

Before the
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Periodic Reporting

Docket No. RM2012-6

COMMENTS OF THE PUBLIC REPRESENTATIVE
IN RESPONSE TO ORDER NO. 1753
(July 1, 2013)

The Commission has requested comments on the desirability of extending a “hybrid” benchmark adopted for 5-digit First-Class letters to First-Class cards and Standard Mail letters. The Public Representative supports the principle of extending the hybrid-benchmark methodology to First-Class cards and Standard Mail letters as a matter of consistency. However, data available at present do not show any meaningful migration of First-Class cards or Standard Mail letters from 3-digit to AADC since the elimination of their respective 3-digit discounts. This contrasts sharply with the significant migration that occurred immediately after the elimination of the 3-digit discount for First-Class letters. In addition, the use of a hybrid benchmark would have a minuscule effect on the avoided costs of 5-digit mail.

In its order adopting a hybrid benchmark for First-Class letters, the Commission stated,

Based on the record in this docket, there is no apparent reason for concluding that the elimination of a discount for First-Class cards or Standard Regular letter mail sorted to the 3-digit level should be approached differently. However, the Commission believes that it would be premature to approve a hybrid benchmark for 5-digit mail of either of these categories because there hasn't been sufficient focus in this docket on the need for, and the effects of, such changes.¹

The Commission also stated that it

agrees with GCA's observation that “it is . . . real-world mailer behavior . . . which accounts for the costs to the Postal Service of the mail actually in

¹ Order Revising Benchmark Used to Calculate the Costs Avoided by Automation First-Class 5-Digit Letter Mail, June 18, 2013, at 11-12 (Order No. 1753).

the system, and hence also for the level of savings available through additional worksharing.”

Order No. 1753 at 13.

In adopting a hybrid benchmark for 5-digit First-Class letters, the Commission stated,

The assumption underlying the current presort tree for automation First-Class letters is that the source of 5-digit mail is mail that would be sorted to 3 digits in the absence of a 5-digit discount. The evidence in this docket convincingly demonstrates that this assumption has been discredited by the rapid migration of 3-digit mail to AADC mail that is contemporaneous with the elimination of the discount for 3-digit mail.

Id. Indeed, in the three months following the elimination of the 3-digit discount (Quarter 2, FY2012), the volume of 3-digit First-Class letters dropped from 3.5 billion pieces to 2.8 billion, and the volume of AADC First-Class letters increased from 0.8 billion pieces to 1.6 billion. See Table 1a. By the fourth quarter of FY 2012, the volumes of 3-digit and AADC First-Class letters were virtually equal, and they have remained equal through Quarter 2 of FY 2013. See Table 1b and Figure 1.

**Table 1a: First-Class Mail Automation Letters
Selected AADC and 3-Digit Volume Comparisons**

Rate Category	Volume (000s)					
	FY 2012 Quarter 1	FY 2012 Quarter 2	FY 2012 Quarter 3	FY 2012 Quarter 4	FY 2013 Quarter 1	FY 2013 Quarter 2
AADC	816,006	1,594,669	1,843,732	1,948,402	2,066,490	2,088,525
3-Digit	3,500,001	2,760,389	2,207,101	1,996,387	2,034,326	2,038,610
Total	4,316,007	4,355,058	4,050,832	3,944,790	4,100,816	4,127,135

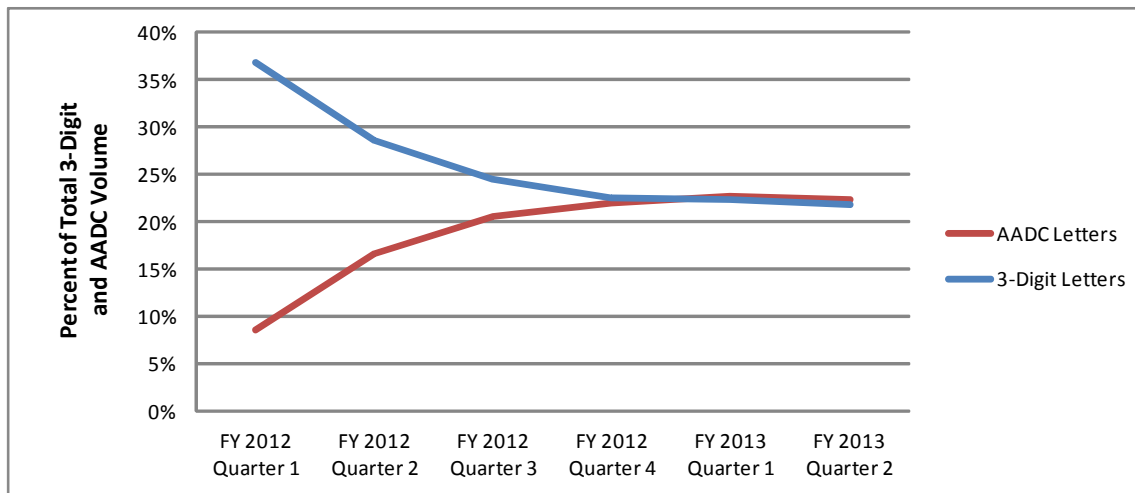
Source: USPS's quarterly First-Class Mail billing determinant filings with the PRC

**Table 1b: First-Class Mail Automation Letters
(Percent of Total 3-Digit and AADC Volume)**

Rate Category	Volume Percentages					
	FY 2012 Quarter 1	FY 2012 Quarter 2	FY 2012 Quarter 3	FY 2012 Quarter 4	FY 2013 Quarter 1	FY 2013 Quarter 2
AADC	19%	37%	46%	49%	50%	51%
3-Digit	81%	63%	54%	51%	50%	49%
Total	100%	100%	100%	100%	100%	100%

Source: Calculated from USPS's quarterly First-Class Mail billing determinant filings with the PRC

**Figure 1: First-Class Mail Automation Letters
(Percent of Total 3-Digit and AADC Volume)**



Source: Calculated from USPS's quarterly First-Class Mail billing determinant filings with the PRC

The 3-digit discounts for First-Class cards and Standard Mail letters were eliminated in January of this year. However, there has been no meaningful migration of volume from 3-digit to AADC in either category.

**Table 2a: First-Class Mail Automation Cards
Selected AADC and 3-Digit Volume Comparisons**

Rate Category	Volume (000s)					
	FY 2012 Quarter 1	FY 2012 Quarter 2	FY 2012 Quarter 3	FY 2012 Quarter 4	FY 2013 Quarter 1	FY 2013 Quarter 2
AADC	44,290	55,217	56,901	55,174	59,942	60,644
3-Digit	254,000	225,653	228,495	210,378	218,940	202,227
Total	298,290	280,870	285,396	265,551	278,882	262,870

Source: USPS's quarterly First-Class Mail billing determinant filings with the PRC

**Table 2b: First-Class Mail Automation Cards
(Percent of Total 3-Digit and AADC Volume)**

Rate Category	Volume Percentages					
	FY 2012 Quarter 1	FY 2012 Quarter 2	FY 2012 Quarter 3	FY 2012 Quarter 4	FY 2013 Quarter 1	FY 2013 Quarter 2
AADC	15%	20%	20%	21%	21%	23%
3-Digit	85%	80%	80%	79%	79%	77%
Total	100%	100%	100%	100%	100%	100%

Source: Calculated from USPS's quarterly First-Class Mail billing determinant filings with the PRC

**Table 3a: Standard Mail Regular Letters
Selected AADC and 3-Digit Volume Comparisons**

Rate Category	Volume (000s)					
	FY 2012 Quarter 1	FY 2012 Quarter 2	FY 2012 Quarter 3	FY 2012 Quarter 4	FY 2013 Quarter 1	FY 2013 Quarter 2
AADC	537,260,903	521,702,635	502,442,124	502,767,020	494,490,365	501,879,141
3-Digit	4,376,491,556	4,113,462,232	3,863,643,325	3,982,473,679	4,083,138,522	3,971,691,912
Total	4,913,752,459	4,635,164,867	4,366,085,449	4,485,240,699	4,577,628,887	4,473,571,053

Source: USPS's quarterly Standard Mail billing determinant filings with the PRC (tabs C1-1, C3-1, and C5-1)

**Table 3b: Standard Mail Regular Letters
(Percent of Total 3-Digit and AADC Volume)**

Rate Category	Volume Percentages					
	FY 2012 Quarter 1	FY 2012 Quarter 2	FY 2012 Quarter 3	FY 2012 Quarter 4	FY 2013 Quarter 1	FY 2013 Quarter 2
AADC	11%	11%	12%	11%	11%	11%
3-Digit	89%	89%	88%	89%	89%	89%
Total	100%	100%	100%	100%	100%	100%

Source: Calculated from USPS's quarterly Standard Mail billing determinant filings with the PRC

The Commission has stated that

when the [First-Class letter 3-digit] discount was eliminated, the combined volume of AADC and 3-digit mail consisted of 80 percent 3-digit mail and 20 percent AADC mail. This volume distribution was roughly consistent with the assumption that 3-digit mail is the mail that is most likely to convert to 5-digit mail.

Order No. 1753 at 13. As can be seen in Table 2b, the proportions for First-Class cards were 79/21 in quarter 1 of FY 2013 and 77/23 in quarter 2. These proportions were *and remain* “roughly consistent with the assumption that 3-digit mail is the mail that is most likely to convert to 5-digit mail.” There has been no dramatic migration of cards from 3-digit to AADC, as there was of letters in quarter 2 of FY 2012. The proportions for Standard Mail letters—89/11 and 89/11—are even more consistent *and remain*

“consistent with the assumption that 3-digit mail is the mail that is most likely to convert to 5-digit mail.”

The effect of adopting a hybrid benchmark for First-Class cards and Standard Mail letters at this time would be trivial. The change for First-Class letters produces a difference of \$0.0021 in the costs avoided by presorting to 5 digits. See Table 4. By contrast, as shown in Tables 5 and 6, adopting a hybrid benchmark for First-Class cards and Standard Mail letters at this time would produce differences of \$0.00057 and \$0.0005, respectively.²

**Table 4: First-Class Mail Automation Letters
5-Digit Benchmark Analysis 1/**

	Mail Processing WS Related Unit Cost (cents) [1]	Delivery WS Related Unit Cost (cents) [2]	Total WS Related Unit Cost (cents) [3]	Incremental WS Related Unit Cost Savings (cents) [4]
Method A: Previous 5-Digit Benchmark				
Automation 3-Digit Presort Letters	6.641	4.830	11.471	
Automation 5-Digit Presort Letters	4.321	4.635	8.956	2.515
Method B: Hybrid 5-Digit Benchmark				
Automation AADC/3-Digit Hybrid Presort Letters	6.847	4.833	11.681	
Automation 5-Digit Presort Letters	4.321	4.635	8.956	2.725
Difference in Incremental Savings between Methods B and A				0.210

Sources:

1/: Library Reference PRC-RM2012-6/LR1, Excel file "FY2012 FCM Letter Cost Model PRCrev1.xls" filed 6-18-2013

² Tables 5 and 6 are for illustrative purposes. The Public Representative used the volume distribution for FY 2013, quarter 2, because, out of the available data, this is the only quarter that reflects the period when AADC and 3-Digit discounts are equal for First-Class Mail card and Standard Mail letters.

**Tables 5: First-Class Mail Automation Cards
5-Digit Benchmark Analysis**

	Mail Processing WS Related Unit Cost (cents) [1]	Delivery WS Related Unit Cost (cents) [2]	Total WS Related Unit Cost (cents) [3]	Incremental WS Related Unit Cost Savings (cents) [4]
Method A:				
Current 5-Digit Benchmark 1/				
Automation 3-Digit Presort Cards	3.385	4.076	7.461	
Automation 5-Digit Presort Cards	2.310	3.919	6.229	1.232
Method B:				
Hybrid 5-Digit Benchmark				
Automation AADC/3-Digit Hybrid Presort Cards 2/	3.441	4.077	7.518	
Automation 5-Digit Presort Cards	2.310	3.919	6.229	1.289
Difference in Incremental Savings between Methods B and A				0.057

Sources:

1/: Library Reference PRC-RM2012-6/LR1, Excel file "FY2012 FCM Letter Cost Model PRCrev1.xls"

2/: Calculated from 1/ using workshare-related unit cost data from the 'SUMMARY' tab and FY 2013, quarter 2 volume distribution from Table 2b

**Table 6: Standard Mail Regular Letters
5-Digit Benchmark Analysis**

	Mail Processing WS Related Unit Cost (cents) [1]	Delivery WS Related Unit Cost (cents) [2]	Total WS Related Unit Cost (cents) [3]	Incremental WS Related Unit Cost Savings (cents) [4]
Method A:				
Current 5-Digit Benchmark 1/				
Automation 3-Digit Regular Letters	5.975	4.882	10.857	
Automation 5-Digit Regular Letters	4.186	4.697	8.883	1.974
Method B:				
Hybrid 5-Digit Benchmark				
Automation AADC/3-Digit Hybrid Regular Letters 2/	6.024	4.883	10.907	
Automation 5-Digit Regular Letters	4.186	4.697	8.883	2.024
Difference in Incremental Savings between Methods B and A				0.050

Sources:

1/: Docket No. ACR2012, Library Reference PRC-ACR2012-LR3, Excel files "FY2012 STD Letters Cost Model PRC.xlsx" and "UDCmodel12 PRC.xls"

2/: Calculated from 1/ using FY 2013, quarter 2 volume distribution from Table 3b

The Public Representative recommends that the Commission adopt the hybrid-benchmark methodology for 5-digit First-Class cards and Standard Mail letters. However, the Public Representative suggests that the Postal Service refrain from adjusting discounts until the extent of migration (if any) of 3-digit to AADC for those categories has materialized and stabilized.

Respectfully submitted
(et au revoir),

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