

DOCKET SECTION

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

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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
WITNESS MOELLER (USPS-T-36) TO QUESTION POSED BY
RECORDING INDUSTRY ASSOCIATION OF AMERICA
AT OCTOBER 10, 1997 HEARING

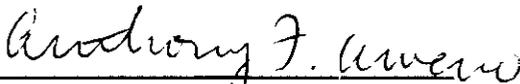
The United States Postal Service hereby provides the response of witness Moeller (USPS-T-36) to a question posed by Recording Industry Association of America at the hearing for witness Moeller on October 10, 1997 (Tr. 6/3094-96). The question is paraphrased and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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October 30, 1997

RESPONSE OF U.S. POSTAL SERVICE WITNESS MOELLER
TO QUESTION POSED AT HEARING

QUESTION: Witness Moeller was asked to clarify the extent to which the residual shape surcharge would apply to pieces that are prepared as parcels. (Tr. 6/3094-96).

RESPONSE:

The residual shape surcharge is proposed to apply to pieces that do not meet the dimensional criteria in DMM C050 Exhibit 2.0 of a letter or a flat,¹ or are prepared according to guidelines specifically for parcels. Some flats also meet the definition of a machinable parcel. For instance, a piece having dimensions of 6 in. (h) x 11 in. (l) and 0.5 in. (t) meets the dimensional criteria of a flat size piece, as well as the dimensional criteria of a machinable parcel (provided it meets the minimum weight requirements).² Under current regulations, a mailer preparing pieces having such "overlapping" dimensions has two options:

1. Declare the pieces to be flats, and sort them according to presort destination, i.e., 5-digit, 3-digit, ADC, and mixed ADC, as prescribed by DMM M610.5.7.
2. Declare the pieces to be machinable parcels, and sort them as prescribed by DMM M610.6.2, i.e., optional 5-digit, destination BMC, and mixed BMC.

¹ It should also be noted that, to be defined as a flat, a piece only needs to exceed *one* of the dimensional minimums in section C050.3.1, as well as stay within the maximum dimensions.

² DMM C050.4.3 authorizes BMC managers to permit mailers of pieces that do not meet the dimensional criteria of machinable parcels under DMM Exhibit C050.2.0 to prepare such pieces as if they met the definition of machinable parcels, if such pieces can, in the discretion of the BMC manager, be successfully processed on BMC parcel sorters.

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Under current preparation requirements, a mailer may prefer option 2, because the required presort for machinable parcels is easier due to the fewer separations required and the fact that machinable parcels are not packaged prior to sacking. Thus, instead of sorting pieces to 5-digit, 3-digit, ADC, and Mixed ADC packages and then placing those packages in 5-digit, 3-digit, ADC, and Mixed ADC sacks, the mailer need only sack mail to 21 BMCs, and place remaining pieces in a Mixed BMC sack. Machinable parcels may also be sorted to 5-digit sacks prior to preparing BMC sacks if the mailer desires to qualify for the 3/5-digit rates. Some mailers find machinable parcel preparation advantageous, because, as stated in the DMA Washington Report for January 1997 (www.the-dma.org/home_pages/home-jan97wr.html), see Tr. 7/3166 and attachment to this response, they can avoid the higher mail preparation costs of flats. This Report also includes the suggestion that mailers can avoid the surcharge by preparing small parcels as flats. It should be noted that the DMA Washington Report was posted on the web in reaction to parcel classification reform and *prior* to the filing of Docket No. R97-1 that contained the clarifying phrase “[or] prepared as a parcel” in the classification language. Given this, it is evident that mailers were apparently anticipating that pieces prepared as machinable parcels (regardless of whether they also met the flat criteria) would be subject to the surcharge.

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Since there are pieces which meet the dimensional criteria of a flat, but are prepared and entered as machinable parcels, the scope of the classification language for the residual shape surcharge includes the phrase "is prepared as a parcel" so that any overlapping pieces would be subject to the surcharge if they are entered as parcels, instead of flats. The language as proposed will also simplify administration of acceptance and verification in that all pieces prepared as parcels would be subject to the surcharge, not just the ones that could not also be defined as flats. The language also makes intuitive sense in that a piece prepared as a parcel will be handled similarly to the "nonoverlapping" shaped pieces subject to the surcharge.

Adoption of the requested classification language does not change the options available to mailers of overlapping-shaped pieces. Mailers of such pieces could continue to take advantage of the easier presortation requirements; however, if they do so, such pieces will be subject to the surcharge. If mailers of overlapping shaped pieces wish to avoid the surcharge, they can prepare overlapping shaped pieces as flats. In either event, the customer chooses the option which best suites his or her unique needs.

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The proposed language is intended to create consistency between rate eligibility and preparation requirements. DMM section C050.4.4³ is similar in purpose in that pieces categorized for rate purposes as flats in order to take advantage of the flat barcode discounts, for example, cannot take advantage of the machinable parcel preparation requirements.

³ DMM C050.4.4 provides that: "Items categorized as flats, irregular parcels, or outside parcels may not be prepared as machinable parcels."

ATTACHMENT TO RESPONSE OF U.S. POSTAL SERVICE WITNESS MOELLER TO
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DMA V ashington Report

http://www.the-dma.org/home_pages/home-jan97wr.html

dropped slightly for the accounting period (down 2.6% from the same period last year), and it's completely flat for the year. Year-to-date, First-Class mail is only 50% of total mail volume and 58% of total revenue.

Standard (A) mail is up to 41% of total volume and 23% of total revenue for Accounting Period 3, which is an increase over the same period last year but a drop from the year-to-date numbers (43% and 25% respectively). These numbers suggest a future in which Standard mail could be forced to pay an ever-increasing share of postal overhead.

PARCELS RECLASS CASE WILL CREATE SURCHARGE PROBLEM

The Governors of the Postal Service have approved filing the Parcels Reclassification Case, which will include a ten-cent surcharge for all Standard (A) parcels. According to the USPS, parcels under one pound cost the Postal Service .30 more to process per parcel than letters and flats, and the surcharge is intended to offset this differential.

Surcharge May Be Avoidable

Some parcel mailers may, however, be able to avoid the surcharge by mailing their smaller parcels as flats. Small machinable parcels can currently be mailed as flats, but existing physical size requirements are tight. For instance, "Rigid Flats" must be able to negotiate a curved conveyor belt on current flats sorting machines, which means they must fit between two concentric arcs with radii of 15.72 and 16.72 inches: if a parcel is 0.75 inches thick, its length must be less than six inches to fit within the arcs - an impractical requirement.

New Flats Sorters Should Help

However, the FSM-1000 Flats Sorting Machines now being deployed by the USPS reduce the minimum and increase the maximum allowable dimensions of flats and remove turnability and rigidity requirements as well. The new machine will handle pieces from 4" x 4" x 0.007" to 15-3/4" x 12" x 1-1/4"; the maximum weight of a Flat will rise to six pounds. Therefore some pieces now mailed as Standard (A) parcels will more easily qualify as flats.

Avoiding a potential parcel surcharge comes at the price of higher mail preparation costs. Machinable parcels currently need to be sorted only to Bulk Mail Centers; obtaining the 3/5-digit discount requires first preparing all possible five-digit containers. Current flats preparation requires a more complicated 5-digit, 3-digit, AADC, and mixed AADC sort. Consequently savings from avoiding a parcel surcharge may be diminished by increased preparation costs.

Nonetheless, the deployment of FSM-1000 machines, scheduled for completion in August of 1998, is good news for mailers of heavier Standard (A) pieces, especially parcels.

SMALL FLATS TEST RESULTS MOSTLY GOOD

The Postal Service has released preliminary test results, and the results are encouraging for all but slim-jims. The tests have identified a number of

DECLARATION

I, Joseph D. Moeller, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.


JOSEPH D. MOELLER

Dated: October 30, 1997

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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