

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

**Consideration of Workshare Discount Methodologies**

**Docket No. RM2009-3**

**Supplemental Comments Of Major Mailers Association**

In accordance with the procedures established in Order No. 243,<sup>1</sup> and the Commission's Notice Of Inquiry No. 1, issued August 27, 2009 (NOI 1), Major Mailers Association (MMA) files these supplemental comments on issues discussed at the August 11, 2009 Public Forum in this proceeding and in NOI 1. For the following reasons, as well as those explained in MMA's May 27, 2009 Initial Comments (MMA IC), the Commission should agree with the Postal Service, MMA and numerous other parties that First Class Single Piece and Presort are distinct and functionally different products and, accordingly, delinking the rate of First Class Single Piece mail from the rates for First Class Presort is lawful and appropriate.

**I. Background**

The Commission is considering the issues in this proceeding under unique, challenging circumstances. The unprecedented severe, ongoing worldwide financial crisis has dealt a body blow to the Postal Service *and mailers that use it*.

The Postal Service finds itself in dire financial straits. As Chairman Goldway recently testified before the Subcommittee on Federal Financial Management, Government Information, Federal Services, and International Security of the U.S. Senate Committee on Homeland Security and Governmental Affairs:

[B]ased on the available reports submitted by the Postal Service to the Commission, we expect revenues to be down over \$6 billion from last year at the end of the third quarter, an 8% reduction. By the year's end, the Postal Service most likely will run out of cash and not be able to make all of its year end payments, absent Congressional action.

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<sup>1</sup> *Consideration of Workshare Discount Rate Design*, Docket No. RM2009-3, Order On Further Procedural Steps, issued July 10, 2009 (Order No. 243).

Postal Service revenues are down in major part to a continued, steepening decline in First Class Single Piece and unprecedented declines in First Class Presort and Standard mail volumes. Table 1 shows the year-over-year declines in mail volume for these products during the current fiscal year to date.

**Table 1  
Decline in Mail Volumes  
FY 2009 vs FY 2008**

	FC SP Letters	FC Presort Letters	Total Standard
<b>FY 2009</b>			
Q1	(9.8)	(4.7)	(11.0)
Q2	(10.9)	(8.1)	(19.8)
Q3	(13.2)	(6.9)	(19.6)

Source: USPS Preliminary Revenue, Pieces and Weight Reports

To mitigate the severe financial stress it has been suffering, the Postal Service has moved aggressively to cut costs. As Chairman Goldway noted in her August 6 Testimony, since 1999, the Postal Service has eliminated 160,000 career workforce positions. On August 25, 2009, the Postal Service announced a negotiated agreement with the American Postal Workers Union and the National Postal Mail Handlers Union under which up to an additional 30,000 postal workers will be offered incentives to retire early or resign.<sup>2</sup>

The Postal Service has also proposed extraordinary measures to recapture lost mail volumes. In R2009-3, the Commission approved a "Summer Sale" that provides qualifying Standard mailers a 30% rebate on volumes of letters and flats that exceed those during a base period.<sup>3</sup> In R2009-5, the Postal Service has proposed a similar "Fall Sale" for First Class Presort mailers. The Autumn Sale, scheduled to run from October 1 through December 31, 2009, will offer Presort mailers that mailed at least 500,000 letters, flats and postcards during comparable periods in 2008 and 2007 a 20% rebate on volumes in excess of their threshold volumes.<sup>4</sup>

<sup>2</sup> Form 8 Report of the United States Postal Service, dated August 31, 2009.

<sup>3</sup> *Notice Of Price Adjustment*, Docket No. R2009-3, Order Approving Standard Mail Volume Incentive Pricing Program, issued June 4, 2009 (Order No.219).

<sup>4</sup> *Notice of Price Adjustment for Certain Presorted First-Class Mail*, Docket No. R2009-5, Notice And Order Concerning Incentive Pricing Program For Certain Presorted First-Class Mail, issued August 13, 2009 (Order No.276).

In approving the Summer Sale, the Commission stated (Order 219 at 5):

The Commission finds the proposal to be a judicious exercise of the Postal Service's pricing flexibility under the PAEA. The Postal Service is to be commended for its response to current market conditions. Much can be learned from what, in essence, is a short-term pricing experiment. However, the program is not without risks. Thus, development and use of appropriate metrics in evaluating the program are critical in determining whether the program is successful, and also for assessing the long-term implications of such an approach.

MMA also applauds the Postal Service for thinking creatively and, especially for taking bold steps to attract First Class Presort mail volumes. Nevertheless, such emergency stopgaps are no substitute for carefully considered permanent rate design reform for First Class Presort. As discussed below, the Postal Service needs to discard the outmoded one-size-fits-all rate design for Presort Mail and implement rates that recognize the important role that consistent high volume mailings play in reducing costs throughout the mailstream.

## **Introduction**

The Postal Service and First Class Presort mailers find themselves at a critical crossroads. The adverse financial consequences of the recent steep decline in Presort mail volumes should serve as a warning for the Commission. They highlight what could happen to the postal system if shortsighted regulatory policies deprive the Postal Service of the pricing flexibility needed to retain and hopefully grow the volume of highly profitable Presort mail.

MMA members and other high volume Presort mailers are re-evaluating their reliance on the Presort Mail Program. The prospect of perennial postage increases over which they have no control often does not compare favorably with the stable, even declining, costs of reliable electronic alternatives. Some very large Presort mailers already have decided to curtail sharply their use of the Postal Service. For example, the April 24, 2009 edition of American Banker reported that American Express will be eliminating paper statements for an estimated 7 million corporate customers worldwide.

Similarly, Verizon, an MMA member recently adopted a policy of reducing the number of paper bills it sends out, as more completely detailed in a recent presentation made by

Verizon.<sup>5</sup> MMA is trying to obtain further information and a copy of that presentation, if possible.

The Commission also should be aware of other important developments affecting Presort mail volumes. The added requirements for IMB Full Service coupled with the economic downturn have pushed mail owners to outsource the mailing function. Their strategy is to shift the risks and capital investment burdens to Mail Service Providers, which gives them flexibility to focus on converting consumers from paper mail to electronic alternatives.

The Commission should not be too shocked by what is happening. In R2006-1, MMA witnesses David Gorham<sup>6</sup> and Mary McCormack<sup>7</sup> emphasized how important stable predictable postal rates are to large Presort mailers who must invest literally hundreds of millions of dollars to participate in the Presort Program. They also specifically warned the Commission what would happen and why if it persisted in rote application of the flawed “traditional” methodology that seriously understated the real workshare cost savings. Ms McCormack’s testimony on this score was prophetic:

Approval of the discounts proposed by the Postal Service will send Verizon and other workshare mailers a signal that their efforts are still valued. . . . Any reduction in workshare discounts will have a negative effect on Verizon’s use of First Class mail and could lead Verizon to place greater reliance on readily available, less costly alternative methods for bill presentment and payment. . . . Verizon’s worksharing capabilities rely heavily on capital investment decisions made far in advance of implementation. Unnecessarily complex and contentious rate setting procedures make these types of large investment decisions uncertain and risky. To the extent that there are viable alternatives, such as electronic bill presentment and payment systems that have more transparent and controllable costs, Verizon likely will take steps to encourage customers to make greater use of these alternatives.<sup>8</sup>

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<sup>5</sup> This presentation details several strategies that Verizon and other companies employ to contain postage expenses. For example, almost all wireless communications providers now suppress call details, primarily to reduce the number of flats sent to customers. Companies also consolidate invoices for customers who purchase multiple services and heretofore received multiple separate paper invoices.

<sup>6</sup> Mr. Gorham is the Manager Mail Services at CSG Systems, Inc. (CSG), a large Mail Service Provider, and a member of MMA’s Executive Board.

<sup>7</sup> Ms McCormack was the Postal Liaison for Verizon Corporate Services Corp.’s three Bill Print and Distribution centers located in Massapequa, NY, Richmond, VA, and Durham NC.

<sup>8</sup> R2006-1 Tr 38/13168-69.

Unfortunately, the Commission turned a deaf ear to such earnest warnings and significantly reduced the economic incentives inherent in the Postal Service's proposed R2006-1 workshare discounts. The Postal Service's proposed discounts -- supported by MMA -- were reduced by 2.4 cents for Mixed AADC, 1.6 cents for AADC, and 1.3 cents for 3-digits and 1.0 cents for 5-digits. These substantially reduced workshare discounts sent mailers a discouraging price signal by the Commission regarding the value of mailers' diligent worksharing efforts. To make matters even worse, the chilling effects of the Commission's preference for understated cost savings based on its flawed traditional methods have continued up until the instant case.

While a sudden, unexpected financial crisis may be the triggering event for the sudden plunge in Presort mail volumes in the current fiscal year, the Commission should not take comfort in that fact and expect Presort volumes to rebound completely once the economy recovers. Presort mailers' businesses were severely damaged by the financial crisis. Like the Postal Service, mailers had to scramble to cut costs in the face of plunging earnings. For large corporations such as Verizon, controlling costs is paramount, especially in exigent circumstances such as these. Cutting postage costs by encouraging customers to switch to readily available, secure, less expensive, more environmentally responsible and more reliable electronic bill presentment and payment solutions represents low hanging fruit in their overall cost reduction efforts. CSG Systems, a large Mail Service Provider, has offered electronic billing and payment options to its clients since 1999 because clients demanded it do so. CSG witness Gorham catalogued some of the important advantages of electronic alternatives:

[B]uilding and maintaining an electronic billing and payment remittance environment involves much lower initial and ongoing investments. For example, with electronic billing, the hardware and maintenance costs for printing, enclosing, and presenting paper invoices would all be eliminated. Similarly, in preparing and presenting electronic invoices to consumers, CSG and its clients would not be subject to the same complex and ever changing requirements imposed by the Postal Service on paper mail.

Mailers will not simply revert to the old ways of doing business as the economy improves. Having gotten a taste of the benefits of electronic alternatives to paper mail, large Presort mailers likely will seek to expand the use of those cost sparing alternatives.

Moreover, their customers will not demand a return to paper based solutions. As MMA witness McCormack testified in R2006-1, "it has been Verizon's experience that once a customer views and pays a bill electronically; the customer does not want to use the paper mail system." R2006-1 Tr 38/13169.

The stakes are high. When the Postal Service loses Verizon presort mail to the Internet and other electronic alternatives, it does not lose just the revenue on Verizon's very profitable outgoing mail pieces. It also forfeits the full Single Piece revenue on the CEM letters that customers used to pay their monthly bills. Since CEM mail pieces by definition and Postal Service prescription are so inexpensive for the Postal Service to process and deliver because, among other things, they incur no delivery charges at all, the combined net losses for the Postal Service from the outgoing and CEM return mail pieces is very substantial.

It does not help the case for using Presort mail that Presort mailers are forced to make significant investments in computer hardware and software, new, more sophisticated mail preparation and handling equipment and employee training in order to meet ever changing, ever stricter mailing requirements imposed too often unilaterally by the Postal Service. Adding insult to injury, mailers receive no recognition for their extra worksharing efforts in the prices they pay. The latest example of this harmful practice is found in sweeping changes in Move Update requirements. Effective November 23, 2008, the Postal Service decreed that Presort mailers had to update their customer address information every 95 days rather than every 185 days. This April the Postal Service began providing "feedback" to mailers on the quality of their Move Update process based on a verification process using live samples from their mailings. Effective January 2010, the Postal Service will begin using this verification procedure to assess additional postage on mailers who fail to meet Postal Service standards.<sup>9</sup> This latest Postal Service initiative has added an unwelcome element of risk for Presort mailers.

The Postal Service's new Intelligent Mail Barcode Program is another example of unnecessary, counter productive uncertainty being injected into the Presort Program. IMB potentially could be a win-win for mailers and the Postal Service. However, the Postal

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<sup>9</sup> See August 18, 2009 DMM Advisory.

Service made the roll out of IMB much less attractive by unilaterally offering an “incentive” discount of 0.3 cents per piece, less than half the discount MMA and other large Presort mailers thought reasonable. It further compounded that error by claiming that participating in Full Service IMB did not constitute worksharing and suggesting that the IMB discount would be phased out at some uncertain date.<sup>10</sup> The Postal Service has made the requirements so tough that the cost may far exceed the potential benefits. As a result, mailer acceptance of IMB has been much less widespread than anticipated, which could render the entire program less effective.

**I. A Robust Presort Mail Program Is Key To The Financial Well-Being Of The Entire Postal System**

**A. First Class Presort Mail Provides Uniquely Valuable Benefits To The Postal System**

First Class Presort mail has been, and properly managed can continue to be, the financial engine of the Postal Service. First Class Presort delivers huge cost savings and operational efficiencies to the Postal Service. The phenomenal growth of Presort mail over the past three decades, among other things, has financed the Postal Service’s drive to achieve the current automated mail processing (including the very expensive remote barcode system) that all letters and flats now receive. Presort also delivers important indirect benefits to the entire postal system.

First Class Presort is far and away the most profitable product that the Postal Service offers. Despite the fact that Presort letters pay, on average, approximately 21% less per piece than First Class Single Piece letters,<sup>11</sup> they contribute 4.8 cents or 27% more per piece to recovery of institutional costs (22.7 cents) than Single Piece letters contribute (17.9 cents). Presort letters also deliver huge cost savings to the Postal Service because the attributable costs of Presort letters (11.3 cents per piece) are much lower than those of Single Piece letters (25.2 cents). *Id.* Consequently, the cost coverages for Single Piece and Presort letters are 171% and 302% respectively. For Presort, this means that, for

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<sup>10</sup> *Notice Of Price Adjustment*, Docket No. R2009-2, Responses Of The United States Postal Service To Chairman’s Information Request No. 2, dated February 24, 2009 at unnumbered pages 6-7 (Response to CIR 2 (d)); Responses Of The United States Postal Service To Questions 1-9 Of Chairman’s Information Request No. 3, dated March 2, 2009 at 16-17.

<sup>11</sup> *Annual Compliance Report, 2008*, Docket No. ACR2008, Fiscal Year 2008 Annual Compliance Report, issued March 30, 2009 at 48

every dollar the Postal Service spends to process and deliver Presort mail, it receives \$3.02 in revenue. No other product is so profitable for the Postal Service.

Presort mail is also responsible for several additional financial benefits enjoyed by the Postal Service. Presort mailers often include a Courtesy Envelope Mail (CEM) envelope in their outgoing Presort mail piece, for example for use by the customer to enclose payment for an invoice. CEM envelopes constitute more than 15% of all Single Piece letter volumes. MMA witness Richard E. Bentley calculated in R2006-1 that each QBRM envelope returned saves the Postal Service over 6 cents as compared to the cost of regular First Class Single Piece letters. See R2006-1 Testimony of Richard E. Bentley, Ex. MMA-T-1 at 26-28, Appendix II at 1-6. In terms of cost sparing characteristics, QBRM and CEM are identical.

The substantial cost savings that CEM mail produces are possible because the Postal Service imposes stringent standards on the CEM mail pieces used by First Class Presort mailers. Indeed, Presort Mailers cannot use CEM mail pieces until all aspects of mail piece design have been approved by a Postal Service Mail Piece Design Analyst (MPDA) to ensure all automation requirements are met. Further, the mailer must submit a representative sample of the proposed CEM envelopes has been submitted to the Postal Service for testing and receive approval from the Service before the CEM envelope can be put in circulation. In view of the fact that CEM envelopes produce large cost savings for the Postal Service, it is ironic that the Postal Service not only refuses to recognize this important worksharing activity in Presort discounts, it effectively penalizes mailers for including CEM envelopes, for example when doing so causes the weight of mail pieces to exceed the one ounce threshold.

Finally, Presort mailers customarily include marketing inserts with outgoing invoices to maximize the usefulness of their postage dollars. This practice, generally referred to as the "fill the ounce," serves to generate significant additional Single Piece mail volumes as customers respond to Presort mailers' merchandise and/or service offerings, as well as follow-on volumes of Single Piece.

## **B. The Best Protection For First Class Single Piece Lies In Fostering A Strong Presort Mail Program**

In Order No. 243 (at 4), the Commission asked whether users of First-Class Single Piece mail are entitled to "special protection" under the PAEA, and, if so, what form that protection should take.

The Commission's use of the term "special protection" presumes that Single Piece mailers are not capable of fending for themselves. This language harkens back to the era when protecting "Aunt Minnie" was the catch phrase trotted out to justify any number of policy decisions. As it turns out, the paternalistic image of Aunt Millie as a not very intelligent, dowdy and easily confused woman of a certain age was far off the mark. In reality, Aunt Millie, better described as Thoroughly Modern Millie, has demonstrated that she is far more resourceful than her self anointed protectors thought. Increasingly, she has embraced the Internet's advantages for purchasers looking to stretch their dollars in tough times like these. She has also mastered the mysteries of email which offers almost instant contact with often far flung family and friends.<sup>12</sup> These positive experiences have prepared her for using the Internet and email to handle transactions such as receiving and paying utility and credit card invoices. So, it appears that venerated Aunt Millie needs no special protection from the Commission. Based on the unchecked accelerating decline in Single Piece volumes, it appears that Aunt Millie and other users are forsaking the Postal Service in droves.

If the Aunt Millie and her male counterpart do not require the Commission's "special protection," then the question arises: who would the Commission be protecting and what public purposes would be served? The next questions are what are the costs of providing "special protection" to users of Single Piece mail and who will pay those costs?

As the Commission's predecessor recognized, the complex and unduly controversial "traditional" method of measuring workshare cost savings and setting Presort discounts resulted in a substantial preference for Single Piece mailers at the expense of Presort mailers. In R2001-1, the Rate Commission registered its concern about the increase in the First-Class markups, stating "the Commission is concerned that the result is a shift in

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<sup>12</sup> Statistics on Aunt Millie's use of Twitter sadly are not yet available.

the institutional cost burden among the subclasses, with the monopoly class bearing a greater burden than historically found to be appropriate. The Commission announced its intent to analyze the issue and “urge[d] the Postal Service to likewise devote resources to this important issue.” PRC Op. 2001-1 at 49-50. In the years that followed, nothing has been done to honor those principled sentiments with actions to lower Presort’s contribution to institutional costs relative to Single Piece. Indeed, the disparity in the contributions of these products has grown ever wider.

Providing “special protection” for Single Piece mailers or any other group of mailers is not a wise regulatory policy. Under current and foreseeable circumstances, requiring Presort mailers to provide whatever “special protection” the Commission may feel Single Piece mailers are entitled to would be a prescription for financial ruin of the Postal Service. Presort mailers, especially very high volume mailers, will no longer suffer in silence the obvious inequities of such regulatory bias. They doubtless will redouble their efforts to convert customers from paper to electronic alternatives.

Moreover, Single Piece mailers will not be well served by regulatory policies that provide them with temporary “special protection” at the expense of Presort mailers. When Presort mailers see the writing on the wall and dramatically reduce their use of the mails, Single Piece mailers inevitably will face punishing rate increases.

It makes no sense for the Commission to push high volume Presort mailers out of the postal system. It would take 1.3 Billion new Single Piece letters to make up for the lost institutional cost contribution that results when just one Billion Presort letters leave the postal system. With Single Piece volumes in free fall, it is unrealistic to expect that any “special protection” rate policies could even halt much less reverse those volume declines. Moreover, as the parameters of the proposed Fall Sale indicate, Presort mailers that can deliver consistently high volumes should be given every reasonable encouragement to bring these badly needed volumes back to the postal system. What is needed is not “special protection” for Single Piece mailers but enlightened regulatory policies that reward such extraordinarily efficient and cost sparing operations.

### **C. Claims That First Class Presort Discounts Can Be Reduced Or Eliminated With Impunity Are Totally Lacking In Merit**

At the Public Forum, the Public Representative assigned to this proceeding, suggested that the Postal Service could reduce or eliminate entirely the discounts for First Class Presort mail without suffering any significant loss of Presort mail volumes. As he stated (Tr. 1/62):

David Levy [representing National Postal Policy Council] raised a very interesting thought experiment, and that was what would happen if there were no presort discounts whatsoever, and we have empirical evidence on that. There was a time when there were no presort discounts, and First-Class Mail, surprisingly, was presorted. It was presorted by mailers who could do it cheaply and who wanted better service that they obtained by presorting.

If we think of squeezing down that price margin between bulk and single piece, and ask really how much mail would revert to single piece, would not be presorted, it's not that much.

So, I think presort mailers need to be careful in what they wish for in terms of a separate class or market-based rates. The rates for -- the rates, not the discounts, the rates for presorted mail could be a lot higher than they are today without a terrific loss of volume or a terrific reversion to single piece.

The suggestion that Presort mailers would simply continue worksharing their mail to get better service if discounts were reduced or eliminated entirely is not only without any factual basis it is irresponsible.

At the outset, MMA notes that the Public Representative's views are not shared by another critic of large Presort mailers, American Postal Workers Union President William Burrus. As Mr. Burrus explained to APWU members:

The Postal Service recently reported that for each reduction of 1 billion pieces, revenue declines by \$360 million. This means that for every loss of 6 billion pieces, the USPS loses revenue approximately equal to cost of one biweekly payroll. The dissection of these numbers may seem to be at odds with my criticism of the large mailers and their influence on postal decisions, especially on excessive postage discounts. Even when criticizing the unhealthy relationship between mailers and USPS management, I am mindful of our reliance on large mailers to generate volume sufficient to maintain a national network that supports universal service: Without their mailings, neither the Postal Service as we know it nor the union would exist; postal employees most certainly would not earn \$50,000 or more per year....Postal management believes that the U.S. Postal Service is in the hard-copy mail business: Wrong. Mail is what we process,

transport, and deliver, but as the dominance of business mail demonstrates, the Postal Service is in the advertising business. Television, newspapers, radio and other competitors concluded years ago that their principal product was advertising. TV programs, radio shows, and newspapers are all vehicles for ad sales. It is time for postal executives to recognize that their business is advertising, through the use of mail. This realization should lead to a shift — from acting as a passive recipient of mail to becoming an engine that generates mail through advertising initiatives.

Moreover, the Public Representative's arguments make no sense. The Public Representative's characterization of the state of affairs that existed when the first, 1-cent discount for presorting was instituted omitted mention of a crucial fact: presorting was the very rare exception, not the rule. When the Commission first adopted a 1-cent presort discount, there were approximately 1.8 billion qualifying pieces. If that is the "empirical evidence" the Public Representative was referring to, it obviously provides no foundation upon which to base a critical policy decision like reducing or eliminating workshare discounts on over 45 Billion Presort letters.

Moreover, a lot has changed in the last 33 years. In 1976, paper mail essentially was the only game in town for businesses that needed to send invoices for services and financial statements to their customers and receive payments from them. The Internet and other electronic alternatives that today are permanently siphoning substantial volumes of paper mail out of the postal system did not exist at that time. As a result, the postal system was essentially a closed system. Large business mailers could send letters at single piece rates or earn discounts offered by the Postal Service by performing worksharing tasks that produced even greater cost savings for the Postal Service.

Today, the Postal Service no longer has a "lock" on these business communications. Increasingly, businesses and their customers can move to more convenient, more reliable and less expensive alternative methods of communicating with one another. The Internet and other electronic alternatives also better serve other broad social goals such as the Go Green movement that seeks to reduce paper waste and preserve the environment. Indeed, the Postal Service itself now recognizes the environmental benefits of controlling unnecessary use of paper.

Finally, Presort Mailers now recognize that the Postal Service's perennial promises of "better service" in return for presorting and other worksharing activities are hollow. Over the years MMA members and other Presort Mailers have voluntarily undertaken numerous worksharing activities for which no additional discounts were offered because the Postal Service repeatedly told them that they would receive better service. R2006-1 Tr 38/13165-66. Presort Mailers no longer believe such platitudes and the Commission should not either. During the Public Forum, David Gorman, specifically addressed and refuted the Public Representative's facile "better service" argument. Tr. 1/63. Indeed, when MMA members have tried to determine whether they are getting better service for all their worksharing efforts, the results show they actually receive inferior service. For example, in R2006-1 Verizon witness Mary McCormack testified that Verizon "seeds" its outgoing Presorted letter mail several times a year and has found that the Postal Service does not meet applicable service standards about 50% of the time. R2006-1 Tr. 38/13179-180.

If the Commission has any further doubts on this score, it need look no further than the Postal Service's most recent on time delivery statistics. For Quarter 3 of the current fiscal year, the percentages of Presort mail successfully delivered Overnight (87.4%), within Two Days (86.4%) and within Three-Days to Five-Days (88.4%) are **significantly** lower than the corresponding results for Single Piece mail (Overnight (96.3%), within Two Days (94.5%) and Three Day to Five Day (93.1%).<sup>13</sup>

In sum, the Commission should reject outright the Public Representative's wrongheaded proposition that, based on ancient history, First Class Presort discounts can be reduced or eliminated entirely without adverse consequences for Postal Service finances and operations. Such a gunslinger mentality is a prescription for disaster. Very high volume Presort mailers, like MMA members will survive because they can and will move quickly to drastically reduce their mailings of such bread and butter items as paper invoices, with enclosed CEM envelopes, and financial statements and switch as many routine transactions as possible to attractive electronic alternatives. They may continue to

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<sup>13</sup> See <http://www.usps.com/serviceperformance/htm/Single-PieceFirst-ClassMailQuarterlyPerformanceFY09Q3.html> and <http://www.usps.com/serviceperformance/htm/PresortFirst-ClassMailQuarterlyPerformanceFY09Q3.html>

use First Class Single Piece mail to send legal notices and similar documents that by law, rule or regulation must be sent First Class Mail, but that volume will not keep the Postal Service viable.

## **II. Single Piece And Presort Are Functionally Different Products**

Despite the fact that Single Piece and Presort letters were both classified as First Class, there can be no doubt that, today, they are distinctly different products. The key difference between the two types of letters lies in the extent to which the Postal Service exercises control over the mailers.

The Postal Service exercises virtually no control over mailers of First Class Single Piece letters. To the contrary, the entire postal system is designed with the goal of making mailing Single Piece letters as convenient as possible for these mailers. As a general rule, the Postal Service will collect letters from widely distributed collection boxes or from mail boxes or other receptacles at the mailer's residence and/or place of business. The Postal Service also maintains a network of conveniently located post offices where mailers can purchase stamps, deposit letters and get information and advice on a wide assortment of mailing products and ancillary services from well-trained, knowledgeable postal clerks. The Postal Service also accepts and diligently delivers a wide range of non-uniform mail pieces that often contain incomplete addresses that may be presented in difficult to decipher handwriting and placed on areas of the envelope that require manual processing. In this regard, the Postal Service has invested heavily in remote barcoding systems, equipment and facilities designed to minimize the number of letters that cannot be delivered.

In contrast, the Postal Service exercises strict, pervasive control over all aspects of First Class Presort mailings. That control begins with mailpiece design which specify some 15 separate, highly technical attributes and strict tolerances that the Postal Service requires each outgoing mail piece to meet, including size, shape, aspect ratio, weight, stiffness of paper stock, color and reflectance of paper stock and ink, construction of the envelope, address window location, and the placement of endorsements and other printed information (e.g. logo and return address). This strict control extends to placement of the address and prebarcode. Further, Presort mailers cannot use these mailpieces until

sample envelopes have been tested and approved by the Postal Service. Unlike Single Piece mailers, Presort mailers must bring their mailings to specific Postal Service facilities, which may be remote from mailers' facilities. Moreover, these mailings must be placed in trays that cannot contain a specific number of pieces but must be 90% full and each tray must be sleeved and banded. For many consistently high volume Presort mailers, it is more economical for the Postal Service to establish a detached mail entry unit (DMU) at the mailer's facility, accept mailings at that location and enter into plant load agreements which allow postal trucks to move these high volume mailings much more expeditiously from the mailers' facilities to delivery areas because they make it possible to bypass local postal facilities and the expensive processing that goes on at local postal facilities. While DMUs offer some benefits mailers, the Postal Service requires mailers to purchase, house and maintain special, expensive equipment that postal clerks use in the mail verification process. At these DMUs, mailers also perform many of the tasks that postal employees would have to perform to process numerous smaller volume mailings brought to local Business Mail Entry Units. Among these tasks are sorting trays and full pallets (and in some cases full tractor trailer trucks), shrinkwrapping pallets, moving full pallets to the mailer's loading dock, loading the pallets onto Postal Service trucks and actually scheduling transportation for the Postal Service. Of course, performing these activities is expensive for the mailer<sup>14</sup>

At the Public Forum, the Chairman suggested (Tr 38-39) that unless a linkage was maintained between Single Piece and Presort, the concept of worksharing would be meaningless.<sup>15</sup> Nothing could be further from the truth. Recognizing that Single Piece and Presort are fundamentally different products would allow the Postal Service and Commission to focus on price initiatives that make sense for both of these functionally different products.

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<sup>14</sup> Presort mailers who participate in the Postal Service's DMU program must purchase, house and maintain specialized heavy duty shrink wrapping machines and supplies, and fork lifts to move palletized mail onto Postal Service trucks. These mailers must also furnish adequate space to store shrink wrapped pallets awaiting the arrival of Postal Service trucks.

<sup>15</sup> Similarly, in her Dissenting Opinion in Order No.191, Chairman Goldway stated. "I am particularly concerned that the Postal Service's interpretation allows it to unilaterally determine what is or is not a workshare discount, thus effectively allowing it to write the protections intended by 39 U.S.C. § 3622(e) out of the statute when it is convenient." Dissenting Opinion at 3.

Within Presort, the Postal Service and the Commission can focus on real cost drivers that affect the Postal Service's revenues, profits and the well being of the postal system to the benefit of all mailers, including Single Piece users. As the structure of the Postal Service's Fall Sale proposal in R2005-1 suggests, high Presort volumes are very important to postal finances. Volume is a significant, perhaps the most important, driver of cost savings and high Presort volumes make possible more efficient, cost effective operations throughout the postal mailstream. Further, the fact that Presort mail is so much more profitable than Single Piece mail makes recapturing lost volumes of this mail a business imperative for the Postal Service and *should* make prompt sensible action a regulatory imperative for the Commission.

On several occasions, MMA has urged the Postal Service and implored the Commission to study the effects of consistently high Presort mail volumes on postal finances and cost savings and, if appropriate, reform the pricing structure of Presort Mail. Each time, the Postal Service and Commission have ignored MMA's calls for basic rate structure reform.

Since the inception of workshare discounts, the rate schedule for Presort has never recognized the important role that consistently high letter volumes play in minimizing costs. There are over 90,000 presort mailer permits. R2005-1 Tr 8D/4578. The vast majority of those permits is used to mail very low volumes on schedules that are not consistent. In this regard, in R2005-1, the Postal Service confirmed that 39% of all workshared mailings contain 1,500 or fewer pieces and account for just 2% of all volumes. Similarly, about 90% of all mailings contain fewer than 25,000 pieces and account for just 23% of all volumes. R2005-1 Tr 8D/4585.

In contrast, a relatively few mailers are responsible for the vast majority of highly efficient mail volumes that the Postal Service can count on day in and day out. In FY 2005, 35 very high volume Presort mailers accounted for more than 53% of all Presort letter volume.<sup>16</sup>

Unfortunately, presort discounts have always been based on the behavior and actions of the lowest common denominator presort mailer. Per piece discounts are the same for

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<sup>16</sup> R2006-1 USPS Institutional response to Interrogatory MMA/USPS-2.

irregular mailings of as few as 500 pieces, the current minimum size mailing and daily mailings of 1 million letters.

Today, one-size-fits-all ratemaking for Presort mail makes no sense. Small mailings entail much more effort and expense for the Postal Service than large mailings for which the mailer performs essentially all functions that the Postal Service otherwise would have to perform.

Within the Single Piece pricing category, the Postal Service and Commission could focus on potential rate reforms that make sense for those mailers. For example, at the Public Forum, Chairman Goldway discussed efforts to establish a discounted CEM rate for Single Piece mailers. Tr 45-47. Despite finding favor with the Commission's predecessor, this interesting concept was never incorporated into the rate schedule, due in large part to opposition from the Postal Service. Recognizing that Presort and Single Piece are different products and pricing them separately would clear the way for implementation of a Single Piece CEM rate that reflected the worksharing attributes of this very efficient mail pieces. As Chairman Goldway stated, "[w]ell, [the idea of giving Single Piece mailers a discounted rate for using CEM envelopes] got somewhere with us, or with our predecessor agency. I think we still have some workshare issues even if we separate the classes." Tr 46.

## **Responses to Notice Of Inquiry No. 1**

In NOI No. 1, issued August 27, 2009, the Commission posed 3 separate multi-part questions intended to focus the parties' thinking on matters that go to the heart of important issues presented in this proceeding. MMA thanks the Commission for its careful reflection on the questions presented and appreciates the opportunity to respond.

### **Question 1**

To the extent that this question is aimed solely at the traditional presort houses, MMA would defer to the expertise of parties like National Association Of Presort Mailers and possibly others. However some MMA member companies do engage in mail consolidation activities similar to those described in Question 1. For example, Mail Service Providers (MSP) such as CSG and DST Services use equipment such as MLCORs to combine the already presorted mail pieces from two or more mail owners in order to maximize the depth of sort and, thereby, earn larger discounts. These activities are very beneficial for the MSP's client mail owners and the Postal Service.

It is highly unlikely that Postal Service would or could perform this type of cost saving activity with respect to smaller mailings entered at BMEUs. The key consideration here is that each of the MSP's client mailings already exceed by factors of up to a thousand times the size of mailings entered at most BMEUs. Because MMA MSPs consistently mail high volumes of Presort mail, the Postal Service has made arrangements very beneficial to the Service to accept such large mailings at the MSPs' facilities rather than the local BMEU, after which the mail is transported on postal trucks, thereby completely bypassing local postal facilities and often intermediate HASPs. Accordingly, it is unlikely that the Postal Service would ever have to deal with these large mailings until the mail reaches the destination delivery areas. These super efficient operating practices minimize handling and transpiration costs for the Postal Service.

Assuming that the Postal Service could perform this function, the activity obviously constitutes worksharing. If mailers, like MMA MSPs, did not perform the function, the Postal Service would have to perform extensive additional processing steps to achieve comparable densities. Performing that function entails using more equipment time and postal labor to perform the necessary extra sortations.

The bottom line is that mailers who perform the additional functions described in Question 1 deserve to share in the cost savings their additional worksharing efforts make possible.

## **Question 2**

MMA is uncertain exactly how to respond to some of these questions. Whatever theoretical value might be gained by considering the four mail entry options presented, only the last option clearly makes sense in the real world. To save costs, the Postal Service needs both density (5-digit) and full trays. Presortation clearly saves processing cost, even at the 3-digit level.

The problem with way these questions are posed is that the possibilities posited do not take into account Volume - the key driver of cost savings and operational efficiencies. Mailings presented in very high volumes matter. Moreover, when the same mailer consistently enters high volume mailings on a regular schedule substantial additional cost savings opportunities are available to the Postal Service. For example, as Ms. McCormack testified in R2006-1, each month Verizon sends out about 40 million Presort letters from its three Bill Print and Distribution Centers. Because the Postal Service could count on receiving such high volumes of mail from Verizon, special extraordinarily cost effective transportation arrangements are routinely made. As she explained (R2006-1 Tr 38/13165-66):

Because Verizon can sort its mail to the finest depth, the USPS is able to cross dock" the mail, meaning that the mail can be placed directly on an outgoing truck when it reaches the Postal Service plant which saves the Postal Service money since USPS employees do not have to break down the pallets and resort the trays onto other pallets or rolling stock. The Postal Service enjoys even greater cost savings when handling Verizon's out-of-state mail. This mail typically avoids all processing at the local postal facility. For example, full tractor trailer truckloads of Verizon invoices produced at our Richmond, Virginia facility and destined for customers located in New Jersey routinely go directly from Verizon's plant to New Jersey, thereby bypassing not only the Postal Service's local facility but also one or more intermediate HASPS. The same holds true for Verizon's Durham, North Carolina facility where we produce mail destined for customers in the Mid-west and the west coast. Trays of mail bound for these destinations are zip code sorted and palletized by state. Our employees place these pallets onto USPS trucks headed directly to the Mid-west and west coast. Despite the additional cost savings that accrue to the Postal Service, Verizon does not receive any

additional workshare discounts for "cross docking," presorting entire trucks by final destination, or palletizing the mail by state in zip code order.

Current regulations applicable to workshared mailers do not require tray sorting, pallet sorting or 'truck sorting". In fact, many of these "extra" operations have been implemented at the specific request of local postal officials in the past few years. Accordingly, cost savings enjoyed by the Postal Service due to these extra steps that Verizon performs are not specifically reflected in the discounts.

### **Question 3**

All the enumerated functions should be taken into account in fixing an appropriate price for Presort mail. But this list does not exhaust all the factors and activates that can and should be taken into account.

“Traditional” pricing principles only take into account costs avoided and even then only to a limited extent. For example, current pricing for Presort mail gives no recognition for address quality or the cost to mailers. In order to qualify for *any* discount addresses must first be validated. Moreover traditional pricing for First Class Presort makes unrealistic assumptions that artificially shrink avoided costs. For example, the Commission uses as the benchmark from which to measure avoided costs, a perfectly “clean” letter that contains a validated up to date address. In reality, the average First Class Single Piece letter not “clean” and there is no procedure to validate addresses placed on these often handwritten pieces. That represents the cost difference that can and should be taken into account in the pricing process.

MMA members and other Presort mailers have no faith in the traditional method of measuring workshare cost savings. To begin with, it is based on a myth – that benchmark BMM letters exist. They do not. The traditional method compounds this error by making unrealistic assumptions, for example that Single Piece letters regularly convert to Presort and that Presort letters would simply convert back to Single Piece if there were no workshare discounts. Moreover, the “methodology” is not logical because among other things it relies on outmoded mail flow models that produce nonsensical results. Finally, the Commission’s track record for carefully considering and wisely ruling upon important issues raised by Presort mailers is not a good one. In R2006-1, the Commission gave short shrift to several issues, failed to address MMA’s calls for fundamental rate reform,

omitted ruling on one issue, and, finally snatched defeat from the jaws of reasoned decision making by correctly rejecting the Postal Service's position that there were no delivery cost savings but then using a flawed benchmark which produced tiny delivery cost savings for most categories an NEGATIVE savings in one instance.

## Conclusion

For all the foregoing reasons, the Commission should approve the Postal Service's pricing proposal to price First Class Single Piece and Presort mail separately, as reflected in the current prices in effect in R2009-2. Then the Commission should proceed to focus on pricing policies that make sense for each of these separate products. For Presort, the Commission should adopt prices that give high volume mailers credit for the extra cost savings their highly efficient operations make possible for the entire postal system, as MMA has urged for years.

Respectfully submitted,

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