

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

RATE ADJUSTMENT DUE )  
TO EXTRAORDINARY OR ) Docket No. R2010-4  
EXCEPTIONAL CIRCUMSTANCES )

**REPLY COMMENTS OF THE  
NATIONAL ASSOCIATION OF PRESORT MAILERS  
ON THE RATE ADJUSTMENTS REQUESTED BY THE UNITED STATES  
POSTAL SERVICE DUE TO EXTRAORDINARY OR EXCEPTIONAL  
CIRCUMSTANCES**

Joel T. Thomas  
Executive Director  
NATIONAL ASSOCIATION OF PRESORT  
MAILERS  
1195 Mace Road  
Annapolis, MD 21403  
(877) 620-6276  
joel@presortmailer.org

*Counsel for National Association of  
Presort Mailers*

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The National Association of Presort Mailers (“NAPM”) is pleased to submit these reply comments in response to the comments of the American Postal Workers Union (APWU Comments) and the National Postal Policy Council (NPPC Comments). They also are informed by comments of others which NAPM has read with interest, particularly focusing on those that addressed First-Class Mail letter rate design.

With the benefit of the parties’ views, NAPM continues to believe the prices it proposed in its initial comments best address the circumstances at hand, should the Commission determine an exigent price adjustment is warranted.

As we explained in our initial comments, NAPM’s alternative rate design starts with the Postal Service’s proposal for a 46 cent stamp. Like the Postal Service’s proposal, it incrementally moves the Single-Piece to Mixed AADC passthrough closer to 100 percent. Unlike the Postal Service’s proposal, however, NAPM’s alternative rate design does not increase the current passthrough for AADC to 3-Digit, which already exceeds 100 percent. But, because it does not increase this passthrough, and to mitigate rate shock for presort mailers, the NAPM proposal increases the 3-Digit to 5-

Digit passthrough to 100 percent from its current level and the level proposed by the Postal Service. Table 1 shows the prices and passthroughs in the current, USPS proposed, and NAPM alternative rate designs.

**Table 1: Current and Proposed First-Class Mail Letter Prices / Passthroughs**

	Current Price	USPS Proposed Price	Current Passthrough	USPS Proposed Passthrough	NAPM Alternative Proposed Price	NAPM Alternative Proposed Passthrough
Single-Piece	\$0.440	\$0.460			\$0.46	
Nonautomation Presort	\$0.414	\$0.433	50%	52%	\$0.433	52%
Mixed AADC Automation	\$0.382	\$0.405	126%	120%	\$0.405	120%
AADC Automation	\$0.360	\$0.381	110%	120%	\$0.383	110%
3-Digit Automation	\$0.357	\$0.378	100%	100%	\$0.380	100%
5-Digit Automation	\$0.335	\$0.356	85%	85%	\$0.354	100%

Source: NAPM Comments at 7.

NAPM’s alternative proposal reflects two goals: (1) as compared to the Postal Service’s proposal, it better aligns discounts with costs avoided, while (2) generating similar revenue as the Postal Service’s proposal.

We also applaud the National Postal Policy Council’s important recognition that Presort Mail is extremely profitable and that presort mailers have viable alternatives to the mail.

Now, at a time of chronically declining First-Class Bulk letter volumes and when a barely recovering economy remains in peril of a “double dip” recession, is no time to impose rate increases nearly seven times the rate of inflation, well above both the system average *and* the First-Class Mail average, on First-Class Bulk mailers (comprised of Automation and Presort rate categories). These mailers not only provide the most lucrative – on both a per-piece and an aggregate basis -- and easiest-to-handle mail in the system, but for the first time have a truly competitive alternative to the postal system.

NPPC Comments at 1.

Yet, as NPPC also notes, the Postal Service has burdened presort mailers with proposed above average price increases.

Yet, the Postal Service has proposed to do precisely that, by raising First-Class Bulk letter rates – the product with the highest price elasticity of demand within First-Class letters – by an average of 5.9 percent. This sharp increase is highlighted by a proposed 6.27 percent increase (itself beyond the 4 to 6 percent range that the Postal Service felt was “right”) in the most heavily used category within this product -- 5-digit Automation letters. These percentage increases well exceed the average for market-dominant products of 5.6 percent and are twenty five percent greater than the 4.7 percent increase for the second-largest First-Class Mail product, which is Single-Piece.

Id at 2.

We recognize that the integer constraint on Single Piece Mail prices coupled with arithmetic rules typically drive some disparity between Single Piece and Presort Mail prices price percentage increases. But the disproportionate increase the Postal Service proposed for presort First-Class Mail – its most profitable and arguably endangered product - is very troubling.

APWU argues in favor of incrementally moving workshare discounts to 100 percent of their avoided costs. See APWU Comments at 5, 6. NAPM agrees that discounts should be set at 100 percent of avoided costs and that gradual movements are necessary to avoid rate shock.

APWU also discusses the possibility of setting the price of a the Single-Piece First-Class stamp at 45 cents, rather than 46 cents as proposed by the Postal Service, while increasing workshare rates as proposed by the Postal Service. APWU observes that such a rate design would result in:

[a] closer alignment between workshare discounts and costs avoided could be accomplished without increasing the proposed rates for workshared mail, thus retaining the expected volume and revenue for this mail, while only minimally reducing single-piece revenue.

APWU Comments at 6

An alternative rate design based on a 45 cent Single-Piece price and an overall goal of moving all passthroughs as close to 100 percent as possible while still avoiding rate shock, is shown in Table 2 along with NAPM's alternative rate design.

**Table 2, NAPM Alternative Prices and “45 Cent / 100% Passthrough Alternative” Prices**

	<b>NAPM Alternative Prices</b>	<b>“45 Cent / 100 % Passthrough Alternative” Prices</b>
Single-Piece	0.460	0.450
Nonautomation Presort	0.433	0.423
Mixed AADC Automation	0.405	0.404
AADC Automation	0.383	0.383
3-Digit Automation	0.380	0.380
5-Digit Automation	0.354	0.354

If the Commission were to adopt APWU’s suggestion for a one cent increase to Single-Piece First-Class Mail, modifications to USPS’s proposed workshare rates will be necessary. In particular, the discount between the 3-Digit and 5-Digit Automation rate should be increased to 100 percent of the costs avoided. This change is reflected in the “45 Cent Alternative” (above) and is necessary to offset what would otherwise be a disproportionate increase to the most valuable and largest volume presort product.<sup>1</sup>

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<sup>1</sup> The NPAM does not recommend the “45 Cent alternative” because it recognizes that giving a much smaller increase to a less elastic category of mail while giving a much greater increase to a more elastic category of mail is backward or upside down from an economic or financial perspective. However, the NAPM recognizes that this proposal may be seen as making sense from a political or social perspective.

Under a “45 Cent Alternative,” the percentage increase for 5-Digit Automation rate is approximately three times the 2 percent increase for Single-Piece; thus, increasing the passthrough from 3-Digit to 5-Digit Automation to a full 100 percent is appropriate.

As the table shows, the major differences between the NAPM design and “45 Cent Alternative” design are the Single Piece and the Nonauto prices. Assuming a 100 percent passthrough for all automation workshare levels other than the MAADC, the prices are exactly the same for 5-Digit, 3-Digit, and AADC. Likewise the passthroughs are the same for 3-Digit to 5-Digit and AADC to 3-Digit, both at 100 percent.

While the prices between these two alternatives are similar, a decision to increase Single-Piece First Class letters by only one cent would reduce First-Class Mail revenue by roughly \$300 million. NAPM fully recognizes that this revenue difference could be of concern to the Postal Service, but the record in this docket may support a Commission finding that the \$300 million is not necessary. Or, that revenue could be made up from other types of mail.

In conclusion, NAPM continues to believe the prices it proposed for First-Class Mail letters is superior to that proposed by the Postal Service. If, however, the Commission finds that a two-cent increase in the First-Class Mail Single Piece Price is not warranted, the price alternative price schedule set forth above would be acceptable to NAPM.

Respectfully Submitted

Joel T. Thomas

Counsel for the National Association of  
Presort Mailers