

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

Before Commissioners:

Ruth Y. Goldway, Chairman;  
Tony L. Hammond, Vice Chairman;  
Mark Acton;  
Dan G. Blair; and  
Nanci E. Langley

Notice of Price Adjustment  
Standard Mail Incentive Pricing Program

Docket No. R2010-3

NOTICE AND ORDER CONCERNING  
STANDARD MAIL VOLUME INCENTIVE PRICING PROGRAM

(Issued March 2, 2010)

I. OVERVIEW

On February 26, 2010, the Postal Service filed with the Commission a notice announcing its intention to adjust prices for Standard Mail letters and flats pursuant to 39 U.S.C. 3622 and 39 CFR part 3010.<sup>1</sup> The proposed adjustment is another Standard Mail Volume Incentive Pricing Program (“Standard Mail Incentive Program”) similar to the one introduced in May 2009,<sup>2</sup> and subsequently approved by the Commission.<sup>3</sup> The

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<sup>1</sup> United States Postal Service Notice of Market-Dominant Price Adjustment, February 26, 2010 (Notice).

<sup>2</sup> Docket No. R2009-3, United States Postal Service Notice of Market-Dominant Price Adjustment, May 1, 2009.

<sup>3</sup> Docket No. R2009-3, Order Approving Standard Mail Volume Incentive Pricing Program, Order No. 219, June 4, 2009.

planned implementation date of the Standard Mail Incentive Program is July 1, 2010, and the planned expiration date is September 30, 2010.

## II. POSTAL SERVICE FILING

*Standard Mail Incentive Program.* The Standard Mail Incentive Program, like that introduced in Docket No. R2009-3, will give eligible companies a 30 percent postage rebate on qualifying Standard Mail letters and flats above a predetermined threshold agreed upon by both the mailer and the Postal Service. Notice at 4. The threshold is the amount of Standard Mail for each participating company sent through the Permit(s) or Ghost Permit(s) or through its Mail Service Provider (MSP) from July 1 to September 30, 2010 plus 5 percent of the volume for the same period last year (SPLY + 5 percent). *Id.* Based on the Postal Service's quarter 2 forecast of less than 1 percent volume growth from July 1 through September 30, 2010, a participant's volumes must grow significantly more than average before qualifying for any rebate. *Id.*

To ensure against mailers shifting June volume to July, or October volume to September, an additional volume threshold will be established for June through October 2010, using the same SPLY + 5 percent formula. If the actual volumes for that period do not meet the respective month's threshold (SPLY + 5 percent), the difference will be deducted from the Standard Mail Incentive Program qualifying volume. *Id.*

Eligibility for the Standard Mail Incentive Program requires qualifying mailers to have mailed 350,000 or more Standard Mail letters and flats between July 1 and September 30, 2009 through one or more permit imprint advance deposit account(s) owned by the company or through permits set up on behalf of the company by a MSP. *Id.* at 3. Approximately 3,525 customers will be eligible to participate in the sale, representing 67 percent of Standard Mail volume. *Id.* To participate, documentation specifying that the applicant is the owner of the mail is required. *Id.* MSPs are not eligible, and participating mailers are not eligible for any other concurrent postal incentive program that would result in multiple discounts. *Id.* at 3-4

The objective of the Standard Mail Incentive Program is to generate incremental Standard Mail volume and revenue. Volume is estimated to increase between 311 million and 1.1 billion new pieces. *Id.* at 2. The Standard Mail Incentive Program is designed to increase mail volume during a typically low-volume summer period. The program is intended to benefit customers, who will have the opportunity to foster relationships with existing and new patrons with limited investment, and the Postal Service, which can utilize current excess capacity to deliver the additional low-cost volumes during the summer months, improve its data systems, and enhance relationships with customers. *Id.* at 3.

The Postal Service notes that the volume threshold is lower than last year and will result in about 400 more customers being eligible to participate. *Id.* at 9. It asserts that additional costs for increased labor or technology solutions to administer the program prohibit accepting every mailer of Standard Mail. In addition, it contends that extending eligibility to small businesses might result in rebates on mail that would be sent anyway. *Id.*

*Conformance with 39 CFR part 3010.* The Postal Service represents, in conformance with the notice requirements of 39 CFR 3010.14(a)(3), that it will issue public notice of the price changes at least 45 days before the planned implementation date via several additional means, including a press release, notice on its website (<http://www.usps.com>) and its Postal Explorer website, and in future issues of *MailPro*, the *Postal Bulletin*, and the *Federal Register*. The Postal Service identifies Greg Dawson, Manager, Pricing Strategy, as the official available to provide prompt responses to requests for clarification from the Commission. *Id.* at 2.

Rule 3010.14(b)(9) requires that the Postal Service's notice include every change to the product descriptions within the Mail Classification Schedule (MCS) necessitated by the planned price adjustments. The Postal Service presented proposed changes for the previous Standard Mail Incentive Program in Appendix A to its notice in Docket No. R2009-3 based on draft MCS language being developed by the Commission in cooperation with the Postal Service. The Postal Service states that the Notice is

covered by the current MCS; thus, its Notice does not include a new schedule of proposed MCS language. *Id.* at 1, n.1.

*Program administration.* A Postal Service letter to all eligible Standard Mail customers will provide instructions for mailers who wish to apply for the program and how to verify their threshold volumes through an enrollment process. Mailers not receiving a letter who wish to apply may contact *summersale@usps.gov*. After the Postal Service and the mailer agree on threshold volumes, a Certification Letter must be signed for full enrollment. Certified volumes will be used to calculate the rebates due at the end of the Standard Mail Incentive Program with data from Postal One! and CBCIS. Rebates, after adjustments, will be added to the company's Trust Account. Each mailer is to certify, similar to the certification required by PS Form 3600, Postage Statement, the data used to calculate the volume thresholds and rebates. *Id.* at 5.

*Financial impact.* The Standard Mail Incentive Program is expected to provide incremental revenue of about \$34 million to \$157 million from new volume. Customers whose mail would increase without the Incentive Program will benefit through a postage discount on volume above their certified threshold. Based on the previous Standard Mail Incentive Program, the Postal Service does not expect a significant buy down from First-Class Mail. *Id.* at 6.

The Postal Service believes there is excess capacity to process and deliver additional volume so that, in the short run, additional volume will incur reduced additional attributable costs that may be below the standard estimate of long-run attributable cost. Appendix A to the Notice includes an explanation of the Postal Service's assessment of excess capacity and attributable costs. *Id.* at 7. Unlike the previous Standard Mail Incentive Program, the Postal Service presumes that the increased volumes may incur some additional carrier costs to deliver the incremental volumes, but the Postal Service does not expect short-run cost increases in buildings, new equipment, and vehicles. *Id.*

The Postal Service notes that the Standard Mail Incentive Program includes Standard Flats and Non-Profit products which did not make a positive contribution in

Docket No. R2009-3. *Id.* In support, the Postal Service says this initiative must be viewed as a whole, citing Appendix A to the Notice. It says that excluding Standard flats from the Standard Mail Incentive Program would change the dynamics of the sale for a large portion of catalog mailers. These mailers view Standard Flats and Carrier Route Flats as essentially the same product providing about 40 percent of their volume in Standard Flats (the other 60 percent is Carrier Route Flats). Where Standard Mail Flats are residual pieces after all possible Carrier Route volumes are qualified, their exclusion will reduce customers' incentives and potentially result in unintended consequences. *Id.* The Postal Service further states that long-term competitive benefits of including Standard Flats in the Standard Mail Incentive Program can result in more catalogs being mailed as evidenced by their large incremental growth above the baseline during the previous Incentive Program. Mailers also claim that mailing more catalogs converts prospects to new customers, which increase the use and efficiency of the mail. *Id.* at 8. The expected net contribution of the Standard Mail Incentive Program is between -\$3.5 million to + \$25.4 million with administrative costs estimated at \$930,000. *Id.*

*Risks.* The Postal Service cites several inherent risks that may affect the financial outcome of the Standard Mail Incentive Program. These include overestimating the volumes generated by the incentive, underestimating the administrative costs, and the risk that a large portion of rebates would be paid on volumes that would have been mailed anyway. *Id.* at 8-9.

*Price cap compliance.* The Postal Service intends to treat the program in a manner mathematically analogous to the procedure in rule 3010.24 consistent with the previous Standard Mail Incentive Program. It will ignore the effect of the price decrease on the price cap for both future and current prices and therefore has not made a calculation of cap or price changes described in rule 3010.14(b)(1)-(4). *Id.* at 10.

*Objectives and factors, workshare discounts, and preferred rates.* The Postal Service states that the Standard Mail Incentive Program does not substantially alter the degree Standard Mail prices already address the objectives and many of the factors in 39 U.S.C. 3622(b) of title 39. *Id.* at 10-14. The Postal Service further states that to the

extent the program affects Standard Mail workshare discounts, it will shrink them, keeping discounts with a passthrough of 100 percent or less in compliance, and bringing passthroughs over 100 percent closer to compliance. Nonprofit Standard Mail letters and flats will be eligible for the Standard Mail Incentive Program and the rates will change proportionately, thus maintaining the 60 percent ratio between prices.

### III. COMMISSION ACTION

The Commission establishes Docket No. R2010-3 to consider all matters related to the Notice as required by 39 U.S.C. 3622. Interested persons may express views and offer comments on whether the planned changes are consistent with the policies of 39 U.S.C. 3622 and the Commission's applicable regulations. Comments are due no later than March 18, 2010.

The Commission appoints Emmett Rand Costich, Kenneth R. Moeller and John Klingenberg to represent the interests of the general public in this proceeding. See 39 U.S.C. 505.

### IV. ORDERING PARAGRAPHS

*It is ordered:*

1. The Commission establishes Docket No. R2010-3 to consider matters raised by the Postal Service's February 26, 2010 filing.
2. Interested persons may submit comments on the planned price adjustments. Comments are due March 18, 2010.
3. Pursuant to 39 U.S.C. 505, the Commission appoints Emmett Rand Costich, Kenneth R. Moeller and John Klingenberg to represent the interests of the general public in this proceeding.

4. The Commission directs the Secretary of the Commission to arrange for prompt publication of this Notice in the *Federal Register*.

By the Commission.

Shoshana M. Grove  
Secretary