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

Notice of Price Adjustment **Docket No. R2011-2**

COMMENTS OF PITNEY BOWES INC.

James Pierce Myers
Attorney at Law
1420 King Street
Suite 620
Alexandria, Virginia 22306
Telephone: (571) 257-7622
Facsimile: (571) 257-7623
E-Mail: jpm@piercemyers.com

Michael F. Scanlon
K&L GATES LLP
1601 K Street, NW
Washington, DC 20006
Telephone: (202) 778-9000
Facsimile: (202) 778-9100
E-Mail: michael.scanlon@klgates.com

Counsel to PITNEY BOWES INC.

DATED: February 2, 2011

I. INTRODUCTION

Pursuant to Order No. 653, Pitney Bowes Inc. (Pitney Bowes) respectfully submits these comments in response to the United States Postal Service's (Postal Service) January 13, 2011 Notice of Market-Dominant Price Adjustment (Notice). These comments address the following issues: (1) the timing of the Notice; (2) compliance with the statutory price cap; and (3) the First-Class Mail rate design.

II. DISCUSSION

A. Timing of the Price Adjustment

Section 3622(d)(1)(C) of the Public Accountability and Enhancement Act (PAEA) provides that "not later than 45 days before implementation of any adjustment" the Postal Service must provide public notice of the proposed adjustment.[1] 39 U.S.C. § 3622(d)(1)(C). Part 3010.10 of the Commission's rules emphasizes that 45 days is the minimum notice period, not a maximum. *See* 39 C.F.R. § 3100.10(a)(2). Part 3100.10(b) also encourages the Postal Service to provide its notice of price adjustment "as far in advance of the 45-day minimum as practicable." 39 C.F.R. § 3100.10(b). The Notice announced the Postal Service's intention to adjust prices for all market dominant products on April 17, 2011. Accordingly, mailers will have 94 days to prepare for the price adjustments.

The Postal Service deserves credit for consistently delivering on its public commitment to provide more than the required advanced notice whenever practicable; the additional time will help the mailing community prepare for and implement the proposed price changes.

---

[1] *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.

B. Compliance with the Annual Limitation

Section 3622(d)(1)(C) requires the Commission to assess the compliance of the noticed price adjustments with the statutory price cap. *See* 39 U.S.C. § 3622(d)(1)(C). Pursuant to the Commission's rules, the annual limitation is measured using the U.S. Department of Labor's Consumer Price Index for All Urban Consumers (CPI-U). *See* 39 C.F.R. § 3010.11. As set forth in Attachment C of the Notice, the Postal Service calculated an annual limitation of 1.741 percent. *See* Notice, Attachment C.

Based on our review of the Notice, including the accompanying attachments, it appears that the planned price adjustments for First-Class Mail, measured using the formula in part 3010.23(b), are at or below the annual limitation established in part 3010.11 and part 3010.28. *See* 39 C.F.R. §§ 3010.11, 3010.23(b), and 3010.28. So, if approved, the prices proposed by the Postal Service will be adjusted in amounts that are, on average, within the 1.741 percent statutory price cap, even though specific prices may exhibit significant variance.

C. First-Class Mail Rate Design

The FY 2010 Annual Compliance Report (ACR) confirms that First-Class Mail Presort Letters / Cards remain highly profitable products.[2] The FY 2010 ACR data show that First-Class Mail Presort Letters / Cards collectively made a contribution of $10,576 billion to overhead costs. *See* FY 2010 ACR at 18. The FY 2010 ACR data also show that the unit contribution of First-Class Mail Presort Letters / Cards (22.9 Cents) exceeds, by more than five cents, the unit contribution of First-Class Mail Single-Piece Letters / Cards (17.4 cents). *See id*. Retaining this highly profitable First-Class Mail presort mail is essential to combat the financial challenges facing the Postal Service, and this difference in relative should drive the rate design for First-Class Mail.

[2] *See* United States Postal Service FY 2010 Annual Compliance Report (Dec. 29, 2010)(FY 2010 ACR).

In its Notice, however, the Postal Service proposes increasing First-Class Mail presort prices while leaving prices for the first ounce First-Class Single-Piece Letter unchanged. Notice at 12. It does somewhat moderate the increase on presort by increasing the workshare discount for 5-Digit Automation Letters. *See id*. at 13.

As the Postal Service observes, 5-Digit Automation Letters account for almost 50 percent of the volume of Automation Letters, thus, the expansion of this workshare discount may help retain many of its largest customers and much of its most profitable mail. *See id*. The increase in the 5-Digit Automation discount is also appropriate because existing workshare discounts significantly understate the value of sorting to the 5-Digit presort level. The FY 2010 ACR data confirms that the cost avoidance between 3-Digit and 5-Digit Automation Letters exceeded the current discount by 0.4 cent per piece (the cost avoidance is 2.6 cents and the discount was only 2.2 cents). *See* USPS-FY10-3, FY2010 Discounts and Passthroughs of Workshare Items. With the increase in the discount, the cost avoidance between 3-Digit and 5-Digit Automation Letters will exceed the new discount by 0.1 cent per piece (the cost avoidance is 2.6 cents and the discount will be 2.5 cents).

Although there is still room for improvement the Postal Service has taken a step in the right direction, and a step that is appreciated by the mailing community. It should continue to adjust workshare discounts so that all workshare-related costs avoided are fully reflected in future prices. This is not just good economics, it is eminently fair.

III. CONCLUSION

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

Respectfully submitted:

________/s/________________
James Pierce Myers
Attorney at Law
1420 King Street
Suite 620
Alexandria, Virginia 22306
Telephone: (571) 257-7622
Facsimile: (571) 257-7623
E-Mail: jpm@piercemyers.com

Michael F. Scanlon
K&L GATES LLP
1601 K Street, NW
Washington, DC 20006
Telephone: (202) 778-9000
Facsimile: (202) 778-9100
E-Mail: michael.scanlon@klgates.com

Counsel to PITNEY BOWES INC.