

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

PARCEL RETURN SERVICE

Docket No. MC2006-1

COMMENTS OF THE UNITED STATES POSTAL SERVICE
IN SUPPORT OF SETTLEMENT
(January 23, 2006)

In accordance with Order No. 1448, the United States Postal Service hereby provides its comments in support of the settlement reached in this case.

I. Procedural History

On October 17, 2005, the Postal Service filed with the Commission a Request for a Recommended Decision on Parcel Return Service ("Request"), in accordance with 39 U.S.C. §§ 3622 and 3623. The Postal Service proposed the creation of a permanent classification for Parcel Return Service, with attendant rates and fees, for certain parcels that are returns from customers to merchants and are picked up by merchants or their agents at the delivery unit or bulk mail center serving the customers' return location.

The Postal Service has been offering experimental Parcel Return Services since October 19, 2003, in accordance with the Commission's Recommended Decision Approving the Stipulation and Agreement in Docket No. MC2003-2 and the Governors' Decision of September 8, 2003, approving that recommendation. The experiment would have expired on October 19, 2005, absent this request to make the service permanent.

The Postal Service supported its Request with the written direct testimony of three witnesses. Witness Daniel (USPS-T-1) provided a review of the Postal Service's experience with the PRS experiment, projected volumes for FY 2006, and summarized the requested classification changes. Witness Miller (USPS-T-2) developed Test Year 2006 cost estimates for PRS. Witness Koroma (USPS-T-3) provided an analysis of the rates, fees, and classification language proposed for the permanent service. The Postal Service also provided proposed DMCS language (Attachment A), proposed Rate and Fee Schedules (Attachment B), the required financial certification (Attachment C), a list of testimonies (Attachment D), and a compliance statement (Attachment E).

As described in the testimony, the Postal Service concluded that the Parcel Return Service experiment has been successful with respect to Parcel Select, and thus seeks to maintain two rate categories as a permanent service offering: Parcel Select Return Delivery Unit (RDU) and Parcel Select Return Bulk Mail Center (RBMC).¹ The Bound Printed Matter Return Service, however, has not been used, and the Postal Service determined not to seek to make it permanent.

By Order No. 1447, issued on October 21, 2005, the Commission noticed the Postal Service's Request and designated the instant proceeding as Docket No. MC2006-1. The Commission gave interested parties until November 10, 2005, to intervene in the proceeding, and designated Shelley S. Dreifuss, the Director of its Office of the Consumer Advocate ("OCA"), to represent the general public. The Commission also designated Postal Service counsel as settlement coordinator and

¹ As was the case during the experiment, the RDU rate would be charged for parcels addressed to and captured at the post office identified on the return label. The RBMC rates would be charged when shippers pick up parcels at an RBMC.

suggested dates its hearing room could be used for a settlement conference in advance of the prehearing conference. The Commission also directed that, by the prehearing conference, participants needed to be prepared to identify any issue(s) that would indicate a need to schedule a hearing.

Eight parties intervened in this proceeding. A settlement conference was held on November 15, 2005, at which seven of the participants attended. At the prehearing conference on November 17, 2005, Postal Service counsel reported that none of those parties had expressed an intention to oppose a potential settlement, and that many of them expressed support for the proposals. At the prehearing conference, none of the parties expressed a belief that evidentiary hearings would be necessary.

On December 6, 2005, the Commission issued Order No. 1448, establishing a procedural schedule in anticipation of a possible settlement. The Commission directed the parties to complete discovery of the Postal Service's direct case on December 8, 2005. Discovery proceeded through that date, with almost fifty interrogatories being propounded on, and answered by, the Postal Service's witnesses and the Postal Service institutionally, in addition to seven questions answered in response to a Presiding Officer's Information Request ("POIR").

Following further discussions with interested parties, and In accordance with Order No. 1448, the Postal Service filed a Stipulation and Agreement on January 17, 2006,² and moved that it form the basis for the Commission's recommended decision. The Stipulation and Agreement included a non-substantive, clarifying revision of the originally proposed classification language. As had been indicated in the response to

² A minor, non-substantive erratum was filed on January 20, 2006.

OCA/USPS-T3-4, DMCS § 561 is revised to clarify that Certificates of Mailing are available for Parcel Return Service, consistent with what is provided in § 562.³ The availability of Certificates of Mailing is proposed as a new feature of PRS in order to meet a need that had been expressed by customers using the experimental service.⁴

Because the rates and fees proposed in this docket were the same as those then pending in the Postal Service's request in Docket No. R2005-1, and those rates were, in the interim, recommended by the Commission and have been implemented as of January 8, 2005, no rate or fee changes remain to be recommended at this time. Therefore, with the exception of the removal of the Bound Printed Matter Return Service rate schedule, the originally requested rate schedule changes are not included in the Stipulation and Agreement and need not be recommended by the Commission. A change in wording in Fee Schedule 1000 is needed to change "Parcel Return Services" to the singular.⁵

Six intervenors, along with the Postal Service and the OCA, have signed the Stipulation and Agreement.⁶ The Agreement, as filed, asks the Commission to recommend a permanent classification for the Parcel Return Service for approval by the Governors of the United States Postal Service. It bears emphasizing that the Agreement reflects the concurrence of the signatories that, for the purpose of this

³ A parenthetical was added to the first sentence of the section: "Package Services mail, except Parcel Select Return Service mail entered under sections 521.27 or 521.28 (which is eligible for Certificates of mailing only) will receive the following services upon payment of the appropriate fees: ..."

⁴ USPS-T-1, at 3; USPS-T-3, at 11.

⁵ See Notice of the United States Postal Service of Erratum to Stipulation and Agreement (January 20, 2006) for a corrected version.

⁶ David Popkin and the APWU have indicated to Postal Service counsel that they do not oppose the Stipulation and Agreement.

proceeding, the Postal Service's testimony and supporting documentation provide substantial record evidence sufficient to serve as the basis for the Commission's recommendations to the Governors. Stipulation and Agreement at ¶ 2.

The OCA and the Postal Service have designated direct testimonies and written cross-examination, and the Commission has designated the responses to the POIRs, supported by appropriate declarations, for inclusion in the evidentiary record. Order No, 1451, filed on January 13, 2006, closed the record in this docket. Order No. 1448 had set today's date as the deadline for the filing of briefs or comments on the proposed settlement.

II. The Commission Should Recommend the Settlement Agreement.

The changes set forth in the Stipulation and Agreement are fully supported in the record of this proceeding. The experiment demonstrated that PRS filled a need for both consumers and merchants.

Witness Daniel (USPS-T-1) reviewed the Postal Service's experience during the two years of the PRS experiment and projected volumes for FY 2006. Specifically, she testified that the market had embraced the service and that it had proven to be operationally feasible. USPS-T-1, at 2-4. She discussed how the service had evolved, and explained the modifications the Postal Service had made to improve operations and to make the service easier to use for participants and merchants. *Id.* at 4-5. Finally, witness Daniel pointed out that PRS volume had grown from 4.4 million parcels in FY 2004 to 8.8 million parcels in FY 2005, and she projected more growth, to 12.8 million pieces, in FY 2006. *Id.* at 3, 6-7.

Witness Miller (USPS-T-2) developed Test Year 2006 cost estimates for PRS, estimating cost avoidances for both Parcel Select Return Bulk Mail Center service and Parcel Select Return Delivery Unit service. USPS-T-3, at 1. After analyzing six categories of costs, he provided PRS until cost savings estimates vis-à-vis the intra-BMC parcel post benchmark. *Id.* at 6.

Witness Koroma (USPS-T-3) provided an analysis of the rates, fees, and classification language proposed for the permanent service. Specifically, he noted that he was proposing to maintain the current rate structures, including flat-rate pricing for regular-sized RDU, and was proposing the same rates and fees and those already pending in Docket No. R2005-1. USPS-T-3, at 4. Based on witness Miller's cost savings, witness Koroma calculated implicit passthroughs. *Id.* at 8. He calculated the total revenue impact and pointed out that the PRS should not materially alter Parcel Post's contribution to institutional costs relative to other subclasses. *Id.* at 9. Finally, he discussed the specific classification changes proposed and how PRS satisfies the applicable statutory criteria. *Id.* at 9-12.

Based on this record, the Postal Service believes that the proposed classifications will further the general policies of efficient postal operations and reasonable rates and fees enunciated in the Postal Reorganization Act. See 39 U.S.C. §§ 101(a), 403(a), and 403(b). The requested changes also conform to the criteria of 39 U.S.C. § 3623(c). See USPS-T-3, at 9-11. The proposed classifications will further the general policies of efficient postal operations and reasonable rates and fees enunciated in the Postal Reorganization Act. See 39 U.S.C. §§ 101(a), 403(a), and 403(b).

III. Conclusion

For these reasons, the Postal Service believes that it is appropriate for the Commission to issue an Opinion and Recommended Decision recommending the proposed changes in the classification, rate, and fee schedules for Parcel Return Service contained in the Stipulation and Agreement. These proposals meet the criteria of the Postal Reorganization Act, are fully supported in the record of this proceeding, and are supported by all participants who have taken a position on the settlement agreement.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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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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January 23, 2005