

Before the  
POSTAL REGULATORY COMMISSION  
WASHINGTON, DC 20268-0001

Consideration of Technical Methods to Be  
Applied in Workshare Discount Design

Docket No. RM2010-13

REPLY COMMENTS OF THE PUBLIC REPRESENTATIVE  
IN RESPONSE TO ORDER NO. 537  
(April 4, 2011)

This proceeding was initiated on September 14, 2010, by Order No. 537.<sup>1</sup> It is a continuation of Docket No. RM2009-3. In that Docket the Commission decided several threshold issues. Among other things, the Commission found that “First-Class Bulk is a workshared variant of a substantial portion of Single-Piece First-Class Mail.”<sup>2</sup> The Commission also found that “First-Class Bulk Letter Mail has a worksharing relationship with First-Class Single-Piece Letter Mail” and that the “established Bulk Metered Mail (BMM) benchmark for First-Class Bulk Letters is no longer valid.” Order No. 536 at 2.

Initial comments were filed on February 18, 2011. With the exception of the American Postal Workers Union,<sup>3</sup> the comments seem to agree that the benchmark for Presort First-Class Mail should be Information-Based Indicia (IBI) mail or metered mail. (Metered mail is approximately 80 percent IBI mail.) The Postal Service provides avoided costs for the rate categories of Presort First Class based on a metered mail benchmark.<sup>4</sup> These avoided costs appear to be accurate. The Postal Service’s avoided costs exclude collection costs and rely on a smaller CRA adjustment factor. Even without collection costs, these avoided costs are higher than previously estimated.

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<sup>1</sup> Notice of Proposed Rulemaking Concerning the Technical Methods to Be Applied in Designing Workshare Discounts, September 14, 2010 (Order No. 537).

<sup>2</sup> Docket No. RM2009-3, Order Adopting Analytical Principles Regarding Workshare Discount Methodology, September 14, 2010, at 3 (Order No. 536).

<sup>3</sup> Initial Comments of American Postal Workers Union, AFL-CIO, February 18, 2011. APWU supports retention of the Bulk Metered Mail benchmark.

<sup>4</sup> Initial Comments of the United States Postal Service, February 18, 2011, at 23 (USPS Initial Comments).

If a discount is offered for IBI mail or metered mail, passthroughs should be set at less than 100 percent in order to mitigate rate shock to Single-Piece First Class.

*Activity based costing.* Postcom discusses the possibility of replacing the current avoided costs methodologies that use a top down approach, with a bottom up approach.<sup>5</sup> This method would eliminate the need for discounts, and include various pricing elements that reflect the costs incurred by the Postal Service for a mail piece. While Postcom only provides this as a theoretical approach, this is a method that should at least be considered. However, it is important that this approach is not seen as a way to get around the requirements of section 3622(e), which specifically discusses “workshare discounts.” If this bottom up approach is adopted in the future, the Commission’s rules will need to be revised to reflect the new methodology and terms associated with a bottom-up method.

*Collection costs.* The Postal Service excludes collection costs from the cost of its metered mail benchmark. Its rationale is “that the mail that is converting to Presort was not likely to have accessed the collection system.” USPS Initial Comments at 9. However, data submitted by NAPM suggests otherwise. According to the results of an NAPM survey, “roughly half of all pre-conversion Single-Piece First-Class Mail required collection by the Postal Service.”<sup>6</sup> A second study suggests that 60 percent of converting mail requires collection.<sup>7</sup>

These studies are problematic. While blank copies of the survey instruments have been provided (Joint Comments, Exhs. 1, 2), the completed surveys have not been provided. Checking for data entry errors is therefore not possible. Also, there is no log of communications between respondents and the managers of the studies. There has been no demonstration that NAPM members are representative of the industry. There is no way to know how respondents to the NAPM survey chose

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<sup>5</sup> Initial Comments of the Association for Postal Commerce, February 18, 2011 (PostCom Comments).

<sup>6</sup> Joint Comments of the American Bankers Association, the Bank of America Corporation, the Direct Marketing Association, Discover Financial Services, the Major Mailers Association, the National Association of Presort Mailers, and the National Postal Policy Council, February 18, 2011, at 12 (Joint Comments).

<sup>7</sup> The Joint Comments refer to this study as the “GMU survey.” However, the questionnaire (telephone script) was designed by SLS Consulting, who presumably performed the data analysis as well. See Joint Comments, Exh. 3.

customers for inclusion in the survey.<sup>8</sup> If some of the respondents understood how the results of the survey were to be used, they may have selected customers whose mail had been collected by the Postal Service. The 60-percent collection figure from the “GMU survey” is also suspect. Two respondents, who together mailed 50,000 pieces per month, said they deposited their mail in blue collection boxes.<sup>9</sup> This is approximately 2500 pieces per workday. It is not plausible that this much mail would be dumped in collection boxes every day of the week. These outliers should be scrubbed from the data. For companies who would consider using a presort bureau, this change produces an estimate of 74 percent of volume not requiring collection.

The NAPM and “GMU” surveys should not be given credence in this rulemaking. The respondents to the NAPM survey had an interest in the results of the survey, which can negatively impact the internal validity of the survey. The greater the reported volume of mail requiring collection, the greater presort discounts would be. This creates an incentive for NAPM members to choose customers to report who had high collection volumes.<sup>10</sup> The results of the “GMU Survey” have been misinterpreted. For example, the Joint Comments state that “the GMU survey data shows that only about 50 percent of the mailers who say they would consider converting to worksharing through a presort bureau report using a meter; the other 50 percent use stamps.” Joint Comments at 18-19. An examination of the data shows that less than six percent of volume is stamped.<sup>11</sup> There is also no discussion of possible non-response bias. Out of 4933 businesses called, only 225 responses were obtained. Joint Comments, Exh. 3.

*Cost pools.* The Postal Service proposes treating some cost pools as fixed instead of partially variable with presort level. USPS Initial Comments at 15-21. This proposal makes sense. The Postal Service explains why these cost pools would not

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<sup>8</sup> Respondents were instructed to report on three recently acquired customers. See Joint Comments, Exh.1, at 4.

<sup>9</sup> See Joint Comments, Exh. 5, Tab: Monthly Analysis, cells I98:N107, K103.

<sup>10</sup> Respondents to the NAPM survey were to choose three customers whose mailing characteristics would be reported. There is no way to know whether these choices were representative of respondents’ customers.

<sup>11</sup> See Joint Comments, Exh. 5, Tab: Monthly Analysis, cells I82:N89. Stamped volume is 5.53 percent. *Id.*, cell N85.

vary with presort level. With respect to the MODS 1PRESORT cost pool, the Postal Service states,

All letter trays would be processed through this operation once. It is therefore unclear why this cost pool was disaggregated into proportional and fixed costs with 87 percent of these costs assigned to “proportional”. There is little question that this cost pool is associated with provision of service to presorted letters, but there is significant reason to question why these costs would vary by presort level.

USPS Initial Comments at 20. With respect to the MODS 1TRAYSRT cost pool, the Postal Service states,

Both incoming and outgoing operations are “mapped” to this cost pool. These costs are therefore also affected by whether mail has to be processed through both an originating and destinating plant, which does not necessarily have anything to do with the presort level of a given mailing.

*Id.* at 19. The Postal Service also states,

The current cost pool methodology requires the assumption that less finely presorted trays of letters incur more allied labor platform costs at plants than do more finely presorted trays of letters. This conclusion is not intuitive, nor is it empirically based. To the contrary, a major cost driver of MODS allied platform labor costs is the number of plants through which the mail must be processed.

*Id.* at 17. The Public Representative finds these arguments persuasive.

*Rate shock.* Larger discounts for First-Class Presort lead to higher rates for First-Class Single Piece. The Commission should carefully consider whether a potential minuscule gain in productive efficiency justifies raising Single-Piece rates. The Efficient Component Pricing Rule (ECPR) ensures that the most efficient producer performs mail sorting. But virtually all of the potential efficiency gain has already been achieved with current discounts. As the NAPM commenters have stressed, presort bureaus are seeking customers with daily volumes in the range of 25-50 pieces.<sup>12</sup> And the Joint Commenters stated, “Smaller and smaller mailings can convert to worksharing because presort bureaus are more willing to take smaller amounts of mail as they continue to

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<sup>12</sup> *E.g.*, Comments of On-Line Data on Consideration of Methods to Be Applied in Workshare Discount Design, February 18, 2011, at 5 (25 pieces); Comments of Presort Services, Inc., on Consideration of Methods to Be Applied in Workshare Discount Design, February 18, 2011, at 4 (50 pieces).

chase a shrinking share of mail at the margin.” Joint Comments at 11. The implication of these comments is that there isn’t that much Single-Piece mail left to convert. If this is true, then there is no reason to raise discounts. The desirable consequences of ECPR have been realized, and increased discounts simply create a windfall for mailers who are already presorting. That windfall comes out of the pockets of Single-Piece mailers.

Respectfully submitted,

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