

ORDER NO. 1501

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

Before Commissioners:

Ruth Y. Goldway, Chairman;
Nanci E. Langley, Vice Chairman;
Mark Acton;
Tony Hammond; and
Robert G. Taub

Notice of Market-Dominant
Price Adjustment

Docket No. R2013-1

NOTICE AND ORDER ON PLANNED RATE ADJUSTMENTS AND CLASSIFICATION
CHANGES FOR MARKET DOMINANT POSTAL PRODUCTS

(Issued October 15, 2012)

I. OVERVIEW

A. Index-based Price Changes for Market Dominant Classes of Mail

On October 11, 2012, the Postal Service filed notice, pursuant to 39 U.S.C. 3622 and 39 CFR part 3010, of plans to adjust prices for market dominant products by amounts which, on average, are, with one exception, at or below the statutory price cap of 2.570 percent for each class of mail.¹ The planned adjustments affect both domestic

¹ United States Postal Service Notice of Market-Dominant Price Adjustment at 3, October 11, 2012 (Adjustment Notice). The overall increase for Special Services is 2.850 percent.

and international market dominant products and are scheduled to take effect January 27, 2013.

The Postal Service states that it has inflation-based price adjustment authority of 2.570 percent based on the Consumer Price Index for All Urban Consumers, U.S. All Items (the “CUUR0000SA0”) series (CPI-U). *Id.* The Postal Service also states that it has unused rate authority (as indicated in the following table) and will use some of this authority for Special Services. *Id.*

Table 1
Available Unused Price Adjustment Authority

Market Dominant Class	Unused Authority (%)
First-Class Mail	-0.530
Standard Mail	-0.380
Periodicals	-0.562
Package Services	-0.533
Special Services	2.394

Id.

The Postal Service asserts that it is authorized to raise prices for each class by the percentages in the following table.

Table 2
Price Adjustment Authority by Class

Market Dominant Class	Price Adjustment Authority (%)
First-Class Mail	2.570
Standard Mail	2.570
Periodicals	2.570
Package Services	2.570
Special Services	4.964

Id. at 4.

The following table presents the Postal Service's planned percentage price changes by class.

Table 3
2013 Price Change Percentage By Class

Market Dominant Class	Price Change (%)
First-Class Mail	2.570
Standard Mail	2.570
Periodicals	2.560
Package Services	2.569
Special Services	2.850

Id. at 6.

In some instances, price adjustments for products within classes vary from the average, sometimes substantially. Interested persons are encouraged to review the Adjustment Notice and workpapers for specific details.

Unused authority after the 2013 price change. The following table identifies the unused price adjustment authority the Postal Service calculates as available following the 2013 price change.

Table 4
Unused Pricing Authority Available
Following Docket No. R2013-1 Price Changes

Class	Percentage Points
First-Class Mail	
R2012-3	-0.530
R2013-1	0.000
Total	-0.530
Standard Mail	
R2012-3	-0.380
R2013-1	0.000
Total	-0.380
Periodicals	
R2012-3	-0.562
R2013-1	0.010
Total	-0.552
Package Services	
R2012-3	-0.533
R2013-1	0.001
Total	-0.532
Special Services	
R2012-3	2.394
R2013-1	-0.280
Total	2.114

Id. at 6-7.

Classification changes. The Adjustment Notice identifies numerous substantive classification changes in a bulleted list. *Id.* at 54-55. Attachment A presents these changes as well as formatting and wording changes. *Id.* at 53-54.

B. Format and Content of Adjustment Notice

The Adjustment Notice includes a brief introductory section, four parts, and four attachments.

The introductory section of the Adjustment Notice includes a certification, in accordance with rule 3010.14(a)(3), that the Postal Service will provide widespread notice of the planned adjustments prior to the planned implementation date. *Id.* at 1. It identifies Greg Hall as the Postal Service official who will respond to queries from the Commission. *Id.* at 2.

Part I discusses compliance with the price cap. *Id.* at 2-7. Part II describes several temporary promotions. It also discusses how a portion of the related revenue loss will be integrated into the price cap calculations for First-Class Mail and Standard Mail. *Id.* at 7-9. Part III discusses prices in more detail, including workshare discounts. It also addresses the consistency of prices with the objectives and factors of 39 U.S.C. 3622 and the preferential pricing requirements of 39 U.S.C. 3626. *Id.* at 9-53. Part IV describes related Mail Classification Schedule (MCS) changes.² *Id.* at 53-55.

Attachments. Attachment A presents MCS changes in legislative format and new price schedules. Attachment B presents workshare discounts and related information. Attachment C presents the Postal Service's price cap calculation. The price cap calculation includes, in conformance with rule 3010.22(b), an adjustment to the moving average because less than 12 months have passed since the most recent price change (filed on January 13, 2011). Attachment D presents the 2013 Mailing Services Promotions Calendar Overview. *Id.* at 5.

² Part IV is identified as an additional Part III in the Adjustment Notice.

Workpapers. The Postal Service filed nine sets of workpapers:

First Class Mail Cap Compliance:	USPS-LR-R2013-1/1
First Class Mail International Cap Compliance:	USPS-LR-R2013-1/NP1
Standard Mail Cap Compliance:	USPS-LR-R2013-1/2
Periodicals Cap Compliance:	USPS-LR-R2013-1/3
Package Services Cap Compliance:	USPS-LR-R2013-1/4
Special Services Cap Compliance:	USPS-LR-R2013-1/5
Derivation of Volumes for Earned Value Reply Mail Promotion:	USPS-LR-R2013-1/6
Standard Mail Contribution Model:	USPS-R2013-1/7
FY 2011 Delivery Costs by Shape:	USPS-R2013-1/8

Id. at 4-5.

Each set of workpapers includes a preface with an explanation of its contents. *Id.* at 5. In addition, the preface for the first five workpapers provides an overview, a discussion of adjustments to the billing determinants for the four quarters ending FY 2012, quarter 3, and an explanation of revenue calculations. *Id.* The First-Class Mail and Standard Mail workpapers also incorporate data on promotion volumes, based on the volumes from the 2011 Mobile Barcode Promotion and USPS-LR-R2012-1/6.

II. PROMOTIONS

As part of this filing, the Postal Service seeks approval of six promotions during calendar year 2013.³ The following table identifies the promotion and timeframe.

Table 5
Calendar Year 2013 Promotion Timeframe

Promotion	Timeframe
Mobile Coupon/Click-to-Call	March—April 2013
Earned Value Reply Mail Promotion	April—June 2013
Emerging Technology	August—September 2013
Picture Permit	August—September 2013
Product Samples	August—September 2013
Mobile Buy-it-Now	November—December 2013

Id. at 7-8.

The Postal Service states that it will seek to recover some of the revenue forgone from these promotions by factoring the lost revenue into the price cap calculation. *Id.* at 9. The Postal Service asserts that a conservative estimate of the value of four of the promotions (Mobile Coupon, Click-to-Call, Emerging Technologies, Mobile Buy-it-Now, and Earned Value Reply Mail), based on historical data on qualifying volume, is approximately \$33.4 million.⁴ *Id.*

³ In the past, the Postal Service has not included promotional filings in its annual market dominant price adjustment filing. The Postal Service states that it does so this year in response to customers' concern about insufficient time to fully participate in the promotions. *Id.* at 7.

⁴ See USPS-LR-R2013-1/1 and USPS-LR-R2013-1/2 for the basis of this calculation.

III. SUMMARY OF PRICE CHANGES BY CLASS OF MAIL

A. First-Class Mail

The following table identifies the Postal Service's planned percentage price changes for its First-Class Mail products.

Table 6
First-Class Mail Price Changes

First-Class Mail Product	Percent Change (%)
Single-Piece Letters and Cards	2.283
Presort Letters and Cards	2.555
Flats	2.675
Parcels	4.971
International	7.923
Overall	2.570

Id. at 14.

The first-ounce First-Class Mail price. The price of a stamp for the first-ounce of single-piece letter mail (including the Forever stamp), increases by one cent under the Postal Service's plan, from 45 cents to 46 cents. *Id.*

Single-piece letters and cards. The overall increase of 2.283 percent for single-piece letters and cards includes a one cent increase in the price for single-piece cards (to 33 cents). *Id.* at 14-15. The price for single-piece residual letters (mainly permit imprint letters), which the Postal Service is introducing for calendar year 2013, will be 48 cents for up to 2 ounces. *Id.* at 15.

Presort letters and cards. The Postal Service states that the overall increase for this product is slightly below the overall average for First-Class Mail. The Postal

Service continues to price Automated Area Distribution Center (AADC) and 3-Digit letters at the same level and extends this structure to Presort Automation Postcards. *Id.* at 16. The Postal Service continues to offer the free second ounce for all Presort First-Class Mail letters. *Id.* at 16.

Flats. The overall increase for Flats is 2.675 percent, slightly above the CPI-U cap of 2.57 percent. *Id.* Price changes within this product vary. *Id.*

Parcels. Single-Piece (Retail) Parcels (which are the only parcel-shaped First-Class Mail pieces that remain as market dominant) receive a 4.971 percent increase, higher than the overall increase for First-Class Mail. *Id.* The Postal Service states that this above-average increase is expected to improve cost coverage for this product, which it considers low by First-Class Mail standards. *Id.* at 17-18.

Promotions—revenue forgone implications. The Adjustment Notice includes a summary of the methodology the Postal Service plans to use to recover some of the revenue forgone resulting from its 2013 First-Class Mail promotions. *Id.* at 18-19. The discussion includes identification of the four promotional categories that will be included in recovery of revenue forgone and related data and information. *Id.* at 18-19.

International. Prices for Outbound Single-Piece First-Class Mail International (FCMI) increase by 14.3 percent, significantly above the First-Class Mail average of 2.570 percent. *Id.* at 19. The Postal Service asserts that the increase is necessary to increase contribution and improve cost coverage for FCMI letters at the one-ounce weight step and to accommodate introduction of the International Forever stamp. *Id.* The International Forever stamp will be sold at the price of a single-piece FCMI first ounce machinable letter and have a postage value equivalent to the price of a single-piece FCMI first ounce machinable letter in effect at time of use. *Id.*

B. Standard Mail

The following table presents the Postal Service's planned percentage price changes for Standard Mail products.

Table 7
Standard Mail Price Changes

Standard Mail Product	Percent Change (%)
Letters	2.722
Flats	2.570
Parcels	3.081
High Density/Saturation Letters	2.207
High Density/Saturation Flats and Parcels	2.275
Carrier Route	3.133
Overall	2.570

Id. at 19.

Letters receive an above-average increase; Flats receive an average (at cap) increase. *Id.* at 20. The Adjustment Notice includes a discussion of the Postal Service's rationale for this approach, including reference to the Commission's finding of noncompliance for Standard Mail Flats in the 2010 Annual Compliance Report. *Id.* at 20-25. The Adjustment Notice also addresses other Standard Mail pricing. *Id.* at 25. This includes a new Simple Samples Initiative and a new High Density Plus price tier. *Id.* at 26. Detached Address Labels prices increase from 3.0 cents to 3.1 cents. *Id.* The Postal Service is not proposing any price changes for Every Door Direct Mail (which will remain at 16 cents) or for optional picture permit indicia (which will remain at 2 cents). *Id.* at 27. However, the Postal Service is extending the availability of picture permits to flats. *Id.*

The Postal Service states that the methodology for recovering promotion-related revenue forgone in Standard Mail follows the approach for First-Class Mail. *Id.* at 26-27.

C. Periodicals

The following table presents the Postal Service's planned percentage price changes for the Periodicals class.

Table 8
Periodicals Price Changes

Periodicals Product	Percent Change (%)
Outside County	2.546
Within County	2.911
Overall	2.560

Id. at 27.

The Postal Service states that the Periodicals price change reflects recognition of this product's value, despite cost coverage shortfall. *Id.* at 27-28. It states that it cannot use its pricing authority to fully cover costs, as both Periodicals are failing to cover costs by substantially more than the cap. *Id.* at 28.

D. Package Services

The following table presents the Postal Service's planned percentage price changes for the Package Services class.

Table 9
Package Services Price Changes

Package Services Product	Percentage Change (%)
Alaska Bypass Service	3.000
Bound Printed Matter Flats	0.002
Bound Printed Matter Parcels	3.424
Media Mail and Library Mail	3.472
Inbound Surface Parcel Post*	0.000
Overall	2.569
* Prices for Inbound Surface Parcel Post (at UPU rates) are determined by the Universal Postal Union and are not under the Postal Service's control. These prices are adjusted by the Postal Operations Council.	

Id.

E. Special Services

The overall increase for Special Services is 2.850 percent. *Id.* at 29. The Postal Service states that for most of the products, fee increases were designed to be close to 4.5 percent, while maintaining consistency with historical rounding constraints (to simplify transactions for customers). *Id.* at 30. The following table, based on price changes identified in the body of the Adjustment Notice, indicates the differing effects of the Postal Service's Special Services pricing decisions.

Table 10
Special Services Price Changes

Special Services Product	Percent Change (%)
Collect on Delivery	9.2
Express Mail Insurance	7.9
Return Receipt	7.5
Special Handling Prices	16.8
Stamp Fulfillment Services	0.0
Delivery Confirmation Service	-27.1*
Confirm	Prices remain at zero
Periodicals Additional Entry Fee Application	Eliminated
Periodicals Original Entry Fee Application	Increases
Caller Service	5.9
Post Office Boxes	5 percent overall; no increase for Size 1 boxes; increases for larger boxes
Stamped Envelopes	6.2
Stamped Cards	33.3
International Certificates of Mailing	Set equal to equivalent domestic service
* Based in part on setting the fee for retail Delivery Confirmation service (for Package Services and Priority) and the fee for electronic Delivery Confirmation service (for Parcel Post) at zero.	

Id. at 30-32.

IV. PREFERRED MAIL AND WORKSHARING DISCOUNTS

Preferred mail. The Adjustment Notice includes the Postal Service's explanation that it implemented section 3626 pricing requirements in the same manner as in the Docket No. R2012-3 price change, and notes the Commission concluded the Postal Service's interpretation of section 3626 is appropriate. *Id.* at 32. The Postal Service identifies each of 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 comport with applicable statutory factors. *Id.* at 32-33.

Consistency with 39 U.S.C. 3627 and 3629. The Adjustment Notice observes that neither of these sections is implicated by the price change, as the Postal Service does not seek to alter free rates (section 3627) or change the eligibility requirements for nonprofit rates. *Id.* at 34.

Workshare discounts. The Adjustment Notice includes the Postal Service's justification and explanation, in accordance with rules 3010.14(b)(5) and (6), for workshare discounts that exceed 100 percent of avoided costs or that are substantially below 100 percent for each affected class or individual product. *Id.* at 34-53.

V. MCS CHANGES

The Adjustment Notice, in conformance with rule 3010.14(b)(9), identifies numerous changes to the MCS. Certain substantive changes are identified by the Postal Service. *Id.* at 54-55. Attachment A to the Adjustment Notice presents price and classification changes. *Id.* at 53.

VI. ADMINISTRATIVE ACTIONS

The Commission hereby establishes a formal docket, captioned Docket No. R2013-1, Notice of Market-Dominant Price Adjustment, to conduct the review of the Postal Service's planned price adjustments mandated in 39 U.S.C. 3622. The

Commission has posted the Adjustment Notice on the Commission's website (<http://www.prc.gov>), and has made the Adjustment Notice available for copying and inspection during the agency's regular business hours of 8:00 a.m. to 4:30 p.m. weekdays, except Federal holidays.

Public comment period. The Commission's rules provide a period of 20 days from the date of the Postal Service's filing for public comment. 39 CFR 3010.13(a)(5). Comments by interested persons are due no later than October 31, 2012. Interested persons are encouraged to review the Postal Service's Adjustment Notice and workpapers in their entirety.

Commission rule 3010.13(b) further provides that public comments are to focus primarily on whether the planned price adjustments comply with the following mandatory requirements under the Postal Accountability and Enhancement Act (PAEA):

- (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.

Participation and designated filing method. Interested persons are not required to file a notice of intervention prior to submitting comments. Instead, they are to submit comments electronically via the Commission's Filing Online system, unless a waiver is obtained. 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 staff at 202-789-6846.

Persons without access to the Internet or otherwise unable to file documents electronically may request a waiver of the electronic filing requirement by filing a motion for waiver with the Commission. The motion may be filed along with any comments the person may wish to submit in this docket. Persons 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 by the date specified for such filing. Any person needing assistance in requesting a waiver may contact the Docket Section at 202-789-6846. Hardcopy documents will be scanned and posted on the Commission's website.

Appointment of Public Representative. In conformance with 39 U.S.C. 505, the Commission appoints Kenneth E. Richardson to represent the interests of the general public in this proceeding.

VII. ORDERING PARAGRAPHS

It is ordered:

1. The Commission establishes Docket No. R2013-1 to consider planned price adjustments in rates, fees and classifications for market dominant postal products and services identified in the Postal Service's October 11, 2012 Adjustment Notice.
2. Comments by interested persons on the planned price adjustments are due no later than October 31, 2012.
3. Pursuant to 39 U.S.C. 505, the Commission appoints Kenneth E. Richardson 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