

Before the
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Consideration of Workshare Discount)
Methodologies)

Docket No. RM2009-3

PUBLIC REPRESENTATIVE COMMENTS IN
RESPONSE TO NOTICE OF PROPOSED
RULEMAKING ON APPLICATION OF WORKSHARE
DISCOUNT RATE DESIGN PRINCIPLES

(May 26, 2008)

The Public Representative hereby responds to the Postal Regulatory Commission's Notice of Proposed Rulemaking on Application of Workshare Discount Rate Design Principles.¹ These comments address the Postal Service's rate design methodology used to develop First-Class Mail discounted automation presort rates in Docket No. R2009-2.² The comments also propose a new classification for First-Class Mail.

In Docket No. R2009-2, the Commission approved the Postal Service's proposed automation presort rates³—even though the Postal Service's rates were based on a

¹ Notice of Proposed Rulemaking on Application of Workshare Discount Rate Design Principles (herein "Notice"), March 16, 2009.

² See United States Postal Service Notice of Market-Dominant Price Adjustment (herein "Price Adjustment Notice"), February 10, 2009.

³ See Order Reviewing Postal Service Market Dominant Price Adjustments (herein "Order No. 191"), March 16, 2009.

rate design methodology previously rejected by the Commission.⁴ Consequently, the Commission initiated this rulemaking to provide the Postal Service and interested persons “an opportunity to address the legal, factual, and economic underpinnings of the methodologies used by the Postal Service to develop its proposed First-Class Mail and Standard Mail discount rates in Docket No. R2009-2.”⁵

In presenting its proposed rates, the Postal Service chose not to use the Commission’s accepted methodology for establishing discounted rates.⁶ With respect to First-Class Mail, the Postal Service justified its decision by arguing that when establishing “workshare” discounts pursuant to section 3622(e), there is no workshare relationship between single-piece mail and presorted mail because they are two distinct products.⁷ Under this interpretation, the Postal Service, while continuing to rely on the Commission’s accepted methodology for estimating avoided costs, effectively abandons the accepted methodology of applying discounts based on those avoided costs to the single-piece First-Class Mail letter rate, *i.e.*, the Bulk Metered Mail (BMM) benchmark, to derive automation presort rates.

The Public Representative does not intend to address the Postal Service’s arguments in these comments. Suffice it to say that on the public record to date, the Postal Service’s assertions and legal reasoning are not well supported and

⁴ *Id.*, at 19, fn 14.

⁵ Notice, at 3.

⁶ See Response of the United States Postal Service to Chairman’s Information Request No. 1 (herein “Response”), February 20, 2009, at 2-3.

⁷ *Id.*, at 2-3.

consequently strained. The Public Representative will await further exposition of the Postal Service's reasoning before addressing its arguments in detail.

The Commission should reject the Postal Service's strained reasoning to justify ignoring the Commission's accepted methodology and abandonment of the BMM benchmark as the basis for establishing workshare discounts. The Postal Service's decision not to use the Commission's accepted methodology produces real financial consequences: the extraction of additional revenue from single-piece First-Class Mail letters. Allowing the Postal Service to abandon the BMM benchmark simply permits the Postal Service to reduce presort mail rates while imposing higher rates on single-piece mail in the future. Moreover, abandoning the BMM benchmark would serve to undermine the Universal Service Obligation (USO) and the rationale for regulating the Postal Service.

The Commission need not modify its accepted methodology. As the Public Representative will show, the BMM benchmark does not preclude the Postal Service from proposing lawful rates. In Docket No. R2009-2, alternative rate designs were available to the Postal Service that complied with the price cap, adhered to the BMM benchmark, and satisfied other important policies that have long guided Commission rate design. In the event the Commission decides to modify its accepted methodology, however, the Public Representative proposes a new classification that would establish single-piece First-Class Mail and presort First-Class Mail as separate classes for purposes of setting postal rates.

ARGUMENT

I. THE COMMISSION SHOULD RETAIN THE ACCEPTED METHODOLOGY USING THE BULK METERED MAIL BENCHMARK

Under the Commission's accepted methodology, the design of presort workshare discounts is linked to the single-piece BMM benchmark through the estimation of "avoided costs"—those costs avoided by the Postal Service for mailer "worksharing," such as mail presorting, prebarcoding, and transportation, etc. Estimates of avoided costs for presort mail are cost savings relative to a specified workshare "benchmark," *i.e.*, a category of mail that receives less mailer worksharing, and therefore is relatively more costly, compared to the rate category in question.⁸ These avoided cost estimates form the basis for discounts used to set rates for each presort letter tier. More specifically, rates for the Automation Mixed AADC Letter tier are determined by applying a discount, based upon avoided costs, to the single-piece BMM benchmark—the initial rate used in designing discounted workshare rates. Rates for the Automation AADC, 3-Digit, and 5-Digit tiers, in turn, are derived by applying a discount based upon the relevant avoided cost to the preceding tier.

The Postal Service's decision to abandon the accepted methodology severs the link between the single-piece BMM benchmark and the first automation presort letter rate tier, Automation Mixed AADC Letters.⁹ The Postal Service based its workshare "discounts on [automation] presort First-Class Mail delinked from single-piece First-

⁸ In the case of the Automation Mixed AADC Letter tier, the "benchmark" is Bulk Metered Mail, a component of collection mail, which has not been subject to any mailer worksharing.

⁹ In Docket No. R2009-2, the Postal Service proposed a discounted rate for non-automation presort letters that was less than the estimate of avoided cost.

Class Mail.”¹⁰ In effect, the Postal Service applied an arbitrary discount to the single-piece rate that was not based on the avoided cost to derive the Automation Mixed AADC Letter rate. Thereafter, it then relied on avoided cost between Automation Mixed AADC Letters and Automation AADC Letters, and Automation AADC Letters and Automation 3-Digit Letters, to set the Automation AADC and the Automation 3-Digit letter rates, respectively.¹¹

The Commission’s accepted methodology, which relies on the BMM benchmark as the starting point for the estimation of avoided costs for presort discounts, serves as the touchstone for designing presort rates beneficial to the Postal Service and mailers. The Commission should continue to rely on the BMM benchmark for establishing workshare discounts. The Postal Service’s approach is not necessary to design lawful First-Class Mail rates and if accepted by the Commission, holds out the prospect of higher single-piece letter rates in the future.

A. The Commission’s Rationale Supporting the Accepted Methodology Remains Sound and Protects Single-Piece Letters From Excessive Rate Increases

The Commission has consistently rejected Postal Service efforts to delink single-piece BMM benchmark from discounted presort rates. In R2006-1, the Commission determined that “[d]elinking the rate design does not fairly and equitably balance the interest of all First-Class mailers.”¹²

¹⁰ Notice, at 1.

¹¹ For the Automation 5-Digit Letter tier, the rate is set equal to the Automation 3-Digit Letter rate less a discount of \$0.022 rather than a discount equal to the avoided cost estimate of \$0.024.

¹² PRC Op. R2006-1, at para. 5090.

In the FY 2007 Annual Compliance Determination (ACD), the Commission reiterated its use of “the same analytical framework for evaluating worksharing discounts as it used to design the worksharing discounts in Docket No. R2006-1.”¹³ The Commission added that “a decision to change the framework used for measuring workshare cost avoidance should await a more complete airing of the pros and cons of the alternatives.”¹⁴

In its FY 2008 ACD, the Commission again stated its intention to retain:

the current methodology, whereby the automation mixed AADC presort letter rate and the non-automation presort letter rate each reflect a worksharing discount from the single-piece letter rate and BMM is the benchmark for determining the worksharing-related costs avoided by the Postal Service The Commission evaluates compliance with the limitations of § 3622(e) using the accepted approach, notwithstanding product separations between rates and benchmarks.

In practical terms, the Postal Service’s approach seeks to separate the estimation of avoided costs from the application of such estimates in developing discounted presort rates. More specifically, it does not use the estimate of costs avoided for Automation Mixed AADC letters compared to the single-piece BMM benchmark rate. Instead, the Postal Service establishes an Automation Mixed AADC letter rate without reference to the avoided cost and single-piece BMM benchmark rate.

Nevertheless, the Postal Service maintains that it accepts the methodology for calculating avoided costs as the basis for discounts.¹⁵ It simply does not apply the

¹³ Postal Regulatory Commission Annual Compliance Determination: U.S. Postal Service Performance Fiscal Year 2007, March 27, 2008, at 63.

¹⁴ *Id.*

¹⁵ Response, at 1.

avoided costs as the basis for the discount between the single-piece BMM benchmark rate and Automation Mixed AADC Letter rate. As stated previously by the Public Representative, the Postal Service

errs by assuming the phrase “cost avoidance methodology” refers only to calculating the cost avoidance and not to the appropriate application of the cost avoidance calculations. The application of the cost avoidance methodology that includes an initial starting point (the benchmark) is, of course, an integral part of the entire process and not disconnected from the underlying calculation.¹⁶

The Postal Service’s approach ignores the fundamental logic and rationale of relying on the BMM benchmark. However, the logic underlying the Commission’s accepted methodology for establishing workshare discounts remains sound. That logic is based upon the likely flows of mail between single-piece and the first presort tier. As explained by the Commission in its Opinion and Recommended Decision in Docket No. R2006-1, the BMM benchmark:

represents not only that mail most likely to convert to worksharing, but also, to what category current worksharing mail would be most likely to revert if the discounts no longer outweigh the cost of performing the worksharing activities.¹⁷

The Commission concluded that while the benchmark “is not perfect” given First-Class Mail heterogeneity, it could find “no better alternative” to the “use of the bulk metered mail benchmark in developing worksharing rates.”¹⁸

¹⁶ Public Representative Comments in Response to Notice of Price Adjustment for Market-Dominant Price Adjustment, March 2, 2009, at 10.

¹⁷ PRC Op. R2006-1, at para. 5095, *citing* PRC Op. R2000-1, at para. 5089.

¹⁸ PRC Op. R2006-1, at para. 5109.

Moreover, the Postal Service's approach results in discounted rates for automation presort letters that exceed the measured costs avoided based upon the BMM benchmark. In effect, the approach "allows many costs that are not worksharing related to be avoided" by mailers of automation presort letters.¹⁹ The resulting discounted rates in excess of avoided costs produce less revenues for First-Class Mail generally that must be recovered through higher rates for single-piece mailers.

B. Abandoning the Bulk Metered Mail Benchmark and Proposing a Higher Rate for, and Excessive Revenue From, Single-Piece Letters Was Unnecessary to Propose Lawful First-Class Mail Rates

The Postal Service's decision to abandon the BMM benchmark was not necessary to propose lawful rates for single-piece and presort First-Class Mail. Rather, the Postal Service's decision permitted it to raise the single-piece letter rate to \$0.44, resulting in a single-piece letter rate increase exceeding the price cap. This rate design in turn permitted the Postal Service to propose lower discounted presort rates. That was made possible by the shift in revenue resulting from higher single-piece letter rates. The extent of this shift in revenue between single-piece and automation presort letters can be measured.

1. The impact of the higher rates on single-piece mail revenue are evident when workshare discounts are set by reference to the Bulk Metered Mail benchmark

The Postal Service proposed a single-piece letter rate higher than would be necessary if automation presort letter rates are based upon the BMM benchmark. Two tables are presented. The first shows the estimate of avoided costs for the automation

¹⁹ *Id.*, at para. 5086.

presort tier.²⁰ The second table shows the automation presort letter rates proposed by the Postal Service and automation presort rates based upon the BMM benchmark and avoided costs, as well as a comparison of the change in Postal Service revenues resulting from those differing rates.

Table 1
First-Class Mail Automation Presort Letters
Workshare Avoided Costs, Discounts and Passthroughs

Worksharing Tier (Benchmark)	FY 2008	R2009-2	
	Avoided Unit Cost (cents)	USPS Discount (cents)	Pass- through
	[A]	[B]	[C]
First-Class Mail Automation Letters			
Barcoding & Presorting			
Automation Mixed AADC Letters (Bulk Metered Mail (BMM) Letters)	4.5	5.8	128.9%
Automation AADC Letters (Automation Mixed AADC Letters)	2.2	2.2	100.0%
Automation 3-digit Letters (Automation AADC Letters)	0.3	0.3	100.0%
Automation 5-digit Letters (Automation 3-digit Letters)	2.4	2.2	91.7%

Source: PRC-ACR2007-LR3.

Notes:

[C] = [B] / [A], calculated from the avoided unit cost rounded to one decimal.

Table 1 shows for each automation presort tier, the estimate of avoided costs, the Postal Service's proposed discounted rates, and the discount "passthrough." A passthrough indicates the percentage of avoided costs provided to mailers in discounts. In general, a discount should not exceed the avoided cost, representing a passthrough

²⁰ Both the Commission and the Post Service agree on the methodology used to estimate the avoided costs for each automation presort tier.

exceeding 100 percent. A passthrough greater than 100 percent is problematic because it means a discount is being “paid” to mailers for worksharing activities that the Postal Service could otherwise perform for less than the amount of the discount.

As shown in Column [C], the passthrough for Automation Mixed AADC Letters, based upon the Postal Service’s proposed discount, is 128.9 ($\$0.058 / \0.045) percent. Discounts for the other automation presort tiers feature passthroughs equal to or less than 100 percent of the avoided costs.

Table 2
First-Class Mail Rate Cap Compliance Calculations
 Comparison of R2009-2 Approved Rates and Discounted Rates Based Upon Bulk Metered Mail Benchmark

Rate Categories	FY 2008 BD Volume		Rates			Rates x Volumes			Change in	Percent Change in Rates	
	Unadjusted	Adjusted	Current	R2009-2	Accepted	Current	R2009-2	Accepted	Revenue	R2009-2	Accepted
	[A]	[B]	[C]	[D]	[E]	[F]	[G]	[H]	[I]	[J]	[K]
CPI Cap Amount: 3.8%											
Single-piece LFSP											
First Ounces (Total)	36,429,247										
Letters	33,226,980	33,224,630	0.420	0.440	0.440	13,954,345	14,618,837	14,618,837	-	4.76%	4.76%
Flats	2,607,251	2,607,157	0.830	0.880	0.880	2,163,940	2,294,298	2,294,298	-	6.02%	6.02%
Parcels	595,016	595,014	1.170	1.220	1.220	696,167	725,918	725,918	-	4.27%	4.27%
Additional Ounces	12,204,014	12,204,014	0.170	0.170	0.170	2,074,682	2,074,682	2,074,682	-	0.00%	0.00%
Nonmachinable Surcharge	294,353	294,353	0.200	0.200	0.200	58,871	58,871	58,871	-	0.00%	0.00%
QBRM	285,080	285,080	0.397	0.417	0.417	113,177	118,878	118,878	-	5.04%	5.04%
QBRM Additional Ounces	5,379	5,379	0.170	0.170	0.170	914	914	914	-	0.00%	0.00%
Average Single-piece LFSP						19,892,398	19,892,398	19,892,398	0	4.36%	4.36%
Nonautomation Presort											
First Ounces (Total)											
Letters	1,530,008	1,530,008	0.394	0.414	0.414	602,823	633,423	633,423	-	5.08%	5.08%
Flats	109,055	109,055	0.727	0.757	0.757	79,283	82,555	82,555	-	4.13%	4.13%
Parcels											
Additional Ounces (letters)	62,707	62,707	0.125	0.125	0.125	7,838	7,838	7,838	-	0.00%	0.00%
Additional Ounces (flats)	197,216	197,216	0.170	0.170	0.170	33,527	33,527	33,527	-	0.00%	0.00%
Nonmachinable Surcharge	22,942	22,942	0.200	0.200	0.200	4,588	4,588	4,588	-	0.00%	0.00%
Average Nonautomation Presort						761,932	761,932	761,932	0	4.65%	4.65%
Business Parcels											
ADC Presort	5,177	5,177	0.918	0.950	0.950	4,752	4,918	4,918	-	3.49%	3.49%
3-Digit Presort	3,555	3,555	0.858	0.864	0.864	3,050	3,072	3,072	-	0.70%	0.70%
5-Digit Presort	1,775	1,775	0.711	0.732	0.732	1,262	1,299	1,299	-	2.95%	2.95%
Additional Ounces	39,802	39,802	0.170	0.170	0.170	6,766	6,766	6,766	-	0.00%	0.00%
Nonmachinable Parcel Surcharge	3,041	3,041	0.050	0.050	0.050	152	152	152	-	0.00%	0.00%
Average Business Parcels						16,208	16,208	16,208	0	1.40%	1.40%
Automation Letters											
Mixed AADC Automation	2,980,110	2,268,322	0.369	0.382	0.395	837,011	866,499	895,987	29,488	3.52%	7.05%
Mixed AADC Automation (Full-serv. IMb)		711,788	0.369	0.379	0.392	262,650	269,768	279,021	9,253	2.71%	6.23%
AADC Automation	2,388,755	1,818,210	0.351	0.360	0.373	638,192	654,556	678,192	23,637	2.56%	6.27%
AADC Automation (Full-serv. IMb)		570,545	0.351	0.357	0.370	200,261	203,685	211,102	7,417	1.71%	5.41%
3-Digit Automation	20,157,561	15,343,005	0.346	0.357	0.370	5,308,680	5,477,453	5,676,912	199,459	3.18%	6.94%
3-Digit Automation (Full-serv. IMb)		4,814,556	0.346	0.354	0.367	1,665,836	1,704,353	1,766,942	62,589	2.31%	6.07%
5-Digit Automation	21,323,292	16,230,418	0.324	0.335	0.348	5,258,655	5,437,190	5,648,185	210,995	3.40%	7.41%
5-Digit Automation (Full-serv. IMb)		5,093,021	0.324	0.332	0.345	1,650,139	1,690,883	1,757,092	66,209	2.47%	6.48%
Additional Ounces	1,502,211	1,502,211	0.125	0.125	0.125	187,776	187,776	187,776	-	0.00%	0.00%
Average Automation Letters						16,492,162	17,101,210	17,101,210	609,048	3.02%	6.82%
Automation Flats											
Mixed ADC Automation	54,023	43,509	0.702	0.725	0.725	30,543	31,544	31,544	-	3.28%	3.28%
Mixed ADC Automation (Full-serv. IMb)		10,514	0.702	0.722	0.722	7,381	7,591	7,591	-	2.85%	2.85%
ADC Automation	98,841	79,605	0.570	0.603	0.603	45,375	48,002	48,002	-	5.79%	5.79%
ADC Automation (Full-serv. IMb)		19,236	0.570	0.600	0.600	10,965	11,542	11,542	-	5.26%	5.26%
3-Digit Automation	281,412	226,645	0.479	0.542	0.542	108,563	122,841	122,841	-	13.15%	13.15%
3-Digit Automation (Full-serv. IMb)		54,767	0.479	0.539	0.539	26,233	29,519	29,519	-	12.53%	12.53%
5-Digit Automation	229,252	184,636	0.364	0.380	0.380	67,208	70,162	70,162	-	4.40%	4.40%
5-Digit Automation (Full-serv. IMb)		44,616	0.364	0.377	0.377	16,240	16,820	16,820	-	3.57%	3.57%
Additional Ounces	1,125,677	1,125,677	0.170	0.170	0.170	191,365	191,365	191,365	-	0.00%	0.00%
Average Automation Flats						529,387	529,387	529,387	0	5.06%	5.06%
Auto Carrier Route Letters											
First Ounces	-	-	-	-	-	-	-	-	-	-	-
Additional Ounces	-	-	-	-	-	-	-	-	-	-	-
Heavy Pc. Discount	-	-	-	-	-	-	-	-	-	-	-
Single-piece Cards											
Stamped Cards	50,923	50,870	0.270	0.280	0.280	13,735	14,244	14,244	-	3.70%	3.70%
Post Cards at Card Rates (excl. QBRM)	1,671,627	1,671,627	0.270	0.280	0.280	451,339	468,056	468,056	-	3.70%	3.70%
Post Cards at Letter Rates	91,052	91,052	0.420	0.440	0.440	38,242	40,063	40,063	-	4.76%	4.76%
QBRM Post Cards	32,310	32,310	0.247	0.257	0.257	7,981	8,304	8,304	-	4.05%	4.05%
Average Single-piece Cards						530,666	530,666	530,666	0	3.79%	3.79%
Presort Cards											
Nonauto Presort	332,598	332,598	0.242	0.245	0.245	80,489	81,486	81,486	-	1.24%	1.24%
Mixed AADC Automation	278,422	211,922	0.223	0.230	0.230	47,259	48,742	48,742	-	3.14%	3.14%
Mixed AADC Automation (Full-serv. IMb)		66,500	0.223	0.227	0.227	14,830	15,096	15,096	-	1.79%	1.79%
AADC Automation	199,771	152,056	0.213	0.220	0.220	32,388	33,452	33,452	-	3.29%	3.29%
AADC Automation (Full-serv. IMb)		47,714	0.213	0.217	0.217	10,163	10,354	10,354	-	1.88%	1.88%
3-Digit Automation	1,326,156	1,009,408	0.210	0.218	0.218	211,976	220,051	220,051	-	3.81%	3.81%
3-Digit Automation (Full-serv. IMb)		316,747	0.210	0.215	0.215	66,517	68,101	68,101	-	2.38%	2.38%
5-Digit Automation	1,419,051	1,080,116	0.199	0.205	0.205	214,943	221,424	221,424	-	3.02%	3.02%
5-Digit Automation (Full-serv. IMb)		338,935	0.199	0.202	0.202	67,448	68,465	68,465	-	1.51%	1.51%
Average Presort Cards						767,171	767,171	767,171	0	2.97%	2.97%
First-Class Mail International 1/						886,569	923,218	923,218	0	4.13%	4.13%
						38,463,090	39,913,141	40,522,190	609,048		

1/ Source: Outbound FCM RateCap Calc-REV.xls

First-Class Percent Change in Rates:

3.770%	5.353%
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CPI Cap Test:

Pass	Fail
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New Unused Rate Adjustment Authority:

0.030%	N/A
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Amount of Previous Unused Rate Adj. Authority Used:

N/A	1.6%
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Table 2 shows the effect on revenue of abandoning the BMM benchmark. It compares the Postal Service's proposed automation presort letter rates and those same rates based upon the BMM benchmark and avoided costs, and the resulting change in Postal Service revenues—without regard to the price cap. The Postal Service's proposed (and Commission approved) automation presort rates, shown in Column [D], "R2009-2," are calculated from the Postal Service's proposed discounts shown in Column [B] of Table 1.

It is apparent that the Postal Service used an arbitrary discount of \$0.058, *unrelated to the estimate of avoided cost*, which is then deducted from the \$0.44 single-piece rate to set the discounted rate of \$0.382 for the first automation presort tier, Automation Mixed AADC Letters. Rates for the Automation AADC and Automation 3-Digit tiers, by contrast, were set by deducting the relevant estimate of avoided costs from the Automation Mixed AADC and Automation AADC letter rates, respectively. The Postal Service used a discount of \$0.022 from the Automation 3-Digit Letter rate rather than the avoided cost of \$0.024, representing a passthrough of 91.7 percent, to set the rate for Automation 5-Digit Letters.

Automation presort letter rates reflecting the Commission's accepted methodology for designing automation presort rates are shown in Column [E], "Accepted." (The specific rates changed in Column [E] are shaded.) For Automation Mixed AADC Letters, the accepted discounted rate of \$0.395 is equal to the single-piece letter rate of \$0.440 (*i.e.*, BMM benchmark) less the estimated avoided cost of \$0.045. This stands in contrast to the lower \$0.382 rate proposed by the Postal Service. For Automation AADC Letters and Automation 3-Digit Letters, the accepted

discounted rates are set equal to the preceding automation tier less the estimated avoided cost. The accepted Automation 5-Digit Letter rate is set equal to the Automation 3-Digit Letter rate less \$0.022—the discount proposed by the Postal Service—rather than the avoided cost estimate of \$0.024.

Designing discounted automation presort letter rates based upon the BMM benchmark and avoided costs generates \$17.1 billion in revenue, as shown in Column [H]. This compares to \$16.5 billion generated by the Postal Service's proposed rates (Column [G]), or a change in revenue of \$609 million, as shown in Column [I], "Change in Revenue." In effect, Postal Service abandonment of the BMM benchmark benefits presort mailers through a \$609 million reduction in automation presort rates at the expense of single-piece mailers.

2. The Bulk Metered Mail benchmark does not constrain the Postal Service's ability to propose lawful rates

The BMM benchmark, and other policy considerations, impose minimal (if any) constraints on the Postal Service's ability to set automation presort letter rates that are lawful and reasonable. Below, the Public Representative presents two alternative sets of rates for First-Class Mail, *i.e.*, Alternatives 1 and 2. Both alternatives achieve an overall percentage change in rates that are not only less than the price cap, but are virtually identical to the overall percentage change proposed by the Postal Service. Moreover, these alternative rates adhere to the BMM benchmark and other important rate design policies, including passthroughs equal to (or less than) 100 percent and the single-piece letter rate integer constraint. The Public Representative also presents a third alternative set of rates for First-Class Mail, *i.e.*, Alternative 3, in which only the integer constraint is relaxed.

Table 3
First-Class Mail Rate Cap Compliance Calculations
 Comparison of R2009-2 Approved Rates and Alternative No. 1 Rates Featuring 100% Passthroughs

Rate Categories	FY 2008 BD Volume		Rates			Rates x Volumes			Change in	Percent Change in Rates	
	Unadjusted	Adjusted	Current	R2009-2	Alt. 1	Current	R2009-2	Alt. 1	Revenue	R2009-2	Alt. 1
	[A]	[B]	[C]	[D]	[E]	[F]	[G]	[H]	[I]	[J]	[K]
CPI Cap Amount: 3.8%											
Single-piece LFSP											
First Ounces (Total)	36,429,247										
Letters	33,226,980	33,224,630	0.420	0.440	0.430	13,954,345	14,618,837	14,286,591	(332,246)	4.76%	2.38%
Flats	2,607,251	2,607,157	0.830	0.880	0.890	2,163,940	2,294,298	2,320,369	26,072	6.02%	7.23%
Parcels	595,016	595,014	1.170	1.220	1.220	696,167	725,918	725,918	-	4.27%	4.27%
Additional Ounces	12,204,014	12,204,014	0.170	0.170	0.180	2,074,682	2,074,682	2,196,723	122,040	0.00%	5.88%
Nonmachinable Surcharge	294,353	294,353	0.200	0.200	0.210	58,871	58,871	61,814	2,944	0.00%	5.00%
QBRM	285,080	285,080	0.397	0.417	0.417	113,177	118,878	118,878	-	5.04%	5.04%
QBRM Additional Ounces	5,379	5,379	0.170	0.170	0.180	914	914	968	54	0.00%	5.88%
Average Single-piece LFSP						19,892,398	19,711,261	19,711,261	(181,137)	4.36%	3.41%
Nonautomation Presort											
First Ounces (Total)											
Letters	1,530,008	1,530,008	0.394	0.414	0.414	602,823	633,423	633,423	-	5.08%	5.08%
Flats	109,055	109,055	0.727	0.757	0.757	79,283	82,555	82,555	-	4.13%	4.13%
Parcels											
Additional Ounces (letters)	62,707	62,707	0.125	0.125	0.135	7,838	7,838	8,465	627	0.00%	8.00%
Additional Ounces (flats)	197,216	197,216	0.170	0.170	0.180	33,527	33,527	35,499	1,972	0.00%	5.88%
Nonmachinable Surcharge	22,942	22,942	0.200	0.200	0.210	4,588	4,588	4,818	229	0.00%	5.00%
Average Nonautomation Presort						761,932	764,760	764,760	2,829	4.65%	5.04%
Business Parcels											
ADC Presort	5,177	5,177	0.918	0.950	0.950	4,752	4,918	4,918	-	3.49%	3.49%
3-Digit Presort	3,555	3,555	0.858	0.864	0.864	3,050	3,072	3,072	-	0.70%	0.70%
5-Digit Presort	1,775	1,775	0.711	0.732	0.732	1,262	1,299	1,299	-	2.95%	2.95%
Additional Ounces	39,802	39,802	0.170	0.170	0.180	6,766	6,766	7,164	398	0.00%	5.88%
Nonmachinable Parcel Surcharge	3,041	3,041	0.050	0.050	0.050	152	152	152	-	0.00%	0.00%
Average Business Parcels						16,208	16,606	16,606	398	1.40%	3.89%
Automation Letters											
Mixed AADC Automation	2,980,110	2,268,322	0.369	0.382	0.385	837,011	866,499	873,304	6,805	3.52%	4.34%
Mixed AADC Automation (Full-serv. IMb)		711,788	0.369	0.379	0.382	262,650	269,768	271,903	2,135	2.71%	3.52%
AADC Automation	2,388,755	1,818,210	0.351	0.360	0.363	638,192	654,556	660,010	5,455	2.56%	3.42%
AADC Automation (Full-serv. IMb)		570,545	0.351	0.357	0.360	200,261	203,685	205,396	1,712	1.71%	2.56%
3-Digit Automation	20,157,561	15,343,005	0.346	0.357	0.360	5,308,680	5,477,453	5,523,482	46,029	3.18%	4.05%
3-Digit Automation (Full-serv. IMb)		4,814,556	0.346	0.354	0.357	1,665,836	1,704,353	1,718,797	14,444	2.31%	3.18%
5-Digit Automation	21,323,292	16,230,418	0.324	0.335	0.336	5,258,655	5,437,190	5,453,420	16,230	3.40%	3.70%
5-Digit Automation (Full-serv. IMb)		5,093,021	0.324	0.332	0.333	1,650,139	1,690,883	1,695,976	5,093	2.47%	2.78%
Additional Ounces	1,502,211	1,502,211	0.125	0.125	0.135	187,776	187,776	202,798	15,022	0.00%	8.00%
Average Automation Letters						16,492,162	16,605,087	16,605,087	112,925	3.02%	3.72%
Automation Flats											
Mixed ADC Automation	54,023	43,509	0.702	0.725	0.725	30,543	31,544	31,544	-	3.28%	3.28%
Mixed ADC Automation (Full-serv. IMb)		10,514	0.702	0.722	0.722	7,381	7,591	7,591	-	2.85%	2.85%
ADC Automation	98,841	79,605	0.570	0.603	0.603	45,375	48,002	48,002	-	5.79%	5.79%
ADC Automation (Full-serv. IMb)		19,236	0.570	0.600	0.600	10,965	11,542	11,542	-	5.26%	5.26%
3-Digit Automation	281,412	226,645	0.479	0.542	0.542	108,563	122,841	122,841	-	13.15%	13.15%
3-Digit Automation (Full-serv. IMb)		54,767	0.479	0.539	0.539	26,233	29,519	29,519	-	12.53%	12.53%
5-Digit Automation	229,252	184,636	0.364	0.380	0.380	67,208	70,162	70,162	-	4.40%	4.40%
5-Digit Automation (Full-serv. IMb)		44,616	0.364	0.377	0.377	16,240	16,820	16,820	-	3.57%	3.57%
Additional Ounces	1,125,677	1,125,677	0.170	0.170	0.180	191,365	191,365	202,622	11,257	0.00%	5.88%
Average Automation Flats						529,387	540,644	540,644	11,257	5.06%	7.30%
Auto Carrier Route Letters											
First Ounces	-	-	-	-	-	-	-	-	-	-	-
Additional Ounces	-	-	-	-	-	-	-	-	-	-	-
Heavy Pc. Discount	-	-	-	-	-	-	-	-	-	-	-
Single-piece Cards											
Stamped Cards	50,923	50,870	0.270	0.280	0.290	13,735	14,244	14,752	509	3.70%	7.41%
Post Cards at Card Rates (excl. QBRM)	1,671,627	1,671,627	0.270	0.280	0.290	451,339	468,056	484,772	16,716	3.70%	7.41%
Post Cards at Letter Rates	91,052	91,052	0.420	0.440	0.430	38,242	40,063	39,153	(911)	4.76%	2.38%
QBRM Post Cards	32,310	32,310	0.247	0.257	0.257	7,981	8,304	8,304	-	4.05%	4.05%
Average Single-piece Cards						530,666	546,980	546,980	16,314	3.79%	6.98%
Presort Cards											
Nonauto Presort	332,598	332,598	0.242	0.245	0.255	80,489	81,486	84,812	3,326	1.24%	5.37%
Mixed AADC Automation	278,422	211,922	0.223	0.230	0.240	47,259	48,742	50,861	2,119	3.14%	7.62%
Mixed AADC Automation (Full-serv. IMb)		66,500	0.223	0.227	0.237	14,830	15,096	15,761	665	1.79%	6.28%
AADC Automation	199,771	152,056	0.213	0.220	0.230	32,388	33,452	34,973	1,521	3.29%	7.98%
AADC Automation (Full-serv. IMb)		47,714	0.213	0.217	0.227	10,163	10,354	10,831	477	1.88%	6.57%
3-Digit Automation	1,326,156	1,009,408	0.210	0.218	0.228	211,976	220,051	230,145	10,094	3.81%	8.57%
3-Digit Automation (Full-serv. IMb)		316,747	0.210	0.215	0.225	66,517	68,101	71,268	3,167	2.38%	7.14%
5-Digit Automation	1,419,051	1,080,116	0.199	0.205	0.215	214,943	221,424	232,225	10,801	3.02%	8.04%
5-Digit Automation (Full-serv. IMb)		338,935	0.199	0.202	0.212	67,448	68,465	71,854	3,389	1.51%	6.53%
Average Presort Cards						767,171	802,731	802,731	35,560	2.97%	7.71%
First-Class Mail International 1/						886,569	923,218	923,218	0	4.13%	4.13%
						38,463,090	39,913,141	39,911,287	(1,855)		
1/ Source: Outbound FCM RateCap Calc-REV.xls										3.76998185%	3.76516012%
First-Class Percent Change in Rates:										3.770%	3.765%
CPI Cap Test:										Pass	Pass
New Unused Rate Adjustment Authority:										0.030%	0.035%
Amount of Previous Unused Rate Adj. Authority Used:										N/A	N/A

Alternative 1: Table 3 presents the Postal Service's proposed (and Commission approved) rates and the Public Representative's first set of alternative rates (herein "Alternative 1") for First-Class Mail in Columns [D] and [E], respectively. (The specific rates changed in Column [E] are shaded.) Compared to the Postal Service's proposed rates, Alternative 1 is distinguished by decreasing the single-piece letter rate from \$0.44 to \$0.43, which maintains the integer constraint. Alternative 1 also differs from the Postal Service by an increase of \$0.003 in the Automation Mixed AADC, AADC, and 3-Digit Letter rates, and a \$0.001 increase in the Automation 5-Digit Letter rate. Other changes include a one-cent increase in the rate for single-piece flats, additional ounces, nonmachinable single-piece and nonautomation presort pieces (excluding Business Parcels), and all cards other than QBRM post cards.

The net effect of the Alternative 1 rates is an overall percentage change in rates for First-Class Mail of 3.765 percent versus 3.770 percent as proposed by the Postal Service. This difference represents a \$1.86 million reduction in revenue compared to the \$39.913 billion generated by the Postal Service's proposed rates. While the percentage change in rates for single-piece declines from 4.36 percent to 3.41 percent, the average increase for automation presort letter rates rises from 3.02 percent to 3.720 percent—less than the Postal Service's overall change in rates of 3.770 percent for First-Class Mail. Moreover, while the alternative rates for additional ounces and the nonmachinable surcharge rise by 5.88 percent and 5.00 percent, respectively, these increases are nevertheless modest as they represent the first increase in rates since R2006-1. In percentage terms, rate increases for single-piece and presort cards are more substantial, at 6.98 percent and 7.71 percent, respectively.

Most significantly, automation presort letter rates are based upon discounts equal to 100 percent of avoided costs—including the Automation Mixed AADC Letter rate, which was determined by reference to the single-piece BMM benchmark rate. The lone exception is the Automation 5-Digit Letter rate, with a passthrough of 91.7 percent, consistent with the Postal Service's proposed rate for this automation tier. As a result, the Alternative 1 automation presort letter rates adhere to the Commission's accepted methodology and obviate the need to obtain exceptions pursuant to section 3622(e)(2)(D) for discounts that exceed avoided costs.

Table 4
First-Class Mail Rate Cap Compliance Calculations
 Comparison of R2009-2 Approved Rates and Alternative No. 2 Preserving Postal Service Automation Rates

Rate Categories	FY 2008 BD Volume		Rates			Rates x Volumes			Change in	Percent Change in Rates	
	Unadjusted	Adjusted	Current	R2009-2	Alt. 2	Current	R2009-2	Alt. 2	Revenue	R2009-2	Alt. 2
	[A]	[B]	[C]	[D]	[E]	[F]	[G]	[H]	[I]	[J]	[K]
CPI Cap Amount: 3.8%											
Single-piece LFSP											
First Ounces (Total)	36,429,247										
Letters	33,226,980	33,224,630	0.420	0.440	0.430	13,954,345	14,618,837	14,286,591	(332,246)	4.76%	2.38%
Flats	2,607,251	2,607,157	0.830	0.880	0.890	2,163,940	2,294,298	2,320,369	26,072	6.02%	7.23%
Parcels	595,016	595,014	1.170	1.220	1.250	696,167	725,918	743,768	17,850	4.27%	6.84%
Additional Ounces	12,204,014	12,204,014	0.170	0.170	0.190	2,074,682	2,074,682	2,318,763	244,080	0.00%	11.76%
Nonmachinable Surcharge	294,353	294,353	0.200	0.200	0.210	58,871	58,871	61,814	2,944	0.00%	5.00%
QBRM	285,080	285,080	0.397	0.417	0.417	113,177	118,878	118,878	-	5.04%	5.04%
QBRM Additional Ounces	5,379	5,379	0.170	0.170	0.190	914	914	1,022	108	0.00%	11.76%
Average Single-piece LFSP						19,892,398	19,851,206	19,851,206	(41,193)	4.36%	4.14%
Nonautomation Presort											
First Ounces (Total)											
Letters	1,530,008	1,530,008	0.394	0.414	0.414	602,823	633,423	633,423	-	5.08%	5.08%
Flats	109,055	109,055	0.727	0.757	0.757	79,283	82,555	82,555	-	4.13%	4.13%
Parcels											
Additional Ounces (letters)	62,707	62,707	0.125	0.125	0.135	7,838	7,838	8,465	627	0.00%	8.00%
Additional Ounces (flats)	197,216	197,216	0.170	0.170	0.190	33,527	33,527	37,471	3,944	0.00%	11.76%
Nonmachinable Surcharge	22,942	22,942	0.200	0.200	0.210	4,588	4,588	4,818	229	0.00%	5.00%
Average Nonautomation Presort							761,932	766,733	4,801	4.65%	5.31%
Business Parcels											
ADC Presort	5,177	5,177	0.918	0.950	0.950	4,752	4,918	4,918	-	3.49%	3.49%
3-Digit Presort	3,555	3,555	0.858	0.864	0.864	3,050	3,072	3,072	-	0.70%	0.70%
5-Digit Presort	1,775	1,775	0.711	0.732	0.732	1,262	1,299	1,299	-	2.95%	2.95%
Additional Ounces	39,802	39,802	0.170	0.170	0.190	6,766	6,766	7,562	796	0.00%	11.76%
Nonmachinable Parcel Surcharge	3,041	3,041	0.050	0.050	0.050	152	152	152	-	0.00%	0.00%
Average Business Parcels							16,208	17,004	796	1.40%	6.38%
Automation Letters											
Mixed AADC Automation	2,980,110	2,268,322	0.369	0.382	0.382	837,011	866,499	866,499	-	3.52%	3.52%
Mixed AADC Automation (Full-serv. IMb)		711,788	0.369	0.379	0.379	262,650	269,768	269,768	-	2.71%	2.71%
AADC Automation	2,388,755	1,818,210	0.351	0.360	0.360	638,192	654,556	654,556	-	2.56%	2.56%
AADC Automation (Full-serv. IMb)		570,545	0.351	0.357	0.357	200,261	203,685	203,685	-	1.71%	1.71%
3-Digit Automation	20,157,561	15,343,005	0.346	0.357	0.357	5,308,680	5,477,453	5,477,453	-	3.18%	3.18%
3-Digit Automation (Full-serv. IMb)		4,814,556	0.346	0.354	0.354	1,665,836	1,704,353	1,704,353	-	2.31%	2.31%
5-Digit Automation	21,323,292	16,230,418	0.324	0.335	0.335	5,258,655	5,437,190	5,437,190	-	3.40%	3.40%
5-Digit Automation (Full-serv. IMb)		5,093,021	0.324	0.332	0.332	1,650,139	1,690,883	1,690,883	-	2.47%	2.47%
Additional Ounces	1,502,211	1,502,211	0.125	0.125	0.135	187,776	187,776	202,798	15,022	0.00%	8.00%
Average Automation Letters							16,492,162	16,507,184	15,022	3.02%	3.11%
Automation Flats											
Mixed ADC Automation	54,023	43,509	0.702	0.725	0.725	30,543	31,544	31,544	-	3.28%	3.28%
Mixed ADC Automation (Full-serv. IMb)		10,514	0.702	0.722	0.722	7,381	7,591	7,591	-	2.85%	2.85%
ADC Automation	98,841	79,605	0.570	0.603	0.603	45,375	48,002	48,002	-	5.79%	5.79%
ADC Automation (Full-serv. IMb)		19,236	0.570	0.600	0.600	10,965	11,542	11,542	-	5.26%	5.26%
3-Digit Automation	281,412	226,645	0.479	0.542	0.542	108,563	122,841	122,841	-	13.15%	13.15%
3-Digit Automation (Full-serv. IMb)		54,767	0.479	0.539	0.539	26,233	29,519	29,519	-	12.53%	12.53%
5-Digit Automation	229,252	184,636	0.364	0.380	0.380	67,208	70,162	70,162	-	4.40%	4.40%
5-Digit Automation (Full-serv. IMb)		44,616	0.364	0.377	0.377	16,240	16,820	16,820	-	3.57%	3.57%
Additional Ounces	1,125,677	1,125,677	0.170	0.170	0.190	191,365	191,365	213,879	22,514	0.00%	11.76%
Average Automation Flats							529,387	551,900	22,514	5.06%	9.53%
Auto Carrier Route Letters											
First Ounces	-	-	-	-	-	-	-	-	-	-	-
Additional Ounces	-	-	-	-	-	-	-	-	-	-	-
Heavy Pc. Discount	-	-	-	-	-	-	-	-	-	-	-
Single-piece Cards											
Stamped Cards	50,923	50,870	0.270	0.280	0.280	13,735	14,244	14,244	-	3.70%	3.70%
Post Cards at Card Rates (excl. QBRM)	1,671,627	1,671,627	0.270	0.280	0.280	451,339	468,056	468,056	-	3.70%	3.70%
Post Cards at Letter Rates	91,052	91,052	0.420	0.440	0.430	38,242	40,063	39,153	(911)	4.76%	2.38%
QBRM Post Cards	32,310	32,310	0.247	0.257	0.257	7,981	8,304	8,304	-	4.05%	4.05%
Average Single-piece Cards							530,666	529,755	(911)	3.79%	3.61%
Presort Cards											
Nonauto Presort	332,598	332,598	0.242	0.245	0.245	80,489	81,486	81,486	-	1.24%	1.24%
Mixed AADC Automation	278,422	211,922	0.223	0.230	0.230	47,259	48,742	48,742	-	3.14%	3.14%
Mixed AADC Automation (Full-serv. IMb)		66,500	0.223	0.227	0.227	14,830	15,096	15,096	-	1.79%	1.79%
AADC Automation	199,771	152,056	0.213	0.220	0.220	32,388	33,452	33,452	-	3.29%	3.29%
AADC Automation (Full-serv. IMb)		47,714	0.213	0.217	0.217	10,163	10,354	10,354	-	1.88%	1.88%
3-Digit Automation	1,326,156	1,009,408	0.210	0.218	0.218	211,976	220,051	220,051	-	3.81%	3.81%
3-Digit Automation (Full-serv. IMb)		316,747	0.210	0.215	0.215	66,517	68,101	68,101	-	2.38%	2.38%
5-Digit Automation	1,419,051	1,080,116	0.199	0.205	0.205	214,943	221,424	221,424	-	3.02%	3.02%
5-Digit Automation (Full-serv. IMb)		338,935	0.199	0.202	0.202	67,448	68,465	68,465	-	1.51%	1.51%
Average Presort Cards							767,171	767,171	0	2.97%	2.97%
First-Class Mail International 1/						886,569	923,218	923,218	0	4.13%	4.13%
						38,463,090	39,913,141	39,914,170	1,029		
1/ Source: Outbound FCM RateCap Calc-REV.xls										3.76998185%	3.77265731%
First-Class Percent Change in Rates:										3.770%	3.773%
CPI Cap Test:										Pass	Pass
New Unused Rate Adjustment Authority:										0.030%	0.027%
Amount of Previous Unused Rate Adj. Authority Used:										N/A	N/A

Alternative 2: Table 4 presents the Public Representative's second set of alternative rates (herein "Alternative 2") for First-Class Mail. The Postal Service's proposed rates and the Alternative 2 rates are presented in Columns [D] and Column [E], respectively. (The specific rates changed in Column [E] are shaded.)

By comparison to the Postal Service's proposed rates, Alternative 2 also maintains the integer constraint by decreasing the single-piece rate from \$0.440 to \$0.430, while leaving unchanged the Postal Service's proposed rates for all automation presort letters, flats and cards. As a result, most rate changes are concentrated in single-piece letters, flats and parcels. The rate for single-piece flats and parcels is increased by \$0.01 and \$0.03, respectively. The additional ounce rate is increased by \$0.02 for all mail, except nonautomation and automation presort letters, which is increased by \$0.01. The nonmachinable surcharge is also increased by \$0.01.

The Alternative 2 rates result in an overall percentage change in First-Class Mail rates of 3.773 percent versus 3.770 percent as proposed by the Postal Service. This difference generates \$1.03 million in additional revenue compared to the Postal Service's revenue. The average rate increase for single-piece letter, flats, and parcels decreases from 4.36 percent under the Postal Service's proposed rates to 4.14 percent. With respect to automation presort letters, the average rate increases from 3.02 percent to 3.11 percent. Moreover, reducing the single-piece BBM benchmark rate and preserving the Postal Service's proposed automation presort letter rates results in only one discount exceeding the estimate of avoided cost. The discount for Automation Mixed AADC Letters of \$0.048 ($\$0.430 - \0.382) exceeds avoided costs by \$0.003 ($\$0.048 - \0.045). The resulting passthrough of 106.6 percent could be justified under

section 3622(e)(2)(B) as a phase-out of the previously higher passthrough approved by the Commission in R2008-1. Rates for automation flats rise to 9.53 percent from 5.06 percent on the basis of a \$0.02 increase in the additional ounce rate.

Table 5
First-Class Mail Rate Cap Compliance Calculations
 Comparison of R2009-2 Approved Rates and Alternative No. 3 Fractional Single-Piece Rate

Rate Categories	FY 2008 BD Volume		Rates			Rates x Volumes			Change in	Percent Change in Rates	
	Unadjusted	Adjusted	Current	R2009-2	FracRate	Current	R2009-2	FracRate	Revenue	R2009-2	FracRate
	[A]	[B]	[C]	[D]	[E]	[F]	[G]	[H]	[I]	[J]	[K]
CPI Cap Amount: 3.8%											
Single-piece LFSP											
First Ounces (Total)	36,429,247										
Letters	33,226,980	33,224,630	0.420	0.440	0.432	13,954,345	14,618,837	14,366,417	(252,420)	4.76%	2.95%
Flats	2,607,251	2,607,157	0.830	0.880	0.880	2,163,940	2,294,298	2,294,298	-	6.02%	6.02%
Parcels	595,016	595,014	1.170	1.220	1.220	696,167	725,918	725,918	-	4.27%	4.27%
Additional Ounces	12,204,014	12,204,014	0.170	0.170	0.170	2,074,682	2,074,682	2,074,682	-	0.00%	0.00%
Nonmachinable Surcharge	294,353	294,353	0.200	0.200	0.200	58,871	58,871	58,871	-	0.00%	0.00%
QBRM	285,080	285,080	0.397	0.417	0.417	113,177	118,878	118,878	-	5.04%	5.04%
QBRM Additional Ounces	5,379	5,379	0.170	0.170	0.170	914	914	914	-	0.00%	0.00%
Average Single-piece LFSP						19,892,398	19,639,978	19,639,978	(252,420)	4.36%	3.03%
Nonautomation Presort											
First Ounces (Total)											
Letters	1,530,008	1,530,008	0.394	0.414	0.414	602,823	633,423	633,423	-	5.08%	5.08%
Flats	109,055	109,055	0.727	0.757	0.757	79,283	82,555	82,555	-	4.13%	4.13%
Parcels											
Additional Ounces (letters)	62,707	62,707	0.125	0.125	0.125	7,838	7,838	7,838	-	0.00%	0.00%
Additional Ounces (flats)	197,216	197,216	0.170	0.170	0.170	33,527	33,527	33,527	-	0.00%	0.00%
Nonmachinable Surcharge	22,942	22,942	0.200	0.200	0.200	4,588	4,588	4,588	-	0.00%	0.00%
Average Nonautomation Presort							761,932	761,932	0	4.65%	4.65%
Business Parcels											
ADC Presort	5,177	5,177	0.918	0.950	0.950	4,752	4,918	4,918	-	3.49%	3.49%
3-Digit Presort	3,555	3,555	0.858	0.864	0.864	3,050	3,072	3,072	-	0.70%	0.70%
5-Digit Presort	1,775	1,775	0.711	0.732	0.732	1,262	1,299	1,299	-	2.95%	2.95%
Additional Ounces	39,802	39,802	0.170	0.170	0.170	6,766	6,766	6,766	-	0.00%	0.00%
Nonmachinable Parcel Surcharge	3,041	3,041	0.050	0.050	0.050	152	152	152	-	0.00%	0.00%
Average Business Parcels							16,208	16,208	0	1.40%	1.40%
Automation Letters											
Mixed AADC Automation	2,980,110	2,268,322	0.369	0.382	0.387	837,011	866,499	878,754	12,255	3.52%	4.99%
Mixed AADC Automation (Full-serv. IMb)		711,788	0.369	0.379	0.384	262,650	269,768	273,613	3,846	2.71%	4.17%
AADC Automation	2,388,755	1,818,210	0.351	0.360	0.365	638,192	654,556	664,379	9,823	2.56%	4.10%
AADC Automation (Full-serv. IMb)		570,545	0.351	0.357	0.362	200,261	203,685	206,767	3,082	1.71%	3.25%
3-Digit Automation	20,157,561	15,343,005	0.346	0.357	0.362	5,308,680	5,477,453	5,560,345	82,892	3.18%	4.74%
3-Digit Automation (Full-serv. IMb)		4,814,556	0.346	0.354	0.359	1,665,836	1,704,353	1,730,364	26,011	2.31%	3.87%
5-Digit Automation	21,323,292	16,230,418	0.324	0.335	0.340	5,258,655	5,437,190	5,524,877	87,687	3.40%	5.06%
5-Digit Automation (Full-serv. IMb)		5,093,021	0.324	0.332	0.337	1,650,139	1,690,883	1,718,399	27,516	2.47%	4.14%
Additional Ounces	1,502,211	1,502,211	0.125	0.125	0.125	187,776	187,776	187,776	-	0.00%	0.00%
Average Automation Letters							16,492,162	16,745,274	253,112	3.02%	4.60%
Automation Flats											
Mixed ADC Automation	54,023	43,509	0.702	0.725	0.725	30,543	31,544	31,544	-	3.28%	3.28%
Mixed ADC Automation (Full-serv. IMb)		10,514	0.702	0.722	0.722	7,381	7,591	7,591	-	2.85%	2.85%
ADC Automation	98,841	79,605	0.570	0.603	0.603	45,375	48,002	48,002	-	5.79%	5.79%
ADC Automation (Full-serv. IMb)		19,236	0.570	0.600	0.600	10,965	11,542	11,542	-	5.26%	5.26%
3-Digit Automation	281,412	226,645	0.479	0.542	0.542	108,563	122,841	122,841	-	13.15%	13.15%
3-Digit Automation (Full-serv. IMb)		54,767	0.479	0.539	0.539	26,233	29,519	29,519	-	12.53%	12.53%
5-Digit Automation	229,252	184,636	0.364	0.380	0.380	67,208	70,162	70,162	-	4.40%	4.40%
5-Digit Automation (Full-serv. IMb)		44,616	0.364	0.377	0.377	16,240	16,820	16,820	-	3.57%	3.57%
Additional Ounces	1,125,677	1,125,677	0.170	0.170	0.170	191,365	191,365	191,365	-	0.00%	0.00%
Average Automation Flats							529,387	529,387	0	5.06%	5.06%
Auto Carrier Route Letters											
First Ounces	-	-	-	-	-	-	-	-	-	-	-
Additional Ounces	-	-	-	-	-	-	-	-	-	-	-
Heavy Pc. Discount	-	-	-	-	-	-	-	-	-	-	-
Single-piece Cards											
Stamped Cards	50,923	50,870	0.270	0.280	0.280	13,735	14,244	14,244	-	3.70%	3.70%
Post Cards at Card Rates (excl. QBRM)	1,671,627	1,671,627	0.270	0.280	0.280	451,339	468,056	468,056	-	3.70%	3.70%
Post Cards at Letter Rates	91,052	91,052	0.420	0.440	0.432	38,242	40,063	39,371	(692)	4.76%	2.95%
QBRM Post Cards	32,310	32,310	0.247	0.257	0.257	7,981	8,304	8,304	-	4.05%	4.05%
Average Single-piece Cards							530,666	529,974	(692)	3.79%	3.65%
Presort Cards											
Nonauto Presort	332,598	332,598	0.242	0.245	0.245	80,489	81,486	81,486	-	1.24%	1.24%
Mixed AADC Automation	278,422	211,922	0.223	0.230	0.230	47,259	48,742	48,742	-	3.14%	3.14%
Mixed AADC Automation (Full-serv. IMb)		66,500	0.223	0.227	0.227	14,830	15,096	15,096	-	1.79%	1.79%
AADC Automation	199,771	152,056	0.213	0.220	0.220	32,388	33,452	33,452	-	3.29%	3.29%
AADC Automation (Full-serv. IMb)		47,714	0.213	0.217	0.217	10,163	10,354	10,354	-	1.88%	1.88%
3-Digit Automation	1,326,156	1,009,408	0.210	0.218	0.218	211,976	220,051	220,051	-	3.81%	3.81%
3-Digit Automation (Full-serv. IMb)		316,747	0.210	0.215	0.215	66,517	68,101	68,101	-	2.38%	2.38%
5-Digit Automation	1,419,051	1,080,116	0.199	0.205	0.205	214,943	221,424	221,424	-	3.02%	3.02%
5-Digit Automation (Full-serv. IMb)		338,935	0.199	0.202	0.202	67,448	68,465	68,465	-	1.51%	1.51%
Average Presort Cards							767,171	767,171	0	2.97%	2.97%
First-Class Mail International 1/						886,569	923,218	923,218	0	4.13%	4.13%
						38,463,090	39,913,141	39,913,141	0		

1/ Source: Outbound FCM RateCap Calc-REV.xls

0.4324026185

First-Class Percent Change in Rates:

3.770%	3.770%
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CPI Cap Test:

Pass	Pass
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New Unused Rate Adjustment Authority:

0.030%	0.030%
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Amount of Previous Unused Rate Adj. Authority Used:

N/A	N/A
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Alternative 3: Table 5 compares the Postal Service's proposed rates and the Public Representative's third set of alternative rates (herein "Alternative 3") for First-Class Mail. Those rates are shown in Columns [D] and [E], respectively.

Alternative 3 differs from the previous two alternatives in that it relaxes the integer constraint for single-piece letters while implementing other policies that have guided Commission rate design for First-Class Mail. These include use of the single-piece BMM benchmark and discounts equal to (or less than) 100 percent of avoided costs, while producing an overall percentage change in First-Class Mail rates that is equal to the percentage change in rates proposed by the Postal Service. It is presented for illustrative purposes to show the effect of relaxing the integer constraint and the change in revenues.

In Column [E], "FracRate," the integer constraint is relaxed by proposing a fractional single-piece letter rate of \$0.432 (0.4324026185), which in turn results in rates for automation presort letters increasing by 0.05 cents compared to the rates of the Postal Service. The fractional rate of \$0.432 generates the same percentage change in rates (3.770 percent) and total revenue (\$39.913 billion) for First-Class Mail as proposed by the Postal Service. Moreover, because the link between the single-piece BMM benchmark rate and automation presort letter rates is maintained, the use of the fractional rate causes the decrease in revenue from single-piece letters (and cards) to be offset by the increase in automation presort letter rates. The average rate for single-piece letters, flats and parcels decreases from 4.36 percent to 3.03 percent, while the average rate for automaton letters rises from 3.02 percent to 4.60 percent.

II. ABANDONING THE BULK METERED MAIL BENCHMARK PRODUCES PRESORT MAIL RATES THAT ARE MORE SIMILAR TO RATES THAT WOULD EXIST IN A COMPETITIVE MARKET, THEREBY UNDERMINING THE RATIONALE FOR THE POSTAL MONOPOLY AND REGULATION OF THE POSTAL SERVICE

An undeniable result of the regulation of any market is economic and financial outcomes that would differ from those occurring in an unregulated or competitive market. In the case of the Postal Service, regulation is an outgrowth of the Postal Service's monopoly on the carriage of letters pursuant to Private Express Statutes. That monopoly exists to achieve a public purpose: funding of the universal service obligation of the Postal Service for the benefit of First-Class mailers that are not able to utilize presorted mail. In the absence of the monopoly, the Postal Service would be left with predominantly single-piece letters as competitive operators serve larger (generally presort) mailers at lower cost.

The principle effect of abandoning the BMM benchmark and the use of avoided costs would permit the Postal Service to design presort rates that are increasingly discounted in relation to the single-piece BMM benchmark than would otherwise be attained. In doing so, the Postal Service designs presort rates that over time, are lower and more similar to rates that would exist in a competitive market. While such rates may encourage more worksharing and presort mail, it does so at the expense of single-piece mailers.

The move toward presort rates that resemble competitive rates subverts the public purpose of the monopoly. The monopoly exists to provide a reasonably priced universal service for all First-Class mailers. It makes no sense to increase the burden of financing the universal service obligation solely on single-piece mailers. Rather, it is single-piece mailers that should be the principle beneficiary of the universal service

obligation because such mailers are less likely to have ready access to alternatives and/or the wherewithal to obtain those alternatives. Moreover, to the extent presort rates increasingly resemble rates that would exist in a competitive market, the rationale for the monopoly and a regulatory framework that maintains it disappears.

III. ALTERNATIVELY, POSTAL SERVICE OBJECTIONS TO USE OF THE BULK METERED MAIL BENCHMARK CAN BE ADDRESSED BY ESTABLISHING SINGLE-PIECE FIRST-CLASS MAIL AS A SEPARATE CLASS OF MAIL FOR RATE-SETTING PURPOSES

The Public Representative proposes a new mail classification as an alternative to the Postal Service's efforts to abandon the BMM benchmark. The proposed classification would create a separate class of mail comprised of single-piece First-Class Mail letters (and cards). Such a classification would address the Postal Service's principle objections to the Commission's accepted methodology, and is presented here for Commission consideration.

A. Extending the Postal Service's Logic Argues for Separating the Single-Piece Mail and Presort Mail Products Into Two Distinct Mail Classes

It has long been argued that single-piece and presort First-Class Mail exhibit different cost and demand characteristics because they are comprised of different mailstreams and serve different mailers. These different cost and demand characteristics were the basis for separate First-Class Mail subclasses for single-piece and presort mail under the PRA. In response to the PAEA, the Postal Service proposed that "single-piece First-Class Mail and Presort First-Class Mail be considered

separate products due to their clear cost and market differences.”²¹ This change is reflected in the current Mail Classification Schedule (MCS).

In presenting its most recent price adjustment in Docket No. R2009-2, the Postal Service explains:

The First-Class Mail, first ounce letter price is a major driver of the overall increase for First-Class Mail; the Postal Service increases this price by two cents (4.8 percent). For simplicity, prices used by the general public are in whole cents (Factor 6). The integer constraint on the single-piece price generally results in some deviation from the average increase implied by the cap. To meet the cap average increase for First-Class Mail as a whole, the average percentage price increase for presorted mail is lower than the cap. This is a reverse of last year, when the presort grouping received a larger-than-the-cap increase. [Footnote 8: In 2008, Presorted Letters and Cards had an increase of 3.6%, which was above the cap of 2.9%. The one-cent stamp increase was 2.4%.²²

This suggests that the Postal Service’s principle motivation for abandoning the BMM benchmark are rate changes that cause a “swing” in the percentage change in rates for presort letters that is more than the price cap as compared to single-piece letters, and vice-a-versa—at least as experienced between the price changes under the PAEA.

To the extent the Postal Service seeks to minimize such swings in the percentage change in rates between single-piece and presort, the Public Representative proposes a separate class of mail comprised of single-piece letters (and cards). The establishment of a class of mail for single-piece mail, called “First-Class Mail,” would in turn segregate presort letters (and cards) in a separate mail class, aptly named “Bulk First-Class Mail.”

²¹ Response, at 2.

²² Price Adjustment Notice, at 12.

B. Establishing Separate Mail Classes for Single-Piece and Presort Mail Products Would Benefit Both Products

A separate mail class for First-Class Mail letters represents a logical extension of the Postal Service's argument and achieves its goal of separate pricing for single-piece and presorts letters. It would also benefit both products. The Postal Service maintains that single-piece and presort letters exhibit both distinct cost and demand characteristics. Establishing separate classes for single-piece and presort letters would recognize these distinct product characteristics for pricing purposes.

In practical terms, a separate mail class for single-piece letters would represent a complete de-linking of single-piece and presort letter rates, permitting single-piece and presort letter rates to be developed independently of each other. At the same time, separate classes would eliminate the swings in First-Class Mail and Bulk First-Class rates as neither single-piece nor presort letter rates could exceed the percentage change of price cap. And, separate classes would preclude the shift in revenues between single-piece and presort letters.

The Postal Service could gain additional pricing flexibility and minimize shifts in revenue if establishment of the separate class is coupled with relaxing the "integer constraint," a rate design policy of long-standing in which the single-piece rate for letters (and cards) is set in whole cents for reasons of simplicity. Under the PAEA and before that, the Postal Reorganization Act (PRA), one of the "factors" governing rate design is "simplicity of the [rate] structure . . . and simple, identifiable relationships between rates or fees charged the various classes . . ." ²³ Passage of the PAEA, section

²³ See 39 USC §3622(c)(6), (PAEA), herein "Factor 6"; and, 39 USC §3622(b)(7), (PRA).

3622(d)(2)(B), also limited “rounding rates and fees to the nearest whole integer” to the extent such rounding would “cause the overall rate increase for any class to exceed the Consumer Price Index for All Urban Consumers.” However, nothing in the section 3622(d)(2)(B) precludes the Postal Service from establishing a fractional rate for single-piece mail. Nor does Factor 6 in section 3622 preclude setting a fractional rate, since a single-piece rate set at half-cent or one-third of a cent would still be simple and identifiable.

Moreover, the existence of the non-denominated Forever Stamp would ease public understanding and acceptance and facilitate administrative convenience. Given the Postal Service’s retail sales program involving the sale of the Forever Stamp in booklets of 20, a fractional rate of \$0.433, for example, would cost \$8.66. Even if the retail sales program changed to permit Forever Stamp sales in quantities of less than 20, the Postal Service could sell stamps in quantities that round to a penny.

Finally, establishing separate classes also eliminates one of the more recent and controversial aspects of rate setting in First-Class Mail. It would also permit the Postal Service to unbundle the processing of forwards and returns for Bulk First-Class Mail while retaining these bundled services in First-Class Mail.

IV. CONCLUSION

The Public Representative respectfully submits the foregoing Comments for the Commission's consideration.

Respectfully submitted,

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