

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

NOTICE OF PRICE ADJUSTMENT

Docket No. R2009-5

UNITED STATES POSTAL SERVICE
NOTICE OF MARKET-DOMINANT PRICE ADJUSTMENT
(August 11, 2009)

Pursuant to section 3622 of title 39 and 39 C.F.R. part 3010, the Postal Service hereby provides notice that the Governors have authorized the Postal Service to adjust the prices for its market-dominant products. This adjustment will take effect at 12:01 AM on October 1, 2009, and expire at 11:59 PM on December 31, 2009. This change affects First-Class Mail® presort letter, flat, and card prices. In this Notice, the Postal Service provides the information required by Rule 3010.14, including a schedule of the new prices, which is provided in Appendix A.¹

The Postal Service certifies that it will inform customers of these price adjustments, as required by Rule 3010.14(a)(3). In addition to this Notice, the Postal Service will shortly be publishing notice of these price changes on USPS.com, the Postal Explorer website, the DMM Advisory, and the P&C Weekly, as well as issuing a Press Release announcing the changes. Thus, widespread notice of these prices is being given 45 days prior to their planned implementation date. Furthermore, the Postal

¹ Appendix A also contains the proposed Mail Classification Schedule changes.

Service plans to provide public notice of these price changes in future issues of the PCC Insider, MailPro, Postal Bulletin, and Federal Register.

The Postal Service, pursuant to Rule 3010.14(a)(4), identifies Mr. Greg Dawson as the official who will be available to provide responses to queries from the Commission. Mr. Dawson's contact information is as follows:

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The remainder of this Notice is structured as follows. Part I provides a description of the program, including qualification criteria, measurement methodology, and rebate calculation. In Part II, the Postal Service discusses compliance with the price cap. Part III provides a review of the objectives and factors of section 3622, and the impact on workshare discounts and preferred rates.

I. PROGRAM DESCRIPTION

The Postal Service proposes to introduce a First-Class Mail Incentive program designed to encourage communication using the mail between businesses and their customers during these challenging economic times. Current conditions have forced many businesses to reduce their use of the mail. This, coupled with diversion to electronic alternatives to the mail, has led to a decline in the use of First-Class Mail and a significant loss of Postal Service contribution.

The First-Class Mail Incentive program will give eligible companies a 20 percent postage rebate on qualifying presort letter, flat, and card volumes mailed between

October 1, 2009, and December 31, 2009. Qualifying volume is defined as a single company's First-Class Mail volume over and above a predetermined threshold.

The First-Class Mail Incentive program is expected to make a positive contribution to institutional costs. Mailers of First-Class Mail are among those hardest hit by the downturn and electronic diversion, and a short-term incentive to use the mail and stabilize or grow volume could help keep businesses in the mail, provide a base for growth in the future, and improve the future profitability of the Postal Service.

A. Eligible Mailers

To be eligible to participate in the First-Class Mail Incentive program, a company must have mailed 500,000 or more non-parcel First-Class Mail pieces between October 1 and December 31 in both 2007 and 2008, through permit accounts owned by the company, or through permits set up on behalf of the company by a Mail Service Provider (MSP).

Eligible companies must exceed a company-specific threshold during the period October 1, 2009 through December 31, 2009 to qualify for an incentive rebate. Companies' thresholds are calculated by computing the ratio of the October 1–December 31 2008 non-parcel First-Class Mail presorted volume to the October 1–December 31 2007 non-parcel First-Class Mail presorted volume. That ratio is multiplied by the company's October 1–December 31, 2008 non-parcel First-Class Mail presorted volume to set the threshold. Incremental volume mailed by an eligible, participating company above the calculated threshold will earn a 20 percent rebate that will be credited to the company's Permit trust account. The rebate will be calculated as

the average revenue per piece for all eligible mail volume during the program period multiplied by the incremental volume above the threshold during the program period.

The intent of the program is to provide an incentive for customers to increase non-parcel First-Class Mail presorted volume above the volume they would otherwise have sent. Increasing volume during the incentive program period by shifting January 2010 volume to December 2009 or by withholding volume that otherwise would have been mailed in September 2009 does not meet the goal of increasing overall volume. Therefore, if either September 2009 or January 2010 actual volumes (or both) do not meet or exceed the respective month's threshold (calculated in the same way as the ratio used to establish the threshold during the program period), the shortfall will be deducted from the incentive program's qualifying volume.

Mail Service Providers (MSPs) are not eligible to participate in the incentive program, but they have been asked to encourage their customers who might qualify for the program, and to provide the necessary assistance to validate volume data required by the Postal Service for program participation.

B. Program Administration

The Postal Service will mail a letter to all identified eligible First-Class Mail presort customers explaining the First-Class Mail Incentive program. Mailers wishing to participate in the program, who believe they meet the eligibility standards but were not notified by letter, may request a review of their eligibility by contacting the Postal Service.

1. Measurement and Monitoring

A company that wants to enroll in the First-Class Mail Incentive program must provide historic mail volume data by month and by company or MSP permits used, along with invoices or other similar documentation to support the volume entries for each permit listed. Following Postal Service review of the data, participating companies must certify the volume data they submit to establish their respective thresholds for the incentive program. If the company challenges the Postal Service's documentation of its threshold calculations, the company will be required to show evidence why the Postal Service's data may be incorrect. While the Postal Service will work with the customer to resolve any discrepancies, if agreement cannot be reached, the Postal Service's data will be used to calculate the volume threshold.

The Postal Service will use volumes sent using permit account(s) the company holds, including volumes sent through Ghost permits set up exclusively for a company by a MSP to calculate the rebate due to the customer at the end of the incentive period. Additionally, the Postal Service will require each mailer (or responsible agent) to certify the data submitted to the Postal Service and provide invoices from MSPs. The incentive program rebate (after the September and/or January adjustment, if necessary) will be added back into the company's permit trust account as appropriate. Rebate credits are expected to be completed no earlier than thirty (30) days after the end of the program period.

2. Measuring Success

The primary measure of success will be incremental revenue and volume growth over the threshold for participating customers. Other qualitative aspects of the program

will be monitored, such as the Postal Service's ability to efficiently and effectively administer the program, and the feedback it receives from customers.

3. Data Collection Plan

The Postal Service will submit the following data to the Postal Regulatory Commission ninety (90) days after the payment of incentive rebates:

First, for each eligible First-Class Mail customer, the Postal Service will provide monthly volumes and revenues for all First-Class Mail letters by product, flats by product, and cards by product. The reporting periods will be from September of 2007 through January of 2008, September of 2008 through January of 2009, and September of 2009 through January of 2010. The Postal Service will also provide information on any rebate paid to each eligible user, with supporting calculations. The information provided pursuant to this paragraph will be filed under seal, and mailer identities will be masked by using a generic identification number.

Second, the Postal Service will publicly provide the monthly information in the preceding paragraph, but aggregating mailer data.

Third, for each eligible First-Class Mail user, the Postal Service will provide monthly permit volumes for Standard Mail letters and flats. The information provided pursuant to this paragraph will also be filed under seal, and the Postal Service will use the same generic identification number in masking mailer identities that was used to report First-Class Mail data.

Fourth, the Postal Service will identify the actual administrative costs of the program.

C. Financial Impact

With a 20 percent rebate and the expressed interest of customers to take advantage of the incentive, the Postal Service expects a contribution increase of around \$24 million and a revenue increase of \$43 million (net of the 20 percent rebate). We anticipate new volume of about 103 million pieces, which will generate about \$31 million additional revenue, and \$16 million contribution. In addition, we also expect about 103 million pieces to buy up from Standard Mail, providing an additional \$12 million revenue and \$8 million contribution. Expected administrative costs for the First-Class Mail Incentive program are:

Program Support – Dedicated USPS personnel	\$450,000
Contractor analytical support	\$100,000
Registration website creation	\$9,000
Production of customer print communications	<u>\$250,000</u>
Total	\$809,000

Due to the current cost coverage of First-Class Mail, enough contribution will be generated from additional volume to easily cover these costs.

D. Risks

The financial analysis summarized above is the Postal Service's best estimate of the impact of this initiative on Postal Service finances. However, there are inherent risks that may affect the financial performance of this program. In particular, an overestimate

of the additional volume generated by the incentive or an underestimate of the administrative effort required could unfavorably affect expected financial performance. For example, if the First-Class Mail Incentive program produces a volume increase below the lowest estimate, the Postal Service will earn less than expected. Similarly, a misestimate of the administrative costs of the program, either because of a difference in the number of customers who dispute the Postal Service's calculations, or difficulty calculating rebates, would proportionally affect the amount of contribution the Postal Service would receive from the sale.

II. PRICE CAP COMPLIANCE

Because the program is temporary, and because there is some uncertainty regarding the amount of new volume that will be generated as a result of the incentive program, the Postal Service proposes to treat the program, for the purposes of price cap compliance, in a manner mathematically analogous to the procedure described in Rule 3010.24. That is, the Postal Service essentially intends to ignore the effect of the price decrease resulting from the program on the price cap for both future and current prices. Therefore, the Postal Service has made no calculation of cap or price changes described in Rule 3010.14(b)(1) through (4).

III. OBJECTIVES AND FACTORS, WORKSHARE DISCOUNTS, AND PREFERRED RATES

In compliance with Rules 3010.14(b)(5) through (8), the Postal Service in this section discusses how the planned program “help[s] achieve” the objectives of section

3622(b) and “properly take[s] into account” the factors of section 3622(c); and how the program impacts workshare discounts and preferred rates.

A. Objectives and Factors

The objectives of section 3622(b) are as follows:

- (b) Objectives.—Such system shall be designed to achieve the following objectives, each of which shall be applied in conjunction with the others:
- (1) To maximize incentives to reduce costs and increase efficiency.
 - (2) To create predictability and stability in rates.
 - (3) To maintain high quality service standards established under section 3691.
 - (4) To allow the Postal Service pricing flexibility.
 - (5) To assure adequate revenues, including retained earnings, to maintain financial stability.
 - (6) To reduce the administrative burden and increase the transparency of the ratemaking process.
 - (7) To enhance mail security and deter terrorism.
 - (8) To establish and maintain a just and reasonable schedule for rates and classifications, however the objective under this paragraph shall not be construed to prohibit the Postal Service from making changes of unequal magnitude within, between, or among classes of mail.
 - (9) To allocate the total institutional costs of the Postal Service appropriately between market-dominant and competitive products.

To a large extent, the establishment of this program does not substantially alter the degree to which First-Class Mail prices already address these objectives, or they are addressed by the design of the system itself (Objectives 1, 2, 3, 6, 7, 8, and 9). The establishment of this incentive program, designed to encourage First-Class Mail presort letters, flats and cards volume growth during a recession is an example of the increased flexibility provided to the Postal Service under the Postal Accountability and Enhancement Act (PAEA) (Objective 4). Moreover, the fact that the program will provide an incentive for profitable new mail, and provide a boost to a key customer segment, will enhance the financial position of the Postal Service (Objective 5).

In addition to the objectives specified and discussed above, section 3622(c) enumerates fourteen factors, or considerations, that must be taken into account, which are as follows:

- (c) Factors.—In establishing or revising such system, the Postal Regulatory Commission shall take into account—
- (1) the value of the mail service actually provided each class or type of mail service to both the sender and the recipient, including but not limited to the collection, mode of transportation, and priority of delivery;
 - (2) the requirement that each class of mail or type of mail service bear the direct and indirect postal costs attributable to each class or type of mail service through reliably identified causal relationships plus that portion of all other costs of the Postal Service reasonably assignable to such class or type;

- (3) the effect of rate increases upon the general public, business mail users, and enterprises in the private sector of the economy engaged in the delivery of mail matter other than letters;
- (4) the available alternative means of sending and receiving letters and other mail matter at reasonable costs;
- (5) the degree of preparation of mail for delivery into the postal system performed by the mailer and its effect upon reducing costs to the Postal Service;
- (6) simplicity of structure for the entire schedule and simple, identifiable relationships between the rates or fees charged the various classes of mail for postal services;
- (7) the importance of pricing flexibility to encourage increased mail volume and operational efficiency;
- (8) the relative value to the people of the kinds of mail matter entered into the postal system and the desirability and justification for special classifications and services of mail;
- (9) the importance of providing classifications with extremely high degrees of reliability and speed of delivery and of providing those that do not require high degrees of reliability and speed of delivery;
- (10) the desirability of special classifications for both postal users and the Postal Service in accordance with the policies of this title, including agreements between the Postal Service and postal users, when

available on public and reasonable terms to similarly situated mailers,
that—

(A) either—

- (i) improve the net financial position of the Postal Service through reducing Postal Service costs or increasing the overall contribution to the institutional costs of the Postal Service; or
- (ii) enhance the performance of mail preparation, processing, transportation, or other functions; and

(B) do not cause unreasonable harm to the marketplace.

- (11) the educational, cultural, scientific, and informational value to the recipient of mail matter;
- (12) the need for the Postal Service to increase its efficiency and reduce its costs, including infrastructure costs, to help maintain high quality, affordable postal services;
- (13) the value to the Postal Service and postal users of promoting intelligent mail and of secure, sender-identified mail; and
- (14) the policies of this title as well as such other factors as the Commission determines appropriate.

As with the Objectives of section 3622(b), the establishment of this program does not substantially alter the degree to which First-Class Mail prices address many of the Factors of section 3622(c) (Factors 1, 4, 5, 6, 8, 9, 10, 11, 12, 13, and 14). The program is a prime example of how the Postal Service can utilize the pricing flexibility provided under the PAEA in order to encourage increased mail volume. Additionally, the

incentive program will help to counteract the effect of the current recession on business mailers, and provide a boost to a key customer segment (Factor 3). In addition, although the rebates provided are material, the program will not affect the ability of First-Class Mail to cover its attributable costs (Factor 2). Given the current mix of First-Class Mail letters, flats, and cards, incremental pieces generated as a result of the program are expected to cover their additional attributable costs, meaning that First-Class Mail as a whole will make an increased contribution toward overhead costs.

B. Workshare Discounts

To the extent that the program affects discounts between presort categories, it will shrink them. However, the program itself is not worksharing, nor should its effects be considered as a modification of, or change to, worksharing discounts within First-Class Mail. By the same token, the program's effect on the difference between single-piece and presort First-Class Mail prices is well within the scope of the law, to the extent that consideration is relevant. The program is a temporary incentive intended to drive additional First-Class Mail presort volume; as such it is not tied to any specific mail preparation or induction practice. The discounts are, in this sense, similar to the incremental discounts approved by the Commission in a number of Negotiated Service Agreements, or the IMb discounts that will take effect this fall.

The Postal Service has established price differentials for several reasons other than purely to recognize the cost avoided through worksharing. For example, as worksharing discounts were first established, the operational need to encourage adoption of presortation and automation preparation resulted in discounts greater than

measured cost avoidance. More recently, many negotiated service agreements were designed not primarily to drive specific actions aimed at reducing cost, but to grow volume and revenue.

Additionally, the Commission recognized in its FY 2008 Annual Compliance Determination that the price differential associated with IMb is not a worksharing discount, but it is an appropriate way to drive desired behavior. Driving behavior, whether avoiding costs through worksharing, adopting IMb to build the foundation for Intelligent Mail, or growing volume to improve the operating and financial position of the Postal Service, is an appropriate use of the pricing flexibility afforded by the PAEA. The Postal Service submits that its pricing flexibility should not be unnecessarily restricted solely based on the concept of cost difference.

C. Preferred Rates

The First-Class Mail Incentive program will have no impact on any preferred rates.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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1100 First-Class Mail

1110 Presorted Letters/Postcards

1110.4 Optional Features

The following additional postal services may be available in conjunction with the product specified in this section:

- Ancillary Services (1505)
 - Address Correction Service (1505.1)
 - Certified Mail (1505.5)
 - Certificate of Mailing (1505.6)
 - Collect on Delivery (1505.7)
 - Insurance (1505.9)
 - Return Receipt (1505.13)
 - Restricted Delivery (1505.15)
 - Special Handling (1505.18)
- Repositionable Notes: presorted letters only
- First-Class Mail Incentive Program

1110.5 Prices

Automation Letters

Maximum Weight (ounces)	5-Digit (\$)	3-Digit (\$)	AADC (\$)	Mixed AADC (\$)
1	0.324	0.346	0.351	0.369
2	0.449	0.471	0.476	0.494
3	0.574	0.596	0.601	0.619
3.5	0.699	0.726	0.726	0.744

Machinable Letters

Maximum Weight (ounces)	Presorted (\$)
1	0.394
2	0.519
3	0.644
3.5	0.769

Nonmachinable Letters

Maximum Weight (ounces)	Presorted (\$)
1	0.594
2	0.719
3	0.844
3.5	0.969

Letters including a Repositionable Note

Add \$0.005 for each piece bearing a Repositionable Note.

Automation Postcards

Maximum Weight (ounces)	5-Digit (\$)	3-Digit (\$)	AADC (\$)	Mixed AADC (\$)
not applicable	0.199	0.210	0.213	0.223

Machinable Postcards

Maximum Weight (ounces)	Presorted (\$)
not applicable	0.242

First-Class Mail Incentive Program

Provide a 20 percent credit on the average per-piece price on the incremental volume of First-Class Mail presort letters, flats, and postcards recorded during the established program period, over a specified threshold, for mailers that comply with the eligibility requirements of the program.

1115 Flats

1115.4 Optional Features

The following additional postal services may be available in conjunction with the product specified in this section:

- Ancillary Services (1505)
 - Address Correction Service (1505.1)
 - Business Reply Mail (1505.3)
 - Certified Mail (1505.5)
 - Certificate of Mailing (1505.6)
 - Collect on Delivery (1505.7)
 - Insurance (1505.9)
 - Registered Mail (1505.12)
 - Return Receipt (1505.13)
 - Restricted Delivery (1505.15)
 - Special Handling (1505.18)
- Repositionable Notes
- First-Class Mail Incentive Program

1115.5 Prices

Automation Flats

Maximum Weight (ounces)	5-Digit (\$)	3-Digit (\$)	ADC (\$)	Mixed ADC (\$)
1	0.364	0.479	0.570	0.702
2	0.534	0.649	0.740	0.872
3	0.704	0.819	0.910	1.042
4	0.874	0.989	1.080	1.212
5	1.044	1.159	1.250	1.382
6	1.214	1.329	1.420	1.552
7	1.384	1.499	1.590	1.722
8	1.554	1.669	1.760	1.892
9	1.724	1.839	1.930	2.062
10	1.894	2.009	2.100	2.232
11	2.064	2.179	2.270	2.402
12	2.234	2.349	2.440	2.572
13	2.404	2.519	2.610	2.742

Presorted Flats

Maximum Weight (ounces)	Presorted (\$)
1	0.727
2	0.897
3	1.067
4	1.237
5	1.407
6	1.577
7	1.747
8	1.917
9	2.087
10	2.257
11	2.427
12	2.597
13	2.767

Single-Piece Flats

Maximum Weight (ounces)	Single-Piece (\$)
1	0.83
2	1.00
3	1.17
4	1.34
5	1.51
6	1.68
7	1.85
8	2.02
9	2.19
10	2.36
11	2.53
12	2.70
13	2.87

Flats including a Repositionable Note

Add \$0.005 for each piece bearing a Repositionable Note.

First-Class Mail Incentive Program

Provide a 20 percent credit on the average per-piece price on the incremental volume of First-Class Mail presort letters, flats, and postcards recorded during the established program period, over a specified threshold, for mailers that comply with the eligibility requirements of the program.