

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

NOTICE OF PRICE ADJUSTMENT

Docket No. R2009-4

UNITED STATES POSTAL SERVICE
NOTICE OF MARKET-DOMINANT PRICE ADJUSTMENT
(June 1, 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 July 19, 2009. This change affects Standard Mail High Density flat prices. In this Notice, the Postal Service provides the information required by Rule 3010.14, including a schedule of the new prices as reflected in the Mail Classification Schedule, which is provided in Appendix A.

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*. Thus, widespread notice of these prices is being given 45 days prior to their planned implementation date.

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

Mr. Joseph Moeller
Manager, Pricing
475 L'Enfant Plaza S.W.
Room 3648
Washington, D.C. 20260-3658

The remainder of this Notice is structured as follows. In Part I, the Postal Service provides a description of the price changes. In Part II, the Postal Service discusses its compliance with the price cap. In Part III, the Postal Service discusses how its prices are consistent with the objectives and factors of section 3622, and the preferential pricing requirements of section 3626.

I. DESCRIPTION OF PRICE CHANGES

The Postal Service plans to reduce the prices for the Standard Mail High Density flats price categories (commercial and nonprofit), effective July 19, 2009, as shown in Appendix A. The Postal Service has heard the concerns expressed by High Density flats mailers that the above-average price increases implemented May 11, 2009, will have a detrimental impact on their businesses. After taking these concerns into consideration, the Postal Service has determined that High Density flats prices that reflect an increase from the previous year similar to the average Standard Mail increase are more appropriate at this time. Therefore, the Postal Service proposes to decrease the minimum-per-piece prices for commercial and nonprofit High Density flats by 0.1 cent, and to decrease the pound price element for commercial and nonprofit High

Density flats to match the Standard Mail Saturation flats pound price element. To ensure a smooth transition at the breakpoint, the per-piece price element for pound-rated pieces will increase slightly (by 0.7 cents per piece). Drop-ship discounts for High Density flats will remain unchanged.

The proposed price changes illustrate yet another way the Postal Service can take advantage of the pricing flexibility provided under the Postal Accountability and Enhancement Act (PAEA) to respond quickly and flexibly to perceived needs in the mailing community.

The Postal Service estimates that the proposed price changes will reduce revenues by approximately \$3 million in FY 2009 and \$7 million in FY 2010.

II. PRICE CAP COMPLIANCE

Because these proposed High Density flat price adjustments are decreases, and are not part of the annual CPI-cap price change, the Postal Service considers this price adjustment to be outside the current Commission's Rules which do not specifically address this situation. The Postal Service proposes that the adjustments have no impact on price cap issues, but would welcome other views. Therefore, the Postal Service has made no calculation of cap or price changes described in Rule 3010.14(b)(1) through (4). At the same time, the Postal Service is not claiming any new unused price adjustment authority as a result of this price decrease. The unused price adjustment authority remains at 0.081 percent, as noted in the Commission's Order No. 191, Docket No. R2009-2 (March 16, 2009).

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); how the program impacts workshare discounts, and how its planned prices are consistent with section 3626.

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.

This price adjustment does not substantially alter the degree to which Standard 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). In addition, the adjustment of High Density flats prices to respond quickly to current market conditions represents a positive use of the increased pricing flexibility provided to the Postal Service under PAEA (Objective 4). The price reductions will cause, at most, only a modest decrease in Postal Service revenues, and could potentially avoid diversion of large volumes of mail currently paying High Density flats prices to non-postal delivery, thereby helping to improve the Postal Service's financial stability (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), this adjustment of High Density flats prices does not substantially alter the degree to which Standard Mail prices address many of the Factors of section 3622(c) (Factors 1, 4, 5, 6, 8, 9, 10, 11, 12, 13, and 14). As discussed under the Objectives section, above, this adjustment is a prime example of how the Postal Service can use its pricing flexibility to maintain, and potentially grow,

its Standard Mail flats volumes (Factor 7). In addition, this price adjustment exemplifies how the Postal Service can take into account the impact of price changes on its business mail customers (Objective 3). And, as also discussed in the Objectives section, because of the limited impact of this price change, the proposed price change should not materially affect Standard Mail's overall robust cost coverage (Factor 2).

B. Workshare Discounts

The Postal Service has expressed its views in Docket No. R2009-2, and in Docket No. RM2009-3, that the price differences between High Density category and the Saturation and Carrier Route categories are not workshare discounts. At the same time, the Postal Service recognizes that the Commission has expressed concern that there may be alternative views of the issue. Since the Commission has instituted Docket No. RM2009-3 expressly to consider this issue, the Postal Service does not repeat its viewpoint here, and provides in Appendix B (and an associated Excel file) a table showing the cost and price differences, as well as "passthroughs" of costs into prices for Carrier Route, High Density, and Saturation flats (both commercial and nonprofit) following the adjustments to the prices of High Density flats.¹ As can be seen in the table, none of the "passthroughs" exceed 100 percent, so the limitations of section 3622(e) do not apply. All of the "passthrough" values are similar to those reviewed by the Commission in Docket No. R2009-2, although the "passthroughs" for the High Density / Carrier Route relationship are slightly higher and the "passthroughs"

¹ As discussed in its comments in that docket, the Postal Service continues to support the position that the price differential between High Density and Saturation is not a "workshare" discount as defined by section 3622(e). However, as the Commission has established a docket to resolve this issue, the Postal Service has erred on the side of providing what might be "extraneous" information (if the Commission accepts the Postal Service's position in Docket No. RM2009-3).

for the High Density / Saturation relationship are slightly lower than reported in Docket No. R2009-2 because of the High Density flats price reduction.

C. Preferred Rates

Standard Mail High Density flats entered at nonprofit prices receive the same price reductions as commercial flats. Because the price changes apply to both commercial and nonprofit mail, and because of the small volumes of High Density nonprofit flats (both in absolute terms and proportional to all nonprofit mail), the 60 percent ratio between the prices, as required by section 3626, will stay the same.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

R. Andrew German
Managing Counsel, Pricing & Product
Development

Daniel J. Foucheaux, Jr.
Chief Counsel, Pricing & Product Support

Elizabeth A. Reed

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
(202) 268-3179, Fax -6187
June 1, 2009

1200 Standard Mail (Commercial and Nonprofit)

1210 High Density and Saturation Flats/Parcels

1210.5 Prices

Saturation Flats (3.3 ounces or less)

Entry Point	Commercial (\$)	Nonprofit (\$)
Origin	0.194	0.120
DBMC	0.160	0.086
DSCF	0.151	0.077
DDU	0.142	0.068

Saturation Flats (greater than 3.3 ounces)

Charges are computed by multiplying the number of pieces in the mailing by the applicable per piece price, multiplying the number of pounds of the mailing by the applicable per pound price, and adding both totals.

a. Per Piece

	Commercial (\$)	Nonprofit (\$)
Per Piece	0.068	0.029

b. Per Pound

Entry Point	Commercial (\$)	Nonprofit (\$)
Origin	0.609	0.439
DBMC	0.446	0.276
DSCF	0.401	0.231
DDU	0.356	0.186

Saturation Parcels (3.3 ounces or less)

Entry Point	Commercial (\$)	Nonprofit (\$)
Origin	0.451	0.320
DBMC	0.405	0.274
DSCF	0.352	0.221
DDU	0.322	0.191

Saturation Parcels (greater than 3.3 ounces)

Charges are computed by multiplying the number of pieces in the mailing by the applicable per piece price, multiplying the number of pounds of the mailing by the applicable per pound price, and adding both totals.

a. Per Piece

	Commercial (\$)	Nonprofit (\$)
Per Piece	0.280	0.190

b. Per Pound

Entry Point	Commercial (\$)	Nonprofit (\$)
Origin	0.830	0.630
DBMC	0.609	0.409
DSCF	0.350	0.150
DDU	0.205	0.005

High Density Flats (3.3 ounces or less)

Entry Point	Commercial (\$)	Nonprofit (\$)
Origin	<u>0.219</u>	<u>0.145</u>
DBMC	<u>0.185</u>	<u>0.111</u>
DSCF	<u>0.176</u>	<u>0.102</u>
DDU	<u>0.167</u>	<u>0.093</u>

High Density Flats (greater than 3.3 ounces)

Charges are computed by multiplying the number of pieces in the mailing by the applicable per piece price, multiplying the number of pounds of the mailing by the applicable per pound price, and adding both totals.

a. Per Piece

	Commercial (\$)	Nonprofit (\$)
Per Piece	<u>0.093</u>	<u>0.054</u>

b. Per Pound

Entry Point	Commercial (\$)	Nonprofit (\$)
Origin	<u>0.609</u>	<u>0.439</u>
DBMC	<u>0.446</u>	<u>0.276</u>
DSCF	<u>0.401</u>	<u>0.231</u>
DDU	<u>0.356</u>	<u>0.186</u>

High Density Parcels (3.3 ounces or less)

Entry Point	Commercial (\$)	Nonprofit (\$)
Origin	0.459	0.328
DBMC	0.413	0.282
DSCF	0.360	0.229
DDU	0.330	0.199

High Density Parcels (greater than 3.3 ounces)

Charges are computed by multiplying the number of pieces in the mailing by the applicable per piece price, multiplying the number of pounds of the mailing by the applicable per pound price, and adding both totals.

a. Per Piece

	Commercial (\$)	Nonprofit (\$)
Per Piece	0.288	0.198

b. Per Pound

Entry Point	Commercial (\$)	Nonprofit (\$)
Origin	0.830	0.630
DBMC	0.609	0.409
DSCF	0.350	0.150
DDU	0.205	0.005

Flats including a Repositionable Note

Add \$0.015 for each flat bearing a Repositionable Note.

Move Update Noncompliance Charge

Add \$.07 per piece in a mailing that does not comply with the Move Update standards

Pieces including a Detached Address Label

Add \$0.017 for each piece addressed using a Detached Address Label.

Full-service Intelligent Mail Option

Subtract \$0.001 for each high density flat that complies with the requirements for the full-service Intelligent Mail option.

Forwarding-and-Return Service

If used in conjunction with electronic or automated Address Correction Service, forwarded flats pay \$1.05 per piece and returned flats the applicable First-Class Mail price. All other pieces requesting Forwarding-and-Return Service that are returned are charged the appropriate First-Class Mail price for the piece plus the price multiplied by a factor of 2.472.

Saturation Mail Volume Incentive Program

Commercial Saturation Flats: Provide a per-piece credit of \$0.04 on incremental volume recorded during the established program period, for mailers that comply with the application and eligibility requirements of the program.

Nonprofit Saturation Flats: Provide a per-piece credit of \$0.024 on incremental volume recorded during the established program period, for mailers that comply with the application and eligibility requirements of the program.

Standard Mail Volume Incentive Program ("Summer Sale")

Provide a 30 percent credit on the average per-piece price on the incremental volume of Standard Mail letters and flats recorded during the established program period, over a specified threshold, for mailers that comply with the eligibility requirements of the program.

Standard Mail Carrier Route and High-Density/Saturation Discounts and Benchmarks

Presorting	Benchmark	R2009-4		
		Cost Avoidance [1]	Discount [2]	Pass- through
Commercial				
High Density Flat	Basic Flat	5.0	4.3	86%
Saturation Flat	High Density Flat	2.6	2.5	98%
Nonprofit				
High Density Flat	Basic Flat	5.0	4.5	90%
Saturation Flat	High Density Flat	2.6	2.5	98%

[1] Source of Discounts: Docket No. R2009-2

[2] Source of Discounts: Docket No. R2009-4