

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

Before Commissioners:

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

Postal Rate and Fee Changes

Docket No. R2005-1

NOTICE AND ORDER ON POSTAL SERVICE REQUEST FOR CHANGES
IN DOMESTIC POSTAGE RATES AND FEES

(Issued April 12, 2005)

I. Introduction

Summary. This notice and order (Order) informs the public that on April 8, 2005, the United States Postal Service filed a formal Request with the Postal Rate Commission for an expedited recommended decision on proposed changes in domestic postage rates and fees for all classes of mail and special services, with the exception of Confirm, which is a special service.¹ The Request does not identify any classification or rate structure changes. Interested persons are urged to carefully review the Service's filing in its entirety to determine the impact of the proposals.

¹ Request of the United States Postal Service for a Recommended Decision on Changes in Rates of Postage and Fees for Postal Services, Docket No. R2005-1, April 8, 2005 (Request); United States Postal Service Request for Expedition and Early Consideration of Procedures Facilitating Settlement Efforts, April 8, 2005 (Request for Expedition). The Service's rationale for excluding Confirm from its Request is presented in Notice of the United States Postal Service Regarding Exclusion of Confirm Service from General Rate Proceeding, April 8, 2005 (Notice Regarding Confirm Service).

The Request is unique in that it is premised on several policy conclusions associated with funding a pending escrow obligation associated with Public Law 108-18.² These conclusions entail, among others, a decision to seek a 5.4 percent across-the-board increase for most rates and fees, with certain limited (but in at least three instances, significant) exceptions. The exceptions are attributed to a statutory requirement (in the case of Within County Periodicals mail); reported increases in costs (for Registered Mail and the Periodicals Re-entry Application), and rounding conventions (in many instances).

Significant exceptions. The Service's Within County proposal entails a 5.4 percent decrease on average. USPS-T-28 at 14. The Registered Mail fee proposals entail increases of around 70 percent. *Id.* at Exhibit USPS-28A, Table 10 at 57. The fee for Periodical Re-entry Application increases by 12.5 percent. *Id.* at 55.

Costing support. The Service asserts that the proposed across-the-board approach treats all mail categories and services equally, while relegating specific costing issues to a secondary role in the supporting record.

First-Class stamp. The price of the First-Class stamp under the Service's proposal would increase by 2 cents, thereby going from 37 cents to 39 cents. The rate for additional ounces of First-Class Mail would increase by 1 cent, from 23 cents to 24 cents.

Interest in expedition and settlement. The Service seeks maximum expedition of its Request, early implementation of resulting rates and fees (in calendar 2006), and suggests, based on efforts underway prior to filing, that there is a strong likelihood that all material issues can be settled.

Initial action. This Order summarizes key features of the filing, including accompanying notices, motions and requests, and institutes a formal proceeding for consideration of the Service's proposals. It sets May 5, 2005 as the date for a prehearing conference, identifies certain other deadlines, and takes several preliminary procedural steps. The latter include authorization of settlement proceedings, based in

² The Postal Civil Service Retirement System Funding Reform Act of 2003.

part on the Service's representations that substantial support for settlement already exists, and appointment of the Postal Service as settlement coordinator.

II. Establishment of Formal Docket

The Request was filed pursuant to chapter 36 of title 39, United States Code, based on the Service's determination that such changes would be in the public interest and in accordance with policies of that title. The Commission hereby institutes a proceeding under 39 U.S.C. § 3622, designated as Docket No. R2005-1, Postal Rate and Fee Changes, to consider the instant request. In the course thereof, participants may propose alternatives to the Service's proposal, and the Service itself may revise, supplement, or amend its filing. The Commission's review of the Request, including any revisions, alternatives proposed by others, or options legally within the purview of the Service's request, may result in recommendations that differ from proposed rates and fees.

III. Availability, Web Site Posting

The Commission has posted the Request and related material on its web site at <http://www.prc.gov>. Additional Postal Service filings in this case will also be posted on the web site, if provided in electronic format or amenable to conversion, and not subject to a valid protective order. Information on how to use the Commission's web site is available online or by contacting the Commission's webmaster via telephone at 202-789-6873 or via electronic mail at prc-webmaster@prc.gov.

The Request and related documents are available for public inspection in the Commission's docket section. Docket section hours are 8 a.m. to 4:30 p.m., Monday through Friday, except on federal government holidays. Docket section personnel can be contacted via electronic mail at prc-dockets@prc.gov or via telephone at 202-789-6846. The Service addresses how intervenors can obtain paper copies of its filing in Notice of the United States Postal Service Regarding Availability and Distribution of

Paper Copies of the Postal Service Direct Case, April 8, 2005 (Notice Regarding Distribution).

IV. Contents of the Service's Filing

The Service's Docket No. R2005-1 filing includes its formal Request, along with an explicit request for expedition; six attachments; 33 pieces of testimony (and related exhibits) presented by 31 witnesses; and 116 library references.³ Witness Potter (USPS-T-1) addresses the policy rationale underlying the Request, which centers mainly on the aforementioned CSRS escrow funding obligation. Witness Alenier (USPS-T-33) presents "roadmap" testimony in compliance with Commission rule 53(b). This testimony includes, among other pertinent information, two attachments, captioned Roadmap Testimony Quick Reference Guide (Attachment 1) and Postal Testimony Flowchart (Attachment 2). A master list of library references also appears in Notice of the United States Postal Service of Filing of Master List of Library References, April 8, 2005. Witness Robinson (USPS-T-27) addresses rate levels; witness Taufique (USPS-T-28) reviews current and proposed rates.

Attachments to the Request. Attachment A, Requested Changes in Rates and Fees, identifies requested changes in the Domestic Mail Classification Schedule (DMCS). Attachment B, Specification of the Rules, Regulations, and Practices that Establish Standards of Service and Conditions of Mailability, addresses Commission rule 54(b)(2), and designates the contents of the Domestic Mail Manual (DMM) as specifying those rules, regulations and practices establishing conditions of mailability and standards of service. It also provides a copy of the table of contents of the DMM (updated as of March 17, 2005). The DMM is available for review on the Postal Service's web site, <http://www.USPS.gov>.

³ The Service has prepared, but withheld, one library reference (USPS-LR-K- 85) pending resolution of a request for protective conditions. See Motion of United States Postal Service for Waiver and for Protective Conditions for Library Reference that Includes Costs and Other Data Associated with the FedEx Transportation Agreement, April 8, 2005 (Combined Waiver Motion).

Attachment C is the certification, required by rule 54(p), attesting to the accuracy of cost statements and other documentation submitted with the Request. Attachment D consists of a report of the Service's independent auditors, and includes related audited financial statements. Attachment E is an index that identifies witnesses, the numerical designation of each piece of testimony, related exhibits and library references, and attorney contacts. Attachment F is a compliance statement addressing pertinent provisions of rules 53, 54 and 64, and refers to a separate notice and motion for waiver related to the alternate cost presentation required by these rules.

The Service contemporaneously filed several motions pertaining to library references, including one that seeks protective conditions. It also filed, including the Library Reference Notice, several notices.

V. Summary of the Nature and Impact of the Proposed Changes

Defining feature. The defining feature of the Service's Request is that it is based on several policy judgments linked solely to funding an escrow obligation. This obligation was imposed by Public Law 108-18, and requires the Service to begin annual funding of an escrow account in fiscal year 2006.⁴ The escrow amount, which the law identifies as an operating expense, is \$3.1 billion. The Service expresses an intention to withdraw the case should the referenced law be changed in a fashion that precludes the need to meet this obligation.

The escrow obligation gives rise to several related policy conclusions on the part of Postal Service regarding the need for, amount, timing and nature of its Request. In particular, the Service concludes that it must file a request now so that it will have revenue to meet this obligation; that it would not seek an increase at this time in the absence of this obligation; that all costs related to this obligation are institutional; that an across-the-board approach is appropriate, except in situations involving a statutory requirement, significantly higher reported costs, or rounding conventions; and that no classification and rate structure changes should be proposed. These conclusions, in

⁴ Additional information on the escrow requirement is provided in USPS-T-1.

turn, drive the Service's request for maximum expedition, based on a belief that this case can be settled, and its interest in early implementation of resulting rate and fee changes.

Proposed changes. The Service presents a summary of the percentage changes in proposed rates relative to current rates at USPS-T-27, Exhibit USPS-27D. These percentages are reproduced below:

	<i>Docket No. R2005-1 Proposed Percentage Change</i>
First-Class Mail	
Letters and Sealed Parcels	5.3%
Cards	4.9%
Priority Mail	5.4%
Express Mail	5.5%
Periodicals	
<i>Within County</i>	-5.4%
Outside County	5.4%
Standard Mail	
Regular	5.4%
Nonprofit	5.5%
Enhanced Carrier Route	5.5%
Nonprofit Enhanced Carrier Route	6.0%
Package Services	
Parcel Post	5.4%
Bound Printed Matter	5.5%
Media Mail	5.4%
Library Mail	5.7%
Total All Mail	5.4%

See *also* USPS-T-28 in its entirety for other representations of proposed percentage rate changes. A summary of proposed percentage changes for special services appears at USPS-T-27, Exhibit USPS-27F and at USPS-28, Exhibit USPS-28A, Table 10 at 53-59.

VI. Expedition and Settlement

In its separate but related Request for Expedition, the Service seeks early resolution of its Request, expresses interest in implementing the proposed rate and fee changes in early calendar year 2006, and suggests that there is a strong likelihood that most, if not all, participants will sign a Stipulation and Agreement. It documents efforts toward achieving a settlement that have been underway for some time, and therefore seeks maximum expedition of its Request. These include, among others, discussions and individual consultations, a general letter corresponding with all parties of record in Docket No. R2001-1. This letter outlines the Service's proposal, reports on the general state of negotiations with prospective participants up to that point, and invites all prospective participants to engage in further discussions leading to settlement. *Id.* at 5-6. The letter is set out as an attachment to the Request for Expedition.

The Service suggests that consideration of the request could be completed in less than 10 months (the statutory maximum) without interfering with the Commission's interests or compromising participants' due process rights. It further maintains that several benefits (primarily associated with implementation) would flow from completing the case even one month earlier than the statutory maximum.

The Service states that the distinct circumstances of this case and the nature of its proposals have improved settlement potential relative to the settlement posture of Docket No. R2001-1. *Id.* at 5. It notes that it has been consulting individually with mailers, mailer associations, and other likely participants in upcoming proceedings. *Id.* at 5. In particular, it states that it has consulted 38 out of 64 participants in Docket No. R2001-1, as well as some organizations and individual mailers who do not typically intervene separately from their membership in associations. *Id.* at 8.

The Service believes that many of the interim dates in the overall procedural schedule can be advanced, relative to previous omnibus proceedings, and that other

aspects, such as discovery, can be compressed. The Service's proposed schedule is set out in an attachment to the Request for Expedition.

VII. Postal Service Notice Regarding Exclusion of Confirm Service from Request

The Service does not propose any change in the fees for Confirm service.⁵ The Service briefly reviews the introduction, development and current status of this offering in its Notice Regarding Confirm Service. It generally concludes that Confirm has shown promise in actual operations, but has experienced significant implementation complications; has attracted a base of customers who are still learning how to use this offering; and has encountered a market that is relatively slow to react. Notice Regarding Confirm Service at 1-2.

The Service's assessment is that Confirm is being offered in the context of comparatively rapid evolution of the Confirm infrastructure and steep learning curves for both customers and the Postal Service in determining how Confirm can best be used. Given this context, it has determined that an in-depth review of Confirm operations and performance and an evaluation of its price structure is warranted. It therefore concludes that it would be premature to propose increased fees at this time. The Service further states that it is evaluating its options, including the potential for changing the structure of the fee schedule, and expects that it will address both fees and service aspects of Confirm in a separate, future proceeding. *Id.* at 2-3.

⁵ Confirm is a special service that was recommended and approved as a result of Docket No. MC2002-1. It involves the use of PLANET barcodes to track mail as it flows through the system.

VIII. Motions for Waiver of Various Commission Rules, including a Combined Pleading Seeking Protective Conditions Prior to Filing USPS-LR-K-85.

*Motions for waiver of certain provisions of the library references rules for Category 1, 2, 3 and 5 library references.*⁶ In four separate motions, the Service seeks waiver, to the extent deemed necessary, of the Commission's rules on library references for documents in the following categories: Category 1 (Data Reporting Systems); 2 (Witness Foundational Material); 3 (Reference Material); and 5 (Disassociated Material). Each motion clearly identifies the library references proposed to be covered by the waiver request. See Motion of the United States Postal Service Requesting Waiver of the Commission Rules with Respect to Category 1 Library References; Motion of the United States Postal Service Requesting Waiver of the Commission Rules with Respect to Category 2 Library References; Motion of the United States Postal Service Requesting Waiver of the Commission Rules with Respect to Category 3 Library References; and Motion of the United States Postal Service Requesting Waiver of the Commission Rules with Respect to Category 5 Library References, all filed April 8, 2005 (Waiver Motions). Answers to the referenced Waiver Motions are due no later than May 2, 2005.

Combined motion for waiver of certain rules and request for protective conditions in connection with FedEx transportation agreement (USPS-LR-K-85). The Postal Service has prepared, but not filed, USPS-LR-K-85, Calculation of FedEx Variability. This document is identified as a category 2 library reference sponsored by witness Nash (USPS-T-17). Combined Waiver Motion at 1. The Service's reason for withholding this document is its interest in application of protective conditions. The proposed conditions appear as Attachment A to the Service's Combined Waiver Motion. The Service also seeks waiver of relevant portions of rules 31(k) and 54 for this document.

In support of its interest in protective conditions, the Service states the FedEx agreement contains commercially sensitive information, given that it includes daily volume information and cost data for fuel charges, non-fuel charges, and handling

⁶ Library reference categories are identified in Commission rule 31(b)(2).

charges, all on a daily basis, as well as applicable contract prices. *Id.* at 1. It also, among other things, notes that similar conditions were granted by the Postal Rate Commission in Docket No. R2001-1 for FedEx data. *Id.* at 2-3, citing Presiding Officer's Ruling No. R2001-1/5 (October 31, 2001). Answers to the Service Combined Waiver Motion are due no later than May 2, 2005.

IX. Participation

The Commission invites participation in this case by interested persons. Commission rules allow a participant to elect full, limited or commenter status. Persons electing full or limited status shall file notices of intervention conforming to Commission rules no later than May 2, 2005. Persons seeking to intervene on a full or limited basis after that date must file a motion for intervention. Commenters do not need to file intervention notices or motions; instead, they may direct their comments to the attention of Steven W. Williams, Secretary of the Commission, 1333 H Street NW., Suite 300, Washington, DC 20268-0001. Commenters may also submit their views via electronic mail by addressing them to prc-admin@prc.gov. Persons unsure of their intervention status under the Commission's rules or seeking more information on how to participate in this case should contact Shelley S. Dreifuss, Director of the Commission's Office of the Consumer Advocate, by telephone at 202-789-6837 or via electronic mail at dreifusss@prc.gov.

X. Representation of the Interests of the General Public

The Commission designates Shelley S. Dreifuss, Director of the Commission's Office of the Consumer Advocate, to represent the interests of the general public in this proceeding, pursuant to 39 U.S.C. 3624(a). Ms. Dreifuss shall direct the activities of Commission personnel assigned to assist her and, at an appropriate time, provide the names of these employees for the record. Neither Ms. Dreifuss nor the assigned personnel shall participate in or advise as to any Commission decision in this proceeding, other than in their designated capacity.

XI. Prehearing Conference Date; Other Scheduling Matters

The Commission will hold a prehearing conference on Thursday, May 5, 2005, at 10 a.m. in the Commission's hearing room, 1333 H Street NW., Suite 300, Washington, DC 20268-0001. The Commission appreciates the Service's interest in and efforts related to an expedited schedule. The intervention deadline and date for the prehearing conference responds in part to this interest. It is anticipated that the Presiding Officer will promptly issue a ruling addressing topics to be discussed at the prehearing conference and inviting participants to suggest other relevant topics. Other procedural matters, including the compressed schedule the Service seeks, will be addressed shortly.

It is ordered:

1. The Commission hereby institutes Docket No. R2005-1 for consideration of the Service's request for omnibus rate and fee changes.
2. The Commission will sit en banc in this proceeding.
3. Notices of intervention will be accepted through May 2, 2005.
4. Shelley S. Dreifuss, Director of the Commission's Office of the Consumer Advocate, is designated to represent the interests of the general public in this proceeding.
5. The Commission authorizes settlement negotiations, without prejudice to participants' opportunity to seek a hearing.
6. The Commission appoints the Postal Service as settlement coordinator.

7. A prehearing conference will be held on Thursday, May 5, 2005, at 10 a.m. in the Commission's hearing room.
8. Comments on the need for expedition and procedures for facilitating settlement of this case are due no later than May 2, 2005.
9. Answers to the Motion of the United States Postal Service for Waiver and for Protective Conditions for Library Reference that Includes Costs and Other Data Associated with the FedEx Transportation Agreement, filed April 8, 2005, are due no later than May 2, 2005.
10. Answers to Motion of the United States Postal Service Requesting Waiver of the Commission Rules with Respect to Category 1 Library References, filed April 8, 2005, are due no later than May 2, 2005.
11. Answers to the Motion of the United States Postal Service Requesting Waiver of the Commission Rules with Respect to Category 2 Library References, filed April 8, 2005, are due no later than May 2, 2005.
12. Answers to the Motion of the United States Postal Service Requesting Waiver of the Commission Rules with Respect to Category 3 Library References, filed April 8, 2005, are due no later than May 2, 2005.
13. Answers to the Motion of the United States Postal Service Requesting Waiver of the Commission Rules with Respect to Category 5 Library References, filed April 8, 2005, are due no later than May 2, 2005.

14. The Secretary shall cause this Notice and Order to be published in the *Federal Register*.

By the Commission.

(SEAL)

Steven W. Williams
Secretary