

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

Before:

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

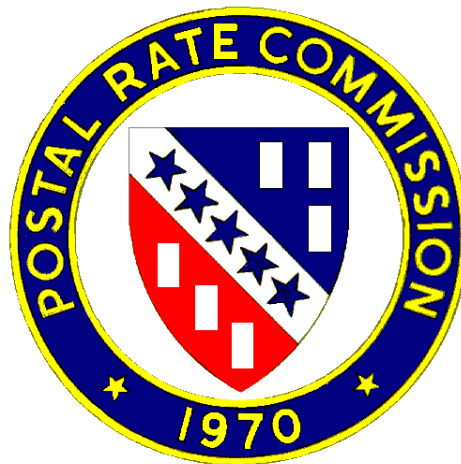
Experimental Periodicals
Co-Palletization Dropship Discounts
For High Editorial Publications

Docket No. MC2004-1

OPINION AND RECOMMENDED DECISION

APPROVING

STIPULATION AND AGREEMENT



Washington, DC 20268-0001
July 7, 2004

TABLE OF CONTENTS

Page

COMMISSION OPINION

I.	INTRODUCTION AND SUMMARY	1
II.	PROCEDURAL HISTORY	3
III.	SUMMARY OF PROPOSAL.....	6
	A. Witness Taufique’s Testimony.....	6
	B. Data Collection	11
	C. Extending Termination Date Recommended in Docket No. MC2002-3.....	12
	D. Domestic Mail Classification Schedule Provisions.....	12
	E. Statutory Criteria.....	13
	F. Enclosing Periodicals in Package Services	14
IV.	SUMMARY OF UNDERLYING STIPULATION AND AGREEMENT	15
V.	FINDINGS AND CONCLUSIONS.....	18

RECOMMENDED DECISION

Appendix One	Recommended Changes in Rate Schedules
Appendix Two	Recommended Changes in Domestic Mail Classification Schedule
Appendix A	Appearances: Participants and Counsel

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 certain high-editorial, heavy-weight, small-circulation Periodicals to make several key adjustments in their mailing practices. One adjustment entails consolidating otherwise independent mailings so that in most instances 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 component of eligibility for the new experimental discounts requires dropshipping the co-palletized mail to a destination entry area distribution center (ADC) or destination entry sectional center facility (SCF).

The recommended experimental discounts — available for qualifying Periodicals — range from 0.8 to 12.5 cents per editorial pound for mail entered at a destination ADC and from 1.4 to 13.1 cents per editorial pound for mail entered at a destination SCF. The amount of discount increases based on the number of zones skipped as a result of co-palletization and dropshipping the mail. These discounts are identical to those requested by the Postal Service and incorporated in the underlying settlement. Existing Periodicals discounts, including the experimental discounts approved in MC2002-3, remain available. However, mailers may only take advantage of either the experimental per-piece (MC2002-3) or experimental per-pound (MC2004-1) discount, but not both for the same mailpieces.

The Postal Service will collect data pursuant to a data collection plan and file periodic reports during the course of the experiment.

The settlement also encompasses a request to change the expiration provisions of the MC2002-3 experiment so that the experiments recommended in MC2002-3, and in this docket (MC2004-1), terminate on the same date. The Commission recommends this change.

Unrelated to either co-palletization dropship experiment, the Postal Service proposes a minor, permanent classification change to allow sample copies of periodicals to be mailed with parcels using Parcel Post or Bound Printed Matter rates. This change is unopposed, and recommended by the Commission.

The Commission acknowledges the participants' efforts to rapidly resolve issues in this docket and reach an unopposed settlement. The experiment's success in logistical terms will rely to an unprecedented degree on the continuing cooperation between the Postal Service and Periodicals mailers, printers, and consolidators throughout the planning, production, distribution, and mailing process. The experiment will shed light on an especially challenging aspect of Periodicals cost control, which may lead to future innovations and solutions.

II. PROCEDURAL HISTORY

On February 25, 2004, the United States Postal Service filed a formal request with the Postal Rate Commission seeking a recommended decision approving an experimental mail classification and related discounts for certain high-editorial, heavy-weight, small-circulation Periodicals mail that is co-palletized and dropshipped.¹ In the Request, the Postal Service proposes a two-year experiment with the option of a limited extension in the event that a request for permanent status is filed prior to the experiment's scheduled expiration. It also requests extension of the co-palletization experiment recommended in Docket No. MC2002-3 so that the experiments recommended in Docket No. MC2002-3, and in this docket, terminate on the same date. Unrelated to the experiment, the Postal Service also seeks a minor classification change to allow sample copies of periodicals to be mailed with parcels using Parcel Post or Bound Printed Matter rates.

The Postal Service's Request was submitted pursuant to Chapter 36 of the Postal Reorganization Act, 39 U.S.C. § 3601, *et seq.* It incorporates six attachments,² and is accompanied by the prepared direct testimony of Postal Service witness Altaf H. Taufique.³

In contemporaneous filings, the Postal Service requested a conditional waiver of certain standard filing requirements, and expedition of the procedural schedule,

¹ Request of the United States Postal Service for a Recommended Decision on Experimental Periodicals Co-Palletization Dropship Discounts for High-Editorial, Heavy-Weight Small-Circulation Publications, February 25, 2004; United States Postal Service Notice of Filing Omitted Electronic Pages from Attachment C to Request, February 26, 2004 (Request).

² Attachments A and B contain proposed revisions to the existing Domestic Mail Classification Schedule, and Rate and Fee Schedules; Attachment C is the Postal Service's Certified Financial Statement for the years ended September 30, 2003 and September 30, 2002; Attachment D is the certification required by Commission rule 54(p); Attachment E is an index of testimony and exhibits; and Attachment F is a compliance statement addressing satisfaction of various filing requirements.

³ Direct Testimony of Altaf H. Taufique on Behalf of United States Postal Service, February 25, 2004 (USPS-T-1).

including the establishment of settlement procedures.⁴ Commission Order No. 1392 announced the filing of the experimental request, addresses the request for expedition, and discusses related matters.⁵

A settlement conference was held March 22, 2004. Subsequently, a prehearing conference was held March 25, 2004. At the prehearing conference, the Postal Service and participants taking part in the settlement conference reported on progress towards settlement. Interest was expressed in arriving at a settlement; however, the need for some discovery was indicated before finalizing any decisions. Because participants were not prepared to settle at that time, the Commission established a schedule to conduct discovery on the Postal Service's direct case, for a hearing to enter the Postal Service's direct testimony into the record, and to set a deadline to submit testimony in opposition to the Postal Service's direct case.

On May 25, 2004, the Postal Service informed the Commission that settlement was likely, and requested procedural mechanisms and a schedule to bring the docket to a conclusion.⁶ The Postal Service attached a draft copy of a Stipulation and Agreement to this pleading. The Commission established a procedural schedule, and mechanisms to enter the Postal Service's testimony and designated written cross-examination into the record without a hearing.⁷

On June 8, 2004, the Postal Service filed a motion requesting that the direct testimony of Postal Service witness Taufique and the written cross-examination designated by the American Postal Workers Union, AFL-CIO, Office of Consumer

⁴ Statement of the United States Postal Service Concerning Compliance with Filing Requirements and Conditional Motion for Waiver, February 25, 2004; United States Postal Service Request for Expedition and Establishment of Settlement Procedures, February 25, 2004.

⁵ Notice and Order on Filing of Request Seeking Experimental Periodicals Discounts, February 27, 2004 (Order); Errata Notice Concerning Order No. 1392, March 4, 2004.

⁶ United States Postal Service Motion for Establishment of a Procedural Mechanism and Schedule Governing Further Proceedings in Light of Projected Settlement, May 18, 2004.

⁷ Presiding Officer's Ruling Establishing Procedural Schedule, May 27, 2004.

Advocate, Time Warner Inc., and the Postal Service be entered into the record.⁸ The motion was accompanied by a supporting declaration from witness Taufique. The testimony and designated written cross-examination were entered into the record on June 16, 2004, and the record was closed.⁹

The Postal Service filed the final version of the Stipulation and Agreement with the Commission on May 26, 2004.¹⁰ Eight of the ten participants signed the agreement. On June 8, 2004, the Postal Service filed a motion requesting that the Stipulation and Agreement form the basis of the Commission's Opinion and Recommended Decision.¹¹ There was no opposition to this request.

Comments on the settlement were filed June 15, 2004, by Magazine Publishers of America, Inc., Office of Consumer Advocate, Time Warner Inc., and the Postal Service.¹² The Postal Service was the only participant to file reply comments on the settlement.¹³

⁸ United States Postal Service Motion to Place Direct Testimony and Written Cross-Examination into the Record, June 8, 2004.

⁹ Presiding Officer's Ruling Placing Testimony into Evidence and Closing the Record, June 16, 2004.

¹⁰ United States Postal Service Notice of Filing Revised Stipulation and Agreement, May 26, 2004.

¹¹ Motion of the United States Postal Service for Consideration of the Stipulation and Agreement as the Basis for Recommended Decision, June 8, 2004.

¹² Magazine Publishers of America, Inc. Comments on Stipulation and Agreement, June 15, 2004 (MPA Comments); Office of Consumer Advocate Comments in Support of Stipulation and Agreement, June 15, 2004 (OCA Comments); Comments of Time Warner Inc. on Settlement Agreement, June 15, 2004 (TW Comments); Comments of United States Postal Service in Support of Settlement, June 15, 2004 (USPS Comments).

¹³ Reply Comments of United States Postal Service, June 21, 2004.

III. SUMMARY OF PROPOSAL

A. Witness Taufique's Testimony

Postal Service witness Taufique addresses the background and history of the co-palletization dropship proposal; application and development of the proposed discounts; appropriateness of the experimental designation; and consistency with applicable classification criteria. Separately, he addresses a classification change to allow sample copies of periodicals to be mailed with parcels using Parcel Post or Bound Printed Matter rates. USPS-T-1.

Background: Docket No. MC2002-3 Experiment. Docket No. MC2002-3 establishes experimental co-palletization dropship per-piece discounts for Periodicals mail that allow mailers to combine different publications or print runs on the same pallet with the objective of moving certain Periodicals mail from sacks to pallets, and to encourage mailers to dropship closer to final destination. This experiment addresses situations where smaller publications, along with the less dense portion of larger publications, cannot, with a single publication, achieve the minimum density required to palletize. The two-year experiment, implemented on April 20, 2003, provides co-palletization discounts of 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. Witness Taufique notes that the November 2003 report to the Commission in regard to the experiment shows over 9 million pieces being co-palletized with a corresponding removal of over 180,000 sacks from postal operations.¹⁴ Taufique believes that this experiment will lead to its desired results — better preparation and deeper penetration of Periodicals mail into the postal system. *Id.* at 2-3.

¹⁴ The April 2004 report to the Commission in regard to the experiment shows over 26 million pieces being co-palletized with a corresponding removal of approximately 600,000 sacks from postal operations.

Rationale for New Experiment. Taufique examines the current dropship/palletization discounts available for Periodicals mail in combination with the discounts provided in the MC2002-3 experiment for both high advertising content and low advertising content (high editorial content) Periodicals mail. He concludes that available dropship/palletization discounts plus the additional per-piece discounts established in MC2002-3, do not provide sufficient incentive (rate differential) for mailers of high-editorial content publications to palletize and dropship mail. *Id.* at 3.

He explains that the “rate differential between dropshipped and non-dropshipped mail is of utmost importance as an incentive to dropship the mail to a destination facility.” The advertising content of a publication receives a zoned rate, whereas the editorial content receives a flat rate regardless of distance to delivery. The result is that, “[t]he higher the advertising content, the greater is the ‘dropship’ to ‘non-dropship’ postage differential.” *Id.* at 4. The corollary to this is high-editorial content (low advertising content) publications have a lower rate differential because the editorial flat rate portion of postage is a higher proportion of total postage. The lower rate differential provides high-editorial content publications less incentive to dropship.

The experiment proposed in this docket, MC2004-1, provides an incentive, using the editorial pound structure, to encourage eligible high-editorial content publications to co-palletize and dropship mail. The objectives are to reduce the number of sacks and to cause mail to be entered closer to destination facilities. The experiment will gauge the feasibility of using discounts to change the behavior of publications that are not able to take advantage of the current experimental classification for co-palletizing and dropshipping mail. The experiment also will test the ability to administer a destination-entry discount based on the number of zones skipped. *Id.* at 17.

Application of Discounts. The proposed discounts apply to co-palletized bundles of Periodicals mail that remain intact (the same bundles before and after co-palletization), and that move from sacks (absent co-palletization) to either ADC or SCF pallets entered at the appropriate destination facility. *Id.* at 7. Given the primary

objective of promoting the co-palletization and dropshipment of heavier weight, low-advertising content, small-circulation publications, the discounts will be available to Periodicals mail that lacks the density to be prepared as single-publication pallets, and that has the following characteristics:

- ◆ advertising content of 15 percent or less;
- ◆ copy weight of 9 ounces or more; and
- ◆ mail circulation of 75,000 pieces or less (including all editions, issues and supplemental mailings).¹⁵

Residual mail (e.g., less than 250 pounds of mail remaining for an ADC, after SCF pallets are prepared for ZIP Codes in that ADC service area) from a qualifying publication would also qualify for the discounts, as long as it was co-palletized and dropshipped. *Id.* at 8. Pieces receiving the experimental discount may also qualify for the other dropship and palletization incentives in the current rate schedule. *Ibid.* The requirement that co-palletized mail be placed on the finest level pallet possible is waived for participants in the experiment. *Id.* at 10. Discounts will 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 Postal Service's interest in limiting the scope of the experiment and simplifying administration. *Id.* at 9-10.

The mailer/consolidator is required to provide documentation, e.g., Mail.dat files, which describe the pertinent characteristics of the Periodicals mail both before and after co-palletization. In addition to establishing the specific amount of discount, the goal of the documentation is to substantiate that, without co-palletization, the mail would have been prepared in sacks. *Id.* at 10-11.

¹⁵ These characteristics are designed to limit the experiment to those publications most in need of an alternative discount structure, and to control the overall scope of the experiment. *Id.* at 7; TW/USPS-T1-2.

Development of Discounts. The discounts were developed using the advertising pound rates recommended by the Commission and approved by the Governors in the last rate case, Docket No. R2001-1. Separate analysis of potential cost savings was not performed because the differences between the zoned advertising pound rates reflect all pound-related transportation and non-transportation cost savings that accrue to the Postal Service when mail is entered closer to its destination. *Id.* at 14.

Taufique asserts that the methodology he uses to develop discounts for this Request is similar to that used in MC2002-3, with some exceptions. In MC2002-3 he used the Zones 1 & 2 advertising pound rate as a benchmark to derive transportation and non-transportation costs for dropshipping to the destination ADC or SCF. He then converted the estimated per-pound cost savings to per-piece discounts. In the instant Request he uses all of the advertising pound rates to calculate the cost differentials to the destination ADCs or SCFs. The cost differentials are applied directly to editorial pounds based on zones skipped from the original mailer's plant, where the mail would have been entered, to either the destination ADC or SCF where the mail actually is entered. *Id.* at 12.

Taufique applies a 30 percent passthrough of the advertising pound zoned cost differentials to arrive at the final editorial pound discounts. He asserts that the passthrough is conservative to reflect the application of the discounts to an editorial pound rate that is already low. Taufique comments that the editorial base rate was not designed to reflect the cost of transporting editorial pounds. Thus, using a 100 percent passthrough would provide discount levels that are inappropriately high relative to the base rate. *Id.* at 15-16.

The editorial pound discounts based on the number of zones skipped from original entry to destination ADC or SCF are shown below:

<u>Original Zone</u>	<u>DADC</u>	<u>DSCF</u>
Zones 1 & 2	\$0.008	\$0.014
Zones 3	\$0.013	\$0.019
Zones 4	\$0.028	\$0.034
Zones 5	\$0.050	\$0.056
Zones 6	\$0.073	\$0.079
Zones 7	\$0.101	\$0.107
Zones 8	\$0.125	\$0.131

Id. at 13.

Taufique contends that the conservative approach chosen by the Postal Service to develop these discounts achieves three goals. The first goal is to assure that there is no erosion of the low subclass markup due to this classification change. The second goal is to provide sufficient incentive for high-editorial publications to participate in co-palletization programs. The final goal is to ensure that non-participants not only avoid any rate increases, but also receive the benefit of additional cost reductions that may accrue to Periodicals mail resulting from the proposed discounts. Id. at 16.

Impact of Discounts. Taufique estimates that 20 million pieces per year will be eligible for the experimental discounts. This equates to removing over 400,000 sacks from the postal system (assuming 49 pieces per sack). Additionally, Taufique asserts that some printers may choose to eliminate all sacking operations from their plants by co-palletizing all of their publications. This would further increase the potential volume for the experiment. Id. at 18.

Taufique expects costs savings to be greater than the estimated revenue leakage, with additional cost savings (slightly more than 0.5 cents per piece) possible due to palletization alone. Ibid. He estimates that of the 20 million pieces qualifying annually, 18 million will qualify for ADC entry and 2 million will qualify for SCF entry. Annual ADC revenue leakage is estimated at \$514,049, and annual ADC cost savings is estimated at \$1,704,255. Annual SCF revenue leakage is estimated at \$63,885, and annual SCF cost savings is estimated at \$211,924. Id., Exhibit A at 2-3. These

estimates imply a potential for net cost savings to the Postal Service of \$1,338,245 annually.

B. Data Collection

The Postal Service proposes a two-part approach to data collection with the purpose of collecting data to provide a measure of the experiment's effectiveness, and to prepare for any request for a permanent classification. First, the Postal Service proposes to collect data from the RPW system to quantify editorial pounds shifting from the various zones to destination ADCs and SCFs. Second, the Postal Service proposes to collect data from the experiment's participants to report on the:

- ◆ number of pieces receiving the ADC discount;
- ◆ number of pieces receiving the SCF discount;
- ◆ number of titles receiving one or both of the co-palletization discounts;
- ◆ number of containers that would have been sacks without consolidation, as well as their weight and the number of addressed pieces;
- ◆ number of sacks after consolidation, as well as their weight and the number of addressed pieces;
- ◆ number of pallets qualifying for the ADC discount, as well as their weight and the number of addressed pieces;
- ◆ number of pallets qualifying for the SCF discount, as well as their weight and the number of addressed pieces;
- ◆ editorial and total pounds shifting to destination ADCs from the various zones; and
- ◆ editorial and total pounds shifting to destination SCFs from the various zones.

Data will be collected matching Postal Service fiscal year quarters, and reported to the Commission every six months.¹⁶ Id. at 19-20.

¹⁶ Depending on the implementation date of the experiment, the first report might contain data for less than two complete quarters. The Postal Service also might try to adjust the reporting schedule to match the reporting schedule of the MC2002-3 experiment.

C. Extending Termination Date Recommended in Docket No. MC2002-3

The Postal Service proposes to establish one expiration date for both the co-palletization experiment recommended in Docket No. MC2002-3 and the experiment proposed in this docket. Because the termination date of the experiment proposed in this docket (given the request for a two-year duration) extends past the termination date of the MC2002-3 experiment, recommending a single expiration date will have the effect of extending the MC2002-3 co-palletization experiment. A single expiration date will allow the Postal Service to make a unified decision whether to make permanent, modify, or terminate both sets of discounts. The Postal Service further requests a temporary automatic extension of both experiments if action is pending before the Commission prior to the termination date of the experiments. Request at 5; id. at 15.

D. Domestic Mail Classification Schedule Provisions

The Postal Service proposes to modify DMCS § 421.50 to specify that either a per-piece or a per-pound co-palletization dropship discount (but not both) is available, and to add a description of the applicability of the per-pound discount considered in this docket. This section also is modified to specify the unified termination provisions for the experiments recommended in Docket No. MC2002-3 and in this docket.

The Postal Service proposes to modify Periodicals Rate Schedule 421, Outside County (Including Science of Agriculture), to include the experimental per-pound discounts proposed in this docket. Schedule 421 Notes also are modified to specify the unified termination provisions for the experiments recommended in Docket No. MC2002-3 and in this docket.

The Postal Service further proposes to modify DMCS § 511(c) to allow sample copies of publications to be sent at Parcel Post or Bound Printed Matter rates when included with merchandise. This modification (discussed below) is not related to the request for experiment.

E. Statutory Criteria

Witness Taufique reviews the classification criteria of section 3623(c) of title 39, U.S. Code, and testifies that the proposed experimental classification meets all applicable criteria. *Id.* at 20-23.

Taufique believes the proposed classification is fair and equitable (criterion 1) because it improves the preparation of mail for the class as a whole, and increases dropshipment, which reduces costs. *Id.* at 21. He acknowledges that there is a significant volume of palletized and dropshipped mail that will not qualify for the proposed discounts. However, the proposed classification provides incentives to palletize and dropship for mailers that currently do not have the volume density required to palletize, and are not able to dropship because of high-editorial content. Absent the proposed classification, these mailers have no choice but to sack their mail, which is expensive both for the mailer and the Postal Service.

Taufique notes that mailers of publications that currently do not have the density to make a 250-pound ADC pallet will incur additional costs when combining their mail with other similar publications as required by this proposal. *Id.* at 22. 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. He asserts these mailers therefore may need an additional discount to reach the same level of worksharing as other mailers.

Taufique asserts that there is no adverse affect on non-participants. The proposed classification benefits Periodicals mailers by improving the overall efficiency of the entire Periodicals class, and does not harm Periodicals mailers because the incentive provided is less than the postal cost saved.

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. *Id.* at 23. He argues the discounts will promote the distribution of Periodicals mail with high educational, cultural, scientific and informational value, given the requirement for 85 percent or more

editorial content. It will compensate mailers for their co-palletization and dropshipment worksharing. It also reduces costs incurred through origin-entered sacks. Overall, he concludes this proposal will help the mail remain affordable for the recipient, and help the widespread dissemination of editorial matter.

Finally, Taufique asserts that criterion 5 (the desirability of special classifications from the point of view of both the user and of 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. *Ibid.*

F. Enclosing Periodicals in Package Services

Taufique discusses the Postal Service's proposal to allow the mailing of "sample" copies of periodicals with parcels using Parcel Post or Bound Printed Matter rates. This proposal is not related to the experiment discussed above. *Id.* at 23-25.

The current Package Services are available for most mailable matter, see DMCS § 511; however, copies of publications also mailed as Periodicals class mail are excluded. There are limited exceptions to this prohibition, but it remains unclear whether "sample" copies included for promotional purposes and copies sent as premiums with a product being shipped via Package Services are mailable.

To specifically allow for sample copies enclosed or attached with merchandise to be sent as Package Services at Parcel Post or Bound Printed Matter rates, Taufique proposes to modify the exceptions appearing in DMCS § 511(c). Taufique views the enclosure of sample copies as an avenue for promoting publications which, if it results in added subscriptions, may be beneficial to customers, printers, and advertisers. He asserts that this is both fair and equitable (criterion 1), and desirable from the point of view of both the user and the Postal Service (criterion 5).

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 Alliance of Nonprofit Mailers; American Business Media; American Postal Workers Union, AFL-CIO; Association of American Publishers; Magazine Publishers of America, Inc.; National Newspaper Association; Office of Consumer Advocate; and the Postal Service.

Magazine Publishers of America, Inc., Office of Consumer Advocate, and the Postal Service filed comments in support of the Stipulation and Agreement. Although in support of the agreement, Magazine Publishers of America, Inc. expresses disappointment with what it considers the experiment's stringent eligibility requirements, and expresses interest in further changes to the Periodicals rate structure to encourage worksharing, improve efficiency, and lower Postal Service costs. Comments filed by Time Warner Inc. neither support nor oppose the Stipulation and Agreement. Time Warner Inc., however, expresses skepticism in regard to the experiment following sound ratemaking principles, and questions the eligibility requirements that may act to limit participation. The Postal Service was the only participant to file reply comments.

Summary. The settlement submitted by the Postal Service on behalf of all signatories consists of two parts. Part I, captioned Background, identifies the authority for filing a request with the Commission, the filing date of the request, 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, captioned 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 511, and Rate Schedule 421 as proposed by the Postal Service. These include Docket No. MC2004-1 direct testimony and materials filed in support of the Postal Service's Request, and designated written cross-examination, 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 this 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 settlement 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. MC2004-1 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 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

The Stipulation and Agreement was signed by 8 of 10 participants, and is not opposed by the two remaining participants that chose not to sign. The Commission finds that all participants have had an opportunity to participate in the settlement proceedings that led to the filing of the May 26, 2004 settlement agreement, and 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.

The Commission recommends one minor change to the DMCS language agreed to in the Stipulation and Agreement. The DMCS language recommended by the Commission specifies the termination date of the MC2002-3 and MC2004-1 experiments without having to refer to additional documents.

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, and the designated written cross-examination. This review leads to the conclusion that the record supports the proposed classification changes and the related discounts set out in the May 26, 2004 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;
Tony Hammond, Vice Chairman;
Dana B. Covington, Sr.;
and Ruth Y. Goldway

Experimental Periodicals
Co-Palletization Dropship Discounts
For High Editorial Publications

Docket No. MC2004-1

RECOMMENDED DECISION

(Issued July 7, 2004)

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. Motion of the United States Postal Service for Consideration of the Stipulation and Agreement as the Basis for Recommended Decision, June 8, 2004, is granted and approved. The Stipulation and Agreement filed by the Postal Service is accepted consistent with this Opinion and Recommended Decision.

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) 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. MC2004-1 Request. Revisions to Periodicals Rate Schedule 421 appear under the subheading "Experimental Discount" and in the "Schedule 421 Notes," note 7. Additions to the text are underlined. Deletions from the text are struck through. Information to be added upon approval by the Board of Governors appears in brackets and is underlined.

**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	Pound	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	Pound	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

	Postage Rate Unit	Rate
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	Piece	0.010
Experimental Discounts		
Co-palletization discounts DSCF		
	Piece	0.010
<u>Zones 1 & 2 Avoided</u>	Pound	0.014
<u>Zone 3 Avoided</u>	Pound	0.019
<u>Zone 4 Avoided</u>	Pound	0.034
<u>Zone 5 Avoided</u>	Pound	0.056
<u>Zone 6 Avoided</u>	Pound	0.079
<u>Zone 7 Avoided</u>	Pound	0.107
<u>Zone 8 Avoided</u>	Pound	0.131
Co-palletization discounts DADC		
	Piece	0.007
<u>Zones 1 & 2 Avoided</u>	Pound	0.008
<u>Zone 3 Avoided</u>	Pound	0.013
<u>Zone 4 Avoided</u>	Pound	0.028
<u>Zone 5 Avoided</u>	Pound	0.050
<u>Zone 6 Avoided</u>	Pound	0.073
<u>Zone 7 Avoided</u>	Pound	0.101
<u>Zone 8 Avoided</u>	Pound	0.125

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) [insert date two years from implementation date set by the Board of Governors]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 replacement for the co-palletization dropship discounts 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 replacement for the co-palletization dropship discounts.

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. MC2004-1 Request. Periodicals Classification Schedule section 421.50 is modified to provide for the new co-palletization dropship discounts. Package Services Classification Schedule section 511 is modified and restructured to provide for sample copies enclosed or attached with merchandise to be sent at Parcel Post or Bound Printed Matter rates. Additions to the text are underlined. Deletions from the text are struck through. Information to be added upon approval by the Board of Governors appears in brackets and is underlined.

**RECOMMENDED CHANGES IN DOMESTIC MAIL
CLASSIFICATION SCHEDULE****PERIODICALS
CLASSIFICATION SCHEDULE**

- 421.50 Co-palletization Dropship Discounts.** Either a per-piece or a per-pound
~~The co-palletization dropship discount (but not both)~~ 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. The per-pound discounts apply only to
editorial pounds, and are also limited to publications that weigh 9 ounces or
more, which contain no more than 15 percent advertising matter, and which
have a mailed circulation of no more than 75,000 copies per issue. 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. [insert date two years from implementation date set by the Board of
Governors]~~two years after the implementation date [April 20, 2003]~~ for the
~~section specified by the Board of Governors, or~~
 - b. if, by the expiration date specified in (a), a proposal for a permanent
replacement for the co-palletization dropship discounts is pending before
the Postal Rate Commission:
 - i. three months after the Commission takes action on such request under
39 U.S.C. § 3624 or, if applicable;
 - ii. on the implementation date for a permanent replacement for the co-
palletization dropship discounts.

**PACKAGE SERVICES
CLASSIFICATION SCHEDULE**

510 DEFINITION

511 General

Any mailable matter may be mailed as Package Services mail except:

- a. Matter required to be mailed as First-Class Mail;
- b. Regular and Nonprofit Presort category mail entered as Customized Market Mail under sections 321.22 and 323.22; and
- c. Copies of a publication that is entered as Periodicals class mail, except:
 - i. ~~copies sent by a printer to a publisher; and except~~
 - ii. copies that would have traveled at the former second-class transient rate. (The transient rate applied to individual copies of second-class mail (currently Periodicals class mail) forwarded and mailed by the public, as well as to certain sample copies mailed by publishers.); and
 - iii. sample copies enclosed or attached with merchandise sent at Parcel Post or Bound Printed Matter rates.

PARTICIPANTS AND COUNSEL

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

Alliance of Nonprofit Mailers

David M. Levy

American Business Media

David R. Straus

American Postal Workers Union, AFL-CIO

Arthur M. Luby

Association of American Publishers*

John R. Przypyszny

Magazine Publishers of America, Inc.

James Pierce Myers

National Newspaper Association

Tonda F. Rush

Office of the Consumer Advocate

Shelley Dreifuss

Emmett R. Costich

David B. Popkin*

David B. Popkin

Time Warner Inc.

John M. Burzio

United States Postal Service

Daniel J. Foucheaux, Jr.

David H. Rubin

Sheela Portonovo

*Limited Participant