Postal Regulatory Commission
Submitted 11/20/2019 4:09:42 PM
Filing ID: 111093
Accepted 11/20/2019

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

MARKET-DOMINANT PRICE CHANGE	Docket No. R2020-1

UNITED STATES POSTAL SERVICE
RESPONSE TO ORDER NO. 5302

By its attorneys:

Nabeel R. Cheema
Chief Counsel, Pricing & Product Support

__*/s/ Kara C. Marcello*_________________

Amanda Hamilton
Kara C. Marcello
David H. Rubin

475 L'Enfant Plaza, SW
Washington, D.C. 20260
(202) 268-4031
Kara.C.Marcello@usps.gov
November 20, 2019

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The United States Postal Service hereby responds to Postal Regulatory Commission Order No. 5302, issued on November 13, 2019.[1] The Order remands the Postal Service's new First-Class Mail rates for exceeding the price cap. Specifically, the Order takes issue with a billing determinants adjustment reflecting the upcoming July 2020 transfer of Inbound Letter Post Small Packets and Bulky Letters and Inbound Registered Service Associated with such Items (collectively referred to herein as "Inbound E-format Letter Post").

In response to the remand, the Postal Service is providing notice of a revised First-Class Mail rate design that conforms to its original notice in all but one respect: the increase for 5-Digit Presort Letters is less than originally proposed. This amended rate design adheres to the price cap calculation adopted in Order No. 5302, as well as to the objectives and factors. The Postal Service asks for timely review of this amended rate design in order to ensure implementation on January 26, 2019.

While the Postal Service has revised the rate design from what it wished to implement, the Postal Service disagrees strongly with the Commission's rejection of the billing determinants adjustment for Inbound Letter Post. Therefore, in Section I of this Response, the Postal Service shows how Order No. 5302 departs from relevant precedent, and accordingly seeks reconsideration of the price cap calculation. To that end, the Postal Service submits workpapers that maintain the half-year treatment of Inbound E-format Letter Post volume, but with the revised domestic First-Class Mail

[1] Order No. 5302, Order Remanding Price Adjustments for First-Class Mail, Docket No. R2020-1 (Nov. 13, 2019).

rates presented herein.[2] These workpapers demonstrate that implementation of the amended rate design, in conjunction with a July 1 transfer of Inbound E-Format Letter Post volume, results in unused rate adjustment authority that should be banked for the Postal Service's use in subsequent cases.

In addition, the Postal Service also includes workpapers that remove Inbound E-Format Letter Post from the price cap calculation entirely, to reflect the accelerated transfer requested today in Docket No. MC2019-17.[3] Those workpapers are described in Section II. If the Commission approves the accelerated transfer, it should calculate the unused banked authority resulting from implementation of the amended rate design accordingly.

In Section III, the Postal Service sets forth the amended domestic First-Class Mail rates that the Governors have authorized, demonstrates their compliance with applicable legal requirements, and discusses their consistency with the objectives and factors of section 3622. These amended rates are in accordance with what the Commission requested in Order No. 5302. Also as requested in Order No. 5302, the Postal Service responds to public comments on First-Class Mail.

Section III is accompanied by a third set of workpapers, which adhere to the approach contained in Order No. 5302.[4] While the third set does not represent the

[2] See USPS-LR-R2020-1/7, CAPCALC-FCM-R2020-1 Remand Calc 1.xlsx; USPS-LR-R2020-1/NP2, Inbound CAPCALC-R2020-1-Remand Calc 1.xlsx (removing half of Inbound E-Format Letter Post volume).

[3] See USPS-LR-R2020-1/7, CAPCALC-FCM-R2020-1 Remand Calc 2.xlsx; USPS-LR-R2020-1/NP2, Inbound CAPCALC-R2020-1-Remand Calc 2.xlsx (removing the full year of Inbound E-Format Letter Post volume).

[4] See USPS-LR-R2020-1/7, CAPCALC-FCM-R2020-1 Remand Calc 3.xlsx; USPS-LR-R2020-1/NP2, Inbound CAPCALC-R2020-1-Remand Calc 3.xlsx. These workpapers include one minor update from the Order No. 5302 workpapers, incorporating the November 4 Internal Air Conveyance rates.

Postal Service's view as to how the percentage change in rates should be calculated, it is submitted to facilitate the Commission's timely conclusion of this docket, while reserving the opportunity for further adjudication of the price cap treatment of Inbound E-Format Letter Post. In particular, Section III demonstrates that nothing should inhibit the Commission from approving the implementation of this amended rate design in a timely manner, even if it wishes to take more time to consider the issues discussed in Sections I and II (which go to the amount of banked authority that should result from this increase).

In Section IV, the Postal Service reviews its timeline to implementation. The single page of the Mail Classification Schedule that is changing is submitted as Attachment A to this Response, and revised workshare discounts and passthroughs are presented in Attachment B.

I. Order No. 5302 and Commission Precedent

The logic of Order No. 5302 builds from a fundamental premise that Rule 3010.23(d)(2) permits billing determinants adjustments only for classification changes that take effect prior to or simultaneous with a price change, and not for classification changes that occur after a price change. Thus, the Order explains that the Docket No. R2012-3 adjustment for the Standard Mail Parcels transfer, the Docket No. R2018-1 adjustment for the First-Class Mail Parcels transfer, and the Docket No. R2018-1 adjustment for the First-Class Mail International classification change are all distinguishable from the Inbound E-format Letter Post adjustment at issue here because the former three concerned classification changes that occurred prior to or simultaneous with a price change, whereas the latter concerns a classification change that will take effect six months after the price change.

Setting aside for a moment the illogical implications of this reasoning – that, for example, a classification change occurring one day after a general price change goes into effect could not reasonably be accounted for pursuant to Rule 3010.23(d)(2) – the premise itself is unsound. And its unsoundness is evidenced in Order No. 5302, specifically where the Order engages with the Docket No. R2009-2 precedent cited by the Postal Service. In that docket, the Commission accepted a billing determinants adjustment made by the Postal Service to account for an Intelligent Mail barcode discount that would not take effect until almost seven months after implementation of the general price change.[5] While Order No. 5302 does not explicitly acknowledge that the Docket No. R2009-2 precedent contradicts the Order's conclusion that Rule 3010.23(d)(2) "does not permit adjustments to account for the effects of anticipated classification changes,"[6] such acknowledgement is implied by the effort in the Order to distinguish the precedent.

To be clear, Docket No. R2009-2 is not the only example of Commission precedent at odds with the "non-concurrent" premise. Rather, it has become routine in annual price cases for the Commission to accept billing determinants adjustments for promotions that do not take effect until after the general price change. Such promotions

[5] *See* Response to ChIR No. 1, Question 2, Docket No. R2009-2 (October 15, 2009), as well as the Postal Service and Commission prefaces and workpapers cited therein. Note that the Commission titled its billing determinants adjustment tabs "Calculation of IM Full Service Program Adjustment for May 2009 – May 2020", reflecting the year following the general May 2009 implementation date for that docket.

[6] Order No. 5302, at 18.

have been presented in this docket as well, and Order No. 5302 finds no fault with them.

With its principal premise invalidated, the Order must supply another basis for the denial of the Inbound E-Format Letter Post adjustment. One such basis is posited in the Order's effort to distinguish Docket No. R2009-2 based on a distinction between temporary and permanent rates – the Order observes that the Docket No. R2009-2 adjustment was for a temporary discounted rate, whereas the Inbound E-Format Letter Post adjustment is for a permanent price change.[7] Nothing in the Commission's rules suggests that billing-determinant adjustments depend on whether a rate change is "temporary" or "permanent," and the Order does not explain why such a distinction should result in differing applications of Rule 3010.23(d)(2).[8] The rule sets forth a reasonableness standard, and neither the rule nor Order No. 5302 speak to why adjustments for temporary rates are reasonable while adjustments for permanent rates are not. Absent such an explanation, this differential treatment between temporary and permanent rate adjustments is arbitrary on its face.[9]

In this temporary vs. permanent vein, it is perhaps helpful to recall the Commission's previous actions, elsewhere, to account for the rate effects of changes to mail preparation requirements through a price cap calculation, without regard to their timing. Synthesizing that position with Order No. 5302's logic would mean that all of the

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[7] Order No. 5302, at 19-20.

[8] One could identify any number of surface differences between the two cases, but that does not mean the rule should treat them differently as a legal matter.

[9] If the rule really did require differing application based on the temporary or permanent nature of a price or classification change, then the Postal Service could cure the alleged deficiency in its billing determinants adjustment here simply by announcing that the Inbound E-Format Letter Post rates taking effect in January 2020 will sunset on June 29, 2020, thus converting them into temporary rates.

following are true with respect to price cap calculations: (1) the Postal Service is permitted (but not required) to account for temporary rate and classification changes that occur after annual price changes; (2) the Postal Service is prohibited from accounting for permanent rate and classification changes that occur after annual price changes; and (3) the Commission may choose to account for the purported rate effects of mail preparation requirement changes, without regard to whether they coincide with an annual price change. Order No. 5302 offers no clarifying standard to reconcile these conflicting results.

With regard to Order No. 5302's other potential bases for denying the Inbound E-Format Letter Post adjustment, another possible basis is perhaps implied in the Order's observation that "[i]t appears the Postal Service is proposing two different price changes (January 2020 and July 2020)".[10] The Order goes on to state that "the Postal Service has a procedural mechanism to adjust prices and/or classifications, planned to be effective July 1, 2020."[11] This statement overlooks the fact that Docket No. R2020-1 furnishes the sole opportunity to calculate the price cap impact of the January 1 Inbound E-Format Letter Post price change. Properly weighting the calculation therefore requires incorporating the impact of the July 2020 Inbound E-Format Letter Post transfer into this docket.

A further basis for the denial appears to be intended by the Order's citation to Docket No. RM2007-1 and the Postal Service's statement therein that the purpose of the price cap calculation rules "is to identify percentage differences between sets of

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[10] Order No. 5302, at 18.

[11] Order No. 5302 at 19, n. 38.

rates, and not to generate estimates of total revenue or revenue per piece for particular time periods."[12] This statement is true enough so far as it goes, but it is not clear how it relates to the reasonableness of the billing determinants adjustment for Inbound E-Format Letter Post. The fact that the Postal Service's adjustment relates to a future classification change does not mean that the Postal Service is attempting to convert the price cap into a revenue cap. Rather, all it means is that the Postal Service is attempting to properly weight the price cap calculation, in accordance with Rule 3010.23(d)(2), and thereby avoid an obvious distortion.[13]

A final potential basis for the remand is touched on very briefly where the Order notes that "[t]he Postal Service acknowledges that the conditions for transfer have not

[12] Order No. 5302, at 13-14 (citing Reply Comments of the United States Postal Service in Response to Order No. 26, Docket No. RM2007-1 (Oct. 9, 2007), at 32).

[13] The Postal Service's statements in Docket No. RM2007-1 were made at a time before the postal community had any experience with the price cap. In addition, Commission pointed out in Order No. 26 that "[t]he intent is that these regulations provide a reasonable starting point and that [they will] evolve over time." Order No. 26, Order Proposing Regulations to Establish a System of Ratemaking, Docket No. RM2007-1 (Aug. 15, 2007), at 2. The precedents cited in this Response show the evolution in practice. Further, while the Order is correct that the price cap is not a revenue cap, the price cap operates by multiplying each rate cell's current and proposed price by its historical volume – which is another way of saying that the price cap accounts for the theoretical change in revenue that a price change for that rate cell would produce. 39 C.F.R. § 3010.23(b)-(c); Order No. 26 at 34-36. This does not convert the price cap into a revenue cap – for example, the Commission's rules do not attempt to forecast how mailers may respond to price changes – but it reveals the significance of allowing reasonable adjustments to billing determinants so the Postal Service is not arbitrarily deprived of the ability to capture needed revenue by misapplication of the Commission's price-cap rules. The U.S. Court of Appeals for the D.C. Circuit has recognized this significance, and the Commission should not depart from that binding authority. *See*, *e.g.*, *USPS v. PRC*, 886 F.3d 1253 (D.C. Cir. 2018), at 1255 ("the Postal Service's aggregate revenue for each class of market-dominant products should increase no faster than inflation"); 1256 ("time and again [the Court] tied 'rates' to payments by mailers to the Postal Service and changes in rates to changes in those payments"); and 1258-59 (acknowledging that, had the Postal Service accepted the Commission's price cap treatment of the Intelligent Mail barcode requirement, "it would have been docked over $855 million in price cap authority under the assumption that it would receive that amount in higher prices"). Thus, it is a reasonable, and likely required, billing determinants adjustment to exclude from the price cap calculation payments by mailers of Inbound E-Format Letter Post terminal dues that would be received after the transfer on July 1, 2020.

been satisfied."[14] On that point, in the information request response cited by the Order, the Postal Service explained that there was one step remaining to finalize the transfer, namely, the filing of specific prices for July 1, 2020 implementation. The Postal Service subsequently filed those prices on October 29, 2019, and the Postal Service understands that the Commission is presently reviewing them.[15] The transfer has been authorized by the Governors, and it has been approved by the Commission. All that remains is for the Commission to issue a final order confirming the rates that will apply. Therefore, the Postal Service respectfully suggests that the transfer not having been formally finalized by the Commission should not properly be considered a basis for denying the Inbound E-Format Letter Post adjustment.

As shown above, Order No. 5302 does not set forth any sound legal basis for rejecting the Postal Service's Inbound E-Format Letter Post billing determinants. Pursuant to the Commission's regulations, the central question for assessing the legality of the adjustment is whether it accords with Rule 3010.23(d)(2), which directs the Postal Service to "make reasonable adjustments to the billing determinants to account for the effects of classification changes such as the introduction, deletion, or redefinition of rate cells."[16] Under the plain language of the regulation, the only question here is the reasonableness of the adjustment. In Docket No. RM2007-1, the Commission contemplated a practical approach to this question:

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[14] Order No. 5302, at 17 (citing Response to CHIR No. 1, Question 5). The Order certainly does not articulate this as a basis for the remand, but the Postal Service addresses it here anyway for the purpose of thoroughness.

[15] Notice of the United States Postal Service of Effective Date and Specific Rates Not of General Applicability for Inbound E-Format Letter Post, and Application for Nonpublic Treatment, Docket No. CP2019-155 (Oct. 29, 2019).

[16] 39 C.F.R. 3010.23(d)(2).

> The Commission recognizes that the pre-implementation method of calculating the percentage change in rates in the proposed rules is not a perfect measure of what the actual change in rates will be. The billing determinants to be used will likely not correspond to a single set of rates, and adjustments for classification changes will be imperfect.[17]

In this docket, the Postal Service has adjusted the Inbound E-Format Letter Post billing determinants by dividing them in half, to reflect the fact that the market-dominant rate adjustment will apply for only half the year. The adjustment is based on known mail characteristics and historical volume data, in accordance with Rule 3010.23(d)(3).[18]

The Commission has accepted similar, straightforward time-based adjustments before. For example, in Docket No. R2019-1, for the Earned Value promotion that took effect well after the price case's general implementation date, the Postal Service not only adjusted the billing determinants to account for the promotion, it also divided the promotion's historical volumes in half, to reflect the promotion's three month duration in Calendar Year 2019, as compared to six months in its previous iteration.[19] This mirrors the time-based adjustment the Postal Service performed in this docket for Inbound E-Format Letter Post volumes.

In light of the above, the Postal Service moves for the Commission to reconsider its rejection of the Inbound E-Format Letter Post billing determinants adjustment in Order No. 5302. With this Response, the Postal Service submits price cap calculation workpapers (termed the "Scenario 1" calculation) that maintain the billing determinants

[17] Order No. 26, Docket No. RM2007-1 (Aug. 15, 2007), at 35 (emphasis added).

[18] The Postal Service notes that its adjustment is not based on a forecast of mailer behavior; rather, it is based on a planned classification change whose effects are known.

[19] FCM Preface USPS-LR-R2019-1/1, at 3.

adjustment and incorporate the new rates described in Section III below. Table 1 below demonstrates that the revised rates comply with the price cap:

Table 1
First-Class Mail Scenario 1 Price Cap Compliance

CPI Based Cap Space	1.900[20]
Unused Cap Space from Previous Years	0.033[21]
Total Available Cap Space	1.933
Percentage Change in Rates	1.734
Unused Cap Space After Price Change	0.199

II. Accelerated Transfer Workpapers

In addition, the Postal Service is also filing a "Scenario 2" set of price cap calculation workpapers that remove Inbound E-Format Letter Post from the calculation entirely, to reflect the accelerated transfer requested today in Docket No. MC2019-17.[22] If the Commission approves the Postal Service's request to reclassify Inbound E-Format Letter Post as competitive on January 1, 2020, it should adopt the Scenario 2 workpapers. Because the transfer would occur prior to implementation of the Docket No. R2020-1 price change, the Scenario 2 billing determinant adjustment conforms to Order No. 5302's narrow interpretation of Rule 3010.23(d)(2) in Order No. 5302. Table 2 demonstrates that the revised rates comply with the price cap:

[20] *See* Attachment C, Docket No. R2020-1 (Oct. 9, 2019)*; see also* Postal Regulatory Commission, 12-Month Average Change in CPI-U (Sept. 16, 2019), *at* https://www.prc.gov/sites/default/files/160919%20CPIweb.pdf.

[21] *See* Docket No. R2019-1, PRC–LR–R2019–1/1 (at "PRC-CAPCALC-FCM-R2019-1.xlsx," tab "Percent Change Summary," cell B29).

[22] *See* USPS-LR-R2020-1/7, CAPCALC-FCM-R2020-1 Remand Calc 2.xlsx (showing an overall percentage change in rates of 1.548 percent and new banked authority of 0.385 percent. USPS-LR-R2020-1/NP2, Inbound CAPCALC-R2020-1-Remand Calc 2.xlsx (removing all Inbound E-Format Letter Post volume from the weight of the price cap).

Table 2
First-Class Mail Scenario 2 Price Cap Compliance

CPI Based Cap Space	1.900[23]
Unused Cap Space from Previous Years	0.033[24]
Total Available Cap Space	1.933
Percentage Change in Rates	1.548
Unused Cap Space After Price Change	0.385

III. Revised First-Class Mail Rates

A. Description of Revised Rates

Order No. 5302's rejection of the Inbound E-Format Letter Post billing determinants adjustment would force the Postal Service to relinquish approximately $47 million in pricing authority. Although the Postal Service maintains that the Commission should reconsider Order No. 5302 (and that it should approve the accelerated transfer requested in Docket No. MC2019-7), the Governors have authorized revised rates that the Postal Service proposes to implement even if the Commission reconsiders its remand order and/or accelerates the transfer of Inbound E-Format Letter Post.

Specifically, the Governors have authorized the Postal Service to reduce the planned increase to the 5-Digit Automation rate in Presort Letters. The rate was set to

[23] *See* Attachment C, Docket No. R2020-1 (Oct. 9, 2019); *see also* Postal Regulatory Commission, 12-Month Average Change in CPI-U (Sept. 16, 2019), *at* https://www.prc.gov/sites/default/files/160919%20CPIweb.pdf.

[24] *See* Docket No. R2019-1, PRC–LR–R2019–1/1 (at "PRC-CAPCALC-FCM-R2019-1.xlsx," tab "Percent Change Summary," cell B29).

rise from 38.3 cents to 39.1 cents; it will now rise only to 38.9 cents. This is the only rate that the Postal Service is revising.

The "Scenario 3" workpapers show that, were the Commission to reject both reconsideration of Order No. 5302 and the accelerated transfer request, the revised rates would comport with the Order No. 5302 calculation of the price cap. Although the Postal Service prefers reconsideration of Order No. 5302 and approval of its accelerated transfer request, the Postal Service provides the Scenario 3 workpapers to ensure timely January implementation regardless of how the Commission determines to move forward.

Under Order No. 5302's calculation of the price cap, with one minor update to Internal Air Conveyance rates,[25] the percentage change in rates for the Presort Letters/Cards product falls from 1.947 percent to 1.607 percent, and the overall percentage change in rates for First-Class Mail falls from 1.926 percent to 1.916 percent.[26]

Table 3 demonstrates that the revised rates comply with the price cap:

[25] The Postal Service has incorporated the Internal Air Conveyance rates for the United States issued by the Universal Postal Union on November 4, 2019 into the Inbound Letter Post price cap calculation. See Preface to USPS-LR-R2020-1/NP2.

[26] *See* USPS-LR-R2020-1/7, CAPCALC-FCM-R2020-1 Remand Calc 3.xlsx.

Table 3
First-Class Mail Scenario 3 Price Cap Compliance

CPI Based Cap Space	1.900[27]
Unused Cap Space from Previous Years	0.033[28]
Total Available Cap Space	1.933
Percentage Change in Rates	1.916
Unused Cap Space After Price Change	0.017

B. Discussion of Section 3622's Objectives and Factors

Because the Postal Service is revising just one rate, the original Notice's discussion of objectives and factors continues to apply for the most part. The only material change to that discussion is that Presort Letters/Cards is now seeing a below average increase, whereas before it was receiving an above average increase. The Postal Service had explained that the decision to raise the product's rates above the class average was an exercise of its Objective 4 pricing discretion aimed, in accordance with Factor 3, at balancing the effects of rate increases upon the general public and business mail users over time, by following three years of below average increases with an above average increase, while assuring adequate revenues pursuant to Objective 5.

With today's revision to the 5-Digit Automation Letters rate, the increase for Presort Letters/Cards falls below average. While this was not the Postal Service's original goal, the Postal Service's flexibility is constrained by a number of factors.

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[27] *See* Attachment C, Docket No. R2020-1 (Oct. 9, 2019)*; see also* Postal Regulatory Commission, 12-Month Average Change in CPI-U (Sept. 16, 2019), *at* https://www.prc.gov/sites/default/files/160919%20CPIweb.pdf.

[28] *See* Docket No. R2019-1, PRC–LR–R2019–1/1 (at "PRC-CAPCALC-FCM-R2019-1.xlsx," tab "Percent Change Summary," cell B29).

These include, most notably, the longstanding regulatory decision to apply the price cap to Inbound Letter Post rates – which in this case consume more than two-tenths of the price cap space available to First-Class Mail – as well as the need to raise Flats rates to satisfy Factor 2's interest in maintaining adequate cost coverage, which results in approximately three-tenths of First-Class Mail price cap space being applied to Flats.[29]

After allocating pricing authority to satisfy those two considerations, and taking into account Order No. 5302's elimination of approximately $47 million in pricing authority,[30] there is not enough authority left over to raise Presort Letters/Cards rates above the class average. The Governors' decision to revise the 5-Digit Automation Letters rate is consistent with Objectives 2 and 6, by requiring only minimal changes to any plans customers may have made in response to the Postal Service's October 9th Notice of Market-Dominant Price Change, while reinforcing Objective 1 and Factor 5, by raising the 5-Digit Automation Letters passthrough.

In Order No. 5302, the Commission directed the Postal Service to address public comments that question the pricing decisions underlying the October 9th rates.[31] Several commenters object that the Presort Letters/Cards rates are too high. They state that the Postal Service's rationale for the increase conflicts with the Commission's justification of the Docket No. R2019-1 First-Class Mail increases in Order No. 5205, in particular the Commission's concurrence with the Docket No. R2019-1 strategy to

[29] While the Flats increase is large in percentage terms, the resulting additional-ounce rate remains one cent below its 2018 level.

[30] It bears noting that the lost $47 million will be compounded over future years.

[31] Order No. 5302, at 24-25.

prioritize applying pricing authority to Single-Piece Letters/Cards over Presort Letters/Cards.

The Postal Service responds, first, that the below-average Presort Letters/Cards increase resulting from the remand renders moot commenters' objections to an above-average increase. That said, the Postal Service acknowledges that, as revised, the 2020 price adjustment would raise prices somewhat for Presort Letters/Cards and not for Single-Piece Letters/Cards. As the Postal Service has said previously, pricing strategy within the constraints of the price cap must, as a practical matter, be executed over multiple years. This is particularly true in view of Factor 3, which calls for balancing the effects of rate increases upon the general public and business mailers. In Docket No. R2019-1, the Postal Service applied a significantly above-average increase to the rate most used by the general public and a significantly below-average increase to the Presort Letters/Cards rates used by many business mailers. It is consistent with Factor 3 for the Postal Service to rebalance the public impact of that decision by allocating relatively more pricing authority to Presort Letters/Cards this year.

Some commenters representing First-Class Mail business mailers urge an extreme position that the Postal Service should be required to go on increasing Single-Piece Letters/Cards until the Single-Piece and Presort unit contributions match. Nothing in the statute requires unit contributions across products in a class to match. If the Postal Service were somehow forced to align each product's unit contribution, pricing flexibility (Objective 4 and Factor 7) would be eviscerated: pricing would simply be a mechanistic mathematical exercise. Moreover, it is entirely unclear how such a program would appropriately balance any of the other objectives and factors: for example, it would not allow for pricing disparities aimed at incentivizing efficiency (Objective 1 and Factor 12), maximizing revenue (Objective 5), or reflecting any of numerous policy considerations (Factors 1, 4, 5, 8, 11, and 13). Mailers adversely affected by serial above-average price increases would surely raise countervailing objections under various objectives and factors aimed at consumers' interests.

In their focus on unit contribution, the commenters rely on an interpretation of Objective 8's "just and reasonable schedule for rates and classifications" that is at odds with the interpretation set forth in Order No. 4257. The current price cap system envisions class-average market-dominant rates generally increasing, over time, in line with inflation, although – as expressly stated in Objective 8 – specific products' prices can increase at different speeds (and the Commission has noted that individual rates may vary, "even considerably," from inflation).[32] Presort rates have increased at a below-inflation pace for the last three years, and, with today's revised rates, they will continue that below-inflation trend for a fourth year. In real, inflation-adjusted terms, this means that Presort rates have effectively decreased in recent years. This treatment can hardly be considered "unjust" to Presort mailers.

Commenters also argue that First-Class Mail passthroughs below 100 percent should be raised. One commenter recommends that the Postal Service adjust workshare discounts so that the passthroughs stay within a narrow band around 100 percent. The Postal Service disagrees. There is no statutory requirement that passthroughs be exactly 100 percent. Rather, the Postal Service only has to ensure that the workshare discounts do not exceed 100 percent, absent proper justification.

[32] Order No. 4257, Docket No. RM2017-3 (Dec. 1, 2017), at 121.

The Postal Service addresses in subsection C below the one First-Class Mail discount that is arguably substantially below 100 percent.

Seventeen individual commenters, along with the Prison Policy Initiative, focus on the First-Class Mail stamp rate.[33] Douglas Carlson's comments are fairly representative of the arguments contained in the other sixteen individuals' submissions. He argues that the Docket No. R2019-1 increase in the stamp rate from 50 cents to 55 cents was unjustified, and that the 5-cent rounding policy lacks adequate basis; accordingly, he argues that the stamp rate should be reduced, to 52 or 53 cents.

Subsequent to the Court of Appeals' decision in *Carlson v. Postal Regulatory Commission*,[34] the Commission comprehensively addressed Mr. Carlson's arguments and justified the Docket No. R2019-1 increase in Order No. 5285.[35] No circumstances have changed since the issuance of Order No. 5285 that would call its conclusions into question.[36]

With respect to Mr. Carlson's recommendation that the stamp rate be reduced, the Postal Service notes that, outside the realm of workshare discounts and certain

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[33] Concerned Citizens, Eutawville, SC, Docket No. R2020-1 (November 6, 2019); Tom Lopez, Docket No. R2020-1 (October 30, 2019); Erik Tomsen, Docket No. R2020-1 (October 30, 2019); Claire Kluskens, Docket No. R2020-1 (October 30, 2019); Mike Ludeman, Docket No. R2020-1 (October 30, 2019); Amy Sandridge, Docket No. R2020-1 (October 30, 2019); W.C. Wilson, Docket No. R2020-1 (October 30, 2019); Matthew Kennedy, Docket No. R2020-1 (October 30, 2019); K.A. Erickson, Docket No. R2020-1 (October 30, 2019); Michael Pauly, Docket No. R2020-1 (October 30, 2019); Clair A. Carlson, Jr., Docket No. R2020-1 (October 29, 2019); Evan D. Kalish, Docket No. R2020-1 (October 29, 2019); Prison Policy Initiative, Inc., Docket No. R2020-1 (October 29, 2019); Steven J. Bahnsen, Docket No. R2020-1 (October 28, 2019); Stephen A. Raher, Docket No. R2020-1 (October 25, 2019); Douglas F. Carlson, Docket No. R2020-1 (October 24, 2019); Michael Cohen, Docket No. R2020-1 (October 18, 2019).

[34] *Carlson v. Postal Regulatory Commission*, 938 F.3d 337 (D.C. Cir. 2019).

[35] Order No. 5285, Approving Price Adjustments For First-Class Mail, Docket No. R2019-1 (October 24, 2019) at 35-65.

[36] *See also* Order No. 5273, Docket No. R2020-1 (Oct. 10, 2019), at 3-4 (stating that "any issues specifically related to Docket No. R2019-1 First-Class Mail rates and the *Carlson* decision will be addressed in a separate order in Docket No. R2019-1 and will not be adjudicated as part of the instant proceeding").

preferred rate categories, there is no statute or regulation that requires it to consider reducing rates in an annual price case. To state the obvious, the point of the market-dominant price cap rules is to delineate how high the Postal Service can increase rates. With the exceptions noted above, the rules do not require any consideration, let alone implementation, of rate reductions for rates that have been previously approved by the Commission (absent any changed circumstances that might call those rates into question, which is certainly not the case here since the Commission just recently issued Order No. 5285).[37]

With that said, the Postal Service notes that The Prison Policy Initiative (PPI) raises policy issues regarding the impact of Single-Piece First-Class Mail rates on a subset of customers who have fewer resources and options than most customers. To the extent that PPI objects to the price increase in Docket No. R2019-1, that objection is addressed in Order No. 5285. Despite being couched in terms of the "five-cent rounding" approach to price increases, PPI's affordability concerns are aimed not so much at any particular price increase, but at the overall level of Single-Piece First-Class Mail prices relative to certain customers' ability to pay.

In other words, PPI's affordability concerns would presumably remain even if the Postal Service had raised Single-Piece prices by a lesser amount in Docket No. R2019-1. In essence, then, PPI's comments seek a preferred rate for incarcerated individuals.[38] The adoption of such a preferred-rate proposal is a matter of policy for Congress, and not a matter of this price adjustment's consistency with Section 3622.

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[37] For the same reason, the Commission need not adjudicate the merits for or against the 5-cent rounding policy during a cycle when the Postal Service is not adjusting the stamp rate at all.

[38] *See* PPI Comments, at 9 n.10.

C. Workshare Discounts

The Postal Service's revised rates keep all First-Class Mail workshare discounts equal to or below their avoided costs; only the 5-Digit Automation Letters workshare discount changes, from $0.028 to $0.030, raising its passthrough from 82.4 percent to 88.2 percent.

Rule 3010.12(b)(6) requires the Postal Service to identify and explain discounts that are set substantially below avoided costs. Only one First-Class Mail workshare discount has a passthrough that arguably is substantially below avoided costs: Nonautomation Presort Letters, with a passthrough of 53.3 percent.[39] Movement on this passthrough is constrained because both Automation and Nonautomation Letters have the same benchmark (Metered Letters), and the Postal Service wishes to encourage automation preparation. Therefore, the discount for Nonautomation mail has to be significantly lower than the discount for Automation mail, resulting in the low passthrough for Nonautomation mail. Nonetheless, the Postal Service has moved this passthrough much closer to 100 percent than in the FY 2018 Annual Compliance Determination, where the passthrough was 16.0 percent.

The other passthroughs below 100 percent all fall within the 85 percent to 115 percent band proposed by the Commission in its 10-Year Review proposal, with the exception of the Automated Mixed AADC Letters, which, at 83.3 percent, is on the cusp of the band, and therefore cannot reasonably be deemed to be "substantially below" 100 percent.

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[39] *See* Attachment B, tab "FCM Bulk Letters, Cards", cell H16.

D. Adjustments to Billing Determinants

As previously stated, in Scenario 3, the Postal Service has removed the Inbound E-Format Letter Post volume adjustment, thus weighting the January 1 price change using a full year of volume. The four other adjustments to the First-Class Mail hybrid year billing determinants described in the October 9th Notice have been maintained.[40] These adjustments are discussed in the Preface accompanying the First-Class Mail remand workpapers, and pertain to Share Mail, Picture Permit, Keys and ID Devices Additional Ounce, and Outbound First-Class Mail International volumes.[41]

E. Promotions

As discussed in its October 9th Notice, the Postal Service is offering four First-Class Mail promotional discounts in Calendar Year 2020: Emerging & Advanced Technology; Earned Value Reply Mail; Personalized Color Transpromo; and Informed Delivery. Even with the revised prices, the amount of cap space generated by the promotions has not changed, because of rounding.

IV. Timeline to Implementation

In its initial Notice, the Postal Service noted that successfully converting its internal systems to new rates nationwide requires that programming and technical changes be finalized well in advance of implementation. As is common for organizations of comparable size and complexity, the Postal Service typically must finalize technical changes for a major, nationwide systems implementation no later than

[40] *See* United States Postal Service Notice of Market-dominant Price Change, Docket No. R2020-1 (Oct. 9, 2019), at 18-19.

[41] *See* Preface to USPS-LR-R2020-1/7.

45 days in advance. A final order after December 12 could therefore jeopardize timely implementation of rates.[42]

[42] To the extent that the Commission views its consideration of the statutory objectives and factors as justifying expanding this docket beyond the timeframes set forth in its rules, the Postal Service has intentionally simplified its revision in response to the remand to a single rate, in order to facilitate timely conclusion of this docket.

REVISED PAGE FOR

ATTACHMENT A (MCS)

Revised November 20, 2019

1110.5 Prices

Automation Letters

Maximum Weight (ounces)	5-Digit ($)	AADC ($)	Mixed AADC ($)
1	0.389	0.419	0.439
2	0.389	0.419	0.439
3	0.389	0.419	0.439
3.5	0.389	0.419	0.439

Nonautomation Presorted Machinable Letters

Maximum Weight (ounces)	Presorted ($)
1	0.460
2	0.460
3	0.460
3.5	0.460

Nonmachinable Letters

Maximum Weight (ounces)	Presorted ($)
1	0.610
2	0.610
3	0.610
3.5	0.610