

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

Every Door Direct Mail Retail Discount

Docket No. R2020-2

ORDER ON PRICE ADJUSTMENTS FOR USPS MARKETING MAIL

(Issued June 30, 2020)

I. INTRODUCTION

On June 1, 2020, the Postal Service filed notice of its intent to offer a new rate incentive, which would effectively result in a rate decrease for the USPS Marketing Mail product Every Door Direct Mail Retail (“EDDM Retail”) relative to the rate most recently approved in Docket No. R2020-1.¹ After reviewing the record, the Commission concludes that the proposed price adjustment and classification changes for the EDDM Retail product are consistent with the price cap under 39 U.S.C. § 3622(d), the reduced rate requirements under 39 U.S.C. § 3626, and the annual limitation calculation

¹ United States Postal Service Notice of Type 1-C Market Dominant Price Change, June 1, 2020 (Notice). The most recently-approved rates for USPS Marketing Mail are set out in Order No. 5321. See Docket No. R2020-1, Order on Price Adjustments for USPS Marketing Mail, Periodicals, Package Services, and Special Services Products and Related Mail Classification Changes, November 22, 2019 (Order No. 5321).

requirements contained in 39 C.F.R. part 3030, subpart C. See 39 C.F.R. § 3030.511(d).

II. PROCEDURAL HISTORY

In its Notice, the Postal Service states that it intends to offer a discount on EDDM Retail mailpieces beginning August 1, 2020. Notice at 2. Specifically, the Postal Service asserts that:

The extraordinary and unprecedented nature of the COVID-19 pandemic and the current economic downturn has severely harmed many businesses. Small local businesses have been hit particularly hard as they adopt austerity measures and pull back on their marketing efforts in response to business closures or drastic reductions in demand. EDDM Retail volume was down in Quarter 2 as compared to the same period last year by 21.3 million pieces (or 13.3 percent) while revenue fell by \$3.2 million dollars (or 11 percent). A decline is projected to continue through postal Quarter 3, FY 2020 or further.

Concurrent with the gradual reopening of the economy, the Postal Service intends to offer an EDDM Retail discount to encourage use of the mail as an advertising platform to reach existing and new customers. This should in turn assist small local businesses in recovering from the impact of the pandemic.

Id. at 3. Under the proposed terms for the discount, postage for all EDDM Retail mailpieces entered between August 1 and September 30, 2020 will be \$0.172 per piece, a 10 percent reduction off the current permanent rate of \$0.191. *Id.* No registration is required: all EDDM Retail pieces entered during the promotional period will receive the discount. *Id.*

The Postal Service asserts that the proposed price adjustment satisfies 39 U.S.C. §§ 3622 and 3626. *Id.* at 3-6. The Notice's supporting documents include amendments to the workpapers calculating price cap authority for the USPS Marketing

Mail class from Docket No. R2020-1, along with proposed changes to the Mail Classification Schedule (MCS).²

On June 2, 2020, the Commission issued an order establishing this docket, appointing a Public Representative, and providing interested persons with an opportunity to comment.³ On June 4, 2020, the Commission issued an information request directing the Postal Service to clarify whether the EDDM Retail discount constituted a rate of general applicability.⁴ On June 5, 2020, the Postal Service responded in the affirmative.⁵

III. COMMENTS

The Commission received comments from the Public Representative, the Association for Postal Commerce (PostCom), the Saturation Mailers Coalition (SMC), and the American Catalog Mailers Association (ACMA).⁶ The Public Representative recommends that the Commission approve the proposed EDDM Retail discount because she concludes that it meets the relevant legal and statutory requirements and “will likely benefit small local businesses during the COVID-19 pandemic.” PR Comments at 2.

PostCom concedes that the proposed EDDM Retail discount complies with the applicable statutory requirements and should be approved on that basis, but it nevertheless maintains that the EDDM Retail discount is poorly conceived. PostCom

² Notice, Attachment A; Library Reference USPS-LR-R2020-2/1, June 1, 2020, USPS Marketing Mail Workpapers.

³ Notice and Order on Price Adjustment for Market Dominant Products, June 2, 2020 (Order No. 5526).

⁴ Chairman’s Information Request No. 1, June 4, 2020 (CHIR No. 1).

⁵ Response of the United States Postal Service to Chairman’s Information Request No. 1, June 5, 2020 (Response to CHIR No. 1).

⁶ Public Representative Comments, June 22, 2020 (PR Comments); Comments of the Association for Postal Commerce, June 22, 2020 (PostCom Comments); Comments of the Saturation Mailers Coalition Too Little – Too Late, June 22, 2020 (SMC Comments); Comments of the American Catalog Mailers Association, June 22, 2020 (ACMA Comments).

Comments at 1, 3, 4. PostCom states that the Postal Service has not offered any evidence to support the contention that small businesses have been particularly harmed by the economic fallout from the COVID-19 pandemic, and that, in any event, the proposed discount is too small to make any real difference to such mailers. *Id.* at 1-2. PostCom notes that because of the open-ended structure of the discount, in which any mailer can take advantage of it, the Postal Service is making a judgment that the benefits derived from inducing new mailings will outweigh the amount of revenue forgone to mailers who would have sent mailpieces anyway at the former rate. *Id.* at 2-3. It also notes that by generating unused rate adjustment authority, the Postal Service will potentially be able to increase rates paid by other mailers within the USPS Marketing Mail class relative to what those rates would have been absent the Postal Service offering the EDDM Retail discount, although PostCom concedes that any such rate increases would be small in magnitude. *Id.* at 3. PostCom cautions that “[t]he discount may . . . bring the price of EDDM closer to a level where it could potentially compete with existing offerings of saturation mailers, and the Postal Service should be wary of cannibalizing this volume.” *Id.*

SMC, like PostCom, concedes that the EDDM Retail discount meets all relevant legal requirements and should be approved, but it also contends that the discount is poorly conceived. SMC Comments at 1. It asserts that even if the EDDM Retail discount helps small businesses, it does nothing for “the [Postal] Service’s most loyal, high volume and high contribution customers” *Id.* at 2. SMC would like to see a broader “price incentive for the USPS Marketing Mail products that serve . . . retail and services businesses” *Id.* at 3.

ACMA, likewise, “supports the notion . . . that given the widespread economic dislocation due to the pandemic, it is fully appropriate in the present circumstances to provide a ‘postal industry stimulus.’” ACMA Comments at 2. ACMA “urg[es] postal leadership to go much further.” *Id.* Noting that overall Market Dominant mail volumes have been reduced significantly as a result of the pandemic, ACMA states that rate incentives like the EDDM Retail discount should be increased and expanded to a wide

variety of products and customers, and “[t]argeted rescue incentives should be created” *Id.* at 2-3.

IV. COMMISSION ANALYSIS

As an initial matter, the Commission notes that its role in this proceeding is not to evaluate the Postal Service’s business judgment in proposing specific rates, but to determine if the rate incentive that the Postal Service has proposed complies with the relevant legal and regulatory requirements. See 39 U.S.C. § 3622(d)(1)(C). Based on a review of the record, the Commission concludes that the proposed price adjustment for EDDM Retail satisfies the applicable statutory and regulatory requirements.

Although commenters generally support approval of the EDDM Retail discount, some call into question the Postal Service’s basis for offering the discount and urge the Postal Service to offer similar discounts for other products. The Commission encourages the Postal Service to give consideration to these concerns and suggestions, and the Commission stands ready to expeditiously review any further incentives proposed by the Postal Service.

A. Price Cap Compliance

The Postal Service seeks Commission approval of a rate incentive applicable to the USPS Marketing Mail class during CY 2020 that will have the effect of a rate decrease. Notice at 2. The Postal Service seeks to generate unused rate adjustment authority as a result of the rate incentive and the associated rate decrease. *Id.* at 4. The Postal Service asserts that it has amended the workpapers from Docket No. R2020-1 to reflect the rate incentive and the associated rate change as required by 39 C.F.R. §§ 3030.523(b)(2) and 3030.527. *Id.* The Postal Service states that the rate incentive will result in a small amount of price cap space for the USPS Marketing Mail class of approximately \$2 million, or 0.012 percent. *Id.* The Postal Service calculates the new unused rate authority for USPS Marketing Mail as a result of the rate incentive to be 0.061 percent. *Id.*

Because the EDDM Retail discount constitutes a rate incentive, a threshold determination must be made as to whether it can be included in the percentage change in rates calculation. If it cannot, then the Postal Service cannot generate additional price cap space or unused rate adjustment authority as a result of it. Pursuant to 39 C.F.R. § 3030.523(e)(2), a rate incentive can only be included in a percentage change in rates calculation if it is in the form of a discount, sufficient billing determinants are available, and it constitutes a “rate of general applicability,” which is defined at 39 C.F.R. § 3030.501(g). The first two criteria are not at issue—the EDDM Retail discount is clearly in the form of a discount, and sufficient billing determinants exist from Docket No. R2020-1, which only need to be amended to reflect the reduced price. With regard to the third criterion, the Commission issued an information request seeking to confirm that the EDDM Retail discount is a rate of general applicability, and the Postal Service confirmed that it was.⁷ The Public Representative also finds the EDDM Retail discount to be a rate of general applicability. PR Comments at 3. “Rate of general applicability” is defined, in pertinent part, as “a rate applicable to all mail” 39 C.F.R. § 3030.501(g). Based on the record and on the response provided by the Postal Service confirming that the EDDM Retail discount will be made available to any mailer sending an EDDM Retail mailpiece during the promotional period, the Commission finds that the EDDM Retail discount meets this requirement. Therefore, the EDDM Retail discount may be included in the percentage change in rates calculation.

The Commission next determines if the proposed rate adjustment associated with the EDDM Retail discount is properly classified as a Type 1-C adjustment, which affects the level of procedural detail required in performing the price cap calculation. A Type 1-C rate adjustment is an adjustment to a rate of general applicability that contains only a rate decrease. 39 C.F.R. §§ 3030.503(a), 506(a). It features a streamlined procedure that enables the Postal Service to implement rate reductions outside of omnibus rate proceedings without having to construct hybrid billing determinants or

⁷ CHIR No. 1; Response to CHIR No. 1.

perform a new price cap calculation, as would be required for a Type 1-A or Type 1-B rate adjustment proceeding that featured a rate increase.⁸ Type 1-C rate adjustment proceedings are limited to rate adjustments that contain only rate decreases; they cannot contain both a rate decrease and a rate increase. 39 C.F.R. § 3030.506(a). The Public Representative states that the EDDM Retail discount is properly classified as a Type 1-C rate adjustment. PR Comments at 4. Because the EDDM Retail discount includes only a rate decrease, the Commission concludes that this proceeding is properly classified as a Type 1-C rate adjustment.

Calculating the percentage change in rates resulting from a Type 1-C rate adjustment involves, for each class of mail and product within the class, amending the workpapers attached to the Commission's order relating to the most recent Type 1-A or Type 1-B notice of rate adjustment to replace the planned rates under that rate adjustment with the corresponding planned rates applicable to the class from the Type 1-C notice of rate adjustment.⁹ The Postal Service's proposed price adjustment affects just one of seven products in the USPS Marketing Mail class: EDDM Retail.¹⁰ Type 1-C rate adjustments may generate unused rate adjustment authority. 39 C.F.R. § 3030.506(b). Such unused rate adjustment authority is calculated pursuant to 39 C.F.R. § 3030.527.

The Public Representative states that the amended workpapers submitted by the Postal Service are consistent with the calculations required for a Type 1-C rate adjustment. PR Comments at 4. She asserts that she has verified the Postal Service's calculation of 0.061 percent in new cumulative unused rate adjustment authority. *Id.*

⁸ See Docket No. RM2014-3, Notice of Proposed Rulemaking on the Treatment of Rate Incentives and De Minimis Rate Increases for Price Cap Purposes, November 18, 2013, at 3-6 (Order No. 1879).

⁹ 39 C.F.R. § 3030.523(b)(2). See *also* Order No. 1879 at 4-5.

¹⁰ Notice at 1, 2, Attachment A; Library Reference USPS-LR-R2020-2/1, June 1, 2020, Excel file "CAPCALC-MM-R2020-1-R2020-2.xlsx," tab "EDDM Retail."

The Commission concludes that the Postal Service's inclusion of the EDDM Retail discount rate incentive in the price cap calculation for USPS Marketing Mail is consistent with 39 C.F.R. §§ 3030.523(b)(2) and 3030.527. After reviewing the amended workpapers filed with the Postal Service's Notice, the Commission finds that the EDDM Retail rate incentive decreases the price for USPS Marketing Mail as a class by 0.012 percent. This creates 0.012 percent of new unused price adjustment authority that expires on October 9, 2024.¹¹ As the Postal Service had 0.049 percent unused price adjustment authority before instituting this docket,¹² the sum of the unused price adjustment authority for USPS Marketing Mail is now 0.061 percent.

The Commission also approves the Postal Service's proposed USPS Marketing Mail changes to the MCS as they appropriately implement the proposed EDDM Retail rate incentive. Those changes appear following the signature line of this Order. They affect USPS Marketing Mail MCS sections 1235.4 and 1235.6, and are effective August 1, 2020.

B. Preferential Rate Requirements

The Commission is required to determine whether the Postal Service's planned rate adjustments are consistent with 39 U.S.C. § 3626, which sets forth pricing requirements for certain preferred categories of mail. 39 C.F.R. § 3030.511(d). The Postal Service states that the sole sub-part of section 3626 implicated in this proceeding is section 3626(a)(6), which requires rates for nonprofit USPS Marketing Mail mailpieces to be set as nearly as practicable to 60 percent of the rates for commercial mailpieces.¹³ The Postal Service asserts that the EDDM Retail discount will move the

¹¹ Because a Type 1-C rate adjustment proceeding merely amends a prior rate proceeding, the relevant date for calculating when any additional unused rate adjustment authority expires relates back to that prior proceeding. In this case, that prior proceeding was Docket No. R2020-1. The Postal Service filed notice of it on October 9, 2019, and any unused rate adjustment authority generated as a result of it expires five years after that date. See 39 C.F.R. §§ 3030.526(e), 527(b).

¹² See Order No. 5321 at 9.

¹³ Notice at 5-6 (citing 39 U.S.C. § 3626(a)(6)).

revenue-per-piece ratio from Docket No. R2020-1 even closer to 60 percent, from 59.98 percent to 59.99 percent. Notice at 6. The Public Representative concurs that the proposed EDDM Retail discount will only minimally impact the required commercial to nonprofit ratio for the USPS Marketing Mail class. PR Comments at 2. The Commission has verified the Postal Service's calculation. The Commission therefore concludes that the proposed rate adjustments are consistent with 39 U.S.C. § 3626.

C. Section 3622's Objectives and Factors

Section 3622 enumerates specific objectives that the Market Dominant ratemaking system shall be designed to achieve, as well as specific factors that the Commission is to take into account in establishing or revising the Market Dominant ratemaking system. 39 U.S.C. § 3622(b), (c). In considering proposed rate adjustments for Market Dominant products, the Commission considers the relevant statutory objectives and factors as applied to proposed pricing changes.¹⁴ 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 are committed to the discretion of the Commission. See *id.* at 344. Applying the objectives and factors to price adjustments is necessarily fact-specific, situation-specific, and generally qualitative in nature.¹⁵

The nine objectives are:

- (1) To maximize incentives to reduce costs and increase efficiency.
- (2) To create predictability and stability in rates.

¹⁴ See *Carlson v. Postal Regulatory Comm'n*, 938 F.3d 337, 343, 345 (D.C. Cir. 2019).

¹⁵ See *Ass'n of Am. Publishers, Inc. v. Governors of U. S. Postal Serv.*, 485 F.2d 768, 774 (D.C. Cir. 1973) ("Like most other factors sheets, whether in statutes, A.L.I. Restatements, or comparable compilations, the factors listed are not analogous to a table of atomic weights, or to the multiplication table. The factors are reminders of relevant considerations, not counters to be placed on scales or weight-watching machines.").

- (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 14 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).

The Postal Service asserts the rate design of the EDDM Retail discount reflects the Postal Service's pricing flexibility, specifically its "efforts to respond to an unparalleled crisis as it works toward financial stability within the confines of the current regulatory regime." Notice at 5. The Postal Service argues that this is consistent with Objectives 4 and 5, as well as Factor 7. *Id.* The Postal Service asserts that the EDDM Retail discount is intended to drive incremental growth in volume and revenue as businesses impacted by the COVID-19 pandemic begin to reopen and seek to reach new and existing customers, which is consistent with Factors 1, 7, and 8. *Id.* It asserts that the discount employs a simple structure as an upfront 10 percent discount, which is consistent with Factor 6. *Id.* It asserts that the discount will not imperil the ability of the USPS Marketing Mail class as a whole to cover its attributable costs, which is consistent with Factor 2. *Id.* Based on the foregoing, the Postal Service asserts that the EDDM Retail discount reflects an appropriate balancing of the objectives and factors. *Id.*

The Public Representative states that the Postal Service has appropriately balanced the objectives and factors with regard to the proposed EDDM Retail discount. PR Comments at 2. Specifically, she states that the EDDM Retail discount balances the Postal Service's pricing flexibility (Objective 4) with the financial stability of the Postal Service (Objective 5), "because the discount is being offered on a product that had a 259.5 percent cost coverage in FY 2019."¹⁶

¹⁶ PR Comments at 4 (citing Postal Regulatory Commission, Financial Analysis of the United States Postal Service Financial Results and 10-K Statement, Fiscal Year 2019, May 7, 2020, at Appendix A, available online at: <https://www.prc.gov/sites/default/files/reports/FY%202019%20Financial%20Analysis%20Report.pdf>).

The Commission finds that the proposed rate adjustment in this docket appropriately balances the statutory objectives and factors. Type 1-C rate adjustments in general are designed to provide the Postal Service with pricing flexibility, which is consistent with both Objective 4 and Factor 7. See Order No. 1879 at 4. The EDDM Retail discount is designed to counteract volume losses, which could negatively affect the Postal Service's financial stability over the long run (Objective 5). Moreover, as the Public Representative observes, the EDDM Retail discount is not likely to harm the Postal Service's financial stability (Objective 5) because the EDDM Retail product has such high cost coverage to begin with. The fact that this cost coverage will remain well above 100 percent is also consistent with Factor 2. Furthermore, to the extent that the EDDM Retail discount helps businesses recover from the current economic downturn and connect with new and existing customers, it is consistent with Factors 1 and 8, which both have to do with the value of a mail product or service to senders and recipients. The remaining objectives and factors either are not implicated by the EDDM Retail discount or do not weigh strongly one way or the other. Therefore, the Commission finds that the EDDM Retail discount appropriately balances the statutory objectives and factors.

V. ORDERING PARAGRAPHS

It is ordered:

1. The Commission finds that the Postal Service's planned price adjustment relating to Market Dominant products as identified in the Postal Service's Notice filed June 1, 2020, is consistent with 39 U.S.C. §§ 3622(d) and 3626 and the requirements of 39 C.F.R. part 3030, subpart C, and may take effect, as planned.
2. The sum of the unused rate authority for USPS Marketing Mail is 0.061 percent, which includes 0.012 percent in new unused authority (expiring October 9, 2024).

3. Revisions to the Mail Classification Schedule appear below the signature of this Order. The revisions to sections 1235.4 and 1235.6 are effective August 1, 2020.

By the Commission.

Erica A. Barker
Secretary

CHANGES TO THE MAIL CLASSIFICATION SCHEDULE

The following material represents a change to the Mail Classification Schedule. The Commission uses two main conventions when making changes to the Mail Classification Schedule. New text is underlined. Deleted text is struck through.

Part A—Market Dominant Products

1200 **USPS Marketing Mail (Commercial and Nonprofit)**

1235 **Every Door Direct Mail—Retail**

1235.4 Price Categories

The following price categories are available for the product specified in this section:

- Every Door Direct Mail—Retail Incentive Program

1235.6 Prices

Every Door Direct Mail—Retail Incentive Program

Provide a 10 percent discount on qualifying postage for each Every Door Direct Mail—Retail piece mailed between August 1, 2020 and September 30, 2020.