

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 AMENDED PRICE ADJUSTMENTS FOR STANDARD MAIL,
PERIODICALS, AND PACKAGE SERVICES PRODUCTS



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March 18, 2015

TABLE OF CONTENTS

	<i>Page</i>
I. INTRODUCTION	1
II. COMMISSION ANALYSIS OF RESPONSE TO ORDER NO. 2378.....	2
A. Standard Mail.....	2
1. Order No. 2378	2
2. Postal Service Response to Order No. 2378	3
3. Commission Analysis	3
B. Periodicals	5
1. Order No. 2378	5
2. Postal Service Response to Order No. 2378	5
3. Commission Analysis	6
III. PACKAGE SERVICES	7
A. Commission Order No. 2378	7
B. Postal Service Response.....	8
C. Commission Analysis.....	9
IV. ORDERING PARAGRAPHS	12
ATTACHMENT	

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(Issued March 18, 2015)

I. INTRODUCTION

On January 15, 2015, the Postal Service filed a notice of its proposed price adjustments for market dominant products.¹ In Order No. 2378, the Commission remanded the Postal Service's planned price adjustments for Standard Mail, Periodicals, and Package Services, allowing the Postal Service to submit amendments demonstrating compliance with title 39, legal precedent, and applicable regulations.² On March 12, 2015, the Postal Service filed a response to Order No. 2378, which

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

² Order on Price Adjustments for Standard Mail, Periodicals, and Package Services Products, March 6, 2015 (Order No. 2378).

included revised Standard Mail and Periodicals prices, revised proposed changes to the Mail Classification Schedule (MCS), updated workshare discount tables, updated exigent surcharges affected by the revised prices, and revised price cap calculations for Standard Mail, Periodicals, and Package Services.³

As discussed in more detail below, because the Postal Service has not complied fully with applicable statutory and regulatory requirements and Order No. 2378, the Commission remands the revised price adjustments set forth in the Response for further revision, correction, and clarification. After the Postal Service addresses the deficiencies described in this Order, and files an amended notice of rate adjustment in response to this Order, the Commission will allow for seven days from the date of the Postal Service's filing for public comment in accordance with 39 C.F.R. § 3010.11(g). The Postal Service states that the revised prices are scheduled to go into effect on April 26, 2015. Response at 1; Notice at 1. Pursuant to 39 U.S.C. § 3622(d)(1)(C) and 39 C.F.R. § 3010.11(i), no rate shall take effect until 45 days after the Postal Service files a notice specifying that rate.

II. COMMISSION ANALYSIS OF RESPONSE TO ORDER NO. 2378

A. Standard Mail

1. Order No. 2378

In Order No. 2378, the Commission identified several areas where the Postal Service's planned price adjustments for Standard Mail did not comply with appropriate legal requirements, namely: (1) unequal nonprofit and commercial discounts, (2) improperly justified worksharing discounts with passthroughs above 100 percent, and (3) improperly calculated billing determinant adjustments for the new Flats

³ Response of the United States Postal Service to Order No. 2378, March 12, 2015, at 2 (Response).

Sequencing System (FSS) price cells. The Commission directed the Postal Service to address each of these areas in its revised rates. Order No. 2378 at 6.

The Commission also suggested, but did not require, that the Postal Service take the opportunity to adjust its revised rates to address unequal presort discounts for piece-rated pieces and pound-rated pieces, and unequal dropship discounts for the same destination entry point. *Id.* at 15.

2. Postal Service Response to Order No. 2378

In its Response, the Postal Service provided a set of revised prices intended to address each of the Commission's directives. The Postal Service asserts that it "elected to equalize all nonprofit and commercial discounts, reduce the five workshare discounts identified by the Commission, and revise the Standard Mail Billing determinants to include FY 2014 Quarter 4 data." Response at 3-4 (footnote omitted). It also states that it has largely adopted both of the Commission's recommended changes by equalizing the piece-rated presort discounts with the pound-rated presort discounts and equalizing dropship discounts within each product for the same level of destination entry. *Id.* at 4.

3. Commission Analysis

Despite the Postal Service's representation that it equalized all nonprofit and commercial discounts, its workpapers present presort discounts for High Density Letters and Flats that are still unequal for commercial and nonprofit mail.⁴ Table 1 compares the presort discounts for the Postal Service's initial filing and its amended filing.

⁴ See Excel file "AttachmentB-Remand.xlsx," tabs "Standard Mail HD-Sat Letters," and "Standard Mail HD-Sat Flts-Prcls."

Table 1: High Density Letters and Flats Presort Discounts

	Initial Docket No. R2015-4 Filing		Amended Docket No. R2015-4 Filing	
	<u>Commercial</u>	<u>Nonprofit</u>	<u>Commercial</u>	<u>Nonprofit</u>
High Density Letters	\$0.078	\$0.082	\$0.083	\$0.086
High Density Flats	\$0.050	\$0.054	\$0.055	\$0.056

In Order No. 2378, the Commission directed the Postal Service to equalize these discounts. Order No. 2378 at 9. The Commission therefore remands the Standard Mail rates to the Postal Service again so that it can equalize the nonprofit and commercial presort discounts for High Density Letters and Flats. The Commission will issue a final order concerning all planned Standard Mail rates once the Postal Service corrects the unequal nonprofit and commercial discounts.

Additionally, the Commission was unable to verify some of the Postal Service's exigent surcharges for the new Standard Mail FSS price categories. See Attachment C (Rev 3-17-15), Excel file "Attachment C-Remand (Rev 3-17-15).xlsx." In this attachment, the Postal Service states that "[a]ll exigent surcharges for the new Standard Mail FSS cells were calculated from existing exigent surcharges using the weighted average of the piece origins." *Id.* To assist the Commission in verifying the calculated exigent surcharges, the Postal Service must provide the calculations used to develop the exigent surcharges for each new Standard Mail FSS price category listed in the revised Attachment C Excel file, including the volume distributions and the existing exigent surcharges.⁵ If any of the exigent surcharges listed in the revised Attachment C

⁵ In Library Reference PRC-LR-R2015-4/6, the Commission provides the existing exigent surcharges that should be used in the Postal Service's calculation of the exigent surcharges for the new FSS price cells. In its amended notice of rate adjustment filed in response to this Order, the Postal Service should identify any existing exigent surcharges used in its calculations that differ from this library reference and explain the difference.

Excel file are changed as a result of this Order, the Postal Service must provide conforming revisions to the MCS, Attachment A, Part II, at 46-52.⁶

B. Periodicals

1. Order No. 2378

In Order No. 2378, the Commission found that the Postal Service had incorrectly adjusted the billing determinants concerning FSS pricing for Periodicals bundles, sacks, and pallets. Order No. 2378 at 22. As a result, the Commission remanded the planned Periodicals prices because the Commission was unable to calculate the amount of the rate adjustment and make the findings required by 39 U.S.C. § 3622 and 39 C.F.R. § 3010.11. *Id.* at 22, 24. To assist in making its findings and to correct the Periodicals billing determinant adjustments, the Commission ordered the Postal Service to provide volume data for bundles, sacks, and pallets that would have been mailed at FSS prices in FY 2014 Quarters 1 and 2 if FSS prices had been in place. *Id.* at 23-24. The Commission also ordered the Postal Service to identify the non-FSS prices actually charged for those volumes. *Id.*

2. Postal Service Response to Order No. 2378

In its Response, the Postal Service provides the bundle, sack, and pallet volumes that would have been mailed at FSS prices in FY 2014 Quarters 1 and 2 if FSS prices had been in effect. Response at 5-6; Library Reference USPS-LR-R2015-4/8. However, in the revised price cap calculation, the Postal Service does not identify the non-FSS prices actually charged for the sacks and pallets that would have been mailed at FSS prices, had those prices been in effect. See Library Reference USPS-LR-R2015-4/8. In the Response, the Postal Service also explains that “[t]o accurately calculate the revenue lost from the preferred rate discounts under existing and

⁶ The prices in Attachment A, Part II include the exigent surcharges.

proposed rates,” it proportionally distributes bundles to the Regular Rate, Nonprofit, and Classroom categories for each container presort and bundle presort level combination. Response at 6. The Postal Service incorporates the new bundle distribution into the adjusted billing determinants, but does not take this into account in its revised price cap calculation for the Periodicals class. See Library Reference USPS-LR-R2015-4/8.

3. Commission Analysis

The Commission finds that the non-FSS prices actually charged for the sacks and pallets that would have been mailed at FSS prices and the new distribution of bundles to the Regular Rate, Nonprofit, and Classroom categories should be included in the revised Periodicals price cap calculation. The Commission has developed Library Reference PRC-LR-R2015-4/7, which contains a proposal for incorporation of the missing data into the Periodicals price cap calculation using the framework provided by the Postal Service in Library Reference USPS-LR-R2015-4/8. The Commission incorporates the new bundle distribution in the Library Reference PRC-LR-R2015-4/7 price cap calculation. In addition, for the sacks and pallets that would have been mailed at FSS prices in FY 2014 Quarters 1 and 2 if FSS prices had been offered, the Commission uses the actual historical prices for those sacks and pallets. For example, some Mixed ADC sacks would have been mailed at FSS Facility sack prices if the FSS Facility sack prices had been offered. In Library Reference PRC-LR-R2015-4/7, the Mixed ADC sack price is used as the “old” price, and the FSS Facility sack price is used for the “new” price. Additionally, as detailed in the Preface to Library Reference PRC-LR-R2015-4/7, the Commission identifies and proposes corrections to additional errors found in the revised Periodicals price cap calculation.

In its amended notice of rate adjustment, the Postal Service must provide a revised price cap calculation that addresses the deficiencies described in this Order. The Postal Service may use Library Reference PRC-LR-R2015-4/7 to correct these deficiencies or provide an explanation of why different adjustments are appropriate in accordance with 39 C.F.R. § 3010.23(d)(2). As shown in Library Reference PRC-LR-

R2015-4/7, the Commission calculates that the average price adjustment for the Periodicals class is 1.857 percent. As a result, the revised planned prices generate 0.109 percent of unused price cap authority. Should the Postal Service choose not to utilize its maximum price adjustment authority for the Periodicals class, it must provide a rationale for its proposed price adjustment as required by 39 C.F.R. § 3010.12(b)(4).

III. PACKAGE SERVICES

A. Commission Order No. 2378

In Order No. 2378, the Commission remanded the Package Services class to the Postal Service because the Commission could not find under 39 U.S.C. § 3622 and 39 C.F.R. § 3010.11 that the planned Package Services price adjustment was consistent with applicable law. Order No. 2378 at 27. Specifically, the Commission found that the Postal Service's March 3, 2015 revision to the Package Services billing determinants⁷ created uncertainty with respect to Bound Printed Matter (BPM) Flats FSS volume. Order No. 2378 at 27-29. The Commission also found that the Postal Service failed to provide the explanation required by 39 C.F.R. § 3010.23(d)(2) 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). *Id.* at 29. The Commission directed the Postal Service to provide supplemental information relating to its billing determinant adjustments for BPM Flats and to correct errors in its price cap calculation workpapers for the Package Services class. *Id.* at 30-31. The required supplemental information included the "Special Weight Report" which is the source data for the March 3, 2015 billing determinant adjustments. *Id.* at 30.⁸

⁷ The March 3, 2015 revised Package Services billing determinants are located in Docket No. ACR2014, Library Reference FY 2014 Domestic Market Dominant Billing Determinants (Errata), March 3, 2015.

⁸ See Responses of the United States Postal Service to Questions 2-7 of Chairman's Information Request No. 14, March 3, 2015, question 3 (March 3 Response to CHIR No. 14).

B. Postal Service Response

In its Response, the Postal Service provides the supplemental information required by Order No. 2378 regarding its March 3, 2015 revised billing determinant adjustments, its March 3, 2015 revised price cap calculation, and the errors in its original billing determinant adjustments and price cap calculation. Response at 6-9. The Postal Service does not propose any price changes to Package Services in its Response. *Id.* at 7. Instead, the Postal Service revises its Package Services price cap calculation. The Postal Service calculates a revised Package Services total price adjustment of 1.947 percent, which is less than the price cap of 1.966 percent. *Id.* at 13.

With its Response, the Postal Service filed the Special Weight Report.⁹ As the source data for the billing determinant adjustments, the Special Weight Report contains the FSS BPM Flats volume disaggregated into Presorted FSS BPM Flats and Carrier Route FSS BPM Flats that the Postal Service recorded during FY 2014. In its Response, the Postal Service explains that for the majority of FY 2014, most FSS volumes were categorized as FSS Presorted, regardless of whether those volumes were Presorted FSS BPM Flats or Carrier Route FSS BPM Flats. Response at 10. The Postal Service explains that it was not until late in FY 2014 that the data for Carrier Route FSS volume began to be disaggregated from FSS Presorted volume for BPM Flats. *Id.* at 11.

The Postal Service uses the actual FSS BPM Flats volume for FY 2014 Quarters 2-4 as the basis for estimating the total FY 2014 full year FSS BPM Flats volume. The actual BPM Flats volume aggregates the actual Presorted FSS and Carrier Route FSS BPM Flats volumes that the Postal Service recorded during FY 2014 in the Special Weight Report. Response at 10. To calculate disaggregated Carrier Route FSS and Presorted FSS volumes, the Postal Service uses a non-FSS distribution key as a proxy

⁹ Library Reference USPS-LR-R2015-4/9 – Package Services Workpapers (Remand), March 12, 2015, Excel File “Corrected Special Weight Report BPMFY14.xlsx.”

because it did not begin recording disaggregated Carrier Route FSS and Presorted FSS BPM Flats volumes until late in FY 2014. *Id.* at 11.

C. Commission Analysis

Inaccurate billing determinant adjustments. As discussed in Order No. 2378, adjustments to the billing determinants must be based on known mail characteristics or historical volume data whenever possible as required by 39 C.F.R. § 3010.23(d)(3) and must be accompanied by “an explanation of why the adjustments are appropriate” as required by 39 C.F.R. § 3010.23(d)(2). See Order No. 2378 at 27, 29.

In its Response, the Postal Service acknowledges that partial FY 2014 Quarter 4 FSS data is available, but states that it does not use the data “[d]ue to [its] limited duration.” Response at 11. The Postal Service instead uses non-FSS volumes as a proxy. *Id.* The Postal Service does not provide an explanation for using the non-FSS volumes as a proxy or justify why the distribution of non-FSS volumes between the Carrier Route and Presort categories is representative of the distribution of FSS Carrier Route and Presorted BPM Flats in accordance with 39 C.F.R. § 3010.23(d)(2). Given that 39 C.F.R. § 3010.23(d)(3) requires the use of historical volume data “whenever possible,” the Postal Service also has not provided an adequate explanation of why the use of the available FY 2014 Quarter 4 FSS data is not possible and fails to adequately justify its use of non-FSS volume when historical FSS volume is available. Without an explanation from the Postal Service regarding the limitations of the FY 2014 Quarter 4 FSS data, the Commission has no basis by which it can measure the accuracy of the Postal Service’s calculations. If the Postal Service believes that it is not possible to use the FY 2014 Quarter 4 data as a distribution key, the Commission directs the Postal Service to explain why its use is not possible and provide empirical evidence in support of its proposed approach.¹⁰

¹⁰ If the Postal Service has FY 2015, Quarter 1 data disaggregated by FSS category, such information may also be useful for the disaggregation of FY 2014 FSS volumes.

Data inconsistencies. In Order No. 2378, the Commission also directed the Postal Service to provide the calculations and source data it used to adjust certain billing determinants in the price cap calculation file and provide the explanation required by 39 C.F.R. § 3010.23(d) in making the adjustments. Order No. 2378 at 30-31. With its Response, the Postal Service provided the Special Weight Report.¹¹ Given that the Special Weight Report is the source file for the billing determinants, data from the Special Weight Report should match the billing determinants data.¹² Yet, the data between the two files do not match. While the Special Weight Report shows a volume of 126,711,169 for Presorted Non-FSS BPM Flats and 112,310,065 for Carrier Route Non-FSS BPM Flats,¹³ the billing determinants show a volume of 129,672,339 for Presorted Non-FSS BPM Flats and 109,348,893 for Carrier Route Non-FSS BPM Flats.¹⁴

Additionally, in evaluating the Postal Service's Response and supporting data, the Commission finds several inconsistencies in the Postal Service's workpapers. In Library Reference PRC-LR-R2015-4/8, the Commission notes these inconsistencies.¹⁵ For example, the total volume calculated by the Commission for BPM Single-Piece Parcels does not match the total volume shown in the Revenue, Pieces, and Weight data in the Postal Service's price cap calculation file.¹⁶ The Commission directs the Postal Service to address the inconsistencies shown in Library Reference PRC-LR-

¹¹ Library Reference USPS-LR-R2015-4/9 – Package Services Workpapers (Remand), March 12, 2015, Excel File “Corrected Special Weight Report BPMFY14.xlsx.”

¹² March 3 Response to CHIR No. 14, question 3.

¹³ Library Reference USPS-LR-R2015-4/9 – Package Services Workpapers (Remand), March 12, 2015, Excel File “Corrected Special Weight Report BPMFY14.xlsx.”

¹⁴ Library Reference USPS-LR-R2015-4/9 – Package Services Workpapers (Remand), March 12, 2015, Excel File “Demonstration of Presort BPM Flats Billing Determinants Adjustment with Walkthrough Description.xlsx,” tab “Presort Flats BD.”

¹⁵ Library Reference PRC-LR-R2015-4/8, Excel file “CAPCAL-PACKSERV-R2015-4_REMAND_PRC.xlsx,” tab “PRC Preface.”

¹⁶ Library Reference USPS-LR-R2015-4/9 – Package Services Workpapers (Remand), March 12, 2015, Excel File “CAPCAL-PACKSERV-R2015-4_REMAND_PRC.xlsx.”

R2015-4/8 in its amended notice of rate adjustment. Based on these identified issues, the Commission is unable to verify the Postal Service's calculation of the price cap for Package Services.

Conclusion. Even taking into account the information contained in the Response, the Commission remains 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 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 reconcile and explain the differences between the Special Weight Report and the March 3, 2015 revision to its billing determinants.
- (2) The Postal Service is required to comply with 39 C.F.R. § 3010.23(d)(2) and (3) when adjusting the billing determinants to account for the distribution of FSS Carrier Route and Presorted BPM Flats.
- (3) The Postal Service is required to remedy the inconsistencies shown in Library Reference PRC-LR-R2015-4/8.
- (4) The Postal Service must correct its price cap calculation to reflect any changes in the proposed price adjustments for Package Services if such prices are changed by numbered paragraphs 1-3 above.
- (5) If any revisions result in a price increase that exceeds 1.966 percent for the Package Services class, the Postal Service must amend its rates to comply with the requirement of 39 U.S.C. § 3622(d)(1)(A).

IV. ORDERING PARAGRAPHS

It is ordered:

1. Under 39 C.F.R. § 3010.11(j), the Commission finds the disparity between commercial and nonprofit presort discounts for Standard Mail High Density Letters and High Density Flats proposed in the Response of the United States Postal Service to Order No. 2378, filed March 12, 2015, unlawful as set forth in the body of this Order. 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(j), the Commission finds that the Postal Service must provide the calculations it used to develop the exigent surcharges for each new Standard Mail FSS price category as described in the body of this Order.
3. The Commission remands the Standard Mail price adjustments identified in the Response of the United States Postal Service to Order No. 2378, filed March 12, 2015, to allow the Postal Service to submit amendments that achieve compliance with title 39, legal precedent, and applicable regulations.
4. Under 39 C.F.R. § 3010.11(j), the Commission finds that the Periodicals price cap calculation provided with the Postal Service's Response to Order No. 2378 contains multiple errors. The Postal Service must revise its Periodicals price cap calculation to correct the deficiencies described in the body of this Order.
5. The Commission remands the Periodicals price adjustments identified in the Response of the United States Postal Service to Order No. 2378, filed March 12, 2015, to allow the Postal Service to provide a revised price cap calculation and submit amendments that achieve compliance with title 39, legal precedent, and applicable regulations as described in the body of this Order.

6. Under 39 C.F.R. § 3010.11(j), the Commission finds the Package Services price adjustments proposed in the Response of the United States Postal Service to Order No. 2378, filed March 12, 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 Response of the United States Postal Service to Order No. 2378, filed March 12, 2015, to allow the Postal Service to submit amendments that achieve compliance with title 39, legal precedent, and applicable regulations.

By the Commission.

Shoshana M. Grove
Secretary