

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

Before Commissioners:

Dan G. Blair, Chairman;
Nanci E. Langley, Vice Chairman;
Mark Acton;
Ruth Y. Goldway; and
Tony L. Hammond

Notice of Price Adjustment

Docket No. R2009-3

ORDER APPROVING STANDARD MAIL
VOLUME INCENTIVE PRICING PROGRAM

(Issued June 4, 2009)

I. INTRODUCTION

On May 1, 2009, the Postal Service filed with the Commission a notice announcing its intention to adjust prices for Standard Mail letters and flats pursuant to 39 U.S.C. 3622 and 39 CFR Part 3010.¹ The proposed adjustment is in the form of a “Standard Mail Volume Incentive Pricing Program” (Summer Sale program) with a planned implementation date of July 1, 2009 and a planned expiration date of September 30, 2009. The Summer Sale program represents a reasoned approach by the Postal Service to exercise its flexibility in market dominant pricing under the Postal Accountability and Enhancement Act (PAEA), Pub. L. 109-435, 120 Stat. 3218 (2006).

In Order No. 209, the Commission established Docket No. R2009-3 to consider matters raised by the Postal Service’s filing, appoint public representatives, and afford

¹ United States Postal Service Notice of Market-Dominant Price Adjustment, May 1, 2009 (Notice).

interested persons an opportunity to comment.² By this Order the Commission approves the proposed Standard Mail Volume Incentive Pricing Program.

The Commission finds the proposal to be a judicious exercise of the Postal Service's pricing flexibility under the PAEA. The Postal Service is to be commended for its response to current market conditions. Much can be learned from what, in essence, is a short-term pricing experiment. However, the program is not without risks. Thus, development and use of appropriate metrics in evaluating the program are critical in determining whether the program is successful, and also for assessing the long-term implications of such an approach.

II. STANDARD MAIL VOLUME INCENTIVE PRICING PROGRAM

A. Postal Service Filing

The Postal Service notes that the Summer Sale program is necessary to counteract the dramatic volume reduction due to the economy, support a struggling mailing industry, and to increase volume during a typically low volume period in which there is excess capacity; and secondarily to improve customer relations, to fine tune future programs, to gather feedback from customers, and to gather data which may improve postal data systems. Notice at 2-3. The Postal Service's Notice provides a high level overview of the Summer Sale program, identifying its salient features as follows.³

Under the proposed Summer Sale program, eligible mailers will receive a 30 percent rebate of postage paid on the volume of Standard Mail letters and flats mailed from July 1, 2009 to September 30, 2009 that exceeds mailer-specific

² PRC Order No. 209, Notice and Order Concerning Standard Mail Volume Incentive Pricing Program, May 4, 2009; *located at* 74 FR 21837 (May 11, 2009).

³ Much of the justification for the proposal was submitted in response to Chairman's Information Request No. 1, May 8, 2009 (CHIR No. 1). Any such future proposals must be accompanied by the requisite financial (cost, revenue, and volume) data underlying them.

thresholds.⁴ The rebate may be reduced for volumes shifted from October 2009 into the sales period.⁵ Notice at 3-4.

Eligibility for the Summer Sale program is limited to mailers who are permit holders who have a demonstrable volume of at least 1 million Standard Mail letters and flats between October 1, 2007 and March 31, 2008 for one or more permit imprint advance deposit accounts, precanceled stamp permits, or postage meter permits. *Id.* at 4.

Mail service providers are excluded from the program to help ensure that the Summer Sale program generates new volumes, rather than shifts existing volumes. However, individual mailers who meet the above criteria but use a mail service provider may participate if they meet certain conditions. *Id.* at 4-5.

B. Chairman's Information Request No. 1 (CHIR No. 1)

CHIR No. 1 was designed to clarify the Postal Service's proposal. The responses substantially expand on the Postal Service initial filing and provide essential details regarding the scope of the program and its underlying basis. CHIR No. 1 sought information on metrics to measure the success of the Summer Sale program, including complete cost analyses and volume migration from other classes or time periods, the definition of short-run excess capacity, eligibility for the program, contribution level for Standard Mail flats, and documentation of cost and revenue estimates. See CHIR No. 1. The Commission expects the Postal Service to provide this level of detail in future initial filings.

The Postal Service defines the primary measure of success for the Summer Sale program as "incremental revenue and volume growth over the threshold for the universe

⁴ The threshold is calculated by comparing average volumes over distinct periods to determine a trend in the mailer's volume. That trend is applied to the average expected mail volume over the Summer Sale program months, and any volume above the trend adjusted average is eligible for the discount.

⁵ To quantify this possibility, the Postal Service will measure each mailer's October 2009 volumes using a trend analysis based on the mailer's prior years' volumes for that month. *Id.* at 4.

of eligible participants[,]” See Response of the United States Postal Service to Chairman’s Information Request No. 1, May 15, 2009 at 2 (Response to CHIR No. 1).⁶ The Postal Service also anticipates monitoring customer feedback, and the efficacy and efficiency of its administration of the program. *Id.*

The Postal Service does not believe the additional incentive of the Summer Sale program will induce any First-Class advertising mail to migrate to the program, due to different demand characteristics and the significant gap in price which already exists. *Id.* at 4. Further, the Postal Service does not believe that mailers have enough lead time to shift volume from June or earlier into the program. *Id.* In addition, the Postal Service cites precautions it has taken, including mailer certification of volumes, to mitigate any attempt by mailers to shift volume among permits. *Id.* at 4-5.

The Postal Service’s initial Notice references excess capacity only as it relates to delivery. Notice at 3. It makes no attempt to define or otherwise elaborate on the concept. In response to CHIR No. 1, the Postal Service indicates that excess capacity exists when “capacity to handle volume is larger than the volume presented to it.” Response to CHIR No. 1 at 6. It also discusses the secular, cyclical, and seasonal effects on mail volumes that, in turn, affect capacity. *Id.*⁷

To support its claim of excess capacity, the Postal Service appears to rely principally on a cyclical decline in volume due to the general economic conditions and seasonal variation associated with the fourth quarter. *Id.* at 6-8, 12. The Postal Service claims it is difficult, if not impossible, for it to reduce capacity at the same rate as volume has fallen when comparing year over year declines. *Id.* at 12-15. In addition, the Postal

⁶ The pages to the Postal Service’s response to CHIR No. 1 are not numbered. For the convenience of the parties, the Commission has numbered the pages for purposes of citation. If the normal citation practice was followed (citing just the relevant question being answered), parties may have difficulty in finding the specific reference as some of the responses are lengthy.

⁷ The Postal Service states that secular volume changes reflect long-run trends and are considered permanent, whereas cyclical variations are caused by general economic conditions and are temporary. Seasonal volume fluctuations occur throughout the year and reflect seasonal variations in mailing patterns. *Id.*

Service indicates that its inability to rapidly adjust work hours and building capacity contributes to seasonal excess capacity. *Id.* at 7-9.

The Postal Service asserts that short-run attributable costs for incremental pieces, during a period of excess capacity, are lower than the long-run attributable costs. *See id.* at 16-17. The Postal Service provides estimates of the attributable costs by product by breaking out each of the cost segments and examining where volume can be absorbed without incurring additional incremental cost. *Id.* at 17-24. As a result of this analysis, the Postal Service estimates that cost coverage for the incremental volume in each product included in the Summer Sale program will exceed 100 percent. *Id.* at 26.

The Postal Service identifies the administrative costs of the Summer Sale program as \$977 thousand. *Id.* at 32. The Postal Service estimates that it may require up to six full-time employees for four months at \$300 thousand, up to 10 part-time employees for four months at \$250 thousand, and up to four contract analysts for up to four months at \$400 thousand. *Id.* The Postal Service assigns \$7 thousand to website development and \$20 thousand to production of invitation letters to eligible customers. *Id.*

The Postal Service justifies the eligibility threshold principally on the grounds that the administrative costs (approximately \$20 million) of including Standard Mail customers who mailed less than 1 million pieces during the relevant period would exceed the net revenues (approximately \$17.2 million) attributed to such sales. *Id.* at 27-28. In addition, it estimates that the average small business would only save 42 dollars, which probably would not be worth the business's time and trouble. *Id.* at 28-29.

The Postal Service reiterates that the rationale for not including mail service providers (MSP) in the Summer Sale program is to protect it from MSPs shifting volumes to optimize the discount. *Id.* at 29. The Postal Service indicates that First-Class advertising mail was not considered for the program since it could not reasonably segregate First-Class advertising mail from other First-Class Mail. *Id.*

Finally, the Postal Service also believes including Standard Mail flats in the Summer Sale program, despite its low cost coverage, is justified since the program may help offset challenges to postal customers hit hardest by the challenging economic climate, and because the incremental volume will cover its costs. *Id.* at 30.

C. Chairman's Information Request No. 2 (CHIR No. 2)

CHIR No. 2⁸ was designed to gather information on the Postal Service's initial estimates for the program, and to assist the Commission in determining measurement of the success of the program compared to those estimates. CHIR No. 2 was also designed to bring to light the Postal Service methodology for determining the volumes, revenues, and costs caused by the Summer Sale program, so that such measurements are straightforward at the completion of the program.

The Postal Service states that it developed the incremental volume estimates for the Summer Sale program by taking into account the demand models provided to the Commission on January 20, 2009, consulting Postal Service managers and executives, and corresponding with mailers. See Response of United States Postal Service to Chairman's Information Request No. 2, June 2, 2009 at Q.1 (Response to CHIR No. 2). The Postal Service states that it did not derive separate volume estimates for each Standard Mail product. *Id.*

The Postal Service plans to measure incremental volumes caused by the Summer Sale program based on the same trend calculations used to establish mailer threshold for program eligibility. *Id.* at Q.2. The Postal Service plans to measure actual short-run attributable costs resulting from the Summer Sale program volume by applying the same method it used to estimate those costs in response to CHIR No. 1. *Id.* To ensure the application of those costs is appropriate, the Postal Service will revisit the assumptions it made regarding excess capacity in its response to CHIR No. 1. *Id.*

⁸ Chairman's Information Request No. 2, May 27, 2009.

III. COMMENTS

The Postal Service's proposal has generated significant interest and support from the mailing community. The Commission received 23 formal comments: 20 support the Summer Sale program,⁹ 2 request inclusion in it,¹⁰ while 1 does not oppose it.¹¹ The Summer Sale program enjoys broad support and the majority of the commenters, citing the recession and its effect on the Postal Service and mailers, urge the Commission to approve it expeditiously. *See, e.g.*, MOAA Comments, BOA Comments, Pitney Bowes Comments, PostCom Comments, PSA Comments, Quad/Graphics Comments, DMA Comments, and ACMA Comments.

While the majority of the commenters endorse the program without reservation, a few express concerns regarding the scope of the program and measurement of it. *See, e.g.*, Valpak Comments regarding measurement of the program success; *see also* NNA Comments regarding scope of the program. Specific comments are addressed below in section IV, Commission Analysis.

⁹ Comments of Mail Order Association of America to Postal Regulatory Commission Notice and Order Concerning Standard Mail Volume Incentive Pricing Program, May 12, 2009 (MOAA Comments); Comments of the Association for Postal Commerce in Response to Order No. 209 Concerning Standard Mail Volume Incentive Pricing Program, May 19, 2009 (PostCom Comments); Comments of Parcel Shippers Association to Postal Regulatory Commission Notice and Order Concerning Standard Mail Volume Incentive Pricing Program (PSA Comments); Comments of the American Catalog Mailers Association On the Standard Mail Volume Incentive Program (Summer Sale) (ACMA Comments); Comments of Quad/Graphics, Inc. In Response to Order No. 209 (Quad/Graphics Comments); Comments of Bank of America Corporation On the United States Postal Service Proposal for a Summer Sale Program (BOA Comments); Comments of Pitney Bowes Inc. On the United States Postal Service Proposal For a Summer Sale Program (Pitney Bowes Comments); Comments of the Direct Marketing Association on the United States Postal Service "Summer Sale" (DMA Comments); Valpak Direct Marketing Systems, Inc. and Valpak Dealers' Association, Inc. Comments Regarding Standard Mail Volume Incentive Pricing Program (Valpak Comments); and Comments of the Public Representatives (Public Representatives Comments); all filed on May 21, 2009; Comments of Discover Financial Services (DFS Comments); and Comments of 7R Communications, June 2, 2009 (7R Comments).

¹⁰ Comments of National Automotive Marketing, May 19, 2009; Comments of Planner Pads Co., May 21, 2009.

¹¹ Comments of National Newspaper Association on Volume Incentive Program Known as the "Summer Sale", May 21, 2009 (NNA Comments).

In addition, the Commission's Office of Public Affairs and Government Relations received nearly 300 letters, expressing nearly unanimous support for the program, and urging the Commission to approve it.¹² Several letters suggested that the Postal Service should lower the participation threshold.

Short-run marginal cost pricing. Valpak comments that the Postal Service's use of short-run marginal cost to justify pricing in the Summer Sale program raises methodological issues. Valpak Comments at 4. As such, Valpak suggests a proceeding, apart from the Commission's review of the Summer Sale program, which gives interested persons an opportunity to address those methodological issues. *Id.*

In its response to CHIR No. 1, the Postal Service cites secular, cyclical, and seasonal effects on mail volume to support its conclusion of excess capacity and to justify its use of short-run marginal cost pricing. In reviewing the Postal Service's claims of excess capacity, the Commission, for purposes of the Summer Sale program, relies on secular and cyclical effects on mail volume to support its conclusions.¹³ The principal cause of the sharp volume reductions is the current serious economic recession, a cyclical occurrence. Thus, under the circumstances, the Postal Service's proposal represents a reasonable attempt to maintain volume-related efficiencies.¹⁴

The Commission agrees that the Postal Service's use of short-run marginal cost to justify a change in price raises methodological issues which may impact future pricing incentive programs and the Commission's Annual Compliance Determination. The methodological change has broad implications which warrant examination. This, however, is not the forum for that examination. The Summer Sale program is unique on

¹² These letters are maintained in the Commission's "Commenter File" for Docket No. R2009-3. The file includes letters, e-mails, and faxes sent to the Commission, but not filed in the docket or stylized as comments. It is available for inspection at the Commission's Public Reading Room during normal business hours.

¹³ While the secular effects do not appear to be applicable to Standard Mail, there is, nonetheless an effect on capacity.

¹⁴ Seasonal effects on mail volume, though evident, are not unique to this year. This opinion does not evaluate whether a recurring seasonal effect may justify short-run marginal cost pricing. The Commission is sensitive to the combined effect of seasonal effects, with secular and cyclical effects, on the Postal Service's ability to shed capacity (and thus costs) to keep up with falling volume.

several levels and can, for purposes of this proceeding, be addressed on the merits. After this program has been completed and its results analyzed, the Commission may better evaluate whether to initiate a proceeding to consider the methodological issues surrounding short-run marginal cost pricing.

IV. COMMISSION ANALYSIS

Faced with unprecedented historic volume and revenue declines, the Postal Service has put forth an integrated proposal designed to stem that trend and assist the mailing industry. See Notice at 2-8. Illustrative of the current challenges faced by the Postal Service, recently released data show a net loss for April of 2009 of \$381 million, with a year-to-date loss of \$2.7 billion.¹⁵ Total volume decreased 14.8 percent over Same Period Last Year (SPLY), with Standard Mail down 17.8 percent. Total year-to-date volume has declined about 15.2 billion pieces or 12.3 percent. *Id.* Total revenues for the month are down 11.9 percent and year-to-date revenues are about \$41.7 billion, or 8.8 percent less than SPLY. *Id.*

Impact on the price cap. The Postal Service proposes to treat the Summer Sale program, for purposes of its effect on the price cap, as if all the discounted incremental volume paid the applicable full postage. Notice at 8. This is analogous to the way Negotiated Service Agreement (NSA) volume is treated for purposes of the price cap. *Id.* The proposal, therefore, does not result in a net price decrease which could be banked and applied to all mailers as a future rate increase, including those which could not participate in the Summer Sale program. *Id.*

DMA suggests that the Postal Service's proposal to treat incremental Summer Sale program volume as if it paid the full rate is justified, as it protects mailers who do not participate in the sale from future rate increases based on an increased banked amount in the cap. DMA Comments at 2-3. Valpak comments that since the Postal Service proposes to treat the program as an NSA, for purposes of the price cap, its

¹⁵ See USPS Preliminary Financial Information (Unaudited), May 27, 2009.

results should be comprehensively evaluated in a similar fashion. Valpak Comments at 2-3. The Public Representatives do not oppose the Postal Service's proposal to treat the program as analogous to an NSA for purposes of calculating the price cap. Public Representatives Comments at 10.

The Postal Service's treatment of the Summer Sale program as an NSA for purposes of the price cap is reasonable. It shields mailers not eligible for the program from being charged higher rates based on the amount which otherwise would be banked from the program.

Objectives and factors, workshare discounts, and Preferred Rates. Pursuant to the Commission's rules, 39 CFR 3010.14(b)(7), the Postal Service addresses how the Summer Sale program helps achieve the objectives of 39 U.S.C. 3622(b) and takes into account the factors of 39 U.S.C. 3622(c). See Notice at 8-13. It asserts that the Summer Sale program does not substantially alter the degree to which Standard Mail prices address the objectives and factors, but further satisfies the objectives of pricing flexibility and financial stability. *Id.* at 8-9. The Postal Service also believes 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[.]" *Id.* at 12. It projects the program will not hinder Standard Mail's ability to cover cost and will help to alleviate the burden that the current economic conditions have placed on some mailers. *Id.* The Postal Service also claims that workshare discounts will remain in compliance, and the fixed discount ensures that the proper ratio for preferred rates remains unchanged. *Id.* at 13.

The Public Representatives do not dispute any of the Postal Service's claims that the Summer Sale program satisfies the objectives and factors, workshare discount requirements, and preferred rate requirements. See Public Representatives Comments at 10-12. The Public Representatives express concern regarding the cost coverage for Standard Mail flats. *Id.* at 11. However, upon review of the Response to CHIR No. 1, the Public Representatives conclude that the Postal Service has made an adequate

demonstration that the factor requiring attributable cost coverage for each class of mail is satisfied. *Id.*

The Commission finds that the objectives and factors in 39 U.S.C. 3622 appear to be satisfied by explanations and data in the Notice and Response to CHIR No. 1.

39 U.S.C. 3622(e) requires that workshare discounts given by the Postal Service do not exceed their avoided costs unless certain criteria are fulfilled. The Postal Service claims that workshare discounts will be made smaller by virtue of the 30 percent discount; and, therefore, the Summer Sale program moves those discounts which are out of compliance closer to compliance. See Notice at 13.

The Commission finds that given the expected mail mix, relatively small net impact of the volume induced by the Summer Sale program, and that the rebate applies at all workshare discount tiers, the program's effect on workshare discounts evaluated in Docket No. R2009-2 will be limited.

39 U.S.C. 3626 requires that nonprofit categories of products shall be set to yield 60 percent of the per-piece revenue of their commercial counterparts. The Postal Service expects that, given the Summer Sale program's flat 30 percent discount on incremental mail volume across nonprofit and commercial subclasses alike, the required 60 percent differential will be maintained. *Id.* Based on the Postal Service's estimate of the mail mix of the incremental volume, the Commission agrees that the required 60 percent differential will be maintained.

Eligibility threshold. The volume threshold for eligibility in the program raises two principal concerns: first, whether it is reasonable, and second whether it can be manipulated, *e.g.*, for mailers to earn discounts on mail that would have been sent without the discount.

Several commenter letters to the Commission request that the Postal Service include lower volume mailers in the Summer Sale program. NNA also comments that the Summer Sale program "offers little to smaller mailers, with the possible exception of the system-wide benefits if a short-term infusion of revenues reaches USPS coffers[.]" NNA Comments at 3.

The Commission is sensitive to the mailers who wish to participate but do not meet the volume minimums set out by the Postal Service for participation in the Summer Sale program. On review however, recognizing this is a first effort to test a “sale” price, the Postal Service has provided a reasonable rationale for the threshold. Issues arising from Postal Service calculation of usage by mailers, and whether adequate communication took place with appropriate mailer executives, also can be better resolved in future programs should they be developed.

The Postal Service provides calculations which demonstrate that, if the average expected incremental volume increase held for mailers of generally lower volume, the incremental volume generated would cover its short-run variable costs. However, such mail would not produce enough revenue to cover the increased administrative costs of the broadened program. See Response to CHIR No. 1 at 27-28. The Commission accepts the Postal Service’s analysis that opening the program to all Standard Mail customers would create administrative costs which outstrip the net incremental revenue the program would generate. Also, the relatively small probable impact and limited, experimental nature of the program suggest that small mailers would neither significantly benefit from nor be disadvantaged by the program.

The Postal Service recognizes the possibility that the threshold may be effectively manipulated and has taken steps to guard against this happening. Because some participants may use MSPs for a portion of their mailings, the Commission is concerned about the possibility for discounts to be awarded for mail shifted from MSP permits to mailer owned permits, which would not be incremental volume. The Postal Service responds to these concerns by explaining that participants will be required to certify to the best of their knowledge that their threshold is based on an accurate representation of all Standard Mail sent by the mailer. See *id.* at 4-5.

In Response to CHIR No. 1, the Postal Service attached guidelines for mailers seeking to document their MSP volumes for participation in the Summer Sale program. The guidelines state that “[t]here are two situations though that leave the Postal Service blind to a mailer’s mailing history. The first is when no ghost permit is assigned to a

mailing sent on an MSP permit. The second is when a mailer's mailing is part of a co-mail program run through an MSP permit." See *id.* at Attachment B.¹⁶ The Commission expects that the Postal Service will develop and implement appropriate revenue protection mechanisms to verify that participants do not exploit these blind spots and receive discounts for non-incremental volume.

Data collection and program evaluation. Valpak comments that a plan for evaluation, "including criteria against which success (or failure) will be assessed" should be established immediately. Valpak Comments at 3. Valpak asserts that public availability of the plan and subsequent results are required under the PAEA for transparency and accountability. *Id.* Such transparency would foster understanding and help identify and avoid possible problems with any other similar program in the future. *Id.* Pitney Bowes notes the Postal Service's efforts to ensure qualifying volume in the program is actually new incremental volume rather than a result of volume shifting. Pitney Bowes Comments at 4.

Similarly, the Public Representatives express concern about the possibility of volume migration from First-Class advertising mail to Standard Mail as a result of the program, accuracy of the cost coverage projections, and volume migration from the months prior to the program. Public Representatives Comments at 13. The Public Representatives call for the Postal Service to issue a report on these issues at the conclusion of the program. *Id.* NNA comments that the Summer Sale program does not guard against the possibility of volume shifting from November and December into the sale period. NNA Comments at 3.

The Commission expects the Summer Sale program to yield data which will prove useful in assessing the merits of other pricing incentive programs. The Public Representatives' and Valpak's comments are well taken that evaluation criteria and a plan for data collection must be established prior to the implementation of the program.

¹⁶ Business Mail Entry Unit clerks create ghost permit numbers to identify mail owners when no permit number is associated with mail owners' names in *PostalOne!* See http://www.usps.gov/FOIA_files/MS-MA-06-002.pdf at 1-2.

The Commission shall require data reporting from the Postal Service within 15 days after the Postal Service credits the rebates due to the Summer Sale program's participants.

In considering the data needed to evaluate the Summer Sale program fully, the Commission concludes that the following information is required. First, for each eligible Standard Mail user,¹⁷ the Postal Service shall provide monthly volumes and revenues for all Standard Mail letters by product and flats by product, further broken out into commercial and nonprofit categories. The reporting period shall be from October of 2006 through October of 2009. The Postal Service shall also provide information on any rebate paid to each eligible user, with supporting calculations. The information provided pursuant to this paragraph shall be filed under seal, and the Postal Service may mask mailer identities by using a generic identification number. See Appendix A.

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

Third, for each eligible Standard Mail user, the Postal Service shall provide monthly permit volumes for First-Class presort letters, cards, and flats.¹⁸ The information provided pursuant to this paragraph shall be filed under seal, and the Postal Service shall, if it masks mailer identities, use the same generic identification number used to report Standard Mail data.

Fourth, the Postal Service shall identify the actual short-run volume-variable cost by each Standard Mail letter and flat product. See Response to CHIR No. 1 at 18-24.

Fifth, the Postal Service shall identify the actual administrative costs of the program. See *id.* at 32.

¹⁷ Eligible Standard Mail users meeting the qualifying conditions established for the Summer Sale program. See Notice at 4.

¹⁸ The Postal Service has not collected First-Class Mail permit data from the eligible mailers, but once such data are obtained, it can be used to evaluate the effect on First-Class Mail volumes due to the program. Given the finite universe of eligible mailers and the speed with which the Postal Service gathered Standard Mail permit volume information, the Commission does not expect the collection of First-Class Mail volumes for the same mailers to burden the Postal Service.

The data requested should provide the Commission and public an opportunity to evaluate thoroughly the program's impact on Postal Service volumes, revenues, and costs. This information is likely to be instrumental in the design of future Postal Service programs of a similar nature.

Conclusion. The Postal Service proposes to implement a novel program, broadly supported by the mailing industry and commenters in this proceeding. The Commission is hopeful the program may offer one solution to cyclical and secular volume declines, and provide information useful for considering other potential pricing incentives. The Commission believes the reporting required by this Order is an essential feature of the program. Without such metrics, the merits of the program can not be fairly evaluated.

The Commission has reviewed the threshold volume, average revenue per piece, short-run attributable cost data submitted by the Postal Service, and conducted its own preliminary analysis using such data. The Postal Service estimates the volume response from the program as 2.0 to 5.15 percent over threshold levels. Based on these assumptions and other submitted data, the Commission estimates positive contribution for both the upper and lower bound volume figures. Separately, based on an analysis using demand elasticities from the latest set of Postal Service demand models and incorporating a First-Class Mail presort demand shift, the Commission finds a much lower, but still positive contribution. See PRC-LR-1 (Library Reference 1 to be filed with this Order). Thus, based on these scenarios, the Commission concludes that a positive contribution from the program is likely. The Commission notes, however, that results are sensitive to the degree to which First-Class Mail migrates to Standard Mail, an aspect of the program that must be carefully evaluated in assessing its merits.

V. ORDERING PARAGRAPHS

A full review of the United States Postal Service Notice of Market-Dominant Price Adjustment, filed May 1, 2009, has been completed. With regard to the price adjustments contained therein, for the reasons set forth above

It is ordered:

1. The Commission approves the Standard Mail Volume Incentive Pricing Program.
2. The Commission directs the Postal Service to report on the Standard Mail Volume Incentive Pricing Program within 15 days after the Postal Service credits the rebates due to the Summer Sale program's participants as consistent with this Order.
3. The Motion of Discover Financial Services for Late Acceptance of Comments, filed May 22, 2009, and the Motion of 7R Communications, LLC for Late Acceptance of Comments, filed June 2, 2009, are granted.
4. The Secretary of the Commission will arrange for publication of this Order in the *Federal Register*.

By the Commission.

Steven W. Williams
Secretary

Summer Sale Data Collection Plan and Rebate Calculation Information

This appendix contains an outline of the Summer Sale Data Report contents as specified in Order No. 219. The template is presented to help clarify the disaggregation by product, commercial or nonprofit status, and time period as described in the Order.

The specific format of the report may be tailored to fit the presentation format of the data generation programs of the Postal Service, but should be in a broadly available electronic format such as Microsoft Excel.

Workbook (1): Mailer Information, contains the disaggregated Volume and Revenue information to be reported for each mailer eligible for the summer sale. This Tab, and the Summer Sale Rebate calculations contained therein, should be replicated for each eligible mailer.

Workbook (2): Aggregate Information, contains the Volume and Revenue categories as they appear in Tab (1). The Summer Sale Aggregate Incremental Volume and Aggregate Rebate should be a summation calculation linked to each Mailer Information Tab, so that each volume and revenue figure represents the total for all eligible mailers for the relevant month.

APPENDIX A

Workbook (1): Mailer Information
Mailer-Specific Information

Month (for each Month)
 October-06 November-06 September-09 October-09

Volume

Commercial

- Letters
- Flats
- Carrier Route Letters
- Carrier Route Flats
- High Density and Saturation Letters
- High Density and Saturation Flats
- First-Class Presort Letters and Cards
- First Class Flats

Nonprofit

- Letters
- Flats
- Carrier Route Letters
- Carrier Route Flats
- High Density and Saturation Letters
- High Density and Saturation Flats

Revenue

Commercial

- Letters
- Flats
- Carrier Route Letters
- Carrier Route Flats
- High Density and Saturation Letters
- High Density and Saturation Flats
- First-Class Presort Letters and Cards
- First Class Flats

Nonprofit

- Letters
- Flats
- Carrier Route Letters
- Carrier Route Flats
- High Density and Saturation Letters
- High Density and Saturation Flats

<u>Rebate Calculation for each Mailer</u>	Formula	Calculation
Threshold		
Incremental Volume		
October 2009 Adjustment		
Eligible Volume		
Average Revenue Per Piece		
Rebate		

1/ Formulas used in the determination of Volume Threshold, Incremental Volume, October 2009 Adjustment, Average Revenue Per Piece, and Summer Sale Rebate should be shown on each mailer page. Only mailer input data should be hardcoded.

APPENDIX A

Workbook (2): Aggregate Information
Eligible Mailer Information

Month (for each Month)
 October-06 November-06 September-09 October-09

Volume

Commercial

- Letters
- Flats
- Carrier Route Letters
- Carrier Route Flats
- High Density and Saturation Letters
- High Density and Saturation Flats
- First-Class Presort Letters and Cards
- First Class Flats

Nonprofit

- Letters
- Flats
- Carrier Route Letters
- Carrier Route Flats
- High Density and Saturation Letters
- High Density and Saturation Flats

Revenue

Commercial

- Letters
- Flats
- Carrier Route Letters
- Carrier Route Flats
- High Density and Saturation Letters
- High Density and Saturation Flats
- First-Class Presort Letters and Cards
- First Class Flats

Nonprofit

- Letters
- Flats
- Carrier Route Letters
- Carrier Route Flats
- High Density and Saturation Letters
- High Density and Saturation Flats

<u>Rebate Calculation for all Mailers</u>	Formula	Calculation
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**Incremental Volume
 Rebate**

1/ Formulas used in the determination of Volume Threshold, Incremental Volume, October 2009 Adjustment, Average Revenue Per Piece, and Summer Sale Rebate should be shown on each mailer page. Only mailer input data should be hardcoded.