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**BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON DC 20268-0001**

CONSIDERATION OF WORKSHARE)
DISCOUNT METHODOLOGIES) Docket No. RM2009-3

**COMMENTS OF
NATIONAL ASSOCIATION OF PRESORT MAILERS
ON NOTICE OF INQUIRY No. 1
(September 11, 2009)**

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**COMMENTS OF
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ON NOTICE OF INQUIRY No. 1**

The National Association of Presort Mailers respectfully submits these comments or responses to the questions posed by the Commission in Notice of Inquiry No. 1.

Question 1

A piece of Single-Piece¹ Mail may qualify for presort discount whether or not the “owner” of the mailpiece decides to consolidate two or more, but possibly less than all, of its mailstreams with or without the use of a outside consolidator. However, most mailers can increase the percentage of their mail pieces that qualify at each of the discounted First-Class rates by consolidating their mailstreams and or consolidating their mailsteam or streams with those of other mailers. When the “owner” of pieces of single-piece mail decides to consolidate two or more of its mailstreams on its own or via the use of an outside consolidator, it will normally qualify a larger percentage of its mailpieces for larger discounts (e.g., the 5-digit rate rather than the 3-digit rate, etc.). However, it is essential to understand that it is mailpieces, not mailings, which qualify for discounts.

The bases for sharing discounts between mail owners and mail consolidators are very complex, but it is highly unlikely that the split, if there is a split, will be based on the depth to which any given piece of mail may be sorted. There are, it appears, nearly as many formulas for

¹ The term “First-Class Single-Piece Mail is redundant as all single-piece mail is First-Class Mail.

determining the “split” of the discount as there are customers of mail consolidators; but the split, assuming that the consolidator is not paid on a fee for services basis—i.e., so much for sorting each piece or each thousand pieces of mail regardless of depth of sort achieved—is almost always determined by overall results, not on mailpiece by mailpiece basis.

- a. To consolidate mail from multiple owners, and in some cases from the same owner, requires the consolidator to pick up or the mail owner to deliver the mailpieces to the consolidator. Thus, consolidation reduces the burden on the USPS to pick up mail from many mailers and reduces the number of bulk mailings deposited, usually at the very end of the workday, by mailers at Business Mail Entry Units, assuming that a mailer would be able and willing to prepare its mail for entry as bulk mail. For example, while a consolidator might pick up 500 piece of mail, the minimum number of pieces needed for a bulk First-Class mailing, a mailer might well give up the discount to avoid the costs of preparing the mail as bulk mail and sending an employee to the Post Office or a more distant Business Mail Entry Unit in a company vehicle since these costs could easily exceed the discount the mailer might be able to realize. So consolidating mail is a function that the USPS would have to perform if the mail was not consolidated prior to entry.
- b. Aggregation of mail saves money for the USPS and aggregation should be considered worksharing.
- c. In addition to reducing the number of mail pick-ups or bulk mail acceptances, aggregating mail to achieve higher densities prior to entering that mail into the USPS system adds value by improving mail quality, including address quality and by allowing more full trays of mail to be cross-docked without being worked at the point of entry—i.e., much of the aggregated mail will not have to be worked at the facility where it is entered. Instead, it arrives in already sleeved, banded and

labeled trays and, possibly, on pallets or other mail transportation equipment that is also labeled and can be immediately shipped to the next appropriate postal facility.

- d. The current discounts do not fully recognize and include the costs avoided by the USPS as a result of mail consolidation. If these additional avoided costs were recognized and included, the ability of mail consolidators to consolidate greater quantities of mail would be increased.

Question 2

The facts are a bit unclear, in large part because this set of questions seems to be predicated on a notion that it is mailings, rather than mailpieces, which qualify for discounts. Nevertheless, some response is possible.

- a.
 1. The USPS would treat two separate non-presorted mailings as origin entered Single-Piece Mail and would put all of the mailpieces through an advanced facer/canceller and an originating sort to sort it into Mixed AADC, AADC, 3-digit or 5-digit trays or some combination thereof.
 2. The concept that a mailing could be “presorted to 5-digits” without sufficient “density” to qualify for 5-digit presort rates is rather mysterious. This scenario involves a dubious assumption, that someone both could and would sort mail to 5-digits despite the lack of sufficient “density” (number of mailpieces) to qualify for 5-digit presort rates. Why and how would anyone do that? Moreover, the rules require mailers to present the mail trayed for whatever discount those mailpieces qualified for. Thus, even if this mail was “presorted” to 5-digits it would not be presented as 5-digit mail. It would be presented and processed as 3-digit, AADC or Mixed AADC mail depending on the rate it qualified for when sorted. Indeed, it is likely that these two mailings would both have mailpieces that qualified for the 3-digit, AADC and Mixed

AADC rates and that each portion would be processed accordingly. In short, knowing that none of the mailpieces in a presorted mailing qualified for the 5-digit rate is insufficient information to describe how the mail in such a mailing would be processed by the USPS.

3. The concept of consolidating but not presorting these mailings is confusing. In a sense, mailers do this all the time. This is what happens when mail from different mailers is placed in a collection box or handed to a retail clerk at a Post Office. The mail is tossed in a bag or other container and treated as Single-Piece Mail. So, if the mail was not presorted by a mailer or a mail service provider, this mail would not be identified as 5-digit mail and would be treated as collection mail
4. The part of this hypothetical is particularly confusing. Does it assume that neither of the two mailings taken separately has 150 mailpieces (the current required minimum number of letters to make up a tray for a given 5-digit, 3-digit or AADC tray) but if consolidated would have at least 150 mailpieces to at least one 5-digit location? It is highly unlikely that consolidating two mailings would result in all of the mailpieces in both mailings qualifying, after consolidation, for the 5-digit rate, especially if none of the mailpieces qualified for the 5-digit rate prior to consolidation.

If the two mailings were consolidated into a single mailing and presorted, the mailpieces that qualified for the 5-digit rate would skip all initial incoming and most, if not all, intermediate mail processing and sortation and be transported directly to the place where trays of 5-digit mail for that location or those locations would be delivery sequenced. The rest of the mail would avoid a lot of USPS processing but would probably have at least one additional USPS sort to break it to 5-digits prior to taking it to the location where these pieces would be delivery sequenced. As the current rate

structure indicates, 3-digit mail avoids more USPS work than AADC mail which in turn avoids more work than Mixed AADC mail even though Mixed AADC mail avoids a lot of USPS processing required for Single-Piece mail.

In any event, the ability of the Postal Service to realize savings from increased density is dependent upon presortation. Without presortation the USPS would not know which mailpieces were going to which locations and would have to subject all of the mail to the usual incoming mail processing and sortation. Mixed AADC mail has no “density” or minimum volume requirement other than the volume required to qualify for a bulk mailing, but enjoys a substantial discount based on the costs avoided.

b.

The Postal Service’s ability to realize savings is linked to presorting because without presorting the density is unknown to the USPS when it sets about to work this mail. Only if the mail is presorted and entered as discounted First-Class Mail, which requires proper traying and labeling, would the USPS know in and be able to take advantage of the density because those pieces would be trayed and labeled.

c.

How would a minimum level of density be determined? Does this suggest that the discount be increased if some given percentage of the pieces in a mailing qualify at or above some given level—i.e., the discount increases if 50% of the mail qualifies at the 5-digit level? The rate structure already gives a larger discount for more “finely” (deeply) sorted mail and thus recognizes the benefits of density, albeit, only in part because (1) not all costs avoided are recognized and (2) those avoided costs that are recognized are very conservatively estimated.

d.

Density provides benefits to the USPS only if the mail is presorted so that the “density” is known, but more importantly, the mail is trayed or bundled and bagged. Density by itself provides no real benefits to the USPS.

e.

The USPS and the Commission should employ whatever methodology produces the most accurate and complete estimate of the costs avoided. Since density without presorting has no real benefits, it probably makes more sense to estimate the cost savings from presorting and density together rather than separately, so long as all of the costs avoided are recognized and included.

Question 3

All worksharing-related costs avoided should be included in calculating the workshare discounts. However:

- (1) The USPS should (and thus should be allowed if not required) to reflect in its prices for different products the processing cost differences between those products regardless of whether those cost differences are workshare related or not in either the traditional sense of the term or the section 3622(e) sense; and
- (2) It should not be necessary for a mailer or mail service provider to replicate the functions the Postal Service would otherwise perform to earn a discount. How the mailer or mail processor avoids costs for the USPS is irrelevant. If the costs are avoided, how they were avoided doesn't matter.

Limiting worksharing discounts to only those costs that are avoided by direct substitutes for work the USPS would otherwise perform would simply increase the combined costs to mailers and the Postal Service. Instead of using the lowest cost process, mailers would be

encouraged to process mail via more costly processes that were “direct substitutes” for processes that the USPS would have employed so long as the cost of the more costly processes was less than the discount. But that is not in anyone’s interest. There is no reason to require a mailer or mail processor to incur unnecessary cost, costs that could have been avoided by not directly replicating the process the USPS would have employed. The net effect would simply be an increase in the cost of mailing that would reduce mail volumes more than they are already.

A rule that recognized only costs avoided by “a direct substitute for a Postal Service function” would also beg continuing controversy over what is and what is not “a direct substitute for a Postal Service function.”

Workshare discounts are now and have been since their beginning provided for mailers who sorted their mail electronically as well as those who have sorted the mail using an MLOCR as the USPS would otherwise do. The USPS could not have sorted the mailers mail electronically, so is this type of processing is “a direct substitute for a Postal Service function”?

A rule that says avoided costs must be avoided by “a direct substitute for a Postal Service function” is a lose-lose approach that makes no sense.

Respectfully Submitted,

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of Presort Mailers