

ORDER NO. 1842

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

Before Commissioners:

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

Notice of Market Dominant
Price Adjustment

Docket No. R2013-10

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

(Issued September 27, 2013)

I. OVERVIEW

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

On September 26, 2013, the Postal Service filed notice, pursuant to 39 U.S.C. 3622 and 39 CFR part 3010, of plans to adjust prices for its market dominant products.¹ The planned adjustments affect both domestic and international market dominant products and are scheduled to take effect January 26, 2014.² Concomitant with its filing, the Postal Service renewed its exigent rate request filed in Docket No. R2010-4R that would be added to the rates requested with this Notice.³

¹ United States Postal Service Notice of Market-Dominant Price Adjustment, September 26, 2013 (Notice).

² The Postal Service represents that it is filing its Notice along with the *Renewed Exigent Request of the United States Postal Service in Response to Commission Order No. 1059* (Exigent Request).

³ Docket No. R2010-4R, Renewed Exigent Request of the United States Postal Service in Response to Commission Order No. 1059, September 26, 2013.

The Postal Service states that it has inflation-based price adjustment authority of 0.636 percent for Special Services and 1.696 percent for all other mail classes based on the Consumer Price Index for All Urban Consumers, U.S. All Items (the “CUUR0000SA0”) series (CPI-U). Notice at 3.

The Postal Service also states that it has unused rate authority as indicated in the following table. *Id.*

Table 1
Available Unused Price Adjustment Authority
by Mail Class

Market Dominant Class	Unused Authority (%)
First-Class Mail	-0.544
Standard Mail	-0.441
Periodicals	-0.556
Package Services	-0.555
Special Services	3.678

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	1.696
Standard Mail	1.696
Periodicals	1.696
Package Services	1.696
Special Services	2.636

Id. at 4.

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

Table 3
2013 Price Change Percentage By Mail Class

Market Dominant Class	Price Change (%)
First-Class Mail	1.587
Standard Mail	1.609
Periodicals	1.569
Package Services	1.565
Special Services	2.500

Id. at 5.

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

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

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

Class	Percentage Points
First-Class Mail	
R2013-1[1]	-0.544
R2013-10[2]	0.109
Total	-0.435
Standard Mail	
R2013-1[1]	-0.441
R2013-10[2]	0.087
Total	-0.354
Periodicals	
R2013-1[1]	-0.556
R2013-10[2]	0.127
Total	-0.429
Package Services	
R2013-1[1]	-0.555
R2013-10[2]	0.131
Total	-0.424
Special Services	
R2013-7	3.678
R2013-10[2]	-1.864
Total	1.814

Id. at 6.

Classification changes. The Notice identifies numerous classification changes. See *id.* at 56-57. The Postal Service has included all price and classification changes in a legislative markup of the Mail Classification Schedule. *Id.* Attachment A.

B. The Postal Service's Filing

The Notice includes an introductory section followed by four parts. There are four attachments to the Notice. The introductory section 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 Mr. Steve Monteith 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 2-6. Part II describes several temporary promotions that it is proposing as part of the filing. *Id.* at 6-11. Part III discusses Flats Sequencing System (FSS) pricing and prices by class in detail, including workshare discounts. It also addresses the consistency of prices with the objectives and factors of 39 U.S.C. 3622 and with sections 3626, 3627, and 3629. *Id.* at 11-56. Part IV describes Mail Classification Schedule (MCS) changes. *Id.* at 56-57.

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. Attachment D presents the 2014 Mailing Promotions and Incentives Calendar. The Postal Service filed six sets of workpapers:

First-Class Mail Workpapers:	USPS-LR-R2013-10/1
Standard Mail Workpapers:	USPS-LR-R2013-10/2
Periodicals Workpapers:	USPS-LR-R2013-10/3
Package Services Workpapers:	USPS-LR-R2013-10/4
Special Services Workpapers:	USPS-LR-R2013-10/5
First-Class Mail International Workpapers:	USPS-LR-R2013-10/NP1

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 2013, quarter 3, and an explanation of revenue calculations. *Id.*

II. PROMOTIONS

Similar to the price adjustments proposed in Docket No. R2013-1, the Postal Service seeks approval of eight promotions and one incentive during calendar year 2014.⁴ The following table identifies the promotions/incentive and timeframe.

Table 5
Calendar Year 2014 Promotion Timeframe

Promotion/Incentive	Timeframe
High Density and Saturation Incentive Program	January-December 2014
Branded Color Mobile Technology Promotion	February-March 2014
EDDM Coupon Program	March-December 2014
Premium Advertising Promotion	April-June 2014
Earned Value Reply Mail Promotion	April-June 2014
Mail and Digital Personalization Promotion	May-June 2014
Emerging Technology Promotion: Featuring Near Field Communication	August-September 2014
Color Print in First-Class Mail Transactions Promotion	August-December 2014
Mail Drives Mobile Commerce Promotion	November-December 2014

Id. at 7-10.

⁴ The Postal Service states that it seeks approval for these promotions and price incentives in this price adjustment to address customers' concern about not having sufficient time to fully participate in the promotions. *Id.* at 7.

The Postal Service states that it will only seek to preserve the additional cap space approved in Docket No. R2013-1⁵ by continuing to offer similar mobile technology promotions and the Earned Value Reply Mail promotion in 2014. Accordingly, it represents that no changes in cap space are justified based on these promotions. *Id.* at 10-11.

III. SUMMARY OF PRICE CHANGES BY CLASS OF MAIL

A. FSS Pricing

The Postal Service explains that it is taking three steps regarding FSS pricing. First, it plans to require FSS preparation for all flat-shaped mail pieces destinating in FSS zones. Second, it is proposing separate FSS pricing for presorted flat-shaped pieces in Standard Mail, Outside County Periodicals, and Bound Printed Matter Flats that destinate in FSS zones. These proposed prices are designed to minimize changes in postage for flats mailers. Third, it is proposing to introduce discounts for mail on FSS scheme pallets entered at the location of the destinating FSS machine (DFSS). *Id.* at 16.

B. First-Class Mail

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

⁵ Nine million for First-Class Mail and Twenty-four million for Standard Mail.

Table 6
First-Class Mail Price Changes

First-Class Mail Product	Percent Change (%)
Single-Piece Letters/Cards	1.141
Presort Letters/Cards	1.615
Flats	1.267
Parcels	6.335
First-Class Mail International	5.994
Overall	1.587

Id. at 17.

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 46 cents to 47 cents. *Id.*

Single-piece letters and cards. The overall increase of 1.141 percent for single-piece letters and cards reflects continuation of current prices for metered letters and single-piece cards, which is largely responsible for the average increase for single-piece mail being lower than the increase for presorted mail. *Id.* The proposed price increase will increase the per-piece price differential between letters and flats, and between letters and parcels. *Id.* at 18. The new proposed price differential between a single-piece letter and single-piece flats increases from 46 cents to 47 cents. The letter-parcel differential increases from \$1.61 to \$1.76. *Id.*

Metered Mail. In this docket, the Postal Service is introducing a new price for single-piece metered letters. The proposed metered mail category includes single-piece letters with postage affixed by meter, information-based indicia (IBI), permit imprint, or pre-cancelled stamps. Only pieces bearing non-cancelled stamps or postal validation imprint (PVI) indicia⁶ would remain in the stamped mail category. *Id.* at 18.

⁶ PVI includes payment indicia printed out by the Automated Postal Center (APC) equipment.

The stated purpose is to encourage the adoption of metered mail by small businesses. *Id.* at 19.

Residual Single-Piece Letters. In Docket No. R2013-1, the Postal Service introduced a new single-piece price for residual letters presented as part of a presort mailing. *Id.* at 20. In this docket, the Postal Service proposes a new single-piece price structure for residual letters as follows—residuals from uniform 1-ounce presort letter mailings will pay the 1-ounce metered rate of 46 cents; residuals from uniform 2-ounce presort letter mailings will pay the 2-ounce metered rate of 66 cents; and residuals from mixed mailings will pay the Residual rate of 48 cents. *Id.* at 21.

Presort Letters/Postcards. The Postal Service states that the overall increase for this product is slightly above the overall average for First-Class Mail. The unit price for the least presorted automation category increases by 1 cent while the other categories increase by 0.5 to 0.6 cents. The price increases for Mixed AADC, AADC, 3-Digit, and 5-Digit automation presort letters are 2.5 percent, 1.3 percent, 1.3 percent, and 1.7 percent, respectively. The Postal Service continues to price AADC and 3-Digit letters and cards at the same level, and the free second-ounce continues for all presort First-Class Mail letters (Non-automation and Automation). *Id.*

Flats. The overall increase for Flats is 1.267 percent. *Id.* at 22. Price changes within this product vary. *Id.*

Parcels. First-Class Mail Parcels receive a 6.335 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.*

International. Prices for Outbound Single-Piece First-Class Mail International (FCMI) increase by 2.192 percent, above the First-Class Mail average of 1.587 percent. *Id.* at 22. The Postal Service asserts that the increase is necessary to increase contribution and improve cost coverage for FCMI Flats. *Id.*

C. 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	1.614
Flats	1.809
Parcels	1.820
High Density and Saturation Letters	1.322
High Density and Saturation Flats Parcels	1.412
Carrier Route	1.666
Every Door Direct Mail—Retail	5.000
Overall	1.609

Id. at 24.

Flats receive an above-average price increase, pursuant to the three-year schedule of above-average CPI increases for Flats proposed by the Postal Service in the 2012 Annual Compliance Report. *Id.* at 24. The Postal Service is also proposing new FSS pricing for Flats, High Density flats, High Density plus flats, and Carrier Route flats. *Id.*

Standard Mail Parcels receive an above-average price increase to continue the Postal Service's previously announced plan to move the product toward full cost coverage while also recognizing that Standard Mail Parcels are underpriced in the marketplace. *Id.* at 25. The proposed prices for AADC and 3-Digit presort letters will continue to be equal in 2014 until the Postal Service is able to determine which preparation standard will be most consistent with the redesigned processing network. *Id.*

The Postal Service is continuing the Simple Samples initiative this year. *Id.* It is also reducing the price of Customized Market Mail and introducing new prices for Every Door Direct Mail – Commercial. It is increasing the price of Every Door Direct Mail Retail to 16.8 cents and retaining the current approved price of 2 cents for a picture permit indicia on Standard Mail. *Id.* at 26-27. It will moderately increase the price of Detached Address Labels (DAL).

D. 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 Periodicals	1.563
In-County Periodicals	1.705
Overall	1.569

Id. at 28.

The Postal Service states that despite Periodicals' continued failure to cover costs, it recognizes the value of this class to the public. Accordingly, the proposed price change refines price relationships to encourage efficiency and containerization, while limiting the price increases for individual publications. It is also requiring FSS preparation for Periodicals in DFSS zones. The DFSS prices will be the same as the DCSF pound prices. It is introducing FSS prices at the bundle level, sack level, and pallet level at all entry points. To encourage FSS preparation and destination entry, there will be a price of zero for FSS pallets brought to a DFSS. *Id.*

E. 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	2.440
Bound Printed Matter Flats	0.314
Bound Printed Matter Parcels	1.680
Media Mail/Library Mail	2.061
Inbound Surface Parcel Post*	2.152
Overall	1.565
* 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. at 30.

F. Special Services

The overall increase for Special Services is 2.500 percent. *Id.* at 32. The Postal Service states that for most of the products, fee increases were designed to be close to 2.509 percent, while maintaining consistency with historical rounding constraints (to simplify transactions for customers). *Id.* The following table, based on price changes identified in the body of the Notice, indicates the differing effects of the Postal Service's Special Services pricing decisions.

Table 10
Special Services Price Changes

Special Services	Percent Change (%)
Collect on Delivery	4.2
Special Handling Prices	5.5
Stamp Fulfillment Services	0.0
USPS Tracking (formerly Delivery Confirmation Service)	10.4
Stamped Cards	0.0
Address Management Services	12.5
Credit Card Authentication	0.0
Customized Postage	3.175
Money Order	0.017
International Certificates of Mailing	5.48

Id. at 33-35.

IV. PREFERRED MAIL AND WORKSHARING DISCOUNTS

Preferred mail. The Notice includes the Postal Service's explanation that it implemented section 3626 pricing requirements in the same manner as in the Docket No. R2013-1 price change, and notes the Commission concluded the Postal Service's interpretation of section 3626 is appropriate. *Id.* at 35. The Postal Service identifies each of the preferred products or components (In-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 35-37.

Consistency with 39 U.S.C. 3627 and 3629. The 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 37.

Workshare discounts. The 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 37-56.

V. MCS CHANGES

The 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 56-57. Attachment A to the Notice presents the price and classification changes to the Mail Classification Schedule in legislative format. *Id.* at 56. Changes to the MCS may alter the rights and responsibilities of mailers and reviewers are advised to review this material carefully.

VI. ADMINISTRATIVE ACTIONS

The Commission hereby establishes a formal docket, captioned Docket No. R2013-10, 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 Notice on the Commission's website (<http://www.prc.gov>), and has made the 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 16, 2013. Interested persons are encouraged to review the Postal Service's 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.

Parties are also encouraged to comment on proposed Mail Classification changes, particularly whether these changes have any rate implications.

Participation and designated filing method. Interested persons may 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 filed in this docket 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.

IV. ORDERING PARAGRAPHS

It is ordered:

1. The Commission establishes Docket No. R2013-10 to consider planned price adjustments in rates, fees and classifications for market dominant postal products and services identified in the Postal Service's September 26, 2013 Notice.
2. Comments by interested persons on the planned price adjustments are due no later than October 16, 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