

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

**Consideration of Technical Methods to be
Applied in Workshare Discount Design**

Docket No. RM2010-13

**RESPONSE OF PITNEY BOWES INC. TO MOTION OF THE GREETING CARD
ASSOCIATION FOR LEAVE TO FILE AMENDED REPLY COMMENTS**

Pursuant to Rule 3001.21(b) of the Postal Regulatory Commission's (Commission) Rules of Practice and Procedure, Pitney Bowes Inc. (Pitney Bowes) submits this response to the Greeting Card Association's (GCA) April 12, 2011 Motion to File Amended Reply Comments. (GCA Motion).

The GCA Motion states that amended reply comments are necessary to "correct mathematical errors" and "various minor errata" and because GCA did not have sufficient time to fully develop its "discussion of the two-part CRA adjustment factor" that Pitney Bowes proposed. GCA Motion at 1. The amended reply brief may correct some "mathematical errors" and other "various minor errata," but it also adds several pages of new argument. GCA's stated rationale that it did not have sufficient time to prepare its initial reply brief is difficult to accept where, as here, the Commission afforded parties much longer than usual to prepare reply comments (45 days) and GCA's initial reply brief was 56 pages long.

Furthermore, GCA has had years to formulate a response to the proposed two-part CRA adjustment, which PB initially filed more than two years ago. *See* PRC Dkt. No. RM2009-1, Comments of Pitney Bowes (Dec. 10, 2008). Pitney Bowes' comments in the current proceeding simply provide an update of that analysis. Moreover, GCA cannot claim that it did not have

adequate notice that this issue might be raised in the current proceeding. The Commission specifically invited comments on the two-part CRA adjustment, *see* PRC Order No. 537 at 2-3, and GCA addressed the two-part CRA adjustment in its initial comments and its first round of reply comments. *See* GCA Initial Comments at 38-39; GCA reply comments at 39-44.

Pitney Bowes appreciates that proceedings before the Commission on these types of technical issues benefit from and are enriched by the exchange of views from interested parties. Accordingly, while Pitney Bowes does not oppose GCA's motion, several matters raised by GCA warrant a response.

First, the two-part CRA adjustment would have no direct effect on Single-Piece First-Class Mail. The adjustment would only affect cost avoidance estimates within First-Class Mail Presort Letters. For this reason, the vigor with which GCA presents its results-based critique of this proposal is puzzling.

Second, GCA's amended reply comments focus primarily on the effects of the two-part CRA adjustment on cost avoidance estimates, not on the accuracy of the approach. *See* GCA Amended Reply Comments at 39-42. GCA does not dispute that the Postal Service's cost models for letters substantially understate non-incoming secondary sorting (non-IS) costs and overstate incoming secondary (IS) sorting costs. Nor does GCA dispute that the use of a single CRA adjustment does not sufficiently adjust non-IS costs, while over-adjusting IS costs. And GCA does not dispute the fact that because worksharing affects non-IS costs more than IS costs, the use of a single CRA adjustment has the effect of understating workshare cost avoidances.

Next, in the absence of any substantive criticism of the two-part CRA adjustment, the focus of GCA's amended reply comments appears to be an attempt to muddy the waters because it fears that accurate workshare cost avoidances estimates *within* Presort Letters may have some

indirect effect on its interests. GCA's concerns are unfounded and the issues it raises do not provide any basis to oppose the proposed two-part CRA adjustment.

Specifically, GCA observes that Pitney Bowes' approach is not a two-part CRA adjustment, but a three-part CRA adjustment, and suggests that this is somehow a hidden flaw. *See* GCA Amended Comments at 42-25. Nothing is hidden, nor is there a flaw. Pitney Bowes' approach was clearly documented in Appendix 1 of Pitney Bowes' Initial Comments and in predecessor documents filed in previous proceedings. *See, e.g.*, PB Comments (Feb. 18, 2011), Appendix 1. Under the approach proposed by Pitney Bowes, separate CRA adjustment factors are applied to IS and non-IS letter-sorting costs (hence the name "two-part CRA adjustment"). Consistent with the current CRA adjustment approach, however, the proposal continues to use a uniform CRA adjustment for other costs – primarily allied and support costs – for which scheme information is unavailable. The uniform CRA adjustment is also used for a very small percentage – about two percent – of letter-sorting costs for which scheme information cannot be ascertained from the In-Office Cost System. *See* PB Comments, Appendix 1, at ii. Maintaining the accepted approach for handling such costs is reasonable and appropriate.

Furthermore, GCA observes that without this third adjustment factor, modeled costs would not be fully trued up to actual CRA costs. *See* GCA Amended Comments at 42. Pitney Bowes agrees. Under the proposal submitted by Pitney Bowes modeled costs are fully trued up with actual CRA costs – a point conceded by GCA. *See id.*, at 43.

GCA observes that the ratio of non-IS CRA-to-modeled costs has been increasing over time while the ratio for the IS costs adjustment factor has been more stable. *See id.*, at 45-46. But this observation does not reveal any deficiency in a proposed two-part CRA adjustment or any question as to the accuracy of any of the calculations. And GCA fails to note that the one

constant in all of the analyses – that the CRA-to-modeled cost ratio is uniformly higher for non-IS sorting than for IS sorting and, thus, a two-part CRA adjustment is necessary to accurately true up modeled costs to CRA costs. As Pitney Bowes has repeatedly demonstrated, this has been true over many years and in both First-Class Mail and Standard Mail. *See* PB Reply Comments at 18-19.

GCA’s observation that non-IS adjustment factor is increasing more rapidly than the IS adjustment factor must be understood in context. While it is true that the non-IS factor has increased more rapidly than has the IS factor, much of the increase in the non-IS factor (and the entire reason for the increase in the IS factor) is the correction to read/accept rates which occurred between Docket No. R2006-1 and ACR2007. As discussed in Pitney Bowes’ reply comments, that was a unique, one-time event that is not susceptible to repetition. *See* PB Reply Comments (April 4, 2011), at 18, n.20.

Finally, GCA observes that the number of non-IS Management Operating Data System (MODS) operation codes have been increasing at a more rapid rate than IS codes. *See* GCA Amended Reply Comments at 46-47. This is true as far as it goes, but it provides no reason to doubt the accuracy of the proposed mapping of MODS operation codes to IS and non-IS operations. As GCA concedes, “between R2006-1 values and the 2010 ACR, the changes in the number of operation codes do not appear to have consistently altered the weight in the distribution of IOCS tallies between non-IS and IS operations.” *Id.* at 47.

Pitney Bowes appreciates the opportunity to clarify the record.

Respectfully submitted:

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