R2005-1 stated in relevant part:

II. TERMS AND CONDITIONS

* * *

12. The signatories agree that, in any future proceeding, adherence to this agreement is not intended to constitute or represent agreement with, or concession to the applicability of any ratemaking principle, any method of cost of service determination, any method of cost savings measurement, any principle or method of rate or fee design, any principle or method of mail classification, any terms and conditions of service, or the application of any rule or interpretation of law, that may underlie, or be thought to underlie, this Stipulation and Agreement.
13. The signatories agree that, in any future proceeding, adherence to this agreement is not intended to constitute or represent agreement with any finding of fact relied upon by the Commission or the Governors in recommending, approving, or allowing to take effect the changes in rates and fees in accordance with paragraph 5, above.

the term “established methodologies.” If it means that unless the Commission has ruled favorably on the Postal Service’s R2009-2 rate setting methodology prior to the next price adjustment proceeding, the Commission intends to force the Postal Service to revert to a pre-PAEA version of the traditional methodology for determining workshare cost savings and impose significantly lower discounts, then MMA urges the Commission to act promptly and resolve this one issue. Continued reliance upon inaccurate theoretical DPS %s will unfairly subject workshare mailers to discounts erroneously predicated upon significantly understated cost savings. The stakes are high. MMA estimates that using accurate actual DPS %s will significantly increase total workshare cost savings, perhaps by more than enough to independently justify retention of the R2009-2 First Class presort rate discounts. Frankly, MMA and other presort mailers cannot, and should not be required, to wait an indefinite time to receive relief if the Commission’s intention is to institute a pre-PAEA version of linked discounts for First Class presort mail.

CONCLUSION

For all the foregoing reasons, the Commission should approve the Postal Service’s discounted prices for First Class presort mail proposed in R2009-2, which are currently in effect, and the separate product pricing methodology used to establish those prices.

If, contrary to good sense and overwhelming evidence supporting the Postal Service’s pricing proposals, the Commission does not approve the Postal Service’s separate product pricing approach, the affected parties must be afforded a full and fair opportunity to present alternative rate design and cost savings methodologies. The R2009-2 rates should remain in effect until that process is completed in an orderly fashion.

Respectfully submitted,
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Appendix A

Tasks Bulk Workshare Mailers Routinely Perform For The Postal Service But Tasks Postal Service Personnel Must Perform For Single Piece Mailers

◆ Traying letters

- Removing old tray labels and printing and inserting new labels;
- Sleeving the trays;
- Banding the trays;
- Preparing and applying Destination and Routing (D&R) labels, including the use of PostalOne!;
- Weighing the trays;
- Postage verification, including on-site MERLIN systems;
- Electronic transmission of weight and volume data to Postal data centers, including the use of PostalOne!;
- Electronic transmissions of all postal paperwork, including the use of PostalOne!; and
- Presorting the trays of mail prior to placing them onto pallets or other containers.

◆ Palletizing the trays

- Stacking trays onto pallets;
- Shrinkwrapping full pallets to secure trays during transport by the USPS;
- Labeling pallets; and
- Separating and presorting pallets prior to the point at which they are loaded onto trucks.

◆ Loading mail onto trucks

- Moving full labeled pallets to the workshare mailer's loading dock;
- Loading pallets onto USPS trucks;
- Meeting USPS scheduling requirements; and
- Presorting trucks with presorted pallets.