

BEFORE THE  
POSTAL RATE COMMISSION  
WASHINGTON, D.C. 20268B0001

EXPERIMENTAL PRIORITY MAIL FLAT-RATE  
BOX, 2004

Docket No. MC2004-2

NOTICE OF THE UNITED STATES POSTAL SERVICE  
OF DECISION OF THE GOVERNORS  
AND RESOLUTION OF THE BOARD OF GOVERNORS  
(October 29, 2004)

The United States Postal Service hereby provides notice of the attached  
Decision of the Governors in Docket No. MC2004-2:

**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  
Priority Mail Flat-Rate Box, Docket No. MC2004-2 (October 27, 2004).**

Also attached is a copy of Resolution 04-7 of the Board of Governors,  
establishing the implementation date for the new Priority Mail flat-rate boxes.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.  
Chief Counsel, Ratemaking

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Richard T. Cooper

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**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.

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October 29, 2004

**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  
PRIORITY MAIL FLAT-RATE BOX, DOCKET No. MC2004-2**

October 27, 2004

**STATEMENT OF EXPLANATION AND JUSTIFICATION**

On October 6, 2004, the Postal Rate Commission issued its Opinion and Recommended Decision Approving Stipulation and Agreement in Docket No. MC2004-2, Experimental Priority Mail Flat-Rate Box. Pursuant to a request by the Postal Service, the Commission recommended an experimental classification and rate within Priority Mail for matter mailed using a Postal Service-supplied flat-rate box. After an independent review of the administrative record, we find that the Commission's recommendations are supported by substantial record evidence, and are in accord with the policies of the Postal Reorganization Act. Pursuant to 39 U.S.C. § 3625, we approve the Recommended Decision.

The Postal Service initiated this proceeding on June 3, 2004, with its Request for a Recommended Decision on Experimental Classification and Rate for Priority Mail Flat-Rate Box. The Request proposed an experimental classification and rate for two Postal Service-supplied Priority Mail boxes of standardized dimensions that would be charged a flat-rate of \$7.70. This experimental rate reflected a "base rate" derived from a study of existing Priority Mail parcel density, as well as a "premium" designed both to protect against the risk that parcels shipped using the boxes will be, on average, heavier and/or shipped longer distances than existing Priority Mail parcels, and to reflect a portion of the added value created by the boxes' convenience and ease of use. The request proposed that the experiment run for two years, with an extension if the Postal Service files a request for a permanent classification change before the end of the two-year period.

The flat-rate boxes will benefit mailers who seek convenience and ease of use when sending a package. First, the flat-rate eliminates the need for mailers to calculate the existing weight- and zone-based Priority Mail rate. Second, the boxes will be made widely available through multiple channels, including retail outlets and the Internet. Third, the boxes' dimensions can accommodate a variety of possible items, and correspond to the dimensions of Postal Service-supplied packaging that have proven popular with Priority Mail customers in the past. Fourth, the flat-rate of \$7.70 allows customers to utilize two existing \$3.85 stamps. The Commission found, and we agree, that the convenience and ease of use of the flat-rate boxes due to these features are likely to be desirable to mailers, and will thus enhance the value of Priority Mail.<sup>1</sup>

The flat-rate boxes also have the potential to provide financial benefits to the Postal Service, in the form of additional contribution, by attracting new Priority Mail volume. While there is an acknowledged risk of revenue leakage, from Priority Mail customers currently paying more than \$7.70 "buying down" to the flat-rate boxes, the risk has been shown to be minimal, and we agree with the Commission that it is not an impediment to implementing this experiment.<sup>2</sup>

Following negotiations among the participants, the Postal Service filed, on August 10, 2004, a Stipulation and Agreement designed to settle all the issues in this proceeding. The Stipulation and Agreement follows the terms of the Postal Service's original request, though with an expanded data collection plan and a commitment by the Postal Service to print a notice on the flat-rate boxes indicating that they may not be the lowest-cost Priority Mail option. The Commission's Opinion thoroughly describes the settlement proposal and its background,<sup>3</sup> and we need not repeat that description here. The Stipulation and Agreement was signed by 3 of the 5 intervenors, along with the Postal Service and the Office of the Consumer Advocate. Of the two intervenors that did not sign, only one actively opposed the settlement agreement.

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<sup>1</sup> PRC Op. at 13.

<sup>2</sup> *Id.* at 13-14, 19.

<sup>3</sup> See *id.* at 5-11.

The Commission's October 6, 2004 Opinion and Recommended Decision approved the Stipulation and Agreement. It incorporated the requested changes to Domestic Mail Classification Schedule (DMCS) § 223.4, and the requested changes to the Priority Mail Rate Schedule (Schedule 223), that are reflected in the Stipulation and Agreement. The Commission recommended only one minor modification, adding language to DMCS § 223.41 that specifies that the \$7.70 experimental rate applies to flat-rate boxes with an internal capacity of 0.34 cubic feet. The Commission concluded that the requested classification and rate changes 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 able to consider the issues presented in the proceeding substantially within the 150 days contemplated by its rules governing the consideration of experimental classification cases. 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 Commission are in accordance with the policies of the Postal Reorganization Act. Therefore, we approve the classification and rate changes recommended by the Commission.

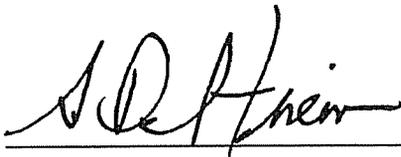
### **ESTIMATE OF ANTICIPATED REVENUE**

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 the flat-rate box experiment should have a minimal impact on postal revenues. The potential revenue leakage is only \$12.6 million even in the worst-case scenario. We anticipate that the experiment will produce additional contribution derived from the attraction of new Priority Mail volume and the added convenience of the flat-rate box.

**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 04-7 of the Board of Governors, dated October 27, 2004, the changes will take effect at 12:01 a.m. on November 20, 2004.

By The Governors:

A handwritten signature in cursive script, appearing to read "S. David Fineman", written over a horizontal line.

S. David Fineman, Chairman

## Changes in Domestic Mail Classification Schedule

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### FIRST-CLASS MAIL CLASSIFICATION SCHEDULE

223.4 ~~Reserved~~ Flat Rate Box.

223.41 **General.** Priority Mail subclass mail sent in a "flat rate" box provided by the Postal Service is charged the rate designated in Rate Schedule 223. A "flat rate" box with an internal capacity of .34 cubic feet is charged the rate designated in note 5 for Rate Schedule 223.

223.42 **Duration of the Flat Rate Box Experiment.** The provisions of section 223.4 expire the later of:

a. two years after the implementation date specified by the Postal Service Board of Governors, or

b. if, by the expiration date specified above, a request for the establishment of a permanent Flat Rate Box classification is pending before the Postal Rate Commission, the later of:

(1) three months after the Commission takes action on such proposal under section 3624 of Title 39, or, if applicable,

(2) on the implementation date for a permanent Flat Rate Box classification.

**Changes in Priority Mail Rate Schedule**

**FIRST-CLASS MAIL  
RATE SCHEDULE 223**

**PRIORITY MAIL**

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**SCHEDULE 223 NOTES**

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5. A rate of \$7.70 is charged for matter sent in a flat-rate box provided by the Postal Service (experimental).

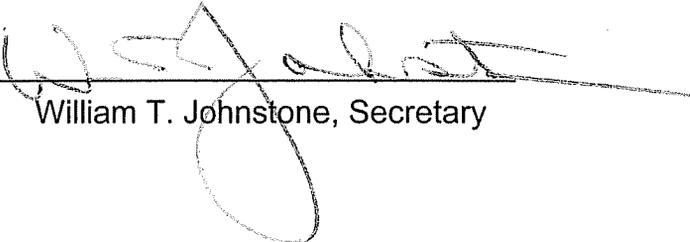
**RESOLUTION OF THE BOARD OF GOVERNORS  
OF THE  
UNITED STATES POSTAL SERVICE  
Resolution No. 04-7**

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 rate 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 Priority Mail Flat-Rate Box, Docket No. MC2004-2, adopted on October 27, 2004, shall become effective at 12:01 a.m. on November 20, 2004.

The foregoing Resolution was adopted by the Board of Governors on October 27, 2004.

  
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William T. Johnstone, Secretary