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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

PRESIDING OFFICER'S
RULING NO. R2000-1/45

UNITED STATES OF AMERICA
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

Postal Rate and Fee Changes

Docket No. R2000-1

PRESIDING OFFICER'S RULING ON
REQUEST THAT POSTAL SERVICE
BE DIRECTED TO SUBMIT EVIDENCE

(Issued April 19, 2000)

On April 4, 2000, District Photo, Inc., Mystic Color Lab, and Cox Sampling (DMC) filed a motion requesting that the Commission expand Order No. 1289, and direct the Postal Service to submit detailed evidence explaining the causes of the trend in the costs of processing lightweight parcels.¹ The Recording Industry Association of America supports DMC's request.² The Postal Service filed in opposition on April 11, 2000.³

The Motion contends that the trend in the costs of processing First-Class and Standard A parcels should be just as disturbing as the trends which led the Commission to direct the Postal Service to provide evidence on the processing of flats. The Motion characterizes parcel handling costs as "wildly out of control". Motion at 2.

The Postal Service does not dispute the importance of understanding the causes of increases in the costs for processing parcels, but it suggests that it is not possible to

¹ District Photo, Inc. Mystic Color Lab Cox Sampling Motion Requesting that the Postal Service be Directed to Submit Evidence on Parcel Processing Costs (Motion) April 4, 2000.

² Recording Industry Association of America Comments in Support of District Photo, Inc, Mystic Color Lab and Cox Sampling Motion Concerning Order No. 1289, April 5, 2000.

³ Opposition of the United States Postal Service to DMC Motion to Extend Order No. 1289 to Parcel Processing Costs (Opposition) April 11, 2000.

fully explore all relevant issues in the context of a 10-month rate case. It points out that the participants filing this request did not explore this issue through discovery. It concludes that orderly conduct of this case would be best served if Order No. 1289 is not expanded further.

DMC premises its arguments on the data developed by Postal Service Witness Smith in his response to Presiding Officer's Information Request No. 4, which is the same data the Commission considered in determining to issue Order No. 1289. DMC presents the data on parcel processing costs in three-year moving averages. The use of moving averages is frequently an excellent way to smooth data in order to recognize trends. However, in this particular instance it is misleading.

The annual data on the mail processing and carrier in-office costs for First-Class parcels show that in 1996, a marked increase occurred. The use of the three-year moving average makes it appear that there was an upward trend in costs, while in fact, relatively stable per-piece costs were increased to a new higher level in 1996.

The cost behavior of Standard A Regular parcels is less stable. Its unit costs declined from 1992 to 1995, and then rose again to peak in 1998. The small volume of Standard A ECR parcels makes it difficult to draw reliable conclusions about trends from its reported costs.⁴

The Commission is interested in the causes of changes in the costs of processing mail of all shapes and subclasses. The reasons for both the increase in the costs of processing First-Class parcels in 1996, and recent increases in the costs of processing Standard A parcels, are certainly a matters of concern to the Commission. However, when the Commission issued Order No. 1289, it found the two most significant trends in the data provided in response to POIR No.4 were those of declining letter processing costs and increasing costs of sorting Periodicals.

⁴ Standard A Nonprofit ECR parcel processing costs are reported as \$.02 in 1995, and \$1.68 in 1999. Both figures seem implausible.

While DMC's Motion identifies matters that are relevant to issues before the Commission, it does not provide sufficient grounds to expand Order No.1289 to include the preparation of detailed evidence explaining changes in the costs of processing parcels. However, information on the two topics focused on by DMC will benefit the record, and may lead to the development of additional relevant evidence. In that regard, they appear similar to inquiries most frequently pursued through discovery.

Therefore, I will restate the DMC issues, narrowing them to focus on periods when parcel processing costs most obviously increase, and I shall direct the Postal Service to provide by May 5, 2000, responses to the following questions:

- (1) DMC/USPS 1. Refer to the Response of Postal Service Witness Smith to POIR No. 4, Attachment page 1 of 8. Please explain the reasons why First-Class parcel processing costs increased in 1996.
- (2) DMC/USPS 2. Refer to the Response of Postal Service Witness Smith to POIR No. 4, Attachment page 5 of 8. Please explain the reasons why Standard A Regular parcel processing costs increased between 1995 – 1998.

RULING

1. The DMC Motion Requesting that the Postal Service be Directed to Submit Evidence on Parcel Processing Costs, filed April 4, 2000, is denied.
2. The Postal Service shall respond to the two questions restated in the body of this ruling by May 5, 2000.


Edward J. Gleiman
Presiding Officer