

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

EXPERIMENTAL PERIODICALS
CO-PALLETIZATION DROPSHIP
DISCOUNTS, 2002

Docket No. MC2002-3

REPLY COMMENTS OF UNITED STATES POSTAL SERVICE
IN SUPPORT OF SETTLEMENT
(December 13, 2002)

In accordance with Order No. 1354, the Postal Service hereby provides its reply comments in this docket.

Other than the Postal Service, three parties provided initial comments: the Office of the Consumer Advocate (OCA), the American Postal Workers Union, AFL-CIO (APWU), and Valpak Direct Marketing System, Inc. and Valpak Dealers' Association, Inc. (Valpak). The OCA comments support settlement.¹ The other comments do not specifically oppose settlement, but raise tangential issues.

The APWU expresses concerns about the total discounts available for Periodicals mailers, including those for barcoding.² Such concerns are typically addressed in omnibus rate cases.

¹ Office of the Consumer Advocate Comments on Stipulation and Agreement (December 9, 2002).

² Statement of American Postal Workers Union, AFL-CIO Concerning Settlement, at 1 (December 9, 2002)(APWU Statement).

APWU also asks the Commission to “require the Postal Service to report on the size and type of mailers that commingle and make use of the rates resulting from this case.” APWU Statement, at 2. Initially, the Postal Service proposed a limited data collection plan using information readily available from the Postal Service’s data systems.³ Prompted by Chairman’s Information Request No. 1, the Postal Service investigated whether additional data could be obtained from potential experiment participants. A spreadsheet to be used for such data collection was developed and circulated to all participants, including APWU.⁴ Following consultations with Periodicals intervenors and the Office of the Consumer Advocate, the Postal Service greatly expanded the scope of data collection and reporting, even beyond that suggested in the Chairman’s Information Request.⁵ APWU belatedly is asking the Commission to require the Postal Service to go even farther, by collecting and reporting information about the type and size of the participating publications. APWU Statement at 2. The Postal Service does not believe that such information can easily be obtained from participants. Moreover, the number of publications using the discounts, which will be reported, should indicate if the discounts are benefiting only a few large publications. The Postal Service thus urges the Commission to accept the data collection and reporting plan as specified in witness Taufique’s revised response to Chairman’s Information Request No. 1, Question 1.

³ USPS-T-1, at 16.

⁴ Notice of the United States Postal Service of Distribution of Model Spreadsheet For Collecting Data (November 8, 2002).

⁵ Revised Response of United States Postal Service Witness Altaf H. Taufique to Chairman’s Information Request No. 1, Question 1 (November 21, 2002).

Valpak's comments neither support nor oppose settlement.⁶ Valpak instead raises policy issues. Its concern is with the fairness of deviating from the current system of rate averaging by offering discounts to higher-cost mailers for reducing their costs.

Valpak argues that “[m]ailers of sacked Periodicals and palletized Periodicals pay the same rates, even though, *ceteris paribus*, the Postal Service's costs of routing their respective mail to its destination differ.” Valpak Comments at 4. But, in fact, palletized mail generally pays much lower rates than sacked mail, not only because of the pallet discounts resulting from Docket No. R2001-1, but also because palletized mail is much more likely to be dropshipped, providing rate benefits on both an advertising per pound and a general per piece basis. Often, currently palletized mail (from large publications) is dropshipped to a greater extent than to the destination ADC or even SCF, and with a presort below the SCF level. The proposed co-palletization discounts do not even apply to mail dropshipped to the destination delivery unit, or presorted on 3-Digit or 5-Digit pallets. USPS-T-1 at 6-8. Thus, Valpak is wrong to suggest that co-palletized mail will generally be paying lower rates than mailers who already were entering pallets at a destination facility. *Id.*

Valpak also claims that only one type of cost savings (transportation savings associated with entering editorial matter in a destination office instead of in zones 1 and 2) is recognized as the basis for the proposed discounts. Valpak

⁶ Valpak Direct Marketing Systems, Inc. and Valpak Dealers' Association, Inc. Comments on Proposed Settlement (Valpak Comments), at 1 (December 10, 2002).

Comments at 2. But the Postal Service is not filing this classification case in a vacuum. The current rate chart provides incentives for both palletization and palletization with dropshipment, resulting from Docket No. R2001-1. Witness Taufique moreover justified the choice of Zones 1 & 2 as a conservative benchmark for the calculation of cost savings for this experiment. USPS-T-1 at 12.

Valpak is correct that rate averaging exists in Periodicals rates. However, the proposed experiment aims to reduce any intra-subclass subsidies by making the smaller, higher-cost mailers more efficient, and passing on only a portion of the savings caused by this change in behavior. As higher cost mailers tend to lower their costs, with not all of the savings passed on to them, the subclass as a whole will benefit.

Proposals to address rate averaging in Periodicals are generally controversial. The current proposal, on the other hand, is supported by all Periodicals participants. If the proposed experiment is rejected, then any intra-subclass subsidy would be maintained, and an opportunity to limit Periodicals costs would be missed. The cost of doing nothing could be substantial.

Finally, the proposal in this case is fair because it extends to mail that already is co-palletizing. USPS-T-1 at 15. Moreover, the beneficiaries of the experiment would be publications that cannot palletize (to a particular destination) on their own. The discounts will not be available to customers who simply choose not to palletize despite sufficient mail density. Thus, no incentive will be created for low cost mail to become high cost (and then shift back to low

cost) so that it can qualify for the discounts. Instead, the proposal is directed at mailers who "need an additional discount to reach the same level of worksharing as other mailers."

Therefore, the Postal Service believes that its Request in this case is fair to all mailers. The Postal Service asks that the Commission recommend the classification language and discounts as requested by the Postal Service.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking

Brian M. Reimer

David H. Rubin

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.

David H. Rubin

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
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