

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

Before Commissioners:

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

Notice of Price Adjustment

Docket No. R2011-2

NOTICE AND ORDER ON PRICE ADJUSTMENTS
FOR MARKET DOMINANT PRODUCTS
AND RELATED MAIL CLASSIFICATION CHANGES

(Issued January 19, 2011)

I. INTRODUCTION

A. Background

On January 13, 2011, the Postal Service filed a notice with the Commission announcing price adjustments, effective April 17, 2011, affecting all market dominant classes.¹ The market dominant classes are First-Class Mail, Standard Mail, Periodicals, Package Services, and Special Services. Market dominant international products are also affected.

¹ See United States Postal Service Notice of Market-Dominant Price Adjustment, January 13, 2011 (Notice).

The Notice asserts that the adjustments reflect price increases for each market dominant class which are equal, on average, to the statutory limitation of 1.741 percent. Slight departures from this percentage at the class level, which are shown in the following table, are generally due to rounding. *Id.* at 8.

| Table 1 | |
|-------------------------------|-------------------|
| 2011 Price Change Percentages | |
| Market Dominant Class | Percentage Change |
| First-Class Mail | 1.741 |
| Standard Mail | 1.739 |
| Periodicals | 1.741 |
| Package Services | 1.740 |
| Special Services | 1.740 |

Source: Adapted from Notice at 5 (Table 3).

Notwithstanding the overall percentage limitation at the class level, planned adjustments for certain individual products within a class may differ from the average, sometimes substantially. For example, the price of a stamp for a one-ounce First-Class letter, which is one of the most common postage rates used by the general public, will not increase, but remain at 44 cents. Presorted First-Class Mail will receive higher-than-price cap percentage increases. The Commission strongly encourages interested persons to review the Postal Service's Notice and related filings in their entirety to determine the impact of the planned adjustments and related classification changes.

B. Context

Authority for filing. The Postal Service filed the Notice pursuant to 39 U.S.C. 3622 and part 3010 of the Commission's rules of practice. The introductory part of the Notice addresses several administrative matters, including how the Postal Service plans to ensure widespread publicity about the changes at least 45 days prior to the effective date. *Id.* at 1. Part I of the Notice addresses the applicable annual limitation; identifies accrued unused ("banked") rate adjustment authority available for this adjustment; and calculates the amount of new unused rate adjustment authority generated by this price change. *Id.* at 2-6. Part II addresses the consistency of the planned prices with statutory objectives and factors; considerations related to workshare discounts; and recognition of certain rate preferences. *Id.* at 7-45. Part III discusses related mail classification product description changes. *Id.* at 45-46.

The Notice includes three attachments. Attachment A presents price and mail classification changes. Attachment B presents workshare discount calculations. Attachment C presents price index change calculations. In related filings, the Postal Service submitted workpapers supporting the planned adjustments and a new Schedule of Regular Predictable Price Changes.²

C. Basis of Planned Adjustments

The Notice announcing the planned adjustments for market dominant classes was filed pursuant to a revised, more streamlined approach to postal ratemaking adopted in 2006.³ This approach, in brief, generally limits increases to an annual price cap, although there is an opportunity (but not a requirement) to draw on unused pricing authority generated in previous adjustments.

² United States Postal Service Filing of Updated Schedule of Regular and Predictable Price Changes, January 13, 2011 (Schedule).

³ See *generally* Postal Accountability and Enhancement Act (PAEA) of 2006.

The Notice identifies 1.741 percent in effect the day of the filing as the applicable annual limitation authority, and asserts that this conforms with the percentage currently shown on the Commission's website.⁴ *Id.* It also identifies the amount of accrued unused rate adjustment authority for each class, but states that none of this authority is being applied to the instant adjustment. Instead, the Postal Service is relying on only the annual limitation rate adjustment authority. This means that a uniform 1.741 percent of rate adjustment authority is available for each class. *Id.* at 3-4. The application of this limit results in some unused pricing authority for three classes. These amounts, along with amounts generated in previous adjustments, appear in Table 4. *Id.* at 6.

II. CLASS-SPECIFIC SUMMARY

A. First-Class Mail

The Postal Service is not increasing the First-Class Mail, single-piece first-ounce letter price; however, the additional-ounce rate for single-piece letters and flats increases from 17 cents to 20 cents. *Id.* at 12. The price of a single-piece postcard increases from 28 cents to 29 cents. *Id.* However, to meet the cap average increase for the class as a whole, the Postal Service plans to adjust presorted mail by a higher-than-cap average price percentage. *Id.* This is characterized as the reverse of Docket No. R2009-2, when the presort grouping received a smaller-than-cap increase. *Id.* The Notice identifies the following percentage change for the six products in First-Class Mail:

⁴ This is based on a 12-month moving average of the Consumer Price Index-All Urban Consumers, U.S. All Items (the "CUUR0000SA0" series). *Id.* at 3.

| Table 2 | |
|--|----------------------|
| 2011 First-Class Mail Product Price Changes | |
| Product | Percentage Change |
| Overall | 1.741 |
| Single-Piece Letters & Cards | 0.461 |
| Presort Letters & Cards | 1.796 |
| Flats | 5.343 |
| Parcels | 3.753 |
| International | 3.974 |

Source: Adapted from Notice at 12 (Table 5).

The Notice states that the price change maintains the per-piece price differential between letters and flats and increases the price differential between letters and parcels, thereby resulting in above-average increases for Flats and Parcels products. *Id.* at 13. It also addresses other price relationships, including the significance of the 5-digit automation letter increase, which is 1.5 percent, and thereby below the 1.741 percent increase for the class as a whole. *Id.* The overall increase for Flats prices is 5.3 percent, stemming largely from a 17.6 percent increase in the price of additional ounces (moving from 17 cents to 20 cents). *Id.* at 14. Adjustments for automation flats vary, ranging from no increase for some categories to small increases or a reduction. *Id.*

First-Class Mail parcels receive a 3.8 percent increase, which the Notice identifies as higher than the overall increase for this class, but still significantly less than the increase for Standard Mail parcels. *Id.*

Pricing design changes. The Notice identifies two pricing design changes in First-Class Mail. One involves the introduction of two separate pricing categories for

parcels: Commercial Base and Commercial Plus. Commercial Base includes all parcels currently included in the Presort parcels category, plus the commercial portion of single-piece parcels. Single-piece parcels that are the residual of a presorted parcel mailing and non-presorted parcels where postage is paid by permit imprint, IBI meter, or PC Postage would be eligible for Commercial Base single-piece prices. All other single-piece parcels would pay retail prices. *Id.* at 14-15. The Notice says this change recognizes that parcels eligible for “commercial” prices avoid entry through the more costly retail channel. *Id.* at 15. Commercial Plus parcels is a new price category for machinable First-Class Mail parcels that weigh at least 3.5 ounces up to, but not including, 16 ounces. *Id.* Other requirements apply. *Id.*

The second pricing design change involves treating the first three ounces in each parcel pricing category as a single price cell, with parcels in each price category paying a single price. *Id.* The rationale is that this will improve contribution from a segment of the First-Class Mail parcel category that has not been providing an adequate contribution. *Id.* at 15-16.

The Postal Service plans to increase outbound single-piece First-Class Mail International by 5.2 percent. *Id.* at 16. Other international changes also are identified. *Id.*

Additional matters. The Notice presents a detailed discussion of First-Class Mail workshare discounts. *Id.* at 27-29. Workpaper USPS-R2011-2/1 provides additional detail on the planned First-Class Mail price adjustments and workshare discounts.

B. Standard Mail

The Notice identifies the following changes for Standard Mail products:

| Table 3 | |
|---|----------------------|
| 2011 Standard Mail Product Price Changes | |
| Product | Percentage Change |
| Overall | 1.739 |
| Letters | 1.810 |
| Flats | 0.835 |
| Parcels and NFMs | 11.346 |
| High Density/Saturation Letters | 0.615 |
| High Density/Saturation Flats & Parcels | 0.403 |
| Carrier Route Letters, Flats & Parcels | 1.376 |

Source: Adapted from Notice at 16 (Table 7).

Standard Mail Letters increase by 1.810, slightly above the class-wide average. *Id.* at 16. The Notice states that the below-cap price change for the Flats product reflects a continued effort to moderate the increase for catalog mailers, as their volume fell considerably in FY 2008 and FY 2009. *Id.* It also presents other observations about the need for a cautious approach to Standard Mail flats, generally tied to poor economic conditions. *Id.* Standard Mail Parcels/NFMs receive an increase of 11.346 percent based on a need to improve cost coverage. *Id.* at 18.

The Notice also states that the Postal Service recently filed a classification change to transfer Standard Mail parcels to the competitive category.⁵ It says the proposed prices are designed to move this product closer to covering its costs. *Id.* at 18.

⁵ See Docket No. MC2010-36, Request of the United States Postal Service to Transfer Commercial Standard Mail Parcels to the Competitive Product List, August 16, 2010.

The 1.376 percent increase for Carrier Route mail is below the cap in partial recognition of the fact that this product is used by the catalog industry. *Id.*

Additional matters. The Notice presents a detailed discussion of workshare discounts. *Id.* at 29-42. Further details about the planned adjustment for Standard Mail, including workshare discounts, appears in Workpaper USPS–R2011-2/2.

C. Periodicals

The Notice identifies the following changes for Periodicals:

| Table 4 | |
|---|----------------------|
| 2011 Periodicals Product Price Changes | |
| Product | Percentage Change |
| Overall | 1.741 |
| Outside County | 1.767 |
| Within County | 1.093 |

Source: Adapted from Notice at 19 (Table 8).

The Notice refers to this class’s “challenged” cost coverage status, and states that the new prices are designed to balance the effect on individual publications and their readers, while taking advantage of the new price structure to create relationships that will improve efficiency. *Id.* at 19.

Additional matters. The Notice presents a detailed discussion of workshare discounts. *Id.* at 29-42. It notes that in this case, the Postal Service “uses the flexibility of the container-bundle-piece price structure” to limit the extent to which price increases for individual publications differ from the average. *Id.* at 43. However, it asserts that at the same time, incentives for efficient preparation are strengthened by reflecting a higher percentage of costs in prices that have minimal impact on publications that are

likely to experience above-average increases. It says this furthers the goal of more efficient containerization, while being mindful of the impact on publications that cannot easily change preparation. *Id.* at 43. Further details about the planned adjustment for Periodicals, including workshare discounts, appear in Workpaper USPS–R2011-2/3.

D. Package Services

The Notice identifies the following price changes for Package Services:

| Table 5 | |
|--|----------------------|
| 2011 Package Services Product Price Changes | |
| Product | Percentage Change |
| Overall | 1.740 |
| Single-Piece Parcel Post | 1.807 |
| BPM Flats | 0.707 |
| BPM Parcels | 1.982 |
| Media Mail & Library Mail | 1.964 |
| Inbound Surface Parcel Post | 1.531* |

*Prices for Inbound Surface Parcel Post (at UPU rates) are determined by the Universal Postal Union. They are not under the control of the Postal Service. These prices are adjusted on a calendar basis. The most recent price change took place on January 1, 2011.

Source: Adapted from Notice at 12 (Table 5).

The Notice states the Postal Service's overall goal for this class is to improve product profitability. *Id.* at 20. This is reflected in increasing the prices of the lowest-performing segments (in terms of cost coverage), while remaining within the overall annual limitation. However, prices for Media Mail and Library Mail are still below other

ground parcels to recognize their educational, cultural, scientific, and informational value. *Id.*

For single-piece Parcel Post, the Postal Service proposes allowing prices at the one-pound increment to vary by zone. *Id.* at 21. It says this releases the price constraint for unzoned pricing, which has been used in the past to avoid having Parcel Post prices exceed Priority Mail prices for the same weight and zone. *Id.* The Notice says the release of this pricing constraint at the one-pound increment leads to higher prices for more distant zones. However, the limited size of this price increase limits the range of possible price changes; therefore, most price increases occur in the range of one to five pounds and the remaining prices are nearly unchanged. *Id.*

Additional matters. The Notice presents a detailed discussion of workshare discounts. *Id.* at 44-45. Further details about the planned adjustment for Package Services, including workshare discounts, appears in Workpaper USPS-R2011-2/4.

E. Special Services

Special Services. The Special Services class includes Ancillary Services; International Ancillary Services; Address Management Services; Caller Service; Change-of-Address Credit Card Authentication; Confirm; International Reply Coupon Service; International Business Reply Mail Service; Money Orders; Post Office Box Service; and Customized Postage. *Id.* at 22. The Notice identifies the overall fee increase for Special Services, as a class, as 1.740 percent. *Id.* It does not present a table summarizing percentage price changes by individual product, but indicates that for many of the Special Services, fee increases were generally designed to be close to the cap percentage, while maintaining consistency with historical rounding constraints, as these often simplify transactions for customers. *Id.* It says this approach was used for Address Correction Service; Business Reply Mail; Certified Mail; Address Management Services; Applications and Mailing Permits; Parcel Airlift Service; Post Office Boxes; Registered Mail; Return Receipt; Bulk Parcel Return Service; and Shipper Paid Forwarding. *Id.*

The Notice identifies Account Maintenance Fees as having an increase of 3.4 percent to reflect the value of the services the accounting fee supports and the goal of recovering institutional costs. *Id.* Insurance also experiences above-average increases in two tiers (\$50.01 to \$100.00 and \$100.01 to \$200.00) due to a combination of the nickel rounding constraint and a continued effort to “smooth” price relationships among the various increments. *Id.* An increase in the incremental fee reflects the higher value of service as the value of the item increases. *Id.*

Price increases of between 4 and 5 percent for Caller Service reflect the higher value customers place on this service. *Id.* For Post Office Boxes, prices are increased only for Size 1 boxes due to the small size of the cap. The Notice identifies an increase of \$2 in Size 1 Fee Groups 1 and 2 and of \$1 in Fee Groups 3 through 7. *Id.* at 22-23.

Stamped Envelopes receive an overall increase of 2.5 percent. *Id.* at 23. The fee for Stamped Cards remains unchanged at 3 cents. *Id.* Collect on Delivery receives a higher-than-average increase of 4.2 percent based on failure to cover costs. *Id.*

The Notice states that the Postal Service’s overall approach to international special services is to set fees for these services similar to the fees for the equivalent domestic service. *Id.* at 23.

Workpaper USPS-R2011-2/5 provides additional detail on the Special Services adjustment.

III. PREFERRED MAIL

The Notice states the Postal Service implements the requirements of 39 U.S.C. 3626 in the same manner as it did in Docket No. R2009-2, observing that the Commission concluded that approach reflected an appropriate approach. *Id.* at 23-24. It identifies the preferred products or components (Within County Periodicals, Nonprofit and Classroom Periodicals, Science of Agriculture Periodicals advertising pounds, Nonprofit Standard Mail, and Library Mail) and describes how the planned adjustments reflect the various statutory preferences. *Id.* at 23-25.

Consistency with 39 U.S.C. 3627 and 3629. The Notice states that neither section is implicated by the price change, as it does not seek to alter free rates (section 3627) or change the eligibility requirements for nonprofit rates (section 3629). *Id.* at 25.

IV. MAIL CLASSIFICATION SCHEDULE PRODUCT DESCRIPTION CHANGES

The Notice, in conformance with rule 3010.14(b)(9), identifies changes to product descriptions in the Mail Classification Schedule (MCS) associated with the planned price adjustments in Attachment A. The MCS revisions are characterized as “very limited,” with only two substantive changes. *Id.* at 45. The two substantive changes are (1) the First-Class Mail classification changes related to adding a Commercial Plus category for parcels weighing between 3.5 and 16 ounces, and (2) the elimination of stamped envelopes with Standard Mail denominations in response to available alternatives and reduced consumer demand. *Id.* at 45-46. The Postal Service states that the latter change was proposed in Docket No. R2010-4.

The Postal Service identifies the following items as corrections to the MCS:

- correcting the maximum weight for Presorted Machinable Letters in section 1110.5;
- renaming Single-Piece Retail and Presorted as Commercial Base in section 1120;
- using a footnote rather than a table to show the nonbarcoded/nonmachinable surcharge in section 1120.5;
- clarifying the treatment of letters weighing more than 3.3 ounces in section 1205.5 and section 1215.5;
- correcting a reference to the incorrect product in the Ride-Along note in section 1310.6;

- conforming the Post Office Box lock replacement language in section 1550.1 with the Competitive MCS (noting that the fee is applied to late payments); and
- correcting a reference to the Republic of Serbia in the country lists in Part D.

Id. at 46.

The Postal Service anticipates publishing notice of the changes to the Domestic Mail Manual implementing the new features in the *Federal Register* shortly. *Id.*

IV. COMMISSION ACTION

The filing of the Notice triggers a Commission review process which culminates in an order on the consistency of the planned adjustments with various legal, policy, and technical requirements. At this time, the Commission takes several steps in line with its responsibilities. First, it has posted the Notice and related filings on its website (<http://www.prc.gov>). It also has made the Notice available for copying and inspection during regular business hours (8 a.m. to 4:30 p.m.) at the Commission, 901 New York Avenue NW, Suite 200, Washington, DC 20268-0001. Any subsequent Postal Service filings in this docket, along with any written comments and filings by others, will be posted on the Commission's website and made available for public inspection and copying on the same terms and at the same location as the Notice.

Second, the Commission establishes a formal docket, captioned Docket No. R2011-2, Notice of Price Adjustment, to conduct its review of the planned adjustments under 39 U.S.C. 3622.

Third, the Commission, pursuant to 39 U.S.C. 505, appoints Kenneth E. Richardson as officer of the Commission (Public Representative) to represent the interests of the general public in this proceeding. He will be assisted by Pamela Thompson of the Commission's Office of Accountability and Compliance.

Fourth, the Commission provides a 20-day comment period, calculated from the date the Notice was filed. Thus, the comment period in this docket extends through

close of business on February 2, 2011. Rule 3010.31(b) provides that public comments should focus primarily on whether the planned adjustments comply with the following mandatory requirements of 39 U.S.C. chapter 36, subchapter 1, including:

(1) Whether the planned rate adjustments measured using the formula established in section 3010.23(b) are at or below the annual limitation established in section 3010.11; and

(2) Whether the planned rate adjustments measured using the Formula established in section 3010.23(b) are at or below the limitations established in section 3010.28.

Method for filing comments. All filings of documents in this case shall be made using the Internet (Filing Online) pursuant to Commission rules 9(a) and 10(a) at the Commission's website, <http://www.prc.gov>, unless a waiver is obtained. 39 CFR 3001.9(a) and 10(a). Instructions for obtaining an account to file documents online may be found on the Commission's website, <http://www.prc.gov>, or by contacting the Commission's Docket Section at prc-dockets@prc.gov or via telephone at 202-789-6846.

Individuals without access to the Internet or otherwise unable to file documents electronically may request a waiver of the requirement that documents be filed electronically by filing a motion for waiver with the Commission. Such motion may be filed along with any comments such individual may wish to submit in this proceeding. Individuals requesting a waiver may file hardcopy documents with the Commission either by mailing or by hand delivery to the Office of the Secretary, Postal Regulatory Commission, 901 New York Avenue NW., Suite 200, Washington, DC 20268–0001 during regular business hours on a date no later than that specified for such filing. Any person needing assistance in requesting a waiver may contact the Docket Section at 202-789-6846. Hardcopy comments received will be scanned and posted on the Commission's website.

Official publication. The Commission directs the Secretary to arrange for prompt publication of this notice and order in the *Federal Register*.

V. ORDERING PARAGRAPHS

It is ordered:

1. The Commission establishes Docket No. R2011-2 to consider the planned adjustments in prices and fees for market dominant postal products and services, as well as the mail classification changes, identified in the Postal Service's January 13, 2011 Notice of Market-Dominant Price Adjustment.
2. Interested persons may submit comments on the planned price adjustments. Comments are due February 2, 2011.
3. Pursuant to 39 U.S.C. 505, the Commission appoints Kenneth E. Richardson as officer of the Commission to represent the interests of the general public in this proceeding.
4. The Commission directs the Secretary of the Commission to arrange for prompt publication of this notice in the *Federal Register*.

By the Commission.

Shoshana M. Grove
Secretary