

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

PERIODIC REPORTING

Docket No. RM2012-6

RESPONSE OF THE UNITED STATES POSTAL SERVICE  
TO PETITION FOR INITIATION OF PROCEEDING  
(July 12, 2012)

Pitney Bowes Inc. (Pitney Bowes) filed a petition today requesting that the Commission initiate a proceeding to consider a change to a First-Class Mail workshare cost avoidance benchmark.<sup>1</sup> As discussed below, the Postal Service believes that the Commission rule invoked by Pitney Bowes to convene a proceeding is inapplicable.

Pitney Bowes styles its petition as a pleading under 39 C.F.R. § 3050.11. It begins by noting that the Postal Service recently equalized the prices of two different sortation levels within First-Class Mail Letters, namely, Automated Area Distribution Center (AADC) letters and 3-Digit Automation letters. With this as its basis, Pitney Bowes urges the Commission to select a new benchmark for calculating the workshare cost avoidance of 5-Digit Automation letters. Presently, the 5-Digit Automation letters cost avoidance is calculated using the cost of 3-Digit Automation letters as a benchmark. Pitney Bowes recommends replacing this benchmark with either the cost of AADC letters or an average of the costs of AADC letters and 3-Digit letters.

Without commenting on the merits of Pitney Bowes's proposal, the Postal Service observes that the proposal falls outside the scope of 39 C.F.R. § 3050.11. That

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<sup>1</sup> Petition of Pitney Bowes Inc. for the Initiation of a Proceeding to Consider Proposed Changes in Analytic Principle, Docket No. RM2012-6 (July 12, 2012).

provision allows parties to petition the Commission to convene a proceeding to “change an accepted analytical principle” in order to “improve the quality, accuracy, or completeness of the data or analysis of data contained in the Postal Service’s annual periodic reports to the Commission.” The term “analytical principle” is defined in 39 C.F.R. § 3050.1 as “a particular economic, mathematical, or statistical theory, precept, or assumption applied by the Postal Service in producing a periodic report to the Commission.”

Based on this definition, workshare cost avoidance benchmarks are plainly not analytical principles. Put simply, analytical principles are the models and formulae used to calculate the costs of each product and of each sortation level within a product, and Pitney Bowes’s proposal does not implicate any such principles. Regardless of whether the benchmark at issue is changed, the Postal Service’s Annual Compliance Report will report the same costs for 5-Digit Automation letters, 3-Digit Automation letters, AADC letters, and so on.

A benchmark, on the other hand, is a relationship established between two such costs for pricing purposes, as opposed to reporting purposes. And under the Postal Accountability and Enhancement Act (PAEA), pricing is the preserve of the Postal Service and, through its review functions, the Commission.<sup>2</sup> The Commission exercises its review of Postal Service prices in rate adjustment proceedings and in the Annual Compliance Determination process. Accordingly, those two contexts would be more

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<sup>2</sup> Pitney Bowes’s rationale for its proposal underscores the point that its proposal goes to pricing rather than reporting. The entire basis for the proposal is the fact that the Postal Service has equalized the prices for AADC letters and 3-Digit letters. However, in the next market-dominant price change, or any subsequent price change, the Postal Service could decide to once again differentiate the two prices, thus negating the basis for the proposal.

appropriate venues for considering Pitney Bowes's proposal. Permitting Pitney Bowes to advance its proposal under 39 C.F.R. § 3050.11 could lead to pricing issues being reviewed and contested year-round, rather than in the two types of proceedings established by the PAEA for price regulation.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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