

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

PERIODIC REPORTING

Docket No. RM2012-6

**COMMENTS OF THE
NATIONAL POSTAL POLICY COUNCIL**
(January 7, 2013)

The National Postal Policy Council¹ respectfully submits these comments in response to Order No. 1510, which established a rulemaking to consider revising the benchmark for measuring the worksharing discount for 5-Digit Presort First-Class Letters and Standard Letters.²

NPPC supports the proposal by Pitney Bowes that the Commission modify the analytical principle by which it measures worksharing costs avoided and the discount pass-through for 5-Digit Presort letters. Such a change is appropriate because the Postal Service has eliminated any separate discount for 3-Digit letters (the current benchmark for 5-Digit letters) while it considers what presort requirements it will establish as a consequence of its network rationalization program. In addition, the Postal Service also eliminated a separate rate for 3-

¹ The National Postal Policy Council is an association of large business users of letter mail, primarily Bulk First-Class Mail using the Automation rate category, with member companies from the telecommunications, banking and financial services, insurance, and mail services industries. Comprised of 36 of the largest customers of the Postal Service with aggregated mailings of nearly 30 billion pieces and pivotal suppliers, NPPC supports a robust postal system as a key to its members' business success and to the health of the economy generally.

² *Notice of Proposed Rulemaking on Analytical Principle Used in Periodic Reporting (Pitney Bowes Inc. Proposal One)*, Docket No. RM2012-6 (October 23, 2012) ("Notice").

Digit First-Class Automation Postcards and for Standard Mail Automation letters in the most recent market-dominant rate adjustments. The Commission should consider modifying its analytical principle relevant to those discounts as well.

As NPPC noted recently, the elimination of a separate 3-Digit discount in January 2012 was followed by a distinct decline in the volume of 3-Digit Presort letter volume:

The billing determinants show a dramatic reduction in the volume of 3-Digit Automation Presort letters of about 1 billion pieces (or more than 1/3) between Q3 of FY11, when a 100 percent pass-through was in effect, and Q3 of FY12, when the pass-through was zero. Between the same two periods, the AADC letter volume nearly doubled, rising by nearly 1 billion pieces. See USPS-LR-2013-1/1 USSP_CAPCALC-FCM-R2013-1 (Tab Quarterly BDs).

Comments of the National Postal Policy Council, Docket No. R2013-1 at 7 (Nov. 1, 2012).

The Postal Service's recently-filed Annual Compliance Report confirms the migration away from 3-Digit letters. *USPS-ACR2012-LR-4 - FY2012 Market Dominant Billing Determinants*, Tab A-4 (Dec. 28, 2012). There, the Postal Service reports 3-Digit Presort letter volume of 3,500,001,000 in the first quarter of FY12, when a 3-Digit discount was in place, and a steady volume decline over the remainder of the year to 1,996,387,000 pieces in the fourth quarter of FY12. Even taking seasonal fluctuations into account, it is evident that the volume of 3-Digit letters has fallen significantly since the elimination of a separate discount.

Postal Service volume data suggest that much of the volume that previously had been sent as 3-Digit rates have shifted to AADC letters, as there is no incentive for mailers to take the additional step of presorting to 3-Digit.

This is consistent with what NPPC has learned anecdotally from its members. NPPC members have said that whether their mailings are entered at AADC or 3-Digit rates depends on the amount of mail preparation work involved. Where the mail preparation is simply a function of software, they may continue to enter the mail at the 3-Digit category. However, if additional steps are necessary, they will refrain from incurring those additional costs and simply will prepare the mailing for entry at the AADC level.

Also, some mail formerly sent by NPPC members at 3-Digit rates, and that might be mailed today at AADC rates, is given to mailing services companies. Those firms often can comingle those pieces with other mail to enter at the 5-Digit tier. If the mail is not sent at 5-Digit rates, it would be sent at AADC rates.

In sum, NPPC understands that its members are either switching their 3-Digit letters to AADC entry or giving the mail to mailing services providers which may enter it as 5-Digit mail. The only letters entered at the 3-Digit tier are those which the mailing software can prepare to that level at no marginal cost.

These changes in mailing behavior by the largest Presort letter mailings indicate that absent a separate discount for 3-Digit mail, the relevant pricing signal for mailers considering whether to presort to the 5-Digit level is the 5-Digit price, and the extent to which it passes-through the cumulative cost savings between the AADC and the 5-Digit level.

For this reason, NPPC supports the position of Pitney Bowes in this proceeding, and recommends that the Commission modify the analytical principle

that it applies to the 5-Digit Presort discount where the Postal Service does not charge a distinct 3-Digit discount.

Respectfully submitted,

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