

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

NOTICE OF MARKET-DOMINANT  
PRICE ADJUSTMENT

Docket No. R2013-10

**RESPONSE OF THE UNITED STATES POSTAL SERVICE  
TO ORDER NO. 1890**

(November 29, 2012)

**I. Introduction**

The United States Postal Service hereby provides its response to Order No. 1890, which was issued on November 21, 2013. In that Order, the Commission determined that the rates proposed for First-Class Mail, Standard Mail, and Periodicals<sup>1</sup> would be inconsistent with the annual price cap limitation as calculated under 39 C.F.R. § 3010, if they were concurrently implemented with the planned Full-Service Intelligent Mail® barcode (IMb) requirements.<sup>2</sup> To address the Commission's finding, the Postal Service was given two options: 1) to implement the Full-Service IMb requirement contemporaneously with the proposed rates and submit revised billing determinants/prices accordingly; or 2) to not implement the Full Service IMb

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<sup>1</sup> The proposed prices for First-Class Mail, Standard Mail, and Periodicals are identified in Attachment A to the *United States Postal Service Notice of Market Dominant Price Adjustment*, filed on September 26, 2013.

<sup>2</sup> Docket No. R2013-10, Order No. 1890: Order On Price Adjustments for Market-Dominant Products and Related Mail Classification Changes, at 35-36 (November 21, 2013).

requirement contemporaneously with the proposed rates, thus allowing the proposed prices to take effect without further adjustment.<sup>3</sup> The Postal Service was directed to notify the Commission of how it planned to address the Commission's finding no later than November 29, 2013.<sup>4</sup> As discussed below, the Postal Service is electing to defer the implementation date that the Full-Service IMb requirement would change access to automation rates, until a date after 2014.

In addition, the Commission also remanded the commercial and nonprofit Standard Mail 5-digit automation flats discounts to the Postal Service. The Postal Service was directed to equalize the commercial and nonprofit discounts by either: 1) raising the nonprofit discount; 2) lowering the commercial discount; or 3) altering other Standard Mail prices to accomplish the equalization of the nonprofit and commercial discounts. As discussed below, the Postal Service has decided to lower the commercial 5-digit automation flats discount from 9.2 cents to 9.0 cents (option 2).

In all other respects, the Commission determined that the proposed prices identified in the *United States Postal Service Notice of Market-Dominant Price Adjustment*, filed on September 26, 2013, are consistent with 39 U.S.C. 3622(d), 3622(e), and 3626, and may be put into effect, as planned.<sup>5</sup>

Attached to this pleading the Postal Service has provided the updated MCS page (Attachment A) with the new prices for Standard Mail 5-digit automation flats, updated workshare tables (Attachment B), and a draft of the planned Federal Register Notice announcing the deferral of the Full-Service IMb requirement (Attachment C). In

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<sup>3</sup> *Id.* at 36.

<sup>4</sup> *Id.* at 36-37.

<sup>5</sup> *Id.* at 107.

addition, revised Standard Mail workpapers will be filed concomitantly with this Pleading as excel workbook *CAPCALC-STD-R2013-10\_REMAND\_USPS.xls*.

## **II. Full-Service IMb Requirement**

As noted above, and in compliance with Order No. 1890, the Postal Service has chosen to defer the implementation date of the Full-Service IMb requirement (for access to automation rates) until a later date after 2014.<sup>6</sup> The Postal Service is attaching (as Attachment C) a draft of the Federal Register notice it intends to publish, announcing the deferral of the Full-Service IMb requirement. Accordingly, pursuant to Order No. 1890, the Postal Service will implement the proposed prices for First-Class Mail, Standard Mail, and Periodicals on January 26, 2014 without further revision, other than the revisions set forth in Section III below.

Although the Postal Service is complying with the Commission's directive, it believes that the Commission's finding – that the Full-Service IMb requirement, by changing the basic characteristics of the mailing, constitutes the redefinition of a rate cell – oversteps its authority and improperly involves it in the operations of the Postal Service. The intent of the Congress in passing the Postal Accountability and Enhancement Act was to afford the Postal Service true pricing flexibility, unencumbered by the Commission's own vestigial views on pricing. The Commission's findings on the Full-Service IMb issue ignore that Congressional intent, inappropriately expand the scope of the price cap, and erode whatever pricing flexibility the Postal Service purportedly enjoys.

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<sup>6</sup> Though the Postal Service plans to defer the requirement that mailers use Full-Service IMb in order to access automation rates, the Postal Service will move forward with all other requirements discussed in the Full-Service IMb rule (78 FR 23137) published on April 18, 2013.

### **III. Commercial and Nonprofit Discounts for 5-digit Automation Flats**

At page 84 of Order No. 1890, the Commission requested that the Postal Service equalize the commercial and nonprofit discounts for Standard Mail 5-digit automation flats. To achieve the equalization of these commercial and nonprofit discounts, the Postal Service decreased the commercial discount to 9.0 cents. This was done by increasing the commercial 5-Digit automation flats per piece price at all dropship levels.

These revised prices raise the average price increase to 2.078 percent for the Standard Mail Flats product, which is appreciably greater than the revised average price increase for the Standard Mail class (1.642 percent) and the CPI-U price cap (1.696 percent). No other Standard Mail prices were changed as a result of the commercial 5-Digit automation flats revisions. Revised workshare tables (Attachment B) and updated Standard Mail workpapers (*CAPCALC-STD-R2013-10\_REMAND\_USPS.xls*) are being filed with this Pleading.<sup>7</sup>

### **IV. Conclusion**

As explained above, the Postal Service has complied with the Commission's directives in Order No 1890. Accordingly, the Postal Service respectfully requests that the Commission expeditiously approve the revised rates for Standard Mail 5-digit automation Flats. All other proposed prices will take effect without further revision on January 26, 2014 pursuant to Order No. 1890.

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<sup>7</sup> The revised prices are highlighted in the "L-F-P New Prices" tab of excel workbook *CAPCALC-STD-R2013-10\_REMAND\_USPS.xls*,

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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## 1225.6 Prices

*Automation Flats (3.3 ounces or less)*

<b>Commercial</b>						
<b>Entry Point</b>	<b><u>DFSS Scheme</u></b> <b>(\$)</b>	<b><u>DFSS Facility</u></b> <b>(\$)</b>	<b>5-Digit</b> <b>(\$)</b>	<b>3-Digit</b> <b>(\$)</b>	<b>ADC</b> <b>(\$)</b>	<b>Mixed ADC</b> <b>(\$)</b>
Origin	<u>n/a</u>	<u>0.370</u>	<u>0.370</u>	0.460	0.510	0.523
DNDC	<u>n/a</u>	<u>0.337</u>	<u>0.337</u>	0.427	0.477	0.490
DSCF	<u>n/a</u>	<u>0.327</u>	<u>0.327</u>	0.417	0.467	
DFSS	<u>0.326</u>	<u>n/a</u>	<u>n/a</u>	<u>n/a</u>	<u>n/a</u>	<u>n/a</u>

  

<b>Nonprofit</b>						
<b>Entry Point</b>	<b><u>DFSS Scheme</u></b> <b>(\$)</b>	<b><u>DFSS Facility</u></b> <b>(\$)</b>	<b>5-Digit</b> <b>(\$)</b>	<b>3-Digit</b> <b>(\$)</b>	<b>ADC</b> <b>(\$)</b>	<b>Mixed ADC</b> <b>(\$)</b>
Origin	<u>n/a</u>	<u>0.225</u>	0.225	0.315	0.365	0.378
DNDC	<u>n/a</u>	<u>0.192</u>	0.192	0.282	0.332	0.345
DSCF	<u>n/a</u>	<u>0.182</u>	0.182	0.272	0.322	<u>n/a</u>
DFSS	<u>0.181</u>	<u>n/a</u>	<u>n/a</u>	<u>n/a</u>	<u>n/a</u>	<u>n/a</u>

*Automation Flats (greater than 3.3 ounces)*

Charges are computed by multiplying the number of pieces in the mailing by the applicable per-piece price, multiplying the number of pounds of the mailing by the applicable per-pound price, and adding both totals.

## a. Per Piece

<b>Commercial</b>						
	<b><u>DFSS Scheme</u></b>	<b><u>DFSS Facility</u></b>	<b>5-Digit</b> <b>(\$)</b>	<b>3-Digit</b> <b>(\$)</b>	<b>ADC</b> <b>(\$)</b>	<b>Mixed ADC</b> <b>(\$)</b>
<u>Per Piece-DFSS</u>	<u>0.213</u>	<u>n/a</u>	<u>n/a</u>	<u>n/a</u>	<u>n/a</u>	<u>n/a</u>
<u>Per Piece-Other</u>	<u>n/a</u>	<u>0.214</u>	<u>0.214</u>	<u>0.304</u>	<u>0.354</u>	<u>0.367</u>

**Workshare Discounts and Benchmarks--Standard Mail Flats (Commercial and Nonprofit)**

Type of Worksharing	Benchmark	Discount <sup>[1]</sup>	Avoided Cost <sup>[2]</sup>	Passthrough
<b>Commercial Standard Mail Flats--Automation</b>				
<b>Presorting (dollars / piece)</b>				
Automation ADC Flats	Automation Mixed ADC Flats	\$0.013	\$0.032	40.6%
Automation 3-digit Flats	Automation ADC Flats	\$0.050	\$0.055	90.9%
Automation 5-digit Flats	Automation 3-digit Flats	\$0.090	\$0.087	103.4%
<b>Commercial and Nonprofit Pre-barcoding (dollars / piece)</b>				
Automation Mixed ADC Flats	Nonautomation Mixed ADC Flats	\$0.049	\$0.041	119.5%
<b>Commercial and Nonprofit Standard Mail Flats--Nonautomation</b>				
<b>Presorting (dollars / piece)</b>				
Nonautomation ADC Flats	Nonautomation Mixed ADC Flats	\$0.037	\$0.057	64.9%
Nonautomation 3-digit Flats	Nonautomation ADC Flats	\$0.051	\$0.057	89.5%
Nonautomation 5-digit Flats	Nonautomation 3-digit Flats	\$0.074	\$0.058	127.6%
<b>Commercial and Nonprofit Standard Mail Flats</b>				
<b>Drop Ship (dollars / pound)</b>				
DNDC Flats	Origin Flats	\$0.161	\$0.206	78.2%
DSCF Flats	Origin Flats	\$0.209	\$0.236	88.6%
<b>Drop Ship (dollars / piece)<sup>[3]</sup></b>				
DFSS Flats	Origin Flats	\$0.044	\$0.050	88.0%
<b>Nonprofit Standard Mail Flats--Automation</b>				
<b>Presorting (dollars / piece)</b>				
Automation 5-digit Flats	Automation 3-digit Flats	\$0.090	\$0.087	103.4%

**Notes**

- [1] Source of Discounts: Docket No. R2013-10, Notice of Market-Dominant Price Adjustment, Attachment A, Schedule 1220
- [2] Avoided Cost--Source: PRC ACD FY2012, Proposal 9  
CRA Adj Unit Costs page (for presorting); Presort Levels Held Const page (for pre-barcoding)
- [3] Avoided Cost for Drop Ship (dollars / piece): The Commission's workpaper "FY2012 Destination Entry STD\_Total.xls", tab "CS Data by Shape" was used to convert pounds to pieces (5,641,684 / 26,809,696 = 0.210 )  
The Avoided Cost: \$0.050 = \$0.2363 \* 0.210

**POSTAL SERVICE**

**Deferral of Effective Date for Full-Service Intelligent Mail Barcode Requirement**

**AGENCY:** Postal Service™.

**ACTION:** Notice.

**SUMMARY:** The Postal Service gives notice of the deferral of the January 26, 2014 effective date for linking the Full-Service Intelligent Mail® barcode requirements to eligibility for automation rates.

**DATES:** *Effective date:* [INSERT DATE OF PUBLICATION IN THE FEDERAL REGISTER].

**FOR FURTHER INFORMATION CONTACT:** Lizbeth J. Dobbins, 202-268-3789.

**SUPPLEMENTARY INFORMATION:** In Order No. 1890 (November 21, 2013), the Postal Regulatory Commission determined that the price changes proposed in Docket No. R2013-10 could take effect as scheduled only if the Postal Service elected to not implement the Full-Service Intelligent Mail barcode requirements in conjunction with the planned price adjustments. In response to this Order, the United States Postal Service® hereby gives notice that the January 26, 2014 deadline to comply with the Full-Service Intelligent Mail barcode requirements (78 FR 23137 (April 18, 2013)) for eligibility for automation rates, is deferred until further notice.

**Stanley F. Mires,**

*Attorney, Legal Policy & Legislative Advice.*

[END DOCUMENT]