

**DECISION OF THE GOVERNORS OF THE UNITED STATES POSTAL SERVICE
ON THE OPINION AND RECOMMENDED DECISION OF THE POSTAL RATE
COMMISSION APPROVING STIPULATION AND AGREEMENT ON EXPERIMENTAL
PERIODICALS CO-PALLETIZATION DROPSHIP DISCOUNTS,
DOCKET No. MC2002-3**

January 6, 2003

STATEMENT OF EXPLANATION AND JUSTIFICATION

On December 20, 2002, the Postal Rate Commission issued its Opinion and Recommended Decision Approving Stipulation and Agreement in Docket No. MC2002-3, Experimental Periodicals Co-Palletization Dropship Discounts. Pursuant to a request by the Postal Service, the Commission recommended an experiment creating a new classification, and corresponding discounts, for certain Periodicals Mail that is co-palletized and dropshipped to the Destination Area Distribution Center ("DADC") or Destination Sectional Center Facility ("DSCF").

The Postal Service initiated this proceeding on September 26, 2002, with its Request for a Recommended Decision on Experimental Periodicals Co-Palletization Dropship Discounts. The request filed with the Commission proposed a two-year experimental classification establishing new discounts for mailers of relatively low volume or low density Periodicals Mail. The experiment is expected to reduce Periodicals costs by encouraging the preparation of more mail on pallets, rather than sacks, and the dropshipment of those pallets to destination facilities. The new discounts will provide incentives for mail from different low-density publications to combine on co-pallets, thereby meeting the 250-pound minimum for a pallet load, and then be dropshipped to destination facilities. Periodicals mailers with residual volume from a larger mailing (often called "tail of the mail"), or with volume in co-mailed bundles, also could be eligible for the discounts. The per-piece discounts are: 1.0 cent per piece for co-palletized mail dropshipped to the DSCF, and 0.7 cents per piece for co-palletized mail dropshipped to the DADC.

Following negotiations among the participants in the proceeding, the Postal Service filed, on November 22, 2002, a Stipulation and Agreement intended to settle all the issues in the case. The Stipulation and Agreement follows the terms of the Postal Service's original request. The Commission's Opinion that accompanies its Recommended Decision thoroughly describes the background and the settlement proposal presented to the Commission. We need not repeat that description here. The Stipulation and Agreement was signed by 13 of the 19 participants, including all of the intervenors directly identified with Periodicals mailers. No parties expressed opposition to the settlement.

The Commission's December 20, 2002, Opinion and Recommended Decision follows the Stipulation and Agreement without modification. It incorporates the changes to Domestic Mail Classification Schedule § 421.50, and the changes to the Periodicals Mail Rate Schedule (Schedule 421), that are reflected in the Stipulation and Agreement. It also incorporates other changes proposed by the Postal Service that are not directly related to the experiment. These other changes delete an outdated reference to a "Ride Along" rate in DMCS § 443.1a, and clarify, in several places in Rate Schedule 421, whether a rate or discount applies on a piece or pound basis. As contemplated by the Stipulation and Agreement, the Commission has recommended the two experimental rate discounts for Periodicals mail sought by the Postal Service in its request. The Commission concluded that the requested experimental classifications and discounts are supported by substantial evidence of record, and satisfy the applicable criteria and policies of the Postal Reorganization Act.

Because of the cooperation of the participants in negotiating the terms of the Stipulation and Agreement, the Commission was provided with an opportunity to consider the issues raised in Docket No. MC2002-3 much earlier than it would have in a fully litigated case. As a result, the Commission was able to issue a recommended decision well within the 150 days contemplated by its rules governing the consideration of experimental classification cases. In fact, the Commission issued its Recommended Decision less than three months after the request was filed. The Commission's effort is appreciated, and allows us to take action that will enable the Postal Service to implement the proposed experiment as soon as practicable.

We have concluded that the experimental classification and rate changes recommended by the Postal Rate Commission will help maintain a fair and equitable mail classification system, and are otherwise in accordance with the policies of the Postal Reorganization Act. Similarly, we conclude that the additional changes, which delete an outdated reference and clarify whether certain rates and discounts apply on a piece or pound basis, will help maintain a fair and equitable mail classification system and are in accordance with the policies of the Act. Therefore, we approve the classification and rate changes recommended by the Commission.

ESTIMATE OF ANTICIPATED REVENUE

The Postal Reorganization Act requires that our Decision include an estimate of anticipated impact on postal revenues (39 U.S.C. § 3625(e)). The evidentiary record indicates that annual cost savings and revenue leakage are both estimated to approximate \$1.6 million. These estimates utilize the Postal Service's conservative approach to estimating cost savings, and the record indicates that additional savings could accrue to the Postal Service.

ORDER

In accordance with the foregoing Decision of the Governors, the changes in classification set forth in Attachment A hereto and the changes in rates set forth in Attachment B hereto, and incorporated herein, are hereby approved and ordered into effect. In accordance with Resolution 03-2 of the Board of Governors, dated January 6, 2003, the changes will take effect at 12:01 a.m. on April 20, 2003. In choosing this effective date, the Board has taken into account the time needed for the Postal Service to finalize rules to implement these novel discounts, and to establish new postage payment and data collection systems for participating customers.

By The Governors:

Robert F. Rider, Chairman

Docket No. MC2002-3

Attachment A
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 pre-consolidation 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.

**PERIODICALS
CLASSIFICATION SCHEDULE**

- 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.

(Delete lined-out language.)

Docket No. MC2002-3

**Attachment B
CHANGES IN PERIODICALS RATE SCHEDULE**

**PERIODICALS
RATE SCHEDULE 421**

OUTSIDE COUNTY (INCLUDING SCIENCE OF AGRICULTURE)

	Postage Rate Unit	Rate
Outside County		
Advertising		
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
Nonadvertising	<u>Pound</u>	0.193
Science of Agriculture		
Advertising		
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
Nonadvertising	<u>Pound</u>	0.193
Outside County and Science of Agriculture		
Basic		
Nonautomation	Piece	0.373

Automation letter	Piece	0.281
Automation flat	Piece	0.325
3-Digit		
Nonautomation	Piece	0.324
Automation letter	Piece	0.249
Automation flat	Piece	0.283
5-Digit		
Nonautomation	Piece	0.256
Automation letter	Piece	0.195
Automation flat	Piece	0.226
Carrier Route		
Basic	Piece	0.163
High density	Piece	0.131
Saturation	Piece	0.112
Discounts		
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.

**RESOLUTION OF THE BOARD OF GOVERNORS
OF THE
UNITED STATES POSTAL SERVICE
Resolution No. 03-2**

Effective Date of New Classification

RESOLVED:

Pursuant to Section 3625(f) of Title 39, United States Code, the Board of Governors determines that the classification and discounts that were ordered to be placed into effect by the Decision of the Governors of the United States Postal Service on the Opinion and Recommended Decision of the Postal Rate Commission Approving Stipulation and Agreement on Experimental Periodicals Co-Palletization Dropship Discounts, Docket No. MC2002-3, adopted on January 6, 2003, shall become effective at 12:01 a.m. on April 20, 2003.

The foregoing Resolution was adopted by the Board of Governors on January 6, 2003.

William T. Johnstone, Secretary