

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

Before:

Chairman Omas,
Vice Chairman Tisdale,
Commissioner Goldway, and
Commissioner Hammond

Repositionable Notes Minor Classification
Changes

Docket No. MC2006-2

OPINION
AND
RECOMMENDED DECISION



Washington, DC 20268-0001
March 20, 2006

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I. BACKGROUND

A Repositionable Note (RPN) is a Post-It[®]-type peel-off label that mailers produce themselves and affix to the outside of a mailpiece. The purpose is to more effectively draw attention to the mailpiece and encourage the recipient to open it and respond to its contents. The Postal Service has standardized the physical characteristics of RPNs and satisfied itself that handling them imposes no additional cost on its system.

The Postal Service conducted a one-year pilot test of RPN service that ended in February 2003. Soon thereafter, the Postal Service adopted Domestic Mail Manual provisions that allowed all mailers of automation-compatible letter mail to attach RPNs at no charge. That phase lasted for approximately one year, ending in May of 2004.

In July of that year, the Postal Service filed its request in Docket No. MC2004-5. In it, the Postal Service proposed to charge a fee for allowing mailers to attach an RPN to their mail. It proposed to charge a fee of 0.5 cents for each piece of First-Class Mail and a fee of 1.5 cents for each piece of Standard or Periodical mail. The Postal Service filed its request under the Commission's rules allowing expedited processing of proposed market tests. The Commission concluded, however, that its request was not properly filed under market test procedures, since RPN service was already well developed, both conceptually and operationally. The Commission observed that the purpose of the request was less to gather information needed to fashion a proposed permanent change, than to make a service enhancement quickly available, where the enhancement poses little risk of upsetting the status quo in terms of postal services or finances. The Commission concluded that this made the Postal Service's request suitable for processing as a request for a provisional service change. See 39 C.F.R. § 3001, subpart J. The provisional change was approved for a period of one year. The Governors implemented the change on April 3, 2005. It is scheduled to expire on April 3, 2006.

On January 12, 2006, the Postal Service filed its request for a recommended decision on its proposal to extend the period for which Repositionable Notes (RPN) service is authorized.¹ It filed its Request under the Commission's rules for allowing expedited processing of minor classification cases. See 39 C.F.R. § 3001.69 through 69c.

The Postal Service proposes to extend the expiration date for the provisional service so that the RPN classification and rates will remain in effect while a request to make substantive modifications to the service is before the Commission or the Governors. Under the Postal Service's proposal, if it should decide not to file such a request, it would select the date on which RPN service expires at its discretion, as long as it is not extended beyond April 3, 2007 (one year beyond the original expiration date).

The Postal Service's Request in this docket states that at the beginning of this year it had been finalizing a request to modify its provisional RPN service in a way that would address the suggestions made by the Commission in its Opinion in Docket No. MC2004-5. On January 6, 2006, the Postal Service received a copy of the Commission-sponsored white paper authored by Dr. Frank Wolak, which addresses from an academic perspective various economic and regulatory issues raised by the Postal Service's approach to pricing RPN service. The Postal Service's Request explains that it decided to delay finalizing its request for a modified RPN service so that its request could take into account the white paper and the public dialogue that it was intended to foster. See Request at 1-3, and USPS-T-1 at 1-3 (Direct Testimony of Postal Service witness Kaneer).

Through witness Kaneer, the Postal Service asserts that as a result of its decision to defer filing its modified RPN proposal, it cannot develop, litigate, and implement its modified service before the provisional RPN service is scheduled to

¹ Request of the United States Postal Service for a Recommended Decision on Change of Expiration Date for Provisional Repositionable Notes Classifications and Rates, January 12, 2006 (Request).

expire on April 3, 2006. The Postal Service asks the Commission to approve an extension of the current service in order to avoid the disruption to RPN customers that would be caused if RPN service were to expire on April 3, 2006, while its next phase is under consideration. USPS-T-1 at 2.

The Commission issued Order No. 1456 on March 9, 2006. It concluded that the Postal Service's Request was appropriate for processing under the Commission's expedited procedures for processing requests for minor classification changes. The Order cited the Request's exceedingly narrow scope and the small impact that it is likely to have on the institutional cost contributions of the eligible subclasses. For the same reasons, Order No. 1456 granted the Postal Service's motion for waiver of rule 64 of the Commission's Rules of Practice. That rule requires classification change requests to be supported by detailed information on the cost and revenue impacts of the proposed change.

Order No. 1452 granted the Postal Service's request that the Commission establish settlement procedures. The Postal Service, however, ultimately abandoned its attempt to settle this docket. In its motion to expedite issuance of a recommended decision, which it filed March 8, 2006,² the Postal Service explained that it did not draft a Stipulation and Agreement to submit to the participants because its settlement discussions led it to expect that the participants would neither sign a settlement agreement nor oppose one. Motion at 1.

The Motion emphasized that the Governors were scheduled to meet on March 22, 2006. It implies that March 22 will be the Governors' last opportunity to act on a Commission recommended decision dealing with its extension request before RPN service expires on April 3, 2006. Because the March 22 date is imminent, the Postal Service asks that the Commission issue an expedited recommended decision based on the record as it now stands. Motion at 2.

² Motion of the United States Postal Service for Expedited Issuance of a Recommended Decision, March 8, 2006 (Motion).

Also on March 8, 2006, the Postal Service designated the Direct Testimony of Kirk Kaneer (USPS-T-1) for inclusion in the record.³

In response, the Commission issued Order No. 1456 the following day. It accelerated the time for answers to the Postal Service's motion to March 13, 2006, and set that date for any further designations for the record. No answers or additional designations were filed by the participants.

The Postal Service's motion for an expedited recommended decision is granted. The testimony designated by the Postal Service is received into the record, and the evidentiary record is closed.

³ Designation of the United States Postal Service of Direct Testimony for Inclusion in the Evidentiary Record with Signed Declaration, March 8, 2006.

II. FINDINGS AND CONCLUSIONS

In Docket No. MC2004-5, the Postal Service proposed to start charging a fee for attaching RPNs to mailpieces. The rationale for the fee was novel. The Postal Service proposed to use “value pricing” to determine the amount of the fee. Value pricing is the Postal Service’s perception of the value that a mailer places on the opportunity to use an RPN. It argued that it is fair to charge a fee for mail characteristics that the mailer supplies, if the mailer values those characteristics.

A coalition of mailers opposed the Postal Service’s proposal to apply value pricing to RPNs. The coalition argued that value pricing is fundamentally unfair, primarily because it arbitrarily singles out certain groups of mailers to shoulder an extra share of the Postal Service’s institutional costs.⁴ The Commission recognized that the mailers raised legitimate questions about value pricing on legal, policy, and practical grounds, but did not find these objections fatal in the context of a provisional change in service and rates. PRC Op. MC2004-5 at 12-23.

Rather than attempt to resolve the basic economic and regulatory issues that value pricing raises based on the meager record available in that docket, the Commission decided to recommend that the provisional service change go forward so that the service could be made available quickly to a wider set of mailers (to mailers of all but parcel-shaped mail). Additionally, the Commission decided that allowing the service to go forward would help establish whether RPNs are, in fact, cost-free to the Postal Service and whether there is demand for RPNs when fees are charged.

The Commission concluded that there was little downside to authorizing the service on a temporary basis. It noted that it would not restrict anyone’s service, and would not restructure the services that the Postal Service now provides to mail classes that are eligible to use RPNs. It found that the financial impact on any eligible mail

⁴ In Docket No. MC2004-5, *see, e.g.*, Joint Motion to Dismiss of the Association for Postal Commerce Mailing & Fulfillment Service Association, and the Direct Marketing Association, August 11, 2004, at 6-7, and Reply to Response of United States Postal Service to Mailer Coalition’s Joint Motion to Dismiss, August 25, 2004, at 5.

class, and on the system as a whole, of authorizing wider use of RPNs and charging modest fees for their use, is likely to be small. *Id.* at 2-6.

The record as it now stands is sufficient to justify extending authorization of the current RPN service in the manner that the Postal Service proposes. The issues in this docket are essentially unchanged from those that were disposed of in Docket No. MC2004-5. The only additional issue to be addressed is the need to bridge the gap between April 3, 2006, when RPN service is scheduled to expire, and the time required for the Postal Service to revise its RPN proposal to take the white paper into consideration, hold hearings, and implement it.

The record consists solely of the testimony of Postal Service witness Kaneer. In it, he explains that the time between the January presentation of the RPN white paper and the April 3, 2006, expiration date is not sufficient to reformulate its proposed modification of RPN service, litigate it, and implement it. USPS-T-1 at 2. He argues that the extension that the Postal Service requests is similar to those that the Commission has recommended in other experiments. He says that placing a limit of one year on the extension is "simply to provide an outside limit for the process of consideration of the white paper." *Ibid.* He acknowledges that leaving the length of the extension within that limit to the Postal Service's discretion is a novel aspect of the proposal. He argues that it is appropriate, since it would only occur if the Postal Service were to decide not to pursue further testing of RPN service. *Id.* at 3.

Witness Kaneer's testimony estimates the revenue impact of extending the provisional service. From the eight months of data that have been reported for the provisional service he calculates average monthly volumes and revenues by mail class. He multiplies the result by 12 to estimate the added institutional cost burden that would fall on each host class if RPN service were extended at current rates for an additional year. He estimates that the added burdens would be negligible — \$97,315 for First-Class Mail, \$1,407,970 for Standard Mail, and \$725 for Periodicals. *Id.* at 4-5.

Witness Kaneer proposes classification language that would remove the April 3, 2006, expiration date and substitute an expiration date determined by the status of a

Postal Service proposal to modify the RPN service if it should file one, or its decision to end RPN service. He emphasizes that his proposal would otherwise leave the current RPN service classifications and rates unchanged. Therefore, he reasons, his RPN testimony in Docket No. MC2004-5 (USPS-T-2) and the Commission's findings on the applicability of the statutory criteria support the extension of RPN service in this docket. *Id.* at 3.

Witness Kaneer reasonably concludes that offering RPN service for up to an additional year at current rates is likely to have a negligible impact on the institutional cost burdens of the mail classes eligible to use RPN service. The Commission agrees that under these circumstances, its application of the classification and ratemaking criteria of the Act to the provisional RPN service in Docket No. MC2004-5 supports the extension of that service requested in this docket. An important factor that the Commission considered in Docket No. MC2004-5 when it recommended that the provisional service change go forward was the prospect of having the next RPN proceeding benefit from an academic analysis of the economic and regulatory implications of value pricing. See PRC Op. MC2004-5 at 18-19. The extension that the Postal Service requests has the laudable purpose of obtaining that benefit, and is reasonably formulated to do so. No participant has opposed it. Accordingly, the Commission finds that the requested extension should be approved.

UNITED STATES OF AMERICA
POSTAL RATE COMMISSION
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Before Commissioners:

George Omas, Chairman;
Dawn A. Tisdale, Vice Chairman;
Ruth Y. Goldway; and
Tony Hammond

Repositionable Notes Minor Classification
Changes

Docket No. MC2006-2

RECOMMENDED DECISION

(Issued March 20, 2006)

The Commission, having considered the Postal Service Request, has issued its Opinion thereon. Based on that Opinion, which is attached hereto and made part hereof,

IT IS ORDERED:

1. The Motion of the United States Postal Service for Expedited Issuance of a Recommended Decision, filed March 8, 2006, is hereby granted.
2. The Direct Testimony of Kirk Kaneer on Behalf of the United States Postal Service, filed February 22, 2006, is received into the evidentiary record.
3. The record in this proceeding is closed.

4. The Commission's Opinion and Recommended Decision shall be transmitted to the Governors of the Postal Service, and the Governors shall thereby be advised that the proposed amendments to the Domestic Mail Classification Schedule set forth in Appendix One are in accordance with the policies of title 39, United States Code, and the factors set forth in §§ 3622(b) and 3623(c) thereof, and they are hereby recommended.

By the Commission

(S E A L)

Steven W. Williams
Secretary

**RECOMMENDED CHANGES IN
DOMESTIC MAIL CLASSIFICATION SCHEDULE**

The following material represents changes to the Domestic Mail Classification Schedule recommended by the Postal Rate Commission in response to the Postal Service's Docket No. MC2006-2 Request. The underlined text signifies that the text is new, and shall be added upon approval by the Board of Governors. Deleted text is indicated by a strikethrough.

**FIRST-CLASS MAIL
CLASSIFICATION SCHEDULE**

* * *

221 Letters and Sealed Parcels Subclass

* * *

221.22 Presort Rate Category.

* * *

221.221 Repositionable Notes. Repositionable Notes may be attached to the exterior of letter-size and flat-size Presort rate category mail, as specified by the Postal Service. The additional charge for the Repositionable Note is specified in note 3 to Rate Schedule 221. ~~This provision expires on April 3, 2006.~~

This provision for Repositionable Notes expires as provided below.

(1) If a request to continue to test or make Repositionable Notes permanent is filed, this provision expires on the implementation date for the replacement service, or if no replacement is implemented, three months after the Commission takes action under section 3624 of title 39, on such request.

(2) If the Postal Service determines not to file such request, this provision expires on such date as specified by the Postal Service, but no later than April 3, 2007.

* * *

221.3 Automation Rate Categories — Letters and Flats

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221.32 Letter Categories

* * *

221.326 Repositionable Notes. Repositionable Notes may be attached to the exterior of Automation letter rate category mail, as specified by the Postal Service. The additional charge for the Repositionable Note is specified in note 3 to Rate Schedule 221. ~~This provision expires on April 3, 2006.~~

This provision for Repositionable Notes expires as provided below.

(1) If a request to continue to test or make Repositionable Notes permanent is filed, this provision expires on the implementation date for the replacement service, or if no replacement is implemented, three months after the Commission takes action under section 3624 of title 39, on such request.

(2) If the Postal Service determines not to file such request, this provision expires on such date as specified by the Postal Service, but no later than April 3, 2007.

221.33 Flats Categories.

* * *

221.336 Repositionable Notes. Repositionable Notes may be attached to the exterior of Automation flats rate category mail, as specified by the Postal Service. The additional charge for the Repositionable Note is specified in note 3 to Rate Schedule 221. ~~This provision expires on April 3, 2006.~~

This provision for Repositionable Notes expires as provided below.

(1) If a request to continue to test or make Repositionable Notes permanent is filed, this provision expires on the implementation date for the replacement service, or if no replacement is implemented, three months after the Commission takes action under section 3624 of title 39, on such request.

(2) If the Postal Service determines not to file such request, this provision expires on such date as specified by the Postal Service, but no later than April 3, 2007.

* * *

**STANDARD MAIL
CLASSIFICATION SCHEDULE**

* * *

321 Regular Subclass

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321.8 Repositionable Notes. Repositionable Notes may be attached to the exterior of letter-size or flat-size Regular subclass mail, as specified by the Postal Service. The additional charge for the Repositionable Note is specified in note 6 to Rate Schedule 321A or note 4 to Rate Schedule 321B.—~~This provision expires on April 3, 2006.~~

This provision for Repositionable Notes expires as provided below.

(1) If a request to continue to test or make Repositionable Notes permanent is filed, this provision expires on the implementation date for the replacement service, or if no replacement is implemented, three months after the Commission takes action under section 3624 of title 39, on such request.

(2) If the Postal Service determines not to file such request, this provision expires on such date as specified by the Postal Service, but no later than April 3, 2007.

* * *

322 Enhanced Carrier Route Subclass

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322.8 Repositionable Notes. Repositionable Notes may be attached to the exterior of letter-size or flat-size Enhanced Carrier Route subclass mail, as specified by the Postal Service. The additional charge for the Repositionable Note is specified in note 6 to Rate Schedule 322.—~~This provision expires on April 3, 2006.~~

This provision for Repositionable Notes expires as provided below.

(1) If a request to continue to test or make Repositionable Notes permanent is filed, this provision expires on the implementation date for the replacement

service, or if no replacement is implemented, three months after the Commission takes action under section 3624 of title 39, on such request.

(2) If the Postal Service determines not to file such request, this provision expires on such date as specified by the Postal Service, but no later than April 3, 2007.

323 Nonprofit Subclass

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323.8 Repositionable Notes. Repositionable Notes may be attached to the exterior of letter-size or flat-size Nonprofit subclass mail, as specified by the Postal Service. The additional charge for the Repositionable Note is specified in note 6 to Rate Schedule 323A or note 4 to Rate Schedule 323B.—~~This provision expires on April 3, 2006.~~

This provision for Repositionable Notes expires as provided below.

(1) If a request to continue to test or make Repositionable Notes permanent is filed, this provision expires on the implementation date for the replacement service, or if no replacement is implemented, three months after the Commission takes action under section 3624 of title 39, on such request.

(2) If the Postal Service determines not to file such request, this provision expires on such date as specified by the Postal Service, but no later than April 3, 2007.

324 Nonprofit Enhanced Carrier Route Subclass

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324.8 Repositionable Notes. Repositionable Notes may be attached to the exterior of letter-size or flat-size Nonprofit Enhanced Carrier Route subclass mail, as specified by the Postal Service. The additional charge for the Repositionable Note is specified in note 6 to Rate Schedule 324.—~~This provision expires on April 3, 2006.~~

This provision for Repositionable Notes expires as provided below.

(1) If a request to continue to test or make Repositionable Notes permanent is filed, this provision expires on the implementation date for the replacement

service, or if no replacement is implemented, three months after the Commission takes action under section 3624 of title 39, on such request.

(2) If the Postal Service determines not to file such request, this provision expires on such date as specified by the Postal Service, but no later than April 3, 2007.

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PERIODICALS CLASSIFICATION SCHEDULE

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424 **Repositionable Notes.** Repositionable Notes may be attached to the exterior of letter-size and flat-size Periodicals mail, as specified by the Postal Service. The additional charge for the Repositionable Note is specified in note 8 to Rate Schedule 421 or note 3 to Rate Schedule 423. ~~This provision expires on April 3, 2006.~~

This provision for Repositionable Notes expires as provided below.

(1) If a request to continue to test or make Repositionable Notes permanent is filed, this provision expires on the implementation date for the replacement service, or if no replacement is implemented, three months after the Commission takes action under section 3624 of title 39, on such request.

(2) If the Postal Service determines not to file such request, this provision expires on such date as specified by the Postal Service, but no later than April 3, 2007.

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