

UNITED STATES OF AMERICA  
POSTAL RATE COMMISSION  
WASHINGTON, DC 20268-0001

*Before:*

Chairman Omas,  
Vice Chairman Covington,  
Commissioner Goldway,  
and Commissioner Hammond

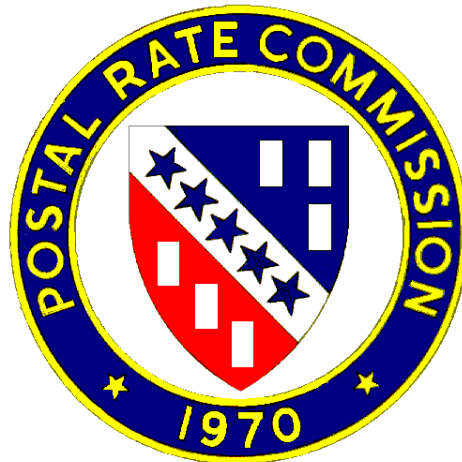
Experimental Periodicals  
Co-Palletization Dropship Discounts

Docket No. MC2002-3

OPINION AND RECOMMENDED DECISION

APPROVING

STIPULATION AND AGREEMENT



Washington, DC 20268-0001  
December 20, 2002

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## I. INTRODUCTION AND SUMMARY

The Commission adopts an unopposed settlement as the basis for its opinion and recommended decision approving a two-year experiment testing whether new discounts will encourage senders of relatively low volume/low density Periodicals mailings to make several key adjustments in their mailing practices. One adjustment entails consolidating otherwise independent mailings so that they meet or exceed, on a combined basis, the 250-pound minimum for a pallet load. This would avoid the need to place this mail in sacks. A related adjustment — and equally essential component of eligibility for the new experimental discounts — requires dropshipping the co-palletized mail to a specified destination entry area distribution center (ADC) or destination entry sectional center facility (SCF).

The recommended experimental discounts — available for qualifying Outside County Periodicals — are 0.7 cents per piece for mail entered at the destination ADC and 1.0 cents per piece for mail entered at the destination SCF. These discounts are identical to those requested by the Postal Service and incorporated in the underlying settlement.<sup>1</sup> Periodicals mailers with residual volume from a larger mailing (commonly referred to as “the tail of the mail”) and senders of certain Periodicals co-mailings will also be eligible for the discounts.<sup>2</sup>

The Service will collect data pursuant to an expanded data collection plan and file related periodic reports during the course of the experiment. Analysis of these data, along with review of anticipated data on two recently-implemented pallet-based Periodicals discounts, will assist not only in determining the effectiveness of this experiment, but in assessing broader efforts to curb costs and the appropriate direction for future Periodicals rate policy and design.

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<sup>1</sup> These discounts are in addition to two pallet-based Periodicals discounts approved by the Commission and implemented as a result of the settlement of Docket No. R2001-1.

<sup>2</sup> Co-palletizing combines bundles of different publications going to the same destination ADC or SCF on the same pallet. Co-mailing combines different publications in the same bundles, with the bundles then combined on pallets. USPS-T-1 at 3.

This experiment focuses on an especially challenging aspect of cost control. The Periodicals intervenors' unanimous support for it builds on a tradition of cooperation with the Postal Service in exploring cost reduction opportunities. The experiment's success in logistical terms will rely to an unprecedented degree on cooperation among Periodicals mailers, printers and consolidators throughout the planning, production and distribution process. The Commission acknowledges the joint efforts that have gone into developing this proposal and the continuing commitment to cooperation that will be required throughout the experiment.

## II. PROCEDURAL HISTORY

On September 26, 2002, the United States Postal Service filed a formal request with the Postal Rate Commission seeking a recommended decision approving an experimental mail classification and two related discounts for certain co-palletized, dropshipped Outside County Periodicals mail. The Service sought authorization for a two-year experiment, along with the option of obtaining an automatic, but limited, extension in the event a request for permanent status is filed prior to the experiment's scheduled expiration. Request of the United States Postal Service for a Recommended Decision on Experimental Periodicals Co-Palletization Dropship Discounts (Postal Service Request or Request). The Service's Request was submitted pursuant to Chapter 36 of the Postal Reorganization Act, 39 U.S.C. § 3601 *et seq.*

The Request was accompanied by six attachments, including proposed revisions to the Domestic Mail Classification Schedule (DMCS)<sup>3</sup>; the prepared direct testimony of Postal Service witness Taufique; a motion seeking waiver of certain standard filing requirements, in the event waiver is deemed necessary; and a request for expedition and establishment of settlement procedures.<sup>4</sup> Motion of the United States Postal Service for Waiver (Service's Motion for Waiver), September 26, 2002; United States Request for Expedition and Establishment of Settlement Procedures (Request for Expedition), September 26, 2002.

Commission Order No. 1347 announced the filing of the experimental request, granted the Request for Expedition, and addressed related matters. These included, among other things, appointment of Postal Service counsel to serve as settlement coordinator; designation of the director of the Commission's Office of the Consumer

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<sup>3</sup> Attachments A and B contain proposed revisions to existing provisions of the Domestic Mail Classification Schedule (DMCS). Attachment C incorporates by reference the certified financial statement provided in Docket No. MC2002-2; Attachment D is the certification required by Commission rule 54(p). Attachment E is an index of testimony and exhibits. Attachment F is a compliance statement addressing satisfaction of various filing requirements.

<sup>4</sup> The Request for Expedition was in addition to the expedited procedures generally available under the Commission's experimental rules (39 CFR § 3001.67-3001.67d).

Advocate (OCA) as the representative of the interests of the general public; and establishment of deadlines for intervention, conferences, and comments on pertinent issues, such as the need for a hearing. Notice and Order on Filing of Request Seeking Experimental Periodicals Discounts, October 2, 2002 (67 FR 62993); *see also* Order on Postal Service Motion to Reschedule Settlement Conference and Prehearing Conference, October 4, 2002, and Order No. 1350 Permitting Electronic Filings, October 24, 2002.

The Chairman's Information Request No. 1, issued October 11, 2002, addressed several data collection and cost issues. The Postal Service filed witness Taufique's responses to the three questions contained therein on October 25, 2002 and, on November 21, 2002, filed Taufique's revised response to Question No. 1.

A settlement conference was held October 28, 2002. Postal Service counsel submitted pertinent filings in the capacity of settlement coordinator. *See* First Settlement Status Report of the United States Postal Service, November 8, 2002; Notice of the United States Postal Service of Distribution of Model Spreadsheet for Collecting Data, November 8, 2002; Second Settlement Status Report of the United States Postal Service, November 22, 2002; and United States Postal Service Motion for Establishment of a Procedural Mechanism and Schedule Governing Further Proceedings in Light of Projected Settlement, November 22, 2002 (Scheduling Motion). The Scheduling Motion included, as an attachment, a Stipulation and Agreement (settlement agreement or settlement), including DMCS language, that the Service had distributed for each participant's review and possible signature.

Commission Order No. 1354 granted the Scheduling Motion in material respects, but adjusted deadlines for comments and reply comments on the anticipated settlement agreement. *See* Order on Postal Service Motion for Establishment of Procedural Mechanisms and Remaining Schedule, November 26, 2002. Pursuant to the order, designations of direct testimony and written cross-examination were filed December 4, 2002 and witness Taufique's supporting declarations were filed December 6, 2002. The Service filed signature pages for the previously-filed settlement agreement on

December 9, 2002. See Notice of the United States Postal Service Regarding Filing of Original Signature Pages for Stipulation and Agreement, December 9, 2002. Thirteen participants, in addition to the Postal Service, signed the settlement. Comments on the settlement were filed December 9, 2002 by the Postal Service, the OCA, the Alliance of Nonprofit Mailers, and American Postal Workers Union, AFL-CIO; Valpak filed comments on December 10, 2002.<sup>5</sup> The Postal Service filed reply comments on its own behalf, and a number of intervenors jointly submitted reply comments on December 13, 2002. The joint commenters are the Alliance of Nonprofit Mailers; AOL Time Warner; American Business Media; Magazine Publishers of America; the National Newspaper Association, and R.R. Donnelley & Sons.

Commission Order No. 1356, December 20, 2002, granted Valpak's Motion for Late Acceptance, addressed the Postal Service's Motion for Waiver, and closed the record.

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<sup>5</sup> The Val-Pak Comments were accompanied by a motion for late acceptance.

### III. SUMMARY OF PROPOSAL

#### A. Witness Taufique's Testimony

Postal Service witness Taufique addresses the background and history of the proposal; application and development of the proposed discounts; appropriateness of the experimental designation; and consistency with applicable classification criteria. He briefly reviews current mail preparation, including mailers' options for achieving the requisite density to form pallet loads; recent developments in terms of other pallet-related discounts; and the rationale for its proposal. USPS-T-1 at 2-6.

Taufique maintains, among other things, that even with the recent worksharing incentives for palletizing and dropshipping approved in Docket No. R2001-1, Periodicals volume still includes a substantial amount of sacked, non-dropshipped mail. Moreover, he says this volume accounts for a disproportionate amount of Periodicals processing costs, primarily because the same amount of mail requires handling many more sacks than pallets. *Id.* at 2. Taufique regards density (defined as enough mail to make at least a 250-pound pallet to a destination ADC) as the key to mailers' decisions on palletizing and/or dropshipping. Smaller publications and the less dense portions of larger publications cannot achieve minimum densities absent combining different publications on a pallet (co-palletizing) or co-mailing (combining different publications in the same bundles, and then combining the bundles on pallets). *Id.* at 4.

Taufique states the Service developed this proposal to test the extent to which further rate incentives will encourage additional consolidation and dropshipment of Periodicals mailings. He believes these incentives may be needed to offset mailers' additional costs and the delays in entering mail that may result from the co-palletization process. *Ibid.* Taufique says that while he does not have studies on the level of these costs, and does not base the proposed discounts on them, co-palletization can require additional space, transportation, barcoding, sortation and documentation. He says the



discounts may also encourage more printers and consolidators to invest in co-palletization programs. *Id.* at 5. Taufique further observes:

There is a wide gulf between the mail characteristics of large and small publications, and how these characteristics cause costs related to mail processing and transportation. This proposed classification provides incentives for the smaller mailers to prepare their mail more like larger mailers do, despite all the constraints resulting from the nature of their mailings. In particular, this proposal will help smaller mailers take greater advantage of co-palletization and dropshipment.

*Id.* at 5.

*Discount application/eligibility.* The proposed discounts will apply to co-palletized bundles of Periodicals mail that remain intact (before and after co-palletization) and move from sacks (absent co-palletization) to either ADC or SCF pallets entered at the appropriate destination facility. *Id.* at 6. They do not extend to pieces in mailings entered beyond the destination SCF level, based on Taufique's expectation of insufficient volume for finer levels of co-palletized pallets and the Service's interest in limiting the scope of the experiment and simplifying administration. *Id.* at 8. A requirement that co-palletized mail be placed on the finest level pallet possible will be waived for participants in the experiment. *Ibid.* Mailers will be required to present documentation in "before" and "after" formats to substantiate that, absent co-palletization, the mailing would have been prepared in sacks. *Id.* at 9.

Smaller circulation publications (that are either exclusively or predominantly in sacks due to their low density) and low density portions of larger circulation publications will be able to participate and receive the proposed discounts under anticipated rules. *Id.* at 6. Eligibility for pieces in a co-mailing operation will be limited to the portion of co-mailed volume that moves from sacks (if titles or versions are sorted independently) onto dropshipped pallets. *Ibid.* Residual volumes of independently presorted versions, as well as editions of current issues of larger circulation publications for those

destinations where there is insufficient volume to prepare an ADC pallet of at least 250 pounds, will also qualify. *Id.* at 6-7. Pieces receiving the experimental discount may also qualify for the other dropship and palletization incentives in the current rate schedule. *Id.* at 7.

*Development of the discount.* The discounts were developed using advertising pound rates recommended by the Commission and approved by the Governors in the last rate case. Taufique did not perform a separate analysis of potential cost savings because the differences between the zoned advertising pound rates reflect all pound-related transportation and non-transportation cost savings that accrue to the Service when mail is entered closer to its destination. *Id.* at 10. This is also the case with respect to the current advertising pound rates agreed upon in the negotiated settlement and recommended by the Commission in Docket No. R2001-1. *Ibid.*

The Zones 1 & 2 advertising pound rates are the benchmark for estimating the cost savings that result from dropshipping editorial pounds. Taufique converts the per-pound estimate to a per-piece discount using the average weight of the piece in FY 2001. He says:

Thus, a pound of mail entered at the destination SCF, compared to a pound entered in Zones 1 & 2, would save the Postal Service 4.5 cents (24.8 cents minus 20.3 cents) in transportation and non-transportation costs. Using the average weight of the piece for the Outside County subclass in FY 2002 (0.452 lbs.), and the average editorial content of 63.75 percent, 4.5 cents is converted into approximately 1.3 cents per piece for the average editorial content. Applying an 80 percent passthrough produces a discount 1.0 cent per piece for pieces that are co-palletized and dropshipped at the destination SCF. Similarly, for the destination ADC the cost savings are 2.5 cents per pound, which adjusts to 0.72 cents per piece for the editorial content. Applying a 95 percent passthrough results in the proposed 0.7 cents per piece discount.

*Id.* at 11. See also USPS-T-1, Exhibit A.

Taufique cites three ways in which his rate design is conservative. One is his assumption that qualifying mail would have been entered in Zones 1 & 2 absent the availability of this discount. This underestimates cost savings to the extent some of the mail would be shifted from higher zones. Another is that all of the cost savings are related to dropshipment, and not to palletization. The third is that passthroughs of 80 percent for destination SCF entry and 95 percent for destination ADC entry provide a margin of error in estimating cost savings and offset the discount provided to existing worksharing. *Id.* at 12-13.

*Objectives; appropriateness of experimental designation.* Taufique identifies the experiment's objectives as (1) gauging the feasibility of using a discount to change behavior that requires cooperation between various publishers and printers and (2) providing mailers with an incentive to reduce the number of sacks and to enter mail at specific destination facilities. He also asserts that the proposal is consistent with the Commission's experimental rules (39 CFR §§ 3001.67-67d). *Id.* at 13-16. In terms of novelty, Taufique asserts that a discount that predominantly applies to new worksharing and does not require other rates to be pushed up is unusual in the ratemaking context. *Id.* at 13. He says the proposed classification targets mail that is otherwise prepared in sacks, expensive for mailers to prepare and for the Service to handle, and almost always entered at the origin. *Ibid.* He also cites the experiment's focus on a worksharing discount for less dense publications, its incentive for publishers and printers to cooperate in a fashion that benefits both mailers and the Postal Service, and its status as the first discount to focus explicitly on combining mail from different customers. *Id.* at 13-14.

With respect to magnitude, Taufique believes the proposed incentives, combined with existing dropship and palletization incentives, may make a significant, though limited, reduction in the number of sacks in Periodicals mailings, and may lead to a greater portion of Outside County Periodicals being entered at either the destination SCF or ADC. *Id.* at 4. Based on an MPA survey conducted at the Service's request, Taufique estimates the total number of Outside County pieces that would qualify for the

new discounts at approximately 194 million pieces, with associated revenue leakage of about \$1.6 million. He says only a minimal amount of the leakage (less than \$250,000) will occur due to mailers who are currently performing this worksharing either through co-palletizing or co-mailing. *Id.* at 13-14. He estimates the existing volume that would qualify for the proposed discounts at approximately 26.6 million pieces, which he characterizes as only a small portion of total Periodicals. *Id.* at 15.

Taufique says cost savings are expected to be equal to the estimated leakage, using the conservative cost savings estimates underlying the discounts. *Id.* at 25. He says additional savings could accrue due to palletization (slightly more than 0.5 cents per piece) and, if the mail is sent from zones higher than Zones 1 & 2, substantial additional savings are expected in transportation costs. *Id.* at 15.

*Data collection.* Because the Postal Service's Request and the prepared direct testimony of witness Taufique address data collection in exceedingly general terms, the Chairman issued an information request seeking additional information and details. See Postal Service Request at 4; USPS-T-1 at 16; and Chairman's Information Request No. 1 (CIR No. 1), October 11, 2002. Question 1(a) of CIR No. 1 asked the Service to list the data it intends to collect during the experiment to determine whether the experiment is successful, and specifically inquired whether the Service would collect: the number of permit holders using the discount; the number of pallets per ADC and SCF; the number of pounds per ADC and SCF, and the number of pieces earning each discount per ADC and SCF. Question 1(b) asked if the Service does not plan to provide such information at least every six months, to explain why it did not.

## B. DMCS Provisions

The Service proposes adding a new section (§ 421.50) to the DMCS describing the terms of the experiment and revising Rate Schedule 421 to include the new discounts and an explanatory note. USPS-T-1 at 1-2. In proposed changes not directly related to the experiment, the Service also proposes deleting an outdated reference to a

“Ride-Along” rate in DMCS § 443.1a and clarifying, in several places in Rate Schedule 421, whether a rate or discount applies on a piece or pound basis.

### C. Statutory Criteria

Witness Taufique reviews the classification criteria of Section 3623(c) of title 39, U.S. Code, and testifies that he believes the proposed classification is fair and equitable (criterion 1) in a comprehensive sense because it improves the preparation of mail for the whole class and increases dropshipment, thereby reducing costs. *Id.* at 16. He also notes that the proposal does not adversely affect non-participants. *Id.* He acknowledges that there is a significant volume of palletized and dropshipped mail that will not qualify for the proposed discount, but says the proposal provides incentives for mailers that physically cannot palletize and, consequently, are not able to dropship. *Id.* at 17.

Taufique observes: “Handling of sacks with relatively few pieces both in transit and at the destination facility requires more work, leading to higher costs for Periodicals. By offering this discount exclusively to the publications or portions of publications that do not have the density to make a 250-pound ADC pallet, the Postal Service is making the mail processing for the subclass more efficient, and, thereby, reducing total costs. Thus this classification would benefit all Periodicals mailers.” *Id.* at 17. Taufique also notes that mailers of publications that do not have the density to make a 250-pound ADC pallet will incur additional costs when combining their mail with other similar publications. Besides additional costs of space, transportation, sortation and documentation, these publications also might sacrifice some delivery time because the mail is held back for a day or more while being co-palletized. *Id.* at 16-17. He says these mailers therefore may need an additional discount to reach the same level of worksharing as other mailers. *Id.* at 17.

Taufique suggests criterion 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) is satisfied in several ways. He argues the

discounts will promote the distribution of Periodicals mail with educational, cultural, scientific and informational value. Furthermore, mailers will be compensated for their co-palletization and dropshipment worksharing, and costs from origin-entered sacks can be reduced. Overall, he concludes this proposal can help the mail remain affordable for the recipient. *Id.* at 18.

Finally, Taufique asserts that criterion 5 (the desirability of special classifications from the point of view of both the user and the Postal Service) is satisfied because the Postal Service's costs are reduced and mailers are expected to gain from the success of the proposed experimental classification. *Id.* at 18-19.

#### IV. SUMMARY OF UNDERLYING STIPULATION AND AGREEMENT

*Participants' positions.* No participant filed an opposition to the settlement. The signatories to the stipulation and agreement are the Postal Service; the Office of the Consumer Advocate; Alliance of Nonprofit Mailers; American Business Media; AOL Time Warner Inc.; Association of American Publishers; Classroom Publishers Association; Coalition of Religious Press Associations; R.R. Donnelley & Sons Company; Hearst Corporation; Magazine Publishers of America; National Federation of Independent Publications; National Newspaper Association; and Newspaper Association of America. The signatories include all intervenors directly identified with Periodicals mailers.

American Postal Workers Union, AFL-CIO, (APWU) Valpak Dealers' Association, Inc., and Valpak Direct Marketing Systems, Inc. (Valpak) state that they neither support nor oppose the settlement. Each submit comments urging awareness of important policy concerns. APWU cautions that discounts not be allowed to exceed associated cost savings. Valpak cautions that if discounts result in low rates for high cost mail this would be unfair. The Postal Service submitted a response that neither situation arises as a result of this proposed experiment. Postal Service Comments at 1 and 4. The Joint Commenters' response also believes these concerns should not defer approval of the settlement.

*Summary.* The settlement submitted by the Postal Service on behalf of all signatories consists of two parts. Part I, captioned Background, identifies the filing date and the docket designation. It also states that the direct testimony of witness Taufique (USPS-T-1) explains the basis for the Postal Service's Request. Part II, Terms and Conditions, consists of nine numbered paragraphs. Paragraph No. 1 states that the settlement agreement represents a negotiated settlement of all issues raised in the instant request. Paragraph No. 2 provides that the signatories stipulate and agree, for purposes of this proceeding only, that certain referenced materials provide substantial

evidence supporting and justifying a decision recommending the experimental changes to DMCS §§ 421 and 443 and Rate Schedule 421 proposed by the Postal Service in this case. These include the Docket No. MC2002-3 direct testimony and materials filed in support of the Postal Service's Request, and designated written cross-examination and responses to the Chairman's Information Request, as revised and supplemented.

Paragraph No. 3 provides that on the basis of the record identified in Paragraph No. 2, for purposes of this proceeding only, the signatories stipulate and agree that the experimental DMCS and Rate Schedule changes set forth in the attachment to the settlement agreement are in accordance with the policies of title 39, United States Code and, in particular, the criteria and factors of 39 U.S.C. §§ 3622 and 3623.

Paragraph No. 4 provides that the settlement agreement is offered in total and final settlement of this proceeding. It further states that the signatories agree that they will file no further pleadings or testimony with the Commission in this proceeding, with the exception of: (a) pleadings or testimony explicitly requested by the Commission or in reply to such pleadings; (b) pleadings or testimony opposing pleadings or testimony filed in opposition to the settlement agreement; or (c) pleadings, testimony or comments in support of this settlement agreement.

Paragraph No. 5 reserves to each signatory a right to withdraw from the settlement agreement and addresses the terms and effect of exercising that right. Paragraph No. 6 states that the settlement agreement pertains only to the instant proceeding. It further provides that signatories shall not be considered as necessarily agreeing with or conceding the applicability of any ratemaking principle, any method or principle of classification, any terms and conditions of service, any method of cost of service determination, any principle or method of rate or fee design, the validity or use of any data relied upon by the Postal Service in this docket for any other purpose or in any other classification or ratemaking proceeding, or the application of any rule or interpretation of law, that may underlie, or be thought to underlie, the settlement agreement.



Paragraph No. 7 provides that signatories shall not be bound or prejudiced by the settlement agreement in any future negotiation or proceeding (other than any proceedings involving the honoring, enforcement, or construction of the agreement), nor shall any participant rely for any purpose on the fact that another participant entered into or did not oppose it. It also states that the signatories agree that to the extent that matters presented in the Docket No. MC2002-3 request, in any Commission recommended decision on that request, or in any decision of the Governors of the Postal Service in this proceeding, have not actually been litigated, their resolution will not be entitled to precedential effect in any other proceeding.

Paragraph No. 8 sets forth the signatories' request that the Commission expeditiously issue a recommended decision recommending adoption of the experimental DMCS and Rate Schedule provisions appended to the settlement agreement. Paragraph No. 9 provides that the settlement agreement represents the entire agreement of the signatories, and states that it supersedes any understandings or representations not contained herein.

## V. FINDINGS AND CONCLUSIONS

Based on representations in the Postal Service's status reports and Scheduling Motion, the Commission finds that all participants have had an opportunity to participate in the settlement proceedings that led to the filing of the November 22, 2002 settlement agreement. The Commission is satisfied that all participants have had an adequate opportunity to comment on the appropriateness of the settlement as a resolution of the issues in this case, and to determine their position on its suitability as a basis for this opinion and recommended decision.

Having made these determinations, the Commission has reviewed the evidentiary record pursuant to its statutory obligation under chapter 36 of title 39 of the U.S. Code. This includes an independent review of the testimony of Postal Service witness Taufique, designated written cross-examination, and responses to the Chairman's Information Request No. 1. This review leads to the conclusion that the record supports the proposed classification and two related discounts set out in the November 22, 2002 settlement agreement, and that these changes are consistent with the policies of the Postal Reorganization Act. The proposed experiment appears well designed to foster processing efficiencies and permit a broad spectrum of Periodicals mailers to benefit from cost-based worksharing discounts. The Commission therefore recommends to the Governors of the Postal Service that the DMCS be amended as set forth in Appendices One and Two of the accompanying Recommended Decision.

UNITED STATES OF AMERICA  
POSTAL RATE COMMISSION  
WASHINGTON, DC 20268-0001

Before Commissioners:

George Omas, Chairman;  
Ruth Y. Goldway, Vice Chairman;  
Dana B. Covington, Sr.;  
and Tony Hammond

Experimental Periodicals  
Co-Palletization Dropship Discounts

Docket No. MC2002-3

RECOMMENDED DECISION

(Issued December 20, 2002)

The Commission, having considered the Postal Service Request, and the Stipulation and Agreement filed and entered into the record of this proceeding, has issued its Opinion thereon. Based on that Opinion, which is attached hereto and made a part hereof,

It is ordered:

1. The Postal Service's November 22, 2002 motion for consideration of stipulation and agreement is granted and approved. The Stipulation and Agreement filed by the Postal Service is accepted.
2. The Commission's Opinion and Recommended Decision shall be transmitted to the Governors of the Postal Service and the Governors shall thereby be advised that the proposed discounts (set forth in Appendix One) and the proposed amendments to the DMCS (set forth in Appendix Two) are in accordance with the policies of title 39, United States Code, and the factors set forth in §§ 3622(b)

Docket No. MC2002-3  
Opinion and Recommended Decision

and 3623(c) thereof; and they are hereby recommended to the Governors for approval.

By the Commission.

(S E A L)

Steven W. Williams  
*Secretary*

## **RECOMMENDED CHANGES IN RATE SCHEDULES**

The following changes represent the rate schedule recommendations of the Postal Rate Commission in response to the Postal Service's Docket No. MC2002-3 Request. They include two types of revisions to Periodicals Rate Schedule 421. One adds text related to the experimental destination SCF and ADC discounts in the body of the rate schedule and in a new note. The other makes minor corrections to the existing schedule, in several places, to clarify the basis (piece or pound) for application of a rate or discount. Revisions are underlined.

**PERIODICALS  
RATE SCHEDULE 421  
OUTSIDE COUNTY (INCLUDING SCIENCE OF AGRICULTURE)**

	<b>Postage Rate Unit</b>	<b>Rate</b>
<b>Outside County</b>		
<b>Advertising</b>		
Destinating delivery unit	Pound	\$ 0.158
Destinating SCF	Pound	0.203
Destinating ADC	Pound	0.223
Zones 1 & 2	Pound	0.248
Zone 3	Pound	0.267
Zone 4	Pound	0.315
Zone 5	Pound	0.389
Zone 6	Pound	0.466
Zone 7	Pound	0.559
Zone 8	Pound	0.638
<b>Nonadvertising</b>	<u>Pound</u>	0.193
<b>Science of Agriculture</b>		
<b>Advertising</b>		
Delivery unit	Pound	0.119
SCF	Pound	0.152
DADC	Pound	0.167
Zones 1 & 2	Pound	0.186
Zone 3	Pound	0.267
Zone 4	Pound	0.315
Zone 5	Pound	0.389
Zone 6	Pound	0.466
Zone 7	Pound	0.559
Zone 8	Pound	0.638
<b>Nonadvertising</b>	<u>Pound</u>	0.193
<b>Outside County and Science of Agriculture</b>		
<b>Basic</b>		
Nonautomation	Piece	0.373
Automation letter	Piece	0.281
Automation flat	Piece	0.325
<b>3-Digit</b>		
Nonautomation	Piece	0.324
Automation letter	Piece	0.249
Automation flat	Piece	0.283
<b>5-Digit</b>		
Nonautomation	Piece	0.256
Automation letter	Piece	0.195
Automation flat	Piece	0.226

	<b>Postage Rate Unit</b>	<b>Rate</b>
<b>Carrier Route</b>		
Basic	Piece	0.163
High density	Piece	0.131
Saturation	Piece	0.112
<b>Discounts</b>		
Percentage editorial discount	Piece	0.00074
Worksharing discount DDU	Piece	0.018
Worksharing discount DSCF	Piece	0.008
Worksharing discount DADC	Piece	0.002
Worksharing discount pallets	Piece	0.005
Worksharing dropship pallet discount	<u>Piece</u>	0.010
<u>Experimental Discounts:</u>		
<u>Co-palletization discount DSCF</u>	<u>Piece</u>	<u>0.010</u>
<u>Co-palletization discount DADC</u>	<u>Piece</u>	<u>0.007</u>

#### SCHEDULE 421 NOTES

1. The rates in this schedule also apply to Nonprofit (DMCS Section 422.2) and Classroom rate categories. These categories receive a 5 percent discount on all components of postage except advertising pounds. Moreover, the 5 percent discount does not apply to commingled nonsubscriber, nonrequestor, complimentary, and sample copies in excess of the 10 percent allowance under DMCS sections 412.34 and 413.42, or to Science of Agriculture mail.
2. Rates do not apply to otherwise Outside County mail that qualifies for the Within County rates in Schedule 423.
3. Charges are computed by adding the appropriate per-piece charge to the sum of the nonadvertising pound portion and the advertising pound portion, as applicable.
4. For postage calculations, multiply the proportion of nonadvertising content by this factor and subtract from the applicable piece rate.
5. Advertising pound rate is not applicable to qualifying Nonprofit and Classroom publications containing 10 percent or less advertising content.
6. For a Ride-Along item enclosed with or attached to a periodical, add \$0.124 per copy.
7. Experimental discounts expire the later of a) two years after the implementation date for DMCS section 421.50 specified by the Board of Governors, or b) if, by the expiration date specified in (a), a proposal for a permanent co-palletization dropship discount is pending before the Postal Rate Commission, then 1) three months after the Commission takes action on such request under 39 U.S.C. § 3624 or, if applicable, 2) on the implementation date for a permanent co-palletization dropship discount.

**RECOMMENDED CHANGE IN  
DOMESTIC MAIL CLASSIFICATION SCHEDULE**

The following material represents changes to the Domestic Mail Classification Schedule recommended by the Postal Rate Commission in response to the Postal Service's Docket No. MC2002-3 Request. Section 421.50 is an entirely new section. It describes the terms of the experimental co-palletization dropship discounts. In Section 443.1a, which addresses "Ride-Along" Attachments and Enclosures, an outdated reference to the original rate is deleted. This is represented by lining through the words "of ten cents" in the first sentence of this section.



**RECOMMENDED CHANGES IN DOMESTIC MAIL  
CLASSIFICATION SCHEDULE**

**PERIODICALS  
CLASSIFICATION SCHEDULE**

- 421.50 **Co-palletization Dropship Discount.** The co-palletization dropship discount applies to Outside County subclass nonletter mail qualifying under section 421.49, that is presented on sectional center facility (SCF) or area distribution center (ADC) pallets containing more than one publication, as specified by the Postal Service. The discount is limited to those pieces which could not be prepared on a qualifying pallet under section 421.48 or 421.49, if the mail had been prepared without such combining. A participating mailer or consolidator must provide preconsolidation and post-consolidation documentation for all qualifying pieces, as specified by the Postal Service. This section expires the later of:
- a. two years after the implementation date for the section specified by the Board of Governors, or
  - b. if, by the expiration date specified in (a), a proposal for a permanent co-palletization dropship discount is pending before the Postal Rate Commission:
    - (1) three months after the Commission takes action on such request under 39 U.S.C. § 3624 or, if applicable,
    - (2) on the implementation date for a permanent co-palletization dropship discount.

443.1a **“Ride-Along” Attachments and Enclosures.** A limit of one Standard Mail piece, not exceeding the weight of the host copy and weighing a maximum of 3.3 ounces, from any of the subclasses listed in section 321 (Regular, Enhanced Carrier Route, Nonprofit or Nonprofit Enhanced Carrier Route) may be attached to or enclosed with an individual copy of Periodicals Mail for an additional postage payment of ~~ten cents~~. Periodicals containing “Ride-Along” attachments or enclosures must maintain uniform thickness as specified by the Postal Service. The Periodicals piece with the “Ride-Along” must maintain the same shape and automation compatibility as it had before addition of the “Ride-Along” attachment or enclosure and meet other preparation requirements as specified by the Postal Service.

**PARTICIPANTS AND COUNSEL**

*(Italicized boldface type indicates that the participant has signed the Stipulation and Agreement underlying the Commission's recommendation)*

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