

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

NOTICE OF PRICE ADJUSTMENT (TECHNOLOGY
CREDIT PROMOTION)

Docket No. R2013-6

UNITED STATES POSTAL SERVICE
NOTICE OF MARKET-DOMINANT PRICE ADJUSTMENT
(TECHNOLOGY CREDIT PROMOTION)

(April 16, 2013)

Pursuant to 39 U.S.C. § 3622 and 39 C.F.R. § 3010, the Postal Service hereby provides notice that the Governors have authorized the Postal Service to temporarily adjust the prices for several market-dominant products within First-Class Mail®, Standard Mail®, Periodicals, and Package Services®. This adjustment will take effect on June 1, 2013, and expire at the close of May 31, 2014 (“Promotion Period”).

The change, the Full-Service Intelligent Mail Barcode Technology Credit Promotion (“Technology Credit Promotion”), will provide mailers with a one-time credit toward their mailings that employ Full-Service Intelligent Mail barcodes (IMb). The specific amount of the credit for each mailer is based on the mailer’s FY 2012 volume. In total, across mailers, the value of the promotion will be approximately \$66 million. The purpose of the Technology Credit Promotion is to encourage the adoption of Full-Service IMb technology, by offsetting a portion of the investment in hardware and software changes necessary for mailers to employ Full-Service IMb.

This Notice provides the information required by Rule 3010.14. Part I discusses how the promotion will be structured. Part II describes the program’s compliance with

the price cap. Part III discusses how the program's prices are consistent with the objectives and factors of section 3622, and the preferred pricing requirements of section 3626. Proposed Mail Classification Schedule changes are provided at Appendix A.

The Postal Service certifies that it has informed customers of these price adjustments, as required by Rule 3010.14(a)(3). The Postal Service published a notice in the Federal Register regarding the Technology Credit on October 17, 2012.¹ Notification letters were mailed in March 2013 to mailers informing them of their eligibility for the credit. The Postal Service has explained the program in numerous customer meetings, and it has posted explanatory information on usps.com. As a result of all of this outreach, widespread notice has been given more than 45 days before the planned implementation date.

Mr. Altaf Taufique will serve as the Postal Service official responsible for responding to any Commission inquiries pursuant to Rule 3010.14(a)(4). Mr. Taufique's contact information is as follows:

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I. PROGRAM DESCRIPTION

The use of Full-Service IMb provides significant operational benefits to the Postal Service. Full-Service mailings, featuring Intelligent Mail barcodes and data submitted via eDoc, allow the Postal Service to automate acceptance processes, increase the visibility of mailings, and dynamically process and route pieces. This improves both

¹ 77 Fed. Reg. 63771, 63773-74 (October 17, 2012)

service performance and the measurement of service performance.

The purpose of the Technology Credit is to offset a portion of the investment by mailers in the hardware and software changes necessary to support Full-Service mailings. For mailers who have not yet converted to Full-Service IMb, it is hoped that the availability of the Technology Credit will induce them to convert. For mailers who have already converted to Full-Service IMb, the Technology Credit will reinforce behavior leading to the early adoption of new technology, which will be beneficial in the future when other new technologies emerge.

The Technology Credit applies to First-Class Mail Letters & Cards, First-Class Mail Flats, Standard Mail Carrier Route, Standard Mail Letters, Standard Mail Flats, In-County Periodicals, Outside-County Periodicals, and Bound Printed Matter Flats. The Postal Service has identified each business location (*i.e.*, each Customer Registration ID, or "CRID") that mailed more than 125,000 pieces of the products listed above in FY 2012 (volumes across qualifying permits for each CRID were summed). The identified CRIDs are eligible for the promotion. A CRID that mailed between 125,001 and 500,000 pieces, inclusive, is eligible for a \$2000 credit; a CRID that mailed between 500,001 and 2 million pieces, inclusive, is eligible for a \$3000 credit; and a CRID that mailed more than 2 million pieces is eligible for a \$5000 credit.

The Postal Service will grant the Technology Credit to any qualifying CRID on mailings that contain pieces of which 90 percent or more are Full-Service. The Technology Credit will automatically be applied, once, in full, as a postage credit to the postage statement upon the submission of an eligible mailing. However, if the Technology Credit amount is greater than the total postage on the postage statement,

then only a partial credit will be applied, in the amount of the total on the postage statement, with the remainder available for a subsequent mailing. Any unused Technology Credit amounts will expire at the close of May 31, 2014.

Some CRIDs belong to mail service providers that do not have their own permit imprints. The Postal Service plans to include them in the promotion, and does not believe that these customers should need to pay a fee just to redeem the credit. Therefore, if a CRID belongs to a mail service provider that does not have its own permit imprint, then the Postal Service will allow the provider to apply for a permit imprint without paying the application fee.

II. PRICE CAP COMPLIANCE

This section discusses the implications of the Technology Credit Promotion for the CPI-U price cap. This promotion presents a novel issue for the Commission: the Postal Service is implementing a promotion roughly at a mid-point between two annual market-dominant price changes. The Commission's rules at 3010.20 *et seq.* do not appear to address the calculation and use of pricing authority in such a situation.

Furthermore, the Commission has recently initiated a rulemaking in Docket No. RM2013-2 to update the rules pertaining to the price cap.² While the rules proposed by the Commission in that docket are preliminary and have yet to be commented upon and finalized, they presumably reflect the Commission's updated interpretation of the existing price cap rules. While the Commission has proposed new rule language

² Notice of Proposed Rulemaking Requesting Comments on Proposed Commission Rules for Determining and Applying the Maximum Amount of Rate Adjustments, Docket No. RM2013-2 (Mar. 22, 2013).

concerning temporary promotional rates and incentive programs, that language does not clarify how to assess the Technology Credit Promotion's effect on the price cap.

The Postal Service notes that, under both the existing rules and the rules proposed in Docket No. RM2013-2, if the Postal Service were to institute the Technology Credit Promotion in January 2014 concurrently with the next scheduled market-dominant price change, the Postal Service would be able to treat the amount of the promotion as a decrease in rates, and thus offset the amount of the promotion through rate increases. The Postal Service believes that it should likewise be permitted to treat the Technology Credit Promotion as a decrease in rates, resulting in price authority, and delay the use of that price authority until its next market-dominant price change.³ While the Commission's current and proposed rules do not expressly provide for such an occurrence, neither do they preclude it.

The Postal Service has determined that the Technology Credit Promotion would be useful in inducing mailers to adopt Full-Service IMb technology. However, delaying the promotion until January 2014 would be counterproductive, as the Postal Service needs to encourage adoption of the technology now, so that mailers have enough time to adopt the technology before the Postal Service implements other changes relating to Full-Service IMb, such as requiring the use of Full-Service IMb for all automation letters and flats, which will be detailed in a forthcoming Federal Register notice. Obtaining pricing authority for a price reduction should not determine the timing of the price change. If moving ahead with the promotion now means losing the pricing authority

³ The Postal Service does not wish to "bank" the amount of the authority if such banked authority could be used only after it uses all authority banked previously, because the sum of previously banked authority and the new authority would be negative, and is likely to remain so until 2016.

flowing from the promotion, then in designing future promotions the Postal Service may have to decide between efficiency and pricing authority, an outcome that would undo the flexibility embodied in the objectives and factors of Section 3622.

A preliminary calculation of price adjustment authority associated with the Technology Credit Promotion is presented in the table below, with the underlying calculations provided in the attached Excel file (PriceCapAnalysis.xls). The calculation is preliminary because, at the time of the next market-dominant price change filing, there will be new billing determinants available for conducting the calculation. At that time, a final calculation can be made.

First-Class Mail	0.077 %
Standard Mail	0.158 %
Periodicals	0.244 %
Package Services	0.014 %

The table above provides the information requested in Rule 3010.14(b)(4). As the Postal Service is not presently implementing new prices, the information requested in subsections (b)(1), (b)(2), and (b)(3) is not relevant.

The Postal Service requests that the Commission allow it to use the price adjustment authority generated by the Technology Credit Promotion in its next market-dominant price increase. Because the authority is being created in the middle of the pricing year, it is akin to the inflation-based authority that is created during the course of the year, and as such can be added to the inflation-based authority.

III. OBJECTIVES AND FACTORS, WORKSHARE DISCOUNTS, AND PREFERRED RATES

In compliance with Rules 3010.14(b)(5) through (8), the Postal Service in this section discusses how the planned program “help[s] achieve” the objectives of section

3622(b) and “properly take[s] into account” the factors of section 3622(c); how the program impacts workshare discounts, and how its planned prices are consistent with section 3626.

A. Objectives and Factors

The objectives of section 3622(b) are as follows:

- (b) Objectives.—Such system shall be designed to achieve the following objectives, each of which shall be applied in conjunction with the others:
- (1) To maximize incentives to reduce costs and increase efficiency.
 - (2) To create predictability and stability in rates.
 - (3) To maintain high quality service standards established under section 3691.
 - (4) To allow the Postal Service pricing flexibility.
 - (5) To assure adequate revenues, including retained earnings, to maintain financial stability.
 - (6) To reduce the administrative burden and increase the transparency of the ratemaking process.
 - (7) To enhance mail security and deter terrorism.
 - (8) To establish and maintain a just and reasonable schedule for rates and classifications, however the objective under this paragraph shall not be construed to prohibit the Postal Service from making changes of unequal magnitude within, between, or among classes of mail.
 - (9) To allocate the total institutional costs of the Postal Service appropriately between market-dominant and competitive products.

The Technology Credit Promotion furthers the first objective, as it is an incentive that promotes operational efficiency, for the Postal Service, over the long term. The promotion accords with the fourth objective, as it is an example of the use of the pricing flexibility reserved to the Postal Service under the Postal Accountability and Enhancement Act. And the promotion is aligned with the eighth objective, as it reasonably differentiates between mailers by volume, while being somewhat weighted toward those with lower volumes, as the cost of converting to Full-Service IMb represents a higher proportion of their total costs than is the case for mailers with larger volumes.⁴ The promotion does not significantly implicate the other objectives.

In addition to the objectives discussed above, section 3622(c) enumerates fourteen factors, or considerations, that must be taken into account, which are as follows:

(c) Factors.—In establishing or revising such system, the Postal Regulatory

Commission shall take into account—

- (1) the value of the mail service actually provided each class or type of mail service to both the sender and the recipient, including but not limited to the collection, mode of transportation, and priority of delivery;
- (2) the requirement that each class of mail or type of mail service bear the direct and indirect postal costs attributable to each class or type of mail service through reliably identified causal relationships plus that portion of all other costs of the Postal Service reasonably assignable to such class or type;

⁴ Moreover, high-volume mailers are being compensated more for their investments through the per-piece Full-Service Intelligent Mail Option incentives.

- (3) the effect of rate increases upon the general public, business mail users, and enterprises in the private sector of the economy engaged in the delivery of mail matter other than letters;
- (4) the available alternative means of sending and receiving letters and other mail matter at reasonable costs;
- (5) the degree of preparation of mail for delivery into the postal system performed by the mailer and its effect upon reducing costs to the Postal Service;
- (6) simplicity of structure for the entire schedule and simple, identifiable relationships between the rates or fees charged the various classes of mail for postal services;
- (7) the importance of pricing flexibility to encourage increased mail volume and operational efficiency;
- (8) the relative value to the people of the kinds of mail matter entered into the postal system and the desirability and justification for special classifications and services of mail;
- (9) the importance of providing classifications with extremely high degrees of reliability and speed of delivery and of providing those that do not require high degrees of reliability and speed of delivery;
- (10) the desirability of special classifications for both postal users and the Postal Service in accordance with the policies of this title, including agreements between the Postal Service and postal users, when available on public and reasonable terms to similarly situated mailers, that—
 - (A) either—

- (i) improve the net financial position of the Postal Service through reducing Postal Service costs or increasing the overall contribution to the institutional costs of the Postal Service; or
- (ii) enhance the performance of mail preparation, processing, transportation, or other functions; and

(B) do not cause unreasonable harm to the marketplace.

(11) the educational, cultural, scientific, and informational value to the recipient of mail matter;

(12) the need for the Postal Service to increase its efficiency and reduce its costs, including infrastructure costs, to help maintain high quality, affordable postal services;

(13) the value to the Postal Service and postal users of promoting intelligent mail and of secure, sender-identified mail; and

(14) the policies of this title as well as such other factors as the Commission determines appropriate.

The Technology Credit Promotion is directly connected to the thirteenth factor, as it encourages the adoption of intelligent mail technology. It also accords with the seventh and twelfth factors, as it is designed to lead to a mailstream that the Postal Service can process more efficiently. The program does not significantly implicate the other factors.

B. Workshare Discounts

The Technology Credit Promotion does not affect workshare discounts.

C. Preferred Rates

Apart from setting volume thresholds, the Technology Credit Promotion does not exclude any mailers (e.g., Nonprofit mailers) and will therefore not affect compliance with any preferred rate requirements.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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April 16, 2013

APPENDIX A

PROPOSED MAIL CLASSIFICATION SCHEDULE CHANGES

1100 First-Class Mail

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1110 Presorted Letters/Postcards

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1110.4 Optional Features

The following additional postal services may be available in conjunction with the product specified in this section:

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- Mobile Buy-It-Now Promotion (November 1, 2013 to December 31, 2013)
- Full Service Intelligent Mail Barcode Technology Credit Promotion (June 1, 2013 to May 31, 2014)

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1110.5 Prices

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Mobile Buy-It-Now Promotion (November 1, 2013 to December 31, 2013)

Provide a two percent discount on the qualifying postage for First-Class Mail and Standard Mail presort or automation letters, postcards, and flats which include a mobile barcode inside or on the mailpiece that facilitates a mobile optimized shopping experience. To receive the discount, the qualifying mail must be sent during the established program period by mailers that comply with the eligibility requirements of the program.

Full Service Intelligent Mail Barcode Technology Credit Promotion (June 1, 2013 to May 31, 2014)

Provide up to \$5000 in credit for postage on qualifying Full-Service IMb mailings, for mailers who mailed more than 125,000 Full-Service IMb eligible pieces during FY 2012. The amount of the credit is determined as follows, based on FY 2012 mail volume.

- 125,001 – 500,000 Full-Service IMb eligible pieces = \$2000
- 500,001 – 2,000,000 Full-Service IMb eligible pieces = \$3000
- More than 2,000,000 Full-Service IMb eligible pieces = \$5000

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1115 Flats

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1115.4 Optional Features

The following additional services may be available in conjunction with the product specified in this section:

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- Mobile Buy-It-Now Promotion (November 1, 2013 to December 31, 2013)
- Full Service Intelligent Mail Barcode Technology Credit Promotion (June 1, 2013 to May 31, 2014)

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1115.5 Prices

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Full-service Intelligent Mail Option

Subtract \$0.003 for each automation flat that complies with the requirements for the full-service Intelligent Mail option.

Full Service Intelligent Mail Barcode Technology Credit Promotion (June 1, 2013 to May 31, 2014)

Provide up to \$5000 in credit for postage on qualifying Full-Service IMb mailings, for mailers who mailed more than 125,000 Full-Service IMb eligible pieces during FY 2012. The amount of the credit is determined as follows, based on FY 2012 mail volume.

- 125,001 – 500,000 Full-Service IMb eligible pieces = \$2000
- 500,001 – 2,000,000 Full-Service IMb eligible pieces = \$3000
- More than 2,000,000 Full-Service IMb eligible pieces = \$5000

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1200 Standard Mail (Commercial and Nonprofit)

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1215 Carrier Route

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1215.5 Optional Features

The following additional services may be available in conjunction with the product specified in this section:

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- Mobile Buy-It-Now Promotion (letters and flats only) (November 1, 2013 to December 31, 2013)
- Full Service Intelligent Mail Barcode Technology Credit Promotion (June 1, 2013 to May 31, 2014)

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1215.6 Prices

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Full-service Intelligent Mail Option: letters and flats only

Subtract \$0.001 for each carrier route letter or flat that complies with the requirements for the full-service Intelligent Mail option.

Full Service Intelligent Mail Barcode Technology Credit Promotion (June 1, 2013 to May 31, 2014)

Provide up to \$5000 in credit for postage on qualifying Full-Service IMb mailings, for mailers who mailed more than 125,000 Full-Service IMb eligible pieces during FY 2012. The amount of the credit is determined as follows, based on FY 2012 mail volume.

- 125,001 – 500,000 Full-Service IMb eligible pieces = \$2000
- 500,001 – 2,000,000 Full-Service IMb eligible pieces = \$3000
- More than 2,000,000 Full-Service IMb eligible pieces = \$5000

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1220 Letters

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1220.5 Optional Features

The following additional services may be available in conjunction with the product specified in this section:

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- Full-service Intelligent Mail Option: automation letters only
- Full Service Intelligent Mail Barcode Technology Credit Promotion (June 1, 2013 to May 31, 2014)

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1220.6 Prices

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Full-service Intelligent Mail Option: automation letters only

Subtract \$0.001 for each automation letter that complies with the requirements for the full-service Intelligent Mail option.

Full Service Intelligent Mail Barcode Technology Credit Promotion (June 1, 2013 to May 31, 2014)

Provide up to \$5000 in credit for postage on qualifying Full-Service IMb mailings, for mailers who mailed more than 125,000 Full-Service IMb eligible pieces during FY 2012. The amount of the credit is determined as follows, based on FY 2012 mail volume.

- 125,001 – 500,000 Full-Service IMb eligible pieces = \$2000
- 500,001 – 2,000,000 Full-Service IMb eligible pieces = \$3000
- More than 2,000,000 Full-Service IMb eligible pieces = \$5000

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1225 Flats

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1225.5 Optional Features

The following additional services may be available in conjunction with the product specified in this section:

- Full-service Intelligent Mail Option: automation letters only

- Full Service Intelligent Mail Barcode Technology Credit Promotion (June 1, 2013 to May 31, 2014)

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1225.6 Prices

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Full-service Intelligent Mail Option: automation flats only

Subtract \$0.001 for each automation flat that complies with the requirements for the full-service Intelligent Mail option.

Full Service Intelligent Mail Barcode Technology Credit Promotion (June 1, 2013 to May 31, 2014)

Provide up to \$5000 in credit for postage on qualifying Full-Service IMb mailings, for mailers who mailed more than 125,000 Full-Service IMb eligible pieces during FY 2012. The amount of the credit is determined as follows, based on FY 2012 mail volume.

- 125,001 – 500,000 Full-Service IMb eligible pieces = \$2000
- 500,001 – 2,000,000 Full-Service IMb eligible pieces = \$3000
- More than 2,000,000 Full-Service IMb eligible pieces = \$5000

1300 Periodicals

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1305 In-County Periodicals

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1305.5 Optional Features

The following additional services may be available in conjunction with the product specified in this section:

- Repositionable Notes
- Ride-Along
- Full-service Intelligent Mail Option: automation or Carrier Route letters and flats only
- Full Service Intelligent Mail Barcode Technology Credit Promotion (June 1, 2013 to May 31, 2014)

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1305.6 Prices

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Full-service Intelligent Mail Option

Subtract \$0.001 for each automation or Carrier Route letter or flat that complies with the requirements for the full-service Intelligent Mail option.

In-County Periodicals including a Ride-Along piece

Add \$0.165 for a Ride-Along item enclosed with or attached to an In-County Periodical.

Full Service Intelligent Mail Barcode Technology Credit Promotion (June 1, 2013 to May 31, 2014)

Provide up to \$5000 in credit for postage on qualifying Full-Service IMb mailings, for mailers who mailed more than 125,000 Full-Service IMb eligible pieces during FY 2012. The amount of the credit is determined as follows, based on FY 2012 mail volume.

- 125,001 – 500,000 Full-Service IMb eligible pieces = \$2000
- 500,001 – 2,000,000 Full-Service IMb eligible pieces = \$3000
- More than 2,000,000 Full-Service IMb eligible pieces = \$5000

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1310 Outside-County Periodicals

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1310.5 Optional Features

The following additional services may be available in conjunction with the product specified in this section:

- Repositionable Notes
- Ride-Along
- Full-service Intelligent Mail Option: barcoded or Carrier Route letters and flats only
- Full Service Intelligent Mail Barcode Technology Credit Promotion (June 1, 2013 to May 31, 2014)

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1310.6 Prices

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Publications eligible for Nonprofit and Classroom price categories

Publications qualified as Nonprofit, Classroom, and Limited Circulation receive a 5 percent discount on all components of postage except advertising pounds.

The 5 percent discount does not apply to commingled nonsubscriber, nonrequestor, complimentary, and sample copies in excess of the 10 percent allowance, or to Science of Agriculture mail.

The advertising pound price is not applicable to qualifying Nonprofit and Classroom publications containing 10 percent or less advertising content.

Full Service Intelligent Mail Barcode Technology Credit Promotion (June 1, 2013 to May 31, 2014)

Provide up to \$5000 in credit for postage on qualifying Full-Service IMb mailings, for mailers who mailed more than 125,000 Full-Service IMb eligible pieces during FY 2012. The amount of the credit is determined as follows, based on FY 2012 mail volume.

- 125,001 – 500,000 Full-Service IMb eligible pieces = \$2000
- 500,001 – 2,000,000 Full-Service IMb eligible pieces = \$3000
- More than 2,000,000 Full-Service IMb eligible pieces = \$5000

1400 Package Services

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1415 Bound Printed Matter Flats

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1415.5 Optional Features

The following additional services may be available in conjunction with the product specified in this section:

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- Full-service Intelligent Mail option: presorted or Carrier Route barcoded flats only
- Full Service Intelligent Mail Barcode Technology Credit Promotion (June 1, 2013 to May 31, 2014)

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1415.6 Prices

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Full-service Intelligent Mail Option

Subtract \$0.001 for each presorted or Carrier Route barcoded flat that complies with the requirements for the full-service Intelligent Mail option.

Full Service Intelligent Mail Barcode Technology Credit Promotion (June 1, 2013 to May 31, 2014)

Provide up to \$5000 in credit for postage on qualifying Full-Service IMb mailings, for mailers who mailed more than 125,000 Full-Service IMb eligible pieces during FY 2012. The amount of the credit is determined as follows, based on FY 2012 mail volume.

- 125,001 – 500,000 Full-Service IMb eligible pieces = \$2000
- 500,001 – 2,000,000 Full-Service IMb eligible pieces = \$3000
- More than 2,000,000 Full-Service IMb eligible pieces = \$5000

1500 Special Services

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1505 Ancillary Services

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1505.2 Applications and Mailing Permits

1505.2.1 Description

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Permit Imprint Application

A fee is charged for application to use a permit imprint as a method of payment. The fee does not apply to mailers who need a new permit imprint authorization in order to participate in the Full Service Intelligent Mail Barcode Technology Credit promotion.