

Before the
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Periodic Reporting

Docket No. RM2012-6

COMMENTS OF THE PUBLIC REPRESENTATIVE
(January 7, 2013)

This proceeding commenced on July 12, 2012, when Pitney Bowes Inc. (Pitney Bowes) filed a petition to initiate an informal rulemaking to change the analytical principle that establishes the set of worksharing relationships that are presumed to exist between the various presort rate categories of First-Class Mail automation letters.¹ Pitney Bowes asserted that there is no longer a requirement or reward for presorting First-Class Mail automation letters to the 3-Digit level. Therefore, the rationale for using 3-Digit presort as the benchmark for calculating the cost avoided by presorting to the 5-Digit level should be re-examined. Petition at 2-3. Pitney Bowes proposed that the logical candidate for a new benchmark for the 5-Digit presorted Automated Letter category is an AADC Automation Letter piece, or a hybrid of an AADC Automation Letter and a 3-Digit Automation Letter. *Id.* at 3.

Data from the FY2012 Annual Compliance Report support a change in the benchmark for 5-Digit Automated Letters. Tables 1 and 2, below, show that the volume of 3-Digit automation letters has decreased and the volume of AADC automation letters has increased since the Postal Service equated the prices for First-Class Mail AADC and 3-Digit Automated Letters.² One can infer that First-Class Mail customers who used to sort to the 3-Digit tier are now shifting volume to the AADC tier.

The tables further demonstrate that there currently is not a price incentive for mailers to sort to the 3-Digit tier. Therefore, mailers are now making a choice between

¹ Petition of Pitney Bowes Inc. for the Initiation of a Proceeding to Consider Proposed Changes in Analytic Principle, July 12, 2012 (Petition).

² Effective January 22, 2012, the price for First-Class Mail AADC and 3-Digit Automation letters became the same.

satisfying the presort requirements to qualify for the AADC tier or performing the additional work required to qualify for the 5-Digit tier.

Table 1: FY 2012 First-Class Mail AADC and 3-Digit Automation Letter Volume Comparisons

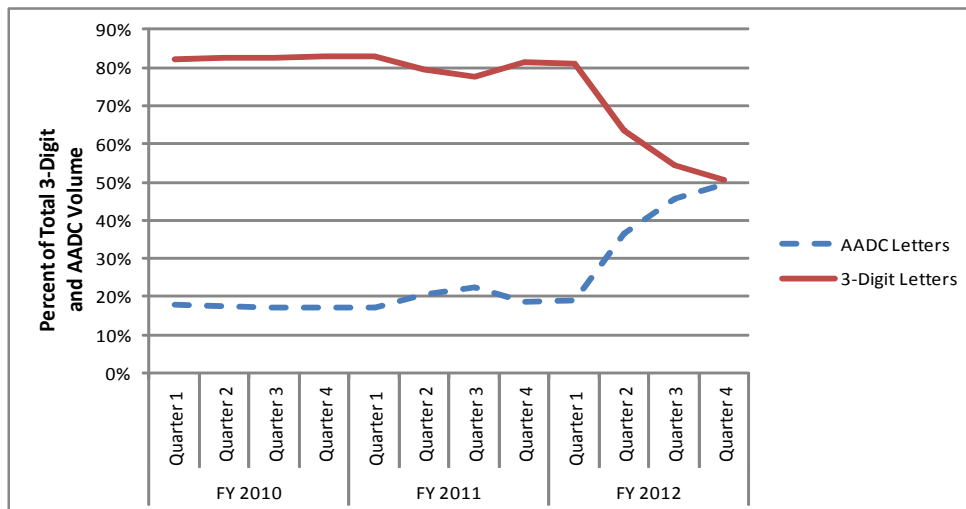
Rate Category	Volume (000s)			
	Quarter 1	Quarter 2	Quarter 3	Quarter 4
AADC	816,006	1,594,669	1,843,732	1,948,402
3-Digit	3,500,001	2,760,389	2,207,101	1,996,387
Total	4,316,007	4,355,058	4,050,832	3,944,790

Table 2: FY 2012 First-Class Mail AADC and 3-Digit Automation Percent of Total 3-Digit Automation and AADC Letter Volume

Rate Category	Volume Percentages			
	Quarter 1	Quarter 2	Quarter 3	Quarter 4
AADC	19%	37%	46%	49%
3-Digit	81%	63%	54%	51%
Total	100%	100%	100%	100%

Figure 1, below, illustrates that between FY 2010 and FY 2011, there was a clear distinction between AADC letter and 3-Digit letter volumes. However, in FY 2012, the amount of 3-Digit letter volume has decreased and the amount of AADC letter volume has increased. In FY 2013, it is highly likely that AADC letter volume will be larger than 3-Digit letter volume.

**Figure 1: First-Class Mail AADC and 3-Digit Automation Letter Comparisons
Percent of Total 3-Digit and AADC Automation Letter Volume**



Sources: Calculated from FY 2010 – FY 2012 Annual Compliance Report First-Class Mail Billing Determinants

Based on the tables and figure above, it is reasonable to conclude that 3-Digit automation letters may no longer be the appropriate base group at which to measure the costs avoided by presorting to 5-Digit automation letters. It seems that a blended AADC/3-Digit Automation Letters tier, one of the options that Pitney Bowes advocates, may be the most logical choice for a new base group to measure 5-Digit workshare discounts. This blended tier would be necessary to capture the fact that the transition from 3-Digit preparation to AADC preparation will occur over time.³

Sorting to the 3-Digit tier instead of the AADC tier achieves only a minimal amount of savings for the Postal Service. In FY 2012, there was only a difference of 0.564 cent in workshare-related unit cost savings between sorting to AADC or to 3-Digit.⁴ Consequently, the Postal Service may want to consider merging AADC and 3-Digit letters into one pricing category in its next price adjustment filing.

Respectfully submitted,

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³ In developing the weighted average workshare related unit cost for the proposed blended AADC/3-Digit Automation Letters tier, the Commission should use the FY 2012 Q3 and Q4 volume distributions. The data from these two quarters better approximate the current volume distribution trend for First-Class Mail AADC and 3-Digit Automation Letters. For FY 2013 and subsequent fiscal years, the Commission should use the total fiscal year AADC/3-Digit volume distributions.

⁴ See Docket No. ACR2012, library reference USPS-FY12-10, Excel file "USPS-FY12-10.FCM.LTS.xls."