

DOCKET SECTION

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

RECEIVED  
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POSTAL RATE COMMISSION  
OFFICE OF THE SECRETARY

POSTAL RATE AND FEE CHANGES, 1997

Docket No. R97-1

RESPONSE OF UNITED STATES POSTAL SERVICE  
TO INTERROGATORY OF  
THE AMERICAN LIBRARY ASSOCIATION  
(ALA/USPS-3)

The United States Postal Service hereby provides the response to the following interrogatory of the American Library Association: ALA/USPS-3, filed on September 12, 1997. Interrogatories ALA/USPS-2 and 6 were redirected to witness Alexandrovich, and 1, 4, and 5 to witness Adra.


The interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.  
Chief Counsel, Ratemaking

  
\_\_\_\_\_  
Eric P. Koetting

475 L'Enfant Plaza West, S.W.  
Washington, D.C. 20260-1137  
(202) 268-2992; Fax -5402  
September 26, 1997

**RESPONSE OF THE UNITED STATES POSTAL SERVICE  
TO INTERROGATORIES OF THE AMERICAN LIBRARY ASSOCIATION**

ALA/USPS-3. After the conclusion of Docket No. R94-1, the Postal Service data showed that the actual costs of library rate mail were less than the projected costs on which the 1995 increase was based. Chairman Gleiman wrote to the Board of Governors inquiring whether a rate decrease would be warranted. The Postal Service declined to roll back the library rate, and now proposes another large increase.

(a) Please identify all reasons for the Postal Service's decision not to roll back any portion of the library rate increase authorized in Docket No. R94-1; identify all studies, reports, analyses, compilations of data, or other documents that you contend support those reasons, and produce all identified documents that are not publicly available.

(b) Please produce all correspondence, memoranda and other written communications generated to, from, or within the Postal Service in connection with its decision to roll back none of the R94-1 rate increase in library rate.

(c) Please identify any audits, studies, changes in costing data and collection systems, and other efforts taken by or on behalf of the Postal Service since Docket No. R94-1 to improve the accuracy of the Service's attributable cost data for library rate mail. Produce all documentation of such efforts.

**RESPONSE:**

(a) The reasons are presented in the attachments to this response, particularly the last three pages.

(b) Please see the attachments to this response.

(c) The Postal Service's testimonies in this proceeding present many improvements to postal cost allocation methodologies, which should improve the accuracy of those methodologies for all subclasses, including Library Rate. There were, however, no efforts directed specifically to measurement of the costs of Library Rate.



September 27, 1994

Honorable Herb Kohl  
United States Senate  
Washington, DC 20510-4903

Dear Senator Kohl:

This responds to your July 8 letter on behalf of Mr. Timothy Foley of Ashland, concerning the proposed increase for Special fourth-class library rates.

The sizable increase in the rates for library rate materials proposed by the Postal Service in the current rate proceeding, Docket No. R94-1, is directly tied to the measured increase in the costs for library rate materials.

According to the Revenue Forgone Reform Act, the rates for library rate materials are to be set such that the revenues derived from postage are sufficient to cover the attributable costs of providing the service, as well as provide a small markup over those costs. The size of the markup over attributable costs is tied by the legislation to the markup assigned to special rate fourth class mail. Specifically, over a six year period, the markup over attributable costs for library rates is to be phased upward until it represents one-half of the markup assigned to special rate fourth class.

In the current rate proceeding, the Postal Service proposed rate increases of 10.3 percent for all classes and subclasses of mail for which such an increase would permit recovery of the attributable costs for those classes and subclasses. For a few subclasses, such as special rate fourth class, 10.3 percent was inadequate to permit recovery of the attributable costs. The rates for special fourth class had to be increased by 13.6 percent. This rate increase results in an estimated markup over attributable costs of 1 percent for special rate fourth class mail.

The markup for library rates is supposed to be phased up to represent one-half of the 1 percent markup assigned to special rate fourth class. However, due to the whole cent constraints on the rates for library rate, it is virtually impossible to create a phasing schedule which would permit the rates for library service to increase one-twelfth of one percent each year. In fact, the resulting rate schedule for library rate mailers provides virtually no markup over attributable costs.

Thus, the entire increase in rates for library rate materials is tied to the estimated increase in costs from the projections of FY 1992 costs upon which the Docket No. R90-1 rates were predicated, to the projected costs for FY 1995 upon which the proposed rates are predicated. The cost projections made in Docket No. R90-1 were developed by using a "base year" of FY 1989 as reference. Various inflation factors were applied to the FY 1989 costs in order to project the costs into FY 1992. As can be seen in the attached charts, the data available for FY 1989 demonstrate an average weight per piece which is significantly different from the average weights shown in the surrounding years. As the weight per piece is tied to the estimated revenue per piece, the average revenue per piece for FY 1989 is significantly higher than the revenue estimates for the surrounding years. As the cost data is derived from a different data system

Page 2.

than is the revenue, volume and weight information, the cost data was not affected by the exaggerated weight per piece figure. As can be seen, the average cost per piece is not dramatically different from the costs shown in the surrounding years.

The difference between the average revenue per piece and the average cost per piece is the contribution per piece. As can be seen on the charts, the contribution per piece in FY 1989 was substantially different than the contribution figures for any of the other years. Only in FY 1988 and FY 1989 did the data systems show library rate exhibiting a positive contribution. That is to say, only in FY 1988 and FY 1989 did the data systems indicate that library rate was even covering its attributable costs. At the time that the Postal Service prepared its case for Docket No R90-1, it did not have subsequent years' worth of data which would indicate that the data for FY 1989 were in error. At the time, it was viewed as possible that there could have been a shift in the nature of the characteristics of library rate mail or mail processing costs.

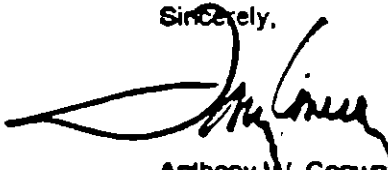
The rates resulting from Docket No. R90-1 provided an increase of less than two percent in the rates for library rate mailers, despite the other mail classes and subclasses experiencing increases of between 15 and 27 percent on average. As can be seen from the attached charts, the rates implemented as a result of Docket No. R90-1 were not adequate to cover the costs of library rate mail (the contribution figure is negative for each year from 1990 to 1993).

Thus, not only does the 73 percent increase represent the impact of the projected ordinary postal cost inflation between FY 1992 and FY 1995, but it also represents an effort to "catch up" from the underestimate of library rate costs between the FY 1992 projections (based on the erroneous FY 1989 data) and the projected costs for FY 1995 being used in the current case.

All of the foregoing was explained in a technical conference to representatives of various groups representing library rate mailers, and copies of the attached charts were provided to those in attendance.

I hope that this has been helpful. Please let me know if I can be of further assistance.

Sincerely,

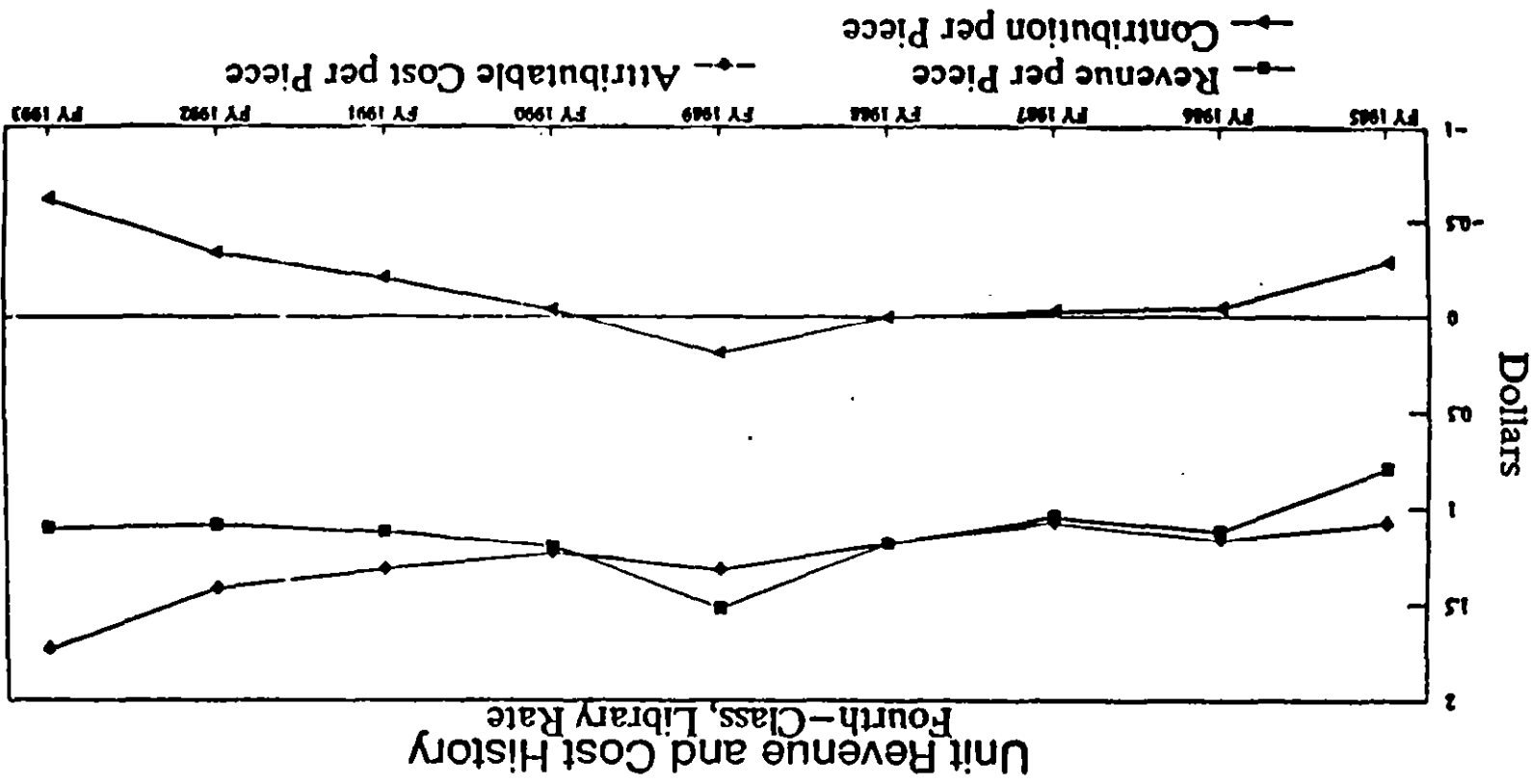


Anthony W. Conway  
Manager, Legislative Affairs

Enclosures

Revenue, Volume, and Cost History  
Fourth-Class, Library Rate

	FY 1985	FY 1986	FY 1987	FY 1988	FY 1989	FY 1990	FY 1991	FY 1992	FY 1993
Revenue (000 \$)	\$36,332	\$48,264	\$54,406	\$57,474	\$59,672	\$48,799	\$45,401	\$45,844	\$42,813
Revenue/pc (\$)	\$0.796	\$1.122	\$1.050	\$1.187	\$1.623	\$1.203	\$1.129	\$1.089	\$1.107
Volume (000)	45,631	43,024	51,804	48,421	39,193	40,567	40,228	42,100	38,680
Weight (lbs)	182,399	219,785	201,752	201,614	234,537	142,182	117,641	108,583	106,892
Weight/pc (oz)	67.5	81.7	62.3	66.6	85.7	56.1	46.8	41.3	43.8
Attributable Cost (000 \$)	\$49,162	\$50,217	\$55,838	\$57,324	\$52,091	\$50,326	\$53,339	\$59,894	\$66,985
Att/ Cost/pc (\$)	\$1.077	\$1.167	\$1.078	\$1.184	\$1.329	\$1.241	\$1.326	\$1.423	\$1.732
Contribution (000 \$)	(\$12,830)	(\$1,953)	(\$1,432)	\$150	\$7,581	(\$1,527)	(\$7,938)	(\$14,060)	(\$24,172)
Contribution/pc (\$)	(\$0.281)	(\$0.046)	(\$0.028)	\$0.003	\$0.193	(\$0.038)	(\$0.197)	(\$0.334)	(\$0.625)



**Revenue, Volume, and Cost History**  
**Fourth-Class, Library Rate**

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Contribution (000 \$)	(\$12,830)	(\$1,953)	(\$1,432)	\$150	\$7,581	(\$1,527)	(\$7,938)	(\$24,172)
Contribution/pc (\$)	(\$0.281)	(\$0.045)	(\$0.028)	\$0.003	\$0.193	(\$0.038)	(\$0.197)	(\$0.625)



January 4, 1995

Honorable Jeanne H. Simon  
Chairperson  
U.S. National Commission on  
Libraries and Information Science  
1110 Vermont Ave., N.W.  
Washington, D.C. 20005-3522

Dear Chairperson Simon:

Chairman Sam Winters asked me to respond to your December 22 letter to him and the other Governors of the Postal Service expressing your concern about the impact of the recent increase in fourth-class library rates. The Postal Service's rate request to the Postal Rate Commission (PRC) in Docket No. R94-1 was for an average increase in library rates of 73.7 percent and the Commission recommended an increase of 69.9 percent. We recognize that the increase is significant and likely seems to be unfair to our customers who rely on fourth-class rates for sending books, printed music, academic theses, and sound recordings to and from public libraries, museums and other non-profit institutions when First-class letter rates increased only 10.3 percent.

Basically, the reason for the big increase in library rates is that the former rates, set in Docket No. R90-1, were based on data gathered in FY 1989 rolled forward for FY 1992. Specifically, looking forward to FY 1992, the average cost was projected to be \$1.55 per piece, assuming an attendant weight per piece of 6.6 pounds. As a preferred rate category, the rates for this subclass could not exceed attributable costs; therefore, the cost coverage was 100 percent. The PRC recommended an average increase of 1.9 percent for the library rate to yield an average revenue of \$1.55 per piece.

What happened in FY 1992? The FY 1992 actual results were substantially different from the projections made in 1990. The average weight per piece turned out to be only 3.2 pounds but the average cost per piece was \$1.42. So, the average weight per piece was 51 percent under the projection while the average piece cost was only 8.4 percent below the projection. Viewed on a per pound basis, the costs were 90 percent higher than those projected.

The PRC's recommendations in the R90-1 case went back and forth from the Governors to the PRC for reconsideration and in a late stage of the case, when the actual FY 1990 data was available, there was an indication that the R90-1 library rates were seriously out of line with costs. In fact the PRC then raised its recommended library rate increase from the original 1.9 percent to 26.8 percent but the Governors did not adopt the latter recommendation.

The new rates from Docket No. R94-1 are based on costs and piece characteristics for FY 1993 rolled forward for FY 1995. The average weight per piece in FY 1993 was the same as in FY 1992 but the average cost per piece increased 21 percent, from \$1.42 in FY 1992 to \$1.72 in FY 1993. It is these cost and piece characteristics, rolled forward for FY 1995, that yield the large

increase on library rate mail over R90-1 rates. While the American Library Association was represented by counsel in the R94-1 case, no party to the case presented evidence challenging the Postal Service's library rate cost and revenue data.

As you may know, P.L. 91-375 is rather precise on factors to be considered in setting mail rates, including the mandate "....that each class of mail or type of mail service bear the direct and indirect postal costs attributable to that class or type....". [39 U.S.C. 3622(b)(3)] The Governors do not have the leeway to transfer cost coverage from library rate mail to other mail or services.

There is nothing, administrative action or policy decision, that the Governors can take to lower the library rates now in effect. Perhaps your organization in working with the Postal Service's operations and marketing departments may find a way to reduce costs for handling library rate mail in the future but that is something to work out with management. By copy of this letter I am forwarding your letter to the Chief Operating Officer (COO) of the Postal Service.

Sincerely,

A handwritten signature in dark ink, appearing to read "Earl Hansen". The signature is fluid and cursive, with a large initial "E" and a stylized "H".

cc: Governors  
COO Henderson  
Rates & Classification

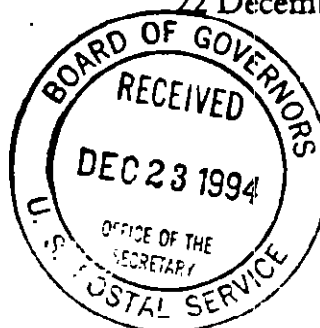




United States  
National Commission on  
Libraries and Information Science

22 December 1994

Hon. Sam Winters  
Chairman, Board of Governors  
United States Postal Service  
477 L'Enfant Plaza West, S.W.  
Washington, D.C. 20260-1000



Dear Chairman Winters:

As Chairperson of the U.S. National Commission on Libraries and Information Science (NCLIS), I direct a fifteen-member independent Federal agency, established by P.L. 91-345 to advise the President and Congress on policies related to libraries and information services. My fellow Commissioners and I are concerned about the impact of fourth-class *library rate* increases.

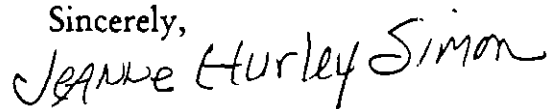
As a result of the Postal Rate Commission's recent recommendation, fourth-class *library rates* are due to increase an average of 69.9 percent next month. These new *library rates* will have a serious impact on libraries, publishers, and especially on library users who rely on the mail. Many citizens living in rural or geographically isolated areas, as well as the homebound and people with disabilities, depend upon the mail for receiving books and other materials from libraries. Curtailment or reduction of library books-by-mail, interlibrary loan, and library resource sharing programs because of an increase in *library rates* will have a serious impact on the lives of these citizens.

Testimony at a hearing conducted by the National Commission in late October in Nevada highlighted this dependence on the Postal Service's *library rates*. We heard from individuals living in the Mountain Plains region (Alaska, Arizona, California, Colorado, Idaho, Kansas, Montana, Nevada, New Mexico, North Dakota, Oregon, South Dakota, Oklahoma, Utah, Washington, and Wyoming). Testimony emphasized the difficulties placed on citizens living in remote locations who are required to travel great distances to use libraries. These concerns emphasize the importance of maintaining affordable *library rates* as the only means of access to library materials and services for many citizens.

Over the last two decades, the Commission has been responsible for planning and conducting two White Houses Conferences on Library and Information Services (WHCLIS). Delegates at the 1979 WHCLIS passed resolutions calling for the reduction of postal service barriers that prevent libraries from providing access to information. Delegates to the 1991 WHCLIS emphasized the need to reduce postal rates for mailing library materials. They viewed *library rates* as a means to ensure equal and timely access to information materials. Delegates to the 1979 and 1991 WHCLIS state, regional, and National conferences reflected the wide diversity of our National community. Their concerns must be considered in developing Federal policies and in improving government services to the public.

Increased USPS *library rates* for mailing will certainly create hardships for large segments of the U.S. population that have the benefit of few other alternatives. As soon as possible after the first of the year, I want to meet with you to explore how the Commission could work cooperatively with the USPS Board of Governors to develop alternatives that would benefit our Nation's libraries and their patrons. I shall plan to contact your office early next month to arrange a meeting.

Sincerely,

A handwritten signature in cursive script that reads "Jeanne Hurley Simon".

Jeanne H. Simon  
Chairperson

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

EDWARD J. GLEIMAN  
CHAIRMAN

June 30, 1995

The Honorable J. Sam Winters  
Chairman  
Board of Governors  
United States Postal Service  
475 L'Enfant Plaza, S.W.  
Washington, D.C. 20260



Dear Sam:

One troubling aspect of the last rate case (Docket No. R94-1) was the large increase in postal rates for library material. The Postal Service proposed an increase of 73.7 percent based on costs associated with handling that type of mail. The Commission recommended, and the Governors implemented, a 69.9 percent increase.

At the November 30, 1994, press conference announcing the issuance of the Commission's opinion I noted the concerns about the library rate:

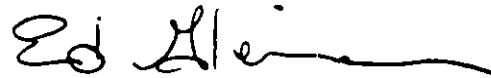
The Commission's review of the Service's library rate numbers did not uncover a major flaw in cost or revenue data provided in this area. The Commission recommends a slightly smaller increase (69.9 percent) for library material to reflect corrected cost allocations. However, in light of the fact that significant questions have been raised generally about the Service's data sampling and collection systems, the Commission urges the Service to reexamine its library cost data and file immediately for a modification to correct rates that may be based on faulty information.

The recently released United States Postal Service Cost and Revenue Analysis, Fiscal Year 1994 (CRA) shows a significant difference between the estimated library rate mail cost per piece, and the actual cost per piece (10.83 percent). The enclosed chart compares various library rate actual costs, as stated in the CRA, with the estimated costs

The Honorable J. Sam Winters  
June 30, 1995  
Page Two

used in Docket No. R94-1 to establish the library rate. It appears the estimated costs were overstated. Action by the Governors to propose correcting the library rate appears warranted.

Sincerely,

A handwritten signature in black ink, appearing to read "Ed Gleiman", with a long horizontal flourish extending to the right.

Edward J. Gleiman

Enclosure  
EJG:jrh

Comparison of 4th Class Library Rate  
Actual FY 1994 and PRC R94-1 estimate  
(\$ 000)

	FY 1994 CRA (PRC Adj.)	FY 1994 PRC R94-1 Estimate	Difference	% Difference
Volumes	35,776	27,990	7,786	27.82%
Total Costs				
Costs	56,726	49,768	6,958	13.98%
Cost/Piece	158.559	177.806	-19.25	-10.83%
Mail Processing:				
Costs	20,022	18,347	1,675	9.13%
Cost/Piece	55.965	65.548	-9.58	-14.62%
City Delivery, In-office:				
Costs	776	428	348	81.31%
Cost/Piece	2.169	1.529	0.64	41.85%
City Delivery, Street:				
Costs	2,285	2,087	198	9.48%
Cost/Piece	6.386	7.456	-1.07	-14.35%
Rural Delivery:				
Costs	1,095	842	253	30.05%
Cost/Piece	3.061	3.008	0.05	1.75%
Transportation:				
Costs	13,980	12,538	1,442	11.50%
Cost/Piece	39.076	44.795	-5.72	-12.77%
Other Costs:				
Costs	18,568	15,526	3,042	19.59%
Cost/Piece	51.901	55.470	-3.57	-6.43%

<b>Revenue &amp; Weight:</b>	
Revenue per Piece (cents):	
FY 1994	112.916
FY 1993	110.685
% change 94 over 93	2.02%
Weight per Piece (ounces):	
FY 1994	45.384
FY 1993	43.802
% change 94 over 93	3.61%

SAM WINTERS  
CHAIRMAN  
BOARD OF GOVERNORS



August 4, 1995

Honorable Edward J. Gleiman  
Chairman  
Postal Rate Commission  
1333 H Street, N.W., Suite 300  
Washington, D.C. 20268-0001

Dear Ed:

This is in response to your letter of June 30 bringing to the Board's attention a situation pertaining to fourth-class library rate. You noted that the cost per piece of library rate shown in the FY 1994 Cost and Revenue Analysis Report was lower than the estimate for FY 1994 in the last rate case (Docket No. R94-1).

The Postal Service was aware of the comparison you pointed out and is currently evaluating this situation. Please be assured that the Board is concerned about the impact of its rates on all postal customers.

Cordially yours,

  
-Sam Winters

SW/mas



August 15, 1995

Ms. Patricia H. Smith  
Executive Director  
Texas Library Association  
3355 Bee Cave Road, Suite 401  
Austin, TX 78746-6763

Dear Ms. Smith:

Chairman Sam Winters asked me to acknowledge his receipt of a copy of your letter to the Chairman of the Postal Rate Commission and the resolution, "Reconsideration of Fourth Class Library Rate Increase", adopted by the Texas Library Association, on August 1, 1995.

In his response to PRC Chairman Edward Gleiman's June 30, 1995, letter, Mr. Winters stated that the Postal Service is aware of the cost information to which Chairman Gleiman referred, and that the Postal Service is currently evaluating the matter.

Please be assured that the Board of Governors is concerned about the impact of postal rates on all of the Postal Service's customers.

Sincerely,

A handwritten signature in black ink, appearing to read "David Harris", with a stylized flourish at the end.

cc: Chairman Winters



## TEXAS LIBRARY ASSOCIATION

3355 Bee Cave Road • Suite 401 • Austin, Texas 78746-6763  
(512) 328-1518 • FAX (512) 328-8852

July 5, 1996

The Honorable J. Sam Winters, Chairman  
Board of Governors  
United States Postal Service  
475 L'Enfant Plaza, S.W.  
Washington, D.C. 20260

**SUBJECT: FOURTH CLASS LIBRARY RATE**

Dear Mr. Winters:

The 6,400 members of the Texas Library Association remain very concerned about the fourth class library rate increase that went into effect on January 1, 1995. Libraries have been severely hurt by the postal increase, and we are again notifying you and members of the Texas Congressional Delegation of our concern. The attached resolution was recently passed by the Council of the Texas Library Association and is also being sent to Mr. Edward Gleiman, Mr. Marvin T. Runyon, and members of Congress.

We urge you to support library programs by re-examining and correcting the overstatement of January 1995. If I can provide any information, please do not hesitate to contact me.

Sincerely,

Patricia H. Smith  
Executive Director

Enclosure

cc: Mr. J. Sam Winters  
Mr. Marvin T. Runyon  
Ms. Carol Henderson



## Reconsideration of Fourth Class Library Rate Increase

WHEREAS, libraries make use of fourth class library rate mail to provide economically sound and useful library services such as the organized sharing of library materials, commonly referred to as interlibrary loan, and library services that mail materials to homebound and institutionalized patrons; and

WHEREAS, a 1994 postal rate review recommended an increase of 73 % in the fourth class library rate, and

WHEREAS, the Texas Library Association joined with the American Library Association and other library organizations in vigorously opposing this enormous rate increase, and

WHEREAS, the US Postal Service's Board of Governors approved a 69.9 % increase of the postal rate, to begin January 1, 1995 (Docket No. R 94-1), and

WHEREAS, this increase has had a devastating impact on library budgets causing the elimination or cut-back of library services requiring mailing, and

WHEREAS, Chairman of the Postal Rate Commission, Edward G. Gleiman, has stated in a June 30, 1995 letter to J. Sam Winters, Chairman of the Board of Governors, that the cost data estimate on which the library rate increase was based was overstated by at least 11 %, and Mr. Gleiman requested that consideration be given to reducing the rate by 11 %, therefore be it

RESOLVED that the Postal Service promptly re-examine the fourth class library rate and modify it to correct the overstatement of January 1995; and be it further

RESOLVED, that this resolution be sent to Mr. Gleiman, Mr. Winters, Mr. Marvin Runyon, Postmaster General, and to members of the Texas Congressional Delegation.

Approved by Legislative Committee  
7/31/95

Adopted by the Texas Library Association Council  
8/1/95

Resubmitted by the:  
Public Libraries Division Executive Board  
Friends and Trustees Round Table Executive Board  
4/26/96

Recommended for re-endorsement by  
Legislative Committee  
4/26/96

Adopted by Texas Library Association Council  
4/26/96

THOMAS J. KOERBER  
SECRETARY TO THE BOARD OF GOVERNORS



August 12, 1996

Ms. Patricia H. Smith  
Executive Director  
Texas Library Association  
3355 Bee Cave Road, Suite 401  
Austin, TX 78746-6763

Dear Ms. Smith:

Vice Chairman Sam Winters asked me to respond to your July 5 letter regarding the January 1, 1995, rate increase for fourth-class library rate mail.

We can certainly understand your concern regarding the rate increase, and in order to discuss the issue, I would like to provide some background. By law all postal rates, including library rates, should at least cover the cost of handling the mail. In order to justify a rate decrease, the Postal Service would have to prove that the revenues were much higher than the cost. However, that is apparently not the case here, and, in fact, the revenues are less than the costs. In 1994, costs for library rates declined and some officials used that as the basis for calling for a rate reduction in 1995. Lower costs were only a part of the story. Revenues also declined substantially and were below the cost of providing the service; and as such, the Postal Service was unable to justify a rate reduction.

As a final note, in an effort to see if a rate reduction could be justified, the Postal Service has re-examined the costs for fourth-class library rate items. No costing problems were uncovered in the review. Therefore, because fourth-class library rates must cover costs by law, management has advised that library rates cannot be reduced at this time and remain in compliance with the law.

Sincerely,

A handwritten signature in dark ink, appearing to read "Thomas J. Koerber", written over a horizontal line.

Thomas J. Koerber

cc: Vice Chairman Winters

Author: Frank R. Haselton at HQ-RATES  
Date: 2/1/96 4:43 PM  
Priority: Normal  
Receipt Requested  
TO: John F. Hagarty at Corporate\_Relations  
Subject: Re: Library Rate

----- Message Contents -----

In 1989 our data systems reported a high average revenue per piece for library rate mail, indicating that only a minor rate increase was needed. The revenue per piece for FY 1989 was \$1.32, compared to \$1.19 in FY 1988. In FY 1990, the reported average revenue per piece for library rate fell to \$1.20, and it has been even lower in subsequent years. The very small 1991 rate change for library rate was based on the FY 1989 data.

Back in 1990 we reviewed the sample tests and data underlying the high revenue per piece for FY 1989 and concluded that, while the results were unusual, they reflected valid data collection tests. Consequently, we made no adjustment. The very large increase for library rate in 1995 resulted, since that rate increase had to make up for the substantial increase that should probably have been made in 1991 but was not, because of the FY 1989 data.

With regard to whether the Postal Service would be willing to consider an interim adjustment to library rate before the next general rate case, the general answer is that we would. Attempting to adjust library rates at this point, however, might result in a further small increase, rather than a decrease. Although data for the most recent years show some reduction in library rate costs, once these data are projected forward to FY 1996 or 1997, as is required by the Commission's rules, it would be unlikely that they would support a downward adjustment in library rates.

-----Reply Separator-----

Subject: Library Rate  
Author: John F. Hagarty at Corporate\_Relations  
Date: 1/17/96 11:00 AM

1/17

Frank,

My subcommittee folks have one last question. Since there was no increase in the rate in '89, what was the reason? Was it a problem with ODS data, etc. or was it a PRC decision? Just cc: mail a brief response. Thanks.

John H.  
x3746

From: Frank R. Macalton at HQ-RATES  
Date: 1/5/96 12:31 PM  
Priority: Normal  
Receipt Requested  
To: John F. Magarty at Corporate\_Relations  
Subject: Library Rate

----- Message Contents -----

This responds to your E-mail of several weeks ago. The background is as follows. As a result of the Postal Rate Commission's recommendation in the last rate case, fourth-class library rate prices increased almost 70 percent on January 1, 1995, after increasing only 1.3 percent in 1991 and only 1 cent (and that is cent, not percent) in 1991. Rates for the other categories of mail increased an average of 20 percent during this period. Between 1989 and 1994, the Postal Service lost approximately 65 million dollars handling library rate materials, as a result of rates that were set too low to cover allocated costs. The 70 percent rate increase was needed to cover cost increases attributable to library rate mail, and to obtain the markup above cost for this category required by law.

When rate changes are requested, proposals for library rate materials, and for all other categories of mail, are based on costs that are forecasted for a fiscal year in the future (the "test year"). These forecasted costs typically turn out to be either higher or lower than those that are subsequently reported for the categories of mail after the fiscal test year on which they are based has ended. In the case of library rates, which were based on estimates for the test year in the last rate case (FY 1995), reported costs per piece at the end of FY 1994 were about 10 percent less than those that had been forecasted for that year in the rate case. This has led some to suggest that library rate prices require "correction".

We carefully examined the procedures used to develop costs for library rate materials in the last case. As a result of this inquiry, as well as consideration of circumstances normally associated with general rate changes, we conclude that no "correction" is warranted. If we were to adopt the practice of adjusting postal rates whenever reported data became available in place of forecasted data, rates for almost all categories of mail would change, some upward and some downward. These many changes for the most part would be small, but would be disruptive to mailers who must replenish stamp stock, revise computer software, and make the other adjustments in mailing practices required by changes in rates. We see no basis for discriminating in favor of library rate by making a selective adjustment in this instance. Additionally, the reported costs are based on information obtained by sampling. This information unavoidably is subject to a certain amount of sampling variation, depending on the properties of the types of mail being sampled. The difference between forecasted costs and those reported for library rate are within the range of variation expected for forecasts and sampling for this category of mail, statistically, as well as historically. The 1994 reported data therefore, do not support the need for any "correction". In light of the substantial disruption that would likely be brought about by adopting the practice of adjusting rates as suggested for library rate in this instance, we believe that "correction" would be beneficial neither to the Postal Service nor its customers.

## 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.

A handwritten signature in black ink, appearing to read "E. P. Koetting", is written over a horizontal line.

Eric P. Koetting

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