

USPS-R2012-3/3	Periodicals
USPS-R2012-3/4	Package Services
USPS-R2012-3/5	Special Services

Each set of workpapers has a Preface that explains the contents in detail. The Preface provides an overview of the workpapers, a discussion of any necessary adjustments to the billing determinants for the four quarters ending Q3 FY 2011, and an explanation of the revenue calculations.

E. Percentage Change by Mail Class

As demonstrated in the Attachments, the prices for each class comply with the annual limitation price adjustment authority available to the Postal Service. The percentage change by class is as follows:

Table 3
 2012 Price Change Percentage by Mail Class

Class	Percent Change
First-Class Mail	2.133
Standard Mail	2.041
Periodicals	2.133
Package Services	2.133
Special Services	-0.663

F. Unused Pricing Authority Resulting From this Change

For Standard Mail and Special Services, this change adds to the unused pricing authority resulting from prior market-dominant price changes under the price cap. The

Postal Service calculates the unused price adjustment authority that it will have following this price change as follows:³

Table 4
Unused Pricing Authority Available Following this Price Change

Class	Percentage Points
First-Class Mail	
R2011-2 [1]	-0.530
R2012-3 [2]	0.000
Total	-0.530
Standard Mail	
R2011-2 [1]	-0.472
R2012-3 [2]	0.092
Total	-0.380
Periodicals	
R2011-2 [1]	-0.562
R2012-3 [2]	0.000
Total	-0.562
Package Services	
R2011-2 [1]	-0.551
R2012-3 [2]	0.000
Total	-0.551
Special Services	
R2011-2 [1]	-0.472
R2012-3 [2]	2.796
Total	2.324

[1] Order No. 675 at 1

[2] Cap Calculation worksheets (USPS-R2012-3/1 through 5).

II. Description of the Prices

In compliance with Rules 3010.14(b)(7) through (8), the Postal Service in this section 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

³ To the extent that the calculated percentage change for any class is revised during the course of this proceeding from what has been calculated by the Postal Service in this Notice, the Postal Service notes that the unused price adjustment authority should be adjusted, regardless of the figures set forth in this Table.

Table 5
First-Class Mail Product Price Changes

Product	Percent Change
Single-Piece Letters & Cards	2.468
Presort Letters & Cards	1.580
Flats	1.605
Parcels	10.882
International	4.678
Overall	2.133

The Postal Service is increasing the price of a stamp for the first-ounce single-piece letter by one cent to 45 cents. This represents the first increase to the first-ounce single-piece stamp price since May 2009. The overall increase for Single-Piece Letters & Cards is 2.468 percent which includes a 3 cent increase in the price for Single-Piece Cards. The average increase for single-piece mail is higher than presorted mail. In the last CPI change (Docket No. R2011-2), the overall increase for Presort Letters and Cards was 1.796, percent while Single-Piece Letters & Cards increased by only 0.461 percent.

This docket also reflects the recent transfer of First-Class Mail Commercial Base and Commercial Plus parcels to the competitive products list, as approved by the Commission in Order No. 710 in Docket No. MC2011-22. Only the retail parcel and Keys and Identification Devices categories remain in the market dominant Parcels product. Volumes of retail parcels were derived using the same methodology established in Docket No. R2011-2. As stated in the Preface document of First-Class Mail workpapers, the RPW data for the initial three quarters (Q4 FY2010 to Q2 FY2011) of the hybrid billing determinants does not make a distinction between Retail and

Table 8
Standard Mail Product Price Changes

Product	Percent Change
Letters	1.867
Flats	2.209
Parcels	2.864
High Density / Saturation Letters	2.298
High Density / Saturation Flats and Parcels	2.121
Carrier Route	2.425
Overall	2.041

In this price adjustment, Letters receives an increase that is slightly below average. Three factors contribute to this result: the above-cap increases for Flats and Parcels, the price increase for Detached Address Labels, which pushed up the average increase for the High Density and Saturation Flats and Parcels product, and the price reduction for nonprofit letters that was needed to achieve the required nonprofit to commercial revenue per piece ratio. Each of these is discussed below in greater detail.

In the FY 2010 ACD, 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.”⁷ The Postal Service remains concerned about the financial health and long-term viability of the catalog industry, a major user of the Flats product, and so the Postal Service has used its pricing flexibility to keep Flats price increases moderate (objectives 2, 4, factors 3, 7), even though the product’s price increase is slightly above the cap (objective 5,

⁷ 2010 Annual Compliance Determination at 106. The Postal Service has sought judicial review of this directive because it is (1) contrary to the express terms of the PAEA, (2) beyond the Commission's authority in the context of its review of an annual compliance report, and (3) arbitrary and capricious in that the Commission failed to address the argument that such a course of action may actually result in less contribution and, therefore, have a negative impact on the Postal Service's financial stability.

It is not yet clear what effect this planned restructuring will have on Parcels revenues and costs, particularly due to the movements of large volumes of mail within and out of Standard Mail. The Postal Service has taken a cautious approach to pricing the remaining parcels and not made large pricing changes (objective 1, factor 7).

In this pricing adjustment, the Postal Service is also using its pricing flexibility to revise how it prices Detached Address Labels (DALs) (factors 7, 2, objective 4). Currently, all mail pieces that use DALs pay a surcharge of 1.7 cents per piece. The Postal Service believes that the surcharge does not fully cover the additional costs of DALs when used with flats, and that DALs are not needed for Saturation flats (factor 2, objectives 1, 5). The Postal Service observes that some mailers still use DALs with their Saturation flats, but believes that saturation flats with on-piece addressing are less costly to process and deliver than flats with DALs. Small mailers of Saturation flats who do not want to use on-piece addressing may be able to use its Every Door Direct Mail (EDDM) service that allows for qualified mail to use simplified addressing (factor 3). For these reasons, the Postal Service is raising the price for all DALs used with flats to 3.0 cents, whether or not the DALs bear messages in addition to those specifically required by the DMM. Because of the number of DALs currently being used, and the size of the price increase for DALs, the DALs price increase pushes the overall increase for the High Density and Saturation Flats and Parcels product up to over 2.1 percent. The price change for Saturation Flats, exclusive of DALs, is less than 1.7 percent.

In addition to the price change for Detached Address Labels, the Postal Service is dividing these labels into two categories: one for labels that contain advertising, and

inhibit increases for other products needing larger increases to move toward positive cost coverage.

III. MCS Product Description Changes

Rule 3010.14(b)(9) requires that this Notice include all the changes to the product descriptions within the MCS that will be necessary to implement the planned price adjustments. Attachment A shows the new prices and related product description changes incorporated into a revised draft of the market-dominant section of the MCS.²²

Classification changes include:

- Changing the name of the Not Flat Machinables (NFM)s/Parcels product in Standard Mail to Parcels, and renaming its price categories to Marketing Parcels, Nonprofit Machinable Parcels, and Nonprofit Irregular Parcels
- Adding Package Intercept service as an optional feature for First-Class Mail and Package Services
- Adding a footnote establishing the postage price for stamped cards marked with Forever postage
- Removing language for the Mobile Barcode Promotion, which ended August 31, 2011
- Reformatting the nonautomation letter price tables for Standard Mail High Density and Saturation, and Carrier Route

²² This draft is based on the most recent draft MCS provided by the Postal Service in Docket No. RM2011-8, on July 29, 2011. The classification changes are shown in legislative format.