

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

Before Commissioners:

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

Notice of Market Dominant
Price Adjustment

Docket No. R2015-4

ORDER ON PRICE ADJUSTMENTS FOR STANDARD MAIL, PERIODICALS, AND
PACKAGE SERVICES PRODUCTS



Washington, DC 20268-0001

March 6, 2015

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(Issued March 6, 2015)

I. INTRODUCTION AND OVERVIEW

Introduction. On January 15, 2015, the Postal Service filed notice of its planned price adjustments for market dominant products.¹ The Postal Service proposes to implement numerous mail classification changes in conjunction with the price adjustments.

The Commission has reviewed the pricing proposals for consistency with the requirements of title 39 and the Commission's regulations. The Commission provided its analysis of the proposed prices and mail classification changes for First-Class Mail in

¹ United States Postal Service Notice of Market-Dominant Price Adjustment, January 15, 2015 (Notice).

Order No. 2365.² This Order discusses the planned price adjustments for the Standard Mail, Periodicals, and Package Services classes.³ As currently proposed, prices for the Standard Mail, Periodicals, and Package Services classes do not comply with certain statutory and regulatory requirements and are therefore remanded to the Postal Service for further action.

In section II of this Order, the Commission determines that the unequal commercial and nonprofit discounts in the Standard Mail class violate the requirement that disparities between commercial and nonprofit discounts must be justified. The Postal Service did not provide a justification for the proposed unequal nonprofit and commercial dropship discounts. The Commission also finds that the Postal Service failed to adequately justify the proposed disparity for nonprofit and commercial presort discounts. In addition, the Commission finds that several Standard Mail workshare discounts exceed 100 percent and have not been adequately justified in accordance with 39 U.S.C. § 3622(e).⁴ In section II, the Commission also finds that the Postal Service must revise the Standard Mail billing determinants in accordance with 39 C.F.R. § 3010.23(d). The Commission also encourages the Postal Service to address other pricing issues when revising Standard Mail rates in order to send more efficient pricing signals.

In section III of this Order, the Commission explains that the Postal Service incorrectly adjusted several billing determinants associated with Flats Sequencing System (FSS) prices for Periodicals bundles, sacks, and pallets and failed to provide the Commission with the data necessary to calculate the actual average price increase for the Periodicals class. As a result, the Commission is unable to make the finding required under 39 U.S.C. § 3622 and 39 C.F.R. § 3010.11 that the proposed Periodicals price adjustment is consistent with applicable law.

² Order on Price Adjustments for First-Class Mail Products and Related Mail Classification Changes, February 24, 2015 (Order No. 2365).

³ The planned price adjustments and mail classifications changes for the Special Services class will be discussed in a subsequent Commission order.

⁴ These are the Automation automated area distribution center (AADC) Letters, Non-automation AADC Machinable Letters, network distribution center (NDC) Irregular Parcels Piece-Rated Piece, NDC Irregular Parcels Pound-Rated Piece, and NDC Marketing Parcels Pound-Rated Piece discounts.

In section IV of this Order, the Commission explains that it does not have the information necessary to calculate the average price increase for the Package Services class. As a result, the Commission is unable to make the finding required under 39 U.S.C. § 3622 and 39 C.F.R. § 3010.11 that the proposed Package Services price adjustment is consistent with applicable law.

In recognition of the Postal Service's pricing authority, the Commission remands all Standard Mail, Periodicals, and Package Services rates to allow the Postal Service to modify its planned rates to comply with the applicable legal standards. Pursuant to 39 C.F.R. § 3010.11(f), the Postal Service shall file its amended notice of rate adjustment and describe how the modifications to the planned Standard Mail, Periodicals, and Package Services rates comply with applicable legal requirements. An opportunity for comments from interested parties will be provided. See 39 C.F.R. § 3010.11(g). The amended notice is due no later than March 12, 2015, so that new rates that comply with applicable legal requirements can be reviewed and implemented, as planned, on April 26, 2015. See 39 C.F.R. § 3010.11(i).⁵

Procedural history. On January 15, 2015, the Postal Service filed its Notice with the Commission pursuant to 39 U.S.C. § 3622 and the Commission's rules in 39 C.F.R. part 3010. In its Notice, the Postal Service announces its intention to change most domestic and international market dominant prices on April 26, 2015, at 12:01 a.m. by amounts which are, on average, within a 1.966 percent statutory price cap for all classes of mail.

The Notice includes five attachments, which present detailed price and mail classification changes; worksharing discount calculations; price index change calculations; the proposed promotions calendar; and the adjusted exigent surcharges for new rate cells. Notice, Attachments A-E. Supporting workpapers address, for each class, how the planned prices comply with the price cap. On January 20, 2015, the Commission issued Order No. 2327, which provided public notification of the Notice; established Docket No. R2015-4 to consider the planned price adjustments' consistency

⁵ Pursuant to 39 U.S.C. § 3622(d)(1)(C) and 39 C.F.R. § 3010.11(i), if an amended notice is not filed by March 12, 2015, the Postal Service may not implement the rate changes described in its amended notice of rate adjustment on April 26, 2015.

with applicable statutory and regulatory requirements; appointed a Public Representative; and provided an opportunity to comment.⁶

In response to Order No. 2327, as modified by Order No. 2340,⁷ the Commission received five sets of formal comments relating to the Postal Service's proposed adjustments for Standard Mail, Periodicals, and Package Services.⁸ Appendix A provides a list of these commenters and citations to their filings.⁹

Omissions, errors, and related delays. The Postal Service's initial filing in this proceeding contained many errors and inconsistencies and lacked information required by title 39 and the Commission's regulations. On January 26, 2015, MPA-The Association of Magazine Media, the Alliance of Nonprofit Mailers, and the Association for Postal Commerce filed a motion requesting that the Commission extend the comment deadline due in part to the Postal Service's failure to provide the information required by 39 C.F.R. § 3010.23(d) in its initial filing.¹⁰ In response to that motion, the Commission issued Order No. 2340. The order: (1) determined that the Notice was incomplete with respect to the price adjustments related to Standard Mail, Periodicals, Package Services, and Special Services; and (2) concluded that after the Postal Service files complete responses to certain information requests, the Notice would be complete, and the 45-day notice period would begin for price adjustments related to the affected classes of mail. Order No. 2340 at 4-5.

⁶ See Notice and Order on Rate Adjustments, Classification Changes, and Temporary Promotions for Market Dominant Products, January 20, 2015 (Order No. 2327).

⁷ Order Granting, in Part, Motion for Extension of Comment Deadline, February 2, 2015 (Order No. 2340).

⁸ Comments are addressed to the extent they relate to the Commission's analysis in this Order. To the extent the comments will be more applicable to the Commission's order on the amended notice of rate adjustment, the Commission expects to address those comments, along with those filed in accordance with 39 C.F.R. § 3010.11(g), in its subsequent order on Standard Mail, Periodicals, and Package Services.

⁹ Comments concerning First-Class Mail were considered in conjunction with Order No. 2365 and are not included in Appendix A to this Order. Comments concerning Special Services will be addressed in a subsequent Commission order and are not included in Appendix A to this Order.

¹⁰ Motion of MPA-The Association of Magazine Media, Alliance of Nonprofit Mailers and Association for Postal Commerce for Extension of Time to File Comments, January 26, 2015.

In an attempt to bring the filing into compliance with statutory and regulatory requirements, clarify the Postal Service's proposed price adjustments and classification changes, and ensure the Commission had accurate and complete data to review, 16 Chairman's Information Requests (CHIRs) have been issued over the course of this proceeding. Those CHIRs contain over 100 separate questions and requests. Significant issues included the failure to adjust billing determinants as required by 39 C.F.R. § 3010.23(d)(2); incorrect adjustment of the billing determinants; failure to provide the information for new workshare discounts required by 39 C.F.R. § 3010.12(c); failure to provide justifications for workshare discounts exceeding 100 percent; and simple calculation errors. Appendix B provides citations to these information requests, the Postal Service's responses, and related filings.

Despite the Commission providing an extended comment period and issuing extensive CHIRs, many commenters argue that the Postal Service's incomplete filing made it difficult to provide meaningful comments in this proceeding. MPA states that it has "not yet been able to determine the precise impact of the significant changes that the Postal Service has proposed." MPA Comments at 1. Similarly, ACMA explains that it does "not have enough information to provide informative commentary." ACMA Comments at 1. Valpak states that the Postal Service's filing is insufficient even after "innumerable" CHIRs. Valpak Comments at 1, n.1. Valpak asserts that the filing's "omissions and changes have made the job of a commenter as difficult as possible." *Id.* The Public Representative also notes that the large number of classification changes and need for such a large number of CHIRs made it challenging for commenters to meaningfully participate in this proceeding. PR Comments at 1-2. He suggests that the Commission take steps to improve the process and allow for more meaningful participation, including modifying the Commission's rules to allow for the submission of only minor classification changes in conjunction with a rate adjustment. *Id.* at 2.

The Commission shares these commenters' concerns and is troubled by the large number of uncommon errors and omissions in the Postal Service's initial filing, as well as the initial filing's failure to comply with several statutory and regulatory requirements. A filing that is incomplete and riddled with errors makes it virtually impossible for the public to provide meaningful comments and for the Commission to

complete its review within the statutory time period required by 39 U.S.C. § 3622(d)(1)(C) and the Commission's implementing regulations. Given all of these issues, the Commission may consider appropriate action to help better ensure that future rate case filings are complete, that they comply with all applicable laws and regulations, and that interested persons are provided a timely opportunity to provide meaningful comments.

II. STANDARD MAIL

A. Introduction

The Postal Service proposes numerous unequal commercial and nonprofit discounts without proper justifications and several workshare discounts that exceed avoided costs without proper justifications. For the reasons stated below, the Commission finds that these prices are in conflict with *National Easter Seal Society v. USPS*, 656 F.2d 754 (D.C. Cir. 1981) (*National Easter Seal Society*) and 39 U.S.C. § 3622(e). The Commission directs the Postal Service to either revise or adequately justify all unequal nonprofit and commercial dropship discounts. The Commission also remands the improperly justified workshare discounts and unequal nonprofit and commercial presort discounts to the Postal Service for revision. Additionally, in accordance with 39 C.F.R. § 3010.23(d)(2) and 39 C.F.R. § 3010.23(d)(3), the Postal Service must revise the Standard Mail billing determinants to incorporate both FY 2014 Quarter 3 and Quarter 4 FSS data.

As the Postal Service revises its rates in accordance with this directive, the Commission also suggests that it revise all unequal presort discounts for piece-rated piece and pound-rated piece discounts as well as unequal dropship discounts for the same destination entry point in order to send more efficient price signals to mailers.

B. Nonprofit Discounts

The Postal Service proposes unequal nonprofit and commercial discounts for High Density Letters presort,¹¹ High Density Flats presort,¹² and numerous dropship price categories.¹³

High Density Letters and High Density Flats presort discounts. CHIR No. 11, questions 1 and 2 requested the rationale for not setting the commercial and nonprofit presort discounts equal for High Density Letters and High Density Flats. In response, the Postal Service states that the inequality between the discounts “was the inadvertent result of the overall pricing development” and asserts it would align the discounts in the next price adjustment. Response to CHIR No. 11, questions 1 and 2.

Dropship discounts. The Postal Service identifies several more unequal commercial and nonprofit discounts in its Notice at 45-51, in Attachment B (as revised in Response to CHIR No. 12) (Excel file “Revised_AttachmentB_CHIR12.xlsx”), and in the February 4 Response to CHIR No. 3, question 5b, which requested that the Postal Service identify all commercial discounts that differ from nonprofit discounts. In its review of the Postal Service’s proposed prices, the Commission found several unequal commercial and nonprofit dropship discounts that were not reported by the Postal Service. See Library Reference PRC-LR-R2015-4/3.¹⁴ For example, the destination network distribution center (DNDC) entry discount for commercial Standard Mail Automation 5-Digit Letters is \$0.035, while the DNDC entry discount for nonprofit Standard Mail Automation 5-Digit Letters is \$0.034. The Postal Service provides no justification for these unequal nonprofit and commercial discounts.

¹¹ The commercial discount for High Density Letters is \$0.078 and the nonprofit discount is \$0.082. Source: “Revised_AttachmentB_CHIR5.xlsx,” tab “Standard Mail HD-Sat Letters.”

¹² The commercial discount for High Density Flats is \$0.050 and the nonprofit discount is \$0.054. Source: “Revised_AttachmentB_CHIR5.xlsx,” tab “Standard Mail HD-Sat Letters.”

¹³ See Library Reference PRC-LR-R2015-4/3, which shows the dropship discounts created by the prices proposed in this proceeding for the letters, flats, and parcels mail categories. Many of these dropship discounts were not identified by the Postal Service in its Attachment B.

¹⁴ Library Reference PRC-LR-R2015-4/3 contains a complete list of unequal commercial and nonprofit dropship discounts. Overall, 42 dropship discounts for commercial price categories differ from their nonprofit counterparts (17 – letters price categories, 23 – flats price categories, 2 – parcels price categories).

Comments. ANM asserts that the Postal Service has violated 39 U.S.C. § 403(c)'s prohibition against "any undue or unreasonable discrimination among users of the mails" by providing nonprofit mailers with smaller discounts than their commercial mail counterparts. ANM Comments at 5. It maintains that nearly 35 years of precedent, beginning with the Court of Appeals ruling in *National Easter Seal Society*, prohibit the Postal Service from proposing disparate discounts without a showing of good cause. *Id.* at 7. It discusses the development of Commission precedent regarding unequal nonprofit and commercial discounts in the wake of *National Easter Seal Society* to support its recommendation that the Commission reject the proposed Standard Mail prices and direct the Postal Service to equalize nonprofit and commercial discounts. *Id.* at 21.

Commission analysis. As ANM points out, the Commission has consistently required the Postal Service to either equalize nonprofit and commercial discounts or provide a rational justification as to why different levels of discounts are lawful.¹⁵ In Docket No. R2013-1, the Commission remanded Standard Mail prices to the Postal Service because of unequal nonprofit and commercial discounts. It required the Postal Service to either revise the unequal discounts or explain "why it views the different levels of discounts to Standard Mail consistent with the [Postal Accountability and Enhancement Act (PAEA)] and not contrary to *National Easter Seal Society*." Order No. 1541 at 51.

In this proceeding, the Commission provided the Postal Service with an opportunity to provide a justification for the High Density Letters and High Density Flats presort discounts in CHIR No. 11. As stated above, the Postal Service did not provide a justification. Rather, it stated that such unequal discounts were "inadvertent." Response to CHIR No. 11, questions 1 and 2. However, the Postal Service's admission that the disparity between the discounts was inadvertent fails to satisfy the rational

¹⁵ See Docket No. MC96-2, Opinion and Recommended Decision on Nonprofit Regular Standard Mail, Nonprofit Enhanced Carrier Route Standard Mail, Nonprofit Periodicals and Within County Periodicals, July 29, 1996, at 33. Docket No. R2011-5, Order Approving Market Dominant Price Adjustment, May 17, 2011, at 8 (Order No. 731); Docket No. R2013-1, Order on Price Adjustments for Market Dominant Products and Related Mail Classification Changes, November 16, 2012, at 49-51 (Order No. 1541).

justification test mandated by *National Easter Seal Society*. An inadvertent discount is not a rational justification. Additionally, this unequal treatment contravenes the well-established Commission precedent ANM identified. Finally, the unequal discounts appear to violate the settlement agreement between ANM and the Postal Service discussed in Docket No. ACR2012.¹⁶ The Commission directs the Postal Service to equalize these discounts.

The Postal Service neglected to even identify the unequal dropship discounts in its Notice or in response to CHIR questions requesting that it identify all unequal commercial and nonprofit discounts. See Response to CHIR No. 3, question 5b. The Postal Service also did not provide a justification for the disparity between these discounts. Therefore, these unequal discounts are not properly justified. The Commission directs the Postal Service to either revise the unequal dropship discounts or provide a rational justification as to why setting these discounts at different amounts comports with the PAEA and is not contrary to *National Easter Seal Society* for each such unequal discount. If the Postal Service elects not to revise the unequal discounts, the Commission will closely scrutinize the Postal Service's justification for consistency with title 39, *National Easter Seal Society*, and Commission precedent given the admission that other such unequal discounts were set inadvertently.¹⁷

C. Workshare Discounts

The Commission is required to ensure that workshare "discounts do not exceed the cost that the Postal Service avoids as a result of workshare activity" unless the discount falls within a specified exception. 39 U.S.C. § 3622(e).

Commission rules require the Postal Service to justify any proposed workshare discount that exceeds 100 percent of the avoidable costs by explaining how it meets one or more exceptions under the PAEA. The Postal Service also must identify and

¹⁶ Docket No. ACR2012, Annual Compliance Determination for Fiscal Year 2012, March 28, 2013, at 25.

¹⁷ Cf. *Kansas City v. HUD*, 923 F.2d 188, 192 (D.C.Cir.1991) ("Arbitrary and capricious review...demands evidence of decision making at the *agency level*; agency rationales developed for the first time during litigation do not serve as adequate substitutes.") (emphasis in original).

explain discounts that are set substantially below avoided costs, and explain any relationship between discounts that are above and those that are below avoided costs. 39 C.F.R. § 3010.14(b)(6).

The Postal Service proposes to increase the following five workshare discounts even though they exceeded avoided costs in FY 2014: (1) Automation AADC Letters; (2) Non-automation AADC Machinable Letters; (3) NDC Irregular Parcels Piece-Rated Piece; (4) NDC Irregular Parcels Pound-Rated Piece; and (5) NDC Marketing Parcels Pound-Rated Piece. The Postal Service asserts that each of these discounts is justified pursuant to 39 U.S.C. § 3622(e)(2)(B) because aligning the discounts with avoided costs would create rate shock for mailers. Each of the discounts is discussed below.

Automation AADC Letters. The Postal Service proposes to increase the Automation AADC Letters discount from \$0.020 to \$0.021, thereby increasing the passthrough from 112.5 percent to 131.3 percent.¹⁸ In Response to CHIR No. 2, question 3, the Postal Service maintains its “intent was to bring the passthrough closer to 100 percent than it was previously. However, were [it] to align the workshare discount with the avoided cost, it would be forced to increase prices by an additional 3.3 percent.”

Non-automation AADC Machinable Letters. The Postal Service proposes to increase the Non-automation AADC Machinable Letters discount from \$0.018 to \$0.020, thereby increasing the passthrough from 112.5 percent to 125.0 percent.¹⁹ It states that lowering the passthrough would require even larger price increases to keep the downstream entry points (ADC, 3-Digit, and 5-Digit) in line with the AADC price. Notice at 47; Response to CHIR No. 2, question 4. In Response to CHIR No. 13, question 2, the Postal Service notes that it “could propose a price decrease for Mixed Nonautomation AADC Machinable letters, and keep the passthrough for Nonautomation AADC Machinable letters at \$0.018, and still have the same acceptable levels of price

¹⁸ The passthroughs were calculated by dividing the discounts by the FY 2014 avoided costs for Automation AADC Letters (\$0.016). See Excel file “Revised_AttachmentB_CHIR12.xlsx.”

¹⁹ The passthroughs were calculated by dividing the discounts by the FY 2014 avoided costs for Non-automation AADC Machinable Letters (\$0.016). See Excel file “Revised_AttachmentB_CHIR12.xlsx.”

increases downstream. But [it] weighed the unfairness of giving one presort level a price decrease against giving other presort levels increasingly large price increases, and decided that the best solution was to increase the discount for Nonautomation AADC Machinable from \$0.018 to \$0.020.”

NDC Irregular Parcels and NDC Marketing Parcels. The Postal Service proposes to: (1) increase the NDC Irregular Parcels Piece-Rated Piece discount from \$0.334 to \$0.344, thereby increasing the passthrough from 144.0 percent to 148.3 percent; (2) increase the NDC Irregular Parcels Pound-Rated Piece discount from \$0.334 to \$0.367, thereby increasing the passthrough from 144.0 percent to 158.2 percent; and (3) increase the NDC Marketing Parcels Pound-Rated Piece discount from \$0.401 to \$0.442, thereby increasing the passthrough from 127.7 percent to 140.8 percent.²⁰

The Postal Service states that “in its efforts to align these discounts with avoided costs, [it] has already increased prices by approximately 10 percent.” The Postal Service asserts that “[it] believes that any additional increases on the affected price cells would result in rate shock for mailers.” See Response to CHIR No. 2, question 8; see also Response to CHIR No. 12, question 1d. In Response to CHIR No. 13, question 1, the Postal Service confirms that it could keep the discounts at their Docket No. R2013-10 amounts and still comply with the price cap for Standard Mail (see 39 U.S.C. § 3622(d)(1)(A)). However, the Postal Service explains that it “is concerned because accomplishing this would push the increase for some price cells to over 10 percent.” *Id.*

Comments. The Public Representative states that the Commission should not approve prices where passthroughs deviate significantly from 100 percent, unless adequately justified. PR Comments at 3. He also emphasizes that “[a]dequately justified” means more than a mere recitation to the statutory exceptions, and a statement that passthroughs will be adjusted in some future filing.” *Id.*

Commission analysis. After careful review of the Postal Service’s explanations, the Commission is not persuaded by several of the Postal Service’s justifications.

²⁰ The passthroughs were calculated by dividing the discounts by the FY 2014 avoided costs for NDC Irregular Parcels (\$0.232) or NDC Marketing Parcels (\$0.314). See Excel file “Revised_AttachmentB_CHIR12.xlsx.”

Below the Commission discusses each discount and suggests an approach for the Postal Service to address the Commission's concerns with each discount in its amended notice of rate adjustment.²¹

The Postal Service asserts that increasing prices to fully align the Automation AADC Letters discount will result in rate shock pursuant to 39 U.S.C. § 3622(e)(2)(B). However, it is possible for the Postal Service to retain the discount at the Docket No. R2013-10 amount without causing significant price increases for Automation Letters. As Table II-1 illustrates, reducing the discount from \$0.021 to \$0.020 by reducing the Automation Mixed AADC Letters price by \$0.001 produces a smaller price increase than proposed by the Postal Service in the Notice. Only the commercial and nonprofit Automation Mixed AADC Letters would be affected by this approach. Therefore, the Commission finds that the Postal Service's rationale for using the rate shock exception to explain why the Automation AADC Letters discount further exceeds avoided costs is unsupported by the record in this proceeding.

Table II-1
Automation Mixed AADC Letters Price Analysis

	<u>R2013-10</u>	<u>R2015-4 Proposed</u>	<u>Percent Change (R2015-4 Proposed versus R2013-10)</u>	<u>R2015-4 Alternative¹</u>	<u>Percent Change (R2015-4 Alternative versus R2013-10)</u>
Automation Mixed AADC Letters (commercial)	\$0.288	\$0.295	2.431%	\$0.294	2.083%
Automation Mixed AADC Letters (nonprofit)	\$0.174	\$0.178	2.299%	\$0.177	1.724%

¹ Reduced the proposed Docket No. R2015-4 Automation Mixed AADC Letters price by \$0.001 (\$0.021 - \$0.020).

Regarding the Non-automation AADC Machinable Letters discount, the Postal Service asserts that it would need to offer a price decrease for Non-automation Mixed AADC Machinable Letters in order to retain the Non-automation AADC Machinable Letters discount at \$0.018. See Response to CHIR No. 13, question 2. As Table II-2

²¹ The Commission notes that it is possible the Postal Service would need to develop a slightly different set of prices for Standard Mail Letters to address both the concerns with unequal commercial and nonprofit dropship discounts and with the workshare discounts that have been increased without proper justification.

illustrates, reducing the discount from \$0.020 to \$0.018 by lowering the Non-automation Mixed AADC Machinable Letters price by \$0.002 produces a smaller price increase than proposed by the Postal Service in the Notice.

As the Postal Service acknowledges in its Response to CHIR No. 13, question 2, no other price cells are affected by reducing the proposed Non-automation Mixed AADC Machinable Letters price by \$0.002. Contrary to the Postal Service's assertion that reducing the discount would require it to decrease prices for Non-automation Mixed AADC Machinable Letters, Table II-2 demonstrates that reducing the proposed Non-automation Mixed AADC Machinable Letters price by \$0.002 results in a price increase for Non-automation Mixed AADC Machinable Letters, albeit less than the one the Postal Service originally proposed. The Commission observes that the Postal Service has other alternatives and is not compelled to increase the discount for Non-automation AADC Machinable Letters from \$0.018 to \$0.020. As such, it finds the Postal Service's rationale for using the rate shock exception for this discount is unsupported by the record in this proceeding.

Table II-2
Non-automation Mixed AADC Machinable Letters Price Analysis

	<u>R2013-10</u>	<u>R2015-4 Proposed</u>	<u>Percent Change (R2015-4 Proposed versus R2013-10)</u>	<u>R2015-4 Alternative¹</u>	<u>Percent Change (R2015-4 Alternative versus R2013-10)</u>
Nonautomation Mixed AADC Machinable Letters (commercial)	\$0.299	\$0.309	3.344%	\$0.307	2.676%
Nonautomation Mixed AADC Machinable Letters (nonprofit)	\$0.185	\$0.192	3.784%	\$0.190	2.703%

¹ Reduced the proposed Docket No. R2015-4 Non-automation Mixed AADC Machinable Letters price by \$0.002 (\$0.020 - \$0.018).

Finally, for the NDC Irregular Parcels Piece-Rated Piece, NDC Irregular Parcels Pound-Rated Piece, and NDC Marketing Parcels Pound-Rated Piece discounts, the Postal Service explains that it has already increased prices for parcels by 10 percent across the board and that it would require additional price increases to align these discounts with their avoided costs. See Response to CHIR No. 2, question 8; see *also* Response to CHIR No. 12, question 1d. As Table II-3 illustrates, reducing the proposed

discounts will not require the Postal Service to raise prices by more than 10 percent. The Postal Service could instead reduce the proposed price for the benchmark (Mixed NDC) for each category by the difference between the discount proposed in this proceeding and the Docket No. R2013-10 discount. Consequently, the Commission finds that the Postal Service's rationale for using the rate shock exception to explain why these discounts exceed avoided costs is unsupported by the record in this proceeding.

Table II-3
NDC Irregular Parcels and NDC Marketing Parcels Price Analysis

	<u>R2013-10</u>	<u>R2015-4 Proposed</u>	<u>Percent Change (R2015-4 Proposed versus R2013-10)</u>	<u>R2015-4 Alternative¹</u>	<u>Percent Change (R2015-4 Alternative versus R2013-10)</u>
Mixed NDC Irregular Piece-Rated Piece (only Nonprofit exists)	\$1.500	\$1.639	9.27%	\$1.629	8.60%
Mixed NDC Irregular Pound-Rated Piece (only Nonprofit exists)	\$1.303	\$1.433	9.98%	\$1.400	7.44%
Mixed NDC Marketing Pound-Rated Piece (Commercial)	\$1.275	\$1.403	10.04%	\$1.362	6.82%
Mixed NDC Marketing Pound-Rated Piece (Nonprofit)	\$1.216	\$1.338	10.03%	\$1.297	6.66%

¹ Reduced the proposed Docket No. R2015-4 Mixed NDC Irregular Parcels Piece-Rated Piece Price by \$0.010 (\$0.344 - \$0.334); Reduced the proposed Docket No. R2015-4 Mixed NDC Irregular Parcels Pound-Rated Piece Price by \$0.033 (\$0.367 - \$0.334); and Reduced the proposed Docket No. R2015-4 Mixed NDC Marketing Parcels Pound-Rated Piece Price by \$0.041 (\$0.442 - \$0.401).

D. Billing Determinant Adjustments

In the Notice, the Postal Service states that it has made three adjustments to the Standard Mail billing determinants to account for the introduction of new price cells. Notice at 25-26. One of the Postal Service's adjustments is designed to account for the alignment of the planned FSS prices with existing FSS mail preparation requirements for Standard Mail. As detailed in the Postal Service's January 30 Response to CHIR No. 1, question 3, the Postal Service uses FY 2014 Quarter 3 data to develop the distribution of Standard Mail volumes that would have been mailed at FSS prices for FY 2014 Quarters 1, 2, 3, and 4 if such prices had been in effect during those quarters.

As detailed in section III, the Postal Service uses FY 2014 Quarter 3 and Quarter 4 data to calculate the Periodicals volume that would have been mailed at FSS prices in FY 2014 Quarters 1 and 2 if such prices had been in effect during those quarters.

Further, the Postal Service uses FY 2014 Quarter 4 data to determine the Periodicals volume that would have been mailed at FSS prices in FY 2014 Quarter 4 if such prices had been in effect during that quarter. Thus, for consistency with the Periodicals billing determinant adjustments for the new FSS prices, and in accordance with 39 C.F.R. § 3010.23(d)(2) and 39 C.F.R. § 3010.23(d)(3), the Postal Service is required to revise the Standard Mail billing determinants. Such revision must use FY 2014 Quarter 3 and Quarter 4 data to calculate the number of Standard Mail pieces in FY 2014 Quarters 1, 2, 3, and 4 that would have been mailed at FSS prices had those prices been in effect.

E. Observations and Suggestions for Improvement of Rates

The Commission encourages the Postal Service, as it makes the mandatory Standard Mail price adjustments described above, to take the opportunity to make price adjustments to address:

- Unequal presort discounts for piece-rated pieces and pound-rated pieces, and
- Unequal dropship discounts for the same destination entry point.

Unequal presort discounts. Several CHIR questions requested explanations for why the Postal Service proposed unequal presort discounts for the same level of presortation for 15 pairs of discounts, 12 Standard Mail Flats discounts and 3 Standard Mail Parcels discounts, where the piece-rated piece presort discount did not equal the pound-rated piece discount. See CHIR No. 8, question 4; CHIR No. 12, question 1. In its response, the Postal Service states that 6 of the 12 Standard Mail Flats presort pairs were related to the new FSS prices that were developed from blended prices, and that setting the remaining 6 pairs of discounts unequally was inadvertent. February 13 Response to CHIR No. 8, question 4. Additionally, for the 3 pairs of Standard Mail Parcels presort discounts, the Postal Service states that parcel prices were increased by 10 percent across the board in each rate cell, which resulted in some differences between the piece-rated and pound-rated discounts. Response to CHIR No. 12, question 1. From the responses, it appears that the Postal Service could have proposed equal presort discounts for the 6 non-FSS Standard Mail Flats price categories and the 3 Parcels price categories. While the Postal Service states that it

will equalize the Standard Mail Flats discounts in its next market dominant price adjustment,²² the Commission suggests that in its amended notice of rate adjustment, the Postal Service propose a new set of Standard Mail Flats and Standard Mail Parcels prices equalizing these discounts given that it is inefficient to award unequal presort discounts for the same level of presortation.

Unequal dropship discounts. In addition to the commercial discounts not being aligned with the nonprofit discounts for numerous price categories, the Commission's review of the proposed prices shows that the per piece dropship discounts for many price categories within the commercial or nonprofit categories are not equal. For example, as Table II-4 shows, the DNDC entry discount is \$0.035 for commercial Automation 5-Digit Letters and commercial Automation MAADC Letters, while the DNDC entry discount is \$0.032 for commercial Automation 3-Digit Letters and commercial Automation AADC Letters. See Library Reference PRC-LR-R2015-4/3.

Table II-4
Commercial Standard Mail Automation Letters Per Piece Dropship Discounts

	5-Digit	3-Digit	AADC	Mixed AADC
Origin				
DNDC	\$0.035	\$0.032	\$0.032	\$0.035
DSCF	\$0.044	\$0.044	\$0.044	n/a

Source: Library Reference PRC-LR-R2015-4/3.

The Postal Service provides no explanation for proposing different dropship discounts for the same level of destination entry. The Commission suggests that in its amended notice of price adjustment, the Postal Service propose new prices that equalize all of these discounts. This would send more efficient price signals to mailers, thereby awarding the same dropship discount for the same level of destination entry.

²² See February 13 Response to CHIR No. 8, question 4.

III. PERIODICALS

A. Introduction

In its Notice, the Postal Service proposes an average price increase of 1.965 percent for the Periodicals class. Notice at 5. For the reasons set forth below, the Commission is unable to make the finding required under 39 U.S.C. § 3622 and 39 C.F.R. § 3010.11 that the proposed Periodicals price adjustment is consistent with applicable law.

The Postal Service has incorrectly adjusted several billing determinants relating to its new FSS prices for Periodicals bundles, sacks, and pallets. Several CHIRs were issued requesting both corrected billing determinants and the data required to make adjustments to the billing determinants.²³ However, the Postal Service has not provided the Commission with sufficient data to calculate the average price increase for the Periodicals class. As a result, the Commission is unable to make the finding required under 39 U.S.C. § 3622 and 39 C.F.R. § 3010.11 that the proposed Periodicals price adjustment is consistent with applicable law. In accordance with 39 C.F.R. § 3010.11(f), the Commission directs the Postal Service to file an amended notice of rate adjustment with respect to the Periodicals class and provide the Commission sufficient information to redress the deficiencies described below.

B. Creation of FSS Pricing for Periodicals

The calculation of the price of a Periodicals mailing is a function of five elements: pieces, pounds, bundles, sacks, and pallets.

²³ See January 30 Response to CHIR No. 1, questions 1 and 3; February 5 Response to CHIR No. 6, question 17; February 11 Response to CHIR No. 6, questions 18 and 19; Response to CHIR No. 10, questions 2 and 3; Response to CHIR No. 11, question 4; Response to CHIR No. 13, question 3; February 25 Response to CHIR No. 14, question 1; Response to CHIR No. 16, questions 1-5.

In accordance with the Docket No. R2013-10 price adjustment, on January 26, 2014, the Postal Service implemented FSS pricing options for four of those elements: pounds, bundles, sacks, and pallets.²⁴

Although no FSS piece prices were in effect for Periodicals in FY 2014, the Postal Service required Periodicals mailers to meet FSS-specific mail preparation requirements for FSS Presorted pieces destined for ZIP Codes where Periodicals Flats are processed via FSS machines.²⁵ However, because FSS piece prices did not exist in FY 2014, the prices for these pieces were based on the presortation level of the pieces without consideration of the fact that such pieces met FSS-specific mail preparation requirements.²⁶ For example, in FY 2014, over 73 percent of FSS Presorted pieces were charged Carrier Route piece prices. As a result, the presortation level of a Periodicals mailing destined to FSS zones is currently disconnected from the price of that mailing.

C. Planned Changes to Periodicals FSS Pricing

In this proceeding, the Postal Service plans new FSS piece prices designed to realign the presortation level of a mailing destined to FSS zones with an applicable FSS piece price. Notice, Attachment A, Part I at 62, 65-66. For example, in FY 2014, a pallet of FSS Presorted mail destined to a FSS zone could be entered at FSS pallet prices, with FSS priced bundles and Carrier Route priced pieces. After this proceeding's planned prices are implemented, such a mailing will be required to pay FSS pallet prices, FSS bundle prices, and the new FSS piece prices. Additionally, the Postal Service plans to add new FSS sack prices and new pallet prices for non-FSS

²⁴ Throughout this section, the Commission focuses on the issues associated with the FSS prices for bundles, sacks, and pallets. Because the FSS prices for pounds are the same as the non-FSS prices, the billing determinants associated with pounds did not need to be changed in this proceeding. For both the Docket No. R2013-10 and Docket No. R2015-4 prices, the destination sectional center facility (DSCF) pound price and the destination flats sequencing system (DFSS) pound price are the same for advertising, editorial, and Science of Agriculture content.

²⁵ This mail is referred to as "destined to" FSS zones. See January 30 Response to CHIR No. 1, question 1.

²⁶ After the Docket No. R2013-1 price adjustment, Periodicals mailers had the option to enter FSS mail at Carrier Route or 5-Digit prices. After the Docket No. R2013-10 price adjustment, Periodicals mail destined to FSS zones was required to be FSS Presorted. See *id.*

mail. Notice, Attachment A, Part I at 64, 67-68. See *also* January 30 Response to CHIR No. 1, question 2.

D. Billing Determinant Adjustments

In accordance with 39 C.F.R. § 3010.23(d)(2), the Postal Service is required to adjust the billing determinant data used to calculate the percentage of its planned price increase for the introduction, deletion, or redefinition of rate cells. In its Notice, the Postal Service states that it has made four adjustments to the Periodicals billing determinants to account for the introduction of the new price cells. Notice at 28-29. In making the adjustments, the Postal Service assigns the volumes that would have been mailed under the new prices as if the new prices had been in effect throughout FY 2014. *Id.* at 29.

One of the Postal Service's adjustments is designed to account for the alignment of the planned FSS piece prices with existing FSS mail preparation requirements for Periodicals destined to FSS zones. Because no Periodicals were mailed at FSS piece prices in FY 2014, the Postal Service cannot use historical billing determinant data to assign values for historical FSS piece volume. Using FY 2014 Quarters 3 and 4 Mail Characteristic Study data, the Postal Service calculates the piece volume destined to FSS zones and the prices actually charged for those pieces.²⁷ The Postal Service determines that 16.15 percent of Periodicals pieces would have been required to be entered at FSS piece prices in FY 2014 Quarters 3 and 4 if such prices had been in effect.²⁸ Of the 16.15 percent of pieces mailed to FSS zones, 72.74 percent were mailed at Carrier Route prices; thus, 11.75 percent of all Periodicals were mailed to FSS

²⁷ The Postal Service provided FY 2014 Quarter 3 data in the January 30 Response to CHIR No. 1, question 3. It provided additional data in the February 11 Response to CHIR No. 6, question 18. It updated its analysis to include FY 2014 Quarter 4 data in the February 11 Response to CHIR No. 6, question 19.

²⁸ February 25 Response to CHIR No. 14, question 1 and Excel file "Resp CHIR 14 que1 spreadsheet.xls," tab "FSS Piece Data q4," cell N18. See *also* February 11 Response to CHIR No. 6, question 18.

zones at Carrier Route prices.²⁹ The Postal Service uses this information to determine FSS piece volume and the historical prices charged for those pieces.

The Postal Service's next two adjustments concern the new pallet prices for non-FSS Periodicals. One of the adjustments accounts for pallets that would have been eligible for the new Carrier Route pallet presortation option in the instant docket. Using FY 2014 Quarter 3 Mail Characteristic Study data, the Postal Service calculates the volume of pallets that would have been eligible for the new pallet prices had they been in effect in FY 2014.³⁰ The other adjustment accounts for bundles that would have been entered on Carrier Route pallets had that pricing option been available. Using FY 2014 Quarter 3 Mail Characteristic Study data, the Postal Service calculates the volume of bundles that would have been eligible for different bundle prices had the Carrier Route pallet option been in effect in FY 2014.³¹

The Postal Service's fourth billing determinant adjustment relates to the fact that mailers were required to pay FSS-specific prices for bundles, sacks, and pallets in FY 2014 Quarters 3 and 4, but not in Quarters 1 and 2.³² The Postal Service assigns values for FY 2014 Quarters 1 and 2 bundle, sack, and pallet volumes based on the distribution of the FY 2014 Quarters 3 and 4 volumes. This adjustment assigns annual FY 2014 volumes for FSS bundle, sack, and pallet prices as if those FSS prices had been in effect for all of FY 2014, rather than only the last two quarters.

The Postal Service's fourth billing determinant adjustment also accounts for plans to offer mailers a DFSS sack price for both FSS Facility and FSS Scheme sacks. In FY 2014 Quarters 3 and 4, mailers could enter DSCF FSS Facility and DSCF FSS

²⁹ February 25 Response to CHIR No. 14, question 1 and Excel file "Resp CHIR 14 que1 spreadsheet.xls," tab "FSS Piece Data q4," cell N19.

³⁰ See February 11 Response to CHIR No. 6, question 19. See also February 13 Response to CHIR No. 8, question 6, part f, in which the Postal Service explains why FY 2014 Quarter 4 data was not used. The Postal Service states that "[t]he Quarter 4 Mail Characteristics Study data for distinguishing between Carrier Route and 5-Digit pallets is time consuming to prepare, and is not currently available." *Id.*

³¹ This data was provided by the Postal Service in the January 30 Response to CHIR No. 1, question 3.

³² These prices actually went into effect during FY 2014 Quarter 2. The Postal Service explains that it uses Quarter 3 and Quarter 4 volumes because Quarter 3 was the first full quarter of data available after the implementation of the FSS prices. January 30 Response to CHIR No. 1, question 3.

Scheme sacks. The new DFSS sack prices offer a greater discount than the DSCF FSS Facility and DSCF FSS Scheme sacks prices. In making the fourth billing determinant adjustment, the Postal Service assumes that 20 percent of the historical DSCF FSS Facility and Scheme sacks would have been entered at the DFSS had the option been available. In explaining the basis of its assumption, the Postal Service states that it “has no data showing how these sacks would be entered, but believes there would be strong bias towards DSCF entry. Thus, 80 percent DSCF and 20 percent DFSS are applied to the sack volumes.” Response to CHIR No. 10, question 2.³³

Related to the fourth billing determinant adjustment, the Commission’s regulations require additional adjustments to the billing determinants to account for the bundles, sacks, and pallets that did not pay FSS prices in FY 2014 Quarters 1 and 2 but will be required to pay FSS prices as a result of this proceeding. The Postal Service’s fourth adjustment estimated volumes for the FY 2014 Quarters 1 and 2 bundles, sacks, and pallets that will be required to pay FSS prices as a result of this proceeding. However, the Postal Service did not identify the prices actually paid for the bundles, sacks, and pallets that will be required to pay FSS prices after this proceeding. See February 11 Response to CHIR No. 6, question 18; February 25 Response to CHIR No. 14, question 1; Response to CHIR No. 16, question 3.

For example, in FY 2014, a mailing destined to a FSS zone composed of Carrier Route pieces in Carrier Route bundles on 5-Digit pallets was charged Carrier Route piece prices, Carrier Route bundle prices, and 5-Digit pallet prices. After the planned prices of the instant docket are implemented, such a mailing will be required to pay FSS piece, FSS bundle, and FSS pallet prices. Although the Postal Service attempted to measure the volumes in its fourth adjustment, it did not calculate the difference between

³³ CHIR No. 16, question 4 requested more information concerning the Postal Service’s 20 percent assumption. The Response to CHIR No. 16, question 4 did not provide any additional historical data in support of the 20 percent assumption.

the prices these bundles, sacks, and pallets actually paid and the prices they will pay under the planned new prices.³⁴

E. Commission Analysis

Introduction. In order to comply with the requirements of 39 U.S.C. § 3622(d)(1)(A), the Postal Service must adjust its billing determinants to account for the introduction, deletion, or redefinition of rate cells. 39 C.F.R. § 3010.23(d)(2). The adjustments “shall be based on known mail characteristics or historical volume data.” 39 C.F.R. § 3010.23(d)(3). The adjustments to the billing determinants concerning FSS pricing for Periodicals bundles, sacks, and pallets have been calculated incorrectly, and the Postal Service has failed to provide the information required for the Commission to independently adjust those billing determinants.³⁵ As a result, the Commission is unable to calculate the amount of the planned Periodicals rate adjustment and make the finding required under 39 U.S.C. § 3622 and 39 C.F.R. § 3010.11 that the proposed Periodicals price adjustment is consistent with applicable law.

Billing determinant adjustments. The Postal Service’s first 3 billing determinant adjustments, which relate to the new FSS piece prices and the new non-FSS pallet prices comply with the requirements of 39 C.F.R. § 3010.23(d)(3). The Commission finds the Postal Service’s billing determinant adjustment annualizing the FY 2014 Quarter 3 and Quarter 4 FSS bundle, sack, and pallet volumes is problematic for two reasons. First, the annualized volume does not accurately reflect the volumes of FSS bundles, sacks and pallets mailed during the first two quarters of FY 2014.³⁶ Second, once the Postal Service has developed a method to accurately measure FY 2014 Quarter 1 and Quarter 2 FSS bundle, sack, and pallet volumes, the Postal Service

³⁴ See February 25 Response to CHIR No. 14, question 1 and Excel file “Resp CHIR 14 que1 spreadsheet.xls.”

³⁵ This information was requested by CHIR No. 14, question 1.

³⁶ Changing the presentation of a bundle, sack, or pallet changes the content, such as the number of pieces or weight of the bundle, sack, or pallet due to differing mail preparation requirements. As an example, as detailed in Response to CHIR No. 16, question 2, FSS bundles in FY 2014 contained an average of 29.1 pieces per bundle. Carrier Route bundles contained an average of 14.7 pieces per bundle. Thus, it is inaccurate to assume a 1:1 ratio of Carrier Route bundles to FSS bundles.

needs to determine the prices that those bundles, sacks, and pallets actually paid in FY 2014 Quarter 1 and Quarter 2. The Postal Service does not provide a full mapping between the current non-FSS prices and the planned FSS prices. For example, a DSCF FSS Facility sack entered in Quarter 3 of FY 2014 could have been mailed as a 3-Digit sack or a 5-Digit sack in quarter 1 of FY 2014. The Postal Service has been unable to provide the information reflecting the prices actually charged for FSS bundles, sacks, and pallets in Quarter 1 and Quarter 2 of FY 2014. See February 25 Response to CHIR No. 14, question 1. Without this information, the Commission cannot make the finding required under 39 U.S.C. § 3622 and 39 C.F.R. § 3010.11.

In addition, no adjustment to the billing determinants has been made for pieces, bundles, sacks, and pallets that did not pay FSS prices in FY 2014, but will pay FSS prices as a result of this proceeding. As detailed in the Response to CHIR No. 16, question 1, the Postal Service can only identify FSS Presorted pieces in FSS bundles in FY 2014 Quarters 3 and 4.

The Commission also finds the Postal Service's assumption that 20 percent of DSCF sacks in FSS zones will shift to DFSS sacks inappropriate given the lack of information available. See 39 C.F.R. § 3010.23(d). Commission regulations require the Postal Service, where possible, to base such adjustments on known mail characteristics or historical volume data, as opposed to forecasts of mailer behavior. 39 C.F.R. § 3010.23(d)(3). Where historical information is not available, the Postal Service is required to assume that no volume would have been mailed at the new prices in accordance with 39 C.F.R. § 3010.23(d)(4), or include a rationale explaining why it has not assumed zero volume. 39 C.F.R. § 3010.23(d)(2), (4). The Postal Service has failed to do either in this proceeding.

Amended notice of rate adjustment. In accordance with 39 C.F.R. § 3010.11(f), the Commission orders the Postal Service to file an amended notice of rate adjustment for the Periodicals class. In order to show that all of the deficiencies identified by the Commission have been corrected, the Postal Service must provide the following information in conjunction with the amended notice of rate adjustment:

- (1) The Postal Service is required to identify the number of bundles in FY 2014 Quarters 1 and 2 that would have been mailed at FSS prices,

had those prices been available. The Postal Service also must identify the non-FSS price those bundles were actually charged.

- (2) The Postal Service is required to identify the number of sacks in FY 2014 Quarters 1 and 2 that would have been mailed at FSS prices, had those prices been available. The Postal Service also must identify the non-FSS price those sacks were actually charged.
- (3) The Postal Service is required to identify the number of pallets in FY 2014 Quarters 1 and 2 that would have been mailed at FSS prices, had those prices been available. The Postal Service also must identify the non-FSS price those pallets were actually charged.³⁷

In Response to CHIR No. 13, question 3, the Postal Service stated that it has not utilized its full cap authority for the Periodicals class as a result of “the unintended consequence of estimating incorrectly the price increase resulting from the rates noticed in the original filing.” It also stated that “if the Commission were to remand any rates. . . , the Postal Service could amend the [planned Periodicals] rates at that time.” Should the Postal Service choose not to use this opportunity to amend the Periodicals prices, it must provide a rationale as required by 39 C.F.R. § 3010.12(b)(4) in its amended notice of rate adjustment.³⁸

Conclusion. The calculation of the amount of price cap used must be accurate to comply with 39 U.S.C. § 3622(d). To this end, the Commission finds that the Postal Service has not provided sufficient information for the Commission to determine whether the planned Periodicals price adjustment complies with applicable law. The proposed Periodicals prices are remanded to the Postal Service so it can provide the information necessary for the Commission to make this determination.

³⁷ The Postal Service states that “[i]t is infeasible to map the transition of mail from one container type to another under different preparation requirements.” Response to CHIR No. 16, question 3. The Commission provides Library Reference PRC-LR-R2015-4/4 which illustrates possible frameworks for approaching the mapping problem in a manner consistent with 39 C.F.R. § 3010.23(d).

³⁸ *Cf.* section II, *supra* (finding that inadvertence does not satisfy the rational justification test of *National Easter Seal Society*).

IV. PACKAGE SERVICES

A. Introduction

In its Notice, the Postal Service proposes an average price increase of 1.964 percent for Package Services products. Notice at 5. For the reasons set forth below, the Commission is unable to make the finding required under 39 U.S.C. § 3622 and 39 C.F.R. § 3010.11 that the proposed Package Services price adjustment is consistent with applicable law. In accordance with 39 C.F.R. § 3010.11(f), the Commission directs the Postal Service to file an amended notice of rate adjustment with respect to the Package Services class and provide the Commission sufficient information to redress the deficiencies described below.

B. Creation of FSS Pricing for Bound Printed Matter (BPM) Flats

As a result of Docket No. R2013-10, the Postal Service implemented FSS preparation requirements and FSS pricing for BPM Flats on January 26, 2014. New FSS pricing was introduced for BPM Flats mailed to locations in FSS zones for “presort and carrier route presort at originating entry, destination network delivery center entry, DSCF entry, and DFSS entry.”³⁹ Despite creating new FSS pricing for BPM Flats, the Postal Service maintained the same prices for “FSS pieces as non-FSS prices at each presort and destination entry level.” *Id.*

C. Proposed Changes to FSS Pricing for BPM Flats

In this proceeding, the Postal Service proposes to delete several BPM Flats price cells, which would create a new FSS price structure for BPM Flats. The Postal Service also proposes corresponding MCS changes reflecting the proposal. Specifically, the Postal Service seeks to eliminate FSS pricing for Carrier Route BPM Flats and FSS destination delivery unit (DDU) pricing for Presorted BPM Flats. Notice, Attachment A, Part I at 70-73. Under this proposal, Carrier Route FSS BPM Flats would pay Presorted

³⁹ Docket No. R2013-10, Order on Price Adjustments for Market Dominant Products and Related Mail Classification Changes, November 21, 2013, at 73 (Order No. 1890).

FSS BPM Flats prices and Presorted FSS DDU BPM Flats would pay Presorted FSS DFSS BPM Flats prices.

The Postal Service also seeks to apply DFSS prices to FSS Scheme Bundles entered on scheme containers at the DFSS. *Id.* at 73, n.2. For FSS Scheme Bundles entered on non-scheme containers at the DFSS, the Postal Service proposes applying DSCF prices. *Id.* Currently, FSS Scheme Bundles entered on non-scheme containers at the DFSS pay DFSS prices. The Postal Service explains that the FSS pricing is set to encourage mailers to create FSS scheme bundles entered on scheme containers within FSS zones. Notice at 30.

D. Postal Service March 3, 2015 Revision to Billing Determinants

The Postal Service filed its initial Package Services workpapers on January 15, 2015.⁴⁰ The workpapers show 61.587 million BPM Flats mailed at FSS prices.⁴¹ On March 3, 2015, the Postal Service revised the Package Services workpapers, which now show a total of 10.709 million FSS BPM Flats destined for FSS zones during FY 2014.⁴²

As explained by the Postal Service in its March 3 Response to CHIR No. 14, question 4, the FSS volume in Excel file “ChIR14 Qu5 Response.xlsx” is “based on an annualized distribution of 10.709 million BPM Flats mailed at FSS prices in FY 2014. FSS volumes from January 27, 2014 to the end of FY 2014 were inflated based on delivery days before and after January 27 to adjust the volumes prior to the price change.” On March 3, 2015, in Docket No. ACR2014, the Postal Service filed revised FY 2014 Package Services billing determinants.⁴³ The BPM Flats volume is shown as

⁴⁰ Library Reference USPS-LR-R2015-4/4, January 15, 2015; Excel file “R2015-4 Package Services Cap Calculations (2).xlsx.”

⁴¹ Library Reference USPS-LR-R2015-4/4; Excel file “R2015-4 Package Services Cap Calculations (2).xlsx,” tab “BDs for BPM Presort Flats,” cell R32.

⁴² March 3 Response to CHIR No. 14; Excel file “ChIR 14 Qu5 Response.xlsx,” tab “BDs for BPM Presort Flats,” cells R32 and X32.

⁴³ See Docket No. ACR2014, Notice of the United States Postal Service of Revisions to USPS-FY14-4 – Errata, March 3, 2015.

7.316 million.⁴⁴ The Postal Service did not provide the calculations it used to adjust the FY 2014 Package Services billing determinants as used in the Package Services price cap calculation Excel file “ChIR14 Qu5 Response.xlsx.”

E. Commission Analysis

Introduction. In order to comply with the requirements of 39 U.S.C. § 3622(d)(1)(A), the Postal Service must adjust its billing determinants to account for the deletion of rate cells. 39 C.F.R. § 3010.23(d)(2). The adjustments “shall be based on known mail characteristics or historical volume data.” 39 C.F.R. § 3010.23(d)(3). In responding to CHIRs and providing revised price cap calculations, the Postal Service failed to explain its revisions to the BPM Flats FSS volume and other adjustments to the billing determinants as required by 39 C.F.R. § 3010.23(d) and did not accurately calculate the price cap. As a result, the Commission is unable to make the finding required under 39 U.S.C. § 3622 and 39 C.F.R. § 3010.11 that the proposed Package Services price adjustment is consistent with applicable law. In accordance with 39 C.F.R. § 3010.11(f), the Commission directs the Postal Service to file an amended notice of rate adjustment with respect to the Package Services class and provide the Commission sufficient information to redress the deficiencies described below.

Uncertainty of BPM Flats FSS volume. As described above, the March 3, 2015 revisions that the Postal Service made to the BPM Flats volumes in the price cap calculation workpapers are a significant change from previous reported volumes. In the Postal Service’s initial workpapers, it stated that 26.8 percent of BPM Flats were destined for FSS zones. In the Postal Service’s revised workpapers, it states that 4.3 percent of BPM Flats were destined for FSS zones. The Postal Service does not provide the source data and a full explanation for why FY 2014 FSS volume decreased by over 50 million pieces from its initial filing to its revised filing. In its March 3 Response to CHIR No. 14, question 3, the Postal Service states that the “original number included Basic Presort DSCF dropship volume that was mislabeled in the

⁴⁴ Docket No. ACR2014, Library Reference FY 2014 Domestic Market Dominant Billing Determinants (Errata), March 3, 2015; Excel file “BPM BDs FY 2014-REV 3-03-15_.xlsx,” tab “Presort Flats DB,” cell R26.

Special Weight Report source data as FSS presort DSCF dropship.” However, the Postal Service did not include source data needed for the Commission to evaluate the accuracy of the revised information as part of its response.

The lack of clarity regarding BPM Flats FSS volume is problematic for two reasons. First, the revised FSS volume of 10.7 million is significantly below the estimate produced by the Commission’s accepted methodology of 84.6 million BPM Flats processed on the FSS in FY 2014. The accepted methodology for determining the volume of flats for a given class that were processed on the FSS is to apply the percentage of FSS cost for that class to the total volume processed on the FSS.⁴⁵ In Docket No. ACR2014, the Postal Service provides the calculation of mail processing costs by class, shape, and operation.⁴⁶ The total FSS cost for BPM Flats in FY 2014 was \$4.826 million.⁴⁷ BPM Flats incurred 2.3 percent of all FSS costs. In FY 2014, 3.7 billion flats were processed on the FSS across the First-Class Mail, Standard Mail, Periodicals, and Package Services classes.⁴⁸ Thus, using the accepted methodology, an estimated 84.6 million BPM Flats were processed on the FSS in FY 2014.⁴⁹

Second, the March 3, 2015 revised workpapers show a percentage of BPM Flats in FSS zones that is significantly lower than the percentage of Standard Mail and Periodicals flats in FSS zones. As detailed in the Postal Service’s workpapers, 19.99 percent of Standard Mail Flats and Carrier Route Flats⁵⁰ and 16.15 percent of

⁴⁵ See Docket No. ACR2014, Library Reference USPS-FY14-11, December 29, 2014; Excel file “USPS-FY14-11 PER_OC_flats.xls,” tab “FSS Parameters,” cell D8; see also Docket No. RM2012-8, Order No. 1656, Order on Analytical Principles Used in Periodic Reporting (Proposal Nine), February 14, 2013.

⁴⁶ See Docket No. ACR2014, Library Reference USPS-FY14-7, December 29, 2014, Excel file “USPS-FY14-7 part3.xls”.

⁴⁷ See Docket No. ACR2014, Library Reference USPS-FY14-7, December 29, 2014, Excel file “USPS-FY14-7 part3.xls,” tab “MODS 1&2 Costs by shape,” cell E38 and tab “NDCs Costs by shape,” cell B34.

⁴⁸ See Docket No. ACR2014, Library Reference USPS-FY14-11, December 29, 2014; Excel file “USPS-FY14-11 PER_OC_flats.xls,” tab “FSS Parameters,” cell D8.

⁴⁹ 3.740 billion FSS flats x 2.262 percent of FSS costs allocated to BPM Flats = 84.6 million BPM Flats processed on the FSS.

⁵⁰ See Library Reference USPS-R2015-4/6 – Public Material Provided in Response to Chairman’s Information Request No. 1, Question 3; Excel file “CAPCAL-STD-R2015-4-CHIR1Q3b.xls.”

Periodicals Outside County Flats⁵¹ would have paid FSS prices in FY 2014 had such prices been in effect. Thus, the Postal Service's estimate of 4.3 percent of BPM Flats that would have paid FSS prices in FY 2014, had such prices been in effect, is significantly lower than one would expect.

Unexplained billing determinants adjustments. On March 3, 2015, the Postal Service filed updated BPM Flats billing determinants in Docket No. ACR2014.⁵² The same day, the Postal Service also filed updated price cap calculations in this proceeding for the Package Services class.⁵³ However, the Postal Service failed to provide the explanation required by 39 C.F.R. § 3010.23(d)(2) in making the adjustments and failed to show that the adjustments were made based on "known mail characteristics or historical volume data" as required by 39 C.F.R. § 3010.23(d)(3). Without this information, the Commission cannot verify that the Postal Service's adjustments to the Postal Service's billing determinants are correct and thus cannot make the finding required by 39 U.S.C. § 3622 and 39 C.F.R. § 3010.11 that the proposed Package Services price adjustment is consistent with applicable law.

Price cap calculation. In Docket No. R2013-10, the Postal Service eliminated the barcode discount for BPM Flats. Order No. 1890 at 98. In the Postal Service's March 3, 2015 revision to the Package Services billing determinants in Docket No. ACR2014, the Postal Service reported that it was adding "barcode discounts, which were inadvertently omitted from previous billing determinant files."⁵⁴ In the price cap calculation file, Excel file "ChIR 14 Qu5 Response.xlsx," tab "BPM Flats Revs.@Curr. Prices," the Postal Service included this discount in "cell 174."⁵⁵

⁵¹ March 3 Response to CHIR No. 14; Excel file "ChIR 14 Qu5 Response.xlsx."

⁵² Docket No. ACR2014, Library Reference FY 2014 Domestic Market Dominant Billing Determinants (Errata), March 3, 2015; Excel file "BPM BDs FY2014-REV 3-03-15.xlsx_," tab "Presort Flats BD."

⁵³ March 3 Response to CHIR No. 14; Excel file "ChIR 14 Qu5 Response.xlsx," tab "BD's for BPM Presort Flats."

⁵⁴ Notice of the United States Postal Service of Revisions to USPS-FY14-14 – Errata, March 3, 2015, at 2.

⁵⁵ March 3 Response to CHIR No. 14; Excel file "ChIR 14 Qu5 Response.xlsx."

As a result of its March 3, 2015 revised billing determinants, the Postal Service reports that “the Package Services price adjustment for Docket No. R2015-4 increases to 2.001 percent.”⁵⁶ However, this calculation is inaccurate because the current and planned discounts are zero and the price cap calculation should reflect the eliminated barcode discount. An increase of 2.001 percent for the Package Services class pierces the price cap, and if accurate, means the proposed Package Services price adjustments violate 39 U.S.C. § 3622(d)(1)(A). It is likely that correctly adjusting for the eliminated barcode discount will bring the price adjustments for the Package Services class into compliance. However, without the correct data from the Postal Service, the Commission cannot make the statutorily required definitive determination of the overall average price adjustment proposed for the Package Services class.

Amended notice of rate adjustment. In accordance with 39 C.F.R. § 3010.11(f), the Commission orders the Postal Service to file an amended notice of rate adjustment for the Package Services class. In order to show that all of the deficiencies identified by the Commission have been corrected, the Postal Service must provide the following information in conjunction with the amended notice of rate adjustment:

- (1) The Postal Service is required to provide the FY 2014 Quarter 4 Package Services billing determinant data with BPM Flats FSS volumes disaggregated by presort and dropship price levels.
- (2) The Postal Service is required to provide the “Special Weight Report” source data for each quarter of FY 2014, as discussed by the Postal Service in the March 3 Response to CHIR No. 14, question 3.
- (3) The Postal Service is required to explain the difference between the FY 2014 BPM Flats FSS volume percentage and the FY 2014 Standard Mail and Periodicals flats FSS volume percentages.
- (4) The Postal Service is required to explain the difference between the BPM Flats FSS volume and the estimate of BPM Flats processed on the FSS using the Commission’s accepted methodology.

⁵⁶ March 3 Response to CHIR No. 14, question 7.

- (5) As required by 39 C.F.R. § 3010.23(d), the Postal Service must provide the explanation, information, and calculations regarding the adjustment of the Package Services billing determinants as used in the Package Services price cap calculation.
- (6) The Postal Service must correct its price cap calculation workpapers to reflect that the barcode discount was eliminated in Docket No. R2013-10.

Conclusion. The calculation of the amount of price cap used must be accurate to comply with 39 U.S.C. § 3622(d). To that end, the Commission finds that the Postal Service has not provided sufficient information for the Commission to determine whether the planned Package Services price adjustment is accurate and complies with applicable law. The proposed Package Services prices are remanded to the Postal Service so that it can provide the information necessary for the Commission to make this determination and verify that the proposed price adjustments for Package Services are consistent with 39 U.S.C. § 3622(d)(1)(A)'s price cap, as well as other applicable statutory and regulatory requirements.

V. ORDERING PARAGRAPHS

It is ordered:

1. Under 39 C.F.R. § 3010.11(d), the Commission finds the disparity between commercial and nonprofit presort discounts for Standard Mail High Density Letters and High Density Flats proposed in the United States Postal Service Notice of Market-Dominant Price Adjustment, filed January 15, 2015, unlawful as set forth in the body of this Order. Pursuant to 39 C.F.R. § 3010.11(f), the Postal Service must resolve the disparity between commercial and nonprofit presort discounts for Standard Mail High Density Letters and High Density Flats.
2. Under 39 C.F.R. § 3010.11(d), the Commission finds the unequal Standard Mail commercial and nonprofit dropship discounts proposed in the United States Postal Service Notice of Market-Dominant Price Adjustment filed January 15, 2015, unlawful as set forth in the body of this Order. Pursuant to 39 C.F.R.

§ 3010.11(f), the Postal Service must resolve the disparity between commercial and nonprofit dropship discounts for Standard Mail or provide a rational justification for the disparity.

3. The Commission remands the Standard Mail price adjustments identified in the United States Postal Service Notice of Market-Dominant Price Adjustment, filed January 15, 2015, to allow the Postal Service to submit amendments that achieve compliance with title 39, legal precedent, and applicable regulations in accordance with 39 C.F.R. § 3010.11(f).
4. Under 39 C.F.R. § 3010.11(d), the Commission finds the Periodicals price adjustments proposed in the United States Postal Service Notice of Market-Dominant Price Adjustment, filed January 15, 2015, do not permit the Commission to make the finding required under 39 U.S.C. § 3622 and 39 C.F.R. § 3010.11 that the proposed Periodicals price adjustments are consistent with applicable law.
5. The Commission remands the Periodicals price adjustments identified in the United States Postal Service Notice of Market-Dominant Price Adjustment, filed January 15, 2015, to allow the Postal Service to submit amendments that achieve compliance with title 39, legal precedent, and applicable regulations in accordance with 39 C.F.R. § 3010.11(f).
6. Under 39 C.F.R. § 3010.11(d), the Commission finds the Package Services price adjustments proposed in the United States Postal Service Notice of Market-Dominant Price Adjustment, filed January 15, 2015, do not permit the Commission to make the finding required under 39 U.S.C. § 3622 and 39 C.F.R. § 3010.11 that the proposed Package Services price adjustments are consistent with applicable law.

7. The Commission remands the Package Services price adjustments identified in the United States Postal Service Notice of Market-Dominant Price Adjustment, filed January 15, 2015, to allow the Postal Service to submit amendments that achieve compliance with title 39, legal precedent, and applicable regulations in accordance with 39 C.F.R. § 3010.11(f).

8. In order to implement rates for Standard Mail, Periodicals, and Package Services on April 26, 2015, pursuant to 39 U.S.C. § 3622(d)(1)(C) and 39 C.F.R. § 3010.11(i), an amended notice including amended rates and Mail Classification Schedule language that remedy the deficiencies described in the body of this Order must be filed no later than March 12, 2015.

By the Commission.

Ruth Ann Abrams
Acting Secretary

Appendix A
List of Commenters Addressing
Docket No. R2015-4

Commenter	Abbreviation	Caption of Filing/Short Form	Filing Date
Alliance of Nonprofit Mailers	ANM	Comments of Alliance of Nonprofit Mailers (ANM Comments)	February 19, 2015
American Catalog Mailers Association	ACMA	Comments of the American Catalog Mailers Association (ACMA Comments)	February 19, 2015
MPA-The Association of Magazine Media	MPA	Comments of MPA-The Association of Magazine Media (MPA Comments)	February 19, 2015
Public Representative	PR	Public Representative Comments in Response to United States Postal Service Notice of Market-Dominant Price Adjustment (PR Comments)	February 19, 2015
Valpak Direct Marketing Systems, Inc. and Valpak Dealers' Association, Inc.	Valpak	Valpak Direct Marketing Systems, Inc. and Valpak Dealers' Association, Inc. Comments on the United States Postal Service Notice of Market-Dominant Price Adjustment (Valpak Comments)	February 19, 2015

Appendix B
List of Chairman's Information Requests,
Responses of the United States Postal Service, and Related Filings

Chairman's Information Requests

- Chairman's Information Request No. 1, January 23, 2015 (CHIR No. 1)
- Chairman's Information Request No. 2, January 27, 2015 (CHIR No. 2)
- Chairman's Information Request No. 3, January 28, 2015 (CHIR No. 3)
- Chairman's Information Request No. 4, January 29, 2015 (CHIR No. 4)
- Chairman's Information Request No. 5, February 2, 2015 (CHIR No. 5)
- Chairman's Information Request No. 6, February 4, 2015 (CHIR No. 6)
- Chairman's Information Request No. 7, February 5, 2015 (CHIR No. 7)
- Chairman's Information Request No. 8, February 6, 2015 (CHIR No. 8)
- Chairman's Information Request No. 9, February 10, 2015 (CHIR No. 9)
- Chairman's Information Request No. 10, February 11, 2015 (CHIR No. 10)
- Chairman's Information Request No. 11, February 12, 2015 (CHIR No. 11)
- Chairman's Information Request No. 12, February 18, 2015 (CHIR No. 12)
- Chairman's Information Request No. 13, February 20, 2015 (CHIR No. 13)
- Chairman's Information Request No. 14, February 23, 2015 (CHIR No. 14)
- Chairman's Information Request No. 15, February 25, 2015 (CHIR No. 15)
- Chairman's Information Request No. 16, February 27, 2015 (CHIR No. 16)

Responses to Chairman's Information Requests

Response of the United States Postal Service to Question 1-5 of Chairman's Information Request No. 1, January 30, 2015 (January 30 Response to CHIR No. 1)

Response of the United States Postal Service to Question 6 of Chairman's Information Request No. 1, February 3, 2015 (February 3 Response to CHIR No. 1)

Responses of the United States Postal Service to Chairman's Information Request No. 2, February 2, 2015 (Response to CHIR No. 2)

Responses of the United States Postal Service to Questions 1-5, and Question 6 (Parts A-D) of Chairman's Information Request No. 3, February 4, 2015 (February 4 Response to CHIR No. 3)

Response of the United States Postal Service to Question 6(E) of Chairman's Information Request No. 3, February 5, 2015 (February 5 Response to CHIR No. 3)

Response of the United States Postal Service to Chairman's Information Request No. 4, February 5, 2015 (Response to CHIR No. 4)

Responses of the United States Postal Service to Chairman's Information Request No. 5, February 9, 2015 (Response to CHIR No. 5)

Response of the United States Postal Service to Questions 3, 17, and 20 of Chairman's Information Request No. 6, February 5, 2015 (February 5 Response to CHIR No. 6)

Response of the United States Postal Service to Questions 1, 4-16, and 18-19 of Chairman's Information Request No. 6, February 11, 2015 (February 11 Response to CHIR No. 6)

Response of the United States Postal Service to Question 2 of Chairman's Information Request No. 6, February 18, 2015 (February 18 Response to CHIR No. 6)

Revised Response of the United States Postal Service to Question 2 of Chairman's Information Request No. 6 – Errata, February 20, 2015 (February 20 Revised Response to CHIR No. 6)

Response of the United States Postal Service to Question 1 of Chairman's Information Request No. 7, February 9, 2015 (Response to CHIR No. 7)

Responses of the United States Postal Service to Questions 1-3 of Chairman's Information Request No. 8, February 9, 2015 (February 9 Response to CHIR No. 8)

Responses of the United States Postal Service to Questions 4-12 of Chairman's Information Request No. 8, February 13, 2015 (February 13 Response to CHIR No. 8)

Response of the United States Postal Service to Chairman's Information Request No. 9, February 12, 2015, (Response to CHIR No. 9)

Response of the United States Postal Service to Chairman's Information Request No. 10, February 18, 2015 (Response to CHIR No. 10)

Response of the United States Postal Service to Chairman's Information Request No. 11, February 18, 2015 (Response to CHIR No. 11)

Response of the United States Postal Service to Chairman's Information Request No. 12, February 20, 2015 (Response to CHIR No. 12)

Response of the United States Postal Service to Chairman's Information Request No. 13, February 23, 2015 (Response to CHIR No. 13)

Response of the United States Postal Service to Question 1 of Chairman's Information Request No. 14, February 25, 2015 (February 25 Response to CHIR No. 14)

Responses of the United States Postal Service to Questions 2-7 of Chairman's Information Request No. 14, March 3, 2015 (March 3 Response to CHIR No. 14)

Response of the United States Postal Service to Questions 2-12 of Chairman's Information Request No. 15, February 27, 2015 (February 27 Response to CHIR No. 15)

Response of the United States Postal Service to Questions 1 of Chairman's Information Request No. 15, March 3, 2015 (March 3 Response to CHIR No. 15)

Responses of the United States Postal Service to Questions 1-5 of Chairman's Information Request No. 16, March 3, 2015 (Response to CHIR No. 16)

Motions for Late Acceptance of Responses¹

Motion of the United States Postal Service for Late Acceptance of Response to Questions 6 of Chairman's Information Request No. 1, February 3, 2015

Motion for Late Acceptance of Response of the United States Postal Service to Question 6(E) of Chairman's Information Request No. 3, February 5, 2015

Motion for Late Acceptance of Response of the United States Postal Service to Question 2 of Chairman's Information Request No. 6, February 18, 2015

Motion for Late Acceptance of the Response of the United States Postal Service to Questions 2-7 of Chairman's Information Request No. 14, March 3, 2015

Motion for Late Acceptance of the Response of the United States Postal Service to Question 1 of Chairman's Information Request No. 15, March 3, 2015

¹ Each of these motions is granted.