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

Annual Compliance Report, 2009 | **Docket No. ACR2009**

REPLY COMMENTS OF PITNEY BOWES INC.

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Pitney Bowes Inc. (Pitney Bowes) respectfully submits these reply comments in response to the initial comments as well as the discussion at the open forum hosted by the Commission on February 17, 2010 regarding alternate means for achieving financial stability under the Postal Accountability and Enhancement Act (PAEA).[1]

A. The Commission Must Balance the Longer-Term Financial Stability of the Postal Service with Near-Term Economic Realities

The dialogue at the Commission's February 17 open forum regarding alternative means for achieving the financial stability of the Postal Service under the PAEA was constructive and informative. The Commission is to be commended for its leadership on this issue. The level of public engagement on these important issues evidences the fact that the long-term financial stability of the Postal Service is critically important to all of those who rely on the mail as an essential commercial and communications medium.

There is a clear consensus among all stakeholders that legislative relief on the schedule for pre-funding health and pension obligations is essential.

In the context of the above-captioned ACR proceeding, a measured response is necessary. The Commission and the Postal Service must exercise great care to reconcile the desire for immediate action with the long-term goal of financial stability; financial stability cannot be secured in the context of a single compliance review cycle. In fact, an immediate off-cycle rate adjustment – necessarily predicated upon a finding of noncompliance – would be disruptive. Mailers and other industry stakeholders are implementing their budget and business planning in reliance on the Postmaster General's promise that there would be no pricing adjustment for market dominant products in 2010. Nor do the current economic conditions facing the mailing industry as a whole favor an unanticipated, unbudgeted pricing increase. Looking forward, the

[1] *See* Pub. L. 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.

Postal Service should be encouraged to exercise its pricing flexibility to preserve its most profitable mail volumes.

B. The Workshare Discounts for First-Class Mail Presort Letters as Proposed by the Postal Service Comply with Section 3622(e) of the PAEA

APWU contends that the "workshare discount rates for First Class letter mail are not in compliance with Section 3622(e) of the Act." APWU Comments at 8. APWU advances three primary arguments in support of this contention: (1) the Postal Service's de-linked rate design is inappropriate; (2) all workshare discounts and cost avoidances should be measured cumulatively from the Bulk Metered Mail (BMM) letter benchmark; and (3) the Postal Service did not adequately "invoke" the statutory exceptions of section 3622(e)(2). None of these grounds justify the extraordinary relief sought by APWU.

Whether workshare-related cost savings are appropriately measured between different products has been the subject of much debate. But as the Postal Service correctly observed "the issues of the BMM benchmark and whether inter-product cost avoidances comply with the limitations of U.S.C. § 3622(e) are subjects of Docket No. RM2009-3." FY 2009 ACR at 62. The Commission has previously acknowledged the substantial diversity of opinion on this issue and the limitations of the expedited review deadlines imposed by the PAEA in the context of a market dominant pricing adjustment or the Annual Compliance Review process. *See* Order 192 at 2-3. Thus, the Commission initiated a separate proceeding Docket No. RM2009-3 on the Consideration of Workshare Discount Methodologies. *See* Order No. 192 at 3. For those same reasons, Docket No. RM2009-3, not this Annual Compliance Review, is the appropriate venue for a comprehensive evaluation of workshare costing methodologies.

The second argument – that all workshare-related discounts and cost avoidances should be calculated relative to a single BMM benchmark – must likewise be rejected. APWU cannot have it both ways. With respect to linking, APWU chides the Postal Service for "departing from established methodologies" yet its second argument, discussed below, simultaneously asks the Commission to depart from existing methodology. APWU Comments at 2. Under the current approved methodology, the Commission uses a BMM benchmark only to calculate passthroughs for the least-workshared letters – Mixed AADC Automation and Nonautomation Presort Letters. The remaining passthroughs are calculated marginally within Automation Letters (*e.g.*, the benchmark for 5-Digit Automation Letters is 3-Digit Automation Letters). *See* FY 2008 Annual Compliance Determination at 52. This is true under a linked or delinked model. Furthermore, it bears noting that under the Commission's approved methodology the marginal passthrough from the AADC to 3-Digit Automation Letter discount is 100 percent and the marginal passthrough from the 3-Digit to 5-Digit Automation Letter discount is only 84.6 percent of the costs avoided. USPS-FY09-3, Worksharing_Discount_Table-FY_2009_12_29_09.xls.xls, "FCM Bulk Letters, Cards 1" and "FCM Bulk Letters, Cards 2."[2]

The third argument addresses the adequacy of the Postal Service's "invocation" of the statutory exceptions in section 3622(e)(2). Even assuming the Postal Service's initial submission was deficient in some respect, the Postal Service's supplemental filings in this docket moot the stated concerns. The Responses of the Postal Service to the Chairman's Information Request No. 1, filed February 2, 2010, provide the requisite specificity and explication as to why an abrupt reduction in the relevant workshare discounts would "impede the efficient operation of

[2] The current passthrough from the 3-Digit to 5-Digit First-Class Mail Automation Letter rate is problematic in several respects. As discussed in Pitney Bowes' initial comments the existing workshare discount does not adequately recognize the value of 5-Digit Automation Letters. *See* Pitney Bowes Comments at 3-5. Further, in the context of the larger issue of the Postal Service's financial stability, optimized pricing of more profitable First-Class Mail products (e.g., 5-Digit Automation Letters) could increase the total contribution from First-Class Mail by several hundred million dollars. *See id*. at 2-3 (citing PRC Dkt. No. RM2009-3, Comments of the Direct Marketing Association (Sept. 11, 2009) at 5-6.).

the Postal Service." *See* Docket No. ACR2009, Responses of the United States Postal Service to the Chairman's Information Request No. 1, (Feb. 2, 2010), at 3-5.

For the reasons discussed above, none of the grounds asserted justify a finding of noncompliance.

C. The Postal Service Should Provide Channel-Based Discounts

Stamps.com urges the Postal Service to implement channel-based discounts to incentivize efficient, low-cost, secure Single-Piece First-Class Mail. Pitney Bowes agrees. For the past ten years Pitney Bowes has advocated in favor of extending the benefits of worksharing to small business and consumer mailers by providing an incentive for the use of more efficient, low cost, secure distribution channels.[3] The pricing flexibility afforded to the Postal Service in the PAEA readily encompasses the implementation of cost-based discounts for efficient alternative distribution channels (e.g., postage meters, PC Postage, kiosks, etc.). Channel-based discounts would have the salutary effects of improving the efficiency of the Postal Service, "democratizing" workshare discounts, and increasing the visibility and service performance of an information-rich Single-Piece First-Class Mail mailstream. The Postal Service should exercise the full extent of its pricing flexibility under the PAEA to drive efficiencies and increase mail volumes.

[3] *See* PRC Dkt. No. R2000-1, Direct Testimony of John Haldi (PB-T-2), Concerning Proposal to Institute a Discount for First-Class Single-Piece Metered Mail on Behalf of Pitney Bowes Inc., (May 22, 2000); PRC Dkt. No. R2006-1, Revised Direct Testimony of Lawrence G. Buc (PB-T-3) on Behalf of Pitney Bowes Inc. (Nov. 6, 2006).

Pitney Bowes appreciates the Commission's consideration of these comments.

Respectfully submitted:

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