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POSTAL REGULATORY COMMISSION
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EXIGENT REQUEST, 2010	Docket No. R2010–4

STATEMENT OF JAMES M. KIEFER

ON BEHALF OF

THE UNITED STATES POSTAL SERVICE

JULY 6, 2010

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I. Introduction

My name is James M. Kiefer. I am a Pricing Economist for the U.S. Postal Service. I have worked for the Postal Service in Pricing since 1998, mostly on Package Services and Standard Mail.

I have testified on pricing and pricing policy issues before the Postal Regulatory Commission (formerly Postal Rate Commission) in Docket Nos. MC99-1, MC99-2, R2000-1, R2001-1, MC2002-1, MC2003-2, R2005-1 and R2006-1.

The purpose of my statement in this docket is to sponsor the Postal Service's prices in this docket and to explain the policy reasons for the pricing decisions that are incorporated in those prices. I also explain how these prices are reasonable and equitable in light of the circumstances that the Postal Service and its customers find themselves in.

The first part of my statement presents an overview of the Postal Service's pricing on a class and product basis. I then follow with a more detailed discussion of the pricing in each class, focusing on pertinent issues such as: pricing initiatives, statutory requirements regarding nonprofit and workshare prices,[1] issues raised by the Commission in its 2009 Annual Compliance Determination, and other policy issues that pertain to that class.

As with any price change request, the pricing factors and objectives guide postal pricing decisions. A discussion of how these prices promote the statutory objectives and take into account the statutory factors is included in Section IV.

[1] All citations of discounts or passthroughs in this statement can be found in Appendix B.

II. Overview

As described in the statement of Chief Financial Officer Joseph Corbett, the Postal Service is facing extraordinary and exceptional circumstances that require a price increase under the provisions of section 3622(d)(1)(E)—the exigent price change provision of the Postal Act of 2006.

In summary:

- The U.S. economy has recently experienced the worst recession since the Great Depression of the 1930s. The recession and current economic conditions have seriously affected the mailing industry, and some large-volume segments of our customer base have been hit particularly hard.
- The effect on the Postal Service has been a reduction in mail volumes of over 20 percent since the beginning of FY 2007. To put this volume reduction in perspective, it is significantly greater than the volume declines following the September 11 and anthrax terrorist attacks, and far exceeds any other volume declines in recent postal history.
- In addition to these deep cyclical drops, certain important postal customer segments have been affected by factors unique to their particular industries (for example, banking and finance, retail sales and advertising).

- These additional factors have amplified mail volume decreases brought about by the economic downturn, particularly for First-Class Mail, catalogs, Periodicals, advertising and direct mail.
- The volume drops have hit not only at the periphery but at the Postal Service's core businesses. First-Class Mail and Standard Mail, both high-volume, high-contribution classes, have been severely hurt by the volume decline.

As described in the statement of Joseph Corbett, the Postal Service has developed an Action Plan to address the financial problems confronting the Postal Service. The Plan includes efforts across a broad front (legislative, operational and pricing). My focus in this statement will be on the Postal Service's use of pricing as one component of the solution to our financial difficulties.[2] I will also describe some product innovations that are designed to retain and grow mail volume.[3]

Pricing is Neither the Only Solution Nor a Quick Fix Solution

In Fiscal Year (FY) 2011 the Postal Service expects to have a financial deficit of $7.0 billion, absent any price changes.[4] Some parties have observed that it would require the Postal Service to raise prices by an average of 20 percent if it were to attempt to close this entire gap by the end of FY 2011 using

[2] Other components include legislative action to revise the requirements for funding retiree health benefits and maintaining six-day delivery, as well as efficiency measures. The Plan is outlined in greater detail in the statement of Mr. Corbett.
[3] These include the Reply Rides Free initiative in First-Class Mail and growth incentives for Standard Mail High Density and Saturation letters and flats. See the individual class discussions, below, and Appendix A for more detailed descriptions of these initiatives.
[4] Statement of Mr. Masse, Table 3.

price increases alone.[5] An across-the-board price increase of this size would be devastating to a great many of our customers and could further weaken the already fragile mailing industry. In addition, a price increase alone does not address the structural burdens associated with prefunding retiree health benefits and mandated six-day-per-week delivery in an environment of declining mail volume. Pricing changes can only be one part of the solution to resolving the Postal Service's financial difficulties.

In developing the Postal Service's price proposal, we recognized that a long-term approach was the most reasonable option to address the current financial situation. As urgent as the Postal Service's financial needs are, increases that are too high could threaten the financial health and, possibly, even the survival of key customer segments and industries.

For this reason we are proposing a moderate price increase of about 5 percent for products that, in FY 2009, covered their costs. Clearly, over the long run, any organization cannot afford to continually sell products at a loss. Therefore, prices for products that failed to cover their costs in FY 2009 are generally increased by a greater amount to move toward full cost coverage.

We are concerned about the potential effect of higher increases on our customers. So, in developing our proposed pricing for products that were not covering their costs, we balanced the reality that many customers of these products are in market segments that have been harmed by the recent recession, with the equally pressing need to address the cost coverage issues.

[5] See, for example, the comments of the Public Representative in Docket No. ACR2009, at 26.

We cannot afford to be short-sighted and take actions that will “fix” a coverage problem by permanently driving mail—mail that we believe will become profitable as the Postal Service and the mailing community adjust to operational and marketplace realities—or mail that is valued in the mailbox—out of the system. The only way the Postal Service will be able to price mail so that it makes a contribution is if it remains in the mail stream.

In response to the concerns expressed by the Commission in the 2009 Annual Compliance Determination (ACD)—concerns that are also shared by the Postal Service—we are addressing each class and product that failed to cover its attributable costs in FY 2009. In some cases, the price changes proposed in this filing are sufficient to resolve the cost coverage issue. In others, operational programs designed to improve efficiency will also help to move the noncompensatory products and classes toward profitability. The annual price change schedule will also provide for further opportunities to gradually move to full coverage. More detailed information on these plans to address the cost coverage issues is available in the class-by-class discussions later in this statement.

In addressing cost coverage issues, we realize that at least some of the financial problems faced by noncompensatory products are attributable to recent economic conditions and so they need not be resolved entirely through price increases. Nevertheless, price adjustments are key components of the recovery plans for these products. Along with the price adjustments in this filing, expected efficiency improvements and improving economic conditions are expected to have a positive effect relatively soon. Indeed, the Postal Service's financial projections indicate that of the 14 market-dominant products that failed to cover their attributable costs in FY 2009, only four domestic products will fail to cover their attributable costs in 2011, assuming an annualized effect of the price change.[6] The reasons why the Postal Service is not requesting even higher prices for these four products are discussed in their respective class discussions, below.

Price Adjustments by Class

This exigent price request is not structured as an across-the-board increase similar to the increase proposed in Docket No. R2005-1. In that docket, only one factor drove the price increase and that factor did not affect mail classes or customers differently. Moreover, customers were not as affected by non-postal factors (such as the economy as well as electronic diversion of mail) as much as they are today, and the Postal Service itself was not seeking an increase due to the impacts of economic and other trends but, rather, solely to cover the costs attributable to the then-required "escrow" fund.

In developing these prices, a wide range of considerations were evaluated. These include: the adverse impacts of prices on the demand for mail, particularly for vulnerable customer segments; the tradeoff between market impacts and postal finances; the need to reposition products or categories to meet future demand; promoting operational efficiency; restoring products or categories to full compensatory status; and meeting regulatory requirements.

[6] These are Outside County Periodicals, Within County Periodicals, Media Mail (including Library Mail), and Standard Mail Flats.

Therefore, the Postal Service has determined that the following price changes for each mail class balance the many considerations that affect pricing decisions, and the proposed price changes are reasonable and equitable among the users of market dominant products, while allowing the Postal Service to make progress towards long-run financial stability.

Table 1: Price Adjustments by Mail Class (Percent)

Class	Available CPI Cap[7]	Unused Authority	Exigent Adjustment	Total Price Adjustment[8]
First-Class Mail	0.578	0.044	4.811	5.433
Standard Mail	0.578	0.103	4.935	5.616
Periodicals	0.578	0.015	7.442	8.035
Package Services	0.578	0.025	6.097	6.700
Special Services	0.578	0.137	4.538	5.253

The following price changes by product are proposed and will be described in more detail below.[9]

[7] Because it has been more than 12 months since the last price adjustment filing, the Commission's rule 3010.26(c) for calculating the price cap applies. See Attachment B to the Request. The Available CPI Cap figure includes all unused CPI-based price change authority that has accrued since the Docket No. R2009-2 filing.

[8] For ease of discussion and because it is the total price increase and not just the exigent or any other component that affects customers, references to price changes or adjustments from this point forward will refer to the total changes by product or category.

[9] The percentage changes by class and product follow the Commission's methodology for calculating price changes using a fixed-weight index with historical billing determinants as weights.

Table 2: Price Changes by Mail Class and Product

Class / Product	Price Change (percent)
First-Class Mail	5.433
Single-Piece Letters / Postcards	4.652
Presorted Letters / Postcards	5.927
Flats	6.256
Parcels	5.415
Single-Piece First-Class Mail International	4.973
Standard Mail	5.616
Letters	5.011
Flats	5.134
Not Flat-Machinables / Parcels	23.222
High Density and Saturation Letters	4.806
High Density and Saturation Flats / Parcels	4.356
Carrier Route	4.919
Periodicals	8.035
Outside County	8.036
Within County	8.004
Package Services	6.700
Single-Piece Parcel Post	7.029
Bound Printed Matter Flats	5.040
Bound Printed Matter Parcels	7.024
Media Mail / Library Mail	7.010
Special Services	5.253

Together, these changes produce an overall increase of 5.6 percent for all market dominant products. Section III provides a more detailed discussion of these pricing changes. The complete set of pricing and classification changes requested in this docket are presented in Attachment A to the Request.

The Postal Service is proposing two initiatives, in conjunction with these price adjustments, as part of its comprehensive efforts to grow, retain and regain mail volume. In addition, there are a few minor classification adjustments that reflect the evolution of the product line (such as the repositioning of its Standard Mail Non Flat-Machinables (NFM) and Parcels product) to better address market conditions, or necessary adjustments to conform the Mail Classification Schedule (MCS) to current operational realities. Classification changes are discussed in detail in each of the class sections below.

By statute, the exigent price change mechanism applies only to market dominant products. The rules for competitive products are different and different regulatory requirements apply. The Postal Service intends to file increased prices for its competitive products later this year with these changes to take effect on January 2, 2011 when the market dominant price changes proposed in this request are implemented. The exact sizes of the price adjustments for the various competitive products have not been finalized or approved by the Governors as of the filing of this request.

For purposes of developing prices for this request, we have used planning assumptions concerning the prices for certain competitive products that will take effect in January 2011. These planning assumptions should not be taken as having the weight or significance of price change announcements under the Commission's rule 3015.2. Actual competitive product price changes may differ somewhat from these planning assumptions.

III. Review of Pricing and Classification Changes by Class

A. First-Class Mail

First-Class Mail prices increase 5.4 percent on average in this price adjustment. The first-ounce price for a single-piece letter—the stamp price—will increase from 44 to 46 cents, with the price of single-piece additional ounces increasing to 18 cents.[10] The following table summarizes the changes in First-Class Mail prices.

Table 3: First-Class Mail Product Price Adjustments

Product	Percent Change
Single-Piece Letters / Postcards	4.7
Presort Letters / Postcards	5.9
Flats	6.2
Parcels	5.4
Single-Piece First-Class Mail International	5.0

First-Class Mail Pricing Overview

First-Class Mail, once the largest mail class by volume, is in the middle of a long-run volume decline. It is unlikely that the volume decline will level off or that volume growth will resume.

The effect of First-Class Mail volume declines on contribution cannot be overemphasized. In FY 2009, First-Class Mail provided 78 percent of the total contribution by market dominant products toward the Postal Service's institutional costs. Of this, single piece First-Class Mail letters accounted for 24 percent and

[10] For First-Class Mail parcels the additional ounce price will remain at 17 cents.

presort First-Class Mail letters for 45 percent of total market dominant contribution. A loss of presort First-Class Mail volume, or even a relatively minor portion of it, would be devastating to the Postal Service's financial health.

The prospect of losing large volumes of presort First-Class Mail has elevated the importance of pricing decisions aimed at preventing potential volume loss. The decline in presort volumes is not just the continuation of a slow generalized move toward electronic communications alternatives but is driven by factors at work in the marketplace. These factors may potentially be addressed, at least in part, by pricing.[11]

The importance of First-Class Mail in the Postal Service's financial results means that the Postal Service cannot afford to drive mail out of the system by increasing prices too much. Large customers affect large volumes of mail, and if prices increase too much, these customers may decide not just to scale back their mailings, but to leave the mail altogether. Current econometric estimates of price elasticity may not adequately predict such "tipping point" movements. Deciding the appropriate prices for First-Class Mail is not just a regulatory exercise, it is a business decision based on an evaluation of what will be in the best long term interests of the Postal Service.

Pricing First-Class Mail therefore involves balancing three important considerations: 1) the impact of the price change on customers and the volumes

[11] For example, First-Class Mail that is sent to households and contains only advertising declined 37.4 percent from 2002 to 2009. Included in this loss of advertising mail was a 58.2 percent decrease in advertisements from financial institutions. This decline was associated in large part with an 85 percent reduction in advertising from credit card companies. First-Class Mail advertisements from merchants declined 37.1 percent.

they choose to mail; 2) the need for additional revenue and contribution to replace what was lost by the volume decline; and 3) the extent to which mail volumes will continue to decline, regardless of pricing actions taken by the Postal Service.

Taking these and other factors into consideration, we have determined that a postage increase of 5.433 percent balances concerns about encouraging First-Class Mail customers to continue to use these products over the long run and gaining increased revenue and contribution from First-Class Mail in the short run.

Single-piece First-Class Mail

The single-piece, first-ounce price, commonly known as the stamp price, is the most visible price offered by the Postal Service. It is also the single most important price in terms of revenue generated. As always, the choice of the stamp price reflects a careful balance of public policy considerations against the need for revenue to operate the Postal Service. Yet, despite the attention it draws, both in the public and regulatory arenas, the typical household is little affected by changes in the stamp price. A change of two cents in the stamp price amounts to only about 41 cents per month for the typical household which pays about $6.89 per month for First-Class Mail sent.[12]

In addition, since 2007, the Postal Service has offered the Forever Stamp, which allows single piece First-Class Mail customers to minimize the potential

[12] Based on calculations from the 2009 Household Diary Study and estimates of 2010 First-Class Mail average revenue.

inconveniences of stamp price changes. We will continue and expand the Forever Stamp program, and will offer new designs (including a holiday issue).

Because the actual expenditure on postage by the typical single-piece First-Class Mail customer is small, and because the additional expenditure caused by increases in the stamp price are even smaller and can be effectively mitigated through the Forever Stamp program, the Postal Service does not believe that the erosion of single-piece mail through electronic diversion can be materially affected by limiting the growth of the stamp price.

Factors other than the stamp price itself are the driving forces leading to electronic diversion. One is a matter of simple convenience. Many customers—especially those in the younger generations—are more familiar with, more adept at, and more comfortable with the broad range of electronic communications tools. To them, electronic mail and electronic bill presentment and payment are simply easier and more convenient—and, what may seem counterintuitive to the older generations—more "natural" than mailing a letter.[13]

Another powerful factor driving the diversion of hard copy to electronic communications is the incentives offered by large companies for switching to electronic statements and billing (these "incentives" sometimes are presented as an additional fee for receiving paper statements). In this case, the driving force behind the erosion of single piece mail originates, not with the individual single

[13] Some businesses, keen to tap into the "mobile" market are envisioning a day when, for example, "instant bank statements" will end the 30 day statement paradigm that is a key element of hard-copy mail. Source Boston Consulting Group, "Projecting U.S. Mail Volumes to 2020," p13.

piece mail customer, but with the large business mailer that does not itself use single-piece mail to send its bills and statements.[14]

As long as these forces are in play, efforts to hold down the stamp price to "protect" the single piece customer will be unlikely to spur usage of single piece mail among users, for whom convenience trumps the small impact of the postage savings. Perversely, because both the stamp price *and* presort prices are such important revenue sources, efforts to hold down the stamp price would effectively require the Postal Service to push up presort prices simply to generate the needed revenue, thereby adding fuel to the diversion fire being led by businesses who use presort-priced mail.

Presorted Letters / Postcards

Automation Letters, the primary component of the Presorted Letters / Postcards product, is the most profitable (highest contribution) offering of the Postal Service. It is also at great risk of electronic diversion.

The Commission, in the 2009 ACD, as well as in previous recommendations and decisions, continues to apply a methodology that, if inflexibly followed, would reduce pricing of this key category to a largely mechanical exercise.[15] If the currently-accepted workshare methodology were

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[14] Many statement mailers are eyeing the success of the airline industry in imposing fees for services (such as surcharges for luggage or for purchasing tickets by phone) that have always been seen as included in the ticket price. Many businesses would consider fees for non-electronic bill and statement presentment if consumer resistance does not prove too great an obstacle. Source: Boston Consulting Group, "Projecting U.S. Mail Volumes to 2020," p. 13.

[15] In its 2009 ACD, the Commission instructed the Postal Service to follow the "accepted" methodology for evaluating workshare discounts. This methodology assumes that the price relationship between the First-Class Mail single-piece price and MAADC presorted letters price is a workshare discount. The Postal Service has expressed its disagreement with this interpretation.

followed blindly, once the Postal Service had determined the price for the single-piece stamp, the cost avoidance estimates (based on data from FY 2009) would effectively drive all automation letter prices. This strict methodology does not leave any room for judgment based on market conditions, economic climate or other factors that must be considered when pricing a flagship product. The Postal Service is seriously concerned that price increases exceeding the overall average proposed in this request would cause many presort mailers to decide to abandon hard copy mail permanently and damage the core business supporting the Postal Service.

Presorted letters is the Postal Service's most profitable mail category with a 291 percent cost coverage in FY 2009. Not only is this mail highly profitable, it also provides the single largest source of contribution to institutional costs. Almost 45 percent of our Market Dominant contribution comes from Presorted letters. Not only is this mail highly profitable and extremely important financially, it is highly vulnerable. Our customers are increasingly looking to nonmail alternatives to transact business with their customers, with the result that many presort First-Class Mail customers may respond to large price increases, not by simply sending fewer pieces (the traditional elasticity effect), but by abandoning hard copy mail altogether. Many presort First-Class Mail customers control large volumes of mail. If they respond by leaving the mail, large volumes of mail will disappear, most likely permanently threatening the ability of the Postal Service to offer cost-effective universal service.

The issue is one of those at issue in the Commission rulemaking proceeding, Docket No. RM2009-3.

Traditional workshare theory suggests that increasing presort First-Class Mail prices would simply cause customers to re-evaluate their decision to perform worksharing activities. Essentially, the theory argues that if it costs less for a customer to presort mail than the postal discount, then they will do the sortation. Conversely, if it costs more to presort mail than the postal discount, then the customer will choose to tender unsorted mail to the Postal Service. While this argument may have been valid at the inception of the automation program, it ignores the realities of decisions that customers are making today. Much of today's presort mail is generated not by physically sorting mail pieces but by using presorted mailing lists to produce the resulting mail in presort order.

Customers pay prices, not "discounts" and decide whether to mail or not to mail based on the total cost of mailing, including the postage paid (not just the price differential between single-piece and presort mail) and the costs of producing that mail. While at some level the size of the discount affects workshare decisions, the overall postage price affects the decision to mail or not to mail. If this price goes up substantially (because discounts are reduced) the decision to mail at all may be reconsidered.

For example, if a customer's mailing budget is relatively fixed, when the price of postage goes up the customer does not simply mail the same number of pieces at an increased cost. Our biggest transactions customers now have other choices. In response to higher presort prices, mailers may redouble their efforts to sign up their customers to electronic bill presentment and payment. At some price, some customers may decide to leave hard copy mail entirely.

Such decisions are being pondered in businesses throughout the country. As much as we in the Postal Service believe that mail is a valuable and important component of conducting any business, we recognize that even loyal customers of the Postal Service may be forced into hard decisions. Hard copy mail has costs, over and above the price of postage that its electronic counterparts do not have. Businesses that switch from hard copy to electronic alternatives save on the materials, printing, and transportation costs that go into the mail piece. Those receiving hard copy remittances must pay the costs of processing those remittances. All of these costs form part of a calculus that, at some point, may reach a tipping point. When a company decides to leave the mail, the effect is not a gradual erosion of mail volume: when this mail disappears, it will not return.

This kind of price effect—where the decision at hand is whether to mail or to abandon mail as the primary communication tool with customers or potential customers—is a relatively recent phenomenon for many First-Class Mail presort mailers. Responding to it is a relatively recent challenge for the Postal Service and the Commission as well.

Fundamentally, single piece and presort First-Class Mail are different products with different cost characteristics *and* different market characteristics.[16] This understanding was part of the basis for the Postal Service's decision to separate single piece and presort First-Class Mail into distinct MCS products, a

[16] Under the Postal Reorganization Act, the Commission stated that subclasses, as opposed to products, are characterized by having distinct cost and market characteristics. The Commission has not insisted in treating cost differences across subclasses as worksharing for application of the provisions of section 3622(e). Recent demand data supplied to the Commission support the view that single-piece and presort First-Class Mail do have different market characteristics.

decision that was approved by the Commission. [17] In light of this fact, the Postal Service needs the ability to price these two products without inflexible requirements on what the “passthrough” between them should be. Tying presort pricing rigidly to single piece pricing forces presort prices to increase at a rate that may be beyond the tipping point for many large presort mailers. If that were to occur, the Postal Service might soon find its basic business model, which relies so heavily on the contribution from presort First-Class Mail, has been fundamentally and permanently changed for the worse.

In the pending rulemaking docket (Docket No. RM2009-3), the Commission heard the Postal Service and many of its customers express concerns about the potentially disastrous consequences of inflexibly pricing presort First-Class Mail as simply a workshared variant of single piece mail. The Commission has not yet issued its Order in that docket. It seems sensible to the Postal Service not to take actions that might irreversibly damage one of the most valuable segments of its business particularly if those actions would be solely predicated on a controversial and unresolved finding. For this reason, we are proposing prices that (consistent with the Commission’s direction in the 2009 ACD) move to narrow the gap between presort and single piece pricing, but that do not, we hope, pass the tipping points for many of our customers. We believe that the worksharing provisions of the law were not intended to force the Postal Service into potentially dangerous and self-destructive pricing decisions solely to meet a rigid regulatory requirement.

[17] See Order No. 43 in Docket No. RM2007-1.

Flats and Parcels

In this price change First-Class Mail Flats have a 6.2 percent proposed increase. For single piece flats we are retaining the pricing practice of setting the first-ounce flats price at twice the stamp price. This practice makes it easier and more convenient for our customers to provide correct postage for First-Class Mail flats.

The flats increase is somewhat higher than the average First-Class Mail price increase. One contributing factor is the adjustment of presorted flats prices to respond to an error discovered in the flats cost model in 2008.[18] Correcting the error caused the Postal Service and the Commission to realize that presort flats were underpriced compared to single piece flats. Since that time, the Postal Service has been raising the presort flats prices at above average rates to restore the appropriate pricing relationship. This price adjustment continues that practice.

First-Class Mail parcels are being given a moderate increase, close to the class average. There has recently been some erosion of First-Class Mail parcel volumes to Standard Mail, and the Postal Service expects that a modest increase for First-Class Mail parcels, in line with the overall average, will keep First-Class Mail parcels as an attractive shipping option.

The Postal Service has made two changes to the pricing design for First-Class Mail Parcels. First, with this price adjustment it is splitting single-piece parcels into two categories: retail and commercial. Single-piece parcels that are the residual of a presorted parcel mailing, and nonpresorted parcels for which the

[18] This error was addressed and repaired in Docket No. RM2008-2.

postage is paid by permit imprint, IBI meter, or PC Postage would be eligible for the commercial single-piece prices. All other single-piece parcels would pay retail prices. This change recognizes that the "commercial" price-eligible parcels avoid entry through the more costly retail channel.

In this price adjustment the Postal Service is also treating the first three ounces in each parcel pricing category as a single price cell. For each price category, parcels weighing from 0 to 3 ounces will all pay a single price. The additional ounce price would then apply after the first three ounces. This change will improve contribution from a segment of the First-Class Mail parcel category that has not been providing an adequate contribution.[19]

Classification Change

For First-Class Mail that is presorted (Letters/Postcards, Flats, and Parcels) and therefore subject to the Move Update Standards, the threshold below which the Move Update Assessment Charge applies is being increased from 70 to 75 percent. (This can also be expressed as a reduction in the tolerance from 30 percent to 25 percent.) This change is in line with the plans that the Postal Service announced in Docket No. R2010-1, Notice of Market Dominant Price Adjustment and Classification Changes, at 3-4.[20] The Postal Service believes that this increase in the threshold is conservative, yet needed to

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[19] Lightweight parcels are often not able to be processed on machines since they tend to fly off the trays or other conveyors due to their low weight thus increasing processing costs.

[20] "Initially, the Postal Service will use a tolerance of 30 percent. We intend to reduce this tolerance as necessary to ensure that addresses quality improves (after providing the appropriate public notice)." Notice of Market Dominant Price Adjustment and Classification Changes at 3-4. The Postal Service's planned reduction in the tolerance was also noted in Order No. 148 at 4, and in 74 Fed. Reg. 55141 (Oct. 27, 2009).

further encourage mailers' use of Move Update processes. Additional public notice in the Federal Register and elsewhere is planned in the near future.

First-Class Mail International

Outbound Single-Piece First-Class Mail International receives an overall increase of 6.7 percent in this price adjustment. The need to address cost coverage deficiencies for lightweight letters has led to letters being given an above-average increase of 6.9 percent. Offsetting this to a slight extent is the effect of simplifying the card prices to Canada and Mexico from two prices to one. This brings down the overall price increases for international postcards to 2.8 percent.

First-Class Mail International has one classification change: Israel will be moved from First-Class Mail International price group 8 to price group 5. This change aligns Israel with other industrialized countries that are paid the maximum settlement costs for delivering U.S. origin mail under the UPU Terminal Dues Target System.

Worksharing

As discussed in the previous section, the Commission has indicated that it considers the price differential between presorted letters and single-piece letters to be a workshare discount. In the 2009 ACD, the Commission determined that the passthrough of the cost avoidance between automation mixed AADC letters and Bulk Metered Mail (BMM) letters was 126 percent. In this price adjustment this passthrough is 120 percent, reflecting a price increase for automation mixed

AADC letters of 2.3 cents. As required by the Commission's rules, the Postal Service justifies this passthrough as needed to mitigate rate shock, consistent with Section 3622(e)(2)(B). As shown in Table 3, presorted letters and cards are being given a average 5.9 percent increase. This increase is well above the current increase in the CPI. Given the importance to the Postal Service of this category in terms of revenue and contribution, and its fragility, especially its vulnerability to electronic diversion as discussed above, the Postal Service believes that any larger increase would be too large at this time, as it would raise unacceptable risks of damage to the automation letters mail category. As described above, the Postal Service seeks to avoid adjusting prices in a way that may seriously damage customers.

In the 2009 ACD, the Commission also noted that the passthrough for automation AADC presorted letters stood at 110 percent. In this price adjustment, the passthrough is 120 percent. Although this represents an increase in the passthrough, the Postal Service believes that this discount is justified under section 3622(e)(2)(B), as necessary to mitigate rate shock.

Evaluating whether the relative passthroughs for mixed AADC and AADC letters meet the statutory requirements cannot be done in isolation. Both in this proposal and in the current prices analyzed in the Commission's 2009 ACD, there is not an ostensible "problem" with the discounts for either 3-digit or 5-digit presorted automation First-Class Mail. The passthroughs of avoided costs are less than or equal to the estimated costs avoided. A simplistic analysis would suggest that, because relatively little mail is sent using the MAADC and AADC prices (11.7 percent of Automation Letters volume in FY 2009), the actual rate shock resulting from a full adjustment of the discounts would be minimal. This misses an important point. To fully adjust the mixed AADC price to exactly equal the avoided costs would increase that price by 3.2 cents (8.4 percent), and if the rigid workshare logic were followed, that increase must flow down the First-Class Mail presort ladder increasing AADC, 3-digit and 5-digit presorted First-Class Mail prices by 3.4, 3.4 and 3.0 cents, (9.4 percent, 9.5 percent and 9.0 percent) respectively assuming a 2 cent increase in the single-piece price. The Postal Service believes that price increases of that magnitude would truly qualify as rate shock and would substantially damage customers in this product. As described above, if prices for presort mail increase too quickly, major mailers may be pushed past a tipping point and decide to leave the mail for electronic communication alternatives. Therefore, even modest increases could potentially trigger rate shock. Given the large size and importance of the contribution from these categories of mail to support and maintain the Postal Service, it is not prudent to impose price increases of this magnitude at this time.

The passthrough of the presort cost avoidance for automation Area Distribution Center (ADC) flats exceeded 270 percent in the 2009 ACD. This passthrough is large because recent corrections made to the flats cost model led to significant reductions in the cost avoidances. To avoid excessive price increases for the various presort levels, the Postal Service allowed the passthroughs to exceed 100 percent in Docket No. R2009-2 (based on cost estimates from FY2008). The cost avoidances reported in the 2009 ACD fell even further, leading to the 270 percent passthrough. The Postal Service does not intend to keep passthroughs at this high level indefinitely and has reduced the passthrough to 220 percent in this price adjustment, but it is concerned that reducing the discounts to achieve a 100 percent passthrough all at once would cause inordinate harm for these presort categories. Consequently, the Postal Service justifies the automation flats ADC presort passthrough under Section 3622(e)(2)(B), as needed to mitigate rate shock. Similar to the situation described for automation letters, one potential consequence of reducing the ADC passthrough by such a large percentage would have been unacceptably large ripple effects on 3-digit and 5-digit presort tiers. To maintain these presort tiers at or below 100 percent of avoided costs (as they were in the 2009 ACD) would have required the Postal Service to give these categories increases that were higher than what the Postal Service believes they could have sustained without rate shock. Therefore, we mitigated those increases and justify the passthroughs that resulted as necessary to mitigate rate shock under Section 3622(e)(2)(B).[21] In recognition of the fact that the high passthroughs are the result of a correction in the cost estimates, the Postal Service intends to reduce these passthroughs over time as conditions allow.

Growth Initiatives

To help retain transaction volume in the mail, the Postal Service is proposing an incentive program entitled "Reply Rides Free." Under this incentive program, qualified customers would not have to pay postage on the weight of a

[21] Even after mitigation 3-digit and 5-digit automation flats receive increases of 16.1 percent and 16.3 percent, respectively.

typical reply envelope or card included in outgoing presorted letter mail. This incentive would be implemented by allowing an envelope containing a reply envelope or card to weigh up to 1.2 ounces and pay the 1 ounce price.[22] When not charged postage for the weight of the reply envelope, mailers can include other material[23] such as advertising which will increase the return from an individual mail piece to First-Class Mail mailers. That, in turn, may help to keep outbound transactions pieces in the mail. In addition, by removing the “cost” of mailing reply envelopes or cards, the Reply Rides Free program also encourages the convenience of using single-piece First-Class Mail for reply purposes and may slow electronic diversion of remittances or other responses.

This program may also encourage mail volume growth in a more subtle manner. There is no requirement that the reply envelope or card be associated with the primary content of the outgoing mail piece. For example, the reply envelope or card enclosed in a bill does not need to be designed for payment of that bill. In fact, some customers may find that a reply envelope or card associated with the additional advertising material, not the bill, may be more valuable. This would encourage mail recipients who may have already decided to use electronic payment options (the check won’t be in the mail under any circumstances) to use the mail to respond to the newly-enclosed offer, thus generating mail that would not have otherwise been sent.

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[22] The additional 0.2 ounce is the weight of a typical reply envelope.

[23] The First-Class Mail workpapers report the expected revenue impacts of this program as a separate line item, but owing to the non-prospective nature of the Commission’s methodology for calculating price changes using historic billing determinants, these revenues are not directly incorporated into the price change calculation.

The Reply Rides Free program would require mailers to participate the Full-Service Intelligent Mail® barcode program, maintain a specified threshold volume, and show volume growth above their recent trend volumes. The Postal Service would perform random verifications to ensure compliance with enclosure requirements. Additional details on the Reply Rides Free program are contained in Appendix A.

B. Standard Mail

The Postal Service is proposing price changes totaling 5.6 percent for Standard Mail in this price adjustment. The changes by product are shown in the following table.

Table 4: Standard Mail Product Price Adjustments

Product	Percent Change
Letters	5.0
Flats	5.1
Parcels	23.2
High Density and Saturation Letters	4.8
High Density and Saturation Flats / Parcels	4.4
Carrier Route	4.9

Standard Mail Pricing Overview

Standard Mail volume has suffered in recent years mainly due to the difficult economic times. Particularly hard hit is the Flats product, which recently experienced volume declines exceeding 20 percent, driven by reductions in catalog mailings. These volume declines have helped to drive the Flats cost coverage down to only 82 percent. The Not Flat-Machinables / Parcels product is also losing money, and has probably not covered its costs for a long time, if ever.[24]

Improving economic conditions should help the revenue and contribution picture for Standard Mail as a whole. With this in mind, Postal Service management has decided that increases averaging approximately 4.9 percent represent a reasonable and equitable pricing approach for the Standard Mail products that are currently covering their attributable costs. This is in line with the level of increases being requested for First-Class Mail and does not place an undue burden for resolving the Postal Service's financial difficulties either on Standard Mail or on First-Class Mail.

Two Standard Mail products failed to cover their attributable costs in FY2009—Standard Mail Flats and Standard Mail NFMs / Parcels. As can be seen in the table above, we are proposing a different pricing approach for each of these products.

For Standard Mail Flats, a cautious approach is warranted because the catalog industry, which depends heavily on Standard Mail Flats, is in a delicate financial position. Economic activity, particularly retail spending, helps drive catalog volume. Past postage price increases combined with weak retail sales driven by the current economy have placed both cost and market pressures on catalog mailers, resulting in a severe contraction in their business. Over the long run, the Postal Service sees the catalog industry as a growth segment in its business. Catalog shopping is convenient and the internet provides customers

[24] CRA level cost data for Standard Mail NFMs/parcels have only been available since FY 2008.

with an efficient way to order merchandise from a catalog.[25] A turnaround in economic conditions should help this ailing industry to grow once again; however, increasing postage prices too much at this vulnerable point could force catalog mailers to cut their customer lists. Once customers are lost, they are much more costly to reacquire.[26]

To fully close the coverage gap, Standard Mail Flats prices would need to increase by 16 percent. Because postage accounts for approximately half the cost of mailing a catalog, a postal price increase of this magnitude would put serious additional pressures on catalog mailers, thereby reducing postal volumes even further than they have already fallen.

Clearly, we cannot continue to price Standard Mail Flats below costs for an extended period of time; however, it is prudent to take a judicious step in this price increase and to move gradually towards the goal of full cost coverage. Consequently, the Postal Service is proposing that the Flats product be given a 5.1 percent increase in this price adjustment. The Postal Service may have to adjust Standard Mail Flats prices at above average rates at some point, but now is not the time.

For Standard Mail NFMs and parcels, we are continuing the pricing approach that dates at least as far back as Docket No. R2006-1. Under that approach, Standard Mail parcel prices increase at above average rates to move them closer to covering their costs, but also to bring their prices more closely in

[25] Research from Comscore shows that twice as many online purchases are made by catalog recipients, 28 percent more money is spent online by catalog recipients, and websites supported by catalogs have a 163 percent lift in revenue compared to non-supported websites.
[26] Customers have told the Postal Service that it costs 6 times as much to acquire a new catalog customer as it does to retain an existing one.

line with the parcel product offerings of our competitors. All parcel-shaped pieces face competition in the market place regardless of how they are classified in the MCS. Shortly, the Postal Service will be proposing to transfer Standard Mail parcels to the competitive category to reflect the realities of market place competition. Consequently, the proposed prices are designed to ensure that this product covers its costs, consistent with the statutory requirements for competitive products.

We are concerned that parcel customers will face large increases. However, other parcel delivery companies charge much higher prices for one-pound parcels and, on that basis, the market valuation of Standard Mail parcel delivery service far exceeds what we are asking our customers to pay, even incorporating the requested increase.

By law, prices for nonprofit Standard Mail are set so that the average revenue per piece for nonprofit mail is 60 percent of the commercial Standard Mail revenue per piece. The proposed prices meet this requirement with a nonprofit to commercial revenue per piece ratio equal to 60.1 percent.

Plan for Covering Cost

Standard Mail has two products, Standard Mail Flats and Standard Mail NFMs / Parcels, which currently do not cover their attributable costs. In the 2009 ACD, the Commission requested that the Postal Service describe its plans for restoring these products to full cost coverage.

In this price adjustment, Standard Mail NFMs / Parcels prices increase 23.2 percent on average. Together with expected improvements in economic conditions, and planned cost reduction and efficiency measures, this price increase should be sufficient to allow the NFMs / Parcels product to cover its attributable costs.[27]

For Flats, the Postal Service expects to achieve efficiency gains from the plans outlined in Operations Strategies for Capturing Flats Efficiencies (USPS-R2010-4/9). To the extent that these operational efficiencies do not fully address the cost coverage issue, in 2011 and beyond, we will carefully review the situation and consider whether additional price increases are necessary in future price adjustments. The Postal Service fully recognizes the importance and seriousness of ensuring that the Flats product fully covers its costs. At the same time, the Postal Service understands the difficult business conditions that the catalog industry (a major customer of the Flats product) is facing. It also recognizes the contribution that catalog advertising makes to the health of other Postal Service products.[28] The Postal Service fully intends to use pricing as a tool to help close the gap for Standard Mail Flats, but is seriously concerned that taking aggressive action to close the gap through pricing alone in the early days of the expected recovery period might endanger the long-run health of the catalog industry and ultimately destroy this important segment of its business. For these reasons, the Postal Service plans to start the recovery period with moderate increases for Standard Mail Flats and consider further increases above the general inflation rate as the industry and the economy recovers.

[27] See the statement of Stephen J. Masse, Attachment 12. Note that this analysis is based on a full-year implementation of the proposed prices.

[28] Successful catalog advertising often leads to sales of shipping services for fulfillment, as well as additional follow-on advertising using the Standard Mail Flats product as well as other Mailing Services products.

Worksharing

The 2009 ACD identified twelve Standard Mail workshare discounts that exceeded avoided costs or whose avoided costs could not be satisfactorily calculated.[29] Of these twelve discounts of concern, the Commission found five that were not justified under one of the exceptions of Section 3622(e).[30] In this price adjustment all of these five discounts have been adjusted to equal avoided costs.

In the ACD, the Commission identified several instances in which passthroughs could not be calculated because appropriate avoided costs were not available. The Commission asked the Postal Service to develop better cost data to permit appropriate analysis of these pricing relationships. As of the date of filing of this price adjustment, the Postal Service has not been able to resolve the issues that led to negative avoided costs for the Carrier Route-High Density parcels differential, the High Density-Saturation letters differential, or the prebarcoding avoided cost for automation letters. These avoided cost estimates remain anomalous.

The Postal Service is currently investigating whether a meaningful prebarcoding avoided cost can be developed for Standard Mail parcels, but as of this filing, no methodology for calculating a product-specific avoided cost has been finalized and approved by the Commission. The passthrough in the

[29] These were the presort discounts for 3-digit and 5-digit nonmachinable letters, for ADC and 3-digit automation flats, for 5-digit nonautomation flats, and for BMC and 5-digit machinable parcels; and the automation (prebarcoding) discount for automation flats. The Commission also found that inadequate avoided costs data were available to evaluate the discounts for prebarcoding letters and parcels, and the density differentials between High Density and Saturation letters and between Carrier Route and High Density parcels.

[30] These were the presort discounts for 3-digit and 5-digit nonmachinable letters, for ADC and 3-digit automation flats, and for 5-digit nonautomation flats.

workpapers remains a proxy calculated by reference to the BPM parcels avoided costs as in the 2009 ACD.

There remain three Standard Mail discounts in this request that exceed avoided costs: the presort discounts for Network Distribution Center (NDC) (formerly BMC) machinable parcels and 5-digit machinable parcels, and the automation (prebarcoding) discount for flats. In each case, the Commission found in its 2009 ACD that these discounts were justified under Section 3622(e). As discussed below, the Postal Service continues to justify these discounts using the same statutory exceptions for the same reasons explained in the 2009 Annual Compliance Report (ACR).

The presort discount in the request for NDC machinable parcels produces a passthrough of 159.6 percent (down from 183.5 percent in the 2009 ACD), and the discount for 5-digit parcels produces a passthrough of 104.4 percent (down from 106.3 percent in the 2009 ACD). In the 2009 ACR, the Postal Service justified these passthroughs using Section 3622(e)(2)(D). The Postal Service continues to justify these passthroughs under Section 3622(e)(2)(D) for the same reasons stated in the 2009 ACR and Docket No. R2009-1. Machinable parcels in NDC-presorted containers can be inducted into the NDC secondary parcel sorting system and bypass the primary parcel sorters. The Postal Service believes that this is the most efficient path for Standard Mail machinable parcels and that a strong incentive is required to move as many machinable parcels into this processing path (or to an even finer presort level) as possible. The Postal Service is concerned that reducing the discount below what it proposes in this price adjustment will slow the movement toward finer presort levels and impede the efficient operation of the Postal Service.

The automation discount for flats is currently 6.2 cents, compared to avoided costs of 3.1 cents; in the price request this discount increases to 7.7 cents, a 248 percent passthrough. In the 2009 ACD, the Commission accepted the Postal Service's justification using Section 3622(e)(2)(D). The rationale for this passthrough, as explained in Docket No. R2009-2 and in the 2009 ACR, was to provide a strong incentive to mailers to barcode their flats to support the implementation of the FSS. The Postal Service believes that this justification is applicable.

Growth Initiatives

The Postal Service is introducing an initiative for growth within the highly profitable High Density and Saturation Mail products in this docket. For Saturation and High Density letters and flats, the incentive will provide a price reduction equal to a percentage of a customer's average revenue per piece for incremental volume above a threshold volume. For commercial Saturation letters and flats the percentage reduction will be 22 percent, for commercial High Density letters and flats the reduction will be 13 percent. For both nonprofit Saturation and nonprofit High Density letters and flats the reduction will be 8 percent. Further details on this growth initiative are available in Appendix A.

Classification Changes

Since all Standard Mail is presorted and therefore subject to Move Update Standards, the following change applies to all Standard Mail products. The threshold below which the Move Update Assessment Charge applies is being increased from 70 to 75 percent. (This can also be expressed as a reduction in the tolerance from 30 percent to 25 percent.) This change is in line with the plans that the Postal Service announced in Docket No. R2010- 1, Notice of Market Dominant Price Adjustment and Classification Changes, at 3-4.[31] The Postal Service believes that this increase in the threshold is conservative, yet needed to further encourage mailers' use of Move Update processes. Additional public notice in the Federal Register and elsewhere is planned in the near future. There are two other classification changes for Standard Mail in this request, both of which are relatively minor. As part of its plan to improve the cost coverage of its Standard Mail NFMs / Parcels product and grow its parcels business overall, the Postal Service is repositioning this product from a marketing perspective into one of two broad categories: Fulfillment Parcels and Marketing Parcels. Fulfillment Parcels will provide light-weight parcel services to mail order shippers. Marketing Parcels will provide advertisers with a means to deliver product samples and other advertising materials that do not meet the specifications for mailing as letters or flats.

[31] "Initially, the Postal Service will use a tolerance of 30 percent. We intend to reduce this tolerance as necessary to ensure that addresses quality improves (after providing the appropriate public notice)." Notice of Market Dominant Price Adjustment and Classification Changes at 3 -4. The Postal Service's planned reduction in the tolerance was also noted in Order No. 148 at 4, and in 74 Fed. Reg. 55141 (Oct. 27, 2009).

Consequently, the current NFMs / Parcels product will be renamed Parcels. Within Parcels there will be categories for Regular Marketing parcels and Fulfillment parcels. The existing NFMs category will be eliminated and its place will be taken by the Regular Marketing Parcels category.[32] This redesignation is not merely a name change but will also incorporate two product definition changes. First, the current size limits for NFMs will be expanded to allow pieces up to 2 inches thick to be mailed as Regular Marketing Parcels. Second, Regular Marketing Parcels will be required to bear alternative addressing, such as including the qualifier “Or Current Resident” to be included in the address. This clearly distinguishes mail pieces sent for advertising purposes and those sent for fulfillment.

The current Machinable Parcels and Irregular Parcels categories within the newly named Parcels product will be renamed Machinable Fulfillment Parcels and Irregular Fulfillment Parcels, respectively, but have no other classification change. It is expected that a certain portion of existing NFM volume is currently being used for fulfillment, and will likely migrate to the Fulfillment Parcels category rather than use the alternative addressing required for Marketing Parcels. The price change calculations have been adjusted to take this expected migration into account.

The second set of classification changes affects the formula for calculating the prices for heavy automation letters. Currently automation letters weighing between 3.3 and 3.5 ounces pay automation flats prices with a discount based

[32] From its inception, the NFMs category was intended to be a transitional category as stated when the classification was first proposed in Docket No R2006-1. See USPS-T-36 at 11.

on the difference between the minimum-per-piece prices for automation letters and flats. Since the last price adjustment, the Commission has approved a new methodology for calculating dropship avoided costs for Standard Mail. This has resulted in separate dropship avoided costs by shape for the first time. The prices in this request now have dropship discounts that vary by shape between letters and flats. Applying the current heavy letter formula to these prices produces prices for heavy letters with dropship discounts that vary, not only by entry point, but by presort level. The Postal Service believes that this outcome is undesirable, and so has modified the heavy letter formula slightly to avoid this result.

C. Periodicals

This price adjustment increases Periodicals prices by an average of 8.0 percent overall. The breakdown of the price change by product and major category is shown in the following table:

Table 5: Periodicals Price Adjustments

Product / Category	Percent Change
Outside County	8.0
Classroom	8.3
Nonprofit	8.2
Regular	8.0
Within County	8.0

Periodicals Pricing Overview

Periodicals has been losing money as a class for years. The Postal Act of 2006's inflation-based price cap limitation at the class level has made it difficult to make significant progress in restoring Periodicals to complete cost coverage.

This price change provides a unique opportunity to take some steps toward increasing Periodicals revenue and improving cost coverage. Yet this problem, long in the making, cannot be resolved with a single stroke. The publishing industry is facing unprecedented challenges, particularly from the recent economic downturn, and from longer-term pressures arising from falling advertising, generally reduced subscriber bases, and electronic publishing. All of these factors seriously threaten the health of the industry. In light of these considerations, the Postal Service believes that an above-average increase of 8 percent together with a plan of gradual improvement of cost coverage represents a judicious balance between quickly resolving the Periodicals cost coverage problem and ensuring the best prospects for the long-term health of the Periodicals industry. This 8 percent increase will not be sufficient in itself to restore both Periodicals products to full cost coverage in FY 2011.[33] Nevertheless this is, in our considered view, the highest increase we can ask Periodicals mailers to pay at this time without risking permanent damage to this industry. We are developing a set of operations strategies focused on flats designed to bridge the gap between what we can achieve with pricing and what is needed to reach full cost coverage. USPS-R2010-4/9 outlines the Flats Strategies that we expect to implement.

[33] See the statement of Stephen J. Masse, Attachment 12.

The 8 percent increase represents an average for the whole class. While in general price increases for individual price cells or pricing categories may differ significantly from the class average increase, in this price change, with few exceptions, the Postal Service limited the increases for Periodicals categories below the product level to less than 10 percent. Most categories received increases close to the class average.

Several deviations from this policy are noteworthy. First, Basic Carrier Route pieces were given a 9.0 percent increase while 5-digit automation pieces were given only a 5.8 percent increase. This reflects the Postal Service's intent to keep the price differential between the 5-digit automation and Basic Carrier Route pieces at its current 9.8 cent level. With the advent of the Flats Sequencing System (FSS), efficient mail preparation will require mail pieces to be presented where postal automated sorting equipment is deployed. While a carrier route sortation will continue to have value in non-FSS zones, expanding this discount would tend to encourage customers to undertake work that may not be necessary in an FSS-environment.

Second, Origin Pallets prices increase 21 percent. We are continuing to encourage mailers to enter mail closer to the destination and avoid postal transportation costs thus encouraging a more efficient Periodicals mail stream.

Plan for Covering Costs

Periodicals is unique among the classes of mail. For public policy reasons, Periodicals pricing has traditionally had preferred status because of the historical value in transmitting news and information that periodicals bring to society and democracy. Despite price increases at or near the CPI cap in the 2008 and 2009 price changes, it is also the only class that has not covered its attributable costs since the passage of the Postal Act of 2006. The FY2009 cost coverage for Periodicals was only 76 percent, and if the entire cost coverage gap were to be addressed with these price increases, the price increase needed to achieve full cost coverage would be 25 percent and would likely imperil the already fragile Periodicals industry. The Postal Service believes that given the Periodicals market conditions and their unique status and ECSI value, any increases approaching this magnitude would be risky and ill-advised.

This price change proposes moderate, but above-average increases, and has been developed in the context of the operational efficiency measures outlined in the Flats Strategies discussed in USPS-R2010-4/9. The Periodicals cost coverage problem is long-standing, and it may not be a problem that can be quickly resolved. However, the operational efficiencies outlined are expected to result in substantial improvements in flats cost coverage.

Worksharing

There are nine workshare discounts that exceed avoided costs in the proposed Periodicals prices. The presort discounts for Machinable Nonauto 5-digit flats, Nonmachinable Nonauto ADC flats, Nonmachinable Nonauto 3-digit/Sectional Center Facility (SCF) flats, Nonmachinable Automation 3-digit/SCF flats, Automation ADC letters, Automation 3-digit letters and

Automation 5-digit letters all exceed estimated avoided costs.[34] In addition the prebarcoding (automation) discount for Machinable Automation Mixed ADC flats exceeds the estimated avoided costs.

The Postal Service justifies all of these discounts using Section 3622(e)(2)(C). Periodicals as a class consists solely of mail that has ECSI value so it qualifies for the exception to the requirement in 3622(e) that workshare discounts not exceed avoided costs.

Classification Changes

There are no classification changes proposed for Periodicals in this price adjustment.

D. Package Services

The Postal Services is requesting price changes for Package Services products that yield an overall increase of 6.8 percent. This above-average increase is consistent with Package Services' status as a class that failed to cover its attributable costs in FY 2009. The following table shows the price changes for each of Package Services' five products.

Table 6: Package Services Products Price Adjustments

Product	Percent Change
Single-Piece Parcel Post	7.0
Bound Printed Matter Flats	5.0
Bound Printed Matter Parcels	7.0
Media Mail / Library Mail	7.0
Inbound Surface Parcel Post (at UPU Prices)*	0.0
* Prices for CY2011 not available yet.	

[34] There is no Periodicals letters cost model; the costs used to calculate the passthroughs for Periodicals letters are proxy costs from Standard Mail.

Package Services Pricing Overview

Except for Bound Printed Matter (BPM) Flats, which is an advertising product, Package Services mail pieces are largely ground fulfillment parcels, but also include some consumer parcels. Package Services as a class failed to cover its costs for the first time in 2009, because of the economic downturn. Among the domestic product components of Package Services, only BPM Flats covered its costs.

The Postal Service believes that a 5 percent increase for the BPM Flats product represents a reasonable and equitable price change. It parallels the increases proposed for other mail products that are covering their costs. The Postal Service proposes higher increases for other Package Services products that are not covering their costs.[35]

Single Piece Parcel Post, BPM Parcels and Media Mail did not cover their costs in FY 2009. The Postal Service proposes price increases averaging 7 percent for these products. In the Postal Service's view, these increases represent reasonable balances between concern for the impacts that price increases will have on our customers and recognizing that these products must move toward compensatory pricing.

[35] One of the five Package Services products is Inbound Surface Parcel Post at UPU Rates. As implied by the product name, the prices for this product is set by the UPU and not by the Postal Service. These prices take effect at the beginning of the next calendar year. At the time of this filing, the UPU has not indicated what the price change for this product will be.

Single-Piece Parcel Post

Currently, Single-Piece Parcel Post does not cover its attributable costs. For this reason, the Postal Service is proposing an above average increase of 7.0 percent for this product. In the 2009 ACD, the Commission requested the Postal Service to describe its plans for restoring products that are not currently covering their costs to full cost coverage. The Postal Service's plans for Single-Piece Parcel Post, as well as for other noncompensatory Package Services products, is described following the product by product overview.

In this price adjustment, the Postal Service is proposing to allow prices for low-weight Parcel Post to vary by zone. Unzoned pricing for low-weight Parcel Post was implemented to avoid having Parcel Post prices exceed Priority Mail prices for the same weight and zone. With the zoning of low-weight Priority Mail pricing, this is no longer a significant concern. The release of this pricing constraint on low-weight Parcel Post has led to price differentiation by zone and noticeably higher price increases for more distant zones in a few lower-weight price cells. It is reasonable to expect long-haul parcels to pay higher postage owing to the greater distances generally transported and higher transportation costs.

Bound Printed Matter Flats

The BPM Flats product had a healthy cost coverage in FY 2009. It was the only domestic product in Package Services that currently covers its costs. Bearing this in mind, the Postal Service has decided that an average increase of 5 percent, in line with the general level of increases given to other compensatory products, represents a reasonable and equitable increase. Given the net negative price change for BPM Flats resulting from the last two price adjustments, the 5 percent increase in this adjustment should not impose undue hardship on mailers.

Bound Printed Matter Parcels

FY 2009 was the first year that the BPM Parcels product failed to cover its attributable costs. The proposed 7 percent increase should therefore restore BPM Parcels to a contributing cost coverage, all else being equal.[36]

The BPM Parcels product is commonly used to ship books, as is the Postal Service's Media Mail product. The Postal Service is aware that the relative prices of Media Mail and BPM Parcels have recently given some BPM Parcels mailers an incentive to use Media Mail (which is not zoned) for some parcels travelling to more distant zones. In the current price structure for BPM Parcels, the prices for certain weights of basic presorted non-dropshipped parcels in zones 7 and 8 exceed the unzoned prices for basic presorted Media Mail. In this price adjustment, the Postal Service has moderated the increases in these zones to reduce the incentive to move these more costly long-distance parcels to Media Mail, which has suffered an erosion in cost coverage as a result.

Media Mail

Media Mail (including Library Mail) has not fully covered its costs for several years. Media Mail would require an approximately 12 percent increase to

[36] See the statement of Stephen J. Masse, Attachment 12.

cover its costs as a result of this price adjustment alone. The Postal Service does not believe it is advisable to impose an increase of this size on Media Mail at one time, particularly in the current economic environment. The Postal Service management is concerned that price increases for Media Mail may injure its ability to remain a viable product in the long run. For this reason, the Postal Service believes that the most reasonable approach is to take a more gradual path to achieving long run cost coverage and has proposed a 7.0 percent increase in this adjustment.

As discussed in the BPM Parcels section, the Postal Service believes that part of the Media Mail cost coverage problem is that it is experiencing the adverse consequences of an inward migration of long-distance parcels. This migration arises because Media Mail's prices for long-distance parcels have been lower than the prices in the BPM Parcels product. Media Mail prices reflect average transportation costs, so its pricing regime cannot readily handle an influx of parcels disproportionately weighted toward long-haul parcels, and still cover its costs adequately. To restore a reasonable pricing relationship, the Postal Service is giving relatively lower increases to more distant zoned BPM Presort Parcels and is giving relatively higher increases to lighter weight Media Mail Basic Presort pieces.[37] These changes should reduce the pricing incentive for mailers to use Media Mail disproportionately for long-haul parcels.

Since the implementation of the Postal Act of 2006, Library Mail has become the preferred price component of the Media Mail product. Library Mail

[37] The Postal Service believes that the most likely candidates for migration from BPM Parcels to Media Mail would be lower weight pieces (BPM cannot exceed 15 pounds in weight) that are presorted but not dropshipped.

prices are, by law, set at 95 percent of the prices for Media Mail. The prices proposed for Library Mail meet this statutory requirement.

Inbound Surface Parcel Post at Universal Postal Union (UPU) Rates

This product is not priced by the Postal Service. Instead, its prices are set for each calendar year by the UPU. At the time this price adjustment was filed, the Postal Service did not know what prices the UPU would set for Calendar Year 2011. Consequently, no increases for this product are specified by the Postal Service in this filing.[38] Nevertheless, the Postal Service considers the increases to be specified later this year by the UPU, and to take effect in January 2011, to be part of its exigent price adjustment requests.

Plan for Covering Costs

As discussed, the Single-Piece Parcel Post, BPM Parcels and Media Mail products all failed to cover their attributable costs in FY 2009. As directed by the Commission in the 2009 ACD, the Postal Service is describing its plans for restoring these products to compensatory status.

The Postal Service anticipates that the proposed 7 percent overall increases, together with anticipated demand growth, will be sufficient to allow BPM Parcels and Single-Piece Parcel Post to cover their attributable costs.[39] In addition to this price change, the Postal Service will continue in its efforts to improve the efficiency of processing and handling the ground parcels mail stream. The Postal Service anticipates that, together, these pricing and

[38] For purposes of reference, the CY 2010 weighted average increase was 3.65 percent.
[39] See the statement of Stephen J. Masse, Attachment 12.

operational efforts should ensure that BPM Parcels and Single-Piece Parcel Post each make a positive contribution in the future.

For Media Mail, the Postal Service will rely on continuing improvements in the efficiency of the ground parcels mail stream together with price adjustments to close the negative contribution gap. Based on cost and revenue projections, we anticipate that it may take as little as one additional price change to ensure that Media Mail once again covers its attributable costs.[40] The Postal Service remains concerned that attempting to close the gap all at once in this price adjustment could seriously compromise the ability of this product to weather the current economic downturn and return to long-run health. Network efficiency improvements include anticipated benefits from the network realignment now taking place. Pricing actions include the above-average price adjustments proposed in this docket followed by continuing adjustments at above-average rates, designed to eliminate the cost coverage gap over the next several years.

Worksharing

In the 2009 ACD, the Commission found seven Package Services workshare discounts that exceeded avoided costs.[41] In this price adjustment the Postal Service has reduced the passthroughs for all of these discounts, except two, to be at or below 100 percent. The only discounts that exceed avoided costs in this price adjustment are the 5-digit presort discounts for Media Mail and Library Mail. In previous price adjustments the Postal Service has justified these

[40] See the statement of Stephen J. Masse, Attachment 12.

[41] These were the DBMC and DDU dropship discounts for BPM Flats and for BPM Parcels, the Basic Presort discount for Media Mail and the 5-digit Presort discount for Media Mail and Library Mail.

discounts using sections 3622(e)(2)(B) and 3622(e)(2)(C). The Postal Service has been reducing the passthrough for the 5-digit presort categories over the last several price changes in moderate steps to avoid rate shock. In this price change this practice continues, with the Media Mail 5-digit passthrough declining from 154 percent to 142 percent, and the Library Mail 5-digit passthrough declining from 146 percent to 138 percent. Therefore, the Postal Service believes that the section 3622(e)(2)(B) justification still applies. Also as noted in Docket No. R2009-2, Media Mail and Library Mail both consist exclusively of content with ECSI value so their passthroughs that exceed 100 percent also can be justified under the ECSI exception, section 3622(e)(2)(C).

Classification Changes

There is only one minor classification change for Package Services. Nonpresorted (single piece) BPM Parcels is the only parcel category in Package Services with half-pound price cells. To make BPM Parcels more consistent with other Package Services parcels offerings, as well as the Postal Service's competitive parcels products, the Postal Service is eliminating half-pound pricing for nonpresorted parcels in this price adjustment.

E. Special Services

Special Services Pricing Overview

The overall percentage change for Special Services excluding the Address Management Services is 5.3 percent.[42] Prices for Post Office Box service, the largest component in Special Services will increase by about 6 percent, with other services generally receiving increases in the 4.5 percent range. In general much of the variation among these services reflects the customary rounding constraints. In the case of Address Management Services some of the products have price increases of as much as 10 percent to reflect reasonable rounding constraints. Additionally, some products will receive no price increase, as the products are being phased out, or the products are certification processes, and the Postal Service does not wish to discourage mailers from obtaining certification because of a price increase. The following table gives the percent change for Special Services products and major categories.

[42] This calculation excludes Address Management System (AMS) products (other than its Address List Services components) since volumes and revenues for AMS products are not available to be used in the calculation of a comprehensive price change.

Table 7: Special Services Price Adjustments

Service	Percentage Increase
Caller Service	4.8
Certified Mail	5.4
COD	4.4
Insurance	4.6
Registered Mail	4.7
Stamped Envelopes	3.2
Stamped Cards	0.0
Other Ancillary Services	4.8
Total Ancillary Services	5.0
Int'l Ancillary Services	11.7
Address Management Services	5.6
Change of Address Credit Card Authentication	0.0
Confirm	12.9
Int'l Reply Coupon Service	4.8
Int'l Business Reply Mail Service	3.5
Money Orders	4.5
Post Office Box Service	5.9
Total Special Services Mail	5.3

In the Annual Compliance Determination the Commission identified four Special Services as not covering their costs: Stamped Cards, Confirm, Address List Services, and Registered Mail.

Stamped Cards in actuality did cover its costs. The FY 2009 ACR included an error in the volume reported in the Revenue Pieces Weight (RPW) report. The reported volume was 22 million, while the actual volume was 85 million. Correcting this error raises the revenue to well above costs.

Confirm service is the only domestic Special Services product that significantly failed to cover its costs in FY 2009.[43] The Postal Service is addressing this contribution gap in this docket by raising Confirm's Bronze and Silver tiers by 4 percent, the Gold tier by 6 percent and the Platinum tier by 25.6 percent. A primary cost driver for Confirm is data storage that has largely been driven by the scans provided to Platinum service tier customers. This increase of the Platinum subscription price will better align the costs of providing the service among the service tiers. It is believed that these increases will be sufficient to achieve full cost coverage for Confirm.

Since the 2009 ACR, Address List Services has been merged into a larger Address Management Services, added to the Mail Classification Schedule as part of the Commission's review of services that were not in the Domestic Mail Classification Schedule.[44] The Postal Service is also moving to eliminate some Address Management Services options that likely do not cover costs.[45] As a result we expect that Address Management Services (including Address List Services) will provide adequate revenue to exceed its costs.[46] .

Registered Mail had a cost coverage of 98 percent in the Annual Compliance Determination. An overall price increase of 4.7 percent will be adequate to make up for this shortfall.

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[43] The 2009 ACD lists Confirm's FY 2009 cost coverage as 82 percent (Table VII-20, p. 103).
[44] See Order No. 391 (Jan. 13, 2010).
[45] For example, on July 2, 2010, the Postal Service filed notice with the Commission of classification changes that would eliminate Delivery Type service (Docket No. MC2010-25).
[46] This conclusion is somewhat speculative because the Postal Service is in the process of developing complete revenue and cost information for Address Management Services for the first time.

Classification Changes

In this docket the offering of Stamped Envelopes bearing a Standard Mail stamp will be eliminated. The small volumes of envelopes that are sold make it impractical to continue offering this version of stamped envelopes. The Postal Service either has to produce the envelopes in quantities that are so small that the costs exceed the price charged, or produce excessive amounts of the envelopes which end up taking up excessive storage space and being damaged before they can be sold.

On June 17, 2010, the Commission approved the Postal Service's request to create a new Post Office box service product on the competitive products list, and to transfer selected Post Office Box service locations to that competitive product. The price change cited for Post Office Boxes above does not apply to those locations that have been moved to the competitive Post Office box service product.

IV. Objectives and Factors—Rule 3010.14(b)(7)

In compliance with Rules 3010.14(b)(7) through (8), in this section the Postal Service discusses 1) how its planned prices "help achieve" the objectives of section 3622(b) and "properly take into account" the factors of section 3622(c); and 2) how its planned prices are consistent with sections 3626, 3627, and 3629.

The objectives of section 3622(b) are as follows:

"(b) Objectives—Such system shall be designed to achieve the following objectives, each of which shall be applied in conjunction with the others:

(1) To maximize incentives to reduce costs and increase efficiency.

(2) To create predictability and stability in rates.

(3) To maintain high quality service standards established under section 3691.

(4) To allow the Postal Service pricing flexibility.

(5) To assure adequate revenues, including retained earnings, to maintain financial stability.

(6) To reduce the administrative burden and increase the transparency of the ratemaking process.

(7) To enhance mail security and deter terrorism.

(8) To establish and maintain a just and reasonable schedule for rates and classifications, however the objective under this paragraph shall not be construed to prohibit the Postal Service from making changes of unequal magnitude within, between, or among classes of mail.

(9) To allocate the total institutional costs of the Postal Service appropriately between market-dominant and competitive products."[47]

These objectives underlie Congress' mandate that there be a new, "modern system for regulating rates and classes for market-dominant products," to replace the prior system of the Postal Reorganization Act (PRA). These

[47] For ease of reference, each objective is referred to according to its placement in section 3622(b). For example, section 3622(b)(1) is referred to as Objective 1. A similar convention is used with respect to the "factors" of section 3622(c) below.

principles are largely achieved through the design of the new regulatory system itself, rather than through the particulars of any one pricing change made pursuant to that system.

In this Request, the Postal Service is utilizing one of the provisions of the PAEA that grants additional pricing flexibility in extraordinary and exceptional circumstances to help ensure that it has the revenues to provide the kinds of high quality postal services envisioned in the Act (Objectives 3, 4, 5).

This filing follows the Commission's rules for exigent price changes and provides information beyond what is normally filed in a price change notice. Moreover the Postal Service is making officials available to respond under oath to questions from the Commission at a public hearing. In this Request, the Postal Service demonstrates how its planned price adjustments comply with the workshare standards of section 3622(e) and with the requirements of section 3626. These actions clearly meet the objective that the pricing process be transparent (Objective 6).

While the Postal Service will be requesting prices that exceed the CPI change since the last adjustment, the Postal Service has restrained the size of the requested increases, rather than relying solely on pricing to close its financial gap. It has also restrained many of its price increases to a narrow range around the respective average class increases (Objective 2). At the same time the Postal Service did not pursue an across-the-board increase because it believed that more targeted, unequal increases could provide greater incentives for increasing efficiency and moving underperforming products closer to covering their costs (Objectives 1 and 8).

In addition to the objectives specified and discussed above, section 3622(c) enumerates fourteen factors, or considerations, that must be taken into account, which are as follows:

> "(c) Factors—In establishing or revising such system, the Postal Regulatory Commission shall take into account—
>
> (1) the value of the mail service actually provided each class or type of mail service to both the sender and the recipient, including but not limited to the collection, mode of transportation, and priority of delivery;
>
> (2) the requirement that each class of mail or type of mail service bear the direct and indirect postal costs attributable to each class or type of mail service through reliably identified causal relationships plus that portion of all other costs of the Postal Service reasonably assignable to such class or type;
>
> (3) the effect of rate increases upon the general public, business mail users, and enterprises in the private sector of the economy engaged in the delivery of mail matter other than letters;
>
> (4) the available alternative means of sending and receiving letters and other mail matter at reasonable costs;
>
> (5) the degree of preparation of mail for delivery into the postal system performed by the mailer and its effect upon reducing costs to the Postal Service;

(6) simplicity of structure for the entire schedule and simple, identifiable relationships between the rates or fees charged the various classes of mail for postal services;

(7) the importance of pricing flexibility to encourage increased mail volume and operational efficiency;

(8) the relative value to the people of the kinds of mail matter entered into the postal system and the desirability and justification for special classifications and services of mail;

(9) the importance of providing classifications with extremely high degrees of reliability and speed of delivery and of providing those that do not require high degrees of reliability and speed of delivery;

(10) the desirability of special classifications for both postal users and the Postal Service in accordance with the policies of this title, including agreements between the Postal Service and postal users, when available on public and reasonable terms to similarly situated mailers, that—

(A) either—

(i) improve the net financial position of the Postal Service through reducing Postal Service costs or increasing the overall contribution to the institutional costs of the Postal Service; or

(ii) enhance the performance of mail preparation, processing, transportation, or other functions; and

(B) do not cause unreasonable harm to the marketplace.

(11) the educational, cultural, scientific, and informational value to the recipient of mail matter;

(12) the need for the Postal Service to increase its efficiency and reduce its costs, including infrastructure costs, to help maintain high quality, affordable postal services;

(13) the value to the Postal Service and postal users of promoting intelligent mail and of secure, sender-identified mail; and

(14) the policies of this title as well as such other factors as the Commission determines appropriate."

Below, the Postal Service discusses how the pricing adjustments for each class comply with the policy considerations set forth in section 3622.[48] When considering this price change, it is important to consider the long term, rather than simply focusing on this year's prices in isolation. This was discussed by the Postal Service in its Docket No. R2008-1 Notice.[49]

A. First-Class Mail

The First-Class Mail first-ounce letter price is being increased by two cents (4.5 percent), which is slightly below the overall increase for First-Class Mail as a whole. For simplicity, prices used by the general public are set in whole cents (Factor 6). The integer constraint on the single-piece price generally results in some deviation from the average increase for the class.

[48] Workshare discounts, which implicate Factor 5 and Factor 12, are discussed extensively in each class' pricing sections of this statement.
[49] Docket No. R2008-1, Notice of Market Dominant Price Adjustment, at 12.

The MCS establishes the shapes within First-Class Mail as distinct products. This price change widens the effective per-piece differential between letters and flats, and between letters and parcels (Factor 1, Factor 2). As in the previous price adjustment, the Postal Service has set the first-ounce price for a single piece flat at twice the stamp rate. This further enhances the convenience and simplicity of the pricing structure for customers (Factor 6).

As discussed in the First-Class Mail pricing section, the Postal Service is especially concerned that price increases for presort letters may have a deleterious impact on an already weakened mailing industry and lead some mailers to decide to leave the mail altogether. Therefore the Postal Service has mitigated the increases given to presort letters (Factor 3).

In this price adjustment, the Postal Service is changing the First-Class Mail parcels rate design to give the same price to all parcels weighing up to 3 ounces. This change will improve the coverage for the lightest parcels (Factor 2).

The prices in Presort Letters / Postcards reflect the costs that the Postal Service avoids when customers presort and otherwise prepare their mail for automation processing (Factor 5). Most commercial customers are actively seeking cost reductions that may result in decisions to adopt electronic and other mail alternatives. While the proposed prices for this product reflect an above-average increase, the Postal Service mitigated the increase in automation prices to help forestall some of these decisions and maintain automation letter volume (Factor 4, Factor 7).

The desirability of Intelligent Mail is specified in Factor 13. Intelligent Mail barcoded pieces offer many benefits to customers and to the Postal Service itself, including serving as the basis for some service performance measurements. In this price adjustment the Postal Service continues the incentive program begun in Docket No. R2009-2 to encourage participation in the Full-Service IMb program. This program will add value to the mail and assist in service measurement (Factor 1, Factor 7, Objective 3).

Accompanying this price adjustment is a new First-Class Mail initiative, the Reply Rides Free program, in which participants who participate in the Full Service IMb program can include a reply card or envelope without paying extra postage. This initiative (which is described in more detail in the First-Class Mail section) is an incentive to maintain and increase transactions mail volumes (Factor 7).

B. Standard Mail

The Standard Mail class receives an overall increase of 5.6 percent. Two of the six Standard Mail products failed to cover their attributable costs in FY 2009: Standard Mail NFMs / Parcels and Standard Mail Flats. In this price adjustment, the Postal Service addresses both of these products differently, relying on its pricing flexibility (Objective 4, Factor 7) to craft responses that meet the needs of each respective situation. For Standard Mail NFMs / Parcels, the Postal Service is continuing its process announced several years ago of adjusting parcels prices to move toward full cost coverage for this product (Factor 2), recognizing that these parcels are underpriced in the marketplace compared to competitors' offerings (Factor 4). The pricing for parcels is also a further step in the Postal Service's ongoing harmonization of all of its parcels offerings (Factor 6).

Although Standard Mail Flats also failed to cover its costs, the Postal Service believes that the catalog industry, which is a major user of this product, is in an especially vulnerable time right now. An above-average increase for Flats might damage this industry in a way that would make it difficult to recover when general economic conditions improve. For this reason, Flats were given an average increase in this price adjustment (Factor 3).

This price adjustment also revises the rate design for Irregular (nonmachinable) Parcels by setting the price for 5-digit presorted parcels equal to the price for 5-digit Machinable Parcels. Parcels sorted to 5-digit ZIP Codes receive the same mail processing regardless of their classification as machinable or irregular. This change better aligns the pricing with cost causation and encourages mailers of irregular parcels to sort to 5 digits, reducing the amount of costly manual handling these parcels may receive (Factors 1, 5, 7 and 12).

In this price adjustment, the Postal Service is proposing a pricing initiative to expand the use of profitable High Density and Saturation mail. Participating mailers who grow their mail above a mailer-specific threshold volume will receive incentives in the form of postage rebates. This program is a revised and expanded version of the Saturation mail incentive that was implemented in FY 2009, and continues the successful use of the Postal Service's pricing flexibility to expand profitable mail categories (Factors 7, 8, 10).

Standard Mail is a heavily workshared class and most mail pieces take advantage of one or more discounts. With the Commission's approval of shape-based dropship cost avoidances in Docket No. RM2009-10, the Postal Service has established fully shape-based dropship discounts. The new cost estimates will provide enhanced opportunities to better reflect the savings mailers provide by dropshipping flats and parcels deeper into the system (Factor 5).

The Postal Service is continuing to offer the incentive program begun in Docket No. R2009-2, to encourage participation in the Full-Service IMb program. This program will add value to the mail and assist in service measurement (Factor 1, 7 and 13, Objective 3).

C. Periodicals

The Periodicals class includes magazines and newspapers, and consists of two products: Within County Periodicals and Outside County Periodicals. Periodicals will receive an increase of 8.0 percent in this price adjustment, well above the average for market dominant products as a whole. This above-average increase is in direct response to the fact that the Periodicals class has failed to cover its attributable costs for several years (Factor 2).

In implementing this increase, the Postal Service attempted to keep the price changes for most individual categories as close to the class average as possible to minimize the possibility that any group of publications would be affected much more severely than others (Factor 3).

As in other classes, the Postal Service is continuing the incentive to encourage customer participation in the Full Service IMb program. By participating in the program, publications will quality for no-fee ACS. This in itself is a substantial incentive for Periodicals mailers to use Full Service IMb (Factor 1), while adding value to the mail and increasing operational efficiency (Factors 1, 7, 13).

Factor 11 allows for the consideration of the educational, cultural, scientific and informational value of the mail matter. Periodicals consist entirely of such matter, and its pricing reflects this content (Factor 11).

D. Package Services

The Package Services class consists of five products: Single-Piece Parcel Post, Bound Printed Matter Flats, Bound Printed Matter Parcels, Media Mail (including Library Mail), and Inbound Surface Parcel Post (at UPU rates). In FY 2009 Parcel Post, BPM Parcels and Media Mail failed to cover their attributable costs.

In this price adjustment, all of the products that failed to cover their costs were given increases of 7.0 percent. These increases, together with expected operational efficiency gains and anticipated general improvements in the economy should be sufficient to allow Parcel Post and BPM Parcels to cover their costs. Media Mail may not reach full cost coverage in this pricing round, but is expected to be within reach by the next annual price change (Factor 2, Objective 8).

Factor 11 allows for the consideration of the educational, cultural, scientific and informational value of the mail matter. Media Mail, including Library Mail, consists entirely of such matter, and their pricing reflects this content (Factor 11).

This price adjustment continues the shape-based differentiation of BPM Flats and BPM Parcels. Because of their favorable cost characteristics, BPM Flats have lower unit costs than BPM Parcels. In recent price changes the Postal Service has begun to recognize these cost characteristics by giving BPM Flats lower overall increases. By continuing to restrain the increase for BPM Flats the Postal Service hopes to spur additional volume growth for this profitable product (Factor 7).

Nonpresorted (single-piece) BPM Parcels have a pricing design that includes half-pound weight steps for the first five pounds. This feature is a holdover from the days when BPM was a unified subclass that consisted primarily of catalogs and directories. BPM Parcels is the only parcel product that has such a design. To harmonize BPM Parcels with other parcels products, the Postal Service is eliminating half-pound pricing for these parcels with this price change (Factor 6).

Parcel Post has a current price design that is unzoned in the first pound. This is a holdover from former years when Parcel Post prices were managed in the lower weight cells to keep Parcel Post prices below unzoned Priority Mail prices (which were unzoned in the first pound). This constraint is no longer relevant, so Parcel Post pricing is adjusted in this pricing change to reflect the higher cost of shipping to more distant zones (Factors 1, 2, 6).

E. Special Services

The overall fee increase for all Special Services is 5.2 percent. For many of the Special Services, fee increases were generally designed to be close to the overall class percentage, while maintaining consistency with historical rounding constraints which can simplify transactions for customers (Factor 3, Factor 6).

In FY 2009, Confirm failed to cover its attributable costs. The 13.1 percent average increase in this price adjustment was given to allow the service to fully cover its costs (Factor 2).

The fees for Restricted Delivery, Collect on Delivery, Notice of Nondelivery and Alteration of Charges, and Money Order Inquiries reflect their high value of service (Factor 1). Finally, the Postal Service's general approach to international special services has been to set fees for those services that are similar to the fees for the equivalent domestic service. This approach has been followed for International Certificates of Mailing, International Return Receipts, and International Restricted Delivery (Factor 6).

V. Preferred Mail—Rule 3010.14(b)(8)

Section 3626 sets forth pricing requirements for certain preferred categories of mail. In this price change, the Postal Service implements these requirements in the same manner as it did in its Docket No. R2009-2 price change, which the Commission approved 3626 in Order No. 191.[50]

First, section 3626(a)(3) requires that the prices for Within County Periodicals "reflect[ ] its preferred status" as compared to the prices for regular rate Periodicals.[51] This price adjustment continues to recognize the preferential

[50] See Order No. 191, at 3.
[51] This general standard replaces the "50-percent mark-up rule" that previously governed the setting of prices for Within County Periodicals. *See* H.R. REP. NO. 109-66, pt. 1, at 67-68.

status of Within County Periodicals, whose prices are well below those of Outside County Periodicals.

Second, section 3626(a)(4)(A) requires that Nonprofit and Classroom Periodicals receive, as nearly as practicable, a 5 percent discount from regular rate postage, except for advertising pounds. Consistent with previous practice, the Postal Service maintains this rate preference by giving Nonprofit and Classroom pieces a 5 percent discount on all components of postage except advertising pounds and ride-along postage.

Third, section 3626(a)(5) requires that Science of Agriculture Periodicals be given preferential treatment for its advertising pounds. Consistent with past practice, the Postal Service continues to provide these publications with advertising pound rates for DDU, DSCF, DADC, and Zones 1 & 2 that are 75 percent of the advertising pound rates applicable to regular Periodicals.

Fourth, section 3626(a)(6) requires that Nonprofit Standard Mail prices be set to achieve an average revenue per piece that is 60 percent of the commercial average revenue per piece. Consistent with the Postal Service's practice in Docket Nos. R2008-1 and R2009-2, the Postal Service has calculated this ratio at the class level. In the 2009 ACD, the Commission directed the Postal Service to include fees paid by nonprofit and commercial mailers in their respective average revenues when performing the ratio calculation. This methodology was followed. The prices set forth in this Notice achieve a revenue per piece ratio of 60.1 percent. Details of the nonprofit-commercial revenue per piece ratio are contained in USPS-R2010-4/2 Standard Mail Worksheets R2010-4.xls, worksheet “Price Change Summary.”

Fifth, section 3626(a)(7) requires that the prices for Library Mail be equal, as nearly as practicable, to 95 percent of the prices for Media Mail. This is achieved by setting each Library Mail price element equal to 95 percent of the corresponding Media Mail price element. The Postal Service has followed this approach in setting its new prices.

Finally, section 3626(g)(4) requires that preferential treatment be accorded to the Outside County pieces of a Periodicals publication having fewer than 5,000 Outside County pieces, and at least one Within County piece. In conformance with this requirement, the Postal Service implemented a “limited circulation” discount in 2008, which gives these mailers a discount equivalent to the Nonprofit and Classroom Periodicals discount.

In addition to a discussion of section 3626, Rule 3010.14(b)(8) also requires the Postal Service to discuss how its planned prices are consistent with sections 3627 and 3629. Neither section is implicated by this price change: in terms of section 3627, the Postal Service does not seek to alter the free rates; in terms of section 3629, the Postal Service does not change the eligibility requirements for nonprofit prices.

VI. Conclusion

The Postal Service finds itself in extraordinary and exceptional financial circumstances. Price increases that exceed what would otherwise be allowable under the price cap regime are needed to restore the Postal Service to financial health. Despite this need, the Postal Service has determined that the way forward out of its financial difficulties must not rest solely on price increases.

In the Postal Service's Action Plan announced on March 2, judicious price adjustments play an important part, but are not the whole solution. Solving the Postal Service's problems through pricing alone would require increases so large that they would threaten the economic health of our customers, both small and large, across virtually every segment of our business. Many of our customers might simply decide to stop mailing altogether.

The Postal Service has determined that price increases averaging 5.6 percent reasonably balance the impacts on our customers with our own need for additional revenues. At the same time, most products that are not covering their costs have been given above-average increases to help them move toward full cost coverage. We carefully evaluated these additional increases to ensure they would not overburden or fundamentally threaten ailing customer segments. These steps result in an equitable sharing of the burden of this above-CPI exigent price request.

The Postal Service's price changes take a long-term view and do not try to resolve all of its financial difficulties using pricing, and do not attempt to fix the problems quickly, heedless of the consequences of sharp price changes. The Postal Service's price changes are balanced: they balance the impacts on our customers with our need for revenue, and they balance the need for revenue among our products and services in a way that moves toward full contributory status for all products as soon as feasible. The Postal Service’s pricing changes are both reasonable and equitable.

APPENDIX A

SUMMARY OF GROWTH AND RETENTION INITIATIVES

Reply Rides Free Program

The Postal Service proposes a pricing initiative ("Reply Rides Free Program") for mailers of First-Class Mail® Presort Letters. This initiative allows First-Class Mail® Presort and Automation Letters over 1 ounce, up to 1.2 ounces to qualify for postage payment at the 1-ounce price when those letters include a reply card or envelope under specified conditions. The initiative is structured as an annual incentive program.

To qualify the mailer must consent to

- Meeting a volume threshold of First-Class Mail® Presort Letters
- Enclosing a reply card or envelope, either courtesy reply or business reply. The reply piece may be in the format of a reusable envelope
- Using Full-Service IMb
- Random verifications to ensure compliance with enclosure requirements

The purpose of the First-Class Mail® Reply Rides Free Program is to slow customers' diversion efforts to electronic channels. Many mailers are currently "filling to the ounce;" that is, they have redesigned their bills and statements to reduce the weight and number of pages to ensure that they will not exceed one ounce in weight and thus incur the additional ounce charge. They will only add promotional inserts to their mailings if the mail piece stays under one ounce, and may remove the courtesy or business reply envelope to do so. The free weight increment encourages customers to keep the reply envelope in their mailing –

and to keep adding promotional inserts that generate revenues and offset a portion of the mail preparation and mailing costs. In fact, the Reply Rides Free Program would effectively increase the value of the mail, and provide an incentive for customers to use their transactional mailings for direct marketing purposes.

Companies who mailed First-Class Mail® Presort and Automation Letters in FY 2010 qualify to take advantage of this initiative. The volume commitment (threshold) is defined as the trend in a mailer's Firs-Class Mail Presort and Automation Letter volumes in FY 2009 and FY 2010 plus 2.5%. Customers who mailed only in FY 2010 will have their thresholds set to equal their FY 2010 First-Class Mail® Presort Letters volumes.

Examples of Volume Threshold Calculations:

<u>Scenario 1: Mailer shows negative volume trend</u>:

Volumes in FY 2009: 1000 items
Volumes in FY 2010: 950 items ===> trend = -5% or - 50 items
Program year (volume threshold): 950 x (1 + (-5%)) x (1 + 2.5%) = 925 items (= FY2010 volume x 0.95% trend) + 2.5%))

Scenario 2: Mailer shows positive volume trend:

Volumes in FY 2009: 1000 items
Volumes in FY 2010: 1050 items ===> trend = +5% or + 50 items
Program year (volume threshold): 1050 x (1 + (+5%)) x (1 + 2.5%) = 1130 items (FY 2010 volume x 1.05% trend) + 2.5%)

Participation in this initiative is contingent on the Postal Service and the participating company being able to track all volume sent by the company during specified time periods. The Postal Service will thus require each participating company to provide monthly volumes for all First-Class Mail® Presort and Automation Letters. In addition, customers who mail through mail service providers (MSPs) must provide proof of those volumes and revenues to qualify.

MSPs can not participate directly in this program but will be expected to support it by providing their mailing customers with their required volume data to determine eligibility.

Saturation and High Density Incentive Program

The Saturation and High Density Incentive Program proposes to provide an incentive in calendar year 2011 to current Standard Mail Saturation and High Density customers to increase their mail volume by rewarding them with a rebate on incremental mail pieces above a predetermined volume baseline. The volume baseline for each participant will be the aggregate total saturation and high density volume in calendar year 2010 plus 5.0 percent. The volume baseline is reflective of the forecasted growth projected to occur in FY2011 for these product categories. Incremental volumes above the customer baseline will be eligible for a rebate equal to 22 percent of the average revenue per piece for commercial Saturation Mail and 13 percent for commercial High Density mail, and 8 percent for Nonprofit categories. Similar to the existing Saturation Mail incentive that began in May 2009, this program is designed to encourage mailers to increase their frequency of mailing in existing markets and expand their reach into new markets.

Volume Threshold Definition:

Participant threshold volume will be calculated based on the actual volume mailed during the CY 2010 plus an additional 5.0%. The additional 5.0% is equal to the aggregate forecasted growth for Saturation and High Density in FY 2011. In order to receive a rebate, the customer volume must exceed 105.0% of the threshold volume.

Threshold Example Calculation:

CY 2010 Volume	+	5.0 % Growth	=	Calculated Saturation/HD Threshold
100,000	+	5,000	=	105,000

Customer Eligibility:

All customers who apply and participate in the program must meet the following requirements:

1. The mailer must be a current Saturation or High Density customer with at least 6 combined Saturation or High Density mailings in FY 2010. The combined 6 or more mailing requirement is intended to identify current and frequent mailers of the product. The program is designed to reward loyalty and encourage additional mail. Additionally, the intent is to limit the ability of customers not currently using the products to enter markets with an unfair price advantage. This also helps maintain program administration efficiencies by limiting participation to only those customers with volumes significant enough to ensure positive contribution.
2. The mailer must be the permit holder (i.e. owner) of a permit imprint advance deposit account(s) at a Postal facility having PostalOne! capability or the owner of qualifying mail volume entered through the permit imprint advance deposit account of a mail service provider at a Postal facility having PostalOne! capability.

3. Only volume from mail owners will be eligible for inclusion in the program. Mail service providers and customers supplying inserts, enclosures or other components included in the Saturation or High Density mailings of another mailer are not eligible to participate in this program.
4. Each applicant must electronically submit postage statements and mailing documentation to the Postal One! system for the duration of the program period. Applicants choosing to participate within a defined market area(s) must electronically submit postage statements and mailing documentation to the Postal One! System using Mail.dat or Mail.XML. All other applicants may optionally submit postage statements through Postal Wizard.

Market Options:

As in the existing Saturation Mail Incentive, participating customers will be given the option to participate under two different market models:

1. Total Market (or National) Volume – Customers are measured by their total national mail volume of Saturation and High Density mail. Customers must demonstrate increased volume of Saturation and High Density letters and flats over the base year for their total market.
2. Specific Geographic Markets - Customers participating in this market model will designate specific geographic target markets or specific USPS Sectional Center Facilities (SCFs) to demonstrate increased

volume of their predetermined baseline. Customers can select up 20 individual SCF areas to participate and/or up to 5 target markets (consisting of multiple contiguous SCFs). These limitations on the number of SCF and markets which customers can participate are new based on experience gained from the current Saturation Mail incentive program. All geographic areas will be approved by the Postal Service during the application process.

Customers will be required to have the qualifying 6 mailings during FY 2010 in each market in which they plan to participate.

Participating customers will pay published prices throughout performance period (CY2011) for all Saturation and High Density volume. The incremental volume above the customer's baseline will be eligible for a rebate. The rebate amount for incremental volume will be based on a discount on the average revenue per piece during the performance period. The discount levels for each pricing category are:

Commercial Saturation Mail = 22%

Commercial High Density Mail = 13%

Non-Profit Saturation Mail = 8%

Non-Profit High Density Mail = 8%

The program will have an application period, program year and rebate administration period as follows:

- The application period will run from October 2010 to December 2010

- Program years start in January 2011 and end after 12 months.
- Rebate administration and processing will commence 30 days following the conclusion of the Program year and conclude by March 31, 2012.

APPENDIX B

WORKSHARE DISCOUNTS TABLES

Workshare Discounts and Benchmarks--Single Piece Letters and Postcards

Type of Worksharing	Benchmark	Discount[1]	Avoided Cost[2]	Passthrough
First-Class Mail Single Piece Letters				
Qualified Business Reply Mail Barcoding				
QBRM	Handwritten Reply Mail	**0.025**	**0.025**	100.0%
First-Class Mail Single Piece Postcards				
Qualified Business Reply Mail Barcoding				
QBRM	Handwritten Reply Cards	**0.025**	**0.025**	100.0%

Notes

[1] Source of Discounts: Docket No. R2010-4, Exigent Request, Attachment A, Schedule 1105
Discounts are calculated by subtracting the price in question from the benchmark price

[2] QBRM Cost Differences--Source: ACD 2009, Chapter 7, Page 70

Workshare Discounts and Benchmarks--First-Class Mail Bulk Letters and Postcards 1

Type of Worksharing	Benchmark	Discount[1]	Avoided Cost[2]	Passthrough
First-Class Mail Bulk Letters--Automation				
Barcoding & Presorting ($ / piece)				
Automation Mixed AADC Letters	Bulk Metered Mail (BMM) Letters	0.055	0.046	119.6%
Automation AADC Letters	Automation Mixed AADC Letters	0.024	0.020	120.0%
Automation 3-digit Letters	Automation AADC Letters	0.003	0.003	100.0%
Automation 5-digit Letters	Automation 3-digit Letters	0.022	0.026	84.6%
First-Class Mail Bulk Letters--Nonautomation				
Barcoding ($ / piece)				
Nonautomation Presort Letters	Bulk Metered Mail (BMM) Letters	0.027	0.052	51.9%
First-Class Mail Bulk Cards--Automation				
Barcoding & Presorting ($ / piece)				
Automation Mixed AADC Cards	Nonautomation Presort Cards	0.015	0.024	62.5%
Automation AADC Cards	Automation Mixed AADC Cards	0.010	0.010	100.0%
Automation 3-digit Cards	Automation AADC Cards	0.001	0.001	100.0%
Automation 5-digit Cards	Automation 3-digit Cards	0.012	0.012	100.0%

Notes

[1] Source of Discounts: Docket No. R2010-4, Exigent Request, Attachment A, Schedule 1105
Discounts are calculated by subtracting the price in question from the benchmark price

[2] Letters and Cards Presorting and Pre-barcoding Cost Differences--Source: ACD 2009, Chapter 7, Pages 70 - 71

Workshare Discounts and Benchmarks--First-Class Mail Flats

Type of Worksharing	Benchmark	Discount[1]	Avoided Cost[2]	Passthrough
First-Class Mail Flats--Automation				
Barcoding & Presorting ($ / piece)				
Automation ADC Flats	Automation Mixed ADC Flats	**0.099**	**0.045**	220.0%
Automation 3-digit Flats	Automation ADC Flats	**0.072**	**0.064**	112.5%
Automation 5-digit Flats	Automation 3-digit Flats	**0.187**	**0.169**	110.7%

Notes

[1] Source of Discounts: Docket No. R2010-4, Exigent Request, Attachment A, Schedule 1115
Discounts are calculated by subtracting the price in question from the benchmark price

[2] Flats Presorting and Pre-barcoding Cost Differences--Source: ACD 2009, Chapter 7, Page 70

Workshare Discounts and Benchmarks--First-Class Mail Parcels

Type of Worksharing	Benchmark	Discount[1]	Avoided Cost[2]	Passthrough
First-Class Mail Presorted/Business Parcels				
Barcoding & Presorting ($ / piece)				
Presort 3-digit Parcels	Presort ADC Parcels	**0.086**	**0.592**	14.5%
Presort 5-digit Parcels	Presort 3-digit Parcels	**0.132**	**0.316**	41.8%

Notes

[1] Source of Discounts: Docket No. R2010-4, Exigent Request, Attachment A, Schedule 1120
Discounts are calculated by subtracting the price in question from the benchmark price

[2] Parcels Presorting and Pre-barcoding Cost Differences--Source: ACD 2009, Chapter 7, Page 70

Workshare Discounts and Benchmarks using New Prices for Periodicals Outside County Mail

Type of Worksharing	Benchmark	Discount / (Surcharge)[1]		Avoided Cost[2]		Passthrough
Periodicals Outside County Mail						
Presorting (dollars / piece)						
Machinable Nonautomation ADC Flats	Machinable Nonautomation MADC Flats	$	0.038	$	0.038	100.0%
Machinable Nonautomation 3D/SCF Flats	Machinable Nonautomation ADC Flats	$	0.018	$	0.027	66.7%
Machinable Nonautomation 5D Flats	Machinable Nonautomation 3D/SCF Flats	$	0.105	$	0.101	104.0%
CR Basic	Machinable Nonautomation 5D Flats	$	0.116	$	0.151	76.8%
High Density	CR Basic	$	0.030	$	0.030	100.0%
Saturation	High Density	$	0.021	$	0.029	72.4%
Machinable Automation ADC Flats	Machinable Automation MADC Flats	$	0.029	$	0.029	100.0%
Machinable Automation 3D/SCF Flats	Machinable Automation ADC Flats	$	0.016	$	0.026	61.5%
Machinable Automation 5D Flats	Machinable Automation 3D/SCF Flats	$	0.100	$	0.089	112.4%
Nonmachinable Nonauto ADC Flats	Nonmachinable Nonauto MADC Flats	$	0.125	$	0.121	103.3%
Nonmachinable Nonauto 3D/SCF Flats	Nonmachinable Nonauto ADC Flats	$	0.080	$	0.045	177.8%
Nonmachinable Nonauto 5D Flats	Nonmachinable Nonauto 3D/SCF Flats	$	0.126	$	0.255	49.4%
Nonmachinable Automation ADC Flats	Nonmachinable Automation MADC Flats	$	0.102	$	0.119	85.7%
Nonmachinable Automation 3D/SCF Flats	Nonmachinable Automation ADC Flats	$	0.065	$	0.037	175.7%
Nonmachinable Automation 5D Flats	Nonmachinable Automation 3D/SCF Flats	$	0.116	$	0.216	53.7%
Pre-barcoding (dollars / piece)						
Machinable Automation MADC Flats	Machinable Nonautomation MADC Flats	$	0.034	$	0.033	103.0%
Nonmachinable Automation MADC Flats	Nonmachinable Nonauto MADC Flats	$	0.049	$	0.055	89.1%
Presorting Automation Letters (dollars/piece)						
ADC Automation Letter	Mixed ADC Automation Letter	$	0.043	$	0.017	252.9%
3-Digit Automation Letter	ADC Automation Letter	$	0.022	$	0.002	1100.0%
5-Digit Automation Letter	3-Digit Automation Letter	$	0.065	$	0.020	325.0%

Notes

[1] Source of Discounts: Request, Attachment A, Schedule 1310
Discounts are calculated by subtracting the price in question from the benchmark price.

[2] Presorting and Barcoding Cost Differences --Sources: ACD 2009

Periodicals Bundle and Container Pricing[1]

Bundle Pricing by Container Level

Container Level	Bundle Level	Price[2]	Bottom-up Cost[3]	Price as Percent of Cost
Mixed ADC				
	MADC	$ 0.083	$ 0.190	43.7%
	ADC	$ 0.218	$ 0.500	43.6%
	3-D/SCF	$ 0.289	$ 0.680	42.5%
	5-D	$ 0.299	$ 0.730	41.0%
	Firm Bundle	$ 0.194	$ 0.940	20.6%
ADC				
	ADC	$ 0.120	$ 0.280	42.9%
	3-D/SCF	$ 0.198	$ 0.460	43.0%
	5-D	$ 0.216	$ 0.510	42.4%
	CR	$ 0.340	$ 0.750	45.3%
	Firm Bundle	$ 0.161	$ 0.750	21.5%
3-D/SCF				
	3-D/SCF	$ 0.135	$ 0.280	48.2%
	5-D	$ 0.157	$ 0.330	47.6%
	CR	$ 0.302	$ 0.570	53.0%
	Firm Bundle	$ 0.148	$ 0.570	26.0%
5-D/CR				
	5-D	$ 0.152	$ 0.320	47.5%
	CR	$ 0.159	$ 0.320	49.7%
	Firm Bundle	$ 0.083	$ 0.320	25.9%

Pallet Pricing by Entry Point

Pallet Level	Entry Point	Price	Bottom-up Cost	Price as Percent of Cost
ADC				
	OSCF	$ 33.947	$ 67.920	50.0%
	OADC	$ 33.947	$ 60.860	55.8%
	OBMC	$ 33.947	$ 53.720	63.2%
	DBMC	$ 24.270	$ 45.150	53.8%
	DADC	$ 13.435	$ 25.090	53.5%
3-D/SCF				
	OSCF	$ 40.237	$ 80.500	50.0%
	OADC	$ 40.237	$ 74.830	53.8%
	OBMC	$ 40.237	$ 62.520	64.4%
	DBMC	$ 25.787	$ 48.770	52.9%
	DADC	$ 22.428	$ 42.850	52.3%
	DSCF	$ 12.027	$ 23.380	51.4%
5-D/CR				
	OSCF	$ 50.853	$ 101.740	50.0%
	OADC	$ 50.853	$ 89.310	56.9%
	OBMC	$ 50.853	$ 78.020	65.2%
	DBMC	$ 34.564	$ 65.300	52.9%
	DADC	$ 32.722	$ 61.980	52.8%
	DSCF	$ 22.103	$ 42.150	52.4%
	DDU	$ 1.734	$ 3.320	52.2%

Sack Pricing by Entry Point

Sack Level	Entry Point	Price	Bottom-up Cost	Price as Percent of Cost
Mixed ADC				
	OSCF	$ 0.455	$ 2.900	15.7%
	OADC	$ 0.455	$ 2.180	20.9%
ADC				
	OSCF	$ 2.178	$ 6.220	35.0%
	OADC	$ 2.178	$ 6.060	35.9%
	OBMC	$ 2.178	$ 5.360	40.6%
	DBMC	$ 1.517	$ 3.990	38.0%
	DADC	$ 0.867	$ 2.180	39.8%
3-D/SCF				
	OSCF	$ 2.275	$ 6.661	34.2%
	OADC	$ 2.275	$ 6.356	35.8%
	OBMC	$ 2.275	$ 5.566	40.9%
	DBMC	$ 1.625	$ 4.110	39.5%
	DADC	$ 1.300	$ 3.413	38.1%
	DSCF	$ 0.867	$ 2.180	39.8%
5-D/CR				
	OSCF	$ 2.925	$ 8.530	34.3%
	OADC	$ 2.925	$ 7.860	37.2%
	OBMC	$ 2.925	$ 7.120	41.1%
	DBMC	$ 2.167	$ 5.710	38.0%
	DADC	$ 1.842	$ 4.900	37.6%
	DSCF	$ 1.409	$ 3.750	37.6%
	DDU	$ 0.975	$ 2.580	37.8%

Notes

[1] Based on Docket No. R2006-1, PRC-LR-14. Outside County Periodicals bundle and container rates were developed by passing through part of the respective costs, not cost differentials.

[2] Source of Bundles & Container Prices: Request, Attachment A, Schedule 1310

[3] Bundle & Container Cost --Source: ACD 2009

Workshare Discounts and Benchmarks--Periodicals Within County Mail

Type of Worksharing	Benchmark	Discount / (Surcharge)[1]	Avoided Cost[2][3]	Passthrough
Periodicals Within County Mail				
Presorting (dollars / piece)				
3-Digit Presort	Basic Presort	$ 0.013	$ 0.054	24.1%
5-Digit Presort	3-Digit Presort	$ 0.014	$ 0.162	8.6%
CR Basic	5-Digit Presort	$ 0.049	$ 0.168	29.2%
High Density	CR Basic	$ 0.016	$ 0.030	53.3%
Saturation	High Density	$ 0.016	$ 0.029	55.2%
3-Digit Automation Letter	Basic Automation Letter	$ 0.010	$ 0.011	90.9%
5-Digit Automation Letter	3-Digit Automation Letter	$ 0.002	$ 0.020	10.0%
Pre-barcoding (dollars / piece)				
Basic Automation Flats	Basic Nonautomation	$ 0.017	$ 0.114	14.9%
3-Digit Automation Flats	3-Digit Nonautomation	$ 0.013	$ 0.091	14.3%
5-Digit Automation Flats	5-Digit Nonautomation Flats	$ 0.006	$ 0.027	22.2%
Dropship (dollars/piece)				
DDU Dropship	All other zones	$ 0.009	$ 0.029	31.0%

Notes

[1] Source of Discounts: Request, Attachment A, Schedule 1305
Discounts are calculated by subtracting the price in question from the benchmark price.

[2] Source of Avoided Cost: ACD 2009.

[3] Basic Letters Mail Processing and Delivery Cost is the weighted average of MAADC and AADC costs utilized in the calculation of cost avoidance between Basic and 3-Digit Letters

Workshare Discounts and Benchmarks--Standard Mail Letters (Commercial and Nonprofit)

Type of Worksharing	Benchmark	Discount[1]	Avoided Cost[2]	Passthrough
Standard Mail Letters--Automation				
Presorting (dollars / piece)				
Automation AADC Letters	Automation Mixed AADC Letters	$0.017	$0.017	100.0%
Automation 3-digit Letters	Automation AADC Letters	$0.002	$0.002	100.0%
Automation 5-digit Letters	Automation 3-digit Letters	$0.020	$0.020	100.0%
Pre-barcoding (dollars / piece)				
Automation Mixed AADC Letters	Nonautomation Machinable Mixed ADC Letters	$0.003	-$0.005	See Note [3]
Standard Mail Letters--Nonautomation				
Presorting (dollars / piece)[3]				
Nonautomation AADC Machinable Letters	Nonautomation Mixed AADC Machinable Letters	$0.017	$0.000	See Note [3]
Nonautomation ADC Nonmachinable Letters	Nonautomation Mixed ADC Nonmachinable Letters	$0.112	$0.112	100.0%
Nonautomation 3-digit Nonmachinable Letters	Nonautomation ADC Nonmachinable Letters	$0.026	$0.026	100.0%
Nonautomation 5-digit Nonmachinable Letters	Nonautomation 3-digit Nonmachinable Letters	$0.115	$0.115	100.0%
Standard Mail Letters				
Drop Ship (dollars / pound)				
DBMC Letters	Origin Letters	$0.160	$0.186	86.0%
DSCF Letters	Origin Letters	$0.203	$0.236	86.0%

Notes

[1] Source of Price Differences: Request, Attachment A, Schedule 1220

[2] Drop Ship Cost Differences--Source: ACD 2009, Chapter 7, page 91
Letters Presorting and Pre-barcoding Cost Differences--Source: ACD 2009, Chapter 7, page 91
Delivery Cost Differences--Source: ACD 2009, Chapter 7, page 91

[3] The Postal Service letters mail processing cost model only estimates costs for the combined nonautomation machinable AADC and Mixed AADC categories.

Workshare Discounts and Benchmarks--Standard Mail Flats (Commercial and Nonprofit)

Type of Worksharing	Benchmark	Discount[1]	Avoided Cost[2]	Passthrough
Standard Mail Flats--Automation				
Presorting (dollars / piece)				
Automation ADC Flats	Automation Mixed ADC Flats	$0.000	$0.000	
Automation 3-digit Flats	Automation ADC Flats	$0.063	$0.063	100.0%
Automation 5-digit Flats	Automation 3-digit Flats	$0.095	$0.132	72.0%
Pre-barcoding (dollars / piece)				
Automation Mixed ADC Flats	Nonautomation Mixed ADC Flats	$0.077	$0.031	248.4%
Standard Mail Flats--Nonautomation				
Presorting (dollars / piece)				
Nonautomation ADC Flats	Nonautomation Mixed ADC Flats	$0.058	$0.058	100.0%
Nonautomation 3-digit Flats	Nonautomation ADC Flats	$0.070	$0.070	100.0%
Nonautomation 5-digit Flats	Nonautomation 3-digit Flats	$0.085	$0.085	100.0%
Standard Mail Flats				
Drop Ship (dollars / pound)				
DBMC Flats	Origin Flats	$0.169	$0.188	89.9%
DSCF Flats	Origin Flats	$0.212	$0.221	95.9%

Notes

[1] Source of Price Differences: Request, Attachment A, Schedule 1225

[2] Drop Ship Cost Differences--Source: ACD 2009, Chapter 7, page 92
Flats Presorting and Pre-barcoding Cost Differences--Source: ACD 2009, Chapter 7, pages 91-92
Delivery Cost Differences--Source: ACD 2009, Chapter 7, pages 91-92

Workshare Discounts and Benchmarks--Standard Mail Parcels and NFMs (Commercial and Nonprofit)

Type of Worksharing	Benchmark	Discount[1]	Avoided Cost[2]	Passthrough
Standard Mail Parcels				
Presorting (dollars / piece)				
BMC Machinable Parcels	Mixed BMC Machinable Parcels	$0.348	$0.218	159.6%
5-digit Machinable Parcels	BMC Machinable Parcels	$0.364	$0.413	88.1%
BMC Irregular Parcels	Mixed BMC Irregular Parcels	$0.708	$0.984	72.0%
SCF Irregular Parcels	BMC Irregular Parcels	$0.492	$0.984	50.0%
5-digit Irregular Parcels	SCF Irregular Parcels	$0.270	$0.182	148.4%
Pre-barcoding (dollars / piece)[3]				
Mixed BMC Machinable Barcoded Parcels	Mixed BMC Machinable Nonbarcoded Parcels	$0.070	See Note [3]	
Mixed BMC Irregular Barcoded Parcels	Mixed BMC Irregular Nonbarcoded Parcels	$0.070	See Note [3]	
Standard Mail NFMs				
Presorting (dollars / piece)				
BMC NFMs (Irregular Parcels)	Mixed BMC NFMs (Irregular Parcels)	$0.920	$0.984	93.5%
SCF NFMs (Irregular Parcels)	BMC NFMs (Irregular Parcels)	$0.366	$0.984	37.2%
5-digit NFMs (Irregular Parcels)	SCF NFMs (Irregular Parcels)	$0.073	$0.182	40.1%
Pre-barcoding (dollars / piece)[3]				
Mixed BMC Barcoded NFMs	Mixed BMC Nonbarcoded NFMs	$0.070	See Note [3]	
Standard Mail Machinable Parcels				
Drop Ship (dollars / pound)				
DBMC Machinable Parcels	Origin Machinable Parcels	$0.208	$0.770	27.0%
DSCF Machinable Parcels	Origin Machinable Parcels	$0.583	$1.060	55.0%
DDU Machinable Parcels	Origin Machinable Parcels	$0.834	$1.159	72.0%
Standard Mail Irregular Parcels, NFMs				
Drop Ship (dollars / pound)				
DBMC Irregular Parcels, NFMs	Origin Irregular Parcels, NFMs	$0.208	$0.770	27.0%
DSCF Irregular Parcels, NFMs	Origin Irregular Parcels, NFMs	$0.583	$1.060	55.0%
DDU Irregular Parcels, NFMs	Origin Irregular Parcels, NFMs	$0.834	$1.159	72.0%

Notes

[1] Source of Price Differences: Request, Attachment A, Schedule 1230

[2] Drop Ship Cost Differences--Source: ACD 2009, Chapter 7, page 92
Parcels / NFMs Presorting Cost Differences--Source: ACD 2009, Chapter 7, page 92
Delivery Cost Differences--Source: ACD 2009, Chapter 7, page 92

[3] The Postal Service Standard Mail NFM / Parcel mail processing cost model does not estimate costs separately for pre-barcoded and non-barcoded pieces.
Based on the cost savings for BPM Parcels, the non-barcoded surcharge for Standard Mail parcels and NFMs implies a passthrough of 184%

Workshare Discounts and Benchmarks--Standard Mail Carrier Route Letters, Flats, Parcels (Commercial and Nonprofit)

Type of Worksharing	Benchmark	Discount[1]	Avoided Cost[2]	Passthrough
Standard Mail CR Letters, Flats, Parcels				
Drop Ship (dollars / pound)				
DBMC Letters	Origin Letters	**0.169**	**$0.186**	90.9%
DSCF Letters	Origin Letters	**0.212**	**$0.236**	89.8%
DBMC Flats	Origin Flats	**0.169**	**$0.188**	89.9%
DSCF Flats	Origin Flats	**0.212**	**$0.221**	95.9%
DDU Flats	Origin Flats	**0.256**	**$0.261**	98.1%
DBMC Parcels	Origin Parcels	**0.208**	**$0.770**	27.0%
DSCF Parcels	Origin Parcels	**0.583**	**$1.060**	55.0%
DDU Parcels	Origin Parcels	**0.834**	**$1.159**	72.0%

Notes

[1] Source of Price Differences: Request, Attachment A, Schedule 1215

[2] Drop Ship Cost Differences--Source: ACD 2009, Chapter 7, page 90

Workshare Discounts and Benchmarks--Standard Mail High Density and Saturation Letters (Commercial and Nonprofit)

Type of Worksharing	Benchmark	Discount[1]	Avoided Cost[2]	Passthrough
Standard Mail HD / Saturation Letters				
Drop Ship (dollars / pound)				
DBMC Letters	Origin Letters	**0.160**	**$0.186**	86.0%
DSCF Letters	Origin Letters	**0.203**	**$0.236**	86.0%

Notes

[1] Source of Price Differences: Request, Attachment A, Schedule 1205

[2] Drop Ship Cost Differences--Source: ACD 2009, Chapter 7, page 90

Workshare Discounts and Benchmarks--Standard Mail High Density and Saturation Flats and Parcels (Commercial and Nonprofit)

Type of Worksharing	Benchmark	Discount[1]	Avoided Cost[2]	Passthrough
Standard Mail HD / Saturation Flats and Parcels				
Drop Ship (dollars / pound)				
DBMC Flats	Origin Flats	**0.169**	**$0.188**	89.9%
DSCF Flats	Origin Flats	**0.212**	**$0.221**	95.9%
DDU Flats	Origin Flats	**0.256**	**$0.261**	98.1%
DBMC Parcels	Origin Parcels	**0.208**	**$0.770**	27.0%
DSCF Parcels	Origin Parcels	**0.583**	**$1.060**	55.0%
DDU Parcels	Origin Parcels	**0.834**	**$1.159**	72.0%

Notes

[1] Source of Price Differences: Request, Attachment A, Schedule 1210

[2] Drop Ship Cost Differences--Source: ACD 2009, Chapter 7, page 90

Cost and Price Differences and Benchmarks--Standard Mail Carrier Route, HD and Saturation Letters, Flats and Parcels (Commercial and Nonprofit)

Type of Mail	Benchmark	Price Difference[1]	Cost Difference[2]	Price Diff. / Cost Diff.
Standard Mail Carrier Route (formerly Basic), High Density and Saturation Letters				
High Density Letters	Carrier Route Letters	0.075	$0.0890	84.3%
Saturation Letters	High Density Letters	0.011	-$0.0020	-550.0%
Standard Mail Carrier Route (formerly Basic), High Density and Saturation Flats				
High Density Flats	Carrier Route Flats	0.047	$0.0540	87.0%
Saturation Flats	High Density Flats	0.025	$0.0390	64.1%
Standard Mail Carrier Route (formerly Basic), High Density and Saturation Parcels				
High Density Parcels	Carrier Route Parcels	0.122	-$2.4940	-4.9%
Saturation Parcels	High Density Parcels	0.008	$2.8510	0.3%

Notes

[1] Source of Price Differences: Request, Attachment A, Schedules 1205, 1210, 1215

[2] Mail Processing Cost Differences--Source: ACD 2009, Chapter 7, page 89
Delivery Cost Differences--Source: ACD 2009, Chapter 7, page 89

Workshare Discounts and Benchmarks--Media Mail and Library Mail

Type of Worksharing	Benchmark	Discount[1]	Avoided Cost[2]	Passthrough
Media Mail				
Presorting (dollars / piece)				
Basic	Single Piece	0.37	0.37	100.0%
5-digit	Basic	0.35	0.24	145.8%
Pre-barcoding (dollars / piece)				
Single Piece Barcoded	Single Piece Non-barcoded	0.03	0.04	75.0%
Library Mail				
Presorting (dollars / piece)				
Basic	Single Piece	0.35	0.37	94.6%
5-digit	Basic	0.33	0.24	137.5%
Pre-barcoding (dollars / piece)				
Single Piece Barcoded	Single Piece Non-barcoded	0.03	0.04	75.0%

Workshare Discounts and Benchmarks--Bound Printed Matter Flats

Type of Worksharing	Benchmark	Discount[1]	Avoided Cost[2]	Passthrough
BPM Flats				
Presorting (dollars / piece)[3]				
Basic Flats	Single Piece Flats	0.409	See Note [3]	
Carrier Route Flats	Basic Flats	0.120	0.150	80.0%
Presorting (dollars / pound)[3]				
Basic, Carrier Route Flats	Single Piece Flats			
Zones 1&2	Zones 1&2	0.052	See Note [3]	
Zone 3	Zone 3	0.060	See Note [3]	
Zone 4	Zone 4	0.059	See Note [3]	
Zone 5	Zone 5	0.074	See Note [3]	
Zone 6	Zone 6	0.074	See Note [3]	
Zone 7	Zone 7	0.071	See Note [3]	
Zone 8	Zone 8	0.087	See Note [3]	
Pre-barcoding (dollars / piece)[4]				
Single Piece Automatable Flats	Single Piece Nonautomatable Flats	0.030	See Note [4]	
Basic Automatable Flats	Basic Nonautomatable Flats	0.030	See Note [4]	
Carrier Route Automatable Flats	Carrier Route Nonautomatable Flats	0.030	See Note [4]	
Drop Ship (dollars / piece)				
Basic, Carrier Route DBMC Flats	Basic Origin Flats	0.217	$0.217	100.0%
Basic, Carrier Route DSCF Flats	Basic Origin Flats	0.630	$0.630	100.0%
Basic, Carrier Route DDU Flats	Basic Origin Flats	0.761	$0.761	100.0%

Notes

[1] Source of Discounts: Request, Attachment A, Schedule 1415
Discounts are calculated by subtracting the price in question from the benchmark price.

[2] Presorting and Pre-barcoding Cost Differences (Per Piece)--Source: ACD 2009
Drop Ship Cost Differences (Per Piece)--Source: ACD 2009

[3] The BPM cost model does not estimate cost differences between single piece and presorted BPM. Single piece BPM is a residual category with low volume and adequate data are not available. Previously, rate differences between single piece and presorted BPM were based on an assumption that unit mail processing costs for single piece BPM were twice that of presorted BPM.
See Docket No R2006-1, USPS-T-38, p. 8.

[4] Separate estimates of pre-barcoding cost savings are not available for BPM flats. Based on the cost savings for BPM Parcels, the pre-barcoding discount for BPM flats implies a passthrough of 78.9%

Workshare Discounts and Benchmarks--Bound Printed Matter Parcels

Type of Worksharing	Benchmark	Discount[1]	Avoided Cost[2]	Passthrough
BPM Parcels / IPPs				
Presorting (dollars / piece)[3]				
Basic Parcels / IPPs	Single Piece Parcels / IPPs	0.636	See Note [3]	
Carrier Route Parcels / IPPs	Basic Parcels / IPPs	0.120	0.150	80.0%
Presorting (dollars / pound)[3]				
Basic, Carrier Route Parcels / IPPs	Single Piece Parcels / IPPs			
Zones 1&2	Zones 1&2	0.039	See Note [3]	
Zone 3	Zone 3	0.033	See Note [3]	
Zone 4	Zone 4	0.032	See Note [3]	
Zone 5	Zone 5	0.033	See Note [3]	
Zone 6	Zone 6	0.035	See Note [3]	
Zone 7	Zone 7	0.027	See Note [3]	
Zone 8	Zone 8	0.024	See Note [3]	
Pre-barcoding (dollars / piece)				
Single Piece Barcoded Parcels / IPPs	Single Piece Nonbarcoded Parcels / IPPs	0.030	0.038	78.9%
Basic Barcoded Parcels / IPPs	Basic Nonbarcoded Parcels / IPPs	0.030	0.038	78.9%
Carrier Route Barcoded Parcels / IPPs	Carrier Route Nonbarcoded Parcels / IPPs	0.030	0.038	78.9%
Drop Ship (dollars / piece)				
Basic, Carrier Route DBMC Parcels / IPPs	Basic Origin Parcels / IPPs	0.217	0.217	100.0%
Basic, Carrier Route DSCF Parcels / IPPs	Basic Origin Parcels / IPPs	0.623	0.630	98.9%
Basic, Carrier Route DDU Parcels / IPPs	Basic Origin Parcels / IPPs	0.761	0.761	100.0%