

BEFORE THE  
POSTAL RATE COMMISSION  
WASHINGTON, D.C. 20268-0001

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EXPERIMENTAL PARCEL RETURN SERVICES

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Docket No. MC2003-2

COMMENTS OF THE UNITED STATES POSTAL SERVICE  
IN SUPPORT OF SETTLEMENT  
(August 4, 2003)

In accordance with Order No. 1378, the United States Postal Service hereby provides its comments in support of settlement of the instant case.

I. Procedural History

On May 28, 2003, the Postal Service filed with the Commission the Request of the United States Postal Service for a Recommended Decision on Experimental Parcel Return Services ("Request"). The Request was filed in accordance with 39 U.S.C. §§ 3622 and 3623.

The Postal Service proposed the creation of experimental classifications, rates, and fees for certain parcels and bound printed matter that are returns from customers to merchants, collectively referred to as "Parcel Return Services." The Postal Service supported its Request with the written direct testimony of four witnesses—John Gullo (USPS-T-1), Jennifer Eggleston (USPS-T-2), James Kiefer (USPS-T-3), and Jonathan Wlittnebel (USPS-T-4)—and other documents, including exhibits, submitted pursuant to the Commission's Rules of Practice and Procedure. 39 C.F.R. §§ 3001.1 *et seq.* The experiment is proposed to be in

effect for two years, with an automatic extension if a request for a permanent classification has been filed.

In this experiment, three rate categories of Parcel Return Services products have been proposed:

- Parcel Select Return Delivery Unit (RDU)
- Parcel Select Return Bulk Mail Center (RBMC)
- Bound Printed Matter Return Bulk Mail Center (RBMC)

The RDU rate would be charged for parcels addressed to and captured at the post office identified on the return label. The RBMC rates would be charged when shippers pick up parcels or bound printed matter at an RBMC.

In order to maintain consistency with the rates currently in effect, the cost avoidance measures underlying these proposals are estimated using the same cost base as that underlying the Commission's rate recommendations in Docket No. R2001-1. The Postal Service's proposals are supported by the record in Docket No. R2001-1.<sup>1</sup>

The cost calculations are shown in the testimony of witness Eggleston (USPS-T-2). The pricing of these products is set forth in the testimony of James

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<sup>1</sup> The Postal Service's use, in this proceeding, of costing methods employed by the Commission in the most recent omnibus rate case is not intended to imply agreement that those methods generate the most accurate cost estimates possible. The Postal Service reserves the right to contest particular costing methods in future cases and will continue to advocate improvements in the Commission's methods. For purposes of this case, however, the Commission's current methods are employed in order to place the proposed discounts on a consistent footing with the Package Services rates currently in effect.

Kiefer (USPS-T-3), who determined the proposed rates based upon appropriate passthrough percentages.

By Order No. 1373, issued on June 3, 2003, the Commission noticed the Postal Service's Request and designated the instant proceeding as Docket No. MC2003-2. The Commission gave interested parties until June 18, 2003, to intervene in the proceeding, requesting that notices of intervention indicate whether the participant seeks a hearing, and specify any genuine issues of material fact that warrant a hearing. While the Commission denied the Postal Service's motion for expedition, it stated that it would conduct the proceeding with dispatch. The Commission designated Shelley S. Dreifuss, the Director of its Office of the Consumer Advocate ("OCA"), to represent the general public. The Order also designated Postal Service counsel as settlement coordinator and suggested dates its hearing room could be used for a settlement conference in advance of the prehearing conference. Fifteen parties intervened in this proceeding, and none requested a hearing, or specified any issues of material fact warranting a hearing.

A settlement conference was held on June 24, 2003, at which ten of the participants attended. At the prehearing conference on June 25, 2003, Postal Service counsel reported that none of those parties had expressed an intention to oppose a potential settlement, and that many of them expressed support for the proposals. At the prehearing conference, attended by nine intervenors, as well as the Postal Service and the OCA, none of the parties expressed a belief that evidentiary hearings would be necessary.

On June 27, 2003, the Commission issued Order No. 1378, establishing a procedural schedule in anticipation of a possible settlement. The Commission directed the parties to complete discovery of the Postal Service's direct case on July 3, 2003, and it gave the parties until June 16, 2003, to request an evidentiary hearing. Accordingly, discovery proceeded through July 3, 2003, with over 120 interrogatories being propounded on, and answered by, the Postal Service's witnesses. Again, no party requested a hearing.

Following negotiations with interested parties and In accordance with Order No. 1378, the Postal Service filed a Stipulation and Agreement on July 28, 2003, and moved that it form the basis for the Commission's recommended decision. The Stipulation and Agreement included a revised data collection plan, incorporated minor changes to the proposed classification language, and contained a statement of intention by the Postal Service to work with interested mailers to pursue possible future enhancements in the proposed Parcel Return Services. Twelve intervenors, along with the Postal Service and the OCA, have signed the Stipulation and Agreement.<sup>2</sup>

The Agreement, as filed, asks the Commission to recommend an experimental classification for the Parcel Return Services for approval by the Governors of the United States Postal Service. It bears emphasizing that the Agreement reflects the concurrence of the signatories that, for the purpose of this proceeding, the Postal Service's testimony and supporting documentation

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<sup>2</sup> The other three intervenors have indicated to Postal Service counsel that they are neither signing nor opposing the Stipulation and Agreement

provide substantial record evidence sufficient to serve as the basis for the Commission's recommendations to the Governors. Stipulation and Agreement at ¶ 2.

The OCA and the Postal Service have designated direct testimonies and written cross-examination, which have been supported by appropriate declarations, for inclusion in the evidentiary record. Order No. 1378 set today's date as the deadline for the filing of comments in support of or in opposition to material terms of the settlement, as well as for submitting additional signature pages for the Stipulation and Agreement.

## II. The Commission Should Recommend the Settlement Agreement.

The broad support for the settlement agreement, including support from parcel mailers, other mailers, a postal employee's union, a competitor, and the OCA, is noteworthy, and shows the broad benefits of conducting this experiment. The Commission should recommend this proposal so the experiment can go forward.

The proposed experimental Parcel Return Services are designed to expand to merchandise returns the benefits of worksharing that have been successful for outbound parcels, going from merchants to consumers. These services target the same shippers who have benefited from the Parcel Select service, under which shippers deposit parcels closer to their destinations. Return parcels most likely would be picked up at the same facility where the packages originally were entered (such as the Destination Bulk Mail Center or the Destination Delivery Unit).

Shippers would benefit by being able to take advantage of increased efficiency in their routes by dropping off and picking up parcels at the same time, and obtaining more favorable rates that reflect savings in transportation and mail processing costs. The Postal Service would benefit through increased efficiency in processing these returns and the potential generation of new revenue. See Direct Testimony of John Gullo on Behalf of the United States Postal Service (USPS-T-1); Direct Testimony of Jonathan E. Wittnebel on Behalf of the United States Postal Service (USPS-T-4).

As demonstrated in the testimony of witness Kiefer (USPS-T-3), the Postal Service's overall revenue position will not be affected materially under the proposed experiment. The rates selected are based on costs avoided and incurred, and employ less than full passthroughs. Thus, the proposed experiment minimizes any potential risk of significant, negative financial results or harm to the Postal Service, mailers using the new services, or other mailers.

The Postal Service believes that the classifications embodied in this proposed experiment will be attractive to mailers and will contribute to the long-term viability of the postal system. The proposed classifications will further the general policies of efficient postal operations and reasonable rates and fees enunciated in the Postal Reorganization Act. See 39 U.S.C. §§ 101(a), 403(a), and 403(b). The requested changes also conform to the criteria of 39 U.S.C. §§ 3622(b) and 3623(c).

The Postal Service proposes that this experimental classification be in effect for two years, which should allow mailers sufficient time to adjust their

mailing practices to take advantage of the new services. Moreover, this period will provide the Postal Service with adequate time to aggregate and fully analyze data collected under the experiment, so that a request for a permanent change in mail classification can be prepared if the data are determined to support such a request. If such a request is made within the experimental period, the Postal Service asks that the experiment continue until action on that request can be completed, thus avoiding disruption to both mailers and the Postal Service.

The Postal Service believes that the classifications embodied in this proposed experiment will be attractive to mailers and will contribute to the long-term viability of the postal system. The proposed classifications will further the general policies of efficient postal operations and reasonable rates and fees enunciated in the Postal Reorganization Act. See 39 U.S.C. §§ 101(a), 403(a), and 403(b). The requested changes also conform to the criteria of 39 U.S.C. §§ 3622(b) and 3623(c). USPS-T-1, at 16-19.

### III. Conclusion

For these reasons, the Postal Service believes that it is appropriate for the Commission to issue an Opinion and Recommended Decision recommending the proposed classifications and rates for Parcel Return Services contained in the Stipulation and Agreement. These proposals meet the criteria of the Postal

Reorganization Act, and are supported by all participants who have taken a position on the settlement agreement.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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Scott L. Reiter  
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### **CERTIFICATE OF SERVICE**

I hereby certify that I have this day served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.

Scott L. Reiter

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August 4, 2003