

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

Periodic Reporting

Docket No. RM2012-6

COMMENTS OF PITNEY BOWES INC.

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Pursuant to Order No. 1753, Pitney Bowes Inc. (Pitney Bowes) respectfully submits these comments in support of the use of a hybrid (volume-weighted average of automated area distribution center (AADC) and 3-digit letters) benchmark for estimating the 5-digit automation letter workshare-related cost avoidance for Standard Regular 5-digit letters.¹

The rationale supporting the adoption of a hybrid benchmark for estimating the 5-digit workshare-related cost avoidance – that both AADC and 3-digit automation letters are candidates for conversion to 5-digit automation letters and for reversion from 5-digit automation letters – applies to Standard Mail just as it does to First-Class Mail.

The comments of the National Association for Presort Mailers (NAPM) explain why adopting a parallel change for Standard Regular 5-digit letters is appropriate:

Shortly after these comments are filed, the Postal Service will implement price changes that eliminate the price incentive for Standard Mail 3-Digit Letters. Accordingly, the survey [of NAPM members] also attempted to gather information regarding the expected response to the elimination of the price incentive for Standard Mail 3-Digit Letters.

The survey responses suggest a similar dynamic in Standard Mail Letters once the AADC and 3-Digit prices are equalized. Table 6 shows that many members are planning to stop preparing 3-Digit trays in 2013. This is consistent with the shift experienced in First-Class Mail after the elimination of the 3-Digit price incentive.

Table 6. Percentage of Mailers that Prepare 3-Digit Trays

| Mail Class | 2011 | 2012 | 2013 |
|-------------------|-------------|-------------|-------------|
| Standard Mail | 98.5% | 97.5% | 34.1% |

Source: NAPM-LR-1, “Table 6”

Table 7 shows that once the price incentive for 3-Digit is eliminated, if postage discounts were not large enough to justify 5-Digit preparation, a significant majority of the volume of 5-Digit mail would revert to AADC preparation.

¹ Conceptually, we see no reason not to extend the hybrid benchmark to First-Class Mail 5-digit Automation Cards, but we are not aware of data regarding what Automation Cards are most likely to convert to 5-Digit.

Table 7. Standard Mail Reversion Responses

| | |
|--|-------|
| 3-Digit/Scheme | 27.7% |
| AADC | 61.7% |
| Combination of AADC and 3-Digit/Scheme | 10.7% |

Source: NAPM-LR-1, "Table 7"

Again, these results are similar to the responses for First-Class Mail Letters.

Comments of NAPM (January 7, 2013) at 7-8 (footnotes omitted).

In its July 1 comments, the Public Representative notes that the most recently-available billing determinant data shows the migration of 3-digit letters/cards to the AADC presort level following the elimination of the AADC-3D rate differential in First-Class Mail cards and Standard Mail letters has been much more modest. *See* PR Comments at 3-4.

Nevertheless, the Public Representative recommends that the Commission adopt the hybrid benchmark methodology for First-Class Mail 5-digit cards and Standard Regular 5-digit letters.

A substantial migration Standard Mail letters from 3-digit to AADC presort is not required for the Commission to make a parallel change to the benchmark for Standard Regular 5-digit letters. NAPM's previous comments showed that within Standard Regular letters both AADC and 3-digit letters are candidates to convert to or revert from 5-digit. Therefore, a hybrid benchmark is appropriate.

The rate of migration and the mail mix in First-Class and Standard Mail will likely be different because a higher percentage of Standard Mail automation letters (relative to First-Class Mail) may continue to be prepared as 3-digit trays to facilitate destination sectional center facility (SCF) entry of Standard Mail. *See* Comments of Pitney Bowes Inc. (December 7, 2012), at 3; NAPM Comments at 8. But a difference in mail mix between the two classes does not affect the validity of a hybrid benchmark.

The hybrid benchmark is designed to take mail mix into account on a continuing basis. As explained in our previous comments, “[t]he use of a [hybrid] AADC / 3-Digit benchmark would also ensure that the benchmark appropriately captures any volume shift unique to these products [Standard Mail Automation Letters and First-Class Mail Automation Cards].” Pitney Bowes Comments at 2. The hybrid benchmark is self-adjusting. To the extent that 3-digit mail is slow to convert to the AADC presort level in Standard Regular letters, the hybrid benchmark will remain heavily weighted towards 3-digit, reflecting the reality that most candidate mail is 3-digit presort.

Pitney Bowes agrees with the Commission and the Public Representative that volume weights used to calculate the hybrid benchmark “should reflect a time when mailers have had ample time to adjust to the elimination of the discount for 3-digit mail.” *See* Order No. 1753 at 15. Accordingly, we recommend that the volume weights be calculated from RPW data from time periods following elimination of the rate differential between Standard Mail AADC and 3-digit Automation Letters.

Finally, implementing the change with the next price adjustment would facilitate a smooth transition to the new benchmark and avoid potentially disrupting existing prices.

CONCLUSION

For the reasons discussed above and in our previous comments, Pitney Bowes respectfully requests that the Commission extend the use of a hybrid benchmark to Standard Regular 5-digit letters.

Respectfully submitted:

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