

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

RATE AND SERVICE CHANGES TO IMPLEMENT  
BASELINE NEGOTIATED SERVICE AGREEMENT  
WITH BOOKSPAN

Docket No. MC2005-3

NOTICE OF THE UNITED STATES POSTAL SERVICE  
OF DECISION OF THE GOVERNORS

The United States Postal Service hereby provides notice of the attached

Decision of the Governors:

Decision of the Governors of the United States Postal Service on the  
Opinion and Recommended Decision of the Postal Rate Commission on  
Rate and Service Changes to Implement Baseline Negotiated Service  
Agreement with Bookspan in Docket No. MC2005-3.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.  
Chief Counsel, Ratemaking

Scott L. Reiter

475 L'Enfant Plaza West, S.W.  
Washington, D.C. 20260-1137  
(202) 268-2999; Fax -5402  
Scott.L.Reiter@usps.gov  
June 1, 2006

**DECISION OF THE GOVERNORS OF THE UNITED STATES POSTAL SERVICE ON THE  
RECOMMENDED DECISION OF THE POSTAL RATE COMMISSION ON RATE AND SERVICE  
CHANGES TO IMPLEMENT BASELINE NEGOTIATED SERVICE AGREEMENT WITH  
BOOKSPAN, DOCKET NO. MC2005–3**

---

May 31, 2006

**STATEMENT OF EXPLANATION AND JUSTIFICATION**

On May 10, 2006, the Postal Rate Commission issued its Opinion and Recommended Decision on Rate and Service Changes to Implement Baseline Negotiated Service Agreement with Bookspan in Docket No. MC2005–3. Pursuant to a Request filed by the Postal Service on July 14, 2005, the Commission recommended the negotiated rates and the proposed classification changes, as modified by proceedings on the record, to allow implementation of the Agreement.

For the reasons explained below, we have concluded that the Commission's recommendation meets the Postal Reorganization Act's rate and classification criteria and is otherwise in accordance with the policies of the Act. The Commission's Opinion provides a full discussion of the record before it and the evidence showing that the proposed changes comply with the applicable statutory criteria. While we do not necessarily agree with every characterization of the evidence, we find that the discussion demonstrates substantial support on the record for the Commission's recommended decision. Therefore, we approve the changes recommended by the Commission.<sup>1</sup>

The Negotiated Service Agreement (NSA) with Bookspan offers the opportunity for Bookspan to be eligible for discounted rates on Standard Mail letters soliciting new members for its book clubs. The possibility of receiving discounted rates in its marketing efforts is an important incentive in an industry (book publishing) whose rate of growth is relatively flat and whose sales method (mail order) is declining.

---

<sup>1</sup> The changes are all additions to the schedules and are shown in Attachments A and B hereto.

The Bookspan NSA is a milestone in that it is the first “baseline” NSA since the Capital One NSA in 2002.<sup>2</sup> The Bookspan NSA differs in several significant respects from the Capital One NSA and the functionally equivalent NSAs that followed it. Those NSAs provided discounts for mailing First-Class Mail letters soliciting credit card customers above specified volume levels, and reduced postal costs through the NSA partner’s agreement to convert to electronic notification of address correction information. The savings, although unrelated to the discounts, were seen as offsetting the revenue potentially forgone through the discounts. Indeed, the Commission recommended that the discounts be capped at the level of the savings; we discussed this issue in previous Decisions on NSAs. By contrast, the Bookspan NSA is based solely on the benefits to the Postal Service of offering incentives for Bookspan to send additional letters soliciting new members for its book clubs.<sup>3</sup> Aside from the contribution from the additional Standard Mail letters induced by the discounts, there are significant additional benefits to the Postal Service from the NSA, due to Bookspan’s “multiplier effect,” which results in a stream of fifty to sixty additional mailpieces of various subclasses<sup>4</sup> for each new book club member over the course of a year. The Commission found, and we agree, that this effect provides a reasonable justification for offering discounts to one mailer, so long as similarly situated mailers have the opportunity to negotiate functionally equivalent agreements. The Commission found that the recommended classification changes meet the statutory criteria of desirability to both the mailer and the Postal Service and increased the value of postal services to the mailer. The Commission also found that the recommended rates meet the statutory criteria of covering attributable costs and contributing to other postal costs, based on the testimony presented regarding Bookspan’s mailing practices and profile, including the multiplier effect. We agree that the changes recommended meet the applicable statutory criteria, based on the record evidence.

This NSA incorporates new provisions that mitigate against risk of loss to the Postal Service. The Commission “applaud[ed] the Postal Service and Bookspan for their innovation and ingenuity in ... regard” to these provisions. First, the discounts made available under the agreement above a certain volume level do not become payable until after Bookspan’s volume

---

<sup>2</sup> Under the Commission’s rules, a “baseline” NSA is one that has a unique set of provisions; “functionally equivalent” NSAs can be modeled on a baseline NSA for similarly situated mailers.

<sup>3</sup> Due to Bookspan’s commendable mailing practices, no further cost savings opportunities were identified that could have been incorporated into the NSA to increase its overall benefit.

<sup>4</sup> These include Bound Printed Matter for book order fulfillment, First-Class Mail for customer billing and correspondence, and Standard Mail for member catalog distribution.

has reached a higher volume commitment level. Second, the volume commitment levels are subject to adjustment each year, based on the previous year's actual volume. These provisions reduce the risks inherent in offering discounts based on volume forecasts. Third, the agreement terminates if Bookspan's volumes reach a specified, higher-than-anticipated level. This protects the Postal Service against unforeseeable changed circumstances. Finally, both parties have a unconditional right to terminate the agreement with thirty days' notice to the other. This protects the Postal Service against loss in the event of a decrease in net contribution as a result of the NSA.

The Commission expressed concern about reliance on Bookspan's volume estimates as the basis for forecasts to determine whether the discounts are likely to result in a positive net contribution without "independent" analysis and in light of the lack of complete mailer-specific information. The Commission, however, recognized the difficulty of constructing a methodology to do so and of finding actual independent data in the case of a privately-held mailer in a small industry, and concluded that Bookspan should not be penalized by the lack of such sources. Instead, the Commission suggested use of an economic analysis introduced in the Capital One NSA case as a means to test the effect of the discounts along a range of volume levels. The Commission's application of that analysis showed potential gains at certain volume levels and potential losses at certain other points. The Commission concluded, however, that the risk of loss was mitigated by other factors, notably the multiplier effect and the 30-day termination provision.

Chairman Omas, in his concurring opinion, notes that "[t]he development of NSAs is an evolutionary process, perhaps in its infancy still" and expresses his conviction that "we have only begun to explore the tremendous value of NSAs." As the Commission noted, under current law and practice, each new NSA must be reviewed by the Commission and will be analyzed by the Commission on a case-by-case basis. We believe that the Commission's overall approach in this case was appropriate and is a milestone along this evolutionary path. The Commission appropriately analyzed the totality of circumstances to determine the consistency of the proposal with the statutory criteria, rather than insisting on strict compliance with requirements that cannot be met in a particular circumstance or on the mechanical application of abstract analyses. We agree with Chairman Omas regarding the potential for NSAs and commend the Commission for finding a way, in the circumstances of this particular case, to allow that potential to continue to evolve. We hope that in the future, the Commission will continue to execute its

policy in favor of recommending statutorily-consistent NSAs, and will find a means to do so with its rule's promise of the "maximum degree of expedition consistent with procedural fairness," so that requests to implement future baseline NSAs can be evaluated by the Commission in significantly less time than ten months.

#### **ESTIMATE OF ANTICIPATED REVENUE**

The Postal Reorganization Act requires that our Decision include an estimate of anticipated impact on postal revenues (39 U.S.C. § 3625(e)). With adjustments made by the Commission on the basis of the record before it, the NSA is estimated to increase postal revenue by \$7.9 million over the three-year course of the NSA. This amount does not include additional revenue resulting from the multiplier effect.

#### **ORDER**

In accordance with the foregoing Decision of the Governors, the rate schedule changes set forth in Attachment A and the classification changes set forth in Attachment B are hereby approved and ordered into effect. In accordance with Resolution 06-05 of the Board of Governors, dated May 31, 2006, the changes will take effect at 12:01 a.m. on June 1, 2006.

By The Governors:

  
Chairman

**BOOKSPAN NSA  
RATE SCHEDULE 620A**

**(FIRST YEAR OF AGREEMENT)**

**Volume Block<sup>1</sup>**

**Incremental Discounts**

87,000,001 to 120,000,000	2.0¢
120,000,001 to 150,000,000	3.0¢

1. Volume block beginning and ending thresholds are subject to adjustment for mergers or acquisitions by adding the new entities' volume in accordance with DMCS § 620.24.

**BOOKSPAN NSA  
RATE SCHEDULE 620B**

**(SECOND YEAR OF AGREEMENT)**

<b>Volume Block<sup>1</sup></b>	<b>Incremental Discounts</b>
85,000,001 to 110,000,000	2.0¢
110,000,001 to 150,000,000	3.0¢

1. Volume block beginning and ending thresholds are subject to adjustment for mergers or acquisitions by adding the new entities' volume in accordance with DMCS § 620.24.

**BOOKSPAN NSA  
RATE SCHEDULE 620C**

**(THIRD YEAR OF AGREEMENT)**

<b>Volume Block<sup>1</sup></b>	<b>Incremental Discounts</b>
94,000,001 to 100,000,000	1.0¢
100,000,001 to 120,000,000	2.0¢
120,000,001 to 150,000,000	3.0¢

1. Volume block beginning and ending thresholds are subject to adjustment for mergers or acquisitions by adding the new entities' volume in accordance with DMCS § 620.24.

**NEGOTIATED SERVICE AGREEMENTS  
CLASSIFICATION SCHEDULE****620 BOOKSPAN NEGOTIATED SERVICE AGREEMENT****620.1 Eligible Standard Mail**

**620.11 Bookspan.** Eligible Standard Mail under this section is defined as Standard Mail letter-shaped pieces sent by Bookspan for the purpose of soliciting book club membership: (1) of persons who are not current subscribers to the book club or clubs Bookspan is promoting in the mailing; or (2) of book club members whose membership is expiring. Such pieces may be sent by Bookspan, by entities in which Bookspan holds controlling shares, or by their vendors on their behalf. Such pieces may include up to two inserts promoting Bookspan's strategic business alliances. Under no circumstances are periodic Current Member club mailings which offer the cycle's Featured Selection, as well as other club selections and offerings, eligible to be counted and receive discounts under the Agreement, even if they contain solicitations to renew membership in that club or to join other clubs.

**620.12 Other Mailers.** Functionally equivalent NSAs, involving declining block rates for Standard Mail letters for the purpose of acquiring customers for programs involving recurring mailings offering merchandise, may be entered into with other customers demonstrating a similar or greater multiplier effect and implemented pursuant to proceedings under Chapter 36 of Title 39, of the United States Code. For a mailer to have a similar or greater multiplier effect, at least six times per year, that mailer must send a continuing series of marketing mail, send products to a list of people who have agreed to purchase some stipulated minimum number of items on a more or less regular basis and use at least one other subclass for merchandise fulfillment.

**620.2 Standard Mail Declining Block Rates**

**620.21 Volume Commitments.** The following volume commitments for otherwise eligible letter-shaped Standard Mail pieces must be met before any discounts under this section are payable:

- a. 94 million for the first year of the Agreement;
- b. 95 million for the second year of the Agreement, subject to adjustment as specified below; and,
- c. 105 million for the third year of the Agreement, subject to adjustment as specified below.'

If Bookspan does not mail at least 73 million pieces during the first year of this Agreement, it will pay the Postal Service a one-time transaction fee of \$200,000.

**620.22 Volume Commitment Adjustment Mechanism.** At the end of each year of the Agreement other than its final year, the volume commitment for the following year will be adjusted, as follows:

- a. If, at the end of the year, actual volume is 12 percent or more above that year's volume commitment, the following year's commitment will be revised to be the average of the completed year's actual volume and the original volume commitment for the following year.
- b. If, at the end of the year, actual volume is 5 percent or more below that year's volume commitment, the following year's commitment will be decreased by the percentage difference between the completed year's original volume commitment and its actual volume, but in no case to lower than 90 million.

**620.23 Incremental Discounts.** Bookspan's eligible Standard Mail is subject to the otherwise applicable Standard Mail postage in Rate Schedule 321A, 321B, or 322 less the discounts shown in Rate Schedule 620A for the first year of the Agreement, in Rate Schedule 620B for the second year of the Agreement, and in Rate Schedule 620C for the third year of the Agreement, if Bookspan meets the applicable volume commitments specified in 620.21, or as adjusted in accordance with 620.22. Each incremental discount applies only to the incremental volume within each volume block.

**620.24 Volume Block Adjustments for Mergers and Acquisitions.** In the event that Bookspan merges with and/or acquires an entity or entities and/or purchases a portfolio with annual Standard Mail volume in excess of 5 million pieces, the volume blocks will be adjusted to add the volume of Standard Mail sent by the merged or acquired entity during the 12 months preceding the merger, acquisition, or purchase. The adjustment becomes effective for the succeeding fiscal quarter immediately following the date that mail volumes due to the merger, acquisition, or purchase begin to be mailed through the threshold permit accounts.

**620.25 Termination.** The Agreement automatically terminates and eligibility for all discounts under this section ceases if Bookspan's Standard Mail letter solicitation volume exceeds 150,000,000, or if the Agreement is terminated by either party with 30 days' written notice to the other party.

**620.4 Rates**

The rates applicable to this Agreement are set forth in Rate Schedules 620A, 620B, and 620C.

**620.5 Expiration**

The provisions of section 620 expire on June 1, 2009.

**620.6 Precedence**

To the extent any provision of section 620 is inconsistent with any other provision of the Domestic Mail Classification Schedule, the former shall control.

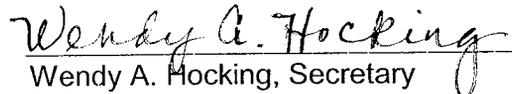
**RESOLUTION OF THE BOARD OF GOVERNORS  
OF THE  
UNITED STATES POSTAL SERVICE  
Resolution No. 06-05**

Effective Date of New Classification and Rates

RESOLVED:

Pursuant to Section 3625(f) of Title 39, United States Code, the Board of Governors determines that the changes in classification and rates that were ordered to be placed into effect by the Decision of the Governors of the United States Postal Service on the Opinion and Recommended Decision of the Postal Rate Commission on Rate and Service Changes to Implement Baseline Negotiated Service Agreement with Bookspan in Docket No. MC2005-3, adopted on May 31, 2006, shall become effective at 12:01 a.m. on June 1, 2006.

The foregoing Resolution was adopted by the Board of Governors on May 31, 2006.

  
Wendy A. Hocking, Secretary

## **CERTIFICATE OF SERVICE**

I hereby certify that I have this day served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.

Scott L. Reiter

475 L'Enfant Plaza West, S.W.  
Washington, D.C. 20260-1137  
June 1, 2006