

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

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

EXPERIMENTAL PRESORTED PRIORITY
MAIL RATE CATEGORIES, 2001

Docket No. MC2001-1

**MOTION OF THE UNITED STATES POSTAL SERVICE FOR WAIVER OF CERTAIN
PROVISIONS OF RULES 54 AND 64**
(March 7, 2001)

Pursuant to Rule 64(h)(3) of the Commission's Rules of Practice and Procedure, the United States Postal Service hereby moves for a waiver of certain of the provisions of Rule 64(h) and other related rules that may be applicable to its request for an establishment of experimental Presorted Priority Mail rate categories. Rule 64(h) states that the Postal Service, when requesting a change in the classification schedule, must provide certain Rule 54 information concerning requests for changes in postal rates and fees, if the proposed classification change would result in either (1) a change in the rates or fees for any existing class or subclass, (2) the establishment of a new class or subclass for which rates are to be established, (3) a change in the relationship of costs to revenues for any class or subclass, or (4) a change in the relationship of total Postal Service costs to total revenues.

The Postal Service submits that the requested changes in the classification schedule embodied in its Request do not significantly change any of the referenced rates or cost-revenue relationships. As a consequence, particular subsections of the

rule need not apply to the Postal Service's proposal, as is demonstrated below. Moreover, the requirements of Rule 64(h) should be interpreted in harmony with Rule 67 governing experiments. As the Commission has recognized, "[o]ne of the primary purposes of these rules is to permit experiments despite the absence of data called for by our rules designed for the normal case -- consideration of permanent changes." PRC Op., MC86-1, at 9. Clearly, a waiver of certain of the Rule 64(h) and related requirements, if necessary, would further the intent of the experimental rules.¹

Certain of the criteria enumerated in Rule 64(h) do not apply to this request. First, the proposed change is not a change in the existing basic rates for Priority Mail, or for any other class or subclass. Existing Priority Mail rates remain in effect and are available to all mailers. Those Priority mailers who are participants in the experiment, and meet the eligibility criteria for the proposed presort rate categories, will simply have additional options available to them. Second, the proposed change does not request the establishment of a new class or subclass with permanent rates. Rather, the proposed change would create rate categories within Priority Mail on an experimental basis of limited duration. The proposed rates attendant to these categories are derived from a straightforward methodology demonstrating cost differences resulting from worksharing. These savings would be reflected in discounts from existing Priority Mail rates.

¹ In granting the Postal Service's request for waiver in Docket No. MC96-1, the Commission stated, "In this docket, the Postal Service requests authority to provide limited service on an experimental basis. Granting the waiver should not prejudice the Commission's ability to evaluate this request." Presiding Officer's Ruling No. MC96-1/1, January 22, 1996, at 3.

Further, the proposed experiment will not have any significant effect on the relationships between costs and revenues for the Priority Mail subclass or the postal system as a whole. As indicated in the Direct Testimony of Thomas Scherer on Behalf of United States Postal Service (USPS-T-1, at 13), while the estimated cost avoidance is anticipated to exceed the loss in revenue from the presort discount, the contribution to institutional cost from Priority Mail is projected to increase only by \$2.7 million. This increase constitutes only 0.12 percent of TYAR total contribution for Priority Mail. Id. Moreover, projected total cost coverage for Priority Mail will increase only slightly, from 161.9% to 162.0%. Id.

Accordingly, all of the Rule 54 requirements should be found not to apply. Alternatively, they should be waived. Nonetheless, in an attempt to cooperate and assist with consideration of its request, the Postal Service will provide certain Rule 54 information. As explained below, furthermore, to the extent deemed necessary, the Postal Service specifically requests a waiver of Rule 54(b)(3) in part,² (d) in part,³ (f)(2), (f)(3), (h), (i), (j), and, (l)(1) in part, and (l)(2).

For the fiscal year in which the filing is made and for the "test year," Rule 54(f)(2), (f)(3), (h), (i), and (j) basically ask for information concerning estimated total accrued costs, the separation and attribution of those costs among classes and subclasses of mail, and related estimated revenue and volume information.⁴ Rule

² A waiver of Rule 64(b)(3) also is requested in that it encompasses the same information as Rule 54(b)(3).

³ A waiver of Rule 64(c)(2) also is requested in that it encompasses the same information as Rule 54(d).

⁴ Rule 64(d) requests similar information, and, thus, if the waiver is granted for the Rule

54(l)(1), in part, requests before- and after-rates billing determinants for the proposed rates;⁵ and Rule 54(l)(2) asks for certain volume information for Standard Mail (formerly third-class bulk mail). Under these rules, the test year on which rate proposals are based should be a fiscal year beginning not more than 24 months after the Request is filed. In accordance with Commission practice, the test period should be representative of the time during which the proposed changes are expected to be in effect.

The proposed experiment is extremely limited in scope, and its effects on total costs and revenues will be insignificant. The proposed experimental rate category envisions a simple discount from existing Priority Mail rates. These would apply only to a limited number of participants. To qualify for the experimental category, participants' mail must be presorted according to certain specifications, meet the minimum quantity requirement and meet preparation and containerization requirements as specified by the Postal Service.

In light of the limited nature of the proposal, and its relationship to Priority Mail rates recently established in Docket No. R2000-1, the Postal Service believes it would be practical and appropriate to rely on the record of that case, as amended by the testimony and exhibits filed with the instant Request, and in accordance with the Commission's Recommended Decision of November 13, 2000. The recently closed record in Docket No. R2000-1 established estimates for a FY 2001 fiscal test year, which is still in progress. That record supports the existing Priority Mail rates, which as

54 Requirements, then such waiver should extend to Rule 64(d), as well.

⁵ Billing determinants for FY 1999, the most recent available, were filed with the Commission on March 31, 2000.

of this date would only be supplanted by rates produced in the next omnibus rate proceeding.⁶ As a consequence, the record in Docket No. R2000-1 should provide a reliable foundation to consider the Postal Service's proposal for experimental Priority Mail presort categories, whose rates are based on costs avoided through worksharing, as demonstrated in Postal Service testimony filed with the instant Request.

Accordingly, for most purposes embodied in the aforementioned rules, and in conjunction with this request for waiver, the Postal Service intends its Request to rely substantially on the record and Recommended Decision in Docket No. 2000-1. Estimates for FY 2001, as supplemented and amended by the testimony and exhibits in the Postal Service's instant Request, thus provide the basis for the Postal Service's proposal, and no "roll-forward" to a more prospective test period has been or need be developed. To the extent that the Commission might conclude that this approach does not comport with applicable parts of Rule 54, the Postal Service respectfully requests a waiver of those portions of the Rule.

Other subparts of Rule 54 also are inappropriate to the Postal Service's Request. Rule 54(b)(3) requests information on the degree of economic substitutability among various classes and subclasses of mail. To the extent that the Presorted Priority Mail causes minor substitution among users of postal services, such substitution is expected to occur within Priority Mail itself. The Postal Service has addressed this effect in the

⁶ The Postal Service acknowledges that all existing rates are currently being reconsidered pursuant to the Postal Service's Governors' Decision of March 5, 2001. If subsequent proceedings in Docket No. R2000-1 produce different rates, the instant Request can be considered, and, if necessary, amended, in accordance with any pertinent changes in the record affecting Priority Mail.

testimony of witness Scherer (USPS-T-1). No other demonstration of economic substitutability should be required. To the extent that Rule 54(b)(3) requests additional information on the cross-elasticity of demand, such information would typically be derived from historical data. In the instant case, substantial and contemporary historical data regarding demand patterns for the preexisting Priority Mail presort discount are not available because of the relatively low usage of that discount, and because the discount was eliminated over two years ago. Furthermore, any such data would be of limited use in calculating cross-elasticities for the discounts at issue in this case, due to the significant differences between the prior discount and the discounts proposed in this proceeding. Data related to discounts in the form proposed in the instant docket do not exist. To the extent that Rule 54(b)(3) may be thought to apply, its requirements should be waived.

Rule 54(d) requests information pertaining to the shape, weight, and distance of the items mailed. The testimony of witness Scherer mentions that different Priority Mail shapes will qualify for the proposed rate categories. (USPS-T-1, at 6). Exact weight and shape criteria are not known at this time. For this reason, he argues that this case is appropriately brought forward as an experiment, in order to collect such profile data. Id. Witness Scherer's testimony does not address distance expected to be traveled by the mail pieces subject to the presort discount. However, because the proposed presort rate categories do not reflect any transportation elements, distance information is not relevant and its provision should be waived.⁷

⁷ Moreover, to the extent that Rule 54(d) requests information by class and subclass,

Accordingly, because of the limited nature of the proposal and in recognition of the flexibility envisioned by the experimental rules, the Postal Service requests that this motion be granted.

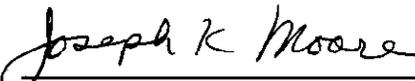
Respectfully submitted,

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pertinent information on all classes and subclasses of mail was provided by the Postal Service in its Compliance Statement and the testimony of its witnesses in Docket No. R2000-1, as reflected and supplemented, for purposes of this proceeding, in the Commission's Recommended Decision in that Docket. The Postal Service relies upon that information.