

UNITED STATES OF AMERICA
POSTAL RATE COMMISSION

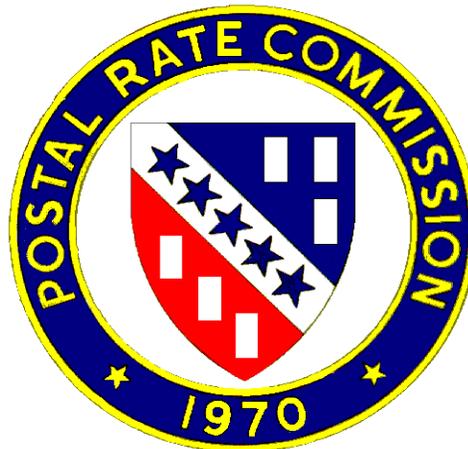
Before:

Chairman Omas,
Vice Chairman Hammond,
and Commissioners Covington,
Goldway, and Tisdale*

Repositionable Notes Provisional
Service Change

Docket No. MC2004-5

OPINION
AND
RECOMMENDED DECISION



Washington, DC 20268-0001
December 10, 2004

* Commissioner Tisdale did not participate in this decision.

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I. INTRODUCTION AND SUMMARY

In this docket, the Postal Service proposes a provisional service change for a period of one year. The change would allow bulk mailers of non-parcel shaped mail to attach a “Repositionable Note” (RPN) to the outside of each mailpiece. An RPN is a Post-it®-type peel-off label. Because it is mechanically applied using air pressure, and has an adhesive strip that is wider than those on notes used in typical office settings, an RPN is unlikely to become detached from the mailpiece during handling. They are typically used to display advertising messages that encourage recipients to open, read, and respond to the contents of the mailpiece. An RPN provides an opportunity to extend the life of a mailpiece when a recipient removes it and re-attaches it to a telephone, computer, or similar object, as a reminder of the commercial message inside.

The Postal Service conducted a year-long pilot test of RPNs attached to automation compatible First-Class and Standard Mail letters during which it did not experience operational problems. Following the pilot test, the Postal Service broadened the use of RPNs somewhat by authorizing their use on automation compatible letters in the Domestic Mail Manual, at no charge. The limited use made of RPNs during that time supported the Postal Service's initial conclusion that letter-shaped RPNs would not incur added handling costs. During that time, the Postal Service also conducted a pilot test of RPNs on flat-shaped mail, which led to the same conclusion.

The Postal Service now seeks approval of a one-year market test to confirm that neither letter- nor flat-shaped mail is likely to incur operational problems or additional handling costs. In this test period, it also seeks to determine if there is sufficient demand for RPNs to justify charging for them. It also seeks to ascertain the level of market acceptance of RPNs at the specific set of charges it proposes — 0.5 cents for an RPN affixed to First-Class Mail, and 1.5 cents for an RPN affixed to Standard Mail and Periodicals.

The Postal Service supports this set of charges with a rationale that it calls “value” pricing. Value pricing would base charges for a mail characteristic entirely on the Postal Service's perception of its value to the mailer, without reference to cost. This is the first

time before the Commission that the Postal Service has advocated this controversial pricing rationale.

The Commission recommends that the authority to use RPNs be extended beyond bulk letter mail to bulk flat mail for a period of one year, as the Postal Service proposes. It also recommends approval of the proposed set of RPN rates for that limited period. It does so despite criticism from several large mailer organizations. They object to the imposition of charges for cost-free services as a general matter, and to the particular charges that the Postal Service proposes for RPNs.

The Commission believes that the Postal Service should be given considerable deference when it attempts to test the operational aspects or the market acceptance of innovative products. In approving this controversial operational and market test, the Commission emphasizes that its effect will be to temporarily supplement the service options available to mailers of First-Class, Standard, and Periodical mail. It will neither restrict anyone's service, nor restructure the service that the Postal Service provides to these host classes. In addition, the financial impact of authorizing the use of RPNs to a wider group of mailers, and charging modest fees for their use, is unlikely to be large — either on any one class, or the system as a whole — as those who oppose this proposal concede. This proposal presents the prospect of benefiting these classes of mail, without harming the interests of other mailers in any significant way.

In recommending that this limited experiment proceed, the Commission does not intend to devalue the criticisms that the mailers have articulated in this docket. The mailers argue that it is unlawful to divorce rates from costs, given the Commission's interpretation of the ratemaking provisions of the Postal Reorganization Act. They argue that there are no limits to the "value" approach to pricing, since the Postal Service could elect to apply it to all forms of customization of the exterior of a mailpiece, or personalization of its content, that the mailer might attempt. They contend that unbundling these features and assigning a market value to each would require the Postal Service and the Commission to make a series of subjective market judgments without

standards or rules. They assert that such a pricing system ultimately would prove to be arbitrary and unadministrable.

The mailers say that it is fundamentally unfair for the Postal Service to charge for a costless monopolized service — that this is simply a scheme to exploit mailers in proportion to their dependence on the monopoly. They argue that it is discriminatory to single out certain groups of mailers — like RPN mailers — to shoulder an extra share of institutional costs between general rate cases where there is no opportunity to adjust the institutional cost burdens of other mailers.

Focusing on the specifics of the Postal Service's proposal, the mailers argue that there is nothing to indicate that charging First-Class mailers one-third as much to affix an RPN to First-Class Mail as to affix one to Standard or Periodical mail reflects actual differences in subclass demand for RPNs. They also complain that the Postal Service has structured its market test of these rates in such a way that it will not learn anything useful about the demand for RPNs generally, or about any differences there might be in RPN demand among the subclasses.

The mailers raise legitimate questions on legal, policy, and practical grounds. While the Commission does not find any of these objections fatal in the context of a provisional change in service and rates, it is not in a position to definitively resolve these issues on the meager record developed in this docket. With respect to these issues, the Postal Service will have a heavier burden of persuasion if it decides to request a permanent classification and rate for RPNs. Because the mailers' most significant objections are to the Postal Service's novel pricing approach, and those objections raise fundamental theoretical issues, the Commission intends to arrange for an expert in regulatory economics to address those issues on a general level in a white paper. The Commission's hope is that an academically-oriented paper of this kind would provide a foundation for a public dialogue on these issues.

II. BACKGROUND AND PROCEDURAL HISTORY

The Postal Service began engineering tests of the feasibility of offering RPNs for letter-shaped mail in 2000. From February 2002 through February 2003, it conducted a pilot test involving live mail from a dozen mailers who applied RPNs to automation compatible letter mail. The success of the pilot test led the Postal Service to adopt Domestic Mail Manual (DMM) provisions that allow any mailer of automation compatible letters that meet specific technical standards to apply RPNs to its mail without charge. It has subsequently completed engineering tests of RPNs on flat-shaped mail that indicate that they would not add to the costs of processing such mail.

On July 16, 2004, the Postal Service filed its request to expand eligibility to use RPNs to all bulk non-parcel shaped mail, and to charge fees for their use. The Postal Service accompanied its request with three pieces of evidence. The testimony of Darron Holland (USPS-T-1) discusses the physical characteristics of RPNs, the results of pilot tests, and the data collection and reporting plans for the market test. The testimony of Kirk Kaneer (USPS-T-2) provides the “value” pricing rationale for the proposed rates and explains how the RPN proposal satisfies the statutory classification and ratemaking criteria of sections 3622 and 3623. Library Reference USPS-LR-1, *Repositionable Note (RPN) Concept Research Report* (May 2004), is a market survey of likely users of repositionable notes conducted for the Postal Service by Opinion Research Corporation (ORC).

The National Newspaper Association (NNA) filed the testimony of Jerry Tidwell, publisher of a small circulation newspaper distributed through the mails. He asserts that large newspapers distributed through private delivery networks can offer external peel-off labels to advertisers at a relatively low cost to themselves, which makes it difficult for small newspapers that rely on the mails to compete with them. To meet that competition, he asks that RPNs be made available to mailers of Periodicals at lower rates than those proposed by the Postal Service.

The Postal Service's request was filed under the Commission's rules for expedited market tests. See 39 CFR §§ 3001.161-166. Under those rules, a prerequisite for filing a request for an expedited market test is that it be accompanied by a concurrent request for a permanent classification change. The Postal Service sought to have this requirement waived, arguing that a request for a permanent change formulated in advance of the market test results would be duplicative of the market test proposal. The United States Postal Service Motion for Waiver of Request for Permanent Change as a Condition for Market Test Procedures, July 16, 2004 at 1, 4.

The Commission concluded that the Postal Service's RPN proposal was not properly filed under the Commission's market test rules. Those rules are intended to provide a way to gain operational experience with a test that is limited in duration, service area, and potential impact on the market in order to gather the raw material with which to make an evidentiary record that will support a new, permanent mail classification. The Commission noted that the Postal Service's RPN proposal could have been cast as a proposed permanent change with little alteration, since it was already well developed, operationally and conceptually, and had been nationally available for a considerable period of time. The Commission observed that its purpose was less to fill in unknowns that are needed to fashion a proposed permanent change, than to make a service enhancement quickly available, where the enhancement poses little risk of upsetting the status quo. While this did not qualify the Postal Service's RPN proposal for processing under the Commission's expedited market test rules, it did qualify it for processing under the Commission's rules governing provisional service changes. See 39 CFR § 3001, subpart J.

These rules are designed to allow provisional service enhancements that supplement the array of services offered by the Postal Service without significantly altering the existing classification structure. They are intended to allow such enhancements to be implemented quickly without making an unnecessarily elaborate factual record where they have little potential to adversely impact stakeholders. Therefore, the Commission concluded, it was appropriate to consider the Postal

Service's RPN proposal under the streamlined and accelerated procedures of the Commission's provisional service change rules. Order No. 1413 at 5.

A settlement conference was held on August 10, 2004. A prehearing conference was held the next day. On that day, the Association for Postal Commerce, The Direct Marketing Association, and the Mailing & Fulfillment Association (Mailers' Coalition) filed a joint motion to dismiss the Postal Service's request in this docket.¹ The Mailers' Coalition argued that charging for a costless mailpiece characteristic violates section 3622(b)(3) of the Postal Reorganization Act. Section 3622(b)(3), it asserted, requires that each subclass bear its attributable costs plus the institutional costs that can be "reasonably assigned" to it. It argued that rates cannot properly reflect attributable costs unless the classification distinctions that underlie them are based on attributable cost differences. Since there are no attributable cost differences on which to base an RPN classification, there is no legal basis for establishing a separate RPN classification. Joint Motion at 2-3.

The Mailers' Coalition asserted that the Postal Service's proposed rates are institutional cost surcharges whose only purpose is to alter the institutional cost burdens born by the host subclasses. It argues that the Postal Service is obligated by section 3622(b)(3) to show that the resulting institutional cost relationships are reasonable, but the Postal Service has made no attempt to do so. *Id.* at 3. It argued that the Postal Service could not make such a showing, since RPN pieces do not constitute a coherent subclass. *Id.* at 4. The Postal Service replied that there is no legal requirement that classifications be structured to allow 3622(b)(3) analysis to be applied to the associated rates. It supported its argument by emphasizing that the criteria for establishing classifications set forth in section 3623(c) make no reference to costs. Response of United States Postal Service to Joint Motion to Dismiss, August 19, 2004, at 3. It asserted that the Commission in the past has approved new classifications and rates

¹ Joint Motion to Dismiss of the Association for Postal Commerce, Mailing & Fulfillment Association, and The Direct Marketing Association, August 11, 2004, (Joint Motion), at 2.

between general rate cases that had some potential to alter the relative institutional cost burdens of the existing subclasses. *Id.* at 5.

The Commission denied the Mailers' Coalition's motion to dismiss in Order No. 1417. It observed that the Act does not forbid classifications that are based primarily on factors other than cost. It held that whether a particular rate distinction may be based entirely on value of service differences requires consideration of all the classification and ratemaking factors articulated in the Act. The Commission concluded that this requires factual and policy determinations that go beyond a threshold determination of what the Act allows. It said that whether RPN mail has “value” or “desirability” that should be reflected in classifications and rates is something that should be examined in a proceeding where there is an opportunity to make a record, rather than be determined in summary fashion at the outset. The Commission agreed that its longstanding policy has been to apply section 3622(b)(3) analysis at the subclass level, because at that level clear cost and demand distinctions make separate cost coverage analysis meaningful. The Commission acknowledged, however, that the Act does not forbid applying such analysis at a more disaggregated level, as the Mailers' Coalition asserts would have to be done if this proposal is to be approved. Order No. 1417 at 4-5.

Order No. 1415 set September 2, 2004 as the deadline for requesting evidentiary hearings in this docket. No hearing was requested. NNA, however, indicated a desire to submit written testimony. On September 21, 2004, it filed the Direct Testimony of Jerry Tidwell (NNA-T-1). Mr. Tidwell publishes the *Hood County News* and the *Extra*, a total market coverage product serving non-subscribers in Granbury, Texas. He expresses an interest in using RPNs on these publications, but argues for rates for subclasses of service that he uses — Within County Periodicals, Outside County Periodicals, and Enhanced Carrier Route Standard Mail — substantially less than those that the Postal Service proposes.

On September 22, 2004, The Direct Marketing Association (DMA) filed a Motion for Permission to Conduct Limited Cross-Examination of Postal Service Witnesses Holland and Kaneer. The Postal Service opposed the motion as untimely, but, consistent with

Order No. 1420, reached an agreement with DMA to provide institutional responses to additional written discovery from DMA.

III. VALUE PRICING

A. The Postal Service's View

Postal Service witness Kaneer explains his concept of value pricing in his direct testimony. He asserts that RPNs have the potential to differentiate the mailpiece from other advertising mail and thereby lift read-and-respond rates. He also asserts that when removed from the mailpiece and relocated near a telephone or computer, they have the potential to remind the recipient of the advertiser's phone number, website address, or commercial message, and thereby extend the life of the mailpiece. Witness Kaneer asserts that these qualities demonstrate that the RPN attachment has an advertising value "over and above the value implied in the price of the mailpiece alone. This added value should be separately recognized and will further contribute to the overall cost recovery of the relevant class of mail. The RPN classifications and rates, discussed below, for First-Class Mail, Standard Mail, and Periodicals reflect the value of RPN and provide an effective way to garner revenue reflective of that value." USPS-T-2 at 2-3.

Applying the value pricing concept to RPNs, witness Kaneer proposes a rate of 0.5 cent for First-Class Mail and 1.5 cents for Standard and Periodical mail. He supports that rate by calling it "reasonable and modest" in light of the current average revenue per piece of 30.7 cents. He characterizes the additional penny charged for Standard and Periodical mail as a "modestly higher amount" than the First-Class charge. He justifies the differential by noting that First-Class advertising mail has a higher response rate than Standard and Periodical advertising mail, according to the mailer impressions summarized at page 19 of the ORC survey (USPS-LR-1). From this he says it is

reasonable to conclude that, while First-Class Mail value will be enhanced by using RPNs, the *relative* enhancement could be smaller for First-Class Mail than for Standard Mail or Periodicals pieces. In other words, RPNs could be expected to induce a greater increase in response rates for Standard Mail and Periodicals pieces compared to First-Class Mail pieces.

It is reasonable, therefore, to propose a higher rate for RPNs on Standard Mail or Periodicals compared to RPNs for First-Class Mail.

USPS-T-2 at 3-4 (emphasis in original). He reasons that these charges for RPNs are fair and equitable within the meaning of sections 3623(c)(1) and 3622(b)(1) because mailers who apply RPNs to their mailpieces derive more value from those mailpieces than mailers of equivalent pieces who do not apply RPNs. *Id.* at 5, 7. He says the purpose of the current proposal is to test market acceptance of RPNs at these rates. *Id.* at 5.

B. The Mailers' View

The mailers do not view this proposal as a simple, straightforward, and harmless way to marginally boost the institutional cost contribution from the eligible subclasses. Instead, they view it as a venture into uncharted pricing territory that is fraught with peril. NNA sums up the mailers' perspective:

NNA believes this new frontier in pricing, if opened at all, should be done advisedly and only after the Commission has invited wider mailer comment upon the theory. In this case, NNA would support a limited test of the RPNs, simply to permit the service to begin and to determine whether the RPNs really do have an impact upon operations. But before this value-added pricing becomes a permanent part of the classification schedule, the Commission would be wise to entertain a wider circle of comment from stakeholders of the Postal Service. The precedent here could affect many mailers.

Statement in Lieu of Brief by the National Newspaper Association, October 26, 2004, at 2-3.

The Mailers' Coalition considers basing mail classification and rates on demand considerations alone to be unlawful per se, theoretically unsound, in violation of longstanding Commission pricing principles, fundamentally unfair, and unworkable in

practice. It asserts, as well, that there is no substantial evidence supporting the application of value pricing to RPNs in this docket.

The Mailers' Coalition also argues that the way that the concept of value pricing has been applied to RPNs in this docket is procedurally improper. It argues that there are no genuine operational or classification ambiguities that need to be resolved by this proposed test. In reality, it argues, only particular rates are being tested.² It reminds the Commission that pure rate requests are not eligible for consideration under any of the Commission's expedited hearing rules. *Id.* at 15-16. In addition, since the only purpose of the proposal is to boost the institutional cost contribution of the affected subclasses, it should not be considered between general rate cases where no system-wide rebalancing of subclass contributions to institutional costs can be performed.

The Mailers' Coalition also argues that the design of the proposed market test is defective. If distinct demand, by itself, were a valid basis for creating a separate subclass, the Mailers' Coalition argues, the test has not been designed to yield the kind of information necessary to support creation of such a subclass. It says that the proposed test will not allow one to determine whether demand for mail with attached RPNs is driven by the RPN or by the host subclass.³ Nor will it indicate whether increments of demand measured are attributable to the basic form of the RPN, or its specific design and content.⁴ Because the disparity between the proposed rate for First-Class and other mail is so large, it argues, the test will make it difficult to compare

² Initial Brief of Direct Marketing Association, Inc., Association for Postal Commerce, Magazine Publishers of America, Mailing & Fulfillment Service Association, October 22, 2004 (Mailers' Coalition Initial Brief), at 11-12.

³ Reply to Response of United States Postal Service to Mailer Coalition's Joint Motion to Dismiss, August 25, 2004 (Mailers' Coalition Reply to Postal Service Response), at 9.

⁴ Reply Brief of Direct Marketing Association, Inc., Association for Postal Commerce, Magazine Publishers of America, Mailing & Fulfillment Service Association, October 29, 2004 (Mailers' Coalition Reply Brief), at 8.

demand for RPNs attached to First-Class Mail with demand for RPNs attached to other mail. It proposes a different test that it says would yield the needed information.⁵

C. Value Pricing Issues Not Adequately Explored on this Record

Value pricing and economic theory. The Mailers' Coalition argues that the sole purpose of the Postal Service's proposal to charge for attaching RPNs is to exploit its monopoly power over the affected subclasses by extracting from them an increased contribution to institutional costs. Mailers' Coalition Reply to Postal Service Response at 6, 8-9. The Mailers' Coalition does not present its argument in theoretical terms, but its position reflects the standard economic theory of monopoly pricing. Prices are set to exploit monopoly power. See *Payne v. Washington Area Metropolitan Transit Commission*, 415 F2d. at 901, 916. (D.C. Cir. 1968), cited in Joint Motion at 5.

Like any firm, the Postal Service must recover its institutional costs, as well as its attributable costs, from its product prices. To recover institutional costs in a manner consistent with section 3622(b), the Commission has found it appropriate to vary subclass markups over their attributable costs to reflect differences in demand for those products. Though this distinguishes one subclass from another, the Commission does not regard this practice as unduly discriminatory within the meaning of section 403(c) of the Act. It has accepted the Postal Service's arguments that relatively high markups on subclasses that are not price sensitive allows the Postal Service to lower prices on those that are. If this is done in an informed way based on demand information, this can cause it to retain some business that it would otherwise lose, and whatever net revenue it could gain from the retained business. The Mailers' Coalition concedes that marking up prices over attributable costs to reflect differential demand is acceptable in situations where it can be shown that there is a net benefit to the utility's customers as a whole. *Id.* at 5-6.

⁵ Mailers' Coalition Initial Brief at 14-15.

No regulatory precedent is identified in this record for pure demand pricing. But it is not obvious, based on this record, that charging prices in proportion to relative differences in demand where there is no marginal cost floor to serve as a starting point could not be a net benefit to the Postal Service's customers as a whole, assuming that the Postal Service's prices were informed by knowledge of RPN demand, as well as demand for the Postal Service's other products. This record does not establish, nor does it rule out, the possibility that the Postal Service's proposal here to reflect only demand in its prices could yield a net benefit to the system overall, meeting the prerequisites for following such a pricing approach articulated in *Payne v. Washington Area Metropolitan Transit Commission*, supra, at 916-17. The discussion needed to determine whether, on a theoretical level, value pricing could yield a net benefit to the postal system did not take place on this truncated record. The data on RPN demand that might allow this Commission to evaluate the RPN prices in these terms are not available either, for the obvious reason that RPN prices have yet to be charged. To take an initial step toward obtaining the data that might resolve this issue, implementation of the provisional service should be allowed to go forward.

Is value pricing inherently arbitrary? The Mailers' Coalition points out that the purpose of grouping mail into distinct classifications is to charge a price — one that is rational and fair. It argues that if costs do not vary according to the presence or absence of a particular mail characteristic, there is no rational basis for applying what amounts to a surcharge for it. In other words, there is no rational basis for deciding how far above zero to go. Mailers' Coalition Reply to Postal Service Response at 2, 5.

There is, potentially, a rational basis for deciding how far above zero to go if the objective can be identified. If the objective were to maximize the Postal Service's net revenue from RPNs, one level is implied. If the objective is to maximize consumer welfare, another level is implied. Both require knowledge of an RPN demand function; knowledge that cannot begin to be gained unless the RPN proposal is implemented.

Value pricing and the Commission's classification standards. The Commission's longstanding policy has been to apply section 3622(b)(3) cost coverage analysis at the

subclass level. When the Commission evaluates a proposal to create a subclass of mail, its first concern is to determine whether the candidate mail exhibits common cost and demand characteristics that are distinct from other subclasses. Mailers' Coalition Reply to Postal Service Response at 2, citing PRC Op. MC95-1 at II-20. It has been the Commission's belief that the clear cost and demand distinctions that are found at the subclass level are necessary if section 3622(b)(3) cost coverage analysis is to be meaningfully applied to a group of mail.

Classification distinctions below the subclass level traditionally have been drawn for narrower purposes. The Commission has followed the principle that once an appropriate attributable cost coverage has been determined for a subclass, specific characteristics of mail within that subclass should be separately priced only to offset the added or reduced cost that they cause relative to other mailpieces in that subclass, so that the cost coverage selected for that subclass is maintained. This is true for intra-subclass "rate categories" established to recognize the costs avoided by mailer worksharing or costs added by mail that is nonstandard in size or shape. It is likewise true of intra-subclass "rate elements." These are distinct cost-driving characteristics that vary across a subclass, such as weight increment or zone.

The assumption underlying this principle is that within a subclass, the price incentives that govern mailers' decisions to submit mail with particular characteristics should neither overstate nor understate the marginal costs to society of handling and delivering mail with those characteristics. "Value" pricing as explained by witness Kaneer, seeks to price a rate element within a subclass in proportion to the market demand for that element, without reference to its cost. Rather than minimizing the cost to society of handling such mail, witness Kaneer's objective with "value" pricing appears to be to reflect intra-subclass demand differences and to increase the subclass cost coverage by the amount of the difference found.

As the Mailers' Coalition warns (Joint Motion at 7), this could introduce a degree of added complexity into the Commission's traditional approach to assigning institutional cost burdens to the various subclasses. This drawback is not of major consequence in

the context of this docket. If followed in general rate cases, however, it might be a more serious concern. Identifying appropriate target cost coverages for the various subclasses would no longer produce a system-wide cost/revenue equilibrium preserved by definitive constraints on intra-subclass prices. Instead, this process might have to be an initial cut, with value pricing applied at the end of the pricing process.

The classification status proposed for RPNs is unclear. The above analysis assumes that it is more appropriate to view value-priced mail characteristics (such as RPNs) as rate elements within a subclass than to conceive of them as another recognized species of classification “animal.” RPNs, however, don't fit any existing classification category very well. As the Mailers' Coalition points out, RPNs would not appear to come within the Commission's traditional definition of a subclass because they do not have identifiable attributable costs. The Commission traditionally has required subclasses to have both cost and demand characteristics that are shared by the candidate mail, and are distinct from other mail. PRC Op. MC95-1 at II-20. Value pricing, as witness Kaneer conceives it, assumes that mail with RPNs has demand characteristics that distinguish it from all other mail. The fact that RPNs do not cost the Postal Service anything appears to be incidental to his analysis.

The Mailers' Coalition also points out that RPNs do not constitute a coherent group of mail with unique characteristics that warrant an independent application of the section 3622(b) ratesetting criteria. Joint Motion at 6. Instead, as the Postal Service's proposed DMCS changes reveal, RPNs can be grafted onto a wide assortment of subclasses, and rate categories within subclasses. According to the Mailers' Coalition, the record does not show that RPNs actually have demand characteristics separate and apart from the subclass of mail to which they are attached. Mailers' Coalition Initial Brief at 8. Without distinct costs, and with distinct demand characteristics uncertain, RPNs would not appear to be mail to which the nine pricing factors of section 3622(b) can be readily applied to determine an appropriate institutional cost contribution.

RPNs could qualify as rate elements within the various subclasses and rate categories to which they can be added. The traditional purpose for which rate elements

are separately identified in a rate schedule, however, is to allow rate elements to be priced to reflect any additional costs that they cause, or costs that they avoid, relative to other mail in the subclass. This sends economically efficient price signals to mailers deciding whether to include or exclude those characteristics from their mail. Imposing non-cost-based charges within the subclass would appear to conflict with this traditional objective, by raising the price of a rate element above its cost.

Conceiving of RPNs as a variety of special service might conflict less with the Commission's traditional classification policies. Examples of special services are Certified Mail and Insurance. They are supplemental services that can be separately purchased and added to a wide variety of host subclasses and rate categories. Nevertheless, one can calculate demand elasticities for special services that are distinct from their host categories. It is not clear from this record whether demand for RPNs can be separately calculated for RPNs, in light of suggestions in the ORC survey that demand for RPNs is derived from the specific design and message on the RPN [USPS-LR-1 at 35] and other suggestions that demand for RPNs is derived from demand for the host class to which they are affixed. *Id.* at 33, 38, 58. Special services, however, generally differ from RPNs in that they have an attributable cost floor, and, therefore, are amenable to traditional cost coverage analysis under section 3622(b)(3).

There are several classification entities of an ad hoc character to which RPNs might be analogized. One is Ride-Along mail, which was established in Docket No. MC2000-1. It allows a Periodical mailpiece to be packaged with one light-weight piece that is freed from the content requirements of Periodicals. Since both pieces are handled together, there is no additional sorting cost. The only extra cost that it causes is that associated with extra weight, which is covered by the ounce charge for the host Periodical. The charge for the Ride-Along piece is not explicitly related to the cost of that piece or any measure of demand elasticity.

Another ad hoc form of classification that is potentially relevant to RPNs is Money Orders. Money Orders are a special service. As adopted in Docket No. R2001-1, there are two tiers of Money Order fees. The tier that applies depends on the face value of the

Money Order. This fee schedule is not directly related to the cost of the Money Order. It partly reflects the intrinsic value of the Money Order.

It should be noted that the value of Ride-Along and Money Order fees as precedents for RPN fees is limited by the fact that neither purports to track costs or estimates of demand, and both were approved on the basis of settlement agreements that do not mention value pricing as a rationale for the classifications created or the rates charged.

The Commission has decided to recommend that the DMCS provisions proposed by the Postal Service be adopted. For purposes of this provisional service, the Commission will regard RPNs as an ad hoc classification category. In the context of a permanent classification change that is part of a general rate case, there may be a greater need to treat RPNs in a manner that is consistent with existing classification categories.

The fairness of value pricing. The Mailers' Coalition says that it is fundamentally unfair for the Postal Service to charge for RPNs when the cost of RPNs, and the risk that those costs will not be recouped from increased sales, are borne entirely by the mailer. Under the logic of value pricing, it argues, the Postal Service could extract a premium for any engagement device that the mailer might use, including customizing its catalogs or personalizing its circulars. Joint Motion at 7; Mailers' Coalition Initial Brief at 9-10. It argues that under the logic of value pricing, the Postal Service is entitled to demand rewards in proportion to the effectiveness of the direct marketer's efforts, rather than its own. Joint Motion at 7. NNA joins in this criticism. This logic, it says, would allow the Postal Service to demand a percentage of the sales a direct marketer made through the mails, in the same way that shopping mall owners often contract to receive a percentage of their tenants' sales. While this might be tolerable in the real estate business, where there is competition among mall owners for tenants, NNA says it is not tolerable where the mailer has only the Postal Service to deliver its mail. NNA Statement in Lieu of Brief at 1-2. The Commission's conclusions concerning the fairness of the RPN proposal are presented in section D.

Potential regulatory and administrative obstacles to value pricing. It might be undesirable from the standpoint of regulatory policy if unbundling cost-free features of the mail for separate “value” pricing were to become commonplace. As the Mailers' Coalition notes, features that are cost-free to the Postal Service that can be expected to affect advertising response rates are likely to consist of customization of package design or personalization of message content. Compared with such cost-driving features as shape, weight, or speed of delivery, cost-free features are likely to be difficult to categorize, and their affects on demand are likely to be more subtle and subjective, and therefore more difficult to quantify. This tends to require the Postal Service to make, and the Commission to review, subjective assessments of the market value of detailed mailpiece characteristics that would best be left to the mailer. If a substantial portion of overall system revenue were to be raised through value pricing of various aspects of mailpiece design and content, based on subjective notions of market value, pricing guidelines or standards may become less relevant and less useful. Pricing may become more difficult to review than it would be under the Commission's traditional pricing principles, and revenue may become more difficult to forecast. Such concerns, however, do not present major obstacles to testing temporary rates for a single “value” priced product such as RPNs.

D. The Commission Recommends Approval of the Proposed Provisional RPN Classification and Accompanying Rates

The Commission's task in this docket is to evaluate a proposed provisional service change of one year's duration that supplements the existing subclasses of service without disturbing the existing classification structure. The Commission has framed the issues described above and determined that they do not present insurmountable obstacles to offering RPNs on a provisional basis. These issues, however, must be addressed in a more definitive manner before permanent DMCS changes authorizing charges for RPNs can be recommended. To facilitate this, the Commission will arrange

for an expert in the field of regulated industries to discuss the appropriateness of value pricing generally in a white paper. The paper would be designed to start a dialogue on the theoretical and policy issues that are raised when a monopolist engages in value pricing.

Even though this is a proposal for a provisional rather than a permanent service change, the Commission must evaluate it in terms of all of the classification criteria of section 3623(c) and ratesetting criteria of section 3622(b) to determine whether it conflicts with any of them, and whether, on balance, the proposal serves the interests identified there.

Proposed classification. The Commission recommends that the provisions of the DMCS that are needed to implement the proposed provisional service change be adopted. A prominent factor in the Commission's recommendation is its finding that this provisional change is not likely to have a substantial financial impact on either mailers or the Postal Service. Witness Holland testifies that the Postal Service does not expect RPNs to impose any additional handling or other costs, based on the experience with pilot tests for letter-shaped mail and engineering tests for flat-shaped mail. USPS-T-1 at 2. Accordingly, there appears to be little risk that the provisional availability of RPNs will cause losses that will have to be offset by revenues from mail that does not use RPNs. As the Mailers' Coalition points out, a more significant risk is the converse — that during the test period RPN-bearing mail might shoulder more than its fair share of the institutional costs of the Postal Service, based on the relative shares recommended by the Commission in the most recent general rate case. Joint Motion at 3-4; Mailers' Coalition Reply to Postal Service Response at 5. This appears to be only a minor risk, given the modest level of the proposed rates, and the uncertainty on this record that the market will willingly embrace them. In this regard, the Commission notes that the ORC survey summarized the results of the pilot test as "highly mixed," with only half of the participants experiencing increased read-and-respond rates. USPS-LR-1 at iii. Although RPN service has been available since February 2002 to the 12 participants in the pilot test, witness Holland notes that only three attempted repeat mailings of RPNs over that

time. USPS-T-1 at 2. This suggests that the appeal of RPNs might be rather limited, even where there is no charge.

Witness Holland notes that volume records have not been kept during the pilot test or live service period to provide a basis for a forecast of letter mail volumes under the proposed RPN rates. Despite the availability of the ORC survey, he testifies that “there is no basis at this time for estimating the number of participants and the potential volumes and revenues” to expect during the one-year test period. He asserts, however, that “the overall effect, at least initially, is not expected to be particularly large.” *Id.* at 5. The Commission has no reason to disagree.

On balance, the Commission finds that the proposed RPN service promotes the classification objectives identified in section 3623(c). Sections 3623(c)(3) and (4) deal with classifications that provide varying degrees of speed and reliability of delivery, and so are irrelevant to the RPN proposal. Section 3623(c)(2) and (5) address the desirability for special classifications of mail. Section (c)(2) addresses it from the public's point of view. Section (c)(5) addresses it from the points of view of the mailer, and of the Postal Service.

According to Postal Service witness Holland, RPNs can extend the life of an advertising message by allowing the recipient to peel off the note and attach it to a telephone or computer for later reference. USPS-T-1 at 1. This is a convenience for the recipient, and therefore a likely public benefit. Witness Holland also asserts that RPNs will provide the advertising mailer with a new way to differentiate one advertising mailpiece from another, engage the recipient's attention, and increase read-and-respond rates. For catalog mailers, he says RPNs provide a way to correct minor catalog printing errors cheaply and easily. *Ibid.* Therefore, RPNs are likely to increase advertising mailers' options in a desirable way. From the Postal Service's point of view, RPNs provide a way to increase contribution to institutional costs from some core products without affecting base rates, service quality, or costs. USPS-T-2 at 6. RPN service, therefore, promote the statutory objective of providing special classifications that meet

the needs of the public [section 3623(c)(2)], the mailer, and the Postal Service [section 3623(c)(5)].

The remaining classification criterion to be considered is section 3623(c)(1), which addresses the fairness of the classification system. There is nothing inherently unfair about offering RPN service as a supplement to the basic services that the Postal Service provides. It may be rendered unfair by the rate structure and rate level adopted.

Proposed rates. Witness Kaneer proposes RPN rates of 0.5 cent per piece for bulk First-Class Mail and 1.5 cents per piece for Standard and Periodical mail. He justifies charging for a feature that is assumed to be costless to the Postal Service by arguing that they add “value” to the host mailpiece from the advertiser’s perspective, and therefore should contribute revenue to the system for reasons that are unrelated to their cost. *Id.* at 2-3.

As noted earlier, the Mailers’ Coalition argues that charging for a costless service violates the requirement in section 3622(b)(3) that each class of mail bear its attributable costs and “a portion of all other costs...reasonably assignable to such class.” It reads this section as an injunction against single-tier costing for any subclass. It reasons that a prerequisite for establishing a subclass is that it have distinct and identifiable attributable costs, so that those costs can provide a base or floor for the second layer of costs — reasonably assignable (institutional) costs. Joint Motion at 2-3; Mailers’ Coalition Reply to Postal Service Response at 2-3.

It is the Commission’s traditional approach to mail classification and pricing to require that subclasses have distinct attributable cost characteristics in order to make independent evaluation of its institutional cost markup meaningful. This approach is permitted, but not mandated, by the language of section 3622(b)(3). Arguably, if a subclass has zero attributable costs, it covers those costs. And, arguably, if a subclass of mail contributes anything toward “all other costs,” it has contributed “a portion,” as the language of section 3622(b)(3) requires. The issue for the Commission to decide is whether it should allow an exception to its traditional classification and pricing policy, and recommend that RPNs be assigned some institutional cost, even though they have no

attributable costs. The Commission has decided to recommend such an exception, but for purposes of allowing the implementation of RPN service provisionally. It will require an examination of the ramifications of “demand pricing” in much greater depth, before it will recommend that that this exception be made permanent.

The Mailers' Coalition also asserts that charging for a costless service violates the fairness provisions of the Act. It argues that it is not fair for the Postal Service to extract revenue from a supplemental service feature that is produced and paid for entirely by mailers. They argue that they design, produce, and apply RPNs, and take the risk that their investment will not be recovered through higher response rates. Because the Postal Service bears no cost or risk, the mailers contend, it is merely singling out RPN mailers for what amounts to a special tax, only because it believes it can make RPN mailers pay. This tactic, the coalition says, merely exploits the Postal Service's monopoly position as the sole supplier of mail service. Joint Motion at 6-7; Mailers' Coalition Reply to Postal Service Response at 6.

The Commission is not persuaded that “value” pricing is unfair per se. Value of service is one of the factors that the Act directs the Commission to consider when it evaluates proposed rates. See section 3622(b)(2). The Commission has interpreted this section to include elasticity of demand for a service in the standard economic sense, and to allow institutional cost burdens to be relatively larger for subclasses with less elastic demand without violating the fairness policies of the Act. The rationale for this unequal treatment is that it can maximize consumer surplus.

It is not clear from this meager record whether the same rationale is available to support pure demand pricing as witness Kaneer advocates. This is a question that involves both economic theory, and the particular circumstances (the particular demand elasticities) of RPNs. Without a sufficient record to determine whether pure demand pricing might maximize consumer surplus as an abstract matter, and might do so with regard to RPNs if their price elasticities were known, the Commission is not able to conclude that demand pricing of RPNs is unfair or unduly discriminatory. While the burden would normally be on the Postal Service to demonstrate that its unequal

treatment of RPN users might be theoretically justified and correctly applied, it has a lighter burden when seeking approval of rates for a provisional service that, if not optimally designed, will do little harm if implemented.

As noted, witness Kaneer proposes RPN rates of 0.5 cent per piece for bulk First-Class Mail and 1.5 cents per piece for Standard and Periodical mail. He justifies these particular rates by characterizing them as “modest” in light of the average revenue per piece of the host subclasses. He justifies the difference between the RPN rate for First-Class Mail and that for other mail as a reasonable reflection of their differences in added value. USPS-T-1 at 3-4. This testimony provides sufficient record support to allow these rates to be tested without violating the prohibition against undue discrimination found in section 403(c) of the Act, and the fairness requirements of sections 3622(b)(1) and 3623(c)(1). Witness Kaneer, however, has not accounted for a good deal of evidence in the record that runs counter to his conclusions. The record support for his conclusions would not be adequate to support a set of permanent RPN rates.

The set of rates that witness Kaneer proposes is among those hypothesized in the ORC survey, so some evaluation of them is possible. The Mailers' Coalition attacks these rates as arbitrary and discriminatory. It says that imposing a surcharge that is three times as high on Standard and Periodical mail as on First-Class Mail is unfair and probably counterproductive. It points out that the 1.5-cent surcharge for Standard and Periodical mail represents a far larger percentage increase in the total price for most of these subclasses than the 0.5 cent RPN surcharge represents for First-Class Mail. Mailers' Coalition Initial Brief at 13.

The table below displays total prices with and without RPNs for representative pieces of selected categories of mail. It is modeled after the table that the Commission presented in its press briefing book that accompanied its opinion in the last general rate case (Docket No. R2001-1). It shows that there is substance to the mailers' assertion that proposed RPN rates have a disproportionately large impact on Standard and Periodical mail. The table shows that adding an RPN to any of the major categories of

First-Class Mail constitutes an increase in total price of less than two percent. For Periodical and Standard Mail the affect on total price is much higher.

IMPACT OF RPN CHARGES ON TOTAL PRICE OF REPRESENTATIVE PIECES FOR SELECTIVE RATE CATEGORIES				
(dollars)				
	<u>Current Rate</u>	<u>Repositionable Note (RPN) Rate</u>	<u>Current Rate w / RPN</u>	<u>Change Due to RPN</u>
First-Class Mail				
Presorted Letters	0.352	0.005	0.357	1.4%
Automation Letters				
3-Digit	0.292	0.005	0.297	1.7%
5-Digit	0.278	0.005	0.283	1.8%
Periodicals				
Within County				
Carrier Route Presort (High Density)				
DDU Entry, 4.5 oz.	0.060	0.015	0.075	25.2%
Outside County				
Carrier Route Presort				
Palletized				
SCF Entry, 5.8 oz.				
50% Editorial	0.175	0.015	0.190	8.6%
Carrier Route Presort				
Palletized				
SCF Entry, 13.8 oz.				
50% Editorial	0.274	0.015	0.289	5.5%
Standard Mail				
Regular				
3-Digit Auto Letters				
No Destination Entry, 2 oz.	0.203	0.015	0.218	7.4%
3/5-Digit Presort Nonletters				
SCF Destination Entry, 3 oz.	0.242	0.015	0.257	6.2%
Nonprofit				
Basic Presort Letters				
No Destination Entry, 1 oz.	0.165	0.015	0.180	9.1%
3/5-Digit Presort Nonletters				
No Destination Entry, 2 oz.	0.183	0.015	0.198	8.2%
Enhanced Carrier Route (ECR) Saturation Nonletters				

For representative categories of Periodical mail, the table shows that adding an RPN to a piece of representative weight would increase the total price for that piece

between 5.5 and 25.2 percent. Likewise, for representative categories of Standard Mail, the table shows that adding an RPN to a piece of representative weight would increase its total price between 6.2 percent and 11.7 percent. Section 3622(b)(4) instructs the Commission to take the impact of rate increases into account in reviewing proposed rates. In analyzing the consistency of his proposed rates with that section, witness Kaneer does not mention the relatively larger impact that his proposed surcharges would have on the total price of Periodical and Standard Mail, nor does he acknowledge the risk that these larger impacts on total price might curtail RPN demand in those classes disproportionately.⁶ Such potential effects should be more thoroughly considered when the Postal Service proposes permanent RPN charges.

Witness Kaneer also ignores highly relevant findings in the ORC survey that the Postal Service commissioned to study the potential market for RPNs. The authors of the ORC survey asked 84 mailers chosen as a representative cross-section of potential users of RPNs how they would respond to a number of hypothetical RPN surcharges. The results suggest that the sensitivity of Standard Mail users to RPN prices is considerably higher than the sensitivity of First-Class Mail users.⁷ This raises the possibility that it might be more economically efficient, and ultimately more rewarding to the Postal Service itself, to charge Standard mailers less than First-Class mailers when it revisits the issue of RPN rates.

⁶ The ORC survey that the Postal Service commissioned to study the potential market for RPNs concluded that total cost is the principal determinant of demand for Standard Mail, at least for flats' mailers [USPS-LR-1 at 20, 58].

⁷ For example, the ORC survey responses summarized on page 70 of USPS-LR-1 show that users of First-Class Mail would be relatively insensitive to the RPN price. Reducing the hypothetical RPN price from 1.5 cents to 0.5 cents caused those considering applying RPNs to First-Class Mail to go from 65 to 76 (roughly a 17 percent increase). Mailers of Standard Mail appeared to be much more sensitive to price. Reducing the hypothetical RPN price of 3 cents to 1.5 cents caused those considering applying RPNs to Standard Mail to go from 35 to 62 (about a 77 percent increase). At a hypothetical RPN surcharge of 1.5 cents for all mail, 65 of 84 mailers said they would apply them to First-Class Mail, while only 35 of 84 said they would apply them to Standard Mail. These were the survey results when the respondents were not asked to assume anything about the effectiveness of RPNs in lifting read-and-respond rates. When mailers were asked to assume certain improvements in read-and-response rates from RPNs, those considering applying RPNs to Standard Mail remained more price conscious than those considering applying them to First-Class Mail. USPS-LR-1 at 37.

Another highly relevant finding of the ORC survey is that the demand for RPNs is likely to be much less for flat mail than for letter-shaped mail. The ORC survey concludes that “[b]y segment, letter-sized mailers have by far the highest level of interest [in RPNs].” USPS-LR-1 at iv. At page 37, it observes that “[f]lat sized mailers, in particular, are far less willing to pay the suggested \$0.03 incremental postage for Standard Mail than the other segments.” This suggests that it might be economically more efficient, and more beneficial to the Postal Service, to charge less for RPNs affixed to flat mail than to letter mail. If this is deemed impractical, it might be beneficial at least to consider charging a relatively lower rate for Periodicals, a subclass that is composed entirely of flats, when the Postal Service revisits the issue of RPN rates.

Another relevant finding of the ORC survey is that it is especially unlikely that small mailers who do not have the volume to justify outsourcing their mail preparation would have an interest in using RPNs if it requires paying additional postage. Such mailers feel that it is particularly impractical to use RPNs because they cannot afford the equipment needed to apply them. See USPS-LR-1 at i, iv, 34.

This is the dilemma that NNA witness Tidwell seems to find himself in. He publishes the *Hood County News*, in Granbury, Texas. It is a non-daily newspaper with a paid circulation of 10,000. The *Hood County News* competes primarily with a large metropolitan daily newspaper which offers its advertisers the choice of purchasing a peel-off label affixed to the front page. Witness Tidwell describes the obstacles to meeting the metropolitan daily's competition in this respect. He says that the cost of printing small runs of peel-off labels and affixing them by hand would likely come to 5 cents per piece. This, he asserts, is much higher than the volume-based discounts his competitor pays. In addition, he asserts, his competitor pays nothing extra when it distributes newspapers with peel-off labels attached, since most of its papers are privately delivered. He argues that he can't meet this competition if he has to pay more than the half-cent RPN rate proposed for First-Class Mail. Direct Testimony of Jerry Tidwell on Behalf of National Newspaper Association, NNA-T-1, at 1-5.

In designing a set of permanent rates for RPNs, it might be beneficial for the Postal Service to consider a lower RPN rate for those in witness Tidwell's position. He belongs to two groups for whom RPNs are least attractive and most sensitive to overall cost, if the ORC survey is accurate — flat mailers, and small mailers who produce their mail in-house. He is further set apart from other potential RPN users in that he competes with businesses that pay nothing extra to distribute their RPN-equivalent products. Charging less for RPNs in categories composed primarily of small mailers facing private competition (In-County Periodicals, for example) might serve the interests of the Postal Service by making it more likely that this group of mailers will remain viable customers.

IV. DESIGN OF THE PROPOSED MARKET TEST

Witness Holland proposes a market test that offers RPNs to mailers of bulk letter-shaped and flat-shaped mail, at witness Kaneer's proposed rates, for the period of one year. He leaves open the possibility of extending the test at different rates. He proposes to collect volume data on each RPN mailing from modified mailing statement forms. Volumes by class of mail and processing category used will be collected. They will be compiled and reported semi-annually. Any operational problems detected by operations' staff will be reported to headquarters. The Commission recommends approval of the data collection plan as proposed.

The Mailers' Coalition argues that the experiment designed by the Postal Service to test demand for RPNs and the different rates proposed won't allow distinct demand for an RPN to be distinguished from demand for the host subclass. It argues that estimating distinct demand for RPNs would require baseline volumes for all eligible subclasses at a zero rate, followed in a year by a uniform charge for those subclasses chosen in the next general rate case. This, it argues, would allow differences in demand with and without RPNs to be tracked. It argues that the large differential between the rate for RPNs attached to First-Class Mail and the rate for RPNs attached to other mail will make it difficult to measure the relative demand for RPNs between these two groups.

The Mailers' Coalition adds that the volume information gathered by the market test will not be available in time to guide the Postal Service when developing a permanent RPN rate in the impending general rate case. It argues that better information could be gathered by charging a zero rate for the full scope of eligible mail to provide a baseline from which to measure the effect of proposed permanent prices if they are adopted in the anticipated general rate case. Mailers' Coalition Initial Brief at 12-15.

The Commission agrees with the Mailers' Coalition that the information to be gathered by the Postal Service from its year-long test of a single set of RPN rates will not be sufficient, by itself, to estimate elasticities of demand for RPNs. At a minimum, that would require volume data for two distinct sets of rates. If a general rate case were to be

filed this coming Spring, volume data at a second set of RPN rates will likely not be available in time to be used in preparing that filing. Providing a baseline set of volumes at a particular set of rates, however, has to start somewhere. The Postal Service's proposal is reasonably, if not optimally, designed to provide national baseline volumes at an initial set of rates.

The Commission suggests that, in the future, the Postal Service consider requesting a set of rates that would be authorized during the test period up to a ceiling that it proposes. If testing market acceptance in this fashion is feasible, this might facilitate the objective of gathering data on the elasticity of demand for experimental services such as RPNs, where the potential impact on overall postal costs is expected to be negligible, and the expected impact on overall postal revenue is expected to be small.

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

Before Commissioners:

George Omas, Chairman;
Tony Hammond, Vice Chairman;
Dana B. Covington, Sr.;
Ruth Y. Goldway; and
Dawn A. Tisdale*

Repositionable Notes Provisional
Service Change

Docket No. MC2004-5

RECOMMENDED DECISION

(Issued December 10, 2004)

A full public hearing having been held in the above-entitled proceeding, and the Commission, upon consideration of the record, having issued its Opinion, which is attached hereto and made a part hereof,

IT IS ORDERED:

1. That the Commission's Opinion be transmitted to the Governors of the Postal Service and that the Governors thereby be advised that:
 - a. The rates of postage and fees for postal services set forth in Appendix One hereof are in accordance with the policies of title 39 of the United States Code and the factors set forth in § 3622(b) thereof; and they are hereby recommended to the Governors for approval.

* Commissioner Tisdale did not participate in this decision.

- b. The proposed amendments to the Domestic Mail Classification Schedule set forth in Appendix Two are in accordance with the policies of title 39 of the United States Code and the factors set forth in § 3623(c) thereof; and they are hereby recommended to the Governors for approval.
2. Except to the extent granted or otherwise disposed of herein, all motions, exceptions, and other outstanding requests filed in Docket No. MC2004-5 are hereby denied.

By the Commission.
(S E A L)

Steven W. Williams, Secretary

RECOMMENDED CHANGES IN RATE SCHEDULES

The following changes represent the rate schedule recommendations of the Postal Rate Commission in response to the Postal Service's Docket No. MC2004-5 Request. Proposed additions are underlined.

**FIRST-CLASS MAIL
RATE SCHEDULE 221**

LETTERS AND SEALED PARCELS

SCHEDULE 221 NOTES

3. Add \$0.005 per piece for Presorted, Automation Letters and Automation Flats pieces bearing a Repositionable Note as defined in Classification Schedule 221.221, 221.326, and 221.336.

**STANDARD MAIL
RATE SCHEDULE 321A**

**REGULAR
PRESORTED CATEGORIES**

SCHEDULE 321A NOTES

6. Add \$0.015 per piece for pieces bearing a Repositionable Note as defined in Classification Schedule 321.8.

**STANDARD MAIL
RATE SCHEDULE 321B**

**REGULAR
AUTOMATION CATEGORIES**

SCHEDULE 321B NOTES

4. Add \$0.015 per piece for pieces bearing a Repositionable Note as defined in Classification Schedule 321.8.

**STANDARD MAIL
RATE SCHEDULE 322**

ENHANCED CARRIER ROUTE

SCHEDULE 322 NOTES

6. Add \$0.015 per piece for pieces bearing a Repositionable Note as defined in Classification Schedule 322.8.

**STANDARD MAIL
RATE SCHEDULE 323A**

**NONPROFIT
PRESORTED CATEGORIES**

SCHEDULE 323A NOTES

6. Add \$0.015 per piece for pieces bearing a Repositionable Note as defined in Classification Schedule 323.8.

**STANDARD MAIL
RATE SCHEDULE 323B**

**NONPROFIT
AUTOMATION CATEGORIES**

SCHEDULE 323B NOTES

4. Add \$0.015 per piece for pieces bearing a Repositionable Note as defined in Classification Schedule 323.8.

**STANDARD MAIL
RATE SCHEDULE 324**

NONPROFIT ENHANCED CARRIER ROUTE

SCHEDULE 324 NOTES

6. Add \$0.015 per piece for pieces bearing a Repositionable Note as defined in Classification Schedule 324.8.

**PERIODICALS
RATE SCHEDULE 421**

OUTSIDE COUNTY (INCLUDING SCIENCE OF AGRICULTURE)

SCHEDULE 421 NOTES

8. Add \$0.015 per piece for pieces bearing a Repositionable Note as defined in Classification Schedule 424.

**PERIODICALS
RATE SCHEDULE 423**

WITHIN COUNTY

SCHEDULE 423 NOTES

3. Add \$0.015 per piece for pieces bearing a Repositionable Note as defined in Classification Schedule 424.

**RECOMMENDED CHANGES IN
DOMESTIC MAIL CLASSIFICATION SCHEDULE**

The following material represents changes to the Domestic Mail Classification Schedule recommended by the Postal Rate Commission in response to the Postal Service's Docket No. MC2004-5 Request. The underlined text signifies that the text is new, and shall appear in addition to all other Domestic Mail Classification Schedule text. Information to be added upon approval by the Board of Governors appears in brackets and is underlined.

**FIRST-CLASS MAIL
CLASSIFICATION SCHEDULE**

221 Letters and Sealed Parcels Subclass

221.22 Presort Rate Category.

221.221 **Repositionable Notes.** Repositionable Notes may be attached to the exterior of letter-size and flat-size Presort rate category mail, as specified by the Postal Service. The additional charge for the Repositionable Note is specified in note 3 to Rate Schedule 221. This provision expires on [insert date one year from the implementation date set by the Board of Governors.]

221.3 Automation Rate Categories – Letters and Flats

221.32 Letter Categories

221.326 **Repositionable Notes.** Repositionable Notes may be attached to the exterior of Automation letter rate category mail, as specified by the Postal Service. The additional charge for the Repositionable Note is specified in note 3 to Rate Schedule 221. This provision expires on [insert date one year from the implementation date set by the Board of Governors.]

221.33 Flats Categories

221.336 **Repositionable Notes.** Repositionable Notes may be attached to the exterior of Automation flats rate category mail, as specified by the Postal Service. The additional charge for the Repositionable Note is specified in note 3 to Rate Schedule 221. This provision expires on [insert date one year from the implementation date set by the Board of Governors.]

**STANDARD MAIL
CLASSIFICATION SCHEDULE**

321 Regular Subclass

321.8 **Repositionable Notes.** Repositionable Notes may be attached to the exterior of letter-size or flat-size Regular subclass mail, as specified by the Postal Service. The additional charge for the Repositionable Note is specified in note 6 to Rate Schedule 321A or note 4 to Rate Schedule 321B. This provision expires on [insert date one year from the implementation date set by the Board of Governors.]

322 Enhanced Carrier Route Subclass

322.8 **Repositionable Notes.** Repositionable Notes may be attached to the exterior of letter-size or flat-size Enhanced Carrier Route subclass mail, as specified by the Postal Service. The additional charge for the Repositionable Note is specified in note 6 to Rate Schedule 322. This provision expires on [insert date one year from the implementation date set by the Board of Governors.]

323 Nonprofit Subclass

323.8 **Repositionable Notes.** Repositionable Notes may be attached to the exterior of letter-size or flat-size Nonprofit subclass mail, as specified by the Postal Service. The additional charge for the Repositionable Note is specified in note 6 to Rate Schedule 323A or note 4 to Rate Schedule 323B. This provision expires on [insert date one year from the implementation date set by the Board of Governors.]

324 Nonprofit Enhanced Carrier Route Subclass

324.8 **Repositionable Notes.** Repositionable Notes may be attached to the exterior of letter-size or flat-size Nonprofit Enhanced Carrier Route subclass mail, as specified by the Postal Service. The additional charge for the Repositional Note is specified in note 6 to Rate Schedule 324. This provision expires on [insert date one year from the implementation date set by the Board of Governors.]

**PERIODICALS
CLASSIFICATION SCHEDULE**

424 **Repositionable Notes.** Repositional Notes may be attached to the exterior of letter-size and flat-size Periodicals mail, as specified by the Postal Service. The additional charge for the Repositionable Note is specified in note 8 to Rate Schedule 421 or note 3 to Rate Schedule 423. This provision expires on [insert date on year from the implementation date set by the Board of Governors.]