

ORDER NO. 276

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

Before Commissioners:

Ruth Y. Goldway, Chairman;  
Nanci E. Langley, Vice Chairman;  
Mark Acton;  
Dan G. Blair; and  
Tony L. Hammond

Notice of Price Adjustment  
for Certain Presorted First-Class Mail

Docket No. R2009-5

NOTICE AND ORDER CONCERNING  
INCENTIVE PRICING PROGRAM FOR  
CERTAIN PRESORTED FIRST-CLASS MAIL

(Issued August 13, 2009)

I. OVERVIEW

On August 11, 2009, the Postal Service filed with the Commission a notice announcing its intention, pursuant to 39 U.S.C. 3622 and 39 CFR part 3010, to adjust prices for certain First-Class Mail presorted letters, flats and cards sent by qualifying mailers.<sup>1</sup> The Postal Service characterizes the planned adjustment as a temporary First-Class Mail Incentive Program (Program) to spur volume growth during the current recession. Key elements of the Program include a 20 percent rebate on qualifying

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<sup>1</sup> United States Postal Service Notice of Market-Dominant Price Adjustment, August 11, 2009 (Notice). The Postal Service also refers to the qualifying presorted pieces as non-parcel First-Class Mail. See, for example, *Id.* at 4.

incremental volume; certain volume thresholds; and a three-month duration, extending from October 1, 2009 through December 31, 2009. *Id.* at 2-3.

The Notice addresses plans for public notice; program description and administration; price cap compliance; statutory objectives and factors; workshare discounts; and impact on preferred rates. A schedule of the new temporary prices and conforming revisions to Mail Classification Schedule language appear in Appendix A to the Notice in compliance with Commission rules 3010.14(a)(1) and 3010.14(b)(9).

## II. POSTAL SERVICE FILING

*Program description.* The Postal Service asserts that the proposed Program will give eligible companies a 20 percent postage rebate on qualifying presort letter, flat and card volumes mailed between October 1, 2009 and December 31, 2009. *Id.* Qualifying volume is defined as a single company's First-Class Mail volume over and above a predetermined threshold. *Id.* at 3.

*Eligibility; rebate threshold.* To be eligible to participate in the Program, a company must have mailed 500,000 or more non-parcel First-Class Mail pieces between October 1 and December 31 in both 2007 and 2008 through company-owned permit accounts or through permits set up on the company's behalf by a Mail Service Provider. *Id.* Participants must then exceed a company-specific threshold during October 1, 2009 through December 31, 2009 to qualify for the incentive rebate.<sup>2</sup> Incremental volume mailed by an eligible, participating company above the calculated threshold will earn a 20 percent rebate.

*Rebate calculation; credit.* The rebate will be calculated as the average revenue per piece for all eligible mail volume during the program period multiplied by the

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<sup>2</sup> This threshold is determined by computing the ratio of the October 1—December 31, 2008 non-parcel First-Class Mail presorted volume to the October 1—December 31, 2007 non-parcel First-Class Mail presorted volume. The result is then multiplied by the company's October 1—December 31, 2008 non-parcel First-Class Mail presorted volume. *Id.*

incremental volume above the threshold during the program period. It will be credited to the company's permit trust account. *Id.*

*Program intent.* The stated intent of the Program is to provide an incentive for customers to increase non-parcel First-Class Mail presorted volume above the volume they otherwise would have sent. To protect this core element of the Program, the Postal Service includes provisions to address the possibility of strategic shifting or withholding of volume. *Id.* at 4.

*Program administration.* The Notice addresses several aspects of program administration, including methods for contacting eligible mailers; procedures for establishing company thresholds and crediting rebates to permit trust accounts; data collection and reporting (including filing some data under seal); financial impact; and risk. *See generally id.* at 4-8.

Under the data collection plan, the Postal Service will submit Program-related data to the Commission 90 days after the payment of incentive rebates. The Notice describes specific components of the plan, notes that some participant data will be filed under seal, and states that actual administrative costs will be identified. *Id.* at 6.

With respect to the financial aspects of the Program, the Postal Service expects, based on the 20 percent rebate and the expressed interest of customers, a contribution increase of around \$24 million and a revenue increase, net of the 20 percent rebate, of \$43 million. It anticipates new volume of about 103 million pieces, which it says will generate about \$31 million in additional revenue and \$16 million in contribution. It also expects about 103 million pieces to "buy up" from Standard Mail, providing an additional \$12 million in revenue and \$8 million in contribution. *Id.* at 7. Administrative costs are expected to total \$809,000, and to be easily covered by the contribution generated from additional volume. *Id.*

The Postal Service's primary measure of success will be incremental revenue and volume growth over the threshold for participating customers, but qualitative aspects, such as the Postal Service's ability to efficiently and effectively administer the program and customer feedback, also will be monitored. *Id.* at 5-6.

*Conformance with public notice and other requirements.* In conformance with rule 3010.14(a), the Postal Service certifies that it will inform customers of the planned price adjustments in numerous ways. *Id.* at 1. In addition to the formal Notice filed with the Commission, these include notice via *USPS.com*, the Postal Explorer website, the *DMM Advisory*, the *P&C Weekly*, a press release, *PCC Insider*, *MailPro*, the *Postal Bulletin*, and the *Federal Register*. *Id.* at 1-2. The Postal Service identifies Greg Dawson as the official contact for Commission queries. *Id.* at 2.

*Impact on the price cap.* The Postal Service proposes to treat the Program, for purposes of price cap compliance, in a manner it characterizes as “mathematically analogous to the procedure described in Rule 3010.24.” *Id.* at 8. It explains that this means it intends to ignore the effect of the price decrease resulting from the program on the price cap for both future and current prices, and therefore has made no calculation of cap or price changes described in rule 3010.14(b)(1) through (4). *Id.*

*Statutory objectives and factors.* The Notice further provides, in compliance with rules 3010.14(b)(5) through 3010.14(b)(8), the Postal Service’s assessment of how the planned Program helps achieve the objectives of 39 U.S.C. 3622(b) and properly takes into account the factors of 39 U.S.C. 3622(c). *See generally id.* at 8-13. With respect to statutory objectives, this includes the Postal Service’s conclusion that to a large extent, the establishment of the Program either does not substantially alter the degree to which the First-Class Mail prices already address the statutory objectives, or its belief that those objectives are addressed by the design of the system itself. *Id.* at 10. The Postal Service also observes that establishment of this Program, which is designed to encourage First-Class Mail presort letters, flats and cards volume growth during a recession, is an example of the increased flexibility provided to the Postal Service under the Postal Accountability and Enhancement Act (PAEA) of 2006. *Id.* It further states that the fact that the program will provide an incentive for profitable new mail and provide a boost to a key customer segment will enhance the financial position of the Postal Service.

In terms of statutory factors, the Postal Service asserts that, as with the objectives, the establishment of the Program does not substantially alter the degree to which First-Class Mail prices address many of them. *Id.* at 12. It adds that the Program is “a prime example of how the Postal Service can utilize the pricing flexibility provided under the PAEA in order to encourage increased mail volume.” *Id.* It maintains that the Program will help to counteract the effect of the current recession on business mailers, and provide a boost to a key customer segment. It also says that although the rebates are material, the Program will not affect the ability of First-Class Mail to cover its attributable costs, and that as a result of the Program, First-Class Mail as a whole will make an increased contribution toward overhead costs. *Id.* at 12-13.

*Workshare discounts.* The Postal Service states that to the extent the Program affects discounts between presort categories, it will shrink them, but asserts that the Program itself is not worksharing, nor should its effects be considered a modification of, or change to, First-Class Mail worksharing discounts. *Id.* at 13. It asserts that the Program is a temporary incentive intended to drive additional First-Class Mail presort volume and, as such, is not tied to any specific mail preparation or induction practice. *Id.* It suggests that the discounts, in this sense, are similar to the incremental discounts the Commission has approved in a number of negotiated service agreements or the IMb discount that will take effect in the fall. *Id.*

*Preferred rates.* The Postal Service asserts that the Program will have no impact on any preferred rates.

### III. COMMISSION ACTION

*Establishment of docket; comments.* Pursuant to its rules implementing the PAEA, the Commission establishes Docket No. R2009-5 to consider all matters related to the Notice. 39 CFR 3010.13(a). It also issues the instant Order to provide notice of the Postal Service’s filing. Therein, consistent with provision of a 20-day comment period, starting from the date the Postal Service filed its Notice, the Commission directs that comments are due no later than August 31, 2009. 39 CFR 3010.13(a)(5).

Interested persons may express views and offer comments on whether the planned price adjustment is consistent with the policies of 39 U.S.C. 3622 and with applicable requirements of 39 CFR part 3010.

*Public representative.* Commission rule 3010.13(a)(4), which implements 39 U.S.C. 505, requires the Commission to identify, in its notice addressing the Postal Service's filing, an officer of the Commission to represent the interests of the general public in this docket. In satisfaction of this requirement, the Commission appoints Richard A. Oliver.

*Other matters.* Pursuant to rule 3010.13(c), the Commission will issue its determination in this proceeding by September 14, 2009.

#### IV. ORDERING PARAGRAPHS

*It is ordered:*

1. The Commission establishes Docket No. R2009-5 to consider matters raised in the Postal Service's August 11, 2009 filing.
2. Interested persons may submit comments on the planned price adjustments. Comments are due August 31, 2009.
3. Pursuant to 39 U.S.C. 505, the Commission appoints Richard A. Oliver to represent the interests of the general public in this proceeding.
4. The Commission directs the Secretary of the Commission to arrange for prompt publication of this document in the *Federal Register*.

By the Commission.

Ann C. Fisher  
Acting Secretary