

POSTAL SERVICE

39 CFR Part 111

Market Dominant Negotiated Service Agreement (NSA) for First-Class Mail and Standard Mail

AGENCY: Postal Service™.

ACTION: Final rule.

SUMMARY: The Postal Service will revise the *Mailing Standards of the United States Postal Service*, Domestic Mail Manual (DMM®) 709.1, to establish a new Negotiated Service Agreement (NSA) Market Dominant product for First-Class Mail® and Standard Mail® combined letter revenues.

DATES: Effective June 6, 2011.

FOR FURTHER INFORMATION CONTACT: Gregory Dawson at 202-268-7446, Steve Monteith at 202-268-6983, or Yvonne Gifford at 202-268-8082.

SUPPLEMENTARY INFORMATION: This new NSA for First-Class Mail and Standard Mail is based on the combined total revenue of First-Class Mail automation letters, Standard Mail automation letters, and Standard Mail carrier route barcoded automation-compatible letters.

Background

The 3-year agreement is designed to maintain and grow the total contribution the Postal Service receives from First-Class Mail and Standard Mail and to provide an incentive for net contribution growth beyond that. The agreement has five main components: a revenue threshold using a participant-specific baseline, a revenue threshold adjustment, a postage commitment, a rebate on First-Class Mail, and a rebate on Standard Mail.

Revenue Threshold

The revenue threshold is based on the amount of total postage paid for First-Class Mail automation letters, Standard Mail automation letters, and Standard Mail carrier route barcoded automation-compatible letters. The baseline for the revenue threshold is the total postage for these categories over the previous one-year period. The threshold is calculated at a negotiated percentage above the baseline for each year during the duration of the agreement.

Revenue Threshold Adjustment

The revenue threshold will be adjusted upward by a negotiated amount for every dollar decline in First-Class Mail postage. To qualify for rebates under this adjustment, a

determined revenue amount of Standard Mail must be mailed to offset each dollar decline in postage from First-Class Mail.

Postage Commitment

The agreement contains a postage commitment, equal to the adjusted revenue threshold or any subsequent yearly adjusted threshold. If the amount of total postage from eligible mail in the first year of the contract is less than the adjusted threshold, a penalty is assessed for the difference between the adjusted revenue threshold and the actual total postage paid for contract year one. Subsequent year penalties for failing to meet the adjusted revenue threshold are negotiated by the parties prior to the end of the current contract year.

Rebates

If the mailer holding the agreement meets or exceeds the adjusted postage thresholds in any given year of the contract, the mailer will earn a rebate on the qualifying First-Class Mail and Standard Mail postage. For First-Class Mail, the rebate will be equal to a negotiated percent of the increase in postage as a result of a subsequent cumulative price increase (relative to First-Class Mail prices in existence at the initiation of the agreement) for all qualifying pieces. For Standard Mail, the rebate will be equal to a negotiated percent of the increase in postage as a result of a subsequent cumulative price increase (relative to Standard Mail prices in existence at the initiation of the agreement) for all qualifying pieces.

The NSA expires three years from the effective date. Either party can terminate the agreement, without penalty, for convenience, in the first nine months of any contract year provided the terminating party gives 90 days written notice prior to the planned termination date to the other party.

In accordance with the Postal Accountability and Enhancement Act, on January 14, 2011, the Postal Service filed a Notice with the Postal Regulatory Commission (PRC) regarding the Market Dominant Negotiated Service Agreement (NSA) for First-Class Mail and Standard Mail and it was approved on March 15, 2011.

The Postal Service adopts the following changes to *Mailing Standards of the United States Postal Service, Domestic Mail Manual (DMM)*, incorporated by reference in the *Code of Federal Regulations*. See 39 CFR 111.1.

List of Subjects in 39 CFR Part 111

Administrative practice and procedure, Postal Service.
Accordingly, 39 CFR Part 111 is amended as follows:

PART 111 – [AMENDED]

1. The authority citation for 39 CFR Part 111 continues to read as follows:

Authority: 5 U.S.C. 552(a); 13 U.S.C. 301-307; 18 U.S.C. 1692-1737; 39 U.S.C. 101, 401, 403, 404, 414, 416, 3001-3011, 3201-3219, 3403-3406, 3621, 3622, 3626, 3632, 3633, and 5001.

2. Revise the following sections of *Mailing Standards of the United States Postal Service*, Domestic Mail Manual (DMM) as follows:

Mailing Standards of the United States Postal Service, Domestic Mail Manual (DMM)

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700 Special Standards

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[Rename the title of section 709 as follows:]

709 Negotiated Service Agreements and Experimental and Temporary Classifications

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[Add new 1.4 as follows:]

1.4 Market Dominant First-Class Mail and Standard Mail Letters NSAs

1.4.1 Definition and Purpose

The First-Class Mail and Standard Mail NSA is based on the combined total revenue of First-Class Mail automation letters, Standard Mail automation letters, and Standard Mail carrier route automation letters, and provides an incentive to encourage the growth of First-Class Mail. A baseline is determined from the revenue generated from First-Class Mail automation letters, Standard Mail automation letters, and Standard Mail carrier route barcoded automation-compatible letters that are mailed as and eligible for full-service Intelligent Mail prices (705.23) during a prior specified 12-month period of time. It includes a postage threshold that is adjusted from the baseline to qualify for a rebate. If the adjusted revenue threshold is met, a rebate is generated on a percentage of the difference of an increase in postage as a result of a subsequent cumulative First-Class Mail and Standard Mail price increase related to the prices in existence at the time of the agreement. If the adjusted revenue threshold is not met, the NSA holder will pay a penalty.

1.4.2 Candidate Factors and Requirements

Potential participants must be IMb full-service customers with substantial, but declining First-Class Mail volumes and significant volumes of Standard Mail. Candidates must also meet the standards in 1.1 through 1.3 to qualify. The basic agreement comprises five components:

- a. Revenue threshold: Is based on the amount of total combined postage paid for First-Class Mail automation letters, Standard Mail automation letters, and

Standard Mail carrier route barcoded automation-compatible letters. The baseline for the revenue threshold is the total postage for these categories over the previous one-year period. The threshold is calculated at a negotiated percentage above the baseline for each year during the duration of the agreement.

- b. Revenue threshold adjustment: Will be adjusted upward by a negotiated amount for every dollar decline in First-Class Mail postage. To qualify for rebates under this adjustment, a pre-determined revenue amount of Standard Mail must be mailed to offset each dollar decline in postage from First-Class Mail.
- c. Postage commitment with penalty: The postage commitment is an amount equal to the adjusted revenue threshold. If the amount of total postage from eligible mail in the first year of the contract is less than the adjusted revenue threshold, a negotiated percentage penalty in the amount of the difference between the adjusted revenue threshold and the actual total postage paid for contract year one must be paid. Subsequent year penalties for failing to meet the adjusted revenue threshold are negotiated by the parties prior to the end of the current contract year.
- d. Rebate on First-Class Mail: If the mailer holding the agreement exceeds the adjusted revenue thresholds in any given year of the contract, it will earn rebates on its qualifying First-Class Mail postage. The rebate will be equal to a negotiated percent of the increase in postage as a result of a subsequent cumulative price increase (relative to First-Class Mail prices in existence at the initiation of the agreement) for all qualifying pieces.
- e. Rebate on Standard Mail: If the mailer holding the agreement exceeds the adjusted revenue thresholds in any given year of the contract, it will earn rebates on its qualifying Standard Mail postage. The rebate will be equal to a negotiated percent of the increase in postage as a result of a subsequent cumulative price increase (relative to Standard Mail prices in existence at the initiation of the agreement) for all qualifying pieces.

1.4.3 General Requirements

Any proposed First-Class Mail and Standard Mail NSA under this classification must also contain, at a minimum, the following general candidate requirements and conditions:

- a. The NSA expires three years from the effective date. Either party can terminate the agreement, without penalty, for convenience, in the first nine months of any contract year provided the terminating party gives 90 days written notice prior to the planned termination date to the other party.
- b. The NSA will contain a merger and acquisition clause, which adjusts the threshold to account for increased mailing activity (or decreased, in the case of a sale or closure).

1.4.4 Initial Proposal

The proposal must explain how the candidate meets the requirements in 1.4.2 and also must meet the following conditions:

- a. The candidate must submit a written proposal that includes appropriate supporting documentation to the USPS Manager of Correspondence & Transactions (see 608.8.0 for address).
- b. The proposal must be initiated by the mailer and include a summary of the information responding to the applicable candidate features and general requirements described in 1.4.3.
- c. A nondisclosure agreement must be signed before any substantive discussion of the proposal begins.

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We will publish an appropriate amendment to 39 CFR Part 111 to reflect these changes.

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