

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

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**Priorities for Future Data Collection  
and Analytical Work Relating to  
Periodic Reporting**

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**Docket No. RM2011-3**

**COMMENTS OF PITNEY BOWES INC.**

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## **I. INTRODUCTION**

Pursuant to Order No. 589, Pitney Bowes Inc. (Pitney Bowes) respectfully submits these comments in response to the Postal Regulatory Commission's (Commission) Notice and Order of Proposed Rulemaking on Periodic Reporting, dated November 18, 2010. This is the Commission's first strategic rulemaking under section 3652(e)(2) of the Postal Accountability and Enhancement Act (PAEA).<sup>1</sup> These comments respond to the Commission's invitation to interested parties to propose areas of reach needed to improve the quality, accuracy, or completeness of the data provided in the Postal Service's annual compliance reports. Pitney Bowes recommends that the Postal Service study First-Class Mail Presort Flats costs.

## **II. DISCUSSION**

In Docket No. R2006-1, the Postal Service and Commission identified problems accurately estimating unit costs by shape in some instances where a particular shape comprised only a small percentage of total subclass mail volume. To address this problem, the Commission adjusted Cost and Revenue Analysis (CRA) unit costs for parcels in multiple subclasses (Standard Mail Regular, Standard Mail Enhanced Carrier Route (ECR), First-Class Mail Presort Parcels) downward.

The underlying cause of the inaccurate unit costs by shape was inconsistency for bulk-entered mail between volume data (which come from Mailing Statements reported through *PostalOne!*) and costing data (which are sample based). As Witness Harahush stated, in some instances, "a mailpiece can be correctly recorded as a flat in PostalOne and as a parcel in [costing systems]."<sup>2</sup>

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<sup>1</sup> See Pub. L. 109-435, 120 Stat. 3198 (Dec. 20, 2006).

<sup>2</sup> Dkt No. R2006-1, Response of Postal Service Witness Harahush to POIR No. 5, Question 16b.

For Standard Regular parcels, the reasons for this inconsistency was a clear difference in the definition of a parcel in the two systems (i.e., costing systems defined pieces between ¾” and 1¼” thick as parcels while, according to mailing statements, these pieces could be either parcels or flats). In other subclasses, there was not such a definitive explanation. Despite the lack of a known explanation in other subclasses, the Postal Service was able to identify problems by comparing Revenue, Pieces, and Weight (RPW) by Shape and Origin-Destination Information System (ODIS)-RPW data.

In my testimony...I indicate that an estimate of the inconsistency between Standard Regular parcel costs and volumes can be obtained by comparing RPW by shape Report data [which come from mailing statements]...and ODIS-RPW sample based Standard Regular volumes by shape. The basis for this indication is that ODIS-RPW is a sample based system and the cost systems (which are also sample based) have the same definition of shape and, therefore, diverge from RPW by shape data in the same way....For Standard ECR parcels, the reason for cost and volume inconsistency is unknown.... [However, there is a] very large divergence between RPW by Shape volumes and ODIS-RPW volumes for Standard ECR parcels.<sup>3</sup>

The Postal Service also explained that the potential impact of misestimating costs by shape is much higher for shapes that represent a small percentage of mail volume. For example, within Periodicals (a class where almost all volume is flat-shaped), the Postal Service explained, “[a] very small error in classification from major shape (flat) to one of the minor shapes (parcels) would be magnified in the small shape [unit cost] estimate.”<sup>4</sup>

The focus in Docket No. R2006-1 was on correcting unit cost estimates for parcel-shaped mail, but this issue is not unique to cost estimates for parcels. The same diagnostics that led the Postal Service and Commission to conclude that unit cost estimates for Standard Mail Enhanced

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<sup>3</sup> Dkt No. R2006-1, Response of Postal Service Witness Smith to POIR No. 10, Question 2(e); *see also* Dkt No. R2006-1, Response of Postal Service Witness Smith to POIR No. 14, Question 5.

<sup>4</sup> Dkt No. R2006-1, Response of Postal Service Witness Harahush to POIR No. 5, Question 16b.

Carrier Route and First-Class Mail parcels were being misestimated suggest a current problem for First-Class Mail Presort Flats.<sup>5</sup>

- First-Class Mail Presort Flats are a minor shape within presorted First-Class Mail, representing less than two percent of presort First-Class Mail volume.<sup>6</sup>
- There has been a consistent and significant difference between RPW by Shape and ODIS-RPW volume for First-Class Mail Presort flats.<sup>7</sup>

As shown in Table 1, RPW by Shape volumes and ODIS-RPW volumes for First-Class Mail Presort Flats have been significantly different since FY 1998.

*Table 1. Comparison of First-Class Mail Presort Flats Volumes (RPW by Shape vs. ODIS-RPW)*

Fiscal Year	Flats Volume		Ratio of RPW by Shape to ODIS-RPW Volume
	RPW by Shape	ODIS-RPW	
1996	615,318	615,521	1.000
1997	610,213	614,326	0.993
1998	506,305	611,232	0.828
1999	562,570	688,544	0.871
2000	733,863	796,573	0.921
2001	789,239	910,721	0.867
2002	807,594	956,127	0.845
2003	862,863	976,874	0.883
2004	816,967	966,103	0.846
2005	909,626	1,061,112	0.857
2006	N/A	N/A	
2007	923,303	1,106,076	0.835
2008	772,574	967,435	0.799
2009	716,637	869,260	0.824

<sup>5</sup> While the unit mail processing cost estimates for Standard Mail ECR and First-Class Mail Presort Parcels were obviously and hugely overstated (i.e., the CRA unit cost of Standard Mail ECR parcels and First-Class Mail Presort Parcels were \$24 and \$3 respectively), the unit cost estimate of First-Class Mail Presort Flats itself is not obviously anomalous. See Dkt No. R2006-1, Presiding Officer’s Information Request No. 10, Question 2. This, however, does not mean that the unit cost of First-Class Mail Presort Flats is accurately estimated, just that the impact of this issue is not so large that it results in obviously anomalous unit cost estimates. The FY 2009 ratio of RPW by Shape to ODIS-RPW volumes for First-Class Mail Presort Flats (0.824), however, is similar to the FY 2005 ratio for Standard Regular parcels (0.766). See Table 1; Dkt No. R2006-1, Response of Witness Smith to POIR No. 10, Question 2, Attachment 2.

<sup>6</sup> See USPS-FY10-4, FY10 FCM BDs.xls.

<sup>7</sup> Table 1 does not include FY 2010 information because the Postal Service did not provide ODIS-RPW data for Presort First-Class Mail in Docket No. ACR2010.

*Source: Appendix A*

Pitney Bowes recommends that the Postal Service study:

- Why there has been a consistent and substantial difference between First-Class Mail Presort Flat RPW by Shape volume and ODIS-RPW volume (*see* Appendix A);
- Whether this difference implies that unit costs for First-Class Mail Presort flats are inaccurate;
- How the quality of First-Class Mail Presort Flats data can be improved in the future; and
- Whether, in the interim, a letter/flat adjustment modeled after the Docket No. R2006-1 flat/parcel adjustment or a different adjustment would improve accuracy.

All things being equal, overstating First-Class Mail Presort Flat costs understates the cost difference between Single-Piece Flats and Presort Flats and possibly the cost avoided by presorting First-Class Mail Flats. Thus, it is important that the Postal Service review the accuracy of CRA unit costs for First-Class Mail Presort Flats and implement appropriate adjustments to these costs before the cost difference between First-Class Mail Single-Piece Flats and Presort Flats is used for rate design purposes.

### III. CONCLUSION

For the reasons stated above, Pitney Bowes respectfully requests that the Commission include the study First-Class Mail Presort Flats costs on the list of topics that are in need of further study.

Respectfully submitted:

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