

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

NOTICE OF PRICE ADJUSTMENT

Docket No. R2011-5

RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
CHAIRMAN'S INFORMATION REQUEST NO. 1
(April 29, 2011)

Chairman's Information Request (CHIR) No. 1 was issued on April 22, 2011. The request sought answers no later than April 29, 2011. Attached are the Postal Service's responses to Questions 1-8.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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April 29, 2011

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1. In the 2010 Annual Compliance Determination (ACD) the Commission directed the Postal Service, in future notices requesting price adjustments, to provide information concerning the steps the Postal Service is taking to eliminate the intra-class cross subsidy of Standard Mail Flats.

a. Please provide information responsive to this directive.

b. Please state how the proposed Docket No. R2011-5 price adjustment would move the Standard Mail Flats product toward compliance with 39 U.S.C. § 101(d).

RESPONSE:

a. and b. In the FY 2010 Annual Compliance Determination Report (ACD Report), the Commission directed the Postal Service to increase the cost coverage of the Standard Mail Flats product through a combination of above-average price adjustments, consistent with the price cap requirements, and cost reductions until such time that the revenues for this product exceed attributable costs.¹ The Commission further found that, starting with the next Notice of Market Dominant Price Adjustment, the Postal Service must begin the process of transitioning Standard Flats prices to full cost coverage. *Id.* at 107. The Commission stated that, within 90 days of the issuance of the FY 2010 ACD, the Postal Service “shall present a schedule of future above-CPI price increases for Standard Mail Flats. *Id.* The Commission also required that each subsequent Annual Compliance Report (ACR) submitted by the Postal Service in the ACD process should provide information reporting on several areas where progress toward the revenue goal for Standard Flats could be observed. *Id.* Regarding subsequent Market Dominant Price Adjustments, the Commission stated that the Postal Service should report “an explanation of how the proposed prices will move the flats

¹ Postal Regulatory Commission, Annual Compliance Determination Report, Fiscal Year 2010 (March 29, 2011)

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cost coverage toward 100 percent” and “a statement estimating the effect that the proposed prices will have in reducing the subsidy of the Flats product.” *Id.*

In accordance with the Commission's 90-day directive, the Postal Service has until June 27, 2011 to respond with an outline of future schedule of price increases. Additionally, from the Commission's discussion of the Standard Flats issue described above, the Postal Service believed it could be fairly inferred that the reference to the next Notice of Market Dominant Price Adjustment concerned the next annual price adjustments, under the CPI, where the Postal Service will propose price increases for Standard Mail Flats. Inasmuch as the Commission did not explicitly express that qualification in its discussion, however, in retrospect, it is fair to apply it to the notice of price adjustments proposed here as well.

In this proceeding, the Postal Service has noticed an intention to provide discounts to mailers under certain conditions. If approved, those discounts will obviously have the short-term effect of lowering, rather than raising Standard Mail Flats postage revenues, to the limited extent mailers take advantage of them. Strictly speaking, the immediate effect of the discounts does not further the goals of cost coverage and reduced subsidy that the Commission outlined, consistent with its reading of 39 U.S.C. § 101(d). Nevertheless, the Postal Service does not believe that, by directing the Postal Service toward the goal of higher cost coverage for flats, the Commission intended to stifle all attempts to adopt innovations in pricing that would promote the goal of higher flats and other revenues in the long run. In this regard, the Postal Service believes that, if its experiment designed to expand the dimensions of mail usage by providing these discounts is successful, inducing mail usage of all kinds

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ultimately will further the financial interests of the Postal Service at the same time that the Postal Service complies with the Commission's expectations for greater flats revenues as a result of cost efficiencies and higher prices.

Specifically with regard to the design of the instant pricing proposals, the Postal Service believes that excluding Standard Mail Flats from eligibility for the discounts would have a counterproductive effect and interfere with the long-range goals of the initiative. Carrier Route and Standard Flats are mailed by the same customers. These customers tend to be retailers and cataloguers who are a large segment of commercial mailers and can most benefit by leveraging this technology. As a practical matter, the Mobile Barcode Promotion is being implemented by providing a 3 percent discount off the entire postage statement, which is the only way the Postal Service and the industry could make the system changes to support the program. Therefore, all pieces in the mailing must be eligible for the discount. If the Postal Service did not allow Standard Flats to participate in the program, it also would be effectively eliminating Carrier Route from the program because, more often than not, Carrier Route and Standard Flats are entered into the Postal Service system together on a single postage statement from the customer.

As noted above and in the Postal Service's notice, the stated goal of this promotion is to generate interest in using the mail as an advertising medium. A more robust ad mail market, coupled with the steps to improve the cost coverage of Flats, should help the longer-term prospects for all of the Standard Mail categories.

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2. Please confirm that the proposed price adjustment would impact workshare discounts, but that the impact would always reduce any passthrough percentage. If not confirmed, please explain.

RESPONSE:

The proposed price adjustment will reduce the price differences between worksharing-related price categories. However, the net difference between prices results from a combination of the worksharing incentive—which has not changed—and the mobile barcode incentive, which also affects the price relationship.

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3. The Postal Service states that "the program does encourage increased mail volume (Factor 7)." Please provide an estimate of the increase in mail volume due to this program.

RESPONSE:

The Postal Service believes that the program will encourage increased mail volume in the longer term by increasing the value of the mail. However, no immediate increase in mail volume is expected from the program during or immediately after the program period, and therefore, no specific volume increase estimates have been made. The speculative nature of these estimates in the short term, and the uncertain expectations for the long term, militate against developing reliable long-term estimates at this time.

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4. Please confirm that the Postal Service intends that this program be treated as a special classification under rule 3010.24. If confirmed, please provide workpapers containing an assessment of the net financial impact of the program consistent with section 3622(c)(10). If not confirmed, please provide the applicable price cap calculation as required by rule 3010.14.

RESPONSE:

The Postal Service confirms that it intends the program to be excluded from price-cap calculations, analogous to previous incentive programs. Financial projections are contained in the attached Excel workbook "MB fin.xls"

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5. Please confirm that mailers are not currently precluded from placing a two dimensional barcode inside or on a mailpiece.

RESPONSE:

Any mailer may place a two-dimensional barcode on or inside of a mailpiece, however, all mailers must still meet the mail design requirements in the Domestic Mail Manual. These requirements specify that designs such as a 2-dimensional barcode can be placed within the mailpiece or on the outside of the mailpiece, but cannot be placed in either the 'indicia zone' or the 'barcode clear zone.'

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6. The following questions concern the administration and implementation of the program:

a. Please explain how the Postal Service will ensure that the barcode is not used for internal operational process, or postage evidencing. See Notice at 3.

b. Please explain how the Postal Service will verify that a barcode is inside a mailpiece. Please provide a discussion of how the Postal Service will review First-Class mailings.

RESPONSE:

a. During the promotion period and after the promotion period has ended, the Postal Service will conduct a random sample of mailpieces that qualified for the discount. All customers who receive the discount must retain an electronic or hard copy sample of the mailpiece until October 31, 2011, and, if requested by the Postal Service, will forward such sample to the Mobile Barcode Promotion program office. One sample must be retained for each individual mailing that qualifies for the discount. The Postal Service will scan and read these samples to ensure that the barcode is not used for internal purposes or postage evidencing.

b. At the time of mail acceptance the acceptance clerk will verify that a two-dimensional barcode is present on or within the mailpiece for Standard Mail mailpieces and on the mailpiece for First-Class Mail that has a barcode on the outside of the piece. For First-Class Mail mailpieces which contain the mobile barcode on the inside of the mailpiece, the mailer must provide a sample of the mailpiece showing the placement of the mobile barcode to the acceptance clerk at the time of mail acceptance.

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7. Please explain the basis for excluding nonprofit mail from the program. Please describe how this basis is consistent with 39 U.S.C. § 403(c).

RESPONSE:

The primary objective of the program is to increase awareness of how integrating technology increases the value of mail. In the Postal Service's view, the potential for expanding mail usage in this fashion, leading to a significant multiplier effect involving various mail products, is more likely to take place in the context of the commercial marketplace, rather than typical transactions between mail users and recipients and nonprofit entities, which tend to focus on membership issues and solicitation of contributions. In this regard, the Postal Service's objectives in administering and evaluating the results of the initiative were conditioned by the expectation that a simpler initiative, limited to commercial entities, would be easier and less costly to administer and could be introduced quicker than if it were to encompass nonprofit mailers at this time. Given the already reduced revenues from nonprofit organizations as a result of their preferred rates, the Postal Service concluded that, at least initially, the initiative should be limited to commercial enterprises. If the general approach to expanding mail usage proves to be realistic and effective, the discounts could be expanded to nonprofit mailers in the future.

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8. Please confirm that Carrier Route, High Density, and Saturation Parcels are excluded from the program.

RESPONSE:

Confirmed. All parcels (including Carrier Route, High Density and Saturation) are excluded from the program. Only pieces qualifying for letter or flat price categories are eligible for the program.