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POSTAL RATE COMMISSION  
OFFICE OF THE SECRETARY

USPS-T-38

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

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Postal Rate and Fee Changes, 1997

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DOCKET No. R97-1

DIRECT TESTIMONY  
OF  
MOHAMMAD A. ADRA  
ON BEHALF OF  
UNITED STATES POSTAL SERVICE

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## AUTOBIOGRAPHICAL SKETCH

My name is Mohammad Adra. I joined the Postal Service in January 1996 as an Economist in the Pricing Division of Marketing Systems. Since that time, I have worked on a variety of rate issues and provided analytical support for the Special Services filing, Docket MC96-3. I have also worked on various implementation issues for the Experimental First-Class and Priority Mail Small Parcel Automation Rate Category, Docket MC96-1. I presented the pricing and classification testimony for the Bulk Parcel Return Service and Shipper Paid Forwarding Classification and Fees case, in Docket MC97-4. This is my second testimony before the Postal Rate Commission.

Before joining the Postal Service, I worked as a Senior Operations Research Analyst at the US Department of Energy (1991-1995). My primary responsibilities were to develop a long-term energy demand forecasting model for the commercial sector as part of the National Energy Modeling System (NEMS) and to produce the official projections of the commercial sector model for the *Annual Energy Outlook*.

I have worked as a Consultant for the Saudi Industrial Services Co. (1991), conducting a feasibility study on opening wholesale merchandise clubs throughout the Kingdom.

I worked as a Research Assistant at California State University (1989-1990), developing mathematical models to predict the bankruptcy and acquisition of small and large firms using cash flow theory and financial ratios analysis. I co-

authored three resultant papers that were submitted and presented at professional conferences.

I have a Bachelor's Degree in Mathematics from the University of Colorado (1986), and an M.B.A. from California State University (1989). I have pursued supplemental graduate courses in economics at the University of Colorado (1990-91).

1 **I. PURPOSE AND SCOPE OF TESTIMONY**

2 The purpose of my testimony is to present the Postal Service's pricing and classification  
3 proposals for the following Standard (B) subclasses: Bound Printed Matter (BPM),  
4 Special Standard, and Library Rate. For each of these subclasses, I shall provide: 1) a  
5 background history describing mail characteristics, volume trends, and a rate history,  
6 2) classification changes and new proposals, 3) proposed rates, and 4) financial  
7 analysis.

8 **II. HIGHLIGHTS OF PROPOSAL**

9 **A. Bound Printed Matter**

10 The Postal Service proposes to increase existing rates for bound printed matter by an  
11 average of 5 percent. Based on an updated cost study, the current 6.3 cents for the  
12 carrier route presort discount would be increased to 6.7 cents. The Postal Service is  
13 also proposing to increase the weight limit from 10 pounds to 15 pounds.

14 **B. Special Standard**

15 The Postal Service proposes that Special Standard rates be unchanged at \$1.24 for  
16 the first pound, increased to 51 cents from the current rate of 50 cents for each  
17 additional pound through the seventh pound, and decreased to 21 cents from the  
18 current rate of 31 cents for each additional pound in excess of seven pounds. Based  
19 on updated cost studies, the proposal decreases the 5-digit presort discount to 34 cents



1 from the current 54 cents, and the Bulk Mailing Center (BMC) presort discount to 12  
2 cents from the current 20 cents.

3 **C. Library Mail**

4 The Postal Service proposes that library rates (i.e., full rates for step 6) be increased to  
5 \$1.44 from the current rate of \$1.12 for the first pound, to 52 cents from the current rate  
6 of 42 cents for each additional pound through the seventh pound, and to 25 cents from  
7 the current rate of 22 cents for each additional pound in excess of seven pounds.

8 These increases would be phased in over the remainder of the statutory 6-step phasing  
9 period.

10 **D. New Proposals Applicable To All Three Subclasses**

11 The Postal Service is also proposing a 4 cent barcode discount, and delivery  
12 confirmation service for all three subclasses. The delivery confirmation service offering  
13 is discussed in the testimony of Witness Plunkett, USPS-T-40.

14 **III. BOUND PRINTED MATTER**

15 **A. Characteristics of Bound Printed Matter**

16 Bound Printed Matter is Standard Mail that weighs at least one pound and not more  
17 than 10 pounds per piece, and:

- 18 a. Consists of advertising, promotional, directory, or editorial material, or any  
19 combination of these.

- 1           b. Is securely bound by permanent fastenings such as staples, spiral binding,
- 2                   glue, stitching, etc. Loose leaf binders and similar fastenings are not
- 3                   considered permanent.
- 4           c. Consists of sheets of which at least 90 percent are imprinted by any process
- 5                   other than handwriting or typewriting.
- 6           d. Does not have the nature of personal correspondence.
- 7           e. Is not stationery, such as pads of blank printed forms.

8 Bound Printed Matter consists of catalogs, books, telephone directories, manuals, and  
9 similar bound volumes. Bound Printed Matter rates, like those of Parcel Post, are  
10 based on zones and the weight of the piece. Bulk rates are applied to properly  
11 prepared mailings of 300 or more pieces of Bound Printed Matter. There is a carrier  
12 route discount which is available to Bulk Bound Printed Matter.

### 13           **B. Rate History**

14 Bound Printed Matter evolved from the schedule of catalog rates which was first  
15 introduced in 1939. Prior to that introduction, catalogs were mailed at the zone-rated  
16 parcel post rates. In 1964, the catalog rate was divided into separate single-piece and  
17 bulk rate schedules. In Docket MC73-1, the catalog rate was expanded to include  
18 bound printed matter other than catalogs. In Docket R90-1, BPM was expanded to  
19 permit the mailing of books without the requirement of advertising content. Since 1970,  
20 BPM rates have increased ten times, with the latest increase being 14 percent in  
21 Docket R94-1. For a complete BPM rate history, see library reference, H-187.

22

1           **C.     Volume Trends**

2   BPM volume was on the decline in the 1970s, culminating in a low point of 75 million  
3   pieces in 1976. However, since 1979, this downward trend has been significantly  
4   reversed. BPM volume reached a peak of 516 million pieces in 1996, representing  
5   nearly 5 times the 1970 volume and nearly 7 times the low-point volume of 1976. In  
6   1996, BPM volume represented 54 percent of all Standard (B) volume in contrast to  
7   only 11 percent in 1970. Bulk rates accounted for 94 percent of BPM volume in 1996.  
8   For a complete BPM revenue and volume history, see library reference, H-187.

9           **D.     Change to Weight Limit**

10   The current upper weight limit for Bound Printed Matter is 10 pounds. In response to  
11   requests from mailers,<sup>1</sup> the Postal Service proposes to raise the weight limit to 15  
12   pounds. Bound Printed Matter mailers have indicated to the Postal Service that the  
13   weight limit for Bound Printed Matter is so low that it inhibits them from using the Bound  
14   Printed Matter subclass to fulfill many book and directory orders because the shipments  
15   would have to be split in order to keep individual pieces under the ten-pound limit. To  
16   assist in visualizing the nature of the problem, consider that the Postal Rate  
17   Commission's Opinion and Recommended Decision in MC95-1, Classification Reform I,  
18   weighs about four pounds. Should anyone desire three copies of the Opinion, two  
19   parcels would have to be prepared so as to not exceed the existing weight limit in the  
20   Bound Printed Matter subclass. Mailers have indicated that they consider such a

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<sup>1</sup>As an example, in Docket No. R-90-1, the Classroom Publishers Association suggested that consideration be given to raising the weight limit for bound printed matter to the 70-pound limit applicable to the other fourth class subsidies. Another example is the recent joint motion of Advertising Mail Market Association (AMMA), et al. to increase the limit to 15 pounds.

1 practice to be wasteful and inefficient, and believe that it reduces the value of the  
2 service to their customers, particularly when both or all shipments do not arrive at the  
3 same time.

4 Although the Postal Service wishes to respond to its customers' requests, it does not  
5 wish to compromise the very low-cost, efficient nature of the Bound Printed Matter  
6 subclass. The introduction of a modest increase in weight will permit some mailers to  
7 ship larger parcels, while maintaining a maximum weight that can be handled on  
8 existing parcel sorting equipment. As some mailers, particularly Mail Order Advertising  
9 Association (MOAA), argued during Docket Nos. R87-1 and R90-1 when the proposal  
10 to include books in the Bound Printed Matter subclass was considered, it may be that  
11 the homogeneity of Bound Printed Matter contributes to its continued low cost. In its  
12 Opinion and Recommended Decision in Docket No. R90-1, the Commission noted:

13 We do not contemplate that the weight limit for bound printed matter  
14 will be raised in future proceedings. We believe that raising the weight  
15 limit from its current 10-pound limit to one closer to that of the rest of  
16 the class would very well result in an appreciable increase in the unit  
17 costs. It has not been shown that the advantage to mailers who might  
18 want to use bound printed matter for heavy weight pieces outweighs  
19 the possible adverse effects on the current users of the subclass. We  
20 note that mailers of heavy weight pieces have other alternatives offered  
21 by the Postal Service and competitors." PRC Op., Docket No. R90-1, at  
22 V-377, para.6512.  
23

24 The Postal Service views its proposal to increase the weight limit to fifteen pounds as a  
25 modest approach, cognizant of the concerns expressed by the Commission. It is fully  
26 expected that the average weight and, as the Commission noted, the unit cost for  
27 Bound Printed Matter may rise. Along with that increase in unit cost, however, will be

1 an increase in unit revenue. The estimated financial impact of the increase in the  
2 Bound Printed Matter weight limit is shown in my workpapers.<sup>2</sup>

3 **E. Barcode Discount**

4 The Postal Service is proposing a 4-cent per-piece barcode discount for Bound Printed  
5 Matter mail which is processed on BMC parcel sorters that are equipped with barcode  
6 readers. As such, the discount will be available only for Single-Piece and Basic Bulk  
7 rate categories but not Carrier Route. This is because Carrier Route mailings should  
8 bypass parcel sorting at the BMC. The cost savings associated with this discount is  
9 developed and explained in the testimony of Witness Daniel, USPS-T-29. A market  
10 survey (LR H-163) was conducted to gauge mailers' interest in the barcode. Survey  
11 results were used to estimate the volume of Bound Printed Matter that is currently  
12 barcoded and the new additional volume that would barcode due to the discount. The  
13 cost savings and revenue effects estimated from the survey results have been  
14 incorporated into the rate design and financial impact analysis.<sup>3</sup>

15 **F. Delivery Confirmation**

16 The Postal Service proposes offering a new optional delivery confirmation service for  
17 BPM mailers. The testimony of Witness Plunkett, USPS-T-40, provides a detailed  
18 description of the new service. Witness Treworgy, USPS-T-22, provides the  
19 development of costs associated with those services. A market survey (LR H-163) was

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<sup>2</sup> See Workpaper USPS-T-38, WP-BPM31.

<sup>3</sup> See Workpapers USPS-T-38, WP-BPM18, WP-BPM30, and WP-BPM31.

1 conducted to gauge mailers' interest in this new service. I have examined the survey  
2 results to estimate any new additional volume that could be generated because of this  
3 new offering. The survey showed no growth for BPM. Thus, there should be no  
4 volume or revenue changes to impact the financial analysis.<sup>4</sup>

#### 5 **G. Carrier Route Presort Discount**

6 The Postal Service proposes a 6.7-cent Carrier Route presort discount based on an  
7 updated cost study. Witness Crum, USPS-T-28, provides the assumptions and  
8 calculations underlying the updated study. This discount represents a 100 percent  
9 passthrough of cost savings. The discount measures cost savings realized by the  
10 Postal Service due to mailers presorting BPM to the carrier-route level. I have  
11 incorporated this change in my rate design calculations.

#### 12 **H. Proposed Rate Design**

##### 13 **1. Methodology**

14 Rates for BPM are designed by adding markups to develop rates that generate  
15 sufficient revenue to cover volume-variable costs plus the appropriate contribution to  
16 non-volume-variable costs. The appropriate contribution to non-volume-variable costs  
17 is reflected in the cost coverage established by Witness O'Hara, USPS-T-30. The rates  
18 include per-piece and per-pound charges. The rate design methodology is consistent  
19 with the existing rate design for bound printed matter which was used by Witness Wang  
20 and accepted by the Commission in Docket No. R90-1.

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<sup>4</sup> See Workpaper USPS-T-38, WP-BPM31.

1                                   **2.     Per-pound Rate Element**

2     The per-pound rate element is designed to recover transportation costs and weight-  
3     related non-transportation costs. The transportation costs are divided into two  
4     components: distance-related and non-distance related. In addition to the  
5     transportation costs, an add-on is included in the per pound-rate element to recover  
6     weight-related non-transportation costs, in keeping with Commission and Postal Service  
7     precedent. The add-on is: 2 cents per pound for single piece nonlocal; 1.5 cents per  
8     pound for single-piece local; 1 cent per pound for bulk nonlocal; and 0.75 cents per  
9     pound for bulk local. These add-on numbers are derived from the same relationships of  
10    costs which are reflected in the per-piece charge.

11                                   **3.     Per-piece Rate Element**

12    The per-piece rate element is designed to recover all non-transportation costs with the  
13    exception of the add-on costs that are accounted for by the per-pound charge. A base  
14    per-piece charge is first computed to be used as the rate for bulk nonlocal and to derive  
15    the rates for bulk local, single-piece local, and single-piece nonlocal. Within bulk, the  
16    per-piece charge is the same for all nonlocal zones, as is also true within single-piece.  
17    In keeping with Commission practice, these charges are computed to reflect the  
18    following cost relationships: 1) the single-piece, per-piece charge is twice the bulk, per-  
19    piece charge, and 2) the local per-piece charge (for both bulk and single-piece rate) is  
20    75 percent of the nonlocal per-piece charge.

1

**4. Proposed Rate Elements**

2

Based on the above discussion and the calculations embodied in my workpapers, I

3

propose the following per-piece and per-pound charges for BPM:

4

**Table 1. Bound Printed Matter Proposed Rate Elements**

Zone	Bulk rate		Single Piece	
	Per Piece	Per Pound	Per Piece	Per Pound
Local	\$0.523	\$0.012	\$1.050	\$0.023
1 & 2	\$0.697	\$0.061	\$1.390	\$0.076
3	\$0.697	\$0.087	\$1.390	\$0.102
4	\$0.697	\$0.131	\$1.390	\$0.146
5	\$0.697	\$0.198	\$1.390	\$0.214
6	\$0.697	\$0.269	\$1.390	\$0.285
7	\$0.697	\$0.355	\$1.390	\$0.370
8	\$0.697	\$0.428	\$1.390	\$0.443

5

6

**5. Carrier Route Discount**

7

Based on an updated cost study, the Postal Service proposes a carrier-route presort

8

discount of 6.7 cents per piece. The cost savings associated with this discount is

9

developed and explained in the testimony of Witness Crum, USPS-T-28. The discount

10

offering represents a 100 percent passthrough of the cost savings. The resultant cost



1 savings and revenue effects have been incorporated into the rate design and financial  
2 impact analysis.

3 **6. Proposed Rate Schedules**

4 Based on the rate elements displayed in Table 1, I developed rates for BPM single-  
5 piece, basic bulk, and carrier route bulk. The rate schedules, along with percent  
6 changes comparing proposed rates with the current rates, are presented in my  
7 workpapers.<sup>5</sup> The percent change of proposed rates over current rates at the rate cell  
8 level varied from -17 percent to +23 percent. However, when compared to the rates  
9 which resulted from Docket No. R90-1, the percent changes vary within a much tighter  
10 range, from 15 to 20 percent.

11 **7. Financial Impact**

12 The financial impact of the rate and classification changes proposed in this testimony  
13 for BPM is reflected in the test year before and after rates cost and revenue  
14 information. The calculations and adjustments used to derive the financial numbers  
15 are embodied in my workpapers.<sup>6</sup> Table 2 displays a summary of such information:  
16 volume, cost (including contingency) and revenue (including domestic mail fees).  
17 Numbers are presented in millions :

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5 See Workpapers, USPS-T-38, WP-BPM20 to WP-BPM25.

6 See Workpaper, USPS-T-38, WP-BPM31.

1 **Table 2. Bound Printed Matter Financial Summary**

	Volume	Cost	Revenue	Revenue as Percent of Cost
Before Rates	567.9	\$336.1	\$493.4	146.8 %
After Rates	574.7	\$346.2	\$524.6	151.6 %

2

3 Cost per piece, revenue per piece, contribution to institutional costs, and the percent  
4 rate increase are presented below:

5 **Table 3. Bound Printed Matter Per Piece Financial Summary**

	Cost Per Piece	Revenue Per Piece	Contribution to Institutional Costs
Before Rates	\$0.59	\$0.87	\$0.28
After Rates	\$0.60	\$0.91	\$0.31
Percent Change	2%	5%	11%

6

7 **IV. SPECIAL STANDARD MAIL**

8 **A. Characteristics of Special Standard**

9 Special Standard Mail is limited to books; films and film catalogs; printed music; printed  
10 objective test materials; sound recordings and video recordings; playscripts and  
11 manuscripts for books, periodicals, and music; printed educational reference charts;  
12 loose-leaf papers and binders consisting of medical information for distribution to  
13 doctors, hospitals, medical schools, and medical students; and computer-readable  
14 media.

1           **B.     Rate History**

2     By law, rates for this subclass are not zoned. The rates are uniform for mail of the  
3     same weight, regardless of distance traveled, as required by 39 U.S.C., section 3683.  
4     Properly prepared bulk mailings of at least 500 pieces may receive one of two presort  
5     discounts: 5-digit presort and BMC presort. Special Standard rate was established by  
6     Congress in 1938 at a uniform per-pound rate. In 1949, a two-tier rate structure was  
7     introduced: one rate for the first pound and a lower per-pound rate for each additional  
8     pound, over one pound. In 1975, the rate structure was modified again to the existing  
9     three-tier per pound rate with one rate for the first pound, a separate lower rate for  
10    additional weight up to 7 pounds, and yet a lower rate for all additional weight over 7  
11    pounds. Since 1970, Special Standard rates have increased several times with the  
12    latest increase being 17.9 percent as a result of Docket R94-1. For a complete Special  
13    Standard rate history see library reference H-187.

14           **C.     Volume Trends**

15    Special Standard volume declined consistently during the 1980s. However, since  
16    1990, volumes have generally increased with the exceptions of 1993 and 1996. In  
17    1993, volume was unchanged from its 1992 level. The 1996 volume experienced  
18    approximately a 13 percent decline from the 1995 level. In 1996, Special Standard  
19    volume represented 20 percent of total Standard (B) volume. Seven percent of Special  
20    Standard volume is sent at the rates for presorted bulk mailings. For a complete review  
21    of volume and revenue histories, refer to library reference H-187.

1           **D.     Proposed Barcode Discount**

2     The Postal Service is proposing a 4-cent per-piece barcode discount for Special  
3     Standard mail which is processed on BMC parcel sorters that are equipped with  
4     barcode readers. As such, the discount will be available only for Single-piece and BMC  
5     presort mailings, not 5-digit presort mailings. This is because 5-digit presort mailings  
6     bypass the parcel sorters at the BMC. The cost savings associated with this discount is  
7     developed and explained in the testimony of Witness Daniel, USPS-T-29. A market  
8     survey (LR H-163) was conducted to gauge mailers' interest in the barcode. Survey  
9     results were used to estimate the volume of Special Standard that is currently barcoded  
10    and the new additional volume that would barcode due to the discount. The cost  
11    savings and revenue effects estimated from the survey results have been incorporated  
12    into the rate design and financial impact analysis.<sup>7</sup>

13           **E.     Delivery Confirmation**

14    The Postal Service proposes offering a new optional delivery confirmation service for  
15    Special Standard mail. Witness Plunkett's testimony, USPS-T-40, provides a detailed  
16    description of the new service. Witness Treworgy's testimony, USPS-T-22, provides  
17    the development of costs associated with those services. A market survey (LR H-163)  
18    was conducted to gauge mailers' interest in this new service. I have examined the  
19    survey results to estimate any new additional volume that would be generated due to  
20    this new offering. The survey showed no growth for Special Standard. Thus, there

---

<sup>7</sup> See Workpapers, USPS-T-38, WP-SR4, WP-SR5, and WP-SR7.

1 should be no volume or revenue change to impact the Special Standard financial  
2 analysis.<sup>8</sup>

3 **F. Rate Design**

4 **1. Methodology**

5 The existing rate structure is a per-piece and per-pound rate construction manifested in  
6 a three-tier per pound rate with one rate for the first pound, a separate lower rate for  
7 additional weight up to 7 pounds, and yet a lower rate for all additional weight over 7  
8 pounds. The structure was first introduced by the Postal Service and recommended by  
9 the Commission in Docket No. R76-1.<sup>9</sup> The first-pound rate also includes two presort  
10 level rates: 1) 5-digit presort, and 2) BMC presort. I have adopted the existing per-  
11 piece and per-pound rate structure but recalculated the underlying rate elements based  
12 on test year cost data to ensure that rate elements comport well with cost causation.

13 **2. Per-piece And Per-pound Calculations**

14 I first developed a two-tier structure that is based on per piece and per pound charges.  
15 The per-pound charge was designed to recover transportation costs (cost segment 14)  
16 and a 2-cent add-on cost which reflects the weight-related non-transportation costs.  
17 The per-piece rate element was designed to recover all non-transportation costs  
18 excluding the 2-cent per-piece add-on which was accounted for in the pound charge.  
19 An important benefit from this exercise is that it reveals the underlying cost behind the

---

<sup>8</sup> See Workpaper, USPS-T-38, WP-SR7.

<sup>9</sup> See PRC Op. , p. 252-260, Docket R76-1.

1 rate elements. The per-piece cost was \$0.96 and per-pound cost was \$0.16, resulting  
2 in a first pound cost of \$1.12. Applying the markup of 137 percent yielded the rate  
3 element of \$1.54 for the first pound ( $\$1.12 * 1.37$ ), and \$0.21 for each additional pound  
4 ( $\$0.16 * 1.37$ ).<sup>10</sup>

5 **3. Adjustment to Rate Elements**

6 In order to mitigate the “rate shock” impact of the resultant rate increases, I set the first  
7 pound rate element to \$1.24, which is still compensatory. I then distributed the  
8 resultant revenue loss on a per pound basis to the two-to-seven pound segment. I  
9 chose these adjustments to preserve the three-tier structure and to recognize the  
10 underlying assumption that costs may not increase proportionately with weight. These  
11 adjustments resulted in a three-tier rate structure of \$1.24 for the first pound, 51 cents  
12 for additional pounds through the seventh pound, and 21 cents for additional pounds in  
13 excess of seven pounds. The following table displays comparative rate elements<sup>11</sup>:

14 **Table 4. Special Standard Proposed Rate Elements**

RATE ELEMENT	EXISTING	COMPUTED	PROPOSED (ADJUSTED)
First Pound - Single Piece	\$1.24	\$1.54	\$1.24
Second Through Seventh Pounds	\$0.50	\$0.21	\$0.51
Eighth Pound And Over	\$0.31	\$0.21	\$0.21

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<sup>10</sup> See Workpaper, USPS-T-38, WP-SR4 and WP-SR5.

<sup>11</sup> See Workpaper, USPS-T-38, WP-SR4 and WP-SR5.

1

#### **4. Presort Discounts**

2 The Postal Service proposes a 12-cent per-piece discount for mailings of at least 500  
3 pieces presorted to a Bulk Mail Center. The discount is based on an updated cost  
4 study that showed an 11.3 cent cost savings realized by the Postal Service due to this  
5 worksharing activity by the mailers. The 12 cent discount constitutes approximately a  
6 106 percent passthrough. I rounded the 11.3 cent cost savings to the nearest whole  
7 cent upward (i.e., 12 cents instead of 11 cents) in order to mitigate the impact of  
8 "discount shock."<sup>12</sup> Moreover, the Postal Service proposes a discount of 34 cents per  
9 piece for mailings of at least 500 pieces presorted to 5-digit ZIP Codes. The discount is  
10 based on an updated cost study that showed a 33.6 cent cost savings realized by the  
11 Postal Service due to this worksharing activity by the mailers. The 34-cent discount  
12 constitutes approximately a 101 percent passthrough. I rounded the 33.6 cent cost  
13 savings to the nearest whole cent.<sup>13</sup> Witness Daniel, USPS-T-29, provides the  
14 assumptions and calculations underlying the updated cost studies for these discounts.  
15 I have incorporated these changes in my rate design calculations.

16

#### **5. Proposed Rate Schedules**

17 Based on the rate elements adopted from the discussion above, I developed rates for  
18 Special Standard single-piece, 5-digit presort, and BMC presort rate categories. The  
19 rate schedules along with percent changes comparing proposed rates with current rates  
20 are presented in my workpapers.<sup>14</sup>

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<sup>12</sup> The existing discount is 20 cents. Thus, I wanted to mitigate the magnitude of percentage decrease in the proposed discount.

<sup>13</sup> The existing discount is 54 cents.

<sup>14</sup> See Workpaper USPS-T-38, WP-SR6.

1

**6. Financial Impact**

2

The financial impact of the rate and classification changes proposed in this testimony for Special Standard is reflected in the test year before and after rates cost and revenue information. The calculations and adjustments used to derive the financial numbers are provided in my workpapers.<sup>15</sup> The table below displays a summary of such information: volume, cost (including contingency) and revenue (including domestic mail fees) numbers are presented in millions :

4

5

6

7

8

**Table 5. Special Standard Financial Summary**

	Volume	Cost	Revenue	Revenue as Percent of Cost
Before Rates	200.6	\$258.0	\$353.9	137.2 %
After Rates	200.5	\$256.9	\$352.3	137.1 %

9

10

Cost per piece, revenue per piece, contribution to non-volume variable costs, and the percent rate increase are presented below:

11

12

**Table 6. Special Standard Per Piece Financial Summary**

	Cost per piece	Revenue Per Piece	Contribution to Institutional Costs
Before Rates	\$1.29	\$1.76	\$0.47
After Rates	\$1.28	\$1.76	\$0.48
Percent Change	-1%	0%	2%

13

<sup>15</sup> See Workpaper USPS-T-38, WP-SR7.



1 **V. LIBRARY MAIL**

2 **A. Mail Characteristics**

3 Library Mail consists of books; printed music; bound volumes of academic theses;  
4 sound recordings; periodicals; other library materials; museum and herbarium  
5 materials; films; film-strips; transparencies; slides; microfilms; scientific or mathematics  
6 kits, instruments or other devices; and also catalogs, guides, or scripts for the above  
7 materials. To be eligible for this subclass, mailings must be sent to or from schools,  
8 colleges, universities, libraries, museums, or nonprofit religious, education, scientific,  
9 philanthropic, agriculture, labor, veterans, fraternal organizations or associations.

10 **B. Rate History**

11 Library rates were established in 1928. Like Special Standard, rates are uniform for  
12 mail of the same weight regardless of distance traveled. It is a preferred rate category  
13 and, as such, rates were to be phased until 1987, at which point they were supposed to  
14 cover attributable cost. The full rate (step 16) level was achieved in 1986, earlier than  
15 scheduled. The Revenue Forgone Reform Act (RFRA) of 1993 stipulated that Library  
16 rates were to be phased upward over a period of six years (i.e., six phase-in steps) at  
17 the end of which the Library rate markup should equal half the markup applied to  
18 Special Standard rate. For a complete Library Mail rate history see library reference H-  
19 187.

20

1           **C.     Volume Trends**

2     Between 1970 and 1976, library rate volume fluctuated within a range of 25 to 42  
3     million pieces. Since the legislation enacted in 1976 that allowed publishers to use  
4     library rate, the volume jumped to 60 million pieces in 1977, peaked at 72 million in  
5     1978, and remained relatively stable within the 55 to 60 million piece range until 1985.  
6     Since that time, volume has ranged between 30 million and 52 million pieces. In 1996,  
7     library rate volume represented 3 percent of total mail volume. For a complete review of  
8     volume and revenue histories of Library Rates, refer to library reference H-187.

9           **D.     Proposed Barcode Discount**

10    The Postal Service is proposing a 4-cent per-piece barcode discount for library rate mail  
11    similar to one offered for BPM and Special Standard. The cost savings of 4 cents  
12    associated with this discount is developed and explained in the testimony of Witness  
13    Daniel, USPS-T-29. The discount offering represents a 100 percent passthrough. A  
14    market survey (L R H-163) was conducted to gauge mailers' interest in the barcode.  
15    Survey results were used to estimate the volume of Special Standard that is currently  
16    barcoded and the new additional volume that would barcode due to the discount. The  
17    cost savings and revenue effects estimated from survey results have been incorporated  
18    into the rate design and financial impact analysis.<sup>16</sup>

19           **E.     Delivery Confirmation**

20    The Postal Service proposes a new optional delivery confirmation service for Library  
21    Mail. Witness Plunkett's testimony, USPS-T-40 provides a detailed description of the

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<sup>16</sup> See Workpaper USPS-T-38, WP-Lib4, WP-Lib5, WP-Lib7, and WP-Lib8.

1 new service. Witness Treworgy's testimony, USPS-T-22, provides the development of  
2 costs associated with those services. A market survey (Library Reference H-163) was  
3 conducted to gauge mailers' interest in this new service. I have incorporated the survey  
4 results to estimate any new additional volume that would be generated because of this  
5 new offering.

## 6 **F. Rate Design**

### 7 **1. Methodology**

8 The rate structure for library mail is identical to the three-tier structure for Special  
9 Standard. I have adopted the per-piece and per-pound rate construction of the existing  
10 rate structure but recalculated the underlying rate elements based on test year cost  
11 data to ensure that rate elements comport well with cost causation.

### 12 **2. Per-piece And Per-pound Calculations**

13 I first developed a two-tier structure based on per piece and per pound charges. The  
14 per-pound charge was designed to recover transportation costs (cost segment 14) and  
15 a 2-cent add-on cost which reflects the weight-related non-transportation costs. The  
16 per-piece rate element was designed to recover all non-transportation costs excluding  
17 those associated with the 2-cent per-piece add-on which was accounted for in the  
18 pound charge. An important benefit from this exercise is that it reveals the underlying  
19 costs behind the rate elements. The per-piece cost was \$1.22 and per-pound cost was  
20 \$0.21, resulting in a first-pound cost of \$1.43<sup>17</sup>. This finding shows that the existing first

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<sup>17</sup> See Workpaper, USPS-T-38, WP-Lib 9.

1 pound rate ( \$1.12) is not compensatory. As a matter of fact, when costs are computed  
2 in this manner, the first-pound rate has not been compensatory since at least 1987.<sup>18</sup>  
3 Exhibit A illustrates this finding. Due to these findings, the existing rate structure of  
4 library rate must be re-examined and a cost-based first-pound rate must be developed.  
5 Applying the markup factor to the \$1.43 cost yields a rate element of \$1.71 for the first  
6 pound, and \$0.25 for each additional pound.<sup>19</sup> Such a rate structure would be  
7 compensatory.

### 8 **3. Adjustment to Rate Elements**

9 In order to mitigate the “rate shock” impact of the resultant rates, I set the first pound  
10 rate element to \$1.44 which is still compensatory. I then distributed the resultant  
11 revenue loss on a per pound basis to the two-to-seven pound segment. I chose these  
12 adjustments to preserve the three-tier structure and to recognize the underlying  
13 assumption that costs may not increase proportionately with weight. These  
14 adjustments resulted in a three-tier rate structure of \$1.44 for the first pound, 52 cents  
15 for each additional pound through the seventh pound, and 25 cents for each additional  
16 pound in excess of seven pounds.<sup>20</sup> The following table displays comparative rate  
17 elements:

18  
19  
20

---

<sup>18</sup> For illustration purposes, I have calculated the underlying per-piece and per-pound costs for library rate since 1987 and found the first-pound rates not to be compensatory. See Exhibit A.

<sup>19</sup> See Workpaper USPS-T-38, WP-Lib9 provides the details for step 6, full rates. WP-Lib4 provides the details for step 5 rates.

<sup>20</sup> See Workpaper USPS-T-38, WP-Lib 10 for step 6 rates, and WP-lib5 for step 5 rates.

1 **Table 7. Library Mail Proposed Rate Elements**

RATE ELEMENT	EXISTING	PROPOSED COMPUTED		PROPOSED ADJUSTED	
	STEP 4	STEP 5	STEP 6	STEP 5	STEP 6
First Pound - Single Piece	\$1.12	\$1.67	\$1.71	\$1.44	\$1.44
Second Through Seventh Pounds	\$0.41	\$0.24	\$0.25	\$0.47	\$0.52
Eighth Pound And Over	\$0.22	\$0.24	\$0.25	\$0.24	\$0.25

2

3 Based on the rate elements adopted from the discussion above, I developed the  
4 corresponding rate schedules.<sup>21</sup>

5

#### **4. Financial Impact**

6 The financial impact of the rate and classification changes proposed in this testimony  
7 for Library Mail is reflected in the test year before and after rates cost and revenue  
8 information. However, given that the proposed rates for Library rate are generally  
9 higher than those proposed for Special Standard, it is reasonable to expect that Library  
10 mailings eligible to migrate to Special Standard will do so. For my financial calculations,  
11 I have made the assumption that 95 percent of Library Mail will be eligible to migrate to  
12 Special Standard and pay the corresponding Special Standard rates. The remaining 5  
13 percent will pay the proposed Library rates. The calculation and adjustments used to  
14 derive the financial numbers are in my workpapers.<sup>22</sup> The table below displays a  
15 summary of such information; volume, cost (including contingency) and revenue  
16 (including domestic mail fees) numbers are presented in millions :

17

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<sup>21</sup> See Workpapers, USPS-T-38, WP-Lib6, and WP-Lib11.

<sup>22</sup> See Workpapers, USPS-T-38, WP-Lib1, WP-Lib7, and WP-Lib8.

1 **Table 8. Library Mail Financial Summary**

	Volume	Cost	Revenue	Revenue as Percent of Cost
Before Rates	30.2	\$51.8	\$48.3	93.2 %
After Rates	28.7	\$49.1	\$52.4	106.8 %

2

3 Cost per piece, revenue per piece, contribution to non-volume variable costs, and the  
4 percent rate increase are presented below:

5 **Table 9. Library Rate Per-Piece Financial Summary**

	Cost Per Piece	Revenue Per Piece	Contribution
Before Rates	\$1.71	\$1.60	- \$0.11
After Rates	\$1.71	\$1.82	\$0.11
Percent Change	0%	14%	200%

LIBRARY RATE  
 COST PER POUND CALCULATIONS  
 (1987-1996)

Year [1]	Transportation Cost (Weight related) [2]	Total Weight (Postal Pounds) [3]	Cost/Pound (No Add-on) [4]	Add-on Cost [5]	Total Cost/ Pound [6]	Total Weight Related Cost [7]
1987	\$20,686	229,047	\$0.0903	\$0.02	\$0.1103	\$25,267
1988	\$23,153	207,796	\$0.1114	\$0.02	\$0.1314	\$27,309
1989	\$14,055	258,026	\$0.0545	\$0.02	\$0.0745	\$19,216
1990	\$15,349	168,491	\$0.0911	\$0.02	\$0.1111	\$18,719
1991	\$19,172	145,471	\$0.1318	\$0.02	\$0.1518	\$22,081
1992	\$16,227	133,517	\$0.1215	\$0.02	\$0.1415	\$18,897
1993	\$17,102	125,386	\$0.1364	\$0.02	\$0.1564	\$19,610
1994	\$14,618	119,033	\$0.1228	\$0.02	\$0.1428	\$16,999
1995	\$13,412	86,191	\$0.1556	\$0.02	\$0.1756	\$15,136
1996	\$11,899	67,940	\$0.1751	\$0.02	\$0.1951	\$13,258

Notes:

- [1] Year.
- [2] Cost Segment 14.
- [3] From Billing Determinants.
- [4] [2] / [3].
- [5] \$0.02/per pound (Non-Transportation Weight Related Cost).
- [6] [4] + [5].
- [7] [3] \* [6].

**LIBRARY RATE  
 COST PER PIECE CALCULATIONS  
 (1987-1996)**

Year [1]	Total Cost [2]	Total Weight Related Cost [3]	Non-Weight Related Cost [4]	Pieces [5]	Cost/piece [6]
1987	\$55,838	\$25,267	\$30571	51,804	\$0.5901
1988	\$57,324	\$27,309	\$30015	48,421	\$0.6199
1989	\$52,091	\$19,216	\$32875	39,193	\$0.8388
1990	\$50,326	\$18,719	\$31607	40,567	\$0.7791
1991	\$53,339	\$22,081	\$31258	40,228	\$0.7770
1992	\$59,894	\$18,897	\$40997	42,100	\$0.9738
1993	\$66,985	\$19,610	\$47375	38,680	\$1.2248
1994	\$57,853	\$16,999	\$40854	35,776	\$1.1419
1995	\$55,747	\$15,136	\$40611	29,500	\$1.3766
1996	\$51,998	\$13,258	\$38740	30,133	\$1.2856

Notes:

- [1] Year.
- [2] Cost and Revenue Analysis (CRA).
- [3] Determined on page 1
- [4] [2] - [3].
- [5] From Billing Determinants.
- [6] [4] / [5].



**LIBRARY RATE  
 IMPLICIT COST COVERAGE  
 FOR 1<sup>ST</sup> POUND RATE  
 (1987-1996)**

Year [1]	Cost/Piece [2]	Cost/Pound [3]	1 <sup>st</sup> Pound Cost [4]	1 <sup>st</sup> Pound Rate [5]	Implicit Cost Coverage [6]
1987	0.5901	0.1103	0.7004	0.54	77%
1988	0.6199	0.1314	0.7513	0.59	79%
1989	0.8388	0.0745	0.9133	0.64	70%
1990	0.7791	0.1111	0.8902	0.64	72%
1991	0.7770	0.1518	0.9288	0.65	70%
1992	0.9738	0.1415	1.1153	0.65	58%
1993	1.2248	0.1564	1.3812	0.65	47%
1994	1.1419	0.1428	1.2847	0.65	51%
1995	1.3767	0.1756	1.5523	0.98	63%
1996	1.2856	0.1951	1.4807	1.12	76%

Notes:

- [1] Year.
- [2] Derived on page 2.
- [3] Derived on page 1.
- [4] [2] + [3].
- [5] From Rate History.
- [6] [5] / [4].

**LIBRARY RATE  
IMPLICIT COST COVERAGE  
FOR 2<sup>nd</sup> -7<sup>th</sup> POUND RATE  
(1987-1996)**

Year [1]	2nd-7th Pounds Rate [2]	Cost per pound [3]	Implicit Cost Coverage [4]
1987	0.19	0.1103	172%
1988	0.21	0.1314	160%
1989	0.23	0.0745	309%
1990	0.23	0.1111	207%
1991	0.24	0.1518	158%
1992	0.24	0.1415	170%
1993	0.24	0.1564	153%
1994	0.24	0.1428	168%
1995	0.36	0.1756	205%
1996	0.41	0.1951	210%

Notes:

- [1] Year
- [2] From Rate History
- [3] Derived on Page 1
- [4] [2] / [3]

LIBRARY RATE  
 IMPLICIT COST COVERAGE  
 FOR 8<sup>th</sup>-70<sup>th</sup> POUND RATE  
 (1987-1996)

Year [1]	8 <sup>th</sup> -70 <sup>th</sup> Pounds Rate [2]	Cost per pound [3]	Implicit Cost Coverage [4]
1987	0.10	0.1103	90.66%
1988	0.11	0.1314	83.71%
1989	0.12	0.0745	161.07%
1990	0.12	0.1111	108.01%
1991	0.12	0.1518	79.05%
1992	0.12	0.1415	84.81%
1993	0.12	0.1564	76.73%
1994	0.12	0.1428	84.03%
1995	0.18	0.1756	103.84%
1996	0.21	0.1951	107.64%

Notes:

- [1] Year
- [2] From Rate History
- [3] Derived on Page 1
- [4] [2] / [3]