

UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Before Commissioners:

Ruth Y. Goldway, Chairman;
Robert G. Taub, Vice Chairman;
Mark Acton;
Tony Hammond; and
Nanci E. Langley

Periodic Reporting

Docket No. RM2012-6

ORDER REVISING BENCHMARK USED TO CALCULATE THE
COSTS AVOIDED BY AUTOMATION FIRST-CLASS 5-DIGIT
CARDS AND STANDARD REGULAR 5-DIGIT LETTER MAIL

(Issued July 29, 2013)

I. INTRODUCTION AND SUMMARY

In Order No. 1753, the Commission adopted a new benchmark for calculating the costs avoided by 5-digit automation First-Class letters.¹ It replaced the then-existing benchmark (3-digit automation First-Class letters) with a hybrid benchmark consisting of Automated Area Distribution Center (AADC) letters and 3-digit letters that reflects their relative volumes. *Id.* at 11-16.

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

In Order No. 1753, the Commission deferred acting on a suggestion that it adopt a similar hybrid benchmark for 5-digit Standard Regular letters.² Instead, to afford interested persons, including the Postal Service, an opportunity “to address the merits of extending this change to other categories impacted by the elimination of 3-digit discounts,” the Commission solicited comments regarding “the desirability of making similar revisions to the benchmarks currently used to calculate the costs avoided by sorting automation First-Class postcards, and Standard Regular letters, to the 5-digit level.” *Id.* at 18-19.

In response, four sets of comments were received.³ Each supports adoption of a similar hybrid benchmark for First-Class cards and Standard Regular letters. The Postal Service did not file comments. For the reasons discussed below, the Commission adopts new hybrid benchmarks for calculating the costs avoided by 5-digit First-Class cards and Standard Regular letters.

II. COMMENTS

The Public Representative supports “the principle” of extending the hybrid benchmark approach adopted in Order No. 1753 to automation First-Class 5-digit cards and Standard Regular 5-digit letters. PR Comments at 1. He notes, however, that as of Quarter 2 of FY 2013, there has been little change in the relative volumes of AADC and 3-digit mail. Based on that lack of change in relative volumes, he presents data demonstrating that extending the hybrid benchmark to automation First-Class 5-digit cards and Standard Regular 5-digit letters would have only a minor affect on cost avoidance estimates for those categories. *Id.* at 2-7. He suggests that the Postal

² This suggestion was prompted by the Postal Service’s elimination of 3-digit discounts for First-Class cards and Standard Mail letters in January 2013.

³ See Comments of the Public Representative in Response to Order No. 1753, July 1, 2013 (PR Comments); Comments of Pitney Bowes Inc., July 8, 2013 (Pitney Bowes Comments); Comments of National Postal Policy Council, July 7, 2013 (NPPC Comments); and Comments of the Wilen Group, July 5, 2013 (Wilen Group Comments).

Service delay “adjusting discounts until the extent of migration (if any) of 3-digit to AADC for those categories has materialized and stabilized.” *Id.* at 8.

Pitney Bowes, NPPC, and the Wilen Group also support applying the hybrid benchmark approach adopted in Order No. 1753 to automation First-Class 5-digit cards and Standard Regular 5-digit letters. They emphasize the consistency that such an extension would achieve, and the self-implementing nature of the hybrid approach adopted in Order No. 1753.⁴

With respect to the implementation of these changes, Pitney Bowes says that the calculation of these hybrid benchmarks should be based only on data that reflect volumes that were mailed after the discount for 3-digit mail was discontinued, so that they reflect a response to that change. It also states that waiting to implement these hybrid benchmarks until the next round of rate adjustments would ensure an orderly transition. Pitney Bowes Comments at 4.

III. COMMISSION ANALYSIS

Generally, the worksharing relationships that are presumed to exist among the various rate categories of automation First-Class cards and Standard Regular letters are reflected in their respective “presort trees.” These consist of automation Mixed AADC, automation AADC, automation 3-digit, and automation 5-digit. Each has an associated benchmark. Currently, the benchmark is the adjacent, less-finely sorted tier.⁵

There is a consensus among the commenters that extending the hybrid approach has the benefit of bringing consistency to this area of pricing workshared mail, and, since it is self-executing, the approach would not be impractical or disruptive. Most commenters conclude, and the Commission concurs, that the fact that implementing this change would not have a substantial impact on cost avoidance calculations based

⁴ Pitney Bowes Comments at 1-5; NPPC Comments at 1-3; Wilen Group Comments at 1.

⁵ The workshare-related cost of the benchmark is the starting point for calculating the Postal Service costs that each more finely-sorted tier avoids.

on volume through Quarter 2 of FY 2013 is not a significant obstacle to adopting it. Pitney Bowes aptly notes that the need to sort these categories of mail at least to 3-digits to qualify for Destination Sectional Center Facility (DSCF) dropshipping discounts will continue to limit the reversion of 3-digit Standard Regular letters to the AADC level, despite the elimination of the discount for presorting to 3-digits. Nevertheless, the National Association of Presort Mailers provided survey data earlier in this proceeding concerning Standard Regular mailers' expectations of their future use of the 3-digit category.⁶ The data suggest that a substantial reversion to the AADC level may yet occur after mailers have had more time to adjust to the elimination of the discount for 3-digit mail.

The Commission concludes that there is little downside to extending the hybrid approach to these additional categories of mail. It also concludes that there is a potentially significant upside in terms of producing more representative benchmarks, if the expectations of Standard Regular mailers regarding reduced use of the 3-digit category documented earlier in this docket are ultimately realized. Accordingly, the Commission extends the hybrid approach to calculating the benchmark for automation First-Class 5-digit letter mail adopted in Order No. 1753 to calculating the benchmarks for automation First-Class 5-digit cards and Standard Regular 5-digit letters.

Where four quarters of volume and billing determinant data reflecting the elimination of the discount are available, hybrid benchmarks should be based on the most recent four quarters of data. The Commission agrees with the commenters, however, that calculation of these hybrid benchmarks should exclude data that reflects relative volumes of AADC and 3-digit mail prior to the discontinuance of the 3-digit discount.

Volume and billing determinant data are available that reflect a full year of experience with the elimination of the 3-digit discount for automation First-Class letters. Therefore, if a hybrid benchmark for 5-digit First-Class letters were calculated today, it

⁶ See Comments of the National Association of Presort Mailers, January 7, 2013, at 7-9.

would be based on the four most recent quarters of volume data. With respect to elimination of the 3-digit discount for automation First-Class cards and Standard Regular letters, however, only one quarter of relevant volume and billing determinant data is available (FY 2013, Quarter 2). Therefore, if a hybrid benchmark for 5-digit mail in these categories were calculated today, it would be based only on data for that quarter.⁷

IV. ORDERING PARAGRAPHS

It is ordered:

1. The benchmark for automation First-Class 5-digit cards is the current volume-weighted average of AADC and 3-digit cards, as described in the body of this Order.
2. The benchmark for automation Standard Regular 5-digit letter mail and for automation Standard Non-Profit 5-digit letter mail is the current volume-weighted average of AADC and 3-digit letters, as described in the body of this Order.

By the Commission.

Ruth Ann Abrams
Acting Secretary

⁷ The method for calculating the hybrid benchmarks for automation First-Class 5-digit letters and for automation First-Class 5-digit cards is illustrated in PRC RM2012-6-LR2. The method for calculating the hybrid benchmarks for Standard Regular 5-digit letters and for Standard Non-Profit 5-digit letters is illustrated in PRC RM2012-6-LR3.