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ORDER NO. 675

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

Before Commissioners:

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

Notice of Price Adjustment

Docket No. R2011-2

ORDER REVISING POSTAL SERVICE MARKET DOMINANT PRICE ADJUSTMENTS

Washington, DC 20268-0001

February 16, 2011

TABLE OF CONTENTS

I. INTRODUCTION AND OVERVIEW

On January 13, 2011, the Postal Service submitted its plan to change prices for most market dominant products. This is the third time the Commission has reviewed such adjustments under the regulatory authority established by the Postal Accountability and Enhancement Act PAEA) of 2006.

The pricing proposals have been reviewed for consistency with the requirements of title 39. Pursuant to 39 CFR 3010.13(j), the Commission finds provisionally that the proposed price adjustments are not inconsistent with 39 U.S.C. 3622. More specifically, the Commission finds that the proposed prices do not violate the price cap in 39 U.S.C. 3622(d); are consistent with, or justified by an exception to, the workshare discount limitations in 39 U.S.C. 3622(e); and establish prices that satisfy 39 U.S.C. 3626. The percentage increases by class and total unused price authority are shown in the table below.

Table I-1
Percentage Increase by Class and Unused Price Authority

Class	Price Changes %	Unused Price Authority %
First-Class Mail	1.738	-0.530
Standard Mail	1.739	-0.472
Periodicals	1.741	-0.562
Package Services	1.740	-0.551
Special Services	1.739	-0.438

The Postal Service's filing raises three principal issues. Each is addressed below.

Standard Mail Flats pricing. In the first two general market dominant price adjustment proceedings filed under the PAEA, the Postal Service proposed above-average price increases for Standard Mail letters and below average increases for

Standard Mail Flats, notwithstanding that flats do not cover their attributable costs and letters make a substantial contribution to institutional costs. In Docket No. R2010-4, the Postal Service changed that approach, proposing to increase flats, if only slightly, by more than the proposed increase in letters. In this proceeding, the Postal Service reverts to the practice of increasing Standard Mail letters with an above-average increase, while Standard Mail Flats would receive a below-average increase. The following table provides the relevant figures.

Table I-2
Standard Mail Flats Pricing

Docket No.	Letters	Flats	Standard Mail
R2008-1	3.31%	0.87%	2.84%
R2009-1	3.83%	2.31%	3.78%
R2010-4 (rejected)	5.01%	5.13%	5.62%
R2011-2	1.81%	0.84%	1.74%

Several commenters object to the Postal Service's proposed pricing of Standard Mail Flats, arguing that it violates policies of title 39 and urging the Commission to reject the proposed increases. The Commission has also, in both rate cases and annual compliance determinations, expressed its concern with the failure of Standard Mail Flats to cover costs and urged the Postal Service to begin "to set rates for Standard Mail Flats which, at a minimum, recoup attributable cost and make the requisite contribution towards institutional costs."[1]

[1] Docket No. R2009-2, Order Reviewing Postal Service Market Dominant Price Adjustments, March 16, 2009, at 52-53 (Order No. 191); *see also* Docket No. ACR2009, FY 2009 Annual Compliance Determination, March 29, 2010, at 86-87.

In its exigent rate request, the Postal Service indicated that its Standard Mail pricing proposal was intended to be responsive to the Commission's concerns.[2] In the 2010 ACR, the Postal Service suggests that with the rejection of its exigent rate request, it would be impossible for it, "acting with the powers granted to it and within the constraints imposed by title 39, to present any realistic plan that would result in [Standard Mail Flats, among others] fully covering its attributable costs, much less making any contributions to institutional costs." *Id*. at 8-9.

The Commission finds that the PAEA affords the Postal Service broad pricing flexibility within the rate cap. While not unlimited, that flexibility is sufficient to allow the Postal Service to address the flats' cost coverage issue within the rate cap. In this proceeding, the Postal Service could have designed Standard Mail Flats prices to better align rates with costs and, over time, allow this product to "be brought to full cost coverage." *Id*. at 8.

In support of its proposed Standard Mail Flats pricing, the Postal Service states that the below-average increase "continues efforts to moderate the increases for catalog mailers…."[3] *Id*. at 16 (footnote omitted). In response to an information request, the Postal Service expands on the state of the catalog industry and indicates that it "made a considered business judgment as to the size of the postage increase that the catalog industry can be requested to bear while still having a reasonable chance of seeing the catalog segment remain a vital and viable contributor to the Postal Service's overall

[2] Docket No. ACR2010, United States Postal Service FY 2010 Annual Compliance Report, December 29, 2010, at 7 (2010 ACR).

[3] United States Postal Service Notice of Market-Dominant Price Adjustment, January 13, 2011, United States Postal Service Notice of Errata to Notice of Market-Dominant Price Adjustment, January 26, 2011 (Notice).

business."[4] Furthermore, the Postal Service states that "[i]ts [flats] pricing is designed to give temporary assistance during a limited recovery period." *Id.* at 8.

Price adjustment proceedings, with their compressed timetable for decision, are not well-suited to explore complex pricing or costing issues. This is not to suggest they can never be considered in such proceedings. However, in this case, the Commission will not reject the proposed rates for Standard Mail Flats. While the Postal Service could have designed rates to reduce, rather than increase, intra-class cross-subsidy, the proposed prices are consistent with the price cap.

Commenters raise significant concerns about Standard Mail Flats pricing similar to previous views offered by the Commission. The Postal Service may not have had the benefit of those opinions prior to submitting its Notice. Upon consideration of them, it may wish to amend its filing to address those concerns. At a minimum, however, they must be addressed in future price adjustment filings.

Failure to follow accepted methodological principles. The second issue concerns the costs used to calculate worksharing cost avoidances and the associated pass-throughs of cost avoidances. In some instances, the Postal Service calculates worksharing pass-throughs utilizing unapproved methodologies that currently are under review with the Commission. The Postal Service asserts that the methodologies it employs are superior to the established methodologies; therefore, it contends that use of the unapproved methodologies is appropriate.

The Postal Service should not use unapproved methodologies in price adjustment filings. These cases are conducted using a compressed time schedule to allow the Postal Service to quickly and efficiently adjust rates without the delays

[4] Responses of the United States Postal Service to Questions 1-16 of Chairman's Information Request No. 1, February 9, 2011, at 7-8 (Response to CHIR No. 1).

inherent in evaluating new, unreviewed analytical methodologies. The expedited process was developed with the support of the Postal Service.[5]

The requirement to provide cost data developed using accepted methodologies was established early on in the development of Commission rules under the PAEA.[6] The concern is that analyzing new methodologies within the time constraints of a rate adjustment docket is not practicable. As recently as Docket No. R2009-2, the previous price adjustment docket, the Commission again reminded the Postal Service of the challenges that apply where the Postal Service fails to utilize accepted methodologies in designing rates. It further stated: "The Commission gave clear notice in its first annual compliance determination and in proposed annual reporting rules that the Postal Service should request advance Commission approval prior to changing accepted analytical methods." Order No. 191 at 4-5. The Commission continues to find it necessary for the Postal Service not to incorporate new, unreviewed analytic methods into the costing analysis offered in support of rate changes.

Although the worksharing discounts, as proposed and supported by the Postal Service, appear to conform to the requirements of title 39, the discounts are subject to further review pending consideration of the worksharing methodology proposals now before the Commission.

Price cap calculation. The Postal Service calculates an inflation-based annual limitation of 1.741 percent, based on a 12-month moving average of the Consumer Price Index – All Urban Consumers, U.S. All Items. Notice at 3. As a result of the length of time since the last market dominant rate adjustment (Docket No. R2009-2),

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[5] Docket No. RM2007-1, Reply Comments of the United States Postal Service in Response to Order No. 26, October 9, 2007, at 11.

[6] *See* Docket No. RM2008-4, Order No. 104, Notice of Proposed Rulemaking Prescribing Form and Content of Periodic Reports, August 22, 2008, at 26.

unused rate adjustment authority accrued for the interim between the most recent adjustment and the instant case. Pursuant to 39 CFR 3010.26(c)(2), the Postal Service calculates this amount as -0.577 percent. *Id.* at 6.

MPA/ANM assert that by allowing the Postal Service to bank a negative rate adjustment authority, the application of rule 3010.26(c)(2) violates the intent of the price cap to limit price increases to the rate of inflation. They urge the Commission to include in its review of the PAEA under section 701 a recommendation that Congress modify the wording of the statute to prevent this outcome. MPA/ANM Comments at 1-2.

The Commission previously has explained the application of the price cap mechanism when more than 12 months pass between notices of market dominant product rate adjustment.[7] The Commission finds in this case that the Postal Service has correctly performed the calculation of the annual limitation and the interim unused rate adjustment authority. Except for minor corrections identified in the class discussions below, the Postal Service has correctly calculated the new unused rate authority generated by this rate adjustment.

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[7] *See* Docket No. RM2007-1, Order No. 26, Order Proposing Regulations to Establish a System of Ratemaking, August 15, 2007, at 30-31 and Docket No. R2011-1, Order No. 606, Order Approving Market Dominant Classification and Price Changes, and Applying Price Cap Rules, December 10, 2010, at 6-13.

II. PROCEDURAL HISTORY

Background. On January 13, 2011, the Postal Service filed a Notice of Market-Dominant Price Adjustment with the Commission.[8] The Notice was submitted in conformance with 39 U.S.C. 3622(d)(1)(C) and Commission rules in 39 CFR part 3010. It announced the Postal Service's intention to adjust prices on April 17, 2011 for essentially all market dominant products by amounts which are, on average, within a 1.741 percent statutory price cap for all classes of mail. The Postal Service does not use any unused (banked) price adjustment authority in this docket.

The Notice includes three attachments presenting price and mail classification changes; worksharing discount calculations; and price index change calculations. The Notice also is accompanied by five sets of workpapers demonstrating how the proposed prices comply with the price cap, and a new Schedule of Regular Predictable Price Changes.

The Commission, in an order issued January 19, 2011, provided public notice of the Postal Service's filing; established Docket No. R2011-2 to consider the planned price adjustments; and appointed a public representative.[9] Following the schedule established by rules 3010.13(a) and (c), the Commission allowed 20 days for public comment and is issuing its decision within 14 days of receiving comments to allow the Postal Service to make necessary changes and implement new prices (with 45 days' notice) on April 17, 2011, as scheduled.

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[8] United States Postal Service Notice of Market-Dominant Price Adjustment, January 13, 2011, and United States Postal Service Notice of Errata to Notice of Market-Dominant Price Adjustment, January 26, 2011 (Notice).

[9] Notice and Order on Price Adjustments for Market Dominant Products and Related Mail Classification Changes, January 19, 2011 (Order No. 653).

The Chairman issued one multi-question information request during the course of the case seeking clarification or further explanation of certain aspects of the Postal Service's filing.[10] The Postal Service filed responses on February 9, 2011.[11]

The Commission received 16 formal comments categorized as responses to Order No. 653. Comments were filed by American Catalog Mailers Association (ACMA), Association for Postal Commerce (PostCom), Bank of America Corporation (BAC), David B Popkin (Popkin), DHL Global Mail (DHL), Greeting Card Association (GCA), L.L.Bean, Inc. (LLB), Magazine Publishers of America, Inc. and Alliance of Nonprofit Mailers (MPA/ANM), National Postal Policy Council (NPPC), Parcel Shippers Association and Direct Marketing Association, Inc. (PSA/DMA), Pitney Bowes, Inc. (Pitney Bowes), Public Representative (PR), Publishers Clearing House (PCH), Stamps.com (Stamps.com), and Valpak Direct Marketing Systems, Inc. and Valpak Dealers' Association, Inc. (Valpak). The members of the mailing community that have filed comments are identified in the Attachment to this Order. A reply comment was filed by the Postal Service.[12]

The Commission acknowledges the comments' important role of supplementing the record and informing the Commission's decision.

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[10] Chairman's Information Request No. 1, February 2, 2011 (CHIR No. 1).

[11] Responses of the United States Postal Service to Questions 1-16 of Chairman's Information Request No. 1, February 9, 2011.

[12] Response of United States Postal Service to Comment of Public Representative, February 11, 2011 (Postal Service Reply Comment). The reply comment was accompanied by Request of the United States Postal Service for Leave to File Statement Regarding Party Comments on the Notice of Price Adjustments, February 11, 2011. This motion is granted.

III. CLASS-SPECIFIC ISSUES

A. First-Class Mail

There are six products assigned to First-Class Mail: Single-Piece Letters/Postcards, Presorted Letters/Postcards, Flats, Parcels, Outbound Single-Piece First-Class Mail International, and Inbound Single-Piece First-Class Mail International. The Postal Service proposes to increase the price for First-Class Mail, as a class, by 1.741 percent. Notice at 5. The Postal Service does not use any of the 0.044 percent banked pricing authority. *Id.* at 3. After applying the 39 CFR 3010.26(c) adjustment, the Postal Service calculates a new unused pricing authority of -0.533 percent. *Id.* at 6.

The Postal Service reports the percentage price changes for individual products within First-Class Mail as follows:

Table III-A-1
First-Class Mail Product Price Changes

First-Class Mail Product	Rate Change (%)
Single-Piece Letters/Postcards	0.461
Presorted Letters/Postcards	1.796
Flats	5.343
Parcels	3.753
Outbound Single-Piece First-Class Mail International and Inbound Single-Piece First-Class Mail International (combined)	3.974

Id. at 12.

In this price adjustment, the Postal Service chooses not to increase the 44 cent, first ounce, single-piece First-Class Mail letter price. Notice at 12. The Postal Service increases revenue by increasing the single-piece additional ounce price from 17 cents to 20 cents. The single-piece First-Class Mail card price is increased by 1 cent, to 29 cents. Most other First-Class Mail prices also are adjusted accordingly to achieve the average 1.741 percent price change.

The commenters addressing First-Class Mail compliance with the rate cap, GCA, NPPC, Pitney Bowes, and the Public Representative, state that the Postal Service has complied with the First-Class Mail rate cap requirements of 39 U.S.C. 3622(d)(1). GCA Comments at 1, NPPC at 1-2, Pitney Bowes Comments at 2, and PR Comments at 2. The other commenters addressing First-Class Mail, BAC, Popkin, and Stamps.com, offer no opinion on the Postal Service's compliance with the rate cap.

The Commission finds the Postal Service's planned price adjustments for First-Class Mail comply with the rate cap limitations specified by 39 U.S.C. 3622(d). The Commission finds that the planned prices for individual components of First-Class Mail result in an increase in the price for First-Class Mail, as a class, by 1.738 percent. This creates a component of new unused rate authority of 0.003 percent. The other component is the interim rate authority of -0.577 percent. Thus, the new unused rate authority from the instant proceeding is -0.574. The sum of all unused rate adjustment authority for First-Class Mail, from the instant price adjustment and previous price adjustments, now equals -0.530 percent. Slight differences from the Postal Service's calculations are attributed to a revision in the calculations for Inbound Single-Piece First-Class Mail International.[13]

1. First-Class Mail Worksharing

The First-Class Mail worksharing discussion is separated into four areas: automation letters and cards, automation flats, automation parcels, and Qualified Business Reply Mail (QBRM) discounts. The Commission has reviewed the workshare discounts submitted by the Postal Service. After review, the Commission concludes

[13] *See* PRC-R2011-2-LR1, Compliance Calculations for First-Class Mail.

that the Postal Service must improve its internal processes to ensure that worksharing pass-throughs are calculated using only accepted costing methodologies.

The requirement to use accepted costing methodologies in price adjustment filings is based upon the following Commission rules: the price adjustment rule, 39 CFR 3010.14(b)(5), which states "The avoided cost figures must be developed from the most recent PRC Annual Compliance Report" and the annual periodic reporting rule, 39 CFR 3050.10, which states "In its annual periodic reports to the Commission, the Postal Service shall use only accepted analytical principles."

The intention of both rules was clear when written. However, two intervening events have occurred. The first is a terminology change. The Postal Service now file an Annual Compliance Report, and upon review of it, the Commission now issues an Annual Compliance Determination. The second is the timing of a price adjustment versus the timing of an Annual Compliance Determination. It previously was assumed that an Annual Compliance Determination would immediately precede a price adjustment. Thus, most recent avoided cost figures (and methodologies) would be used in a price adjustment. With both the Annual Compliance Determination and the price adjustment occurring nearly simultaneously, the rule could imply the use of stale cost avoidance figure. The rules will be clarified to ensure use of most recent cost avoidance data based only on accepted methodologies. In any event, the Postal Service must adhere to approved costing methodologies in all price adjustment filings with the Commission.

The Postal Service calculated First-Class Mail letters and cards cost avoidances assuming approval of methodologies and input data introduced in Docket No. RM2011-5, Proposal Nine. This proposal has not been fully vetted or approved. The Postal Service argues that it is using the unapproved method that it has proposed because it is superior to the accepted methodology that has been vetted by mailers and the Commission through Commission proceedings. Response to CHIR No. 1, question 2. The Postal Service must file its price adjustment calculations utilizing accepted methodologies. If it wishes to employ a new methodology, the Postal Service must file its proposal with the Commission and may not use it prior to Commission approval. Calculations utilizing unapproved methodologies may be provided *in addition to* accepted methodology calculations.

The discussions that follow first present letters and cards data originally provided by the Postal Service in Docket No. R2011-2. These data are accompanied by data (shown in parenthesis) with the effects of Proposal Nine, as calculated by the Commission, removed.

Automation letters and cards worksharing. The Postal Service calculates the following pass-throughs of avoided costs for automation letters: AADC 100.0 percent (104.8 percent); 3-digit, 100.0 percent (150.0 percent); and 5-digit 96.2, percent (96.2 percent). The Postal Service calculates the following pass-throughs of avoided costs for automation cards: Mixed AADC, 100.0 percent (92.6 percent); AADC 100.0, percent (109.1 percent); 3-digit, 100.0 percent (100.0 percent); and 5-digit, 100.0 percent (100.0 percent).

Automation flats worksharing. The Postal Service calculates the following pass-throughs of avoided costs for automation flats: ADC 272.7, percent; 3-digit, 103.6 percent; and 5-digit 93.1, percent. The Postal Service notes a reduction in cost avoidance from 4.5 to 4.4 cents for ADC flats, and from 6.4 to 5.6 cents for 3-digit flats. It cites FY 2008 methodology changes, as explained in Docket No. RM2008-2, Proposal Eight, as the major reason ADC and 3-digit flats pass-throughs exceed 100 percent. The Postal Service argues that setting all flats worksharing pass-throughs at 100 percent will lead to significantly higher rates. It contends that this should be mitigated to avoid rate shock, 39 U.S.C. 3622(e)(2)(B).

The Public Representative observes that the Postal Service has lowered the workshare discount for automation ADC presort flats from 12.2 cents to 12.0 cents. However, the pass-through of costs avoided remains in excess of 100 percent. *i.e.,* 272.7 percent. The Public Representative notes that the Postal Service previously argued in Docket No. R2009-2 and again in its FY 2009 Annual Compliance Report that this discount can not be lowered without creating potential rate shock. The Public Representative sees little progress in addressing this excessive pass-through and urges the Postal Service to take more aggressive action on complying with the 39 U.S.C. 3622(e) requirement for discounts not to exceed costs avoided. PR Comments at 8-9.

Automation parcels worksharing. The Postal Service calculates the following pass-throughs of avoided costs for automation parcels: 3-digit, 37.6 percent; and 5-digit, 93.0 percent. The Postal Service notes that First-Class Mail Parcels exhibit a cost coverage slightly below 100 percent. Therefore, the Postal Service contends that there is no compelling reason to bring the pass-throughs to 100 percent, in the short term. Notice at 29.

Qualified Business Reply Mail (QBRM) Discounts. The Postal Service leaves the QBRM discounts for letters and cards at 2.3 cents. Given the Postal Service's estimates of avoided costs at 1.3 cents (1.4 cents) per piece for letters and cards, the pass-throughs of avoided costs are 176.9 percent (164.3 percent). Notice at 27-28. The Postal Service contends that reducing the QBRM discounts (raising the QBRM prices) is not desirable from a business perspective. Referencing the exceptions for discounts exceeding 100 percent in 39 U.S.C. 3622(e)(2)(A), the Postal Service argues that reducing the discounts may undercut the "Reply Rides Free" program. Furthermore, retaining the current level of discounts may help mitigate the above average price increase experienced by presort mailers.

The Public Representative notes that the Postal Service retains a 2.3 cent QBRM discount in spite of a decline in cost avoidance from 2.3 to 1.3 cents. The Public Representative comments that this is indicative of the Postal Service's failure to adjust overall prices to comply with the 39 U.S.C. 3622(e) requirements for discounts not to exceed costs avoided. PR Comments at 6-7.

The Commission questions the link the Postal Service attempts to create between QBRM mail and the Reply Rides Free program.

The Commission has repeatedly questioned whether the models used by the Postal Service accurately determine QBRM cost avoidances. *See, e.g.,* Opinion and Recommended Decision, Docket No. R2006-1, February 26, 2007, at 164-167. Most recently, in FY 2009 Annual Compliance Determination, the Commission noted: "[t]he QBRM cost avoidance presented here is estimated using USPS methodology. The Commission found in Docket No. R2006-1 that this underestimated avoided costs, but that the alternative on the record overestimated avoided costs." ACR2009 at 70-71, Tables VII-2, fn. 1 and VII-3, fn. 1. Without an accurate methodology to determine cost avoidances and with a prior conclusion that the Postal Service's model underestimates avoided costs (making the pass-throughs appear worse than they actually are), the Commission is reluctant to require the Postal Service to change the QBRM discount. The Commission finds that the appropriate approach is to first address the methodology issue. The Commission urges the Postal Service to develop a proposal and petition to initiate a rulemaking docket as soon as practicable to improve the methodology for determining QBRM cost avoidances.

2. Classification Changes

The Postal Service plans several classification changes to its First-Class Mail Parcels product. The Postal Service plans to replace the Presorted, Presorted Non-barcoded or Non-machinable, and Single-Piece or Mixed ADC price categories with Commercial Plus, Commercial Base, and Retail price categories. The Keys and Identification Devices and Move Update Assessment Charge price categories remain unchanged. Notice at 14-15. The Postal Service also plans to treat the first three ounces in each parcel price category as a single price cell, *i.e.,* 0 to 3 ounces will pay a single price. *Id.* at 15-16.

New parcels rate categories. The new Commercial Base category will include all parcels currently included in the presort parcels category with the addition of the commercial portion of single-piece parcels. Eligibility extends to all residual single-piece parcels from presorted mailings, and all non-presorted parcels with postage paid by permit imprint, IBI meter, or PC Postage. All other single-piece parcels fall into the Retail category.

The new Commercial Plus category will include machinable parcels weighting at least 3.5 ounces up to, but not including 16 ounces. The Postal Service does not expect significant volume below 13 ounces because of unfavorable pricing at those weights. The parcels must be bulk entered with at least 200 pieces or 50 pounds, with the exception of single-piece mailing which must include at least 500 pieces. The mailer must commit to mailing 5,000 pieces annually. The Postal Service contends that the price cap calculations are unaffected, because there is no previous volume or revenue for this category.

Stamps.com supports the price category classification proposal in general and specifically supports the 15 cent First-Class Mail Parcels Commercial Base discount resulting from the change. Stamps.com Comments at 2. Stamps.com contends that the effect of the discount will be to reduce both window service operations and increase mail volume. *Id.* at 2-3.

The Public Representative observes that the Postal Service has not provided any information on proposed service performance standards or service performance measurement methodologies related to the proposed classification changes. The Public Representative contends that this ignores the provisions of 39 U.S.C. 3691 and 39 CFR 3020.30 *et seq.* PR Comments at 5.

In response to the Public Representative's comments, the Postal Service notes that the classification changes affect price categories and not the product itself. The

Postal Service asserts that the classification changes will have no affect on service standards or performance measurement systems for First-Class Mail Parcels.[14]

Collapsing 0 to 3 ounce price cells. The Postal Service plans to treat the first three ounces in each Parcel price category as single price cells. The Postal Service asserts that this is being done to improve contribution from the First-Class Mail Parcels product, which has not been providing adequate contribution in the past. *Id.*

The Public Representative calculates that the classification change and associated prices result in a rate increase of 40 percent for one ounce parcels, 23 percent for two ounce parcels, and 10 percent for three ounce parcels. The Public Representative contends that these price increases are excessive, without adequate justification, and appear to be the result of monopoly pricing power. PR Comments at 7-8.

Popkin observes that establishing a minimum three ounce rate for First-Class Mail Parcels results in a 40 percent increase in the price of a one ounce Parcel. He asserts that the Postal Service has not explained its reasons for this change. He notes that sending a one ounce international parcel anywhere in the world only costs one cent more. Popkin Additional Comments.

Commission analysis. The Commission finds the above classification changes reasonable and shall incorporate the substance of these changes into the draft Mail Classification Schedule. Collapsing the 0 through 3 ounce rate cells into single rate cells adds simplicity to the rate schedule and may be appealing to certain mailers that appreciate such simplicity. If any of the above classification changes impact service performance measurement systems, service standards, service goals, or reporting

[14] Response of United States Postal Service to Comment of Public Representative, February 11, 2011.

methodologies, the Postal Service shall notify the Commission of such changes pursuant to 39 CFR 3055.5 and 3055.6, as appropriate.

3. Additional Comments

Single-piece versus presort price increases. BAC, Pitney Bowes, and NPPC comment on single-piece versus the presort price increases as they relate to their associated cost coverages.

BAC comments on what it characterizes as a disparity in contribution provided by presort First-Class Mail versus single-piece First-Class Mail. It asserts that total contribution from presort mail is almost double the contribution provided by single-piece mail. At the same time, BAC notes that the Postal Service is increasing presort mail by 1.796 percent versus 0.461 percent for single piece mail. BAC contends that presort mail is much more price sensitive, and that if approved the price adjustment will likely drive an increasing share of profitable presort mail out of the system. BAC Comments at 1-2.

Pitney Bowes makes similar observations on the importance of presort First-Class Mail and the contribution it provides. In this light, Pitney Bowes encourages the Postal Service to continue adjusting workshare discounts so that all workshare-related costs avoided are fully reflected in future prices. Pitney Bowes Comments at 3.

Also consistent with the above observations, NPPC questions whether the "exorbitant" cost coverage for presort First-Class Mail is "just and reasonable" within the meaning of 39 U.S.C. 3622(b). NPPC Comments at 4.

NPPC separately comments that "[t]he newly proposed rates demonstrate that the fear that Single-Piece rates would experience steep increases if not linked to Automation and Presort rates is unfounded." *Id.* at 5.

The intricacies of relative cost coverages raised by these comments involve complex issues that can not be fairly addressed in the brief time allotted by 39 CFR

3010.13. Such issues are best decided after allowing all interested parties to develop relevant evidence and present comments and reply comments. The Commission finds the First-Class Mail pricing proposal presented by the Postal Service complies with the requirements of title 39.

Timing of rate adjustment. Popkin contends that the effective date for the price adjustment could coincide with the filing deadline for United States personal income taxes. He argues that the new additional ounce rate and Certified Mail prices have a higher than normal use in mailing tax returns. Thus, he suggests delaying the price adjustment by 2 to 7 days to avoid possible problems. Popkin Initial Comments.

The Commission is confident that the Postal Service will continue to schedule implementation dates for rate changes with attention to the convenience of its customers.

Intelligent Mail barcode incentive. NPPC notes that the Postal Service is being responsive to mailers concerns regarding IMb implementation. However, NPPC contends that the current 0.3 cent price differential is insufficient for mailers to recover the costs of coming into compliance with IMb requirements. Thus, NPPC contends that a higher incentive should be offered. *Id.* at 5-6.

The Commission finds the current Intelligent Mail barcode pricing incentive to comply with the requirements of title 39. If the Postal Service decides to increase, or decease, the incentive, the Commission will analyze the Postal Service's proposal at that time.

4. International First-Class Mail

The Postal Service calculates a 3.974 percent price increase for the combined Inbound Single-Piece First-Class Mail International and Outbound Single-Piece First-Class Mail International products. For Inbound Single-Piece First-Class Mail International, the Postal Service calculates the percentage change in price using

FY 2010 inbound volume and weight data reported in the International Cost and Revenue Analysis report.[15] For the first time, the Postal Service also includes inbound Registered Mail volume and weight data in its calculations.[16]

The Postal Service excludes from its calculations volume and weight data associated with Inbound Single-Piece First-Class Mail International received from Canada Post.[17] The Postal Service previously justified the exclusion of such inbound data pursuant to 39 CFR 3010.24 because prices for Canada-origin inbound mail "are set under a negotiated agreement between the Postal Service and Canada Post."[18]

Postal Service revenues for Inbound Single-Piece First-Class Mail International from foreign postal operators (other than Canada Post) are calculated using terminal dues established by international agreement through the Universal Postal Union (UPU). Terminal dues, which remunerate the Postal Service for the delivery of Inbound Single-Piece First-Class Mail International in the United States, consist of a per item and per kilogram charge and are denominated in Special Drawing Rights (SDRs).

In addition to terminal dues, the Postal Service calculates revenues based upon a per kilogram charge for the internal air conveyance of Inbound Single-Piece First-Class Mail International. The air conveyance charge, denominated in SDRs, also is established through the UPU. This charge reimburses the Postal Service for the

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[15] Library Reference USPS-FY10-NP2, FY 2010 International Cost and Revenue Analysis (ICRA) Report, Excel file Reports.xls, Docket No. ACR2010.

[16] *Compare* Library Reference USPS-R2010-4/1, and the Excel file Inbound_FCMI_Worksheets_R2010-4.xls, Docket No. R2010-4, with USPS-R2011-2/1, and the Excel file Inbound_CAPCALC-FCMI-FY2010.xls in this proceeding.

[17] Library Reference USPS-R2011-2/1, and the Excel file Inbound_CAPCALC-FCMI-FY2010.xls, worksheet tab Inbound FCMI BD Summary.

[18] Docket No. R2010-4, Library Reference LR-USPS-R2010-4/1, Revised August 6, 2010, First-Class Mail Worksheets, at 7.

additional cost of air transportation to meet delivery service standards for Inbound Single-Piece First-Class Mail International.

Commission analysis. The Commission adjusts the Postal Service's price cap calculations for Inbound Single-Piece First-Class Mail International to exclude, consistent with past practice, inbound Registered Mail volume and weight data, and to reflect proper application of rule 3010.24. As a result, the combined price increase is 3.672 percent.

In Docket No. R2010-4, the Postal Service noted that excluding inbound Registered Mail volume and weight data from its calculations is appropriate because "Inbound Registered Mail is not considered to be Inbound Single-Piece First-Class Mail International volume."[19] The Commission agrees and therefore excludes inbound Registered Mail in calculating the Inbound Single-Piece First-Class Mail International price change.

The Postal Service's reliance on 39 CFR 3010.24(a) to justify the exclusion of Inbound Single-Piece First-Class Mail International from Canada is misplaced. 39 CFR 3010.24(a) requires the inclusion of "[m]ail volumes sent at rates under negotiated service agreements . . . in the calculation of [the] percentage change in rates as though they paid the appropriate rates of general applicability." To be sure, section 3010.24(a) permits an exception for mail sent under negotiated service agreements where it is "impractical to identify the rates of general applicability (*e.g.*, because unique rate categories are created for a mailer)." *Id.* Consequently, the test is not, as claimed by the Postal Service, whether "rates of general applicability do not exist for inbound mail." Response to CHIR No. 1, question 15. Rather, the test is whether it is "impractical" to

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[19] Docket No, R2010-4, USPS-R2010-4/1 (Revised August 6, 2010), First-Class Mail Worksheets, at 8.

identify rates of general applicability for Inbound Single-Piece First-Class Mail International.

In this instance, the Commission does not consider it impractical to identify the generally applicable rates for Canada-origin mail. In the absence of negotiated prices, the prices for inbound mail from Canada would be the published UPU provisional terminal dues. Notably, the Postal Service does not assert that Canada-origin mail is a unique rate category created specifically for Canada.[20] Consequently, the Commission includes Inbound Single-Piece First-Class Mail International from Canada in calculating the price change for Inbound Single-Piece First-Class Mail International.

Based upon the above revisions, the percentage change in price for Inbound Single-Piece First-Class Mail International is a negative 1.133 percent, rather than a negative 2.038 percent proposed by the Postal Service. This price increase for inbound mail (*i.e.*, a lower negative percentage) reflects a change in the inbound volume and weight distribution for target and transition system countries in the price change calculation, caused by the inclusion of volume and weight data for Inbound Single-Piece First-Class Mail International from Canada and, to a lesser extent, the exclusion of such data for inbound Registered Mail. As a result, the price increase for First-Class Mail International is 3.672 percent, as compared to 3.974 percent proposed by the Postal Service. This small percentage decrease in price has little impact on the overall percentage increase in price for First-Class Mail as a whole, although it generates a small increase in unused pricing authority for the class.[21]

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[20] *See id.* The Postal Service does not assert, nor does the Commission address, any claim of confidentiality concerning the volume and weight data associated with Inbound Single-Piece First-Class Mail International from Canada.

[21] In Library Reference PRC-R2011-2-LR1-Compliance Calculations for First-Class Mail, the Commission presents revised calculations of the percentage change in price for Inbound Single-Piece First-Class Mail International.

B. Standard Mail

1. Introduction

There are six products in the Standard Mail class: Letters; Flats; Parcels and Not Flat-Machinables (NFMs); High Density and Saturation Letters; High Density and Saturation Flats and Parcels; and Carrier Route. The Postal Service calculates a total price adjustment authority for the Standard Mail class of 1.741 percent, and proposes to increase rates for Standard Mail, on average, by 1.739 percent. Notice at 4-5. The Postal Service does not use any of the 0.103 percent banked pricing authority. *Id*. at 3. After applying the 39 CFR 3010.26(c) adjustment, the Postal Service calculates a total unused pricing authority of -0.472 percent. *Id*. at 6. The Postal Service reports the distribution of percentage price changes for products within Standard Mail as follows:

Table III-B-1

Standard Mail Product Price Changes

Product	**Percent Change**
Letters	1.810
Flats	0.835
Parcels and NFMs	11.346
High Density / Saturation Letters	0.615
High Density / Saturation Flats and Parcels	0.403
Carrier Route Letters, Flats and Parcels	1.376
Overall	1.739

The Commission finds the Postal Service's planned price adjustments for Standard Mail comply with the rate cap limitations specified in 39 U.S.C. 3622(d). The Commission finds that the planned prices for individual components of Standard Mail result in an increase in the price for Standard Mail, by 1.739 percent. New unused authority created in this proceeding equals the unused portion of the annual limitation of

0.002 percent plus the interim amount of -0.577 percent, or -0.575 percent. The sum of all unused rate adjustment authority for Standard Mail, from the instant price adjustment and previous price adjustments, now equals -0.472 percent. This includes the new unused authority (-0.575 percent) and the banked amount from Docket No. R2009-2 (0.103 percent).

2. Statutory Preferential Rates

39 U.S.C. 3626(a)(6) requires nonprofit rates to be set in relation to their commercial counterparts regardless of the nonprofits' independent costs. Nonprofit rates are set to yield per-piece revenues that are 60 percent of commercial revenues. No commenter challenges the Postal Service's compliance with this requirement, and the Commission finds that the Postal Service's proposed nonprofit rates conform with this statutory preference.

3. Worksharing Issues

The Commission is required to ensure that workshare "discounts do not exceed the cost that the Postal Service avoids as a result of workshare activity" unless the discount fits within a specified exception. 39 U.S.C. 3622(e).

Commission rules require the Postal Service to justify any proposed workshare discount that exceeds 100 percent of the avoidable costs by explaining how it meets one or more exceptions under the PAEA. The Postal Service shall also identify and explain discounts that are set substantially below avoided costs, and explain any relationship between discounts that are above and those that are below avoided costs. 39 CFR 3010.14(b)(6).

In its filing, the Postal Service identified 11 proposed rate discounts within the Standard Mail class that have pass-throughs exceeding 100 percent. The following pass-throughs exceed 100 percent of avoidable costs:

- Non-automation machinable Mixed ADC flats to automation Mixed ADC flats, which as proposed has a pass-through of 228 percent;
- Automation ADC flats compared to automation Mixed ADC flats, which as proposed has a pass-through of -500 percent;
- Mixed NDC machinable parcels to NDC machinable parcels, which as proposed has a pass-through of 103 percent;
- Mixed NDC irregular parcels to NDC irregular parcels, which as proposed has a pass-through of 188 percent;
- NDC irregular parcels to SCF irregular parcels, which as proposed has a pass-through of 156 percent;
- Mixed NDC NFMs to NDC NFMs, which as proposed has a pass-through of 175 percent;
- NDC NFMs to SCF NFMs, which as proposed has a pass-through of 134 percent;
- Mixed NDC machinable non-barcoded parcels to Mixed NDC machinable barcoded parcels, which as proposed has a pass-through of 164 percent;
- Mixed NDC irregular non-barcoded parcels to Mixed NDC irregular barcoded parcels, which as proposed has a pass-through of 164 percent;
- Mixed NDC non-barcoded NFMs to Mixed NDC barcoded NFMs, which as proposed has a pass-through of 164 percent; and
- Carrier Route Parcels to High Density Parcels, which as proposed has a pass-through of -105 percent.

The Commission identifies two additional rate discounts within the Standard Mail class that have proposed pass-throughs exceeding 100 percent:

- Non-automation machinable Mixed ADC letters to automation Mixed AADC letters, which as proposed has a pass-through of 50 percent (-60 percent); and

- Non-automation ADC non-machinable letters to non-automation 3-digit non-machinable letters, which as proposed has a pass-through of 100 percent (224 percent).[22]

The Postal Service's stated statutory justifications for these proposed pass-throughs, and the Commission analysis of the adequacy of those justifications, are discussed below.

Non-automation machinable Mixed ADC flats to automation Mixed ADC flats. This pass-through gives a discount for having the mailer affix a barcode to mailpieces, eliminating the need for the Postal Service to barcode the pieces.

The Postal Service's proposed statutory justification for giving a 5.7-cent discount to avoid 2.5 cents of costs is 3622(e)(2)(D) because the discount will encourage prebarcoding of flats and enhance the Postal Service ability to implement its Flats Sequencing Sorting (FSS) system. Notice at 31 to 32. While the Postal Service is reducing the current discount of 6.2 cents to 5.7 cents, it believes a temporary extra barcoding incentive is necessary to not impede the efficient operation of the Postal Service. *Id*. at 32. The Postal Service has begun to deploy FSS technology. A more significant change in this discount might impede capture of the potential benefits of this system.

The implementation of FSS remains in progress and is expected to occur system-wide in the reasonably near future.

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[22] The parenthetical pass-through numbers, using the modified Standard Mail presort letters mail processing cost model, reflect the removal of the Proposal Nine changes and a correction of an error identified in the letter cost model. *See* Docket No. ACR2010, Responses of the United States Postal Service to Questions 1-31 of Chairman's Information Request No. 1, January 24, 2011, questions 9 and 10.

Automation ADC flats compared to automation Mixed ADC flats. This discount is for presorting automation flats to the ADC level, eliminating the need for some sorting activities.

Estimates of avoided cost for automation ADC flats compared to automation Mixed ADC flats for FY 2009 (0.0 cents) and FY 2010 (negative 0.2 cents) indicate that the avoided cost data are anomalous. The Postal Service does not believe that this cost information can reasonably be used in setting rates for automation because by setting the rate for ADC flats above the rate for Mixed ADC flats would send an inefficient signal to mailers that they should forgo ADC presorting and instead tender unpresorted automation flats to the Postal Service. The Postal Service retains the current discount of 1.0 cents. It believes that sending the wrong price signal would lead to more inefficient operations, and justifies the proposed discount based on section 3622(e)(2)(D).

Mixed NDC machinable non-barcoded parcels to Mixed NDC machinable barcoded parcels; Mixed NDC irregular non-barcoded parcels to Mixed NDC irregular barcoded parcels; and Mixed NDC non-barcoded NFMs to Mixed NDC barcoded NFMs. These pass-throughs give discounts for having the mailer affix a barcode to mailpieces, eliminating the need for the Postal Service to barcode the pieces.

The Postal Service justifies the excess pass-through under section 3622(e)(2)(D), as needed to ensure long-run operational efficiency in its parcel mail processing system.

The Postal Service believes that there are long-run efficiencies to be had from an all pre-barcoded parcels mailstream. The Postal Service states a totally pre-barcoded incoming parcel mailstream would allow elimination of keying stations at sorting facilities, and to facilitate implementation of electronic manifesting (a cost savings not incorporated in the barcoding savings estimate). Notice at 38. As such, the Postal Service believes it is wise to continue to send a strong signal to mailers to barcode all their parcels. Nonetheless, the Postal Service proposes to shrink the discount from 7.0 cents to 6.4 cents.

Mixed NDC machinable parcels to NDC machinable parcels; Mixed NDC irregular parcels to NDC irregular parcels; Mixed NDC NFMs to NDC NFMs; NDC irregular parcels to SCF irregular parcels; and NDC NFMs to SCF NFMs. These discounts are given for pre-sorting parcels and NFMs. The Postal Service justifies these excess pass-throughs under section 3622(e)(2)(D). Due to a new cost model for Standard Mail NFMs and Parcels there are significant changes in the avoided cost estimates for NFMs and parcels worksharing. Some avoided cost estimates increased, some decreased. The Postal Service finds that adjusting discounts to the new avoided cost estimates immediately would be unduly disruptive to its operations. Notice at 34. It is concerned that an abrupt transition to the new avoided costs would force attempts to suddenly reverse some of the operational changes put in place over the last several years. *Id*. at 33 to 34. The Postal Service believes that a transition period will be needed to phase in the pricing structure called for by the new avoided cost estimates. *Id*. The Postal Service has reduced the irregular parcel NDC discount from 47.5 cents to 39.1 cents, reduced the NFMs NDC discount from 51.9 cents to 41.5 cents, increased the NDC discount for machinable parcels from 40.0 to 41.5, increased the SCF discount for irregular parcels 40.0 to 43.7 and increased the SCF discount for NFMs from 35.4 to 37.2.

Carrier Route Parcels to High Density Parcels. This pass-through gives a discount for a greater level of presort for mailpieces.

The Postal Service believes that the cost data for these categories are anomalous. It states that the discount is reasonable given the absence of a reliable avoided cost estimate, and justifies it using section 3622(e)(2)(D). The FY 2010 avoided cost between Carrier Route Parcels and High Density Parcels was a negative 13.0 cents per piece, meaning that the cost estimate for High Density Parcels was 13.0

cents higher than the corresponding cost estimate for Carrier Route Parcels. Notice at 40. Given the difference in preparation requirements and minimum pieces to qualify the Postal Service asserts that, all else being equal, it should be cheaper to process and deliver High Density Parcels than Carrier Route Parcels. *Id.* at 41. The Postal Service believes that pricing High Density higher than Carrier Route Parcels would send an inefficient signal to mailers to prepare and enter their parcels as Carrier Route Parcels, rather than as High Density Parcels. *Id*. Sending this signal to mailers would lead to more inefficient operations. *Id*. The Postal Service has decreased the discount for High Density Parcels from 15.2 cents to 13.6 cents.

Non-automation machinable Mixed ADC letters to automation Mixed AADC letters and non-automation ADC non-machinable letters to non-automation 3-digit non-machinable letters. These discounts are for presorting letter mail, bypassing initial Postal Service sorting.

The Postal Service calculated the cost avoidances for these discounts assuming approval of methodologies and input data introduced in Docket No. RM2011-5, Proposal Nine.

As discussed previously in regard to First-Class Mail discounts, the Postal Service must file its price adjustment calculations utilizing accepted methodologies.

Commission analysis. The Commission approves all of the proposed workshare discounts in Standard Mail. Almost all are consistent with or have been justified by an exception under 39 U.S.C. 3622. *See* 39 CFR 3010.13(j). The Commission finds that the discounts for Nonautomation Machinable Mixed ADC Letters to Automation Mixed AADC Letters and Nonautomation ADC Nonmachinable Letters to Nonautomation 3-digit Nonmachinable Letters exceed the costs avoided using the accepted methodology. The Commission, however, will hold any remedial action on these two discounts in abeyance until the conclusion of Docket No. RM2011-5.

4. Commenter Issues

Nine commenters addressed issues related to Standard Mail.

Standard Mail Flats cost coverage and below-average increase. BAC comments that Standard Mail Flats cost coverage is only 81.6 percent, and that Standard Mail letters account for the majority of the volume, revenue and contribution to the Standard Mail Class. BAC Comments at 2. However, BAC comments that, despite admonition in previous compliance review dockets, the Postal Service has proposed a below average rate for Standard Mail Flats that increases the disparity between Standard Mail Letters and Standard Mail Flats. *Id*. at 2-3. BAC recommends that the Commission send back the proposed adjustment for Standard Mail, with instructions to the Postal Service to propose an above-average increase for Standard Mail Flats and a below-average increase for Standard Mail Letters. *Id*. at 4.

The Public Representative comments that Standard Mail Flats did not cover their costs and made no contribution to institutional costs. PR Comments at 10. The Public Representative notes that the Postal Service stated that in 2010, in its exigent rate adjustment proposal, that Standard Mail Flats can not be priced below costs for an extended period of time. *Id*. at 10-11. The Public Representative contends that the below-average proposed increase for Standard Mail Flats in this docket is contrary to a fundamental directive of the PAEA. He contends that the Postal is continuing discriminatory treatment of letters without sufficient justification.

L.L. Bean, Inc., states reasons it describes as compelling for the Commission to address the below-average increase for Standard Mail Flats. L.L. Bean Comments at 1-3. L.L. Bean recognizes the need for gradualism in bringing Standard Mail Flats back to profitability, but states that the current proposal will widen the cost-coverage gap and undermine the prospect of closing it in the near future. *Id*. at 3-4.

Valpak contends that the Annual Compliance Determination and the instant rate case provide an opportunity for the Commission to order a price adjustment for

Standard Mail Flats. Valpak Comments at 4. Valpak comments that the below-average increase proposed for Standard Mail Flats moves the product further away from compliance. *Id*. at 7. Valpak also notes the discrepancy in the Postal Service's proposing an above-average increase for Standard Mail Flats in its exigent rate request, but a below-average increase in this rate request. *Id*. Valpak characterizes the loss from Standard Mail Flats as a subsidy for that product in excess of half a billion dollars in FY 2009 and FY 2010. *Id*. at 8. Valpak recommends that the Commission increase the proposed price adjustment for Standard Mail Flats by at least 11 percent. *Id*. at 11.

The American Catalog Mailers Association comments that Standard Flats and Carrier Route Flats, which in combination generate a positive contribution to the Postal Service, are essentially the same product, as they serve the same catalog market. ACMA Comments at 2. ACMA questions the accuracy of the Postal Service's costs, given the difference between the costs for casing saturation versus regular letters and the cost to process a five digit automation flat versus a carrier route flat. *Id*. at 5-6.

The Association for Postal Commerce asserts that the Commission's authority to review rates in the context of a rate case is narrow, and with the exception of the rates for Standard Mail Parcels/NFMs, encourages the Commission to accept the rates proposed by the Postal Service, and deal with the deficiencies in the rates in other rulemaking dockets. PostCom Comments at 1-6.

The Postal Service contends that the proposed below-average rate for Standard Mail Flats is due to difficulties in the catalog industry. Notice at 16-17. The Postal Service states that by proposing a below-average increase, it is attempting to maintain the viability of the catalog industry, which it views as a growth segment. *Id*. at 17. The Postal Service contends that the most recent volume data available demonstrate that catalogs exhibit a continued volume decline. Response to CHIR No. 1 at 5. The Postal Service asserts that there is nothing inherently unfair or inequitable about a temporary apportionment where for a limited time other products bear a greater portion of Postal

Service costs. Response to CHIR No. 1, question 4(c). *Id.* at 8. The Postal Service states that the subsidy for Standard Mail Flats will not be permanent. *Id.*.

Commission analysis. The Commission has consistently raised concern about below-average increases for the underwater Standard Mail Flats product. Order No. 191 at 52. The Postal Service previously proposed a 5.1 percent increase for Standard Mail Flats in its exigent rate adjustment request. However, the Postal Service now contends that volume loss in the Standard Mail Flats product is greater than previously thought, and that a below-average increase is appropriate to help the industry. This rate adjustment proposal marks the third regular rate adjustment where the Postal Service suggests that the below-cost Standard Mail Flats product receive a lower than average increase.

For purposes of this market dominant price adjustment, the Postal Service's proposed rate for Standard Mail Flats complies with the applicable price cap.

However, the Postal Service, with the instant rate proposal, moves Standard Mail Flats further away from recouping their costs or making a contribution to the Postal Service's institutional costs. Several commenters raise the issue that the Postal Service's rates may not be in compliance with the PAEA, specifically section 101 of title 39.

The Postal Service contends, in its rate adjustment filing, that the PAEA price cap does not grant it sufficient flexibility to remedy the cost coverage problem in Standard Mail Flats. The Commission finds that the Postal Service has much more flexibility under the cap than it has elected to recognize or exercise. The Postal Service has options available to put the product on course to recover its costs over a number of successive rate adjustments.

The Commission approves the rates for Standard Mail Flats put forward by the Postal Service. The Commission recognizes that in price adjustment cases, like this one, its analyses and decision must be made during a compressed time period. There is insufficient time to develop an evidentiary record sufficient to fully evaluate the industry-specific claims of the Postal Service, and to determine whether they justify special treatment for an entire product. The Commission also recognizes that the Postal Service is granted broad discretion under the PAEA to set its rates. However, the Postal Service always retains the discretion to resubmit a revised rate structure to address the concerns raised about these proposed price adjustments, thereby precluding any need to consider the concern in an alternate forum.

Standard Mail Parcels and NFMs. Publishers Clearing House comments that while the overall average increase for the Standard Mail Parcels and NFMs product is 11.3 percent, the impact on individual rates ranges from 4 percent to 34 percent. PCH Comments at 2. Publishers Clearing House contends that the substantial increase for five digit pieces sends the wrong pricing signal to mailers, who have invested in being able to enter Standard Mail Parcels and NFMs downstream. *Id*. at 2-3. Publishers Clearing House recommends that the Commission direct the Postal Service to maintain the current price relationships between sortation levels. *Id*. at 3. This, it contends, will aggressively take costs out of the parcel handling network. *Id*.

Parcel Shippers Association and Direct Marketing Association comment that the Postal Service's proposed rates for Standard Mail Parcels are exorbitant. PSA/DMA Comments at 1. They contend that the individual price increases of up to 34 percent are outrageous and unjust. *Id*. at 2.

The Postal Service states that it seeks improved contribution for the Standard Mail Parcels/NFMs product. Notice at 18. The Postal Service explains that its proposal to raise rates for this product above the average for the class is intended to move the product closer to covering its costs, and bring prices more closely in line with parcel product offerings by the Postal Service's competitors. *Id*.

Commission analysis. The Commission finds the Postal Service's planned price adjustments for Standard Mail comply with the rate cap limitations specified in 39 U.S.C.

3622(d). The Commission finds that the planned prices for individual components of Standard Mail result in an increase in the price for Standard Mail, as a class, by 1.739 percent. The sum of all unused rate adjustment authority for Standard Mail, from the instant price adjustment and previous price adjustments, now equals -0.472 percent.

The Commission finds the proposed rate increase for Standard Mail Parcels and NFMs to be compliant with the PAEA. The Commission encourages the Postal Service to continue efforts to put the product on a course to cover its costs and make a contribution to institutional costs. The Commission also encourages the Postal Service to maintain rate differentials in such a way that encourages the most efficient preparation of the Standard Mail Parcels and NFMs product, thereby minimizing the Postal Service’s processing and transportation costs.

C. Periodicals

1. Compliance with Statutory Price Cap

Postal Service's planned adjustments. The Periodicals class, which includes publications such as magazines and newspapers, consists of two products: Within County and Outside County. Notice at 19. The Postal Service proposes increasing Within County Periodicals prices an average of 1.093 percent and Outside County Periodicals prices an average of 1.767 percent. The proposed average increase for the Periodicals class is 1.741 percent. This is equal to the percentage increase in the Postal Service's Annual Limitation Authority. The Postal Service does not apply any unused rate authority for either product.[23] The new unused rate authority created in this proceeding is equal to the interim rate authority of -0.577 percent.

The following table summarizes the proposed average percentage price changes for Periodicals.

[23] The total amount of unused rate authority is -.562 percent. This equals the sum of the positive .015 percent unused rate authority from Docket R2009-2 and the negative .577 percent interim unused rate authority from Docket No. R2011-1. *See* Docket No. R2009-2, Order 191, at 3 and Docket No. R2011-1, Order 606 at 7-8.

Table III-C-1

**Summary of
Proposed Average Percentage Price Increases for Periodicals**

		Volume	Revenue Current Prices	Revenue Adjusted Prices	Percent Change
Volume/Revenue			($)	($)	(%)
	Within County	695,455,322	73,403,687	74,206,030	1.0931
	Outside County	6,574,014,264	1,792,391,641	1,824,066,759	1.7672
	Total	6,574,014,264	1,792,391,641	1,824,066,759	1.7672
Revenue/Piece					
	Within County		0.106	0.107	1.0931
	Outside County		0.273	0.277	1.7672
	Total		0.247	0.251	1.7672
Source: Docket No. R2011-2, USPS-FY10-4 - FY 2010 Market Dominant Billing Determinants.					

Commenters' views. Magazine Publishers of America and Alliance of Nonprofit Mailers (MPA/ANM) and the Public Representative address compliance with the annual limitation. MPA/ANM assert that while the overall increase appears compliant with the price cap calculated using the method sanctioned by the Commission in Order No. 606, it believes, for the reasons explained in the comments of the Affordable Mail Alliance (AMA) in Docket No. R2011-1, that the Postal Service should not be allowed to bank and effectively ignore deflation that occurs after the previous rate adjustment, but prior to the last twelve months. MPA/ANM Comments at 1. It contends that since the filing of AMA Comments, two further illustrations of the inappropriateness of the Commission's methodology have come to light. *Id*. at 2. One is that the Postal Service calculates that the unused rate authority resulting from the proposed Periodicals rate increase will be *negative*, by approximately 0.5 percent, which it contends is "clear evidence" that a 1.741 percent increase violates the cap. *Id*. at 2. It asserts that just as positive unused rate authority is generated by raising rates less than inflation, "logic dictates that negative unused rate authority can only be generated by increasing rates by more than inflation, *i.e.*, more than is statutorily allowed. *Id*.

MPA/ANM's second point invokes the Commission's finding, in Docket No. R2011-1, that raising rates less than 0.1 percent (through Move Update changes) would reduce the Postal Service's price cap authority by 0.6 to 0.7 percent. They assert this is "a nonsensical result." *Id*. at 2.

For these reasons, MPA/ANM claim that if the Commission believes its methodology is compelled by the current wording of the statute, the Commission should recommend that Congress resolve this problem in the manner proposed by MPA/ANM in comments in the Commission's five-year PAEA Review. *Id*. at 2.[24]

The Public Representative finds that the Postal Service has complied with the annual price limitation.

Commission analysis. The Commission finds the Postal Service's planned adjustment for Periodicals in compliance with the annual limitation. This is because the proposed price adjustment for Periodicals of 1.741 percent is equal to the annual limitation authority for the preceeding 12 months. The Commission recently fully considered, and rejected, the MPA/ANM statutory interpretation in Docket No. R2011-1. *See* Order No. 606 at 6-13.

2. Consistency with Statutory Preferences

Background. The PAEA accords the Periodicals class several statutory rate preferences, namely:

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[24] See MPA/ANM Comments submitted in the Five-Year Review of the PAEA (on file in the PAEA Review Folder in the Commission's Docket Section.

- substantially lower prices for Within County Periodicals prices compared to Regular Outside County Periodicals (39 U.S.C. 3626(a)(3));
- a Limited Circulation Discount that provides preferential treatment for the Outside County pieces of a Periodicals publication with fewer than 5,000 Outside County pieces and at least one Within County piece (39 U.S.C. 3626(g)(4));
- a 5 percent discount from Regular Outside County postage, except for advertising pounds, for Nonprofit and Classroom Periodicals (part of Outside County) (39 U.S.C. 3624(a)(4)(A));
- preferential treatment for advertising pounds of Outside County Science of Agriculture Periodicals (39 U.S.C. 3626(a)(5)); and
- a discount of at least 5 percent for editorial pounds (39 U.S.C. 3626(4)(a)).

Commenters' views. No commenter challenges the consistency of the Postal Service's Periodicals proposal with applicable statutory preferences.

Commission analysis. Commission review of the Postal Service's filing confirms its consistency with statutory preferences for mail in the Periodicals class. First, comparable categories of Automation and Non-automation Within County flats are approximately 65 percent less than comparable Outside County flats prices. This satisfies section 3626(a)(3). Second, the proposed Limited Circulation discount is approximately 7 percent, in line with section 3626(g)(4). Third, Non-profit and Classroom publications receive a 5 percent discount off of Regular, Outside County Piece, Bundle, Sack, and Pallet Prices, consistent with 39 U.S.C. 3624(a)(4)(A). Next, Science of Agriculture advertising pound rates are priced 25 percent less than Regular Periodicals. This satisfies section 3626(a)(5). Finally, the discount for editorial pounds is approximately 17 percent, substantially exceeding the minimum 5 percent required under section 3626(4)(a)).

3. Worksharing

Statutory exception and Commission rule. Section 3622(e) of title 39 of the U.S. Code generally requires that the Commission ensure that worksharing discounts do not exceed avoided costs, but provides certain exceptions.[25] One of these is when the discount is provided in connection with subclasses of mail consisting exclusively of mail matter of "educational, cultural, scientific, or informational (ECSI) value." 39 U.S.C. 3622(e)(2)(C). In addition, Commission rule 3010.14(b)(6) requires the Postal Service to explain discounts set substantially below 100 percent of avoided costs.

Postal Service position. The Postal Service maintains that the ECSI exemption renders the filing of worksharing-related information for Periodicals a discretionary matter, but it nevertheless presents this information. Notice at 42. The following table presents the Postal Service's proposed pass-throughs for Within County Periodicals. No Within County pass-through exceeds 100 percent.

Table III-C-2

Pass-throughs for Within County Periodicals

Type of Worksharing	Benchmark	Passthrough %
Presorting (dollars / piece)		
3-Digit Presort	Basic Presort	22.2
5-Digit Presort	3-Digit Presort	9.4
CR Basic	5-Digit Presort	28.6
High Density	CR Basic	53.3
Saturation	High Density	50.0
3-Digit Automation Letter	Basic Automation Letter	100.0
5-Digit Automation Letter	3-Digit Automation Letter	10.5
Basic Automation Flats	Basic Nonautomation	19.3
3-Digit Automation Flats	3-Digit Nonautomation	18.5
5-Digit Automation Flats	5-Digit Nonautomation Flats	37.5
		0.0
DDU Dropship	All Other Zones	27.6

Sources: Adapted from USPS-R2011-2/3 – Periodicals Cap Compliance, Passthroughs Within County.xls, and Docket No. ACR2010, Responses of the United States Postal Service to Questions 1-31 of Chairman's Information Request No. 1 (Responses to questions 2, 3, and 7), filed January 24, 2011.

The following table presents the Postal Service's proposed pass-throughs for Outside County Periodicals. It reflects the percentages provided in the Postal Service's filing, as adjusted for updated cost avoidance calculations provided in pending Docket No. ACR2010.[26] Shaded rows highlight the nine pass-throughs that exceed 100 percent.

[26] *See* Docket No. ACR2010, Responses of the United States Postal Service to Questions 1-31 of Chairman's Information Request No. 1, (Response to CHIR No. 1, questions 2 through 4 and 7), filed January 24, 2011.

Table III-C-3

Pass-throughs for Outside County Periodicals

Type of Worksharing	Benchmark	Passthrough %
Presorting (dollars / piece)		
Machinable Nonautomation ADC Flats	Machinable Nonautomation MADC Flats	97.2
Machinable Nonautomation 3D/SCF Flats	Machinable Nonautomation ADC Flats	48.6
Machinable Nonautomation 5D Flats	Machinable Nonautomation 3D/SCF Flats	105.4
CR Basic	Machinable Nonautomation 5D Flats	69.9
High Density	CR Basic	96.7
Saturation	High Density	67.9
Machinable Automation ADC Flats	Machinable Automation MADC Flats	86.7
Machinable Automation 3D/SCF Flats	Machinable Automation ADC Flats	45.5
Machinable Automation 5D Flats	Machinable Automation 3D/SCF Flats	102.4
Nonmachinable Nonauto ADC Flats	Nonmachinable Nonauto MADC Flats	81.7
Nonmachinable Nonauto 3D/SCF Flats	Nonmachinable Nonauto ADC Flats	163.0
Nonmachinable Nonauto 5D Flats	Nonmachinable Nonauto 3D/SCF Flats	53.6
Nonmachinable Automation ADC Flats	Nonmachinable Automation MADC Flats	65.8
Nonmachinable Automation 3D/SCF Flats	Nonmachinable Automation ADC Flats	145.2
Nonmachinable Automation 5D Flats	Nonmachinable Automation 3D/SCF Flats	54.5
Pre-barcoding (dollars / piece)		
Machinable Automation MADC Flats	Machinable Nonautomation MADC Flats	123.1
Nonmachinable Automation MADC Flats	Nonmachinable Nonauto MADC Flats	204.5
Barcoded Letters (dollars / piece)		
ADC Automation Letter	Mixed ADC Automation Letter	250.0
3-Digit Automation Letter	ADC Automation Letter	1,000.0
5-Digit Automation Letter	3-Digit Automation Letter	321.1

Sources: Adapted from USPS-R2011-2/3 – Periodicals Cap Compliance, Passthroughs Within County.xls, and Docket No. ACR2010, and Responses of the United States Postal Service to Questions 1-31 of Chairman's Information Request No. 1, (Responses to questions 2, 4, and 7), filed January 24, 2011.

Bundle, sack and pallet price/cost ratios. The following table shows the price/cost ratios for Outside County bundles, sacks and pallets.

Table III-C-4

Container Price/Cost Ratios

Non Piece Outside County Price/Cost Ratios								
Bundle Pricing by Container Level			**Sack Pricing by Entry Point**			**Pallet Pricing by Entry Point**		
Container Level	Bundle Level	**Price as Percent of Cost (%)**	Sack Level	Entry Point	**Price as Percent of Cost (%)**	Pallet Level	Entry Point	**Price as Percent of Cost (%)**
Mixed ADC	MADC	42.16	Mixed ADC	OSCF	16.06	ADC	OSCF	43.25
	ADC	41.21		OADC	19.82		OADC	48.28
	3-D/SCF	42.34					OBMC	54.91
	5-D	40.64	ADC	OSCF	33.42		DBMC	51.37
	Firm Bundle	19.85		OADC	34.29		DADC	50.66
ADC	ADC	40.36		OBMC	38.96			
	3-D/SCF	43.16		DBMC	36.35	3-D/SCF	OSCF	43.53
	5-D	42.08		DADC	37.79		OADC	46.84
	CR	43.58					OBMC	56.21
	Firm Bundle	20.62	3-D/SCF	OSCF	32.56		DBMC	50.47
3-D/SCF	3-D/SCF	45.85		OADC	34.16		DADC	49.59
	5-D	44.01		OBMC	39.18		DSCF	48.69
	CR	50.18		DBMC	37.82			
	Firm Bundle	24.63		DADC	36.00	5-D/CR	OSCF	43.11
5-D/CR	5-D	44.38		DSCF	37.79		OADC	49.08
	CR	46.56	5-D/CR	OSCF	32.13		OBMC	56.22
	Firm Bundle	24.38		OADC	34.87		DBMC	49.87
				OBMC	38.57		DADC	49.46
				DBMC	35.39		DSCF	48.76
				DADC	34.65		DDU	47.53
				DSCF	34.39			
				DDU	34.17			
Median Price/Cost Ratio		42.16	Median Price/Cost Ratio		34.87%	Median Price/Cost Ratio		49.59

Sources: Adapted from USPS-R2011-2/3 - Periodicals Cap Compliance, CapCalPer-FY2011.xls, and Docket No. ACR2010, Responses of the United States Postal Service to Questions 1-31 of Chairman's Information Request No. 1 (Responses to Questions 2 and 7), filed January 24, 2011.

The Postal Service asserts that there are only a few Outside County worksharing discounts that are above 100 percent, and that most of them involve automation letters, which are low volume categories. Notice at 42. It justifies all pass-throughs greater than 100 percent by invoking the ECSI exemption in section 3622(e)(2)(C). *Id*.

In addition, the Postal Service asserts that its pricing decisions for elements with price/cost ratios draw on “the flexibility of the container bundle-piece price structure” to limit the extent to which price increases for individual publications differ from the average. *Id*. at 43. It further contends that “incentives for efficient preparation are strengthened by reflecting a higher percentage of costs in prices that had minimal impact on those publications that were likely to experience above-average increases.” *Id*. at 43. The Postal Service claims this approach helps “further the goal of more efficient containerization, while being mindful of the impact on those publications that cannot easily change preparation.” *Id*. It also justifies keeping price increases for publications approximately the same by invoking Factors 8 and 11 of section 3622(c) in the PAEA. These factors require the Postal Service and the Commission to take into account the desirability of special classifications and services of mail and ECSI value to the recipient of mail matter. *Id*. at 19.

Commenters’ views. MPA/ANM and the Public Representative filed comments on this topic. MPA/ANM contend that the proposed pass-through of 70 percent for Basic Carrier Route mail should be higher. Their rationale is that this discount is the primary incentive for mailers to combine multiple small mailings, which otherwise would be entered in sacks at origin facilities, into highly efficient, palletized, and dropshipped mailings through co-mailing. MPA/ANM Comments at 3. They suggest that the “real reason” for the larger increase for Carrier Route Basic flats appears to be “the Postal Service’s misguided view that Carrier Route presort will have much less value in a flats processing environment that includes flats sequencing.” *Id*. They contend this view is flawed for two reasons. One is that even after completion of Phase 1 FSS deployment, only a minority of flats (approximately thirty percent) will be addressed to locations in FSS zones, so FSS deployment will have absolutely no effect on the value of Carrier Route presort for the majority of flats addressed to other zones. *Id*. at 3-4.

The second reason is that

> as the Postal Service's operations witness recognized five years ago, while the value of Carrier Route presort may decline in FSS zones, large (or merged) mailings that are currently prepared in Carrier Route bundles will continue to have value by 'provid[ing] an increased opportunity to prepare the pieces in a manner that will facilitate a more efficient induction into the FSS.

Id. at 4. It asserts that while preparation methods may change in FSS zones, large mailings will continue to be highly efficient. *Id*. It therefore urges the Commission to pass through a higher (unspecified) percentage of the cost avoided by Carrier Route mail to provide appropriate incentives to prepare efficient Periodicals mailings.

Public Representative. The Public Representative claims that in the FY 2009 ACD, the Commission signaled that it considered the Postal Service's decision to set low and differential price/cost ratios for bundles, sacks, and pallets problematic because "[t]he low pass-throughs…exacerbated the Periodicals cost/revenue gap and the 'low and differential pass-throughs may send conflicting price signals to mailers and prevent them from entering mail in a way that reduces the end-to-end cost." PR Comments at 12. He also identifies price/cost ratios for pallets as minimally changed. *Id*. at 13. He concludes that the Postal Service has not meaningfully altered the price structure of Periodical bundles, sacks, and pallets, and questions the soundness of the Postal Service's policy to keep the average increase for all publications approximately the same, rather than design an efficient price structure for bundles, sacks, and pallets. *Id.*

Commission analysis. The Within County rate structure has remained essentially unchanged for some time; therefore, the traditional method of developing worksharing discounts is used. This approach, in brief, develops the price and cost of the least prepared mail pieces, then determines the costs the Postal Service can avoid if mailers perform other mail preparation tasks, such as presorting and dropshipping.[27] Discounts are then developed that correspond to the costs the Postal Service avoids by relying on mailer worksharing. The Outside County rate structure, in contrast, was revised as a result of Docket No. R2006-1 (the last general rate case under the Postal Reorganization Act of 1970). A major feature of the revised structure is that with one exception, "bottom-up" estimates of the cost of every combination of presorting and dropshipping bundles, sacks, and pallets are developed. (The exception is piece rates that are related to worksharing-related avoided costs.) This means that the relationship of prices and costs for bundles, sacks, and pallets are not based upon traditional worksharing principles, so neither 39 U.S.C. 3622(e)(2)(C) nor Commission rule 3010.14(b)(6) applies. Instead, given the "bottom up" approach, an effective way of evaluating the economic efficiency of the proposed pricing of these new cost elements is comparing the extent to which bundle, sack, and pallet prices move closer to their respective cost.

The Postal Service proposes a price structure that reflects an interest in keeping price increases close to the average increase and, by doing so, generally retains similar price/cost ratios for bundles, sacks, and pallets. The following table illustrates that proposed weighted average price increases for pound, piece, bundle, sack, and pallets are approximately the same.

[27] When presorting and barcoding discounts are being developed, the costs consist of attributable mail processing and delivery costs. When dropship discounts are being developed, the costs consist of attributable cross-docking and transportation costs.

Table III-C-5

Outside County Percentage and Absolute Price Increases Since R2009-2

	Percent Increase	Absolute Increase (in cents)
Average Pound Rates*	1.40	0.28
Average Piece Rates	1.84	0.39
Average Bundle Prices	1.45	0.32
Average Sack Prices	1.44	2.45
Average Pallet Prices	1.76	34.88
*All averages are volume-weighted		
Sources: Adapted from USPS-R2011-2/3 - Periodicals Cap Compliance, CapCalPer-FY2011.xls, and Docket No. ACR2010, Responses of the United States Postal Service to Questions 1-31 of Chairman's Information Request No. 1, (Responses to Questions 2 and 7), filed January 24, 2011.		

As shown in Table III-C-6 below, the median price/cost ratios for sacks and pallets are both less than 50 percent.

Table III-C-6

Outside County Median Price/Cost Ratios Over Time

	Price/Cost Ratios R2008-1	Price/Cost Ratios R2009-2	Price/Cost Ratios R2011-2	% Change R2008-1 to R2009-2	% Change R2009-2 to R2011-2
	(%)	(%)	(%)	(%)	(%)
Median Bundle	16%	45%	42%	178%	-6%
Median Sack	32%	39%	35%	22%	-11%
Median Pallet	34%	54%	49%	61%	-10%

Sources: Adapted from USPS-R2011-2/3 - Periodicals Cap Compliance, CapCalPer-FY2011.xls, Docket No. ACR2010, Responses of the United States Postal Service to Questions 1-31 of Chairman's Information Request No. 1, (Response to questions 1, 2 and 7), filed January 24, 2011, USPS-R2011-2/3 - Periodicals Cap Compliance, CapCalPer-FY2011.xls, USPS-R2009-2/3 Periodicals Cap Compliance, CapCalPer-FY2009.xls, and USPS-R2008-1-3 - Periodicals Cap Compliance, CapCalPer-FY2008.xls.

These discounts do not markedly improve the economic efficiency of Periodicals rates; however, they comply with the statutory standards and are approved.

4. Additional Matter—Cost Coverage

Valpak. Valpak's concern in this proceeding is the Postal Service's failure to adhere to the Commission's determination that "quantitative pricing standards are at the top of the statutory hierarchy." Valpak Comments at 5. Valpak asserts that "the Postal Service has no plan to increase Periodicals coverage. It now is up to the Commission to act." *Id*. at 13. It also states that "a number of periodicals are believed to be reasonably profitable for the Postal Service, whereas others are unprofitable." *Id.* Valpak recommends the Commission issue a remedial order to implement a price increase that eliminates one-half of the coverage gap this year, and that eliminates the coverage gap altogether next year. *Id*. at 12-13. Valpak also specifies that the price increase should not be an "across-the-board" increase, but should be "as selective as possible." *Id*. at 14. It makes this recommendation because an across-the-board increase would harm the publications that are profitable, and fail to place sufficiently high price increases on publications that are very unprofitable. *Id.* at 13. Lastly, if the Commission, using its authority, is unable to help Periodicals achieve full cost coverage, Valpak recommends that the Commission should suggest Congress consider an appropriation for Periodicals to make up the shortfall. *Id.* at 14.

Commission analysis. The Commission recognizes that the Periodicals class has not covered attributable costs over the past year, and will not do so under the Postal Service's planned adjustments. The Commission also recognizes, as stated in connection with the worksharing discussion, that the Postal Service's stated pricing objective of keeping increases "around the average" impedes progress toward full cost coverage as it fails to more fully realize the efficiencies in the revised Periodicals structure. Nonetheless, the rates as proposed satisfy the requirements of 39 U.S.C. 3622(d) and are approved.

D. Package Services

The Package Services class contains five products: single-piece Parcel Post; Bound Printed Matter Flats (BPM Flats); Bound Printed Matter Parcels (BPM Parcels); Media Mail/ Library Mail; and Inbound Surface Parcel Post (at UPU rates).[28]

1. Price Increases

The percentage change in prices for Package Services is, on average, 1.740. This creates a component of new unused rate authority of 0.001 percent. The other component is the interim rate authority of -0.577 percent. Thus, the new unused rate authority from the instant proceeding is -0.576 percent.[29] The sum of all unused rate adjustment authority for Package Services, from the instant price adjustment and previous price adjustments, now equals -0.551 percent.

In FY 2010, the Package Services class failed to cover its costs. *Id*. at 20. The Postal Service justifies the proposed rate increases by identifying its overall goal as to improve product profitability. The greatest price increases are for Media/Library Mail, single-piece Parcel Post, and BPM Parcels, none of which covered its costs in FY 2010.

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[28] Prices for Inbound Surface Parcel Post (at UPU rates) are determined by the Universal Postal Union and are not under the control of the Postal Service.

[29] *See* PRC-R2011-2-LR4 for calculations.

Table III-D-1
Pass-throughs for Outside County Periodicals

Package Services Product	Rate Change (%)	FY 2010 Cost Coverage (%)
Single-Piece Parcel Post	1.807	82.1
BPM Flats	0.707	147.2
BPM Parcels	1.982	92.1
Media/Library Mail	1.964	80.4
Inbound Surface Parcel Post	1.531	148.6

The Postal Service proposes an above average increase of 1.964 percent for Media Mail/Library Mail, but notes that the product remains priced below other ground parcels. Notice at 20.

BPM Flats had a cost coverage of 147.2 percent in FY 2010. Therefore, the Postal Service proposes a below average price increase of 0.707 percent to offset the need for higher price increases for products that did not cover costs in the class. *Id*. at 21. The Postal Service states that this should encourage mailing of lower-cost, flat-shaped, heavy-weight catalogs, and continue the shape-based deaveraging that was begun in Docket No. R2001-1. *Id*.

BPM Parcels had a below 100 percent cost coverage in FY 2010. The Postal Service proposes an above average price increase of 1.982 percent. *Id*.

The Postal Service proposes a 1.807 percent price adjustment[30] for single-piece Parcel Post. It also proposes to allow prices at the one-pound increment to vary by

[30] In Response to CHIR No. 1, question 8, the Postal Service provided corrected single-piece Parcel Post workpapers. In addition, the Postal Service explained in its Response to CHIR No. 1, Question 10, that the single-piece Parcel Post Pickup on Demand revenues should be included in the single-piece Parcel Post workpapers. The Commission workpapers titled "PRC-R2011-2-LR4" incorporate these corrections. These corrections do not have a significant effect on the percentage

zone removing the pricing constraint for unzoned pricing. *Id*. The Postal Service states that removing this pricing constraint at the one-pound weight increment leads to higher prices for more distant zones. *Id*.

2. Workshare Discounts

a. Media/Library Mail

All Media/Library Mail pass-throughs are at or below 100 percent, except for 5-digit presort discounts.[31] *Id*. at 44. The Postal Service justifies these excessive pass-throughs under 3622(e)(2)(C). *Id.* The proposed price increase is not large enough to reduce pass-throughs to 100 percent, however the increase will lower the pass-throughs from levels reported in the FY2010 ACR.

b. BPM Flats and BPM Parcels

All BPM Flats and BPM Parcels workshare discounts are equal to or less than their avoided costs. *Id*. at 45. For discounts with less than a 100 percent pass-through the Postal Service proposes to leave prices unchanged, but plans to re-evaluate whether these discounts should be increased in its next general price adjustment. *Id*.

Comments. No commenter opposed the planned price increases for Package Services.

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change in rates for single-piece Parcel Post, which is unchanged from the Postal Service's original calculation of 1.807 percent.

[31] In the Postal Service's Response to CHIR No. 1 Question 12, the Postal Service filed Media/Library Mail mail processing avoided cost models using the Commission approved methodologies. The Postal Service's initial filing incorporates changes proposed by the Postal Service in Docket No. RM2011-5, Proposal Twelve, which remains pending before the Commission. Using Commission approved methodologies results in the pass-through for Media Mail 5-digit decreasing from 119 percent to 117 percent and the Library Mail 5-digit pass-through decreasing from 113 percent to 111 percent. The Postal Service's section 3622(e)(2)(C) justification for these excessive pass-throughs still applies.

Commission analysis. The Commission finds that the rates for Package Services comply with 39 U.S.C. 3622(d).

E. Special Services

1. Introduction

The Special Services class includes 12 products: (1) Ancillary Services[32]; (2) Address Management Services[33]; (3) Caller Service; (4) Change-of-Address Credit Card Authentication Service; (5) Confirm Service; (6) Customized Postage; (7) International Ancillary Services[34]; (8) International Reply Coupon Service; (9) International Business Reply Mail Service; (10) Money Orders; (11) Post Office Box Service; and (12) Stamped Fulfillment Services.

2. Price Increases

For the Special Services class, the Postal Service proposes an average price increase of 1.739 percent.[35] At the time of the filing, the Postal Service had 1.741 percent in inflation-based price adjustment authority.[36] Thus, for Special Services, the price increases in the instant proceeding create one component of new unused rate

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[32] Ancillary Services product contains 22 services: (1) Address Correction Service; (2) Applications and Mailing Permits; (3) Business Reply Mail; (4) Bulk Parcel Return Service; (5) Certified Mail; (6) Certificate of Mailing; (7) Collect on Delivery; (8) Delivery Confirmation; (9) Insurance; (10) Merchandise Return Service; (11) Parcel Airlift; (12) Registered Mail; (13) Return Mail; (14) Return Receipt for Merchandise; (15) Restricted Delivery; (16) Shipper-Paid Forwarding; (17) Signature Confirmation; (18) Special Handling; (19) Stamped Envelopes; (20) Stamped Cards; (21) Premium Stamped Stationery; and (22) Premium Stamped Cards.

[33] The Address Management Services product contains 34 services that ensure address elements and address lists are correct and up-to-date.

[34] The International Ancillary Services product contains the following four services: (1) International Certificate of Mailing; (2) International Registered Mail; (3) International Return Receipt; and (4) International Restricted Delivery.

[35] The figure has been revised since the Postal Service filed its request on January 13, 2011. *See* United States Postal Service Notice of Errata to USPS-R2011-2/5 (January 26, 2011), which shows that the average price increase is 1.738 percent. *Also see* Library Reference PRC-R2011-2/LR5, which explains a minor error in the Excel worksheet for the Stamped Envelopes service. Once corrected, the average price increase for Special Services increases from 1.738 percent to 1.739 percent.

[36] For the instant proceeding, the Postal Service chose not to use any unused rate authority.

authority of 0.002 percent. The other component is the interim rate authority of -0.577 percent. Thus, the new unused rate adjustment authority from this proceeding is -0.575 percent. Therefore, the total unused rate authority equals -0.438 percent (0.052 percent from Docket No. R2008-1; 0.085 percent from Docket No. R2009-2; and -0.575 from Docket No. R2011-2).

Table III-E-1 displays the average price increase given to each product.

Table III-E-1
Special Services Price Adjustment

Special Services Product	Rate Change (%)
Ancillary Services	1.55
Address Management Services	1.69
Caller Service/ Reserve Number	4.78
Change-of-Address Credit Card Authentication	0.00
Confirm	2.81
Customized Postage	0.00
Money Orders	0.33
PO Boxes	2.22
Stamp Fulfillment Services	0.00
International Ancillary Services	0.00
International Business Replay Mail	0.00
International Reply Coupon Service	0.00
Source: USPS-R2011-2/5, Revised January 26, 2011.	

Table III-E-1 shows that the Postal Service proposes a substantially above average increase for one product (Caller Service/Reserve Number) and no increases for five products (Change-of-Address Credit Card Authentication, Stamp Fulfillment Services, International Ancillary Services, International Business Reply Mail, and International Reply Coupon Service).

Comments. No Commenter opposed the planned price increases for Special Services.

Commission Analysis. The Commission finds that the proposed rates for Special Services are consistent with 39 U.S.C. 3622(d).

3. Classification Changes

The Postal Service proposes two classification changes for the Special Services class. No commenters opposed the planned classification changes.

Stamped Envelopes. The Postal Service proposes to eliminate stamped envelope offerings bearing Standard Mail stamps due to increased alternatives and decreased customer demand. Notice at 46. In Docket No. R2010-4, the Postal Service argued that the small volume of envelopes that are sold make it infeasible to continue offering this version of stamped envelopes.[37] Further, the Postal Service stated that it has to produce the envelopes in quantities that are "so small that the costs exceed the price charged, or produce excessive amounts of the envelopes which end up taking up excessive storage space and being damaged before they can be sold."[38]

PO Box service. The Postal Service proposes to modify the MCS language for the PO Box service. Notice at 46. The Post Service proposes to conform the PO box lock replacement language in 1550.1 to the classification language for the Competitive PO Box product. In Docket No. CP2011-26, the Commission approved the Competitive PO Box classification modification that added a provision that a lock replacement fee could be charged to customers who pay their renewal fees late.[39]

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[37] Docket No. R2010-4, Statement of James M. Kiefer on Behalf of the United States Postal Service at 53 (July 6, 2010).

[38] *Id.*

[39] Docket No. CP2011-26, PRC Order No. 603 at 4 (December 2, 2010).

Commission analysis. The Commission approves the proposed mail classifications changes for the Special Services class. The Commission finds that the explanation for eliminating Stamped Envelopes that bear Standard Mail stamps is persuasive. In addition, the classification change for the PO Box lock replacement service is consistent with the classification language for the Competitive PO Box service.

IV. ORDERING PARAGRAPHS

It is ordered:

1. The price adjustments are within the annual limitation on changes in rates set forth in 39 U.S.C. 3622(d) and 39 CFR 3010.11 and 3010.28.

2. The price adjustments properly reflect the statutory preferences set forth in 39 U.S.C. 3626.

3. The workshare discounts either satisfy the requirements of 39 U.S.C. 3622(e), or fall within an enumerated exception to those requirements, and may take effect.

4. Except to the extent granted or otherwise disposed of herein, all outstanding requests in Docket No. R2011-2 hereby are denied.

By the Commission.

Ruth Ann Abrams
Acting Secretary

CONCURRING OPINION OF CHAIRMAN GOLDWAY

I am troubled by the Postal Service's disregard for the regulatory procedures established and often reiterated by the Commission, particularly with regard to the reliance on an unapproved costing methodology in this case. I believe the workshare discounts that the Postal Service has proposed continue to allow for inefficiencies in mail processing. However, I concur with my colleagues that meeting the price cap requirements is of primary importance.

Chairman Ruth Y. Goldway

PARTICIPANT	TITLE	FILING DATE
American Catalog Mailers Association **(ACMA)**	Comments of the American Catalog Mailers Association	February 2, 2011
Association for Postal Commerce **(PostCom)**	Comments of the Association for Postal Commerce	February 2, 2011
Bank of America Corporation **(BAC)**	Comments of Bank of America Corporation	February 2, 2011
DHL Global Mail **(DHL)**	Comments of DHL Global Mail	February 3, 2011
Greeting Card Association **(GCA)**	Comments of the Greeting Card Association	February 2, 2011
L.L.Bean, Inc. **(LLB)**	Comments of L.L.Bean, Inc.	February 2, 2011
Magazine Publishers of America, Inc. and Alliance of Nonprofit Mailers **(MPA/ANM)**	Comments of Magazine Publishers of America, Inc. and Alliance of Nonprofit Mailers	February 2, 2011
National Postal Policy Council **(NPPC)**	Comments of the National Postal Policy Council	February 2, 2011
Parcel Shippers Association & Direct Marketing Association, Inc. **(PSA/DMA)**	Comments of Parcel Shippers Association & Direct Marketing Association, Inc. on the Planned Price Adjustments for Market Dominant Products and Related Mail Classification Changes	February 2, 2011

PARTICIPANT	TITLE	FILING DATE
Pitney Bowes, Inc. **(Pitney Bowes)**	Comments of Pitney Bowes, Inc.	February 2, 2011
David B. Popkin **(Popkin)**	Initial Comments of David B. Popkin	January 14, 2011
	Additional Comments of David B. Popkin	January 28, 2011
Public Representative **(PR)**	Public Representative Comments in Response to United States Postal Service Notice of Market-Dominant Price Adjustments	February 2, 2011
	Public Representative Notice of Errata to Comments in Response to United States Postal Service Notice of Market-Dominant Price Adjustments	February 8, 2011
Publishers Clearing House **(PCH)**	Comments on Docket No. R2011-2: USPS Notice of Market-Dominant Price Adjustment	February 2, 2011
Stamps.com **(Stamps.com)**	Comments of Stamps.com	February 2, 2011
United States Postal Service **(USPS)**	Response of United States Postal Service to Comments of Public Representative	February 11, 2011
Valpak Direct Marketing Systems, Inc. and Valpak Dealers' Association, Inc. **(Valpak)**	Comments on the United States Postal Service Notice of Price Adjustment	February 2, 2011