

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

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**Consideration of Workshare Discount  
Methodologies**

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**Docket No. RM2009-3**

**COMMENTS OF PITNEY BOWES INC.**

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## I. INTRODUCTION

Pitney Bowes Inc. (Pitney Bowes) respectfully submits these comments in response to Postal Regulatory Commission (Commission) Order No. 243, dated July 10, 2009, that invited further comment on several broad, high-level policy issues related to workshare discount methodologies.

The Postal Accountability and Enhancement Act (PAEA)<sup>1</sup> protects Single-Piece First-Class Mail users, and all others, through its command that the Commission establish and maintain a just and reasonable schedule of rates. *See* 39 U.S.C. § 3622(b)(8). It does not confer any “special protection” on the users of Single-Piece First-Class Mail. The PAEA gives the Commission the discretionary authority to balance numerous, competing statutory requirements, objectives and factors to assure a “just and reasonable” schedule of rates. It is not necessary for the Commission to impose pre-PAEA cost-based linkage across distinct products in order to ensure just and reasonable rates. And there are good reasons for the Commission not to do so. Single-Piece and Presort First-Class Mail are separate products with distinct cost and market characteristics. Avoiding the pre-PAEA linkage would increase pricing flexibility and help Postal Service finances.

Pitney Bowes supports pricing differentials that fully reflect all workshare and non-workshare related cost savings to the Postal Service.

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

## II. DISCUSSION

### A. The PAEA Does Not Confer Any “Special Protection” on the Users of Single-Piece First-Class Mail

In Order No. 243 the Commission specifically invites additional comments on “whether the users of single-piece First-Class Mail are entitled to special protection under the PAEA.” PRC Order No. 243 at 4. Notwithstanding the important social function served by some Single-Piece First-Class Mail, the PAEA does not confer any “special protection” for Single-Piece Mail. Several statutory provisions address the interests of users of Single-Piece First-Class Mail, however, these provisions do not place the interests of Single-Piece First-Class Mail users above the interests of other mail users.

Section 101(a) provides, in pertinent part:

The United States Postal Service shall be operated as a basic and fundamental service provided to the people by the Government of the United States, authorized by the Constitution, created by Act of Congress, and supported by the people. *The Postal Service shall have as its basic function the obligation to provide postal services to bind the Nation together through the personal, educational, literary, and business correspondence of the people.* It shall provide prompt, reliable, and efficient services to patrons in all areas and shall render postal services to all communities. The costs of establishing and maintaining the Postal Service shall not be apportioned to impair the overall value of such service to the people.

39 U.S.C. § 101(a)(emphasis added). This provision was unchanged by the PAEA.

Thus, the postal policy of the United States continues to expressly promote and protect the interests of all mail users.

The statutory objectives, factors, and requirements of chapter 36 do not provide any “special protection” for Single-Piece First-Class Mail users. *See* 39 U.S.C. § 3622. While several objectives and factors may appropriately be read to protect the interests of citizen mailers, numerous others seek to protect the interests of business mailers. *See* 39

U.S.C. §§ 3622(b)(2)-(3), (6), (8) and 3622(c)(1), (3), (6), (8), (9); *compare* 39 U.S.C. §§ 3622(b)(1)-(3), (6)-(8) and 3622(c)(1), (3)-(9).

Section 3622(c)(3) is the *only* statutory objective or factor to expressly address the needs of citizen mailers. *See* 39 U.S.C. § 3622(c)(3). But even section 3622(c)(3) urges the Commission to take into account “the effect of rate increases upon the general public, business mail users, and enterprises in the private sector of the economy engaged in the delivery of mail matter other than letters.” 39 U.S.C. § 3622(c)(3).

**B. Breaking the Pre-PAEA Cost-based Linkage between Single-Piece and Presort First-Class Mail Will Increase Pricing Flexibility and Help Postal Service Finances**

1. Under the PAEA Single-Piece and Presort First Class Mail are Separate Products which Should Not Be Linked

Section 102(6) defines a “product” as “a postal service with a distinct cost or market characteristic for which a rate or rates are, or may reasonably be, applied.” 39 U.S.C. § 102(6)(emphasis added). Single-Piece and Presort First-Class Mail have distinct costs and distinct market characteristics and, thus, are separate products.

*a. The cost characteristics of Single-Piece and Presort First-Class Mail are different*

The Postal Service made the empirical case based on historical Cost and Revenue Analysis (CRA) data in the Technical Appendix of the Postal Service’s Initial Comments. *See* Postal Service Initial Comments (May 26, 2009), “Technical Appendix – Cost and Demand.” Table 1, below, shows the costs, the cost differences, and the ratio of Single-Piece to Presort costs for First-Class Mail.

**Table 1 – Costs, Cost Differences, and Ratios for Single-Piece First-Class and Presort First-Class**

<b>Cents Per Piece</b>				
	<b>Single-Piece Cost</b>	<b>Presort Cost</b>	<b>Difference</b>	<b>Ratio of SP to Presort</b>
<b>FY 2002</b>	26.83	10.83	16.00	2.5
<b>FY 2003</b>	26.48	10.32	16.16	2.6
<b>FY 2004</b>	26.47	10.10	16.37	2.6
<b>FY 2005</b>	28.69	10.62	18.07	2.7
<b>FY 2006</b>	29.83	11.11	18.72	2.7
<b>FY 2007</b>	31.21	11.82	19.39	2.6
<b>FY 2008 (letters only)</b>	25.20	11.25	13.95	2.2

The historical data clearly establishes that there are large and consistent cost differences between Single-Piece and Presort First-Class Mail. Furthermore, the data show the cost differences consistently exceed the average workshare-related cost avoidances measured using the Bulk Metered Mail (BMM) benchmark. As shown above, the FY 2008 letter CRA cost difference (13.95 cents significantly exceeds the workshare-related cost difference (less than 8 cents).<sup>2</sup> Thus, more than five cents of the 13.95 cent CRA-measured cost difference must be caused by factors other than worksharing. We agree with the Postal Service that these differences are attributable to the inherent differences in Single-Piece and Presort First-Class Mail. *See* Postal Service Initial Comments at A-3 (discussing heterogeneity of Single-Piece First-Class Mail).

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<sup>2</sup> *See* Postal Service Initial Comments at A-2 (“In FY 2008, the first year for which CRA data were available by shape, Single-Piece letters’ unit attributed cost is 25.20 cents while for Presort letters the cost is 11.25 cents per-piece. This FY08 difference in CRA letter mail attributable cost of 13.95 (25.20 – 11.25) cents can be compared with the avoided costs estimates for letter mail presented on page 52 of the FY 2008 ACD (March 30, 2009). . . . On a volume-weighted basis, the average cumulative letter mail cost avoidance is under 8 cents, or just above half of the CRA attributable cost difference.”).

*b. Single-Piece and Presort First-Class Mail also have different market characteristics*

The Postal Service's initial comments describe the "discrete, clearly definable customer segments and types of mail within both the Single-Piece and Presort categories." Postal Service Initial Comments at A-3. For economic and technical reasons household mail in the nature of personal correspondence (e.g., birthday cards, postcards, etc.) and some business correspondence (e.g., bill payments) will for always be Single-Piece. Alternatively, bulk entered transaction mail (e.g., transaction mail (billing and statements)) will almost always be Presort. Thus, there is little opportunity for substitution in consumption or production between the two products.

The Postal Service has discussed the differences in the market characteristics between these two products in numerous prior filings and even Single-Piece mailers have acknowledged the differences in the cost and market characteristics. *See* Dkt. No. ACR2007, Reply Comments of the Greeting Card Association (February 13, 2007) at 4 (quoting Dkt. No. RM2007-1, Postal Service Submission of Initial Mail Classification Schedule in Response to Order No. 26 (September 24, 2007) at 12); *see also* Dkt. No. RM2009-3, Postal Service Initial Comments (May 26, 2009) at 13 (quoting and citing same).

While there may be some small overlap in the market for Single-Piece First-Class Mail and the market for Presort First-Class Mail, the amount of mail that might convert continues to diminish. Presort First-Class Mail is a mature product. *See* Postal Service Initial Comments at 20. Single-Piece First-Class Mail that could convert has largely converted. With respect to Presort First-Class Mail reverting to Single-Piece, the potential universe is even smaller. Whatever the merits of the assumption that Presort

First-Class Mail would revert to Single-Piece in 2000 or 2006, the analytical construct of a “two-way street” is no longer viable.<sup>3</sup> Presort First-Class Mail is much more likely to revert to Standard Mail or an electronic channel.

Pitney Bowes’ experience confirms this. For several years, Pitney Bowes has offered a service called Presort Xtra. Under this program, Pitney Bowes collects, aggregates, barcodes, and enters metered mail from small business customers. The program affords tremendous benefits for the participating customers because it allows them to claim workshare discounts on mail that otherwise would have been entered as full rate Single-Piece Mail. The program has converted over 100 million pieces from Single-Piece to Presort Letters, providing savings to small business mailers and cleaner mail to the Postal Service. Although Pitney Bowes has been working for several years to increase customer participation, the total volume of the program comprises only about one percent of all presort mail entered by Pitney Bowes and less than 0.2 percent of total First-Class Mail volume.

*c. Single-Piece and Presort First-Class Mail are separate products*

The inherent cost and market differences served as the justification for the Postal Service’s proposal in Docket No. RM2007-1 to define Single-Piece and Presort First-Class Mail as separate products in the new Mail Classification Schedule (MCS). *See* Dkt. No. RM2007-1, Regulations Establishing A System of Ratemaking, Order No. 43 (October 29, 2007) at ¶¶ 4013-4018. The Commission approved this approach, stating

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<sup>3</sup> *See* Docket No. R2006-1, ¶ 5095 (quoting Docket No. R2000-1, ¶ 5089)(“ The Commission also views a benchmark as a ‘two-way street’. It 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.”).

that the Postal Service’s definition and categorization of First-Class Mail products, “comply with the [PAEA] definition, and represent postal services with distinct cost or market characteristics. . . . The Commission finds that the Postal Service has appropriately described product lines applicable to First-Class Mail.” Dkt. No. RM2007-1, Order No. 43 at ¶ 4017. The Commission’s initial determination was proper.<sup>4</sup> Linking Single-Piece and Presort First-Class Mail is inconsistent with the finding that they are separate and distinct products.

The worksharing limitations of section 3622(e) do not apply to rate relationships between separate products. Section 3652(b) requires that information relating to workshare discounts be reported “with respect to each market-dominant product.” The Postal Service correctly observed, the necessary consequence of reading sections 3622(e) and 3652(b) together is that worksharing relationships are to be analyzed on an *intra-product* rather than an *inter-product* basis. *See* Postal Service Initial Comments at 14-16. Pitney Bowes agrees. The two provisions are complementary and must be read together.

The Greeting Card Association (GCA) argues the Postal Service is improperly elevating a “reporting” provision (section 3652(b)) over a “substantive” provision (section 3622(e)). *See* GCA Comments (August 31, 2009), at 3-5. This argument runs directly contrary to the PAEA’s emphasis on after-the-fact review and transparency. The post-implementation review provisions of sections 3652 and 3653 are of paramount importance under the PAEA because of the inherently limited scope of the Commission’s pre-implementation review. The post-implementation review is based on the information

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<sup>4</sup> As noted in the Postal Service’s initial pleading in this docket, the Commission held open the possibility that the initial classifications would be subject to future adjustments pending changing conditions. No party has come forward with any evidence that Single-Piece and Presort First-Class Mail now have common cost characteristics or similar market characteristics.

that the Postal Service is required to provide under section 3652(b). Therefore, the substantive limitations of section 3622(e) are applied only in the context of the post-implementation review as informed by the information and reporting required under section 3652(b). *See* Postal Service Comments at 16-17.

2. A Delinked Rate Design Increases Pricing Flexibility and Helps Postal Service Finances

Increasing Postal Service pricing flexibility and the efficiency of the postal system were primary objectives of the PAEA. *See* 39 U.S.C. §§ 3622(b)(1), (4)-(5) and 3622(c)(7), (12). Costing or pricing methodologies that limit the Postal Service's pricing flexibility and its ability to maximize revenues under the regulatory price cap must be closely scrutinized. The imposition of the pre-PAEA linking methodology would unjustifiably limit the Postal Service's pricing flexibility and harm the long-term financial viability of the Postal Service.

"Linking" Single-Piece and Presort First-Class Mail as a means of preserving *status quo* pricing relationships between these two separate products would undermine the Postal Service's ability to encourage more efficient mail and achieve needed productivity improvements. Under a "linked" rate design, the integer constraint on Single-Piece First-Class Mail and the price cap mechanics create a systematic bias in favor of Single-Piece First-Class Mail relative to Presort First-Class Mail.

Over time, this bias has led to rate differentials between Single-Piece and Presort First-Class Mail that are significantly smaller than the average cost differences and has caused Presort First-Class Mail to assume a disproportionate share of the price burden. In FY 2001, Single-Piece contributed 15 cents per piece and Presort contributed 17 cents

per piece to overhead.<sup>5</sup> By FY 2007 Single-Piece contributed 17.1 cents per piece and Presort contributed 21.1 cents per piece, 3.4 cents per piece more than Single-Piece. In FY 2008, the first year in which the CRA isolates letter costs for Single-Piece and Presort First-Class Mail, Presort contributed 4.8 cents more per piece (22.674 cents per piece) than Single-Piece (17.874- cents per piece). *See* FY 2008 ACD, Table VI-I, 48.

This bias has had and will continue to have a significant adverse financial impact on the Postal Service. Imposition of a “linked” rate design would exacerbate these problems. Under a “linked” rate design the Postal Service could not use its pricing flexibility to stem volume declines and encourage growth in more profitable Presort letter mail volumes. In the short term “linking” would harm more efficient mailers by limiting the Postal Service’s ability to recognize through appropriate price signals mailer activities that reduce the Postal Service’s costs, thus driving away low-cost, highly profitable mail volume. Longer term, “linking” threatens the financial viability of the Postal Service to the detriment of all mailers.

**C. The PAEA Protects Single-Piece First-Class Mail Users, and All Others, Through Its Command that the Commission Establish and Maintain a Just and Reasonable Schedule of Rates**

The Commission can most effectively protect the interests of all mailers, including Single-Piece First-Class Mail users, by not imposing the pre-PAEA linking methodology. The statutory objective of a just and reasonable schedule of rates protects all mail users. *See* 39 U.S.C. § 3622(b)(8). Section 3622(b)(8) directs the Commission to establish a modern rate system that seeks, among other objectives:

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<sup>5</sup> Presort figures for FY 2001 through FY 2007 include letters, flats, and parcels. Used in this context, “contribution” is the difference between per-piece revenue and per-piece attributable costs, analogous to “profit.”

To establish a just and reasonable schedule of rates and classifications, however the objective under this paragraph shall not be construed to prohibit the Postal Service from making changes of unequal magnitude within, between, or among classes of mail.

Section 3622(b)(8).

The language suggests the importance of the relationship among rates. The “just and reasonable” standard is a relative standard. Price differences and relative price burdens must be assessed on a comparative basis. The language also makes clear that Congress intended the Commission to *establish* a just and reasonable schedule under the new, modern rate system; a rate system that is defined in large part by the expanded pricing flexibility afforded to the Postal Service. This language is inconsistent with the imposition of a pre-PAEA cost-based linkage between separate products as a means of freezing in place historical rate relationships.

The language further requires the Commission to *maintain* a just and reasonable schedule over time. This implies a longer term assessment of pricing relationships and relative price burdens; a requirement that is further amplified through the statute’s express recognition that the Postal Service may “mak[e] changes of unequal magnitude within, between, or among classes of mail.”

The legislative history of the PAEA further confirms that just and reasonable objective was intended to protect the interests of Single-Piece First-Class Mail users while affording the Postal Service maximum pricing flexibility under the new regulatory price cap. The just and reasonable objective was first introduced as an amendment to S. 662 on February 9, 2006. *See* 109 Cong. Rec. S926 (daily ed. Dec. 9, 2006). The amendment inserted what is now section 3622(b)(8) and deleted the reference to a “fair and equitable” rate schedule as one of the statutory factors. *See id.* These same changes

were included in the final House bill (H.R. 6407) which became the PAEA. The reason for the change was to provide protections for all mailers, including Single-Piece First-Class Mail users, while allowing the Postal Service the flexibility to adapt to changes in competitive and economic conditions. Importantly, the “fair and equitable” language was dropped from the list of statutory factors for the purpose of severing thirty years of interpretive history under the PRA that is inconsistent with the new pricing flexibility afforded by the PAEA.

Accordingly, the text and legislative history of the PAEA suggest that the imposition of pre-PAEA cost-based linkage between Single-Piece and Presort First-Class Mail is inconsistent with both the Postal Service’s new pricing flexibility and the Commission’s broad discretionary authority to balance numerous, competing statutory objectives and factors to assure a “just and reasonable” schedule of rates.

#### **D. The Alternative Proposals**

The Commission invited comment on a number of alternative forms of protection for Single-Piece First-Class Mail in Order No. 243, including: (1) imposing the pre-PAEA cost-based link between separate products via a “suitable benchmark”; (2) establishing a separate class of Single-Piece First-Class Mail subject to its own rate cap; and (3) imposing a limitation on the difference allowed between Single-Piece and Presort First-Class Mail in terms of either average contribution per piece or average cost coverage per piece. *See id.* Pitney Bowes offers the following observations on these proposed alternatives.

1. Linking Presort First-Class Mail Rates to Single-Piece First-Class Mail Rates via a suitable benchmark

For the reasons discussed above and in previous submissions, this is the least attractive alternative proposed. The Commission should not impose the pre-PAEA cost linkage between two distinct products. Such an approach is unnecessary to protect Single-Piece First-Class Mail users and will unjustifiably limit the Postal Service's pricing flexibility and challenge the financial viability of the Postal Service. As noted above, imposing a cost-based linkage between Single-Piece and Presort First-Class Mail will aggravate the existing disparity in profitability and contribution between Single-Piece and Presort letters and accelerate the decline in profitable mail volumes.

If the Commission chooses to impose an inter-product cost-based linkage between Single-Piece and Presort First-Class Mail, BMM is not a "suitable benchmark." Given the heterogeneity in Single-Piece First-Class Mail any benchmark will introduce inefficiencies, but BMM, as a low cost proxy, is a particularly poor choice.

Pitney Bowes and other parties have submitted testimony in prior proceedings discussing the theoretical and practical limitations of the BMM benchmark. *See* Docket No. R2006-1, (PB-T-1)(witness Panzar), at 36-37 ("the previous methodology [linking] of basing discounts based upon the avoided processing costs of *mail most likely to be work-shared* [BMM], is likely to lead to discounts too low to result in an efficient allocation of mail processing activity.")(citing John C. Panzar, *Clean Mail and Dirty Mail: Efficient Worksharing Discounts in the Presence of Mail Heterogeneity*, presented at the 14<sup>th</sup> Conference on Postal and Delivery Economics, Bern, Switzerland, May 31-June 3, 2006); Dkt. No. R2006-1, (NAPM-RT-1)(witness Bell), at 2 (BMM not representative of mail presented for presort). In its initial comments Pitney Bowes

recommended that the Commission consider a range of workshare-related cost avoidance estimates, rather than a single benchmark. *See* PB Initial Comments at 10. A range would give effect to the Postal Service’s enhanced pricing flexibility, and take into account the heterogeneity of Single-Piece letter costs. The upper bound of this range could be set at the cost avoided relative to an average Single-Piece letter; the lower bound could be set at the cost avoided relative to BMM. Such an approach would afford significant protection to Single-Piece First-Class Mail because even the upper bound of this range would be the cost difference relative to the *average* Single-Piece letter, not a high-cost letter (e.g., one with a handwritten address). *See id.*

During the public forum organized by the Commission in this docket it was suggested that the workshare limitation of section 3622(e) was intended to codify “linking” or a BMM benchmark. *See* RM2009-3 Public Forum (August 11, 2009), Tr. at 13, ln.1-17 (comments of Mr. Anderson). We have been unable to find any support for that contention in the legislative history of the PAEA. Rather, the legislative history makes clear that the current section 3622(e) was intended to codify the Commission’s long-standing practice of setting workshare discounts consistent with the Efficient Component Pricing Rule (ECPR) as a means of promoting productive and allocative efficiency and lowering the total combined system costs of the postal system.

A provision limiting workshare discounts was first introduced in House bill H.R. 4341 in 2004. *See* H.R. 4341, 108<sup>th</sup> Cong. § 206 (2004). The current language of section 3622(e) originated in Senate bill S. 2468, also introduced in 2004. *See* S. 2468, 108<sup>th</sup> Cong. § 201 (2004). In a floor statement introducing the bill on May 20, 2004, Senator Collins discussed the new worksharing provisions:

Our bill has reached an important compromise on the issue of workshare discounts. Some have raised concerns that the Postal Service has set rates so that mailers get a discount greater than the cost avoided by the Postal Service. While this may have occurred in a handful of instances, those mailers are still covering their attributable costs, as well as making a healthy contribution to overhead. The language in our bill sets a policy that the Postal Service shall not create new discounts greater than the costs avoided by the Postal Service. The only exception is in those cases where the Postal Regulatory Commission believes those rates are necessary.

108 Cong. Rec. S5987 (daily ed. May 20, 2004)(statement of Senator Collins). There is no discussion of linking or the BMM benchmark in the relevant legislative history. This is not surprising because ECPR as a policy construct for postal access pricing is important independent of the relationship between Single-Piece and Presort First-Class Mail.

2. Establishing / Treating Single-Piece and Presort First-Class Mail as separate classes

Although this approach is preferable to a cost-based linkage between Single-Piece and Presort First-Class Mail, section 3622(d)(2)(A) does not allow it. *See* 39 U.S.C. § 3622(d)(2)(A). The PAEA requires the Commission to apply the rate cap “to a class of mail, as defined in the Domestic Mail Classification Schedule *as in effect on the date of enactment* of the [PAEA].” 39 U.S.C. § 3622(d)(2)(A) (emphasis added). Single-Piece and Presort First-Class Mail were part of the same class, First-Class Mail, on the date of enactment. Therefore, at least for purposes of the price cap, section 3622(d)(2)(A), negates the benefit of separating Single-Piece and Presort First-Class Mail into separate mail classes.

As a practical matter, however, the Postal Service could treat Single-Piece and Presort as separate classes for most pricing issues. It could simply adopt a practice of limiting overall average price increases for both Single-Piece and Presort First-Class Mail

to the prevailing CPI, as if they were separate classes and establish different prices within those “classes.” This approach is preferable to “linking” and, if the Postal Service were to relax the whole-cent integer constraint on Single-Piece First-Class Mail, would provide additional flexibility for the Postal Service.

3. Limiting the difference between Single-Piece and Presort First-Class Mail average contribution per piece or cost coverage

A prescribed limitation on the pricing differences between Single-Piece and Presort First-Class Mail in terms of average contribution per piece or cost coverage is also preferable to “linking.” A carefully designed limitation on average contribution or cost coverage would allow the Postal Service to correct any inequity in the relative price burden (currently borne by Presort First-Class Mail) over time, while ensuring that the public interest in affordable Single-Piece First-Class Mail prices was protected.

**E. Workshare Definition**

Order No. 243 also invited interested parties to comment as to whether a worksharing discount should be defined as:

- A “pure” presorting, prebarcoding, handling, or transportation activity that is a direct substitute for an equivalent Postal Service activity; or
- A “pure” worksharing activity as described above, plus other cost-reducing mail characteristics that are facilitated by or naturally support the “pure” worksharing activity, e.g., walk sequencing and density.

Order 243, at 4.<sup>6</sup>

Pitney Bowes supports a “pure” worksharing definition. However, a “pure” workshare definition does not minimize the importance of ensuring that price differences

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<sup>6</sup> Pitney Bowes will be filing separate responses to the Notice of Inquiry filed August 27, 2009.

fully reflect nonworkshare-related cost differences. As explained by the Commission in Docket No. R2006-1, there are significant advantages in doing so,

There are many cost drivers over which mailers may have some control, for example, shape, machinability, and containers. Witness Panzar has provided the insight that if cost differences equal rate differences then mailers can make informed choices which minimize net end-to-end mailing costs. Moreover, it seems to be fundamentally fair that mailers pay the costs they impose upon the Postal Service plus the same contribution per piece that all the mailers make within the same subclass. This is the definition of an ECP price. For all these reasons, and contrary to what the Commission articulated in R2000-1 about the neutral starting position for rate design, the Commission now believes, and with good evidence, that the neutral starting position should equal the per-piece contribution because this promotes productive efficiency.

R2006-1 Op., para. 4032.

Pitney Bowes agrees. Regardless of whether the Commission adopts a “pure” or “pure-plus” definition of worksharing, it should ensure that the value of all worksharing and nonworksharing activities in terms of cost savings to the Postal Service are fully reflected in the pricing differentials between products in the same market.

Consistent with the expanded pricing flexibility afforded under the PAEA, the Postal Service should also have the ability to price distinct products based on a variety of economic considerations, including considerations unrelated to cost differences. The recently proposed pricing differentials for Basic and Full-Service Intelligent Mail Barcode, are an appropriate example of this. The recently proposed Summer Sale and Fall Sale volume discounts for Standard Mail and First-Class Mail letters and flats are also good examples of the exercise of the Postal Service’s expanded pricing flexibility.

### III. CONCLUSION

The PAEA gives the Commission the discretionary authority to balance numerous, competing statutory requirements, objectives and factors to assure a “just and reasonable” schedule of rates. Accordingly, the Commission need not, and should not, impose the pre-PAEA cost-based linkage between Single-Piece and Presort First-Class Mail.

Respectfully submitted,

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