

USPS-T-34

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

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Postal Rate and Fee Changes, 2001

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DOCKET No. R2001-1

DIRECT TESTIMONY  
OF  
ALTAF H. TAUFIQUE  
ON BEHALF OF  
UNITED STATES POSTAL SERVICE

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15  
16  
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18  
19  
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**TABLE OF CONTENTS**

**AUTOBIOGRAPHICAL SKETCH .....III**

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

**II. GUIDE TO TESTIMONY AND SUPPORTING DOCUMENTATION.....2**

**III. OVERALL INCREASE AND COST COVERAGES .....2**

**IV. OUTSIDE COUNTY .....4**

    A. POUND RATES .....5

        1. *Piece Pound Split* .....5

        2. *Additional Dropship Rates* .....5

        3. *Other Elements in Determining Pound Rates* .....9

    B. PIECE RATES ..... 9

        1. *Per-Piece Pallet Discount* .....9

        2. *Dropship Discount* .....11

        3. *Presort Tiers.* .....12

        4. *Proposed Barcode Discounts.* .....12

**V. WITHIN COUNTY.....15**

**VI. CLASSIFICATION CRITERIA.....16**

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1  
2  
3  
4  
5  
6  
7  
8  
9  
10

**LIST OF TABLES**

TABLE 1. PROPOSED RATES COST COVERAGE SUMMARY	3
TABLE 2. REVENUE PER PIECE - TYBR	3
TABLE 3. REVENUE PER PIECE TYAR AND PERCENT INCREASE	3
TABLE 4. COST COVERAGE PRIOR TO NONPROFIT & CLASSROOM	
DISCOUNTS	4
TABLE 5. OUTSIDE COUNTY PROPOSED VS. CURRENT RATES	14
TABLE 6. WITHIN COUNTY PROPOSED VS. CURRENT RATES	15

## **AUTOBIOGRAPHICAL SKETCH**

My name is Altaf H. Taufique. I currently serve as an economist in the Office of Pricing at the United States Postal Service. Prior to joining the Postal Service in July 1996, I was employed by the Gulf States Utilities Company (GSU) in Beaumont, Texas, from 1980 to 1994. At GSU, I served as an economic analyst in the Corporate Planning department and was subsequently promoted to Economist, Senior Economist and finally to the position of Director, Economic Analysis and Forecasting. My responsibilities at GSU included the preparation of the official energy, load, and short-term revenue forecasts, and the economic forecasts, for the regions served by the Company.

While at GSU I testified before the Public Utility Commission of Texas in Austin and the Federal Energy Regulatory Commission in Washington, D.C. My testimony defended GSU's official energy and load forecasts. I have testified before the Postal Rate Commission in several proceedings. In Docket No. MC96-3, I filed rebuttal testimony concerning the Postal Service's role in the post office box market, and other issues relating to pricing of post office boxes. In Docket No. MC97-5, I rebutted a claim of undue harm to Postal Service competitors due to the proposed packaging service. In Docket No. R97-1, my direct testimony presented the rate proposals for the Periodicals Regular and Within County subclasses, and my rebuttal testimony challenged a proposal to allocate institutional costs based on weighted attributable costs. My testimony in Docket No. MC99-3 addressed the issue of a rate anomaly affecting Nonprofit and

1 Classroom Periodicals mailers. My testimony, filed in Docket No. MC2000-1,  
2 presented the Postal Service's proposal for an experimental "Ride-Along"  
3 classification for Periodicals. My latest testimony, in Docket No. R2000-1,  
4 presented the rates for the newly established Outside County and Within County  
5 subclasses of Periodicals.

6 I received a Master's Degree in Economics from Central Missouri State  
7 University in Warrensburg, Missouri in 1976, and a Bachelor's degree in  
8 Economics & International Relations from Karachi University in Karachi,  
9 Pakistan. I have also completed thirty-three credit hours of coursework towards  
10 a Ph.D. in Economics at Southern Illinois University. I taught economics at  
11 Chadron State College in Chadron, Nebraska between 1978 and 1980. During  
12 my employment at GSU in Texas, I taught courses in economics at Lamar  
13 University in Port Arthur, Texas.

**I. PURPOSE AND SCOPE OF TESTIMONY**

The purpose of my testimony is to present the proposed rates and classification changes for Periodicals. My testimony presents rates for the Outside County and Within County subclasses of Periodicals, in addition to rates for Science of Agriculture. Rates are developed based on cost data from various cost witnesses, statutory requirements, and the rate level requirements developed by witness Moeller (USPS-T-28). I also propose DMCS language changes relating to ADC dropshipment for both Outside County (DMCS 421.45) and Science of Agriculture (DMCS 422.44) Periodicals. The proposed Pallet Discount also requires a DMCS change (DMCS 421.48) and would apply to all Outside County Periodicals. My testimony also discusses the statutory classification criteria as they apply to the above classification changes.

## **II. GUIDE TO TESTIMONY AND SUPPORTING DOCUMENTATION**

My testimony begins with an overview of the proposals and then addresses the subclasses individually. My Microsoft Excel spreadsheets provide a guide to replicate the rate proposal presented in this testimony. Hard copy and electronic versions of these spreadsheets are included in library reference USPS-LR-J-107, which I sponsor. These spreadsheets use data from a number of witnesses identified in my testimony and from library reference USPS-LR-J-98 (FY2000 Billing Determinants). I prepared the Periodicals Billing Determinants for this library reference.

## **III. OVERALL INCREASE AND COST COVERAGE**

The Postal Service in this docket is proposing a modest coverage for Periodicals, though higher than in Docket No. R2000-1, as discussed by Witness Moeller (USPS-T-28). The proposed overall cost coverage for Periodicals (after 5 percent Nonprofit and Classroom discounts) is 108.4 percent. The Outside County cost coverage (after the preferred discount) is 108.6 percent.

Based on the above cost coverages, the overall increase for Periodicals is 10 percent. Outside County rates increase by 10.4 percent, while Within County rates increase by less than 2 percent. The impact on former subclasses, such as Regular, Nonprofit and Classroom, ranges from 10.2 to 11.8 percent.

**Table 1. Proposed Rates Cost Coverage Summary**

	Revenue	Fees	Total Revenue	Cost	Revenue as a Percent of Cost
Outside County	\$2,494,102,963	\$ 17,497,000	\$2,511,599,963	\$2,313,219,320	1.086
Within County	\$ 80,886,453	\$ 1,640,000	\$ 82,526,453	\$ 78,784,700	1.047
Total Periodicals	\$2,574,989,416	\$ 19,137,000	\$2,594,126,416	\$2,392,004,020	1.084

Table 2 presents the test year revenues per piece before the proposed change.

**Table 2. Revenue per Piece - TYBR**

	Revenue, Including Fees	Pieces	Revenue Per Piece
Outside County	\$2,293,976,738	9,182,081,732	\$ 0.250
Within County	\$ 81,338,377	855,781,372	\$ 0.095
Total Periodicals	\$2,375,315,115	10,037,863,104	\$ 0.237

Test year after rates postage including fees and volumes are provided below. A comparison of revenue per piece for the components provides the average increase for the parts as well as the whole Periodicals class.

**Table 3. Revenue per Piece – TYAR and Percent Increase**

	Revenue, Including Fees	Pieces	Revenue Per Piece	Percent Change
Outside County	\$2,511,599,963	9,108,973,050	\$ 0.276	10.37%
Within County	\$ 82,526,453	853,535,270	\$ 0.097	1.73%
Total Periodicals	\$2,594,126,416	9,962,508,320	\$ 0.260	10.04%

Table 4 below shows the cost coverage for Outside County prior to discounts for Nonprofit and Classroom rate categories. This cost coverage of 109.3 percent is used



as a benchmark to determine the cost coverage for Within County. The resulting cost coverage for Within County is 104.7 percent.

**Table 4. Cost Coverage Prior to Nonprofit & Classroom Discounts**

Revenue After Discounts	\$ 2,494,102,963
Nonprofit and Classroom Discounts	\$ 17,772,101
Revenue Before Discounts	\$ 2,511,875,064
Fees	\$ 17,497,000
Total Revenues Before Discounts	\$ 2,529,372,064
Cost	\$ 2,313,219,320
Cost Coverage Before Discounts	1.093

#### **IV. OUTSIDE COUNTY**

The Postal Service is proposing several changes to the rate design. First, the proposed rate design for Outside County includes a new Destinating Area Distribution Center (DADC) discount. This classification change is proposed in DMCS 421.45 for Outside County Periodicals and DMCS 422.44 for Science of Agriculture Periodicals. Discounts are proposed off both the pound and piece rates. I am also proposing a change to DMCS 421.45 to limit the destination entry discounts to mail entered at the destination facility. Next, the proposed discount for palletized pieces is covered in a new DMCS 421.48 and impacts only the piece side of the rate chart. Finally, the Postal Service is proposing to extend the dropship discounts to editorial content.

In the DMCS rate schedules for Periodicals, I propose to delete the notes that relate to rate eligibility. The remaining notes pertain only to rate-related information: rate calculations, discounts, and/or surcharges. Rate eligibility information is contained

1 in the body of the DMCS. Having eligibility information in two places is redundant, and  
2 could lead to inconsistency.<sup>1</sup>

3 My discussion of Outside County rate design will begin with pound rates.

## 4 **A. Pound Rates**

### 5 **1. Piece Pound Split**

6 I propose to retain the revenue split between pounds and pieces. Sixty percent of  
7 the revenue is proposed to be derived from piece rates, while forty percent would be  
8 derived from pound rates.

### 9 **2. Additional Dropship Rates**

10 The Postal Service is proposing a new dropshipment rate for mail entered at the  
11 destinating ADC. Furthermore, in order to provide further incentives for entering the mail  
12 at the destinating ADC, SCF and DU, the Postal Service is proposing separate editorial  
13 dropship pound rates for the destinating ADC, SCF and DU. These discounts would be  
14 limited to mail entered at the destination facility. The editorial pound rate for Zones 1 & 2  
15 through Zone 8 remains a uniform un-zoned rate. This treatment of the editorial pound  
16 rate provides the appropriate balance between economics and social policy objectives  
17 alluded to in the Commission's Opinion in Docket No. R90-1 (pages V-118 to V-120).  
18 The concerns about both dissemination of information and providing the correct price-  
19 signals to mailers are addressed by this proposal.

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<sup>1</sup> If the notes regarding rate eligibility were to be retained in the DMCS rate schedules, they would need to be updated to include the classification changes included in this case.

1           The history of cost increases in Periodicals is well known. The Postal Service,  
2   and the mailers have provided various explanations for these increases. The  
3   Commission in its Docket No. R2000-1 Opinion and Recommended Decision has  
4   discussed this issue in detail without reaching any definitive conclusion. (PRC Op., Vol.  
5   1, at V-407-412).

6           From a rate design perspective, I believe that the proposed increased incentive  
7   for dropshipment, combined with a per-piece pallet discount (to be discussed later),  
8   would help mitigate further cost increases. First, as is true for most worksharing, the  
9   additional work performed by the mailers (at a lower cost than if performed by the Postal  
10   Service) may lead to a reduction in reported volume-variable costs and lower overall  
11   combined cost. For example, bypassing postal facilities and entering closer to the  
12   destination may lower Periodicals processing costs. Second, as mailers prepare the  
13   mail for downstream entry, preparation is likely to improve. A relatively high degree of  
14   palletization, and finer degree of presort can be expected. Larger destination entry  
15   discounts would provide further incentive for smaller and medium mailers to combine  
16   their mailings or versions to achieve the volumes necessary to justify the transportation  
17   for deeper downstream entry. Even mailers who may not be able to dropship their mail  
18   would nonetheless benefit from the cost savings for all Periodicals. I believe that a more  
19   efficient classification which recognizes the traditional role of Periodicals and their  
20   editorial content best serves the long-term needs of the Periodicals mailers and readers.

21          The Postal Service recognizes the **E**ducational, **C**ultural, **S**cientific and  
22   **I**nformational (ECSI) value of Periodicals and the crucial role played magazines,  
23   newspapers and other periodicals, both large and small, in the dissemination of  
24   information in binding the nation together. My proposal tries to balance the public policy  
25   and economic efficiency objectives.

1 Revenues derived from advertising and editorial pounds are calculated based on  
2 FY2000 Billing Determinants. Rates are designed so that 53.3 percent of pound  
3 revenue is derived from advertising pounds while 46.7 percent comes from editorial or  
4 non-advertising pounds. My aim in this particular case is to make sure that editorial  
5 pounds are not burdened more than their historical share. The percentages of actual  
6 volume based on pounds are reversed in these two categories. Editorial pounds make  
7 up 56 percent of the total weight while advertising pounds make up only 44 percent of  
8 the total weight. Although these ratios reflect the FY2000 Billing Determinants, a cursory  
9 glance at billing determinants from previous years would reveal similar volume and  
10 revenue percentages between advertising and editorial pounds.

11 Second, the allocation of transportation cost to advertising pounds is designed to  
12 mitigate the impact of the larger dropship discounts on advertising pounds entered in  
13 higher zones. I have chosen to allocate 50 percent of the transportation cost to  
14 advertising pounds to maintain this balance. Using the revenue allocation (53.3 percent  
15 advertising vs. 46.7 percent editorial) increases the rates for farther zones while using  
16 the pound allocation shrinks the rate difference between near and far zones. Once  
17 again, this balance will provide incentives for mailers to dropship closer to destination,  
18 while mitigating the impact on those who are not able to take advantage of these  
19 incentives.

20  
21 Finally, the impact on the flat editorial pound rate (editorial pound rate applicable  
22 to zones 1 & 2 through zone 8) has been mitigated by using a 50 percent passthrough  
23 for the rate-differentials derived for advertising pound rates. In other words, only half of  
24 the transportation and non-transportation cost avoidances derived for advertising  
25 pounds are applied to the calculation of editorial pound dropship rates. The flat editorial

1 pound rate that applies to all editorial pounds that are not dropshipped to the destinating  
2 ADC, SCF or DU increases by 13.4 percent, just over three percentage points above  
3 the average increase. The Postal Service believes that this additional incentive may  
4 help both large and small mailers and has the potential to move significant volume of  
5 mail to destinating facilities.

6 The destinating ADC dropshipment rate is being proposed by the Postal Service  
7 to provide a dropship alternative for mailers that may not have enough volume for a  
8 destinating SCF or DU, but may have enough volume for a destinating ADC.

9 In this discussion of dropshipping closer to destination, two other pertinent issues  
10 have to be discussed. First is the issue of service for time-sensitive publications. The  
11 best efforts of mailers and the Postal Service have not brought the issue of timely  
12 delivery of Periodicals to closure. Entry of mail closer to destination would go a long way  
13 in resolving this issue. Second, the long-term health of Periodicals depends on cost  
14 containment and reasonable cost coverage. Above average increases in cost and  
15 resulting lean mark-ups are not good omens for any subclass. The balanced proposal in  
16 this docket is an attempt to move Periodicals in the direction of more reasonable cost  
17 increases and ultimately a more traditional share of institutional costs.

18  
19 The Postal Service recognizes the impact of higher dropship discounts on  
20 smaller customers, who individually may not have the volume and/or density to enter  
21 mail closer to destination. Therefore, the Postal Service proposes only modest de-  
22 averaging, mitigating the impact on the unzoned editorial pound rate and the higher  
23 zone advertising pound rates. Also, the Postal Service proposal provides time for  
24 mailers to take a fresh look at comailing and commingling. Consolidation of titles by a

number of smaller mailers may lead to higher volume, greater densities, and an overall reduction in cost for processing and delivering Periodicals.

### **3. Other Elements in Determining Pound Rates**

For other elements of rate design, I propose to continue the traditional ratemaking practices established in previous rate cases. The use of average haul, the calculation of pound miles to allocate distance-related transportation cost, and the allocation of residual revenue requirement on a per pound basis have remained the same. Science of Agriculture pound rates for the nearer zones including DDU, DSCF and DADC and zones 1 & 2 are based on 75 percent of the pound rates developed for Outside County. The non-advertising or editorial pound rates for Science of Agriculture are separately estimated and proposed in this docket, also at 75 percent of the comparable Outside County rates. This approach deviates from past practice but is consistent with the introduction of destination entry rates for other non-advertising pounds.

### **B. Piece Rates**

The proposed piece rate design includes a new discount for pieces on pallets and a discount for pieces dropped at the DADC. I will start the discussion with the pallet discount and then continue with the other piece-rate elements.

#### **1. Per-Piece Pallet Discount**

The Postal Service is proposing a per-piece pallet discount for flat-shaped mail, regardless of the pallet presort level, as long as the pallet is loaded with packages, rather than sacks and trays. Pallets made up of sacks and trays, as allowed by DMM M045.3.1 (c-h), would not be eligible for the proposed pallet discount.

1           Witness Schenk (USPS-T-43) shows that mail processing costs for mail prepared  
2 on pallets are substantially lower than costs for mail prepared in sacks. Her library  
3 reference (USPS-LR-J-100) finds cost savings based on differences in platform and  
4 allied work effort associated with loading, unloading, dumping containers, and re-  
5 supplying them to customers.

6           Pallets enable a larger amount of mail to be handled simultaneously with reduced  
7 effort. Sacks, particularly in Periodicals where there is effectively no minimum number of  
8 pieces needed to prepare a sack (due to service reasons), require substantially more  
9 labor to handle an equivalent number of pieces.

10          Pallets arriving at the destination facility will typically be unloaded from the  
11 vehicle; moved to the small parcel and bundle sorter (SPBS); unwrapped; loaded into a  
12 container dumper; and dumped for the contents to be sorted. Empty pallets are stacked  
13 and moved back out to the dock to supply customers.

14          Sacks typically arrive at the destination facility in rolling stock or on pallets with  
15 cardboard sleeves from upstream facilities. The containers are typically unloaded from  
16 the trucks and moved to the SPBS with a tow motor or manually. Sacks are then  
17 unloaded, opened, and dumped onto the SPBS induction belt. Sack labels are then  
18 removed and the sacks are folded and prepared for customer or postal reuse

19          There is a significant difference in the labor time associated with removing mail  
20 from the respective containers and preparing containers for future use. The majority of  
21 SPBSs are equipped with container dumpers. Thus to remove mail from a pallet all an  
22 employee must do is cut the pallet's shrink-wrap, start the dumper, and rake bundles  
23 onto the belt.

24          Removing mail from sacks is much more labor intensive. The employee must first  
25 release the mechanism that holds the sack closed; stretch open the sack; hold open the

sack and dump the contents; inspect the sack to ensure all contents have been removed; reach into the sack to remove any remaining bundles; remove and dispose of the sack label; and finally fold the sack for re-supply. Based on USPS-LR-J-114, Table 2, the average Periodicals pallet contains 1,729 pieces, and the average Periodicals sack contains 31 pieces. Thus, for an equivalent amount of mail, 56 sacks must be handled for each pallet dumped.

The normalized cost difference (taking into account all other differences such as dropshipment) on a per-piece basis is \$.0221. USPS-LR-J-100, Table 1. In other words, pieces on pallets on average cost 2.21 cents less than pieces in sacks. The Postal Service is proposing a rather modest passthrough of 24 percent of cost savings, providing a \$.005 discount for pieces in packages placed on pallets. This modest discount serves two purposes. First, it provides relief to mailers that prepare palletized mail based on their cost-saving behavior without a major impact on sack preparers. Second, it takes into account any loss of presort (at the container level) that may take place as a result of mail migrating from sacks to pallets.

## **2. Dropship Discounts**

The non-transportation related (handling) cost savings form the basis of the per-piece dropship discounts. A slight increase is proposed for the DDU discount (\$0.017 to \$0.018), while the DSCF discount remains at the current level (\$0.008). The proposed new DADC discount is \$0.002. In each case, the non-transportation related (handling) cost savings have been split equally between pieces and pounds. In Docket No. R2000-1, the Postal Service asked the Commission to allocate a greater percent of these savings to pieces compared to pounds. In this proposal, the Postal Service is not proposing an unequal split, because the partial zoning of editorial pounds should go a



long way in sending correct signals for dropship decisions, while mitigating the impact on those who may not be able to take advantage of these incentives.

### **3. Presort Tiers**

Both the 3-digit and 5-digit presort rates are based on witness Miller's mail processing and witness Schenk's delivery cost studies, using 100 percent passthroughs. USPS LR-J-61, Miller (Mail Processing); USPS-LR-J-117, Schenk (Delivery). The 3-digit non-automation rate increases from 28.3 to 32 cents, a 13 percent increase, while the 5-digit non-automation rate increases from 21.9 to 25.2 cents, an increase of 15 percent. The carrier route rate increases from 13.9 cents to 15.9 cents, an increase of 14.4 percent, based on 100 percent passthrough of the cost savings, as in Docket No. 2000-1.

### **4. Proposed Barcode Discounts**

The barcode discounts are treated in a similar fashion as proposed by the Postal Service and recommended by the Commission in Docket No. R2000-1. The current discount for an automated, or barcoded, piece at the Basic presort level is 4.2 cents. We are proposing to increase this discount to 4.8 cents, using a 115 percent passthrough. The proposed rate for Basic Automation flats increases from 29.1 cent to 32.1 cents, an increase of 10.3 percent.

At the 3-digit level, the current discount for a barcoded flat is 3.5 cents. We are proposing a discount of 4.1 cents using a passthrough of 145 percent. The proposed rate for a 3-digit barcoded flat is 27.9 cents, an increase of 3.1 cents or 12.5 percent. At the 5-digit level, the passthrough becomes a bit more unconventional. The current discount of 2.5 cents is proposed to increase to 3 cents, with a proposed passthrough of

245 percent. The proposed 5-digit rate for automation flats of 22.2 cents is 2.8 cents higher than the current rate of 19.4 cents.

As evident from the preceding two paragraphs, the signals to the mailers regarding barcodes have been maintained. Maintaining the level of these discounts is important while the operational environment for flats is still in the evolutionary stages. While Optical Character Readers (OCRs) have reduced the value of barcodes, plans for processing flats (including delivery point sequencing) may make a slightly different (11-digit) barcode more valuable, in the longer term. Moreover, high levels of barcoding and automation compatibility are important components in the Postal Service's and mailers' efforts to control the cost of handling flats in general and Periodicals in particular. As such, the Postal Service wants to provide significant incentives for mailers to maintain their barcoding capabilities.

Table 4 presents a comparison of Outside County rates and percent changes. Nonprofit and Classroom rate categories use the same schedule but receive a 5 percent discount on all postage except advertising pounds.

**Table 4. Outside County Current vs. Proposed Rates**

Regular Rate	Current Rate	Proposed Rate	Percent Change
<b>Advertising Pounds</b>			
Destinating Delivery Unit	\$ 0.153	\$ 0.160	4.58%
Destinating SCF	\$ 0.195	\$ 0.204	4.62%
Destinating ADC		\$ 0.225	N/A
Zones 1&2	\$ 0.238	\$ 0.250	5.04%
Zone 3	\$ 0.253	\$ 0.268	5.93%
Zone 4	\$ 0.292	\$ 0.317	8.56%
Zone 5	\$ 0.351	\$ 0.390	11.11%
Zone 6	\$ 0.413	\$ 0.467	13.08%
Zone 7	\$ 0.488	\$ 0.560	14.75%
Zone 8	\$ 0.552	\$ 0.640	15.94%
<b>Editorial Pounds</b>			
Destinating Delivery Unit	\$ 0.179	\$ 0.158	-11.73%
Destinating SCF	\$ 0.179	\$ 0.180	0.56%
Destinating ADC	\$ 0.179	\$ 0.191	6.70%
Editorial Pound Rate (All other Zones)	\$ 0.179	\$ 0.203	13.41%
<b>Science of Agriculture</b>			
<b>Advertising Pounds</b>			
Destinating DU	\$ 0.115	\$ 0.120	4.35%
Destinating SCF	\$ 0.146	\$ 0.153	4.79%
Destinating ADC	\$ 0.179	\$ 0.168	-6.15%
Zones 1 & 2	\$ 0.179	\$ 0.187	4.47%
<b>Nonadvertising</b>			
Destinating DU	\$ 0.179	\$ 0.120	-32.96%
Destinating SCF	\$ 0.179	\$ 0.136	-24.02%
Destinating ADC	\$ 0.179	\$ 0.143	-20.11%
Zones 1 & 2	\$ 0.179	\$ 0.152	-15.08%
<b>Presort Rate Pieces</b>			
BASIC NON-AUTOMATION	\$ 0.333	\$ 0.369	10.81%
BASIC AUTOMATION LETTER	\$ 0.266	\$ 0.277	4.14%
BASIC AUTOMATION FLAT	\$ 0.291	\$ 0.321	10.31%
3-DIGIT NON-AUTOMATION	\$ 0.283	\$ 0.320	13.07%
3-DIGIT AUTOMATION LETTER	\$ 0.231	\$ 0.245	6.06%
3-DIGIT AUTOMATION FLAT	\$ 0.248	\$ 0.279	12.50%
5-DIGIT NON-AUTOMATION	\$ 0.219	\$ 0.252	15.07%
5-DIGIT AUTOMATION LETTER	\$ 0.178	\$ 0.191	7.30%
5-DIGIT AUTOMATION FLAT	\$ 0.194	\$ 0.222	14.43%
CARRIER ROUTE BASIC	\$ 0.139	\$ 0.159	14.39%
CARRIER ROUTE HIGH DENSITY	\$ 0.113	\$ 0.127	12.39%
CARRIER ROUTE SATURATION	\$ 0.095	\$ 0.108	13.68%
PERCENTAGE EDITORIAL DISCOUNT	\$ (0.067)	\$ (0.074)	10.45%
WKSHARING DDU ENTRY	\$ (0.017)	\$ (0.018)	5.88%
WKSHARING DSCF ENTRY	\$ (0.008)	\$ (0.008)	0.00%
WKSHARING DADC ENTRY		\$ (0.002)	
WKSHARING DISCNT PALLETIZED PIECES		\$ (0.005)	

## V. WITHIN COUNTY

Within County rate design essentially has not changed from the previously established practice of the Commission and the Postal Service. The Within County cost coverage, which is half of the Outside County (pre-discount) cost coverage, ends up at 104.7 percent. The resulting overall increase of 1.73 percent is significantly below the increase for the Outside County subclass and the system average for all the mail classes. This reflects the greater percentage of Carrier Route mail in Within County. Within County discounts are generally based on cost avoidances derived for the Outside County subclass with appropriate passthroughs. Table 5 below presents a cell by cell comparison of proposed versus current rates.

**Table 5. Within County Current vs. Proposed Rates**

Pounds	Current Rate	Proposed Rate	Percent Change
Delivery Unit	\$ 0.115	\$ 0.112	-2.61%
General	\$ 0.146	\$ 0.146	0.00%
Pieces			
BASIC NON-AUTOMATION	\$ 0.101	\$ 0.106	4.95%
BASIC AUTOMATION LETTER	\$ 0.049	\$ 0.050	2.04%
BASIC AUTOMATION FLAT	\$ 0.074	\$ 0.077	4.05%
3-DIGIT NON-AUTOMATION	\$ 0.093	\$ 0.097	4.30%
3-DIGIT AUTOMATION LETTER	\$ 0.047	\$ 0.048	2.13%
3-DIGIT AUTOMATION FLAT	\$ 0.069	\$ 0.073	5.80%
5-DIGIT NON-AUTOMATION	\$ 0.084	\$ 0.087	3.57%
5-DIGIT AUTOMATION LETTER	\$ 0.045	\$ 0.046	2.22%
5-DIGIT AUTOMATION FLAT	\$ 0.063	\$ 0.067	6.35%
CARRIER ROUTE BASIC	\$ 0.048	\$ 0.050	4.17%
CARRIER ROUTE HIGH DENSITY	\$ 0.033	\$ 0.034	3.03%
CARRIER ROUTE SATURATION	\$ 0.027	\$ 0.028	3.70%
WKSHARING DDU ENTRY	\$ (0.005)	\$ (0.006)	20.00%

## VI. CLASSIFICATION CRITERIA

Section 3623(c) of title 39 U.S.C. requires the Commission to make its decision on establishing a new classification in accordance with the following factors:

1. the establishment and maintenance of a fair and equitable classification system for all mail;
2. the relative value to the people of the kinds of mail matter entered into the postal system and the desirability and justification for special classifications and services of mail;
3. the importance of providing classifications with extremely high degrees of reliability and speed of delivery;
4. the importance of providing classifications which do not require an extremely high degree of reliability and speed of delivery;
5. the desirability of special classifications from the point of view of both the user and of the Postal Service; and
6. such other factors as the Commission may deem appropriate;

The proposed establishment of a DADC rate for advertising and editorial pounds, plus a per-piece discount for pieces dropshipped at the destinating ADC (Outside County and Science of Agriculture), meet the fairness and equity criterion. Mailers that do not have the volume or density to dropship to DSCFs or DDUs would receive a discount for bringing the mail to the destination ADC. In addition, the rates for such mail would better reflect the underlying costs.

This classification change meets the spirit of criterion 3 by making the delivery of Periodicals mail a bit more reliable and speedier because of mailer entry closer to destination.

1           Also, criterion 5 is satisfied because this classification change is desirable  
2           from the point of view of both the users of mail and the Postal Service. Other mail  
3           classes have intermediate dropship points and rate incentives besides the  
4           destinating SCF and Delivery Units such as BMCs. This change would provide  
5           smaller Periodicals mailers with a money saving option if they choose to use it.

6           The palletized piece discount also meets the fairness and equity criterion,  
7           because the discount recognizes the cost saving characteristics of palletized  
8           mail. This discount would be desirable from the perspectives of both the Postal  
9           Service and mailers (criterion 5) because it better reflects costs and encourages  
10          efficient mail preparation.

11          Almost all of Periodicals mail that is entered at destinating facilities is on  
12          pallets rather than in sacks. The discount for pieces in packages placed on  
13          pallets may lead to more mail being entered at destinating facilities. This would  
14          lead to speedier delivery, thereby satisfying the spirit of criterion 3.