

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

EXPERIMENTAL PERIODICALS
CO-PALLETIZATION DROPSHIP
DISCOUNTS FOR HIGH EDITORIAL
PUBLICATIONS, 2004

Docket No. MC2004-1

NOTICE OF THE UNITED STATES POSTAL SERVICE
OF DECISION OF THE GOVERNORS
(July 22, 2004)

The United States Postal Service hereby provides notice of the attached
Decision of the Governors in Docket No. MC2004-1:

Decision of the Governors of the United States Postal Service on the
Opinion and Recommended Decision of the Postal Rate Commission
Approving Stipulation and Agreement on Experimental Periodicals Co-
Palletization Dropship Discounts for High Editorial Publications, Docket
No. MC2004-1 (July 19, 2004).

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking

/s/ _____
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July 22, 2004

**DECISION OF THE GOVERNORS OF THE UNITED STATES POSTAL SERVICE
ON THE OPINION AND RECOMMENDED DECISION OF THE POSTAL RATE
COMMISSION APPROVING STIPULATION AND AGREEMENT ON EXPERIMENTAL
PERIODICALS CO-PALLETIZATION DROPSHIP DISCOUNTS FOR HIGH EDITORIAL
PUBLICATIONS, DOCKET NO. MC2004-1**

July 19, 2004

STATEMENT OF EXPLANATION AND JUSTIFICATION

On July 7, 2004, the Postal Rate Commission issued its Opinion and Recommended Decision Approving Stipulation and Agreement in Docket No. MC2004-1, Experimental Periodicals Co-Palletization Dropship Discounts for High Editorial Publications. Pursuant to a request by the Postal Service, the Commission recommended an experiment creating new rate discounts for certain high editorial Periodicals Mail that is co-palletized and dropshipped to the Destination Area Distribution Center ("DADC") or Destination Sectional Center Facility ("DSCF").

The Postal Service initiated this proceeding on February 25, 2004, with its Request for a Recommended Decision on Experimental Periodicals Co-Palletization Dropship Discounts for High Editorial Publications. The request filed with the Commission proposed a two-year experiment establishing new discounts for mailers of relatively low volume or low density Periodicals Mail. This proposal would add to experimental co-palletization discounts implemented last year (Docket No. MC2002-3), to provide a more effective incentive for publications containing at least 85 percent editorial content, as opposed to advertising matter.

The Postal Service concluded that the discounts created by the experiment implemented last year were not adequate to get such high editorial publications to co-palletize and dropship, because the flat editorial pound rate element of the existing Periodicals rate schedule limits the postage savings available to editorial matter when it is dropshipped. The new discounts proposed in Docket No. MC2004-1 would range from 0.8 to 12.5 cents per editorial pound for mail entered at a DADC, and from 1.4 to 13.1 cents per editorial pound for mail entered at a DSCF, depending on the number of zones avoided as a result of co-palletizing and dropshipping the mail. This rate design would thus offset the limits on postage savings reflected in the existing flat editorial pound rate.

Like the experiment approved last year, the new experiment is expected to reduce Periodicals costs by encouraging the preparation of more mail on pallets, rather than sacks, and the dropshipment of those pallets to destination facilities. Cost savings are expected to exceed the revenue loss from the new discounts.

The Postal Service further proposed to coordinate the current and proposed co-palletization experiments by establishing a single expiration date for both. A single expiration date will facilitate a unified decision whether to make permanent, modify, or terminate both sets of experimental discounts. The unified date would have the effect of extending the current co-palletization experiment.

The Postal Service's Request also proposed an unrelated classification change that would allow sample copies of publications to be included with merchandise shipments sent at Parcel Post or Bound Printed Matter rates. The weight of these sample publications would be included in the postage calculation to cover any additional costs incurred in transporting slightly heavier parcels. This proposal would provide another way for promoting publications.

Following negotiations among the participants in the proceeding, the Postal Service filed, on May 26, 2004, a Stipulation and Agreement intended to settle all the issues in the case. The Stipulation and Agreement follows the terms of the Postal Service's original request. The Commission's Opinion that accompanies its Recommended Decision thoroughly describes the background and the settlement proposal presented to the Commission. We need not repeat that description here. The Stipulation and Agreement was signed by 8 of the 10 participants, and no parties opposed the settlement.

The Commission's July 7, 2004, Opinion and Recommended Decision approved the Stipulation and Agreement. It incorporated the changes to Domestic Mail Classification Schedule § 421.50, and the changes to the Periodicals Rate Schedule (Schedule 421), that are reflected in the Stipulation and Agreement. The only modification specified the unified expiration date for both sets of experimental co-palletization discounts, two years after the implementation date to be established by the Board of Governors. The Commission also recommended the proposed changes to DMCS § 511 to allow sample copies of publications to be included in merchandise shipments. The Commission concluded that the requested classification changes and rate discounts are supported by substantial evidence of record, and satisfy the applicable criteria and policies of the Postal Reorganization Act.

Because of the cooperation of the participants in negotiating the terms of the Stipulation and Agreement, the Commission was able to consider the issues raised in Docket No. MC2004-1 within 150 days of the filing of the Postal Service's Request, as contemplated by its rules governing the consideration of experimental classification cases. The Commission's effort is appreciated, and allows us to take action that will enable the Postal Service to implement the proposed experiment as soon as practicable.

We have concluded that the experimental classification and rate changes recommended by the Postal Rate Commission will help maintain a fair and equitable mail classification system, and are otherwise in accordance with the policies of the Postal Reorganization Act. Similarly, we conclude that the changes allowing sample copies of publications to be included in merchandise shipments at Parcel Post or Bound Printed Matter rates will help maintain a fair and equitable mail classification system and are in accordance with the policies of the Act. Therefore, we approve the classification and rate changes recommended by the Commission.

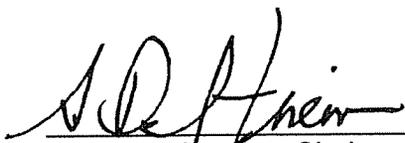
ESTIMATE OF ANTICIPATED REVENUE

The Postal Reorganization Act requires that our Decision include an estimate of anticipated impact on postal revenues (39 U.S.C. § 3625(e)). The evidentiary record indicates that annual cost savings will exceed the revenue leakage by over \$1.3 million. The record also indicates that additional cost savings could accrue to the Postal Service, as co-palletization programs expand.

ORDER

In accordance with the foregoing Decision of the Governors, the changes in classification set forth in Attachment A hereto and the changes in rates set forth in Attachment B hereto, and incorporated herein, are hereby approved and ordered into effect. In accordance with Resolution 04-5 of the Board of Governors, dated July 19, 2004, the changes will take effect at 12:01 a.m. on October 3, 2004. In choosing this effective date, the Board has taken into account the time needed for mailers to prepare to take advantage of the new discounts, and for the Postal Service to finalize rules to implement the discounts, and to establish new postage payment and data collection systems for participating customers.

By The Governors:



S. David Fierman, Chairman

Attachment A
CHANGES IN DOMESTIC MAIL CLASSIFICATION SCHEDULE

PERIODICALS
CLASSIFICATION SCHEDULE

[Revised Section for Co-palletization Dropship Discounts;
additions are underlined and deletions marked with strikethrough.]

421.50

Co-palletization Dropship Discounts. Either a per-piece or a per-pound co-palletization dropship discount (but not both) applies to Outside County subclass nonletter mail qualifying under section 421.49, that is presented on sectional center facility (SCF) or area distribution center (ADC) pallets containing more than one publication, as specified by the Postal Service. The discount is limited to those pieces which could not be prepared on a qualifying pallet under section 421.48 or 421.49, if the mail had been prepared without such combining. The per-pound discounts apply only to editorial pounds, and are also limited to publications that weigh 9 ounces or more, which contain no more than 15 percent advertising matter, and which have a mailed circulation of no more than 75,000 copies per issue. A participating mailer or consolidator must provide pre-consolidation and post-consolidation documentation for all qualifying pieces, as specified by the Postal Service. This section expires the later of:

- a. October 3, 2006~~two years after the implementation date [April 20, 2003]~~
~~for the section specified by the Board of Governors, or~~
- b. if, by the expiration date specified in (a), a proposal for a permanent replacement for the co-palletization dropship discounts is pending before the Postal Rate Commission:
 - i. three months after the Commission takes action on such request under 39 U.S.C. § 3624 or, if applicable,
 - ii. on the implementation data for a permanent replacement for the co-palletization dropship discounts.

PACKAGE SERVICES CLASSIFICATION SCHEDULE

[Revised Section for Sample Periodical in Package Services;
additions are underlined and deletions marked with strikethrough.]

510 DEFINITION

511 General

Any mailable matter may be mailed as Package Services mail except:

- a. Matter required to be mailed as First-Class Mail;
- b. Regular and Nonprofit Presort category mail entered as Customized Market Mail under section 321.22 and 323.22; and
- c. Copies of a publication that is entered as Periodicals class mail, except:
 - ~~i.~~ copies sent by a printer to a publisher, ~~and except~~
 - ii. copies that would have traveled at the former second-class transient rate. (The transient rate applied to individual copies of second-class mail (currently Periodicals class mail) forwarded and mailed by the public, as well as to certain sample copies mailed by publishers.); and
 - iii. sample copies enclosed or attached with merchandise sent at Parcel Post or Bound Printed Matter rates.

Attachment B
CHANGES IN PERIODICALS RATE SCHEDULE
 [Additions are underlined; deletions are marked with strikethrough.]

PERIODICALS
RATE SCHEDULE 421

OUTSIDE COUNTY (INCLUDING SCIENCE OF AGRICULTURE)

	Postage Rate Unit	Rate
Outside County		
Advertising		
Destinating delivery unit	Pound	\$ 0.158
Destinating SCF	Pound	0.203
Destinating ADC	Pound	0.223
Zones 1 & 2	Pound	0.248
Zone 3	Pound	0.267
Zone 4	Pound	0.315
Zone 5	Pound	0.389
Zone 6	Pound	0.466
Zone 7	Pound	0.559
Zone 8	Pound	0.638
Nonadvertising	Pound	0.193
Science of Agriculture		
Advertising		
Delivery unit	Pound	0.119
SCF	Pound	0.152
DADC	Pound	0.167
Zones 1 & 2	Pound	0.186
Zone 3	Pound	0.267
Zone 4	Pound	0.315
Zone 5	Pound	0.389
Zone 6	Pound	0.466
Zone 7	Pound	0.559
Zone 8	Pound	0.638
Nonadvertising	Pound	0.193
Outside County and Science of Agriculture		
Basic		
Nonautomation	Piece	0.373
Automation letter	Piece	0.281
Automation flat	Piece	0.325

3-Digit

Nonautomation	Piece	0.324
Automation letter	Piece	0.249
Automation flat	Piece	0.283

5-Digit

Nonautomation	Piece	0.256
Automation letter	Piece	0.195
Automation flat	Piece	0.226

Carrier Route

Basic	Piece	0.163
High density	Piece	0.131
Saturation	Piece	0.112

Discounts

Percentage editorial discount	Piece	0.00074
Worksharing discount DDU	Piece	0.018
Worksharing discount DSCF	Piece	0.008
Worksharing discount DADC	Piece	0.002
Worksharing discount pallets	Piece	0.005
Worksharing dropship pallet discount	Piece	0.010

Experimental Discounts

Co-palletization discounts DSCF

	Piece	0.010
<u>Zones 1&2 Avoided</u>	<u>Pound</u>	<u>0.014</u>
<u>Zone 3 Avoided</u>	<u>Pound</u>	<u>0.019</u>
<u>Zone 4 Avoided</u>	<u>Pound</u>	<u>0.034</u>
<u>Zone 5 Avoided</u>	<u>Pound</u>	<u>0.056</u>
<u>Zone 6 Avoided</u>	<u>Pound</u>	<u>0.079</u>
<u>Zone 7 Avoided</u>	<u>Pound</u>	<u>0.107</u>
<u>Zone 8 Avoided</u>	<u>Pound</u>	<u>0.131</u>

Co-palletization discounts DADC

	Piece	0.007
<u>Zones 1&2 Avoided</u>	<u>Pound</u>	<u>0.008</u>
<u>Zone 3 Avoided</u>	<u>Pound</u>	<u>0.013</u>
<u>Zone 4 Avoided</u>	<u>Pound</u>	<u>0.028</u>
<u>Zone 5 Avoided</u>	<u>Pound</u>	<u>0.050</u>
<u>Zone 6 Avoided</u>	<u>Pound</u>	<u>0.073</u>
<u>Zone 7 Avoided</u>	<u>Pound</u>	<u>0.101</u>
<u>Zone 8 Avoided</u>	<u>Pound</u>	<u>0.125</u>

SCHEDULE 421 NOTES

1. The rates in this schedule also apply to Nonprofit (DMCS Section 422.2) and Classroom rate categories. These categories receive a 5 percent discount on all components of postage except advertising pounds. Moreover, the 5 percent discount does not apply to commingled nonsubscriber, nonrequestor, complimentary, and sample copies in excess of the 10 percent allowance under DMCS sections 412.34 and 413.42, or to Science of Agriculture mail.
2. Rates do not apply to otherwise Outside County mail that qualifies for the Within County rates in Schedule 423.
3. Charges are computed by adding the appropriate per-piece charge to the sum of the nonadvertising pound portion and the advertising pound portion, as applicable.
4. For postage calculations, multiply the proportion of nonadvertising content by this factor and subtract from the applicable piece rate.
5. Advertising pound rate is not applicable to qualifying Nonprofit and Classroom publications containing 10 percent or less advertising content.
6. For a Ride-Along item enclosed with or attached to a periodical, add \$0.124 per copy.
7. Experimental discounts expire the later of a) October 3, 2006~~two years after the implementation date for DMCS section 421.50 specified by the Board of Governors~~, or b) if, by the expiration date specified in (a), a proposal for a permanent replacement for the co-palletization dropship discounts is pending before the Postal Rate Commission, then 1) three months after the Commission takes action on such request under 39 U.S.C. § 3624 or, if applicable, 2) on the implementation date for a permanent replacement for the co-palletization dropship discounts.

RESOLUTION OF THE BOARD OF GOVERNORS
OF THE
UNITED STATES POSTAL SERVICE

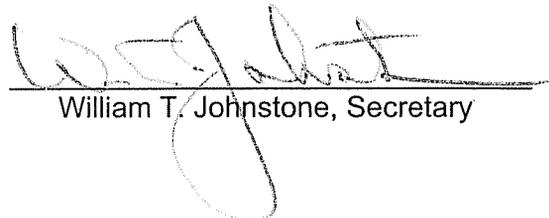
Resolution No. 04-5

Effective Date of New Classification

RESOLVED:

Pursuant to Section 3625(f) of Title 39, United States Code, the Board of Governors determines that the classification changes and discounts that were ordered to be placed into effect by the Decision of the Governors of the United States Postal Service on the Opinion and Recommended Decision of the Postal Rate Commission Approving Stipulation and Agreement on Experimental Periodicals Co-Palletization Dropship Discounts for High Editorial Publications, Docket No. MC2004-1, adopted on July 19, 2004, shall become effective at 12:01 a.m. on October 3, 2004.

The foregoing Resolution was adopted by the Board of Governors on July 19, 2004.



William T. Johnstone, Secretary

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.

/s/

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July 22, 2004