

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

Before Commissioners:

Robert G. Taub, Chairman;
Michael Kubayanda, Vice Chairman;
Mark Acton;
Ann C. Fisher; and
Ashley E. Poling

Notice of Market-Dominant
Price Adjustment

Docket No. R2019-1

ORDER APPROVING PRICE ADJUSTMENTS FOR FIRST-CLASS MAIL



Washington, DC 20268-0001
October 24, 2019

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Appendix A—List of Commenters and Comments

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(Issued October 24, 2019)

I. INTRODUCTION AND OVERVIEW

On September 13, 2019, the United States Court of Appeals for the District of Columbia Circuit vacated the First-Class Mail price adjustments authorized by Order No. 4875.¹ The court ordered the Clerk of Court to withhold issuance of the mandate, which would terminate the jurisdiction of the court and allow the decision to take effect, “until seven days after disposition of any timely petition for rehearing or petition for

¹ See *Carlson v. Postal Reg. Comm’n*, No. 18-1328, slip op. at 26 (D.C. Cir. Sept. 13, 2019); Order on Price Adjustments for First-Class Mail, USPS Marketing Mail, Periodicals, Package Services, and Special Services Products and Related Mail Classification Changes, November 13, 2018 (Order No. 4875). The Commission uses the terms “price” and “rate” interchangeably.

rehearing en banc.”² If no such petition is filed, the mandate will issue and the First-Class Mail price adjustments will be vacated on November 4, 2019.³ To avoid the substantial disruption and uncertainty to the Postal Service and general public that would result if the court’s decision partially vacating Order No. 4875 takes effect without further action by the Commission, the Commission considers the issues identified in the court’s decision, solely with respect to First-Class Mail, in advance of the mandate’s issuance. The Commission’s Order will take effect when the United States Court of Appeals for the District of Columbia Circuit issues the mandate.

It is appropriate for an agency to begin work on correcting errors identified in a judicial decision prior to issuance of the court’s mandate.⁴ The court’s decision did not identify a deficiency in Order No. 4875 that would require additional fact gathering; therefore, the Commission determines that further notice and comment are not necessary and proceeds directly to a final order.⁵ The court identified no legal obstacle

² *Carlson v. Postal Reg. Comm’n*, No. 18-1328 (D.C. Cir. Sept. 13, 2019), ECF Document No. 1806387 at 1 (ECF Document No. 1806387); see D.C. Cir. R. 41(a)(1) (describing the regular timing for issuance of the mandate).

³ In this case, a petition for rehearing or rehearing en banc may be timely filed within 45 days. See Fed. R. App. P. 35(c) (describing the timing to file petition for hearing or rehearing *en banc*) and Fed. R. App. P. 40(a)(1)(B) (describing the timing to file petition for panel rehearing). If no petition is filed, the mandate will issue 7 days later. ECF Document No. 1806387 at 1; see D.C. Cir. R. 41(a)(1).

⁴ See *Chamber of Commerce of U.S. v. SEC*, 443 F.3d 890, 898 (D.C. Cir. 2006) (“The court has previously recognized that agencies possess authority to address issues identified by the court prior to the issuance of its mandate.”).

⁵ See *Chamber of Commerce of U.S.*, 443 F.3d at 900 (“Where the court does not require additional fact gathering on remand,...the agency is typically authorized to determine, in its discretion, whether such fact gathering is needed, and how it should be accomplished.”) (citations omitted). The Commission acknowledges that the Postal Service amplified its justification for the 2019 price adjustment in Docket No. R2020-1. See Docket No. R2020-1, United States Postal Service Notice of Market-Dominant Price Change, October 9, 2019, at 9-17 (Docket No. R2020-1 Notice). This Order does not rely on these justifications and instead uses the record as it existed when Order No. 4875 was issued on November 13, 2018. Where appropriate to give context and recognize the progression of time, the Commission acknowledges events occurring after the issuance of Order No. 4875. Such acknowledgment does not prejudice any party and merely supplements information that was in the Docket No. R2019-1 record by checking and confirming prior assessments. See *Chamber of Commerce of U.S. v. SEC*, 443 F.3d at 900.

that would preclude the Commission from ultimately approving the First-Class Mail price adjustments authorized by Order No. 4875, so long as the Commission applies the requirements of the Postal Accountability and Enhancement Act, Pub. L. 109-435, 120 Stat. 3198 (2006) (PAEA), the Administrative Procedure Act, Pub. L. 79-404, 60 Stat. 237 (1946) (APA), and the Commission's regulations. See *Carlson*, slip. op. at 13. Specifically, the court concluded that Order No. 4875 failed to provide an adequate explanation for the Stamped Letters price increase, failed to address the statutory objectives and factors relevant to the Stamped Letters price increase, and failed to respond to comments challenging the Stamped Letters price increase under the statutory objectives and factors. See *Carlson*, slip. op. at 9, 24.

In accordance with the court's decision, this Order applies the requirements of the PAEA, APA, and the Commission's regulations to determine whether the First-Class Mail price adjustments are consistent with applicable law. See *Carlson*, slip. op. at 13. This Order provides an explanation for the Stamped Letters price increase, addresses the relevant statutory objectives and factors, and responds to the comments. Because the court's decision affects all of the First-Class Mail price adjustments proposed by the Postal Service,⁶ not only Stamped Letters, this Order also addresses the other adjustments to First-Class Mail proposed by the Postal Service.

Ultimately, the Commission determines that the First-Class Mail price adjustments are consistent with applicable law. The Commission issues this Order before the mandate to eliminate uncertainty for the Postal Service and the mailing community as to the prices that will be applicable immediately after issuance of the mandate. This Order is effective on the date on which the court issues the mandate.

⁶ See generally United States Postal Service Notice of Market-Dominant Price Change, October 10, 2018 (Notice).

No revisions to the current versions of the Mail Classification Schedule (MCS)⁷ nor the Commission's Library References⁸ are required to implement this Order. Order No. 4875's rulings unrelated to First-Class Mail remain in effect. See *Carlson*, slip. op. at 25. As stated earlier, this Order summarizes and analyzes the issues presented and comments received in Docket No. R2019-1 related to First-Class Mail only.⁹

II. PROCEDURAL HISTORY

Below, the Commission summarizes the procedural history relevant to the First-Class Mail price adjustments.¹⁰

On October 10, 2018, the Postal Service filed its Notice with the Commission pursuant to 39 U.S.C. § 3622 and 39 C.F.R. part 3010. In its Notice, the Postal Service announced its intention to adjust the prices, effective on January 27, 2019, at 12:01 a.m. Notice at 1. The Notice includes four attachments, which present the price and related product description changes to the MCS, workshare discount calculations, price cap calculations, and the promotions schedule, respectively. Notice, Attachments A-D.

⁷ Postal Regulatory Commission, (draft) Mail Classification Schedule posted January 27, 2019 (with revisions through September 30, 2019), available at: <http://www.prc.gov/mail-classification-schedule>. This Order does not alter any revisions to the MCS that have been approved by the Commission after the issuance of Order No. 4875.

The Postal Service also implemented changes to the Domestic Mail Manual (DMM), effective on January 27, 2019, in conjunction with the pricing and classification changes proposed in the Notice. See United States Postal Service, Mailing Standards of the United States Postal Service, Domestic Mail Manual, October 7, 2019, Appendix 2 (Summary of Changes). This Order does not alter any revisions to the DMM made after the issuance of Order No. 4875.

⁸ Library Reference PRC-LR-R2019-1/1, November 13, 2018; Library Reference PRC-LR-R2019-1/NP1, November 13, 2018.

⁹ This Order does not address the issues presented and comments received that do not relate to First-Class Mail. For instance, this Order addresses the promotions and billing determinant adjustments only as applied to First-Class Mail, and does not address the USPS Marketing Mail promotions and billing determinant adjustments, which were previously approved by the Commission in Order No. 4875 and not vacated by the court's decision. See Order No. 4875 at 6-11.

¹⁰ See Order No. 4875 at 3-6 (describing the full procedural history related to the planned price adjustments for all classes of mail).

The Postal Service filed two public library references and one non-public library reference in support of its First-Class Mail price adjustments:

- Library Reference USPS-LR-R2019-1/1, October 10, 2018 First-Class Mail Workpapers
- Library Reference USPS-LR-R2019-1/7, October 10, 2018 First-Class Mail International Billing Determinants Workpapers
- Library Reference USPS-LR-R2019-1/NP1, October 10, 2018 First-Class Mail International and Inbound Letter Post Workpapers (Nonpublic)

The Postal Service requested non-public treatment of seven Excel files pertaining to Outbound Single-Piece First-Class Mail International (Outbound Single-Piece FCMI) and Inbound Letter Post contained in Library Reference USPS-LR-R2019-1/NP1.¹¹

On October 11, 2018, the Commission issued Order No. 4851, which provided public notification of the Notice; established Docket No. R2019-1 to consider the price adjustments' consistency with applicable statutory and regulatory requirements; appointed a Public Representative; and provided an opportunity for interested persons to comment.¹²

¹¹ See USPS Notice of Filing USPS-LR-R2019-1/NP1, October 10, 2018, Attachment 1.

¹² Notice and Order on Price Adjustments and Classification Changes for Market Dominant Products, October 11, 2018 (Order No. 4851).

Twelve questions were posed to the Postal Service through the issuance of Chairman's Information Requests (CHIRs) relating to the First-Class Mail price adjustments.¹³ The Postal Service filed responses to each of these questions.¹⁴

To reflect that the Postal Service's proposal to change the maximum weight limit for Outbound Single-Piece FCMI Large Envelopes (FCMI Flats) was pending before the Commission in Docket No. MC2019-3, on October 19, 2018, the Commission issued Order No. 4859, which ordered the Postal Service to provide proposed prices for FCMI Flats weighing more than 15.994 ounces and associated workpapers.¹⁵ On October 23, 2018, in response to Order No. 4859, the Postal Service filed a revised version of

¹³ Chairman's Information Request No. 1, October 17, 2018, questions 1-2 (CHIR No. 1); Chairman's Information Request No. 2, October 18, 2018, question 8 (CHIR No. 2); Chairman's Information Request No. 3, October 19, 2018, questions 1-4 (CHIR No. 3); Chairman's Information Request No. 5, October 24, 2018 (CHIR No. 5); Chairman's Information Request No. 6, October 25, 2018, questions 3-4 (CHIR No. 6); Chairman's Information Request No. 8, November 1, 2018, questions 2-3 (CHIR No. 8).

¹⁴ Responses of the United States Postal Service to Questions 1-14 of Chairman's Information Request No. 1, October 23, 2018, questions 1-2 (Responses to CHIR No. 1) (providing revised public workpapers for First-Class Mail and clarifying the workpapers' treatment of Round-Trip DVD volumes); Responses of the United States Postal Service to Questions 1-8 of Chairman's Information Request No. 2, October 24, 2018, question 8 (Responses to CHIR No. 2) (clarifying the adjustments made to the First-Class Mail billing determinants related to Move Update); Response of the United States Postal Service to Chairman's Information Request No. 3, October 25, 2018, questions 1-4 (Response to CHIR No. 3) (providing changes and corrections to the descriptions of its Earned Value Reply Mail Promotion and Informed Delivery Promotion for First-Class Mail); Response of the United States Postal Service to Chairman's Information Request No. 5, October 29, 2018 (Response to CHIR No. 5) (reconciling a difference in volumes reported in two data files); Response of the United States Postal Service to Questions 1, 3, and 4 of Chairman's Information Request No. 6, October 31, 2018, questions 3-4 (October 31 Response to CHIR No. 6) (clarifying the workpapers' treatment of Round-Trip DVD volumes and inclusion of extraneous data); Response of the United States Postal Service to Questions 1 and 2 of Chairman's Information Request No. 8, November 5, 2018, question 2 (Public Response to CHIR No.8) (discussing the workpapers' treatment of Inbound International Registered Mail); Response of the United States Postal Service to Chairman's Information Request No. 8, Question 3, with Materials Filed Under Seal, November 5, 2018 (Non-public Response to CHIR No.8) (discussing the workpapers' treatment of weight data).

¹⁵ Interim Order Relating to Outbound Single-Piece First-Class Mail International Flats, October 19, 2018, at 2 (Order No. 4859); see *a/so* Docket No. MC2019-3, Order Approving Update to Weight Limitation, December 19, 2018, at 6 (Order No. 4932).

Attachment A to the Notice and updated the public and non-public workpapers applicable to First-Class Mail.¹⁶

The Commission received 29 sets of comments relating to First-Class Mail.¹⁷ Appendix A to this Order provides a list of all commenters and citations to the comments filed in Docket No. R2019-1 relating to First-Class Mail. On November 13, 2018, the Commission issued Order No. 4875, authorizing the First-Class Mail price adjustments to take effect as planned. Order No. 4875 at 61.

Douglas Carlson timely petitioned the United States Court of Appeals for the District of Columbia Circuit for review of the First-Class Mail price adjustments authorized by Order 4875. *Carlson*, slip. op. at 2, 8. On September 13, 2019, the petition for review was granted and the court vacated the First-Class Mail price adjustments authorized by Order No. 4875. *Id.* at 2, 25-26. The court ordered the Clerk of Court to withhold issuance of the mandate, which would terminate the jurisdiction of the court “until seven days after disposition of any timely petition for rehearing or petition for rehearing en banc.” ECF Document No. 1806387 at 1; see D.C. Cir. R. 41(a)(1). Absent the filing of a timely petition for rehearing or rehearing en banc, the mandate will issue on November 4, 2019. See n.3, *supra*. Issuance of the mandate will vacate the First-Class Mail price adjustments authorized by Order 4875.

¹⁶ USPS Response to Order No. 4859, October 23, 2018 (Response to Order No. 4859); USPS Notice of Filing Revised Library References, October 23, 2018 (October 23 Revised Workpapers Notice). The revisions to the public workpapers for First-Class Mail were also responsive to question 1 of CHIR No. 1. Responses to CHIR No. 1, question 1.

¹⁷ Five additional sets of comments raise issues that exclusively pertain to other classes of market dominant mail and are not addressed by this Order. An additional set of comments (and a related motion) focusing on the proposed pricing changes to First-Class Package Services, which is a competitive product, were addressed in Docket No. CP2019-3. See Comments of Elizabeth Kestler, November 2, 2018; Elizabeth Kestler, Motion for Acceptance of Late Filing of Comments, November 2, 2018; Docket No. CP2019-3, Order Approving Price Adjustments for Competitive Products, November 13, 2018, at 6-8 (Order No. 4876).

III. PRICE ADJUSTMENT AUTHORITY

A. Introduction

Five products are assigned to First-Class Mail: (1) Single-Piece Letters/Postcards; (2) Presorted Letters/Postcards; (3) Flats; (4) Outbound Single-Piece FCMI; and (5) Inbound Letter Post. The price increase for First-Class Mail is, on average, 2.464 percent, which results in 0.033 percent in total unused price adjustment authority.¹⁸ Table III-1 shows the percentage price change for each First-Class Mail product as calculated by the Commission.

Table III-1
First-Class Mail Price Changes (By Product)

First-Class Mail Product	Price Change %
Single-Piece Letters/Postcards	7.534
Presorted Letters/Postcards	0.970
Flats	-10.951
Outbound Single-Piece FCMI	0.000
Inbound Letter Post	7.354
Overall	2.464
Source: Library Reference PRC-LR-R2019-1/1, Excel file "PRC-CAPCALC-FCM-R2019-1.xlsx;" Library Reference PRC-LR-R2019-1/NP1, Excel files "PRC-CAPCALC-FCMI-R2019-1.xlsx" and "PRC-CAPCALC-ILP-R2019-1.xlsx."	

¹⁸ The 2.464 percent increase for First-Class Mail differs from the Postal Service's figure provided in the revised workpapers filed on October 23, 2018. See Response to CHIR No. 5. In Library Reference PRC-LR-R2019-1/1, Excel file "PRC-CAPCALC-FCM-R2019-1.xlsx," the Commission incorporates corrections relating to the Inbound Letter Post product, resulting in differences for this product and the average increase for the class. These corrections are described in section VIII.B.1, *infra*.

B. The Postal Service's Position

In this price adjustment, the Postal Service is increasing the price of 1 ounce Single-Piece Machinable Stamped Letters (Stamped Letters) by 5 cents to 55 cents. Notice at 6. The Postal Service is also increasing the price for Single-Piece Machinable Metered Letters (Metered Letters) by 3 cents to 50 cents. *Id.* The 3-cent increase results in a 5-cent price differential between Stamped Letters and Metered Letters prices, which is greater than the current 3-cent differential. *Id.* The Postal Service is decreasing the additional ounce price and the nonmachinable surcharge by 6 cents, from 21 cents to 15 cents. *Id.* The Postal Service is increasing the prices for Presorted Letters/Postcards by 0.970 percent, which is lower than the class average.¹⁹

C. Comments

No commenter disputes that the price adjustments comply with the price cap. See GCA Comments at 1; NPPC Comments at 1.

D. Commission Analysis

The Commission finds the Postal Service's price adjustments for First-Class Mail comply with the price cap limitations specified by 39 U.S.C. § 3622(d). The Postal Service's price adjustment of 2.464 percent is less than the total price adjustment authority of 2.497 percent.²⁰ As a result, the total unused price adjustment authority for

¹⁹ Library Reference USPS-LR-R2019-1/1 REVISED, Excel file "CAPCALC-FCM-R2019-1-Revised-10-23.xlsx," tab "Percent Change Summary," cell L5.

²⁰ The Postal Service's current annual limitation authority for First-Class Mail is 2.419 percent and the existing unused price adjustment authority for First-Class Mail is 0.078 percent.

First-Class Mail is 0.033 percent.²¹ The First-Class Mail price adjustments do not implicate the pricing requirements appearing in 39 U.S.C. §§ 3626, 3627, and 3629.

IV. WORKSHARE DISCOUNTS EXCEEDING AVOIDED COSTS

A. Introduction

The Commission is required to ensure workshare “discounts do not exceed the cost that the Postal Service avoids as a result of workshare activity”²² unless the discount falls within a specified exception. 39 U.S.C. § 3622(e)(2). 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. 39 C.F.R. § 3010.12(b)(6).

B. The Postal Service’s Position

One First-Class Mail discount, Automated Mixed AADC Letters, has a passthrough of 105.9 percent.²³ The Postal Service justifies the passthrough for Automated Mixed AADC Letters pursuant to 39 U.S.C. § 3622(e)(2)(D) (operational

²¹ See Library Reference PRC-LR-R2019-1/1; see also section III, Table III-1, *supra*. For First-Class Mail, the Postal Service uses the 2.419 percent of price adjustment authority available under the annual limitation plus 0.045 percent of the available unused price adjustment authority; thus, 0.033 percent of unused price adjustment authority remains available for future price adjustments.

²² The Commission uses the avoided costs developed using Commission accepted analytical principles. Typically, these avoided costs are found in the Commission library references that accompany the most recent Annual Compliance Determination (ACD). However, if the Commission approves a change in analytical principle, the avoided cost using the updated analytical principle is used in the rate adjustment proceeding. The Notice filed on October 10, 2018, complies with this practice by using the avoided costs identified in the most recent ACD issued on March 29, 2018. Docket No. ACR2017, Annual Compliance Determination, March 29, 2018, at 15-19 (FY 2017 ACD). This Order evaluates the workshare discounts using these avoided costs.

While Order No. 4875 was under review by the court, a subsequent ACD was issued. Docket No. ACR2018, Annual Compliance Determination, April 12, 2019, at 13-15 (FY 2018 ACD). Consistent with normal practice, the Postal Service must use these updated avoided costs to set workshare discounts in its next general market dominant rate adjustment.

²³ See Library Reference PRC-LR-R2019-1/1, Excel file “PRC-CAPCALC-FCM-R2019-1.xlsx.”

efficiency). Notice at 10. The Postal Service explains that the “[t]he wider gap between the Metered Letters and Mixed AADC prices will encourage more mail to be entered as Presort mail at the Business Mail Entry Unit[.]” *Id.* The Postal Service also notes that shifting mail volumes from Metered Letters to Automatic Mixed AADC Letters would reduce the amount of mail that requires Advanced Facer Canceler System (AFCS) processing, which will reduce the number of AFCS machines, maintenance needs, and free maintenance employees to complete other work. *Id.*

C. Comments

NPPC supports the proposed workshare discount for Automation Mixed AADC Letters. NPPC Comments at 4. NPPC states that the Postal Service’s justification for the Automation Mixed AADC Letters discount “recognizes the desirability of taking into account cost efficiencies of Presort and Automation mail that are omitted from the workshare models.” *Id.* NPPC agrees that increasing the differential between Metered Letters and Automation Mixed AADC Letters should increase the incentive to prepare mail for entry at the Automation rates. *Id.*

D. Commission Analysis

The Commission approves all proposed workshare discounts as consistent with 39 U.S.C. § 3622(e) or adequately justified pursuant to an exception identified in 39 U.S.C. § 3622(e)(2).

V. RECLASSIFICATION OF BUSINESS REPLY MAIL

A. The Postal Service’s Position

The Postal Service proposes to change the classification of Business Reply Mail (BRM) from Metered Letters to Stamped Letters to correct a pricing anomaly. Notice at 8, 33.

The Postal Service explains that when it introduced a separate price for Metered Letters prices in Docket No. R2013-10, BRM shifted from the Stamped Letters prices to the Metered Letters prices. *Id.* at 8. Qualified Business Reply Mail (QBRM) mailers continued to pay Stamped Letters prices, minus a discount. *Id.* At the time, there was a 1-cent difference between the Stamped Letters and Metered Letters prices, which meant that QBRM prices were lower than BRM prices, as intended. *Id.*

However, in Docket No. R2017-1, the differential between Stamped Letters and Metered Letters prices increased from 1-cent to 3-cents, which caused BRM prices to be lower than QBRM prices. *Id.* To correct this anomaly, the Postal Service proposes to apply Stamped Letters prices to both BRM and QBRM, with QBRM continuing to receive a discount. *Id.* As a result, the BRM prices will be higher than the QBRM prices and the two categories will be realigned properly. *Id.* In addition, the Postal Service states that it adjusted the First-Class Mail billing determinants to reflect this change and filed workpapers demonstrating this change.²⁴ The Postal Service calculates the distribution of BRM pieces by weight and shape using FY 2017 data and applies that distribution to the total number of pieces in the hybrid year to estimate the number of BRM letters in the hybrid year. *Id.*

B. Comments

No commenter addresses these proposed changes.

²⁴ *Id.* at 11; Library Reference USPS-LR-R2019-1/1, Excel file “BRM Adjustment Calculation.xlsx.”

C. Commission Analysis

The Commission finds that the proposed changes comply with applicable statutory and regulatory requirements. The Commission finds that Postal Service's proposed adjustments to the First-Class Mail billing determinants are reasonable.

VI. CY 2019 PROMOTIONS

A. The Postal Service's Position

The Postal Service seeks Commission approval of four promotions applicable to eligible First-Class Mail pieces during CY 2019: Emerging and Advanced Technology Promotion, Earned Value Reply Mail Promotion, Personalized Color Transpromo Promotion, and Informed Delivery Promotion. Notice at 12. Only the Informed Delivery Promotion is new. *Id.* The remaining promotions were offered in CY 2017. *See id.*

1. Emerging and Advanced Technology Promotion (Mar. 1 – Aug. 31, 2019)

The Postal Service plans to offer an upfront 2 percent postage discount on First-Class Mail presort or automation letters, cards, and flats, which meet the Emerging and Advanced Technology Promotion requirements. *Id.* at 13. To qualify for the CY 2019 promotion, eligible mailpieces must include affixed or embedded technology that allows the recipient to engage in a technological experience, or have been automatically generated by the recipient's applicable online activities. *Id.*

2. Earned Value Reply Mail Promotion (Apr. 1 – Jun. 30, 2019)

The Postal Service plans to offer the Earned Value Reply Mail Promotion for three months in CY 2019. *Id.* The Postal Service plans to offer a \$0.03 postage credit for each BRM, Courtesy Reply Mail, and Share Mail piece entered into the mailstream. *Id.* The promotion is available to repeat participants (those who registered for this

promotion in CY 2017) and new participants (those who were not registered for this promotion in CY 2017). Notice, Attachment D at 10. Repeat participants must meet or exceed 95 percent of their comparable volume from April 1, 2018, through June 30, 2018, to receive the postage credit. *Id.* If the participant is new, there is no volume threshold. *Id.* The Postal Service explains that credits may be applied to postage for future mailings of First-Class Mail presort and automation cards, letters, and flats. *Id.* Unused credits will expire December 31, 2019. *Id.*

3. Personalized Color Transpromo Promotion (July 1 – Dec. 31, 2019)

The Postal Service plans to offer an upfront 2 percent postage discount on First-Class Mail presort and automation letters—bills and statements only—that meet the Personalized Color Transpromo Promotion requirements. Notice at 14. For mailers who participated in this promotion in a prior year, the mailpiece must incorporate both dynamically printed color and personalized messaging to qualify for the CY 2019 promotion. Notice, Attachment D at 7. Mailers who did not participate in this promotion in a prior year need only satisfy the dynamic color printing requirement to qualify for the CY 2019 promotion. *Id.*

4. Informed Delivery Promotion (Sept. 1 – Nov. 30, 2019)

The Postal Service plans to offer an upfront 2 percent discount off postage for First-Class Mail presort and automation letters, cards, and flats that incorporate Informed Delivery advertising campaigns. Notice at 14, 24. Informed Delivery campaigns are comprised of several additional images that are included in the Informed Delivery email or dashboard images: a “ride-along” image that provides additional information, a URL linking to a web or mobile page, and representative image that replaces the scanned image of the corresponding mailpiece. Response to CHIR No. 3, question 3. The campaign must also include a call-to-action such as “buy,” “shop,” or “donate.” *Id.* The Postal Service intends for this promotion to increase the adoption

rate of the Informed Delivery platform. Notice, Attachment D at 8. As this is a new promotion, the Postal Service excluded the promotion from the price cap authority calculation, in accordance with 39 C.F.R. § 3010.12(b)(9)(ii). Notice at 14, 24.

B. Comments

NPPC, Pitney Bowes, and NAPM support the Postal Service's decision to reintroduce promotional pricing in CY 2019.²⁵ NPPC asserts that the absence of promotions during fiscal year (FY) 2018 (due to the lack of Governors) adversely affected mailing budgets and encourages the Postal Service to continue to explore innovative promotional discounts in the future. NPPC Comments at 6-7. Pitney Bowes observes that promotions "can serve as an important tool to help stimulate increased mail volume and encourage mailers to incorporate new technologies." Pitney Bowes Comments at 4. Similarly, NAPM states "[t]hese promotions are an important tool to help drive innovation that increases the value and ROI of mail." NAPM Comments at 3.

C. Commission Analysis

The Commission concludes that the Postal Service's inclusion of the Emerging and Advanced Technology Promotion, Earned Value Reply Mail Promotion, and Personalized Color Transpromo Promotion²⁶ in the price cap calculation for First-Class Mail is consistent with 39 C.F.R. § 3010.23(e)(2). The Postal Service excluded the Informed Delivery Promotion in its price cap calculations for First-Class Mail, which is also consistent with 39 C.F.R. § 3010.23(e)(2).

²⁵ NPPC Comments at 6; Pitney Bowes Comments at 4; NAPM Comments at 3.

²⁶ In its Responses to CHIR No. 1, the Postal Service revised its price cap calculation for First-Class Mail to reflect the correct number of mailpieces eligible for the Personalized Color Transpromo Promotion. Responses to CHIR No. 1, question 1.

To incorporate these promotions, the Postal Service submitted proposed revisions to the MCS. See Notice, Attachment A. CHIR No. 3 was issued to: (1) correct a date for Earned Value Reply Mail Promotion; (2) clarify the application of the 95 percent threshold to mailers that participated in the CY 2017 Earned Value Reply Mail Promotion; and (3) clarify the eligible mailpieces for the Informed Delivery Promotion. CHIR No. 3, questions 1, 2, and 4. In its Response to CHIR No. 3, in addition to confirming the correct date for the Earned Value Reply Mail Promotion, the Postal Service offered additional edits to the descriptions for the Earned Value Reply Mail Promotion and the Informed Delivery Promotion. Response to CHIR No. 3, questions 1, 2, and 4. The Commission accepts these proposed changes to the MCS language for these promotions.

VII. ADJUSTMENTS TO BILLING DETERMINANTS FOR MOVE UPDATE

A. The Postal Service's Position

The Postal Service states that it adjusted the First-Class Mail billing determinants to account for changes approved in Docket No. R2017-7.²⁷ Specifically, the Postal Service states that the Move Update volumes reported in the pre-adjusted billing determinants for Quarter 4, FY 2017 through Quarter 2, FY 2018 were from a now retired sampling-based Move Update verification method. Notice at 11. The Postal Service began to report Move Update volumes in Quarter 3, FY 2018 using a census-based verification method. *Id.* In the instant docket, the Postal Service adjusted billing determinants related to Move Update for First-Class Mail using volumes from Quarter 3, FY 2018 as a proxy for volumes of the entire hybrid year. *Id.*

The Postal Service's proposed adjustment to billing determinants deviates from the method used when the Commission approved changes to Move Update in Docket No. R2017-7.²⁸ The Postal Service notes that using Quarter 3, FY 2018 data as a proxy for the remaining quarters of the hybrid year is consistent with the Commission's preference that adjustments to billing determinants reflect "historical volume data and known mail characteristics as opposed to forecasts of mailer behavior." *Id.*

²⁷ Notice at 11. In Docket No. R2017-7, the Commission accepted the Postal Service's revision to the mechanism for determining which pieces would trigger the assessment of Move Update Assessment Charge—replacing the use of Performance Based Verification (sampling) with the Address Quality Census Assessment and Measurement Process (based on Census data) to evaluate compliance with the Move Update standard. See Docket No. R2017-7, Order Approving Price Adjustment and Classification Changes Related to Move Update Assessment, August 23, 2017, at 13 (Order No. 4059).

²⁸ Responses to CHIR No. 2, question 8.b. The Postal Service states that although the Seamless Acceptance and Service Performance system contains Move Update assessment volumes for Quarter 4, FY 2017 to Quarter 2, FY 2018, the Postal Service used Move Update data from Quarter 3, FY 2018 as a proxy, because this was the only quarter in which the Move Update charge was assessed using the census-based verification method. *Id.*

B. Comments

No commenter addresses these proposed changes.

C. Commission Analysis

The Commission finds that Postal Service's adjustments relating to Move Update volume in the First-Class Mail billing determinants are reasonable.

VIII. CALCULATIONS FOR INTERNATIONAL FIRST-CLASS MAIL

A. Introduction

There are two international mail products within First-Class Mail: (1) Outbound Single-Piece FCMI; and (2) Inbound Letter Post. Outbound Single-Piece FCMI consists of mailpieces that originate inside the United States and are destined for delivery abroad. Inbound Letter Post consists of mailpieces that originate outside of the United States and are destined for delivery inside of the United States. The Postal Service does not plan a price increase for Outbound Single-Piece FCMI. See section III, Table III-1, *supra*. Taking into account the adjustments to the calculations described below, Inbound Letter Post prices will increase 7.354 percent.

B. Adjustments

1. Calculation of the Inbound Letter Post Price Adjustment

a. The Postal Service's Position

The Postal Service states that the average price increase for Inbound Letter Post will be 7.337 percent. Notice at 9. The Postal Service explains that this increase is a consequence of changes in terminal dues established in the Universal Postal

Convention.²⁹ The Postal Service states that the greatest portion of the increase is attributed to an increase to terminal dues for small packets. *Id.*

b. Comments

No commenter addresses the Inbound Letter Post price adjustment.

c. Commission Analysis

Inbound Letter Post prices factor into the price cap calculation for First-Class Mail because Inbound Letter Post is a First-Class Mail product. When considering the criteria outlined in 39 C.F.R. § 3010.23(d), the Commission accepts the Postal Service's price cap calculation for Inbound Letter Post.³⁰ In its Response to CHIR No. 5, the Postal Service states that the Inbound Letter Post volume reported in Library Reference USPS-LR-R2019-1/NP1 was based upon data the Postal Service provided with Proposal Five (Docket No. RM2018-8).³¹ The Commission finds incorporating volume data provided with Proposal Five into the First-Class Mail price cap calculation to be reasonable. Applying the accepted methodology results in a price change of 7.354 percent for Inbound Letter Post, which is higher than the price change of 7.337 percent

²⁹ *Id.* Terminal dues refer to payments by foreign postal operators to the Postal Service for delivery of Inbound Letter Post in the United States. Terminal dues are prices set by the Universal Postal Union (UPU).

³⁰ See Library Reference PRC-LR-R2019-1/1 and PRC-LR-R2019-1/NP1.

³¹ Response to CHIR No. 5. The Commission's approval of Proposal Five changed the costing methodology for some inbound international mail products (including Inbound Letter Post and some market dominant international negotiated service agreements) to develop separate costs for letters/flats and bulky letters/small packets. Docket No. RM2018-8, Order on Analytical Principles Used in Periodic Reporting (Proposal Five), September 21, 2018, at 6-7 (Order No. 4827).

calculated by the Postal Service.³² This Order does not alter Commission rulings subsequent to Order No. 4875 concerning Inbound Letter Post.³³

2. Volume of FCMI Flats

a. The Postal Service's Position

In the Notice, the Postal Service states that it adjusted the Outbound Single-Piece FCMI billing determinants to reflect the proposal introduced in Docket No. MC2019-3, to reduce the maximum weight for FCMI Flats from 64 ounces to 15.994 ounces. Notice at 10. Specifically, the Postal Service notes that it deleted rate cells for FCMI Flats above 16 ounces and “zeroed out” volume in those deleted rate cells. *Id.* at 11.

b. Comments

The Public Representative supports the Commission's issuance of Order No. 4859 and action taken in Docket No. MC2019-3. See PR Comments at 6.

c. Commission Analysis

In Order No. 4859, the Commission noted that the change to FCMI Flats proposed in Docket No. MC2019-3 will be pending when the Commission determines whether the price changes proposed in this rate docket are consistent with applicable

³² See Library Reference USPS-LR-R2019-1/1 REVISED, October 23, 2018, Excel file “CAPCALC-FCM-R2019-1-Revised-10-23.xlsx,” tab “FCM International.”

³³ After issuing Order No. 4875, the Commission conditionally approved the transfer of Inbound Letter Post small packets and bulky letters from the market dominant to the competitive product list, noting that the transfer would not be complete until the actual prices took effect. Docket No. MC2019-17, Order Conditionally Approving Transfer, January 9, 2019, at 19 (Order No. 4980). Because the transfer of Inbound Letter Post small packets and bulky letters does not become effective until the effective date of the prices approved by the Commission, these mailpieces have not yet transferred from the market dominant to competitive product list. Order No. 4980 at 19.

regulations. Order No. 4859 at 2. Accordingly, the Commission directed the Postal Service to revise its filing to include prices for FCMI Flats weighing more than 15.994 ounces and to provide billing determinants that include volumes for those rate cells. *Id.* at 2-3. The Postal Service revised its filing and supporting workpapers to reflect no change from the current FCMI Flat prices for mailpieces weighing more than 15.994 ounces.³⁴ As shown in the adjusted billing determinant workpapers, retaining FCMI Flat rate cells for mailpieces weighing more than 15.994 ounces at current prices results in no change to the pricing authority for First-Class Mail.³⁵

3. Exclusion of the Surcharge for Inbound International Registered Mail

a. The Postal Service's Position

The Postal Service included the volume and terminal dues revenue data but did not include the surcharge for Inbound International Registered Mail in the Inbound Letter Post price cap calculation. Public Response to CHIR No. 8, question 2.

b. Comments

No commenter addresses this issue.

c. Commission Analysis

In Docket No. R2010-4, the Postal Service noted that excluding Inbound International Registered Mail volume and weight data from its price cap calculation is

³⁴ Response to Order No. 4859, Attachment 1; Library Reference USPS-LR-R2019-1/1 REVISED, October 23, 2018, Excel file "CAPCALC-FCM-R2019-1-Revised-10-23.xlsx," tab "FCM International."

³⁵ Library Reference PRC-LR-R2019-1/1 and PRC-LR-R2019-1/NP1.

appropriate because Inbound International Registered Mail volume is not considered to be Inbound Single-Piece First-Class Mail International volume.³⁶

In Order No. 675, the Commission adopted the Postal Service's approach and excluded Inbound International Registered Mail in calculating the Inbound Letter Post price change.³⁷ The Postal Service has not provided justification for why the Commission should now include Inbound International Registered Mail volume and terminal dues revenue in the price change calculation for Inbound Letter Post.

Consistent with past practice, the Commission revised the Inbound Letter Post workpapers to exclude Inbound International Registered Mail volume and terminal dues revenue in its price change calculation for Inbound Letter Post.³⁸

4. Calculation of Internal Air Conveyance Revenue

a. The Postal Service's Position

In modifying the workpapers for shape-based rates, the Postal Service did not disaggregate air and surface kilograms. Non-public Response to CHIR No. 8, question 3.

b. Comments

No commenter addresses this issue.

³⁶ Docket No. R2010-4, Library Reference USPS-R2010-4/1 (revised), August 6, 2010, file "FirstClass Mail Preface Revised Aug62010.doc," at 8.

³⁷ Docket No. R2011-2, Order Revising Postal Service Market Dominant Price Adjustments, February 16, 2011, at 20 (Order No. 675).

³⁸ See Library Reference PRC-LR-R2019-1/1 and PRC-LR-R2019-1/NP1.

c. Commission Analysis

The Commission adjusts the Postal Service's calculation of Internal Air Conveyance revenue. The Commission excludes surface kilograms from the calculation because surface volumes do not require air transportation. The Commission uses data the Postal Service provided in the revised International Cost and Revenue Analysis Report filed in Docket No. RM2018-8 (Proposal Five) to remove surface kilograms from each country.

IX. THE OBJECTIVES AND FACTORS

A. Introduction

The United States Court of Appeals for the District of Columbia Circuit “conclude[d] that the PAEA requires consideration of all relevant statutory objectives and factors as part of the regulatory process and does not authorize the Commission to defer evaluation of those objectives and factors until after it approves a rate change.” *Carlson*, slip. op. at 9; see also *id.* at 13. The court also found that “[w]hile the statute does not specify how these objectives and factors must be accounted for in any particular rate order, the Commission must apply the relevant objectives and factors to individual rate adjustments.” *Id.* at 11. The court “recognize[d] that not every statutory factor and objective will be relevant to an individual rate assessment and that the weight accorded particular factors may therefore vary in each case.” *Id.* Determinations of which objectives and factors are relevant, how much weight to apply to particular objectives and factors, and how to balance the objectives and factors on review of a particular price adjustment is committed to the discretion of the Commission. See *id.* Such determinations vary on a case-by-case basis. See *id.* As a result, in any given case, there is not just one set of price adjustments that is consistent with the objectives and factors, but rather there is a range of acceptable price adjustments that satisfy the objectives and factors.

Below, the Commission summarizes the content of the Postal Service's Notice related to its discussion of its First-Class Mail pricing design and the comments received. In accordance with the court's opinion, the Commission provides specific discussion of each objective and factor.³⁹ Where appropriate and in response to comments, this Order discusses individual rates that demonstrate that the First-Class Mail price adjustments are consistent with the objectives and factors. Applying the objectives and factors to price adjustments is necessarily fact-specific, situation-specific, and generally qualitative in nature. The evaluation of whether the First-Class Mail price adjustments are consistent with the objectives and factors differs from the evaluation of whether the system as a whole achieved the objectives, taking into account the factors.⁴⁰ Therefore, in applying the objectives and factors to a particular set of price adjustments, the Commission does not use the same organization and approach used in Order No. 4257, which applied the objectives and factors to the system for regulating rates and classes as a whole.⁴¹ The Commission also observes that some aspects of the objectives and factors are in tension with each other, whereas other aspects may overlap. See, e.g., Order No. 4257 at 18, 65-66, 256-57, 260.

³⁹ The Commission's 10-year review determined that the ratemaking system has not achieved the objectives, taking into account the factors. Docket No. RM2017-3, Order on the Findings and Determination of the 39 U.S.C. § 3622 Review, December 1, 2017, at 275 (Order No. 4257). The Commission does not interpret the discussion in this Order to affect this determination because the systemic flaws identified by the Commission are not cured by this isolated adjustment to First-Class Mail prices.

⁴⁰ Moreover, the evidence needed to evaluate whether the First-Class Mail price adjustments are consistent with the objectives and factors under the PAEA is less rigorous than the standard applied under the Postal Reorganization Act (PRA). The PRA required the former Postal Rate Commission, in reviewing the rates suggested by the Postal Service to hold hearings on the record and allow discovery to adjudicate all rate cases. See former 39 U.S.C. § 3624(a) and (b). By contrast, the PAEA retained the requirement for a public hearing only for rate adjustments due to extraordinary or exceptional circumstances, which are not at issue in this docket. See 39 U.S.C. § 3622(d)(1)(E); see also 39 C.F.R. part 3010, subpart E.

⁴¹ In evaluating the 10-years of data and information related to the system as a whole, the Commission used a topical approach, which applied relevant objectives to three principal topical areas and then applied definitions and key measureable concepts to those topical areas and major subtopics. Order No. 4257 at 22.

The nine objectives are:

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

39 U.S.C. § 3622(b).

The fourteen factors are:

- (1) the value of the mail service actually provided each class or type of mail service to both the sender and the recipient, including but not limited to the collection, mode of transportation, and priority of delivery;
- (2) the requirement that each class of mail or type of mail service bear the direct and indirect postal costs attributable to each class or type of mail service through reliably identified causal relationships plus that portion of all other costs of the Postal Service reasonably assignable to such class or type;
- (3) the effect of rate increases upon the general public, business mail users, and enterprises in the private sector of the economy engaged in the delivery of mail matter other than letters;

- (4) the available alternative means of sending and receiving letters and other mail matter at reasonable costs;
- (5) the degree of preparation of mail for delivery into the postal system performed by the mailer and its effect upon reducing costs to the Postal Service;
- (6) simplicity of structure for the entire schedule and simple, identifiable relationships between the rates or fees charged the various classes of mail for postal services;
- (7) the importance of pricing flexibility to encourage increased mail volume and operational efficiency;
- (8) the relative value to the people of the kinds of mail matter entered into the postal system and the desirability and justification for special classifications and services of mail;
- (9) the importance of providing classifications with extremely high degrees of reliability and speed of delivery and of providing those that do not require high degrees of reliability and speed of delivery;
- (10) the desirability of special classifications for both postal users and the Postal Service in accordance with the policies of this title, including agreements between the Postal Service and postal users, when available on public and reasonable terms to similarly situated mailers, that—
 - (A) either—
 - (i) improve the net financial position of the Postal Service through reducing Postal Service costs or increasing the overall contribution to the institutional costs of the Postal Service; or
 - (ii) enhance the performance of mail preparation, processing, transportation, or other functions; and
 - (B) do not cause unreasonable harm to the marketplace.
- (11) the educational, cultural, scientific, and informational value to the recipient of mail matter;
- (12) the need for the Postal Service to increase its efficiency and reduce its costs, including infrastructure costs, to help maintain high quality, affordable postal services;
- (13) the value to the Postal Service and postal users of promoting intelligent mail and of secure, sender-identified mail; and

(14) the policies of this title as well as such other factors as the Commission determines appropriate.

Id. § 3622(c).

B. The Postal Service's Position

Below, the Commission summarizes the remarks of the Postal Service, organized by the product to which they correspond, to the extent that such a connection is specified.

1. Single-Piece Letters/Postcards

a. Stamped Letters

The Postal Service states that it deliberately set the prices for Stamped Letters, additional ounce, and nonmachinable surcharge at numbers divisible by five to “better achieve the ‘simplicity of structure’ called for by [39 U.S.C. § 3622(c)(6)].” Notice at 6. The Postal Service explains that the 5-cent increase for Stamped Letters should provide retail customers with a “straightforward, understandable pricing structure[.]” *Id.* at 6-7. The Postal Service states that it plans to maintain this pricing structure for retail customers into the future, which means that the Postal Service may not request price increases for Stamped Letters in each annual market dominant price adjustment docket. *Id.* at 7.

The Postal Service states that the impact of the increase to Stamped Letters is mitigated by the reduction of prices for pieces heavier than 1 ounce and for nonstandard shaped pieces. *Id.* By way of example, the Postal Service notes that for many holiday cards and invitations would be less expensive to a ratepayer overall compared to the baseline prices. *Id.* at 7, n.10. The Postal Service also notes that the Single-Piece Postcard price is unaffected by the price change. *Id.* at 7.

b. Differential Between Stamped Letters and Metered Letters

The Postal Service explains that the 5-cent differential between Stamped Letters and Metered Letters prices would “better retain those non-Presort[ed Letters] customers who most use the mail” (especially small businesses) and would enhance operational efficiency. *Id.* The Postal Service elaborates that meter-based payment is more efficient than stamp-based payment because it eliminates the need for stamp production, distribution, and cancellation. *Id.* The Postal Service adds that meter-based payment promotes more consistent usage of the mail and would slow electronic diversion. *Id.*

2. Presorted Letters/Postcards

The Postal Service explains that the smaller increase to Presorted Letters, which is offset under the cap by the larger increase to Stamped Letters, retains volume in a category of mail that provides higher unit contribution and is at a higher risk for electronic diversion.⁴² The Postal Service notes that although it is increasing Presorted Letters/Postcards by less than the class average in this price adjustment proceeding, in future proceedings, Presorted Letters/Postcards prices may increase by more than the class average. Notice at 7-8.

3. Flats

The Postal Service explains that it is reducing prices for Single-Piece Flats by 11.0 percent, Non-Automated Flats by 10.5 percent, and Automated Presort Flats by 10.8 percent to match the additional ounce Flats price with the additional ounce Letters price, lowering both from 21 cents to 15 cents. *Id.* at 8. Additionally, the Postal Service

⁴² *Id.* at 7-8, n.12 (citing Docket No. ACR2017, Financial Analysis of United States Postal Service Financial Results and 10-K Statement, Fiscal Year 2017, April 5, 2018, at Appendix A (FY 2017 Financial Analysis); Docket No. ACR2016, Financial Analysis of United States Postal Service Financial Results and 10-K Statement, Fiscal Year 2016, March 31, 2017, at Appendix A (FY 2016 Financial Analysis)).

states that the reclassification of BRM would properly realign the price of this category of mail to be higher than the QBRM prices. *Id.*

4. Other Relevant Discussion

The Postal Service states that its pricing design aims to reduce costs and increase efficiency, consistent with Objective 1. Notice at 29. The Postal Service states that “the content and timing of this Notice are intended to satisfy Objectives 2 and 6, by informing customers of predictable and stable price changes in a transparent proceeding.” *Id.* The Postal Service states that its pricing design fulfills Objectives 4 and 5 by “exercis[ing] its pricing flexibility in a manner aimed at increasing revenues, to the extent the price cap allows.” *Id.* The Postal Service adds that its class-specific discussion “evinces the Postal Service’s consideration and balancing of multiple factors, particularly Factors 1 through 8, 11, and 12.” *Id.*

The Postal Service states that the rate schedule resulting from its price adjustments (including the price differences among products in a class) would be just and reasonable, meeting Objective 8. *Id.* The Postal Service observes that previous rate adjustments applied different percentage increases to Stamped Letters, Metered Letters, and Presorted Letters.⁴³

C. Comments

Below, the Commission summarizes the comments, organized by the product to which they correspond, to the extent that such a connection is specified.

⁴³ *Id.* at 9, n.31 (citing Docket No. R2017-1, Order on Price Adjustments for First-Class Mail, Standard Mail, Periodicals, and Package Services Products and Related Mail Classification Changes, November 15, 2016, at 18-20 (Order No. 3610); Docket No. R2015-4, Order on Price Adjustments for First-Class Mail Products and Related Mail Classification Changes, February 24, 2015, at 5-7 (Order No. 2365); Order No. 675 at 9-10, 17-18).

1. Single-Piece Letters/Postcards

- a. Stamped Letters

Many participants, specifically individual and small business mailers, oppose the proposed 5-cent increase for Stamped Letters.⁴⁴

One participant states that a 10 percent increase in the price of Stamped Letters is unfair. Ardis Comments at 1. Two participants raise concerns about affordability of the 5-cent increase for Stamped Letters. *See, e.g.*, Ardis Comments at 1; MLA Comments at 1. Two participants raise concerns that the increase will result in fewer stamps purchased and less usage of the mail. *See, e.g.*, Sandridge Comments at 1; Wanserski Comments at 1.

Several participants suggest that the Postal Service must decrease costs and increase efficiency (*e.g.*, fewer delivery days, no raises or bonuses for Postal Service employees, reducing the workforce) rather than increase the Stamped Letter price.⁴⁵ Several participants suggest alternative ways to raise revenue, such as increasing prices for bulk advertising mailings sent to households.⁴⁶ One participant suggests renewing efforts to collect unpaid postage as an alternative to raising the Stamped Letter price. *See* Derkevics Comments at 1.

⁴⁴ *See, e.g.*, Ardis Comments at 1; Carlson Comments at 1-11; Castle Comments at 1; Cohen Comments at 1; Derkevics Comments at 1; Dolloff Comments at 1; Additional Dolloff Comments at 1; GCA Comments at 1-6; MLA Comments at 1; Moore Comments at 1; Morey Comments at 1; Riley Comments at 1; Sandridge Comments at 1; Schaaf Comments at 1; Simmons Comments at 1; Spada Comments at 1; Spears Comments at 1; Wanserski Comments at 1; Wilson Comments at 1.

⁴⁵ *See, e.g.*, Castle Comments at 1; Morey Comments at 1; Schaaf Comments at 1; Spears Comments at 1; *see also* Riccardi Comments at 1 (discussing cost reductions and efficiency increases needed to justify increases to prices for competitive products); Wilson Comments at 1 (opposing all price increases and supporting cost reductions); Zybura Comments at 1 (opposing price increases that would apply to an online business and supporting cost reductions).

⁴⁶ *See, e.g.*, Castle Comments at 1; Dolloff Comments at 1; Additional Dolloff Comments at 1; Moore Comments at 1; *see also* Zybura Comments at 1 (opposing price increases that would apply to an online business and supporting price increases for bulk advertising mailings sent to households).

GCA asserts that the new pricing structure based on prices divisible by five is not based on customers' views because no investigation was referenced. GCA Comments at 2. Carlson asserts that typical customers purchase stamps in multiples, using credit or debit cards. Carlson Comments at 4-5. Additionally, GCA and Carlson review the history of Stamped Letters prices and show that Stamped Letters prices not divisible by five are more common than Stamped Letters prices divisible by five. GCA Comments at 3-4; Carlson Comments at 3. They assert that this history shows that customers are accustomed to such prices. *Id.*

Furthermore, GCA and Carlson state that the Postal Service's reliance on 39 U.S.C. § 3622(c)(6) is misplaced and that the Postal Accountability and Enhancement Act (PAEA)⁴⁷ requires the Commission to consider "simplicity" of the entire price structure, not just one price. GCA Comments at 4; Carlson Comments at 6. Carlson states that when considering the "simplicity of structure," the Commission should "focus . . . on the *structure* of rates and classifications, not the actual, individual rates or prices." Carlson Comments at 6 (emphasis in original). GCA and Carlson assert that "simplicity of structure" must be considered in conjunction with other objectives and factors, such as whether the increased price is just and reasonable (Objective 8), the effect of the price adjustment on the general public (Factor 3), and the alternative means of sending and receiving Stamped Letters and other mail at reasonable costs (Factor 4). GCA Comments at 4-5; Carlson Comments at 9-10.

Although PostCom and NPPC do not oppose the proposed 5-cent increase for Stamped Letters, both express concerns with the Postal Service's proposed pricing structure based on prices divisible by five. PostCom Comments at 7-8; NPPC Comments at 7. PostCom calls the 5-cent pricing structure "anachronistic" because retail mailers often purchase stamps in booklets or sheets. PostCom Comments at 7.

⁴⁷ Postal Accountability and Enhancement Act, Pub. L. 109-435, 120 Stat. 3198 (2006).

PostCom and NPPC express concern that the 5-cent pricing structure will result in greater than average price increases for commercial mailers in years when there is no price increase for Stamped Letters. *Id.* at 8; NPPC Comments at 7. PostCom warns that this volatility may reduce the overall predictability of the current system. PostCom Comments at 8. NPPC states that an “every-other-year approach to sizable increases in [Stamped Letters] and commercial rates will, in our view, prove counterproductive on volumes and revenues.” NPPC Comments at 7-8.

The Public Representative supports the price change, observing that while the “ten percent increase in the first-ounce stamp rate seems large, as applied to a relatively small current price, it yields only a 5-cent increase.” PR Comments at 4. With respect to the Postal Service’s statement that Stamped Letters may not receive a price increase in every price adjustment proceeding, he suggests that the Commission consider instructing the Postal Service to publicize plans for future increases that are more concrete. *See id.* He also observes that purchasing Forever Stamps before the price increase goes into effect would mitigate the impact on consumers.⁴⁸ One individual states that the proposed 5-cent increase is “OK.” Borden Comments at 1.

b. Differential Between Stamped Letters and Metered Letters Prices

NPPC, NAPM, and Pitney Bowes support increasing the differential between Stamped Letters and Metered Letters prices. NPPC Comments at 9; NAPM Comments at 3; Pitney Bowes Comments at 3. Specifically, NPPC notes that Metered Letters represent an important subset of the mailstream that is more cost-efficient than Stamped Letters. NPPC Comments at 8. NAPM and Pitney Bowes state that increasing the price differential will help commercial mailers because lower Metered

⁴⁸ *See id.* at 4, n.3 (citing Alan Sloan, The Washington Post, “How to get more for less with the Forever Stamp? Buy before the price goes up.,” October 22, 2018).

Letters prices will result in lower Presorted Letters/Postcards prices. NAPM Comments at 3; Pitney Bowes Comments at 3. Pitney Bowes asserts that increasing the price differential will encourage small and medium-sized businesses to use Postal Service products. Pitney Bowes Comments at 3. Pitney Bowes contends that the price differential will help the Postal Service because Metered Letters are less costly and more efficient to process than Stamped Letters and use a more secure and efficient payment system. *Id.*

GCA opposes the increased differential between Stamped Letters and Metered Letters prices. See GCA Comments at 6-11. GCA asserts that there is a need for a “full justification” of the increased price differential beyond the “vague generalities” provided by the Postal Service. *Id.* at 6. GCA states that because the Metered Letters price is the benchmark for the Presorted Letters/Postcards prices, it is possible to use the Metered Letters price to “manipulate” Presorted Letters/Postcards prices while complying with the price cap. *Id.* at 7.

GCA also points out that since there have been separate prices for Stamped Letters and Metered Letters, the price differential has had little or no effect on volumes. *Id.* at 8. Accordingly, GCA contends that the “increased differential does no more than to give away revenue with no countervailing benefit to the Postal Service.” *Id.* GCA asserts that because the Postal Service does not quantify avoided costs of Metered Letters, the price differential is arbitrary. *Id.* at 10. GCA states that because Metered Letters prices are arbitrary, Presorted Letters/Postcards prices are also arbitrary. *Id.*

2. Presorted Letters/Postcards

NAPM, Pitney Bowes, and NPPC state that the modest increase for Presorted Letters/Postcards reflects the Postal Service’s need to retain and encourage volume for this highly profitable but price-sensitive product. NAPM Comments at 2; Pitney Bowes at 1-2; NPPC at 2. Agreeing with the Postal Service’s price changes, the Public

Representative states that it is reasonable to apply smaller increases to products that are more prone to electronic diversion. PR Comments at 4.

NPPC, NAPM, and Pitney Bowes disagree with the \$0.001 decrease in the 5-Digit Automation Letters discount, which produces a 90.6 percent passthrough. NPPC Comments at 4-5; NAPM Comments at 2; Pitney Bowes Comments at 2. They state that decreasing the pricing differential between Automation Mixed AADC Letters and 5-Digit Automation Letters and decreasing the passthrough for the 5-Digit Automation Letters workshare discount inhibits efficient pricing. NPPC Comments at 4; NAPM Comments at 2; Pitney Bowes Comments at 2. Pitney Bowes states that the reduction of the 5-Digit Automation Letters workshare discount represents a “missed opportunity to encourage efficient mail preparation, reduce Postal Service costs, and encourage investment in mail.” Pitney Bowes Comments at 2.

NPPC also notes that the 5-cent increase in the residual letter price is important to business mailers because they can do little to avoid or reduce the increase. NPPC Comments at 8. Accordingly, NPPC states that this increase will erode some of the positive impact generated by the modest increase in the Presort prices. *Id.*

3. Flats

NPPC supports the price adjustments to First-Class Mail Flats, including a modest increase for Presorted Flat prices and a reduction in the extra ounce charge. NPPC Comments at 6.

4. Other Relevant Discussion

Many participants generally oppose all price increases without specificity as to the particular products or classes of mail that they use.⁴⁹ Several participants include discussion of the increase to rates of general applicability for competitive products, which the Postal Service refers to as Shipping Services.⁵⁰

Several participants reference their experiences and concerns related to local service performance and customer satisfaction.⁵¹

Landis Refining, a small business in an industry that relies heavily on postcard mailings, and its computer software provider, NBSI, express concern with respect to the ability of small businesses to access commercial bulk mailing discounts.⁵²

D. Commission Analysis of the Objectives

As described below, the First-Class Mail price adjustments are consistent with the objectives appearing in 39 U.S.C. § 3622(b).

1. Objective 1

The following discussion illustrates how the First-Class Mail price adjustments are consistent with “maximiz[ing] incentives to reduce costs and increas[ing] efficiency,” as provided by Objective 1. 39 U.S.C. § 3622(b)(1). Primarily, the First-Class Mail

⁴⁹ See, e.g., Cohen Comments at 1; Riley Comments at 1; Spears Comments at 1; Wilson Comments at 1; Zybura Comments at 1.

⁵⁰ See, e.g., Cohen Comments at 1; Initial Landis Refining Comments at 1; NBSI Comments at 1; Riccardi Comments at 1. Issues relating to rates of general applicability for competitive products were addressed in Docket No. CP2019-3. See Order No. 4876 at 7-8.

⁵¹ See, e.g., Cohen Comments at 1; MLA Comments at 1; Riley Comments at 1; Schaaf Comments at 1; Simmons Comments at 1; Spada Comments at 1; Spears Comments at 1; Wanserski Comments at 1; see also Riccardi Comments at 1 (observing no improvements in performance corresponding to increased prices for competitive products).

⁵² Landis Refining Comments at 1; NBSI Comments at 1.

price adjustments are consistent with Objective 1 by encouraging the entry of First-Class Mail pieces that are less costly to the Postal Service to process. Moreover, these price adjustments are consistent with pricing efficiency, another component of Objective 1, by improving adherence to the principle of Efficient Component Pricing (ECP).

The First-Class Mail price adjustments reflect a proper incentive to set prices in accordance with the component of Objective 1 aimed at reducing costs. Applying a smaller than average price increase to a product that is less costly to process and/or applying a larger than average price increase to a product that is more costly to process would incentivize the entry of mailpieces that would reduce the costs of the Postal Service. See Notice at 7. The Postal Service explains that it has employed this strategy in this instance by setting a relatively higher price increase for Single-Piece Letters/Postcards versus Presorted Letters/Postcards. See Notice at 7-9, 29. Comments support this decision. See NPPC Comments at 8; Pitney Bowes Comments at 3. Single-Piece Letters/Postcards cost roughly 2.5 times more per piece for the Postal Service to process than Presorted Letters/Postcards.⁵³ The CY 2019 promotions further encourage businesses to enter mailpieces that are presorted. Increasing the volume of presorted mailpieces allows the Postal Service to process mailpieces at a reduced cost per piece compared to non-presorted mailpieces, consistent with Objective 1.

The price increases applied to categories within the Single-Piece Letter/Postcards product also are consistent with Objective 1. For instance, a smaller increase is applied to the category that is less costly for the Postal Service to process (Metered Letters) and a larger increase is applied to a category that is more costly for

⁵³ FY 2017 Financial Analysis, Appendix A (reporting cost per piece of 30.006 cents for Single-Piece Letters and Cards compared to 11.781 cents for Presort Letters and Cards); FY 2016 Financial Analysis, Appendix A (reporting cost per piece of 28.184 cents for Single-Piece Letters and Cards compared to 11.459 cents for Presort Letters and Cards).

the Postal Service to process (Stamped Letters). See Notice at 7. Metered Letters do not require stamp production, distribution, and cancellation. See *id.*

Several comments include suggestions regarding the reduction of Postal Service costs (e.g., fewer delivery days, no raises or bonuses for Postal Service employees, reducing the workforce).⁵⁴ These specific suggestions for reducing costs are outside the scope of this proceeding.⁵⁵

Further, the workshare discounts generally improve pricing efficiency. In accordance with the principles of ECP, prices are most efficient when workshare discounts are set equal to avoided costs. See Order No. 4257 at 131. Twelve workshare discounts are offered for First-Class Mail. Four First-Class Mail discounts equal their avoided costs in accordance with ECP: (1) Single Piece Letters Qualified Business Reply Mail; (2) Single Piece Postcards Qualified Business Reply Mail; (3) Bulk Cards—Automation AADC Cards; and (4) Bulk Cards—Automation 5-Digit Cards.

Eight First-Class Mail workshare discounts are not set equal to their avoided costs. Three First-Class Mail discounts are closer than their baseline discounts⁵⁶ to their avoided costs: (1) Automated Mixed AADC Letters;⁵⁷ (2) Bulk Letters – Nonautomation Presort Letters; and (3) Flats – Automation ADC Flats.⁵⁸ The

⁵⁴ Schaaf Comments at 1; see also Morey Comments at 1; Riccardi Comments at 1; Zybura Comments at 1.

⁵⁵ See, e.g., Pub. L. 115-141, 132 Stat. 348, 581 (2018) (providing for the continuation of 6-day delivery). Employment within the Postal Service and employee-management agreements are governed by the statutory provisions appearing at 39 U.S.C. §§ 1001-1011 and 1201-1209, respectively.

⁵⁶ The baseline discount is the workshare discount set in the previous rate adjustment (Docket R2018-1). See Docket No. R2018-1, Library Reference PRC-LR-R2018-1/1, Excel file “PRC-CAPCALC-FCM-R2018-1.xlsx,” tab “FCM Worksharing.”

⁵⁷ The Postal Service adds that reducing or eliminating this workshare discount would impede the efficient operation of the Postal Service. See Notice at 10 (citing 39 U.S.C. § 3622(e)(2)(D)).

⁵⁸ Compare Library Reference PRC-LR-R2019-1/1, Excel file “PRC-CAPCALC-FCM-R2019-1.xlsx,” tab “FCM Worksharing” with Docket No. R2018-1, Library Reference PRC-LR-R2018-1/1, Excel file “PRC-CAPCALC-FCM-R2018-1.xlsx,” tab “FCM Worksharing.”

Commission encourages the Postal Service to continue this progress in increasing pricing efficiency in future price adjustments.

Four First-Class Mail workshare discounts remain the same as their baseline discounts and are set below their avoided costs: (1) Bulk Letters – Automation AADC Letters; (2) Bulk Cards- Automation Mixed AADC Cards; (3) Flats – Automation 3-Digit; and (4) Flats – Automation 5-Digit. *Id.* The Commission encourages the Postal Service to strive to increase the pricing efficiency of these workshare categories in future price adjustments.

One First-Class Mail workshare discount (Bulk Letters – Automation 5-Digit Letters) reduces the baseline discount (also set below the avoided cost) by \$0.001. *Id.* The slight decrease moves this worksharing category further from adhering to ECP. As observed by Pitney Bowes, this reduction represents a “missed opportunity to encourage efficient mail preparation, reduce Postal Service costs, and encourage investment in mail.” Pitney Bowes Comments at 2. While this particular reduction is small, the Commission encourages the Postal Service to strive to set discounts that increase (rather than decrease) pricing efficiency.

2. Objective 2

The following discussion illustrates how the First-Class Mail price adjustments are consistent with “creat[ing] predictability and stability in rates,” as provided by Objective 2. 39 U.S.C. § 3622(b)(2). The Commission found that the PAEA system has generally created predictable and stable rates. Order No. 4257 at 143-44. The First-Class Mail price adjustments do not disturb this finding and are consistent with predictability and stability, in accordance with Objective 2.

The First-Class Mail price adjustments comply with the annual limitation on a class-level, which generally fosters predictability and stability by allowing mailers to

better approximate the magnitude of price adjustments.⁵⁹ Although the Postal Service's pricing design may result in adjustments that vary from the class average for some rate categories, none of the First-Class Mail price adjustments are sudden or extreme so as to disrupt predictability and stability in rates. To compare, in a past price adjustment proceeding, the Commission found that an exceptional planned price increase appeared to be discriminatory on its face and observed that the Postal Service failed to meaningfully address Objective 2 with respect to its plan to increase the subscription fee for Platinum tier mailing agents by 963 percent (over \$225,000 annually).⁶⁰

Additionally, the Notice was filed 109 days before the planned effective date in January. The timing of the Notice and planned effective date also fosters predictability and stability by allowing mailers to better plan and adjust for the proposed price adjustments, which remains consistent with the aim of Objective 2. Given the 109-day advance notice, the availability of the Forever Stamp,⁶¹ and the Postal Service's pricing strategy to incentivize the entry of First-Class Mail pieces that are less costly to the Postal Service to process (such as Metered Letters), the 10 percent (5-cent) increase to Stamped Letters is not so precipitous. See Notice at 7-9, 29.

⁵⁹ The Postal Service may seek to adjust rates in excess of the annual limitation due to extraordinary or exceptional circumstances. See 39 U.S.C. § 3622(d)(1)(E); see also 39 C.F.R. part 3010, subpart E.

⁶⁰ Docket No. R2009-2, Order Reviewing Postal Service Market Dominant Price Adjustments, March 16, 2009, at 72, n.59 (Order No. 191).

⁶¹ The Forever Stamp is sold at the price of a domestic 1 ounce Stamped Letter at the time of purchase. United States Postal Service, Forever Stamp Fact Sheet, available at: <http://about.usps.com/news/fact-sheets/forever-stamp-facts.htm>, (last visited October 22, 2019). As the name implies, the Postal Service developed the Forever Stamp to allow customers to mail a 1 ounce Stamped Letter without the need to buy additional postage to accommodate future price increases. See *id.* For instance, a Forever Stamp purchased on January 26, 2019 for 50 cents would serve as sufficient postage for a 1 ounce Stamped Letter mailed at any date in the future.

Several participants focus on the large size of the percentage increase for Stamped Letters.⁶² Although the price increase to Stamped Letters is greater than the class average in terms of percentage, it is applied to a relatively low baseline price of 50 cents and would represent only a 5-cent absolute increase per piece. See PR Comments at 4. Moreover, purchasing Forever Stamps before the price increase goes into effect would mitigate the impact on consumers. See PR Comments at 4, n.3. Additionally, a customer sending a high volume of Stamped Letters (such as a small business) would be able to further mitigate the increase by using postage meters or PC postage products.⁶³ Under Docket No. R2018-1 prices, a 1 ounce Stamped Letter was 50 cents; under Docket No. R2019-1 prices, a 1 ounce Metered Letter would be 50 cents. Thus, mailers could potentially mitigate the impact of the price increase by switching from Stamped Letters to Metered Letters.

The Postal Service states that it may apply larger than average increases to some rate categories in certain years (such as Stamped Letters in this docket), and then a smaller than average increase in a subsequent year.⁶⁴ Two participants express concern that the Postal Service's pricing strategy may result in other products used by commercial mailers (such as Presorted Letters/Postcards) receiving larger than average increases in subsequent years to offset a smaller than average increase for Stamped Letters. See PostCom Comments at 8; NPPC Comments at 7. Although each situation

⁶² See, e.g., Ardis Comments at 1; Carlson Comments at 1; GCA Comments at 1; Sandridge Comments at 1.

⁶³ See NAPM Comments at 2; see also DMM § 604. Mail service providers may prepare mailings for multiple small organizations, which enable those organizations to access volume-based discounts.

⁶⁴ See Notice at 8. This statement in the Notice was not binding; however, the Commission acknowledges that the Postal Service did indeed propose to keep the Stamped Letter price at 55 cents in Docket No. R2020-1. See Docket No. R2020-1 Notice at 7, 17.

would require specific analysis when it is presented,⁶⁵ as a general matter, it is not outside the realm of recent mailer experience for certain products to have price increases more than the class average in some years and to have price increases less than the class average in other years. See Notice at 9. In fact, the operation of the annual limitation at the class level necessarily means that the Postal Service must, in order to follow any pricing strategy that does not have each product moving lock step with changes to inflation, vary the size of increases among products within each class.

3. Objective 3

The following discussion illustrates how the First-Class Mail price adjustments are consistent with “maintain[ing] high quality service standards established under section 3691,” as provided by Objective 3. 39 U.S.C. § 3622(b)(3). Neither the Postal Service nor the commenters reference Objective 3. The comments concerning service performance and customer satisfaction discuss isolated experiences and are not specific to First-Class Mail.⁶⁶ The First-Class Mail price adjustments do not negatively affect the achievement of Objective 3.

4. Objective 4

The following discussion illustrates how the First-Class Mail price adjustments are consistent with “allow[ing] the Postal Service pricing flexibility,” as provided by Objective 4. 39 U.S.C. § 3622(b)(4). The Commission found that the PAEA system has allowed for pricing flexibility on a number of dimensions, by allowing the Postal Service

⁶⁵ The Commission will review the price adjustments presented in Docket R2020-1 in that proceeding. See Docket No. R2020-1, Notice and Order on Price Adjustments and Classification Changes for Market Dominant Products, October 10, 2019 (Order No. 5273); see *also* Docket No. R2020-1 Notice at 7, 16-17.

⁶⁶ See, *e.g.*, Cohen Comments at 1; MLA Comments at 1; Riley Comments at 1; Schaaf Comments at 1; Simmons Comments at 1; Spada Comments at 1; Spears Comments at 1; Wanserski Comments at 1; see *also* Riccardi Comments at 1 (observing no improvements in performance corresponding to increased prices for competitive products).

to exercise broad discretion over the prices, the price structure, and the timing of price changes. Order No. 4257 at 144. The First-Class Mail price adjustments allow the Postal Service to exercise its pricing flexibility, in accordance with Objective 4.

The price adjustments reflect the usage of pricing flexibility, as allowed by the PAEA, to achieve the goals of the Postal Service. See Notice at 7-9, 29. Rather than apply the average class-level adjustment (2.464 percent) equally within the class (*e.g.*, to the five products and the numerous rate cells and categories within those products), two products received above-average increases (Inbound Letter Post and Single-Piece Letters/Postcards) while the remaining three products received no increase, a decrease, or an increase below the class average (Outbound Single-Piece FCMI, Flats, and Presorted Letters/Postcards, respectively). Within Single-Piece Letters/Postcards, the Postal Service has exercised its flexibility to keep certain rates the same (Single-Piece Postcard), decrease certain rates (additional ounce price and the nonmachinable surcharge), and increase certain rates (Metered Letters and Stamped Letters) at varying levels. As discussed, in section D.1., *supra*, the workshare discounts reflect the allowance of some flexibility in that the Commission does not require strict and immediate adherence to ECP in a single price adjustment (that is, requiring each and every discount to be set equal its avoided cost in every price adjustment). Additionally, the Postal Service determined not to make changes to the First-Class Mail structure (such as add or eliminate rate categories) and elected to file the Notice 109 days in advance of planned implementation.

5. Objective 5

The following discussion illustrates how the First-Class Mail price adjustments are consistent with “assur[ing] adequate revenues, including retained earnings, to maintain financial stability,” as provided by Objective 5. 39 U.S.C. § 3622(b)(5).

Several comments suggest that the Postal Service raise revenue by increasing prices for mailpieces other than Stamped Letters.⁶⁷ However, the Postal Service explains that it intentionally applied a larger increase to this category of mail as part of its strategy to maximize net revenue (contribution). See Notice at 7-8, 29. Presorted Letters/Postcards provide a greater unit contribution than Single-Piece Letters/Postcards.⁶⁸ Each Presorted Letter/Postcard mailed in FY 2017 contributed approximately 7 cents more to the institutional costs of the Postal Service than each Single-Piece Letter/Postcard.⁶⁹ The Postal Service states that the smaller increase to Presorted Letters, which is offset under the price cap by the larger increases to Stamped Letters and Metered Letters, retains volume in a category of mail that provides higher unit contribution and slows electronic diversion.⁷⁰ Comments support this premise.⁷¹ As Pitney Bowes explains, “minimizing price increases on more profitable and price sensitive Presort letters will help stabilize Presort Letters volume, thereby improving the Postal Service’s financial position.” Pitney Bowes Comments at 1-2. Applying the relatively smaller than average increases to mailpieces that are less costly for the Postal Service to collect, process, and deliver (such as Metered Letters and

⁶⁷ Castle Comments at 1; Dolloff Comments at 1; Moore Comments at 1; Wilson Comments at 1; Zybura Comments at 1. To the extent that these comments, which are non-specific about which products and classes for which the increase are suggested, refer to mailpieces within the class of USPS Marketing Mail, the Commission observes that the price cap is applied to each class. Given its financial instability, the Postal Service’s usage of nearly all of its available pricing authority for each class of mail (reserving a small amount to correct pricing errors) is reasonable and consistent with the aim of Objective 5.

⁶⁸ Notice at 8, n.12 (citing FY 2017 Financial Analysis, Appendix A (reporting contribution per piece of 25.862 cents for Presort Letters and Cards compared to 18.853 cents for Single-Piece Letters and Cards); FY 2016 Financial Analysis, Appendix A (reporting contribution per piece of 27.269 cents for Presort Letters and Cards compared to 21.646 cents for Single-Piece Letters and Cards)).

⁶⁹ FY 2017 Financial Analysis, Appendix A. Both products generate sufficient revenue to cover their attributable costs.

⁷⁰ Notice at 7-8, n.12 (citing FY 2017 Financial Analysis, Appendix A; FY 2016 Financial Analysis, Appendix A).

⁷¹ See NAPM Comments at 2; Pitney Bowes Comments at 1-2; NPPC Comments at 2; PR Comments at 4.

Presorted Letters/Cards) is consistent with a strategy of incentivizing the entry of volume that would reduce the costs of the Postal Service and increase contribution to institutional costs, thereby improving the Postal Service's financial position. See Notice at 7-8, 29. This further illustrates how the price adjustments are consistent with Objective 5.

A commenter suggests that revenue should be raised via increased efforts to collect the full postage from certain mailpieces that are incorrectly posted, and that Postal Service jobs relating to this undertaking be restored. See Derkevics Comments at 1. The Commission observes that this is outside the scope of this proceeding and is instead a matter for the business judgment of the operator and encourages the Postal Service to scrutinize the costs and benefits of such an undertaking.⁷²

6. Objective 6

The following discussion illustrates how the First-Class Mail price adjustments are consistent with "reduc[ing] the administrative burden and increas[ing] the transparency of the ratemaking process," as provided by Objective 6. 39 U.S.C. § 3622(b)(6). The Commission found that the PAEA system "has reduced the administrative burden and increased the transparency of the ratemaking system." Order No. 4257 at 274. The First-Class Mail price adjustments do not disturb this finding and no commenters dispute the Postal Service's statement that the filings in this proceeding are consistent with Objective 6. See Notice at 29. The efficiency of this proceeding evinces how the PAEA system has reduced the administrative burden of the ratemaking system compared to the burden incurred under the PRA system. See Order No. 4257 at 73. Further, sufficient information was provided to allow users to comprehend and comment on the First-Class Mail price adjustments. See Notice at 29.

⁷² See 39 U.S.C. §§ 404(a)(2) and 1001-1011; see also DMM § 604.8.1 (describing the Postal Service's process to address mailpiece with insufficient postage).

7. Objective 7

The following discussion illustrates how the First-Class Mail price adjustments are consistent with “enhanc[ing] mail security and deter[ing] terrorism,” as provided by Objective 7. 39 U.S.C. § 3622(b)(7). Nothing on the record would suggest the First-Class Mail price adjustments would undermine the system’s existing safeguards (such as the ability to seek a rate adjustment due to extraordinary or exceptional circumstances under 39 U.S.C. 3622(d)(1)(E)) to address unexpected mail security or terrorist threats. The First-Class Mail price adjustments do not appear to pose any negative effect on the achievement of Objective 7. The First-Class Mail price adjustments encourage the entry of Metered Letters and presorted mailpieces, which tend to promote mail security generally. See Pitney Bowes Comments at 3. Additionally, the First-Class Mail price adjustments are aimed at increasing revenue, which is generally consistent with the achievement of Objective 7.⁷³ In light of these considerations and the lack of significant comments regarding this objective, Objective 7 is not a point of focus in this proceeding.

8. Objective 8

The following discussion illustrates how the First-Class Mail price adjustments are consistent with “establish[ing] and maintain[ing] a just and reasonable schedule for rates and classifications,” as provided by Objective 8. 39 U.S.C. § 3622(b)(8). The Commission concluded that rates under the PAEA system fell below the range of what would be “just and reasonable” as required by Objective 8—finding that rates were not

⁷³ See Order No. 4257 at 248-49 (evaluating whether the Postal Service had the ability to pay for mail security and terrorism deterrence efforts).

excessive to the mailers, but threatened the financial integrity of the Postal Service.⁷⁴ The First-Class Mail price adjustments set prices that allow the class and each domestic product⁷⁵ to cover their attributable costs and make a sufficient positive contribution to institutional cost. See Order No. 4257 at 235. At the same time, the First-Class Mail price adjustments do not result in a schedule for rates and classifications that would be excessive to the mailers. See Order No. 4257 at 119.

Carlson asserts that “[t]he proposed price increase from 50 cents to 55 cents is unjust and unreasonable.” Carlson Comments at 10. The basis for this assertion, and the focus of multiple participants, is the size of the percentage increase for Stamped Letters and that it would represent the largest absolute increase applied to Stamped Letters in recent history.⁷⁶ Although the price increase to Stamped Letters is greater than the class average in terms of percentage and is higher than past increases, the Public Representative observes that it is applied to a relatively low baseline price of 50 cents and would represent only a 5-cent absolute increase per piece. See PR Comments at 4.

Moreover, as discussed in section D.2., *supra*, there are several options for consumers to potentially mitigate the effect of the price increase (such as use of

⁷⁴ See Order No. 4257 at 274-75. The Commission disaggregated the discussion of Objective 8 into two prongs. See, e.g., Order No. 4257 at 114-15. It is well established that “just and reasonable” refers to zone, rather than a fixed price, that achieves both prongs. See Order No. 4257 at 114-15, 117, 228-29; see also *Farmers Union Cent. Exch., Inc. v. F.E.R.C.*, 734 F.2d 1486, 1502 (D.C. Cir. 1984) (“an agency may issue, and courts are without authority to invalidate, rate orders that fall within a ‘zone of reasonableness,’ where rates are neither ‘less than compensatory’ nor ‘excessive.’”).

⁷⁵ The Inbound Letter Post rates appearing in the Notice are the applicable terminal dues set by the UPU and are not independently set by the Postal Service. Starting on July 1, 2020, UPU member countries that meet certain requirements (including the United States of America) would be able to self-declare rates for some categories of Inbound Letter Post. Jamey Keaten, *Postal union accepts reform, quashes US walkout threat*, ASSOCIATED PRESS, Sept. 25, 2019, available at: <http://www.apnews.com/462275bdfed4f60b43a47799c93312d>.

⁷⁶ See, e.g., Carlson Comments at 1, 10-11; Ardis Comments at 1; GCA Comments at 1; Sandridge Comments at 1.

Forever Stamps or meters). For a customer buying stamps on or after the price increase goes into effect, the price of a book of 20 stamps would increase by \$1.00 (from \$10.00 to \$11.00) and the price of a coil of 100 stamps would increase by \$5.00 (from \$50.00 to \$55.00). While consumers naturally may be concerned about all price increases, it is unlikely that this increase would have a substantial effect on most individuals. See PR Comments at 4; Borden Comments at 1; Wanserski Comments at 1. The 55-cent Stamped Letter price remains low enough that it does not raise concerns that the Postal Service is taking unfair advantage of consumers.⁷⁷ The Commission is not persuaded that the 55-cent Stamped Letter price is outside the range of just and reasonable prices.

GCA asserts that it is unclear whether the Postal Service appropriately considered Objective 8 with respect to the 10 percent (5-cent) increase to Stamped Letter prices. See GCA Comments at 4-5. The inquiry as to whether a particular rate would be excessive to the mailer is highly fact-specific and situation-specific. See Order No. 4257 at 121-22. The Commission notes that 39 U.S.C. § 3622(b)(8) explicitly states that Objective 8 “shall not be construed to prohibit the Postal Service from making changes of unequal magnitude within, between, or among classes of mail.” 39 U.S.C. § 3622(b)(8). Objective 8 does not prohibit the Postal Service from applying increases to particular products or rate cells that are larger than the average increase applied to the class or the product, which must be offset by smaller than average increases to other products or rates cells under a price cap system applied at the class level. See *id.*

Focusing on the Postal Service’s discussion of its plan to set Stamped Letter prices that are divisible by five and its view of Factor 6, some commenters characterize the larger than average increase as “unfair” or “unjustified” as to Objective 8. Ardis

⁷⁷ *Farmers Union Cent. Exch., Inc. v. F.E.R.C.*, 734 F.2d 1486, 1502 (D.C. Cir. 1984) (“[W]hen the inquiry is whether a given rate is just and reasonable to the consumer, the underlying concern is whether it is low enough so that exploitation by the [regulated business] is prevented.” (quoting *City of Chicago, Ill. v. Fed. Power Comm’n*, 458 F.2d 731, 750–51 (D.C. Cir. 1971))).

Comments at 1; Carlson Comments at 10; see *also* GCA Comments at 4-5. Essentially, these commenters are implying that the Postal Service did not provide a reasoned basis for selecting the Stamped Letter price. However, the Postal Service did not rest its pricing design solely on the premise that prices should be divisible by five. The larger than average increase to Stamped Letters was applied under a class-based price cap to offset smaller increases applied to other products and categories of First-Class Mail. For instance, a relatively smaller increase was applied to Presorted Letters/Postcards to maintain volume in this category of mail, which provides higher unit contribution, compared to Single-Piece Letters/Postcards. See Notice at 7-8. Commenters observe that applying a relatively modest increase to Presorted Letters/Postcards promotes retention of volume in this mail category. See NPPC Comments at 1; see *also* NAPM Comments at 2; Pitney Bowes Comments at 1-2. Under the limited pricing authority available for First-Class Mail, the Stamped Letter price increase also offsets the smaller increase applied to the Metered Letter price, as well as decreases to the additional ounce price, the nonmachinable surcharge, Flats, and to accommodate the CY 2019 promotions. In this way, the First-Class Mail price adjustments are designed to allow the Postal Service the opportunity to earn a fair return. The Postal Service acknowledged the various tradeoffs involved with its decision to apply increases of different sizes to the products and categories of First-Class Mail *vis-à-vis* the Postal Service's financial integrity. See Notice at 7-9. The Commission is not persuaded that this pricing strategy is irrational or inconsistent with Objective 8.

GCA argues that the Metered Letter rate, and all presort rates for which it serves as the benchmark,⁷⁸ are arbitrary and thereby inconsistent with the meaning of "just and reasonable" as required by Objective 8. GCA Comments at 10 (quoting 39 U.S.C.

⁷⁸ "To measure the 'cost...avoided' by worksharing, it is necessary to identify two reference points—a workshared group of mail and a base group [referred to as the benchmark] with which it is compared." Docket No. RM2009-3, Order Adopting Analytical Principles Regarding Workshare Discount Methodology, September 10, 2010, at 19 (Order No. 536) quoting 39 U.S.C. § 3622(e).

§ 3622(b)(8)). First, GCA misapplies Objective 8: “just and reasonable” refers to a range of rates that are not excessive to mailers and do not threaten the financial integrity of the Postal Service. See Order No. 4257 at 117-18, 236. Second, the suggestion that the Commission reconsider the accepted methodologies that underlie cost avoidance calculations is outside the scope of this proceeding, which GCA recognizes. See GCA Comments at 11. Any interested person may file a petition with the Commission to initiate a proceeding to consider such changes. 39 C.F.R. § 3050.11. Third, GCA does not present justification for why the Commission should depart from precedent concerning how to identify the appropriate base group (benchmark) for presort rates. See Order No. 536 at 20-22. Based on the record in this proceeding, the Commission is not persuaded that the Metered Letter rate, and presort rates for which it serves as the benchmark, are inconsistent with Objective 8.

9. Objective 9

The following discussion illustrates how the First-Class Mail price adjustments are consistent with “allocat[ing] the total institutional costs of the Postal Service appropriately between market-dominant and competitive products,” as provided by Objective 9. 39 U.S.C. § 3622(b)(9). No comments reference Objective 9. The Commission previously determined that the system has an adequate mechanism to ensure the appropriate allocation of total institutional costs. Order No. 4257 at 275. That mechanism exists outside the context of this proceeding. See 39 C.F.R. § 3015.7. The First-Class Mail price adjustments do not appear to pose any negative effect on the achievement of Objective 9. Therefore, the Commission accords little weight to Objective 9 in this proceeding.

E. Commission Analysis of the Factors

As described below, the First-Class Mail price adjustments appropriately take into account the Factors appearing in 39 U.S.C. § 3622(c).

1. Factor 1

The following discussion illustrates how the First-Class Mail price adjustments appropriately take into account “the value of the mail service actually provided each class or type of mail service to both the sender and the recipient, including but not limited to the collection, mode of transportation, and priority of delivery,” as provided by Factor 1. 39 U.S.C. § 3622(c)(1). No comments advance concerns related to Factor 1. First-Class Mail is sealed against inspection and receives forwarding, or return-to-sender, at no additional charge. MCS § 1100.1(c) and (d). It receives a high priority of delivery relative to other classes of market dominant mail. Certain domestic presort First-Class Mail are eligible for overnight service; the remaining domestic First-Class Mail (single-piece and presort) are eligible for 2-day or 3-5-day service. 39 C.F.R. § 121.1(a)(2), (b)(2), (c)-(e). First-Class Mail benefits from an extensive collection system. Single-Piece Letters/Postcards “may be deposited into any collection box, mail receptacle, or at any place where mail is accepted if the full required postage is paid with adhesive stamps.” DMM § 136.1.0. “All First-Class Mail receives expeditious handling and transportation, but does not guarantee delivery within a specified time.” DMM § 236 1.1; *see also id.* § 136 2.1. First-Class Mail may travel by air when the distance between the sender and recipient warrants it. For these reasons, First-Class Mail prices should reflect the relatively higher value of the service relative to other classes of market dominant mail (for instance, First-Class Mail rates being set higher than USPS Marketing Mail rates reflects the higher value of service provided by First-Class Mail). Therefore, the First-Class Mail price adjustments reflect the value of mail service actually provided and appropriate consideration of Factor 1.

2. Factor 2

The following discussion illustrates how the First-Class Mail price adjustments appropriately take into account Factor 2, which states:

The requirement that each class of mail or type of mail service bear the direct and indirect postal costs attributable to each class or type of mail service through reliably identified causal relationships plus that portion of all other costs of the Postal Service reasonably assignable to such class or type.

39 U.S.C. § 3622(c)(2).

No comments address Factor 2. First-Class Mail as a class covers its attributable costs and provides a positive contribution to institutional costs. Except for Inbound Letter Post,⁷⁹ each First-Class Mail product covers its attributable costs and provides a positive contribution. Therefore, the First-Class Mail price adjustments reflect appropriate consideration of Factor 2.

3. Factor 3

The following discussion illustrates how the First-Class Mail price adjustments appropriately take into account “the effect of rate increases upon the general public, business mail users, and enterprises in the private sector of the economy engaged in the delivery of mail matter other than letters,” as provided by Factor 3. 39 U.S.C. § 3622(c)(3). The Postal Service has indicated that it has considered the effects of its price adjustments on user behavior, particularly with respect to electronic diversion, and the various tradeoffs with applying increases to particular users. See Notice at 9.

Carlson asserts that “the highest [Stamped Letters] postage price increase in history would have a profoundly negative effect on the general public and many business mail users.” Carlson Comments at 8. Although the price increase to Stamped Letters is greater than the class average in terms of percentage and is higher than past increases, this is not determinative with regard to whether the First-Class Mail price

⁷⁹ The Inbound Letter Post rates appearing in the Notice are the applicable terminal dues set by the UPU and are not independently set by the Postal Service. Starting on July 1, 2020, UPU member countries that meet certain requirements (including the United States of America) would be able to self-declare rates for some categories of Inbound Letter Post. Jamey Keaten, *Postal union accepts reform, quashes US walkout threat*, ASSOCIATED PRESS, Sept. 25, 2019.

adjustments appropriately take into account Factor 3. As applied to a relatively low baseline price of 50 cents, the 10 percent Stamped Letter increase would represent only a 5-cent absolute increase per piece. See PR Comments at 4. For a customer buying stamps on or after the price increase goes into effect, the price of a book of 20 stamps would increase by \$1.00 (from \$10.00 to \$11.00) and the price of a coil of 100 stamps would increase by \$5.00 (from \$50.00 to \$55.00). While all price increases have some impact on consumers, it is unlikely that this increase would have a substantial effect on most individuals. See PR Comments at 4; Borden Comments at 1; Wanserski Comments at 1. Moreover, as discussed in section D.2., *supra*, there are several options for consumers to mitigate the effect of the price increase, such as using the Forever Stamp,⁸⁰ which allows the general public to partially defer the effect of the price increase.

The Postal Service observes that Docket No. R2019-1 prices for a heavier or non-standard shaped piece (such as a greeting card or invitation) would be lower than Docket No. R2018-1 prices. See Notice at 7. By way of example: under Docket No. R2018-1 prices, a 2 ounce Stamped Letter was 71 cents; under Docket No. R2019-1 prices, a 2 ounce Stamped Letter would be 70 cents. This differential increases as piece weight increases: under Docket No. R2018-1 prices, a 3 ounce Stamped Letter was 92 cents; under Docket No. R2019-1 prices, a 3 ounce Stamped Letter would be 85 cents. Such pieces make up a small proportion of the volume of retail pieces.⁸¹ The decrease to these pieces are not meant to be an exact offset for the increase to pieces weighing up to 1 ounce (see Carlson Comments at 9); however, the decrease partially mitigates the effect of the price increase on the general public paying

⁸⁰ See n.61, *supra*.

⁸¹ Library Reference PRC-LR-R2019-1/1, Excel file "PRC-CAPCALC-FCM-R2019-1.xlsx;" (reporting approximately 9.83 billion pieces paying the first ounce Stamped Letter rate and approximately 289 million pieces paying the additional ounce rate for Stamped Letters); see *also* Carlson Comments at 9.

retail prices. Further, the price of a Single-Piece Postcard remains 35 cents, which also partially mitigates the effect on the general public paying retail prices.

The effect of the Stamped Letter price increase on business mail users that use this rate category is also partially mitigated by the adjustment to Metered Letters. Under Docket No. R2018-1 prices, a 1 ounce Stamped Letter was 50 cents; under Docket No. R2019-1 prices, a 1 ounce Metered Letter would be 50 cents. This effect helps to incent business mail users that do not presort (such as small and medium-sized businesses) to use a meter and continue to use Postal Service products (rather than move their correspondence to alternative channels). The 3-cent increase to the Metered Letter price has a moderate effect upon business mail users that historically use this rate category. Customers seeking to further mitigate that increase may use mail service providers, which prepare mailings for multiple small organizations, to enable those organizations to access volume-based and presort discounts.

Raising Presorted Letters/Postcards by 0.970% represents a modest increase for business mail users, which is offset under the price cap by the larger increases to Stamped Letters and Metered Letters. The modest increase for Presorted Letters/Postcards, sent by business mail users, reflects the Postal Service's need to retain and encourage volume for this highly profitable but price-sensitive product.⁸² This premise is confirmed by unit contribution and elasticity measures.⁸³ Presorted Letters/Postcards provide a greater unit contribution than Single-Piece

⁸² See Notice at 7-8; PR Comments at 4; see also NAPM Comments at 2; Pitney Bowes at 1-2; NPPC Comments at 2.

⁸³ Elasticity is a unit-free measure of the responsiveness of a given variable (for example, the quantity demanded or supplied) to a change in another variable (for example, the price). Using the examples given, elasticity, or price elasticity of demand, is defined as the ratio of the percentage change in quantity to the associated percentage change in price.

Letters/Postcards.⁸⁴ Presorted Letters/Postcards are more elastic than Single-Piece Letters/Postcards, which means that mailers of Presorted Letters/Postcards are more sensitive to changes in price than mailers of Single-Piece Letters/Postcards.⁸⁵ As discussed in section D.5., *supra*, the Postal Service took into account the effect of a modest increase on such mailers in conjunction with its strategy to maximize net revenue (contribution). Specifically, retaining and encouraging volume for Presorted Letters/Postcards, which provide a greater unit contribution than Single-Piece Letters/Postcards, would improve the financial position of the Postal Service. Additionally, the CY 2019 promotions further encourage businesses to use the mail to stimulate their own business and enter more presort volume. See NPPC Comments at 6; Pitney Bowes Comments at 4; NAPM Comments at 3-4. Moreover, improving adherence to ECP has a positive effect on business mail users' participation in worksharing.⁸⁶ The Commission does not find that the 5-cent increase in the residual letter price, which would impact business mailers, would contravene Factor 3. See NPPC Comments at 8. Moreover, the modest adjustments to Flats mitigates the effects on businesses that are mailing heavier mailpieces. See *id.* at 6.

⁸⁴ FY 2017 Financial Analysis, Appendix A (reporting contribution per piece of 25.862 cents for Presort Letters and Cards compared to 18.853 cents for Single-Piece Letters and Cards); FY 2016 Financial Analysis, Appendix A (reporting contribution per piece of 27.269 cents for Presort Letters and Cards compared to 21.646 cents for Single-Piece Letters and Cards).

⁸⁵ See Order No. 4257 at 129 (reporting FY 2016 elasticity of 0.193 for Presort Letters and Cards compared to 0.116 for Single-Piece Letters and Cards). Elasticities are normally negative. When considering whether an elasticity is high or low, the Commission uses the absolute value of the elasticity. Thus, a product with an elasticity of -0.1 is considered a low-elasticity product, and a product with an elasticity of -0.8 is considered a high-elasticity product.

⁸⁶ The concerns regarding the ability of small businesses to access commercial bulk mailing discounts do not specify which (if any) First-Class Mail discounts were sought. See Landis Refining Comments at 1; NBSI Comments at 1. Because these concerns appear related to a specific company, the Commission encourages the Postal Service to reach out to this customer directly to resolve this issue.

Because First-Class Mail generally consists of letters, enterprises in the private sector of the economy engaged in the delivery of mail matter other than letters are relatively unaffected by the First-Class Mail price adjustments.

4. Factor 4

The following discussion illustrates how the First-Class Mail price adjustments appropriately take into account “the available alternative means of sending and receiving letters and other mail matter at reasonable costs,” as provided by Factor 4. 39 U.S.C. § 3622(c)(4). Electronic alternatives to First-Class Mail made possible by the Internet and smartphones (such as email, social media, text messaging, and applications) are increasing every day. Some participants observe that the relatively larger increase to Stamped Letters may accelerate electronic diversion of such mailpieces. *See, e.g.,* GCA Comments at 5; Wanserski Comments at 1. The Postal Service should also consider the prospect that price increases higher than the rate of inflation may accelerate the efforts of business mailers to convert mail recipients to electronic delivery of such communications. *See* NPPC Comments at 3; *see also* NAPM Comments at 1. It appears that the Postal Service has considered this prospect and seeks to maximize its net revenue by incentivizing the entry of First-Class Mail pieces that are less costly to the Postal Service to process, and ultimately more profitable.⁸⁷

5. Factor 5

The following discussion illustrates how the First-Class Mail price adjustments appropriately take into account “the degree of preparation of mail for delivery into the postal system performed by the mailer and its effect upon reducing costs to the Postal

⁸⁷ See Notice at 7-9; *see also* Pitney Bowes Comments at 4; NPPC Comments at 2; NAPM Comments at 2; PR Comments at 4.

Service,” as provided by Factor 5. 39 U.S.C. § 3622(c)(5). Generally, the prices adhere to ECP and thereby better recognize mailers’ worksharing efforts and their effect upon reducing costs to the Postal Service. See section D.1., *supra*. The price increases recognize that Presorted and Metered Letters are prepared in ways that reduce the costs to the Postal Service compared to Stamped Letters. See Notice at 7; NPPC Comments at 8; Pitney Bowes Comments at 3. Thus, the First-Class Mail price adjustments reflect appropriate consideration of Factor 5.

6. Factor 6

The following discussion illustrates how the First-Class Mail price adjustments appropriately take into account “the simplicity of structure for the entire schedule and simple, identifiable relationships between the rates or fees charged the various classes of mail for postal services,” as provided by Factor 6. 39 U.S.C. § 3622(c)(6). Notwithstanding the volume of the record concerning Factor 6,⁸⁸ the Commission accords little weight to Factor 6 in this proceeding.

As observed by the D.C. Circuit, Factor 6 “is not a provision about simple consumer prices, as suggested by the Postal Service.” *Carlson*, slip. op. at 14. Moreover, the Commission agrees with the commenters that the Postal Service has not demonstrated that pricing stamps at 55 cents would be appreciably simpler than a price that is closer to the average price increase for First-Class Mail (such as 52 or 53 cents). See *Carlson* Comments at 3-6; *GCA* Comments at 1-4. Regardless, the Postal Service has not proposed any changes to First-Class Mail that would adversely affect the simplicity of the structure for the entire schedule (such as adding rate cells or categories). Therefore, the price adjustments have a relatively neutral effect on the simplicity of the structure for the entire schedule.

⁸⁸ See Notice at 6-7; *Carlson* Comments at 1-11; *GCA* Comments at 1-4.

The price adjustments also reflect consideration of simple, identifiable relationships between the rates or fees charged, consistent with Factor 6. For example, the rates correct a pricing anomaly between BRM and QBRM.

7. Factor 7

The following discussion illustrates how the First-Class Mail price adjustments appropriately take into account “the importance of pricing flexibility to encourage increased mail volume and operational efficiency,” as provided by Factor 7. 39 U.S.C. § 3622(c)(7). The First-Class Mail price adjustments reflect the usage of pricing flexibility to encourage the entry of volume that would reduce the costs to the Postal Service (such as mailpieces that are more finely workshared, metered, or otherwise involve some degree of preparation by the mailer). For instance, applying a relatively smaller increase to Presorted Letters/Postcards (and offering the CY 2019 promotions) and a relatively larger increase to Single-Piece Letters/Postcards reflects the use of pricing flexibility within First-Class Mail to encourage the use of presorted mail. See Notice at 7-8. Comments support this premise.⁸⁹

The lower price for Metered Letters (relative to Stamped Letters) reflects the use of pricing flexibility within the Single-Piece Letters/Postcards product to encourage the use of Metered Letters for correspondence, transaction, and advertising purposes rather than electronic channels. See Notice at 7; see *also* Pitney Bowes Comments at 3.

Some participants observe that the increase to Stamped Letters may decrease such volume. See, e.g., GCA Comments at 5; Sandridge Comments at 1; Wanserski Comments at 1. However, it appears that the Postal Service has considered this

⁸⁹ See NPPC Comments at 2, 8; Pitney Bowes Comments at 3; NAPM Comments at 2-4; see *also* PR Comments at 4.

prospect and seeks to use its pricing flexibility to encourage increased volume of First-Class Mail pieces that are less costly for the Postal Service to process.

8. Factor 8

The following discussion illustrates how the First-Class Mail price adjustments appropriately take into account “the relative value to the people of the kinds of mail matter entered into the postal system and the desirability and justification for special classifications and services of mail,” as provided by Factor 8. 39 U.S.C. § 3622(c)(8). No comments reference Factor 8.

Except for restricted materials, all mailable matter within the weight and size restrictions may be sent via First-Class Mail. See DMM § 133.3. Certain mailable matter must be sent via First-Class Mail (such as bills and statements of account, personal information, and handwritten or typewritten material) rather than a different class of market dominant mail. See *id.* Within First-Class Mail, the categories reflect the various values of different types of users. For example, Stamped Letters offers delivery of hand-addressed cards and letters, while Presorted Letters primarily offers delivery of more voluminous mailings such as bills and statements of account. Within Presorted Letters/Postcards, the various categories and corresponding rate cells reflect the value of entering mail at various levels of presort, automation compatibility, and participation in worksharing. The reintroduction of promotions reflects the value to businesses of engaging with customers in innovative ways and receiving discounts. See NPPC Comments at 6; Pitney Bowes Comments at 4; NAPM Comments at 3.

9. Factor 9

The following discussion illustrates how the First-Class Mail price adjustments appropriately take into account “the importance of providing classifications with extremely high degrees of reliability and speed of delivery and of providing those that do not require high degrees of reliability and speed of delivery,” as provided by Factor 9.

39 U.S.C. § 3622(c)(9). Neither the Postal Service nor the commenters reference Factor 9. First-Class Mail provides a high degree of reliability and speed of delivery relative to other classes. For instance, for First-Class Mail originating and destinating with the contiguous 48 states and the District of Columbia, the end-to-end service standard day range is one to three days. 39 C.F.R. part 121, Appendix A, Table 2. This is a shorter and relatively narrow window compared to the corresponding end-to-end service standard day range applied to other classes of mail. *See id.*

10. Factor 10

The following discussion illustrates how the First-Class Mail price adjustments appropriately take into account “the desirability of special classifications for both postal users and the Postal Service in accordance with the policies of this title, including agreements between the Postal Service and postal users, when available on public and reasonable terms to similarly situated mailers...,” as provided by Factor 10. 39 U.S.C. § 3622(c)(10). No comments reference Factor 10. This factor applies primarily to market dominant negotiated service agreements. Because the price adjustments at issue do not affect the rates set by negotiated service agreements, the Commission accords little weight to Factor 10 in this proceeding.

11. Factor 11

The following discussion illustrates how the First-Class Mail price adjustments appropriately take into account “the educational, cultural, scientific, and informational value to the recipient of mail matter,” as provided by Factor 11.⁹⁰ No comments contain

⁹⁰ 39 U.S.C. § 3622(c)(11). This provision applies primarily to Periodicals and Media Mail/Library Mail; however, it has some application to First-Class Mail because its application is not restricted to a subclass “consisting exclusively of mail matter” providing such value. *Compare id.* § 3622(e)(2)(C) *with id.* § 3622(c)(11).

discussion of Factor 11. The prices appropriately reflect the informational value of correspondence and transactional mail as well as the cultural value of greeting cards.

12. Factor 12

The following discussion illustrates how the First-Class Mail price adjustments appropriately take into account “the need for the Postal Service to increase its efficiency and reduce its costs, including infrastructure costs, to help maintain high quality, affordable postal services,” as provided by Factor 12. 39 U.S.C. § 3622(c)(12). Overall, the First-Class Mail price adjustments encourage the entry of First-Class Mail pieces that are less costly to the Postal Service to process, which reflect the consideration of Factor 12. See Notice at 7.

For instance, a smaller than average price increase is applied to Presorted Letters/Postcards, which are less costly to process, and a larger than average price increase is applied to Single-Piece Letters/Postcards, which are more costly to process. See section D.1., *supra*. Comments support that this pricing design would incentivize the entry of mailpieces that would keep mail affordable to commercial mailers. See NPPC Comments at 2, 8; Pitney Bowes Comments at 3. The CY 2019 promotional discounts further encourage businesses to enter mailpieces that are presorted and improve affordability for mailers. See NPPC Comments at 6. Additionally, presorting helps to maintain the quality of service. For instance, pieces using full-service Intelligent Mail barcode (IMb) generate Informed Visibility (IV) electronic scan data that can be used to track pieces as they pass through automated scan operations. See DMM § 507.10.0.

The pricing design within the Single-Piece Letters/Postcards product also reflects the consideration of Factor 12 by setting the Metered Letters price 5-cents less than the Stamped Letters price. Metered Letters are less costly to process than Stamped

Letters. See section D.1., *supra*. In addition, this pricing design helps to maintain affordability, particularly for small- and medium-businesses. See Notice at 7.

13. Factor 13

The following discussion illustrates how the First-Class Mail price adjustments appropriately take into account “the value to the Postal Service and postal users of promoting intelligent mail and of secure, sender-identified mail,” as provided by Factor 13. 39 U.S.C. § 3622(c)(13). First-Class Mail pieces sent using a meter “[b]ear postage affixed by meter, information-based indicia (IBI), permit imprint (except Business Reply Mail), or pre-cancelled stamp.” MCS § 1105.3; see DMM § 604.4.1.2. First-Class Mail pieces that are presorted (both automation and nonautomation) must bear an IMb. DMM § 4.2, 5.1, and 5.2. Applying a relatively lower increase to Metered Letters and presorted mailpieces versus mailpieces that do not use IBI or IMb (Stamped Letters) is consistent with promoting the adoption of intelligent mail and of secure, sender-identified mail. See Pitney Bowes Comments at 3. The CY 2019 promotions further encourage businesses to enter mailpieces that use IMb. See, *e.g.*, Notice, Attachment D at 8, 10-11.

14. Factor 14

The following discussion illustrates how the First-Class Mail price adjustments appropriately take into account “the policies of [title 39 of the United States Code] as well as such other factors as the Commission determines appropriate,” as provided by Factor 14. 39 U.S.C. § 3622(c)(14). No comments reference Factor 14.

In the proceeding before the United States Court of Appeals for the District of Columbia Circuit, petitioner argued that the First-Class Mail price adjustments at issue contravened Factor 14 because applying a larger increase to Stamped Letters versus a smaller increase to Presorted Letters/Postcards contravened the policies of 39 U.S.C.

§§ 101(a), 101(d), and 403(c).⁹¹ Notwithstanding the failure to raise these concerns before the Commission in Docket No. R2019-1,⁹² these arguments are addressed below.

Section 101(a) of title 39 contains the universal service obligation and provides that “[t]he costs of establishing and maintaining the Postal Service shall not be apportioned to impair the overall value of such service to the people.” 39 U.S.C. § 101(a). Petitioner argued that the larger increase to Stamped Letters would disproportionately fall on the public and small businesses and thereby undermine the Postal Service’s fulfillment of its basic mission to “provide postal services to bind the Nation together through the personal, educational, literary, and business correspondence of the people.” ECF Document No. 1774362 at 21 (quoting 39 U.S.C. § 101(a)). None of the price adjustments impair the value of the universal service obligation. As discussed in sections D.8. and E.3., *supra*, the 5-cent Stamped Letter price increase is not large enough to have a substantial effect on most individuals and as discussed in sections E.1., 8., 9., and 11., *supra*, the price adjustments reflect the value of the service provided. Moreover, as discussed in section D.2., *supra*, there are several options for consumers to mitigate the effect of the price increase, such as using

⁹¹ Brief of Petitioner Douglas Carlson at 21-22, *Carlson*, (No. 18-1328), ECF Document No. 1774362, February 22, 2019 (ECF Document No. 1774362).

⁹² The court specifically found that Order No. 4275 failed to address three categories of public comments, none of which reference Factor 14 or these policies of title 39 of the United States Code. *Carlson*, slip. op. at 13-16. The first category are comments filed by Carlson and GCA arguing that the Postal Service’s claims concerning Factor 6 are unfounded. *Carlson*, slip. op. at 13-15. This first category of comments have been addressed in section E.6., *supra*. The second category are comments filed by Carlson arguing that the Postal Service misstated the effect of rate increases on the general public relating to Factor 3. *Carlson*, slip. op. at 15. This second category of comments have been addressed in section E.3., *supra*. The third category are the comments filed by: (1) GCA—arguing that the Stamped Letter price increase may hasten electronic diversion, relating to Factor 4; (2) PostCom—arguing that large infrequent increases undermine predictability and stability, relating to Objective 2; and (3) Carlson—arguing that the Stamped Letter price increase lacks a non-frivolous justification and is therefore not just and reasonable, relating to Objective 8. *Carlson*, slip. op. at 15-16. This third category of comments have been addressed in sections E.4., D.2., and D.8., *supra*, respectively.

the Forever Stamp. See n.61, *supra*. Therefore, the Commission is not persuaded that the First-Class Mail price adjustments violate § 101(a).

Section 101(d) of title 39 requires that postal rates “be established to apportion the costs of all postal operations to all users of the mail on a fair and equitable basis.” 39 U.S.C. § 101(d). Petitioner argues that the larger increase to Stamped Letters is not fair and equitable because it would disproportionately fall on the general public rather than commercial mailers. ECF Document No. 1774362 at 21. Petitioner’s general concerns of fairness and public impact echo the arguments addressed in sections D.8. and E.3., *supra*, respectively. As discussed in section D.8., *supra*, applying a larger increase to a category is not necessarily unfair so long as the Postal Service has a reasoned basis to do so; in this proceeding, the different sizes of the increases are designed to maximize net revenue. As discussed in section E.3., *supra*, the increases reflect appropriate consideration of the effects on various types of users of the mail (including the general public and business mail users) and offer several options for consumers to mitigate the effect of the larger increase to Stamped Letters.

More specifically, § 101(d) focuses fairness and equity concerns on the apportioning of the costs of postal operations rather than on general principles of fairness and equity. All domestic First-Class Mail products and Outbound Single-Piece

FCMI cover their costs attributable, consistent with § 101(d).⁹³ The Postal Service's pricing strategy also somewhat mitigates the higher cost coverage of Presorted Letters/Postcards compared to Single-Piece Letters/Postcards.⁹⁴ Applying a smaller increase to Presorted Letters/Postcards and larger increase to Single-Piece Letters/Postcards remains consistent with § 101(d). Therefore, the Commission is not persuaded that the First-Class Mail price adjustments violate § 101(d).

Section 403(c) of title 39 bars the Postal Service from making "any undue or unreasonable discrimination among users of the mails" and "any undue or unreasonable preferences to any such user." 39 U.S.C. § 403(c). Petitioner argued that the larger increase to Stamped Letters discriminates against the general public and grants a preference to large mailers without providing a plausible rationale. ECF Document No. 1774362 at 21-22. In interpreting this provision, the Commission has found "the Postal Service may differentiate among customers where the differences have a rational

⁹³ The Commission previously found that it may take further action under 39 U.S.C. § 101(d). In its analysis under 39 U.S.C. § 101(d), the Commission looks at the totality of circumstances and focuses "more careful scrutiny" on products that do not cover their attributable costs. Docket No. ACR2010R, Order on Remand, August 9, 2012, at 4 (Order No. 1427). The Inbound Letter Post product is the only First-Class Mail product that does not cover its attributable costs. However, the circumstances related to Inbound Letter Post are unique. The Inbound Letter Post rates appearing in the Notice are the applicable terminal dues set by the UPU and are not independently set by the Postal Service. Given this limitation, the Commission does not find that these First-Class Mail price adjustments presently constitute the type of "extreme circumstances" that would cause the Commission to direct remedial action. *See id.* at 9. Starting on July 1, 2020, UPU member countries that meet certain requirements (including the United States of America) would be able to self-declare rates for some categories of Inbound Letter Post. Jamey Keaten, *Postal union accepts reform, quashes US walkout threat*, ASSOCIATED PRESS, Sept. 25, 2019. The Commission observes that this change in circumstances would provide a new way for the Postal Service to address Inbound Letter Post's cost coverage.

⁹⁴ FY 2017 Financial Analysis, Appendix A (reporting cost coverage of 319.5 percent for Presort Letters and Cards compared to 162.8 percent for Single-Piece Letters and Cards); FY 2016 Financial Analysis, Appendix A (reporting cost coverage of 338.0 percent for Presort Letters and Cards compared to 176.8 percent for Single-Piece Letters and Cards).

basis.”⁹⁵ The Postal Service provides a rational basis for differentiating between customers through the First-Class Mail price adjustments, which aim to slow electronic diversion and incentivize the entry of mailpieces that are less costly to process, and ultimately more profitable to the Postal Service. See Notice at 7-9, 29. Therefore, the Commission is not persuaded that the First-Class Mail price adjustments violate § 403(c).

For these reasons, the Commission finds that the First-Class Mail price adjustments reflect appropriate consideration of Factor 14. The Commission determines that no other policies or considerations other than those discussed above are relevant in this proceeding. In light of the lack of comments addressing Factor 14 and the attenuated connection between the First-Class Mail price adjustments and Factor 14, the Commission accords little weight to Factor 14 in this proceeding.

F. Conclusion

Aside from the focus on Factor 6, few of the remarks on the record expressly identify a connection between a particular price adjustment and a particular statutory objective or factor. Notwithstanding the length of the discussion of Factor 6 in the Notice and the rebuttals appearing in the comments, the Commission accords Factor 6 little weight in its analysis. Based on its consideration of the facts and its related analysis, the Commission concludes that the primary purpose of the First-Class Mail prices proposed by the Postal Service in this proceeding is to exercise the Postal Service’s pricing flexibility to use the available pricing authority to maximize net revenue

⁹⁵ Docket No. C2019-1, Order Granting Motion to Dismiss, December 12, 2018, at 10 (Order No. 4924) (citing Docket No. C2015-2, Order Granting Motion to Dismiss, July 15, 2015, at 12 (Order No. 2585)); see also *Egger v. U.S. Postal Serv.*, 436 F. Supp. 138, 142 (W.D. Va. 1977) (rejecting claim that providing different levels of service to different users violated 39 U.S.C. § 403(c) because it is “obvious that the Postal Service may provide different levels of delivery service to different groups of mail users so long as the distinctions are reasonable.”); *Direct Mail/Mktg. Ass’n, Inc. v. U.S. Postal Serv.*, 501 F.2d 717, 722 (D.C.Cir.1974) (upholding temporary rate changes that allegedly discriminated against third-class mailers in violation of § 403(c) because the Postal Service action was “manifestly reasonable”).

by: (1) applying larger than average increases to mailpieces that are less profitable to the Postal Service (such as Stamped Letters, which are more costly for the Postal Service to collect, process, and deliver); and (2) applying smaller than average increases to mailpieces that are more profitable to the Postal Service (such as Metered Letters and Presorted Letters/Cards, which are less costly for the Postal Service to collect, process, and deliver). See 39 U.S.C. § 3622(b)(1), (4), and (5); see *also* Notice at 7-8, 29. The Commission finds that this purpose is reasonable and consistent with the statutory objectives and factors.

The Postal Service has considered how this pricing strategy would affect the public as well as business mail users and is focusing its pricing flexibility to slow electronic diversion and incentivize the entry of mailpieces that are less costly to process, and promote intelligent mail. See 39 U.S.C. § 3622(c)(3), (4), (5), (7), (12), and (13); see *also* Notice at 7-9, 29. The Commission also finds that the price adjustments (including the 5-cent increase to the Stamped Letter price, which is offset by smaller than average increase to other rate categories such as Metered Letters and Presorted Letters/Cards) are consistent with this purpose and the statutory objectives and factors. These price adjustments remain consistent with rates that are predictable and stable as well as just and reasonable. See 39 U.S.C. § 3622(b)(2) and (8).

Even if a few of the individual factors or objectives were thought to weigh against the First-Class Mail price adjustments (notwithstanding the Commission's conclusion that the price changes are consistent with all of them), the Commission would reach the same result. As the United States Court of Appeals for the District of Columbia Circuit recognized, the decision on how to weigh the objectives and factors, as applied to particular price adjustments, is committed to the discretion of the Commission. See *Carlson*, slip. op. at 11. The Commission must balance the objectives, which must "be applied in conjunction with" each other. 39 U.S.C. § 3622(b). Moreover, some aspects of the objectives and factors are in tension with each other whereas other aspects may

overlap. See, e.g., Order No. 4257 at 18, 65-66, 256-57, 260. Thus, even if some of the objectives and factors were thought to be in tension with the First-Class Mail price changes, the Commission concludes that, at a minimum, the weight of the balance favors approving the First-Class Mail price adjustments.

X. ORDERING PARAGRAPHS

It is ordered:

1. The Commission finds that the Postal Service's price adjustments relating to First-Class Mail as identified in the United States Postal Service Notice of Market-Dominant Price Change, filed October 10, 2018, and revised on October 23, 2018, are consistent with applicable law.
2. This Order is effective when the United States Court of Appeals for the District of Columbia Circuit issues the mandate.

Darcie S. Tokioka
Acting Secretary

APPENDIX A**LIST OF COMMENTERS AND COMMENTS**

Commenter	Citation	Citation Short Form
Ray Ardis	Comments Received from Ray Ardis, October 11, 2018.	Ardis Comments
Lisa Borden	Comments Received from Lisa Borden, October 12, 2018.	Borden Comments
Douglas F. Carlson	Douglas F. Carlson Comments in Opposition to a 55-Cent Price for One-Ounce, Machinable, Stamped, First-Class Letters [Erratum #2], October 31, 2018. ¹	Carlson Comments
James Castle	Comments Received from James Castle, October 12, 2018.	Castle Comments
Michael Cohen	Comments Received from Michael Cohen, October 16, 2018.	Cohen Comments
Helene Derkevics	Comments Received from Helene Derkevics, October 11, 2018.	Derkevics Comments
H. Dolloff	Comments Received from H. Dolloff, October 30, 2018.	Dolloff Comments
H. Dolloff	Additional Comments Received from H. Dolloff, November 7, 2018.	Additional Dolloff Comments
Greeting Card Association (GCA)	Comments of the Greeting Card Association, October 30, 2018.	GCA Comments
Landis Refining Co., Inc. (Landis Refining) ²	Comments Received from Vanessa Parsons, Landis Refining Co., Inc., October 26, 2018.	Landis Refining Comments
Michigan Lifers Association, Inc.	Comments Received from Michigan Lifers Association, Inc., October 22, 2018.	MLA Comments
Lewis Moore	Comments Received from Lewis Moore, October 12, 2018.	Moore Comments

¹ The substance of the remarks were timely filed; this is the final version of the remarks correcting typographical errors. Douglas F. Carlson Second Notice of Erratum in Comments, October 31, 2018; see *also* Douglas F. Carlson Notice of Erratum in Comments, October 30, 2018; Douglas F. Carlson Comments in Opposition to a 55-Cent Price for One-Ounce, Machinable, Stamped, First-Class Letters [Erratum], October 30, 2018; Douglas F. Carlson Comments in Opposition to a 55-Cent Price for One-Ounce, Machinable, Stamped, First-Class Letters, October 26, 2018.

² A second set of comments submitted on behalf of Landis Refining on issues relating exclusively to USPS Marketing Mail, written by a different employee, was received. Comments Received from Janice Cornell Landis, Landis Refining Co., Inc., October 30, 2018.

Commenter	Citation	Citation Short Form
James P. Morey	Comments Received from James P. Morey, October 12, 2018.	Morey Comments
National Association of Presort Mailers (NAPM)	Comments of the National Association of Presort Mailers, October 30, 2018.	NAPM Comments
Newtech Business Systems Inc. (NBSI)	Comments Received from Newtech Business Systems Inc., October 30, 2018.	NBSI Comments
National Postal Policy Council (NPPC)	Comments of the National Postal Policy Council, October 30, 2018.	NPPC Comments
Pitney Bowes Inc. (Pitney Bowes)	Comments of Pitney Bowes Inc., October 30, 2018.	Pitney Bowes Comments
Association for Postal Commerce (PostCom)	Comments of the Association for Postal Commerce, October 30, 2018.	PostCom Comments
Public Representative	Public Representative Comments, October 30, 2018.	PR Comments
Thomas Riccardi	Comments Received from Thomas Riccardi, October 18, 2018.	Riccardi Comments
Candy Riley	Comments Received from Candy Riley, October 19, 2018.	Riley Comments
Amy Sandridge	Comments Received from Amy Sandridge, October 12, 2018. ³	Sandridge Comments
Charlene Schaaf	Comments Received from Charlene Schaaf, October 11, 2018.	Schaaf Comments
Ida Simmons	Comments Received from Ida Simmons, October 16, 2018.	Simmons Comments
Raymond Spada	Comments Received from Raymond Spada, October 12, 2018.	Spada Comments
Don Spears	Comments Received from Don Spears, October 18, 2018.	Spears Comments
William Wanserski	Comments Received from William Wanserski, October 24, 2018.	Wanserski Comments
Cathy Wilson	Comments Received from Cathy Wilson, October 12, 2018.	Wilson Comments
Jeff Zybura	Comments Received from Jeff Zybura, October 18, 2018.	Zybura Comments

³ The text of these comments is reproduced in a courtesy copy of a letter received by the Commission on October 22, 2018. Letter from Amy Sandridge to the President of the United States, Donald Trump, October 22, 2018.