

Before the  
POSTAL REGULATORY COMMISSION  
WASHINGTON, DC 20268-0001

Notice of Market-Dominant  
Price Adjustment

Docket No. R2015-4

PUBLIC REPRESENTATIVE COMMENTS IN RESPONSE TO  
UNITED STATES POSTAL SERVICE NOTICE OF  
MARKET-DOMINANT PRICE ADJUSTMENT

(February 4, 2015)

On January 20, 2015, the Commission issued a Notice and Order on Rate Adjustments, Classification Changes, and Temporary Promotions for Market Dominant Products,<sup>1</sup> which provided the opportunity to comment on Postal Service's price adjustment proposals.<sup>2</sup> On February 2, 2015, the Commission modified the filing deadlines for comments; effectively delaying the deadlines for all comments except those concerning First-Class Mail.<sup>3</sup> The Public Representative respectfully submits the comments that follow limited to issues concerning First-Class Mail.

I. ANNUAL LIMITATION ON THE PERCENTAGE CHANGE IN RATES

39 U.S.C. § 3622(a) directed the Commission to establish a modern system for regulating rates and classes for market dominant products. The system is to include an

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<sup>1</sup> Notice and Order on Rate Adjustments, Classification Changes, and Temporary Promotions for Market Dominant Products, January 20, 2015 (Order No. 2327).

<sup>2</sup> See United States Postal Service Notice of Market-Dominant Price Adjustment, January 15, 2015 (Postal Service Notice).

<sup>3</sup> Order Granting, in Part, Motion for Extension of Comment Deadline, February 2, 2015 (Order No. 2340).

annual limitation on the percentage change in rates that will be equal to the change in the Consumer Price Index for All Urban Consumers unadjusted for seasonal variation over the most recent 12-month period preceding the date the Postal Service files notice of an intention to increase rates. See 39 U.S.C. § 3622(d). The annual limitation is applicable to each class of mail. See 39 U.S.C. § 3622(d)(2)(A). The Commission codified the regulations governing this system in 39 C.F.R. part 3010.

Since there have been more than 12 months between price adjustments, the annual limitation (adjusted price cap) is calculated by summing a 12-month moving average (1.685 percent) and an adjustment factor (0.281 percent). See 39 C.F.R. § 3010.21 and 26(c). The Postal Service calculates an adjusted price cap authority of 1.966 percent. The Postal Service's result appears correct and matches the result published by the Commission on its website. Thus, the annual limitation for the First-Class Mail price adjustment is 1.966 percent.<sup>4</sup>

To determine whether or not the new First-Class Mail prices proposed by the Postal Service result in an increase less than the allowable annual limitation, the following calculation is performed:

First, the volume of each rate cell in the class is multiplied by the planned rate for the respective cell and the resulting products are summed. Then, the same set of rate cell volumes are multiplied by the corresponding current rate for each cell and the resulting products are summed. Finally, the percentage change in rates is calculated by dividing the results of the first step by the results of the second step and subtracting 1 from the quotient. The result is expressed as a percentage.

39 C.F.R. § 3010.23(b).

First-Class Mail consists of six products: Single-Piece Letters/Cards, Presorted Letters/Cards, Flats, Parcels, Outbound Single-Piece First-Class Mail International, and

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<sup>4</sup> As of the conclusion of Docket No. R2013, previously unused price adjustment authority was reset to zero. See Order No. 1926 at 186-191. Thus, consideration of previously unused price adjustment authority is not an issue in this docket.

Inbound Letter Post.<sup>5</sup> Each product has multiple price cells that factor into the calculation of the proposed annual increase. This calculation is somewhat complicated by the Postal Service's proposal to offer several limited time promotions within First-Class Mail: Color Transpromo Promotion, Earned Value Reply Mail Promotion, and Advanced and Emerging Technology Promotion.

The prices that are currently in effect include a surcharge as a result of the exigent rate filing. See Docket No. R2013-11. The Commission ruled that for the purposes of 39 U.S.C. § 3622, base prices, and not surcharged prices, should be considered. Order No. 2319 at 9. With one exception, it appears that the Postal Service properly performed actual adjustment percentage increase calculations using un-surcharged prices.

It appears that the Postal Service incorrectly used current exigent prices, established as a result of Docket No. R2013-11, as base prices for the First-Class Mail promotions calculations. In developing percentage price changes the Public Representative modified the Postal Service's spreadsheets so that First-Class Mail promotional base prices conform to prices established in Docket No. R2013-10.<sup>6</sup> Although promotions are offered with both Presorted Letters/Postcards and Flats, the modification appears to only have a noticeable effect on the Presorted Letters/Postcards product. Table 1 below displays the results of the Public Representative's change to the First-Class Mail proposed percentage change by product.

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<sup>5</sup> On page 17 of the Postal Service Notice, the Postal Service refers to five products in First-Class Mail. The Postal Service has omitted the sixth product, Inbound Letter Post, from the discussion. The Public Representative is aware that Inbound Letter Post prices are UPU rates and are not being adjusted at this time. The Public Representative assumes that the Postal Service did not omit this product from the Table 5 percentage price change calculations appearing on that same page. If not, the Postal Service should be directed to amend its notice to properly reflect the percentage price change if necessary.

<sup>6</sup> The prices in USPS-LR-R2015-4/1, "Exigent Prices for Promotions" worksheet were replaced by Docket No. R2013-10 prices.

**Table 1**  
**First-Class Mail Proposed Percentage Price Changes by Product**

<b>Product</b>	<b>Percent Change</b>
Single-Piece Letters/Postcards	0.623
Presorted Letters/Postcards	2.423
Flats	2.438
Parcels	10.180
First-Class Mail International	2.762
<b>Total First-Class Mail</b>	<b>1.952</b>

<sup>1</sup> Sources: USPS-LR-R2015-4/1 and USPS-LR-R2015-4/1.

<sup>2</sup> First-Class Mail International include both Outbound Single-Piece First-Class Mail International, and Inbound Letter Post.

The Postal Service presents its proposed percentage price change for First-Class Mail, disaggregated by price changes for individual First-Class mail product, in Table 5 of its Postal Service Notice. The Public Representative agrees with the Postal Service's calculations for all products, except for Presorted Letters/Cards. The difference is small: 2.417 percent Postal Service calculation; 2.423 percent Public Representative calculation. The effect of this discrepancy is even smaller on the overall percentage change for First-Class Mail; 1.949 percent Postal Service calculation; 1.952 percent Public Representative calculation. Both calculations fall under the annual limitation for the First-Class Mail price adjustment of 1.966 percent.<sup>7</sup>

The only other suggestion the Public Representative offers to the Commission is that the Commission might consider the treatment of the Letter-Round-Trip Mailer service. The Postal Service reported DVD volumes and revenues separately. Postal Service Notice at 21. It appears that the volumes and revenues were incorporated into the overall percentage First-Class Mail percentage change, but may not be represented in the changes for the individual product that offer this service. The Commission should

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<sup>7</sup> Note that this would also reduce the new unused pricing adjustment authority from 0.017 percent to 0.014 percent.

examine the Postal Service's methodology, and assure that the effects of the Letter-Round-Trip Mailer service are properly associated with the underlying product. By not including the effects of the Letter-Round-Trip Mailer service with the underlying product, the Postal Service is in effect treating the Letter-Round-Trip Mailer service as a separate product.

## II. WORKSHARE DISCOUNTS

39 U.S.C. § 3622(e)(2) states "the Postal Regulatory Commission shall ensure that such discounts do not exceed the costs that the Postal Service avoids as a result of a worksharing activity" unless justified by a statutory exception. The Public Representative has confirmed the Postal Service's workshare calculations. All First-Class Mail workshare discounts appear to be in compliance with 39 U.S.C. § 3622(e)(2), except for the automation Flats 5-Digit discount. The Postal Service's proposed Docket No. R2015-4 discounts and the discounts reported by the Postal Service in its 2014 Annual Compliance Report are replicated below in Table 2.

**Table 2**  
**Price Cap Passthroughs Compared to 2014 ACR Passthroughs**

<b>First Class Mail Worksharing Category</b>	<b>2014 ACR<sup>1</sup> Avoided Cost</b>	<b>2014 ACR<sup>1</sup> Discount</b>	<b>2014 ACR<sup>2</sup> Pass- through</b>	<b>R2015-4<sup>2</sup> Discount</b>	<b>R2015-4<sup>1</sup> Pass- through</b>
	<b>(\$)</b>	<b>(\$)</b>	<b>(%)</b>	<b>(\$)</b>	<b>(%)</b>
Single-Piece Letters					
Qualified Business Reply Mail (Barcoding)	0.016	0.017	106.3	0.014	87.5
Single-Piece Cards					
Qualified Business Reply Mail (Barcoding)	0.016	0.014	87.5	0.014	87.5
Presorted Letters-Automation					
Mixed AADC (Barcoding/Presorting)	0.046	0.045	97.8	0.046	100.0
AADC (Barcoding/Presorting)	0.020	0.029	145.0	0.020	100.0
3-Digit (Barcoding/Presorting)	0.005	0.000	0.0	0.000	0.0
5-Digit (Barcoding/Presorting)	0.031	0.025	80.6	0.023	74.2
Presorted Letters-Nonautomation					
Presort (Barcoding)	0.058	0.030	51.7	0.013	22.4
Presorted Cards-Automation					
Mixed AADC (Barcoding/Presorting)	0.011	0.015	136.4	0.011	100.0
AADC (Barcoding/Presorting)	0.009	0.013	144.4	0.009	100.0
3-Digit (Barcoding/Presorting)	0.002	0.000	0.0	0.000	0.0
5-Digit (Barcoding/Presorting)	0.013	0.014	107.7	0.013	100.0
Presorted Flats-Automation					
ADC (Barcoding/Presorting)	0.080	0.091	113.8	0.080	100.0
3-Digit (Barcoding/Presorting)	0.040	0.057	142.5	0.040	100.0
<b><u>5-Digit (Barcoding/Presorting)</u></b>	<b><u>0.152</u></b>	<b><u>0.183</u></b>	<b><u>120.4</u></b>	<b><u>0.192</u></b>	<b><u>126.3</u></b>
<b>Passthroughs Above 100 Percent</b>			<b>8</b>		<b>1</b>

1 Source: Postal Service Notice, Attachment B.

2 Source: ACR 2014, USPS-FY14-3.

Section 3622(e)(2) requires the Postal Service to justify any First-Class Mail workshare discount that exceeds 100 percent of avoided. The Public Representative believes that merely citing to an exception does not provide sufficient justification. As

part of any justification, the Postal Service also should be required to provide a detailed plan for remedying any excessive discounts wherever possible.

The workshare passthrough for automation Flats 5-Digit is 126.3 percent. The Postal Service's justification for this excessive discount is merely:

Accordingly, the Postal Service justifies the current passthrough pursuant to section 3622(e)(2)(B). This discount will be reduced to match the cost avoidance over time in future price change filings, while taking into consideration other business and operational needs.

Postal Service Notice at 45. The Public Representative believes the purported justification to be totally insufficient. There is no explanation whatsoever explaining why mailers would experience rate shock by properly adjusting the discount to 100 percent of avoided costs. No plan has been presented to bring this discount into compliance.

Furthermore, the Postal Service just reported in its 2014 Annual Compliance Report that the passthrough was 120.4 percent. In that report the Postal Service stated:

Immediately reducing the discount to match avoided cost would result in a price increase as large as 14 percent, which the Postal Service believes could result in rate shock for its customers. The Postal Service therefore justifies the current passthrough pursuant to section 3622(e)(2)(B). The discount will be reduced to match the cost avoidance over time in future price change filings, while taking into consideration other business and operational needs.

2014 ACR at 14.

The cost avoided is the same in the Postal Service's 2014 Annual Compliance Report and in this price adjustment proposal. Yet, the Postal Service increases the discount from \$0.183 to \$0.192 after recognizing that the discount does not comply with 39 U.S.C. § 3622(e). There is no indication of what the Postal Service meant in the 2014 Annual Compliance Report or its Docket No. R2015-4 justification by reducing the discount in the "future" or "over time," because no effort has been made to remedy the excessive discount in this "future" price adjustment. The percentage passthrough increases only because the Postal Service is increasing the discount in the Docket No.

R2015-4 proposal. At a minimum, the Postal Service should not be allowed to increase a discount were it states its goal is to decrease the discount.

39 U.S.C. § 3622(e)(2) requires the Commission to ensure that discounts do not exceed the costs that the Postal Service avoids, unless justified. The Postal Service has not justified the 5-Digits discount, and is in fact increasing the discount after stating in its 2014 Annual Compliance Report that the discount would be reduced. In the specific case of automation Flats 5-Digit, the Public Representative urges the Commission to send the rate back to the Postal Service so that the discount can be adjusted to pass through no greater than 100 percent of avoided costs.

Respectfully submitted,

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