

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

Classification and Price Adjustments
for First-Class Mail and Standard Mail
Initiatives

Docket No. R2011-1

NOTICE AND ORDER OF MARKET DOMINANT PRICE ADJUSTMENTS
AND CLASSIFICATION CHANGES

(Issued November 4, 2010)

I. INTRODUCTION

On November 2, 2010, the Postal Service filed with the Commission a notice of three price adjustments and related classification changes for market dominant products.¹ The adjustments affecting First-Class Mail and Standard Mail are scheduled to become effective January 2, 2011.

These three adjustments and changes were previously filed and included with the Postal Service's recent request to adjust market dominant rates due to extraordinary or exceptional circumstances.² In rejecting that exigent rate request, the Commission noted that its decision made it unnecessary to address the merits of the classification change requests, but stated that the Postal Service may refile one or more of the requests as

¹ United States Postal Service Notice of Market Dominant Price Adjustment, November 2, 2010 (Notice).

² Docket No. R2010-4, Exigent Request of the United States Postal Service, July 6, 2010.

separate proposals and may designate relevant testimony or supporting documents filed in that case as part of supporting materials.³

II. POSTAL SERVICE FILING

Reply Rides Free. This pricing initiative is available for mailers of First-Class Mail Automation Letters. Automation Letters weighing more than one ounce but not more than one and two-tenths (1.2) ounces when the letters include a reply card or reply envelope will qualify for postage payment at the one-ounce rate. A typical reply envelope weighs 0.2 ounces. For participating mailers, Automation Letters would qualify until May 1, 2010, and thereafter only with the full-service Intelligent Mail barcode (IMb). All presort and automation letter volumes will qualify for an annual incentive. Mailers must agree to meet a volume threshold of First-Class Mail Presort and Automation Letters, and enclose either a reply card or envelope as a courtesy reply or business reply which may be a reusable envelope. For compliance purposes, samples must be presented with each mailing. Notice at 1-2.

Only customers who mailed First-Class Mail Presort and Automation Letters in FY 2009 and FY 2010 qualify for this initiative. The volume commitment is the trend of those volumes between FY 2009 and FY 2010 plus 2.5 percent. *Id.* at 4.

In support, the Postal Service states that the initiative is designed to slow mailers' diversion of mail to online bill and statement delivery, and payment acceptance. Mailers include promotional inserts only if a mailpiece remains subject to the one-ounce rate. Allowing up to 1.2 ounces for qualifying envelopes will offer mailers an incentive to retain reply envelopes in mailings in order to generate revenues and offset mailing costs. Reply Rides Free would increase the value of the mail for marketing purposes and encourage mailers to use mailings for direct marketing purposes. It would also encourage customers to reply with single-piece First-Class Mail and slow electronic diversion of responses. *Id.* at 3-4.

³ Docket No. R2010-4, Order Denying Request for Exigent Rate Adjustments, September 30, 2010, at 30.

Saturation and High Density incentive. The Standard Mail and High Density incentive provides a rebate on incremental mailpieces above a predetermined volume baseline, which each participant is equal to the aggregate total Standard Mail Saturation and High Density volume in calendar year 2010 plus 5.0 percent. Volumes above the baseline will be eligible for a rebate of 22 percent of participant's average revenue per piece for commercial Saturation Mail and 13 percent for commercial High Density mail. For nonprofit High Density and Saturation volumes, the rebate is 8 percent. *Id.* at 4. This discount is less than the discount for commercial mailers, but the ratio between nonprofit and commercial mailers will meet the statutory requirement of 60 percent. 39 U.S.C. 3626(a)(6). *Id.* at 13.

To participate, mailers who apply must meet several requirements:

1. To identify current and frequent mailers of this product, mailers must be current Saturation and High Density customers with at least six mailings in FY 2010;
2. Mailers must be holders of a permit imprint advance deposit account or owners of qualifying volume entered through a similar account by a mail service provider at a facility having PostalOne! capability;
3. Only the volume of mail owners will be eligible. Mail service providers and customers supplying inserts or the components of Saturation or High Density mailings of another mailer are not eligible;
4. Mailers must electronically submit postage statements and mail documentation to the PostalOne! system during the specified period. Mailers using defined market area(s) must use Mail.dat or Mail.XML. Other applicants may submit postal statements via Postal Wizard.

Id. at 5.

During participation in this incentive, customers may not participate in any other Standard Mail incentive or "sale" including Saturation or High Density products to prevent receiving two incentives for the same mail volume. *Id.*

Customers have the option of participating under one of two market models:

1. Total Market (or National) volume. Customers must demonstrate increased total Saturation and High Density mail volume letters and flats over the base year for their total market.
2. Specific Geographic Markets. Subject to Postal Service approval, customers designate specific geographic target markets of specific Postal Service Sectional Center Facilities (SCFs) for increased volume over the base year. Up to 20 SCFs may be selected or up to five target markets (consisting of multiple contiguous SCFs). Customers must have made the qualifying six mailing during FY 2010 for each market in which they participate. *Id.* at 6.

Increases in Move Update Assessment Charge threshold. For First-Class Mail subject to Move Update Standards and all Standard Mail, the threshold below which the Move Update Assessment Charge is assessed is increased from 70 to 75 percent. That is, the tolerance will be reduced from 30 percent to 25 percent. The Postal Service states that the change is consistent with plans announced in a previous docket,⁴ is needed to encourage the use of Move Update processes, and will affect few mailings. Notice at 6-7.

Impact on price cap. To comply with 39 CFR 3010.14(b)(1), the Postal Service discusses and provides tables listing the amount of unused price adjustment authority available for First-Class Mail and Standard Mail, the percentage change in prices for each of those classes of mail, and the amount of any new unused price adjustment authority for those two classes generated by this price change. *Id.* at 7-9.

Workpapers intended to demonstrate how the prices comply with the price cap are designated in the Notice as follows: USPS-R2011-1-1/1—First-Class Worksheets; USPS-R2011-1-1/2—Standard Mail Worksheets; and USPS-R2011-1-1/3—Impact of Move Update

⁴ Docket No. R2010-1, United States Postal Service Notice of Market Dominant Price Adjustment and Classification Changes, October 15, 2009, at 3-4.

Assessment Charge. *Id.* at 8. The Postal Service states the workpapers demonstrate that the calculated negative price changes serve to increase the banked amount for First-Class and Standard Mail and thus comply with the available overall price adjustment authority. *Id.* at 9.

Objectives and factors. The Postal Service lists and discusses the objectives and factors of 39 U.S.C. 3622 and their relationship to the proposed changes. The Postal Service asserts that changes do not substantially alter the degree First-Class Mail rates address the objectives and factors. *Id.* at 11. Reply Rides Free is an example of increased flexibility allowed the Postal Service (Objective 4), and it is an initiative to enhance the Postal Service's financial position (Objective 5). The incentive to mailers to continue using First-Class Mail (Factor 3) encourages increased mail volume (Factor 7), but does not imperil the coverage of attributable costs (Factor 2). Move Update improves overall efficiency of mail processing (Objective 1, Factors 5 and 12). *Id.* at 11-12.

Similarly, for Standard Mail, the changes do not alter the degree that prices and system design already address the objectives and factors of section 3622. Move Update improves overall efficiency (Objective 1, Factors 5 and 12). The Saturation and High Density initiative is also an example of increased flexibility allowed the Postal Service (Objective 4) and provides an incentive to mailers to enhance the financial position of the Postal Service (Objective 5). It also encourages increased mail volume (Factor 7), incents the use of Standard Mail (Factor 3), and will not inhibit coverage of attributable costs (Factor 2). *Id.* at 12.

Workshare discounts. The Postal Service states that none of the price changes impacts workshare discounts for First-Class Mail or for Standard Mail. *Id.* at 13.

Conformance with 39 CFR part 3010. The Postal Service provides notice pursuant to section 3622 and 39 CFR part 3010 that the Governors have authorized the Postal Service to adjust the classification language and prices for these market dominant products. The Postal Service represents that, in conformance with the notice requirements of 39 CFR 3010.14(a)(3), it will publish notice of these changes at least 45 days prior to the planned implementation date. The Notice will be published at *USPS.com*, the Postal Explorer

website, the *DMM Advisory*, the *P&C Weekly*, and a press release. Public notice will also be provided in future issues of *PCC Insider*, *MailPro*, the *Postal Bulletin*, and the *Federal Register*. *Id.* at 1. Pursuant to 39 CFR 3010.14(a)(4), the Postal Service identifies Greg Dawson, Manager, Pricing Strategy, as the official available to provide prompt responses to requests for clarification from the Commission. *Id.* at 2.

Pursuant to 39 CFR 3010.14(b)(9), the changes in the product descriptions within the Mail Classification Schedule are included in Appendix A attached to the Notice.

III. COMMISSION ACTION

The Commission establishes Docket No. R2011-1 to consider all matters related to the Notice as required by 39 U.S.C. 3622. Interested persons may express views and offer comments on whether the planned changes are consistent with the policies of 39 U.S.C. 3622 and the Commission's applicable regulations. Comments are due no later than November 22, 2010.

The Commission appoints James Waclawski to represent the interests of the general public in this proceeding. See 39 U.S.C. 505.

IV. ORDERING PARAGRAPHS

It is ordered:

1. The Commission establishes Docket No. R2011-1 to consider the matters raised by the Postal Service's November 2, 2010 Notice.
2. Interested persons may submit comments on the planned adjustments to classification language and price changes. Comments are due November 22, 2010.
3. Pursuant to 39 U.S.C. 505, the Commission appoints James Waclawski to represent the interests of the general public (Public Representative) in this proceeding.

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

By the Commission.

Shoshana M. Grove
Secretary