

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

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POSTAL RATE AND FEE CHANGES

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Docket No. R2006-1

DIRECT TESTIMONY  
OF  
RACHEL TANG  
ON BEHALF OF  
UNITED STATES POSTAL SERVICE

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**Autobiographical Sketch**

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4 My name is Rachel Tang. I am an economist in the Pricing office at the United  
5 States Postal Service. Prior to joining the Postal Service in January, 2003, I was  
6 employed by Columbia Energy Group (CEG) in Herndon, VA, from 1998 to 2000. At CEG,  
7 I was a senior analyst in Risk Management. My responsibilities there included structuring,  
8 implementing, monitoring, and evaluating various risk management programs. From 2001  
9 to 2002, I was an independent business consultant to Sino-US Commercial Group and  
10 Chase Merchant Services, LLC.

11 This is the second time I am testifying before the Postal Rate Commission. I  
12 testified in Docket No. C2004-1 about the impact of the Periodicals rate redesign  
13 proposed by Time Warner, Inc. et al. I advocated a balanced approach in Periodicals  
14 rate design to improve efficiency without sacrificing the broad diversity of editorial content.

15 I received a Master's Degree in Industrial Administration from Carnegie Mellon  
16 University in Pittsburgh, PA, in 1998, and a Bachelor's Degree of Science in Business  
17 Administration with honors from City University of New York in Queens, NY.

18

## 1 I. Purpose and Scope of Testimony

2 The purpose of my testimony is to present the proposed rates and classification  
3 changes for Periodicals. My testimony presents rates for the Outside County and Within  
4 County subclasses of Periodicals, as well as for Science of Agriculture. Rates are  
5 developed based on cost data from various cost witnesses, statutory requirements, and  
6 the rate level requirements developed by witness O'Hara (USPS-T-31). I also propose  
7 classification changes to support a new container rate for both Outside County (DMCS  
8 421.35) and Science of Agriculture (DMCS 422.42) subclasses. The proposed elimination  
9 of the regular and dropship pallet discounts also require Domestic Mail Classification  
10 Schedule (DMCS) changes, the elimination of DMCS 421.48 and 421.49.

## 11 II. Guide to Testimony and Supporting Documentation

12 I develop my pricing analysis using inputs from the following witnesses in this case:  
13 witness Thress (USPS-T-7) provides test year before rates volumes (USPS-LR-L-66);  
14 witness Waterbury (USPS-T-10) provides rollforward costs (USPS-LR-L-7); witness Miller  
15 (USPS-T-20) provides flats mail processing costs; witness Mayes (USPS-T-25) provides  
16 Periodicals dropship costs; witness Talmo (USPS-T-27) provides mail processing costs;  
17 and witness Loetscher (USPS-T-28) provides the Periodicals Mail Characteristics Study,  
18 in USPS-LR-L-91.

19 My financial analysis is provided to witness O'Hara (USPS-T-31).

20 My testimony begins with an overview of the proposals and then addresses the  
21 subclasses individually. My Microsoft Excel spreadsheets provide a guide to replicate the  
22 proposals in this testimony. Hard copy and electronic versions of these worksheets are

1 included in library reference L-126, which I sponsor. These spreadsheets use data from a  
2 number of witnesses identified above and from library reference L-77 (FY2005 Billing  
3 Determinants).

4 **III. Overall Rate Increases and Cost Coverages**

5 In this docket witness O'Hara proposes a moderate cost coverage for Periodicals.  
6 The overall cost coverage for Periodicals (after removing revenue for the five percent  
7 Nonprofit and Classroom discounts) is proposed to be 106.3 percent. The Outside  
8 County cost coverage (after removing revenue for the preferred discounts) is proposed to  
9 be 106.4 percent. The Within County cost coverage is proposed to be 103.6 percent.

10 **Table 1 TYAR Cost Coverage Summary**  
11

	Revenue	Fees	Total Revenue	Cost	Revenue as a Percent of Cost
Outside County	\$ 2,375,166,856	\$ 19,159,320	\$ 2,394,326,176	\$ 2,250,111,030	1.064
Within County	\$ 80,687,773	\$ 1,666,370	\$ 82,354,143	\$ 79,517,168	1.036
Total Periodicals	\$ 2,455,854,629	\$ 20,825,690	\$ 2,476,680,319	\$ 2,329,628,199	1.063

12  
13

14 Based upon the above cost coverages, the proposed overall increase for  
15 Periodicals is 11.9 percent. Outside County rates would increase by 11.7 percent, while  
16 Within County rates would increase by 24.2 percent.

17 Table 2 presents the calculation of test year revenues per piece before the  
18 proposed change.

19 **Table 2 Revenue per Piece - TYBR**

	Revenue, Including Fees	Pieces	Revenue Per Piece
Outside County	\$ 2,218,219,629	8,332,198,836	\$ 0.266
Within County	\$ 68,296,222	722,431,237	\$ 0.095
Total Periodicals	\$ 2,286,515,851	9,054,630,073	\$ 0.253

20

1 Table 3 presents the calculation of test year after rates (TYAR) revenue per piece.  
2 A comparison of TYBR and TYAR revenues per piece provides the average increases for  
3 the subclasses, as well as the whole Periodicals class.

4 **Table 3 Revenue per Piece – TYAR and Percent Increase**

	Revenue, Including Fees	Pieces	Revenue Per Piece	Percent Change
Outside County	\$ 2,394,326,176	8,049,954,276	\$ 0.297	11.65%
Within County	\$ 82,354,143	700,139,698	\$ 0.118	24.21%
Total Periodicals	\$ 2,476,680,319	8,750,093,974	\$ 0.283	11.86%

6 Table 4 below shows the cost coverage for the Outside County subclass prior to  
7 applying the discounts for the Nonprofit and Classroom rate categories. This cost  
8 coverage of 107.0 is used as a benchmark to determine the cost coverage for Within  
9 County. Following the statutory requirement that Within County's markup be half this high,  
10 the resulting cost coverage for Within County is 103.6 percent.

11 **Table 4 Outside County Cost Coverage Prior to Nonprofit & Classroom**  
12 **Discounts**  
13

Revenue After Discounts	\$ 2,375,166,856
Nonprofit and Classroom Discounts	\$ 18,016,075
Revenue Before Discounts	\$ 2,393,182,932
Fees	\$ 19,159,320
Total Revenue Before Discounts	\$ 2,412,342,252
Cost	\$ 2,250,111,030
Cost Coverage Before Discounts	1.072

14 **IV. Outside County Rate Design**  
15

16 I propose several changes to the rate design for the Outside County subclass.  
17  
18 First, the proposed rate design includes a new container rate, established in a proposed

1 DMCS 421.35. This container rate would apply to any sack or pallet that contains  
2 Periodicals mail. This container rate would replace the co-palletization experiment  
3 discounts, along with the pallet discounts on the piece side of the rate chart, both regular  
4 and destination-entry. The container rate will replace these discounts. Finally, the Postal  
5 Service is proposing to extend the dropship discounts to editorial content.

6 Consistent with these proposed rate design changes I propose to delete DMCS  
7 421.48 (Pallet Discount) and DMCS 421.49 (Dropship Pallet Discount). DMCS 421.50  
8 (Co-palletization Dropship Discounts) will expire upon the implementation of the  
9 proposals in this rate case.

10 My discussion of Outside County rate design will begin with the container rate.

#### 11 **A. Container Rate**

12 Issues relating to improving Periodicals efficiency and alleviating pressure on  
13 Periodicals processing costs caused by inefficient mail preparation have been discussed  
14 and addressed in various forms, including the Periodicals Complaint case (Docket No.  
15 C2004-1), and the on-going co-palletization experiments (Docket Nos. MC2002-3 and  
16 MC2004-1). The Postal Service has worked closely with the Periodicals community to  
17 tackle bundle integrity issues, move mail pieces from sacks onto pallets, and to enter mail  
18 closer to its destination.

19 In its Order Addressing Complaint of Time Warner et al. (Docket No. C2004-1), the  
20 Commission encourages the Postal Service to "... progress toward a more cost-based  
21 [Periodicals rate] structure ..." (Order No. 1446, C2004-1, page 6). To achieve this  
22 progress, the Postal Service now proposes a flat rate of 85 cents to be applied to each  
23 sack or pallet containing Periodicals mail. Since a typical pallet contains more Periodicals

1 pieces than a typical sack, mailers will pay lower container charges if they palletize  
2 instead of sack their mail. This rate thus would send an appropriate price signal to  
3 encourage better mail preparation, benefiting the entire Periodicals community. More  
4 efficient mail preparation, together with more worksharing, will contain Periodicals  
5 processing costs and keep rapid rate increases at bay.

6         Witness Loetscher's (USPS-T-28) Periodicals Mail Characteristics Study (USPS-  
7 LR-L-91) provides the container data used to develop the container rate. Data on  
8 containers and the related flats volume, broken down by Periodicals subclass, are not  
9 available. Instead, aggregate numbers of sacks, pallets, and flats are used. The FY2005  
10 Periodicals Billing Determinants provide mail volumes for the Periodicals subclasses, so  
11 the distribution of flats volume is used to estimate the container numbers by subclass.  
12 Meanwhile, a slight adjustment is also made to reconcile data from USPS-LR-L-91 with  
13 the Billing Determinants numbers, since they are collected and compiled via different  
14 systems. See USPS-LR-L-126, sheet "Container".

15         In order to properly estimate the revenue generated by the container rate, I  
16 assume that the mail preparation rule governing sacks containing fewer than 24 pieces  
17 (effective May 2006) drives mailers to eliminate approximately 65 percent of these small  
18 sacks in the test year.

19         As a result, I estimate that there will be 50,963,695 containers generating total  
20 container rate revenue of \$43,319,140.

21         The Periodicals Mail Characteristics Study data show that an average pallet  
22 contains 1641.64 Periodicals pieces, while an average sack has 41.64 pieces. USPS-LR-

1 L-123 "Container" worksheet. Since there is no historical or future forecast on pieces per  
2 containers, I use these pieces per container numbers for the test year in my rate design.

3 If the container rate were allocated to each mail piece within an average sack or  
4 pallet, each piece on a pallet would bear \$0.001, while each piece in a sack would bear  
5 \$0.02. The differential of \$0.019 is higher than the per-piece destination entry pallet  
6 discount of \$0.016, and much higher than the per-piece non-destination pallet discount of  
7 \$0.005, whose removal I will propose and discuss later in the Piece Rates section of my  
8 testimony.

9 The proposed container rate would provide several benefits. First, it would  
10 encourage customers to move toward more efficient containerization, such as from sacks  
11 to pallets when appropriate. Second, it would encourage better use of existing containers.  
12 The more pieces placed in a container, the lower the container charge per piece. Finally,  
13 the container rate would replace the co-palletization discounts. The co-palletization  
14 experiments have shown that, even with substantial limitations, co-palletization is  
15 desirable and possible for many customers. The Postal Service believes it is now  
16 appropriate to lift these limitations and encourage all Periodicals to share pallets or sacks  
17 as appropriate. The Postal Service has elected one single container rate. This rate would  
18 be relatively easy to implement and underscores the importance of materials handling  
19 efficiency.

## 20 **B. Pound Rates**

### 21 ***1. Piece Pound Split***

22 I propose a 37.5 - 62.5 split between revenue to be raised from pounds and pieces.  
23 This slight deviation from the traditional 40 - 60 split is moving towards the long-observed

1 trend that the piece side contributes more than 60 percent of mail processing and delivery  
2 costs. See R2000-1, USPS-T-28, pages 18-19b. The Postal Service believes this design  
3 better reflects actual cost incurrence.

## 4 **2. Additional Dropship Rates**

5 The Postal Service is proposing separate editorial pound dropship rates for the  
6 destinating ADC, SCF and DDU. Zones 1 & 2 through Zone 8 would continue to have a  
7 uniformed unzoned editorial pound rate, except for Science of Agriculture, whose  
8 uniformed unzoned editorial pound rate would apply to Zone 3 through Zone 8.

9 The editorial pound dropship rates are designed not only to provide further  
10 incentives for dropshipping mail, but also to mitigate the Periodicals rate increase. As  
11 witness Taufique (R2001-1, USPS-T-34, page 5) has stated "[t]his treatment of the  
12 editorial pound rate provides the appropriate balance between economics and social  
13 policy objectives alluded to in the Commission's Opinion in Docket No. R90-1 (pages V-  
14 118 to V-120)". As in Docket No. R2001-1, my proposal addresses the importance of  
15 dissemination of information by recognizing and preserving the Educational, Cultural,  
16 Scientific and Informational (ECSI) value of Periodicals, while sending more correct price  
17 signals to the Periodicals community.

18 In its Order resolving Docket No. C2004-1, the Commission stated that:

19 Witness Taufique's R2001-1 proposal represented  
20 something between current flat editorial rate and the full  
21 zoning of editorial pounds. There are other approaches  
22 as well, including implementing certain components and  
23 not others. As discussed elsewhere, the Commission  
24 continues to search for a balance between recognizing  
25 the importance of editorial material in the rate structure  
26 on the one hand and encouraging efficiency on the other  
27 hand."

1 Order No. 1446, page 42.  
2

3 Just as it is important to encourage the dissemination of editorial content  
4 throughout the country, it is also important to allow such content to share in the efficiency  
5 associated with deposit of the mail closer to the point of delivery. The Postal Service does  
6 not believe that such efficient preparation of Periodicals should be discouraged in the rate  
7 design. Simply stated, high editorial content publications should not be discouraged  
8 through rate design from dropshipping. This proposal should not be considered in  
9 isolation. Coupled with the container rate, it is designed to encourage publications,  
10 including those with high editorial content, to both dropship and palletize frequently in  
11 concord with others. The end result would be vastly improved materials handling costs for  
12 Periodicals and opportunities to greatly reduce the impact of the rate increase. Moreover,  
13 it does so with the impact on small mailers in mind. In fact, some small customers,  
14 without changing their mailing profiles, would fare better than their larger counterparts.

### 15 ***3. Factors in Designing Editorial and Non-Editorial Pound Rates***

16 Revenues derived from advertising and editorial pounds are calculated based on  
17 FY 2005 Billing Determinants. Rates are designed so that 48.8 percent of pound revenue  
18 is derived from advertising pounds, while 51.2 percent comes from editorial (non-  
19 advertising) pounds. In order to make sure that the ECSI value from editorial pounds is  
20 recognized and reflected in rate design, an adjustment of \$0.013 is applied to the average  
21 editorial pound rate. The revenue leakage cause by this adjustment is added back to the  
22 total revenue required from the pound side and allocated to both the editorial and  
23 advertising sides.

1           One of the goals of the Postal Service's proposal is to maintain or increase the  
2 current difference between dropship rates (DDU, DSCF & DADC) and the farther zones  
3 such as Zones 7 and 8. The allocation of transportation costs between advertising and  
4 editorial pounds can be done using the same ratio as the one used for the allocation of  
5 revenue, i.e. 48.8 percent advertising and 51.2 percent editorial. However, I have chosen  
6 to allocate 50 percent of the transportation costs to advertising pounds because doing so  
7 increases the difference between dropship rates and farther zones, and thereby improves  
8 the incentives for dropshipping Periodicals mail closer to the destination.

9  
10           Finally, in addition to the aforementioned \$0.013 adjustment to the editorial pound  
11 rates to mitigate the impact, I propose to raise the 50 percent passthrough to 80 percent  
12 for the rate differentials derived for advertising pound rates. The flat editorial pound rate  
13 applies to all editorial pounds that are not dropshipped to the destinating ADC, SCF, or  
14 DDU (for Science of Agriculture, it applies to all editorial pounds that are not dropshipped  
15 to DADC, DSCF, DDU, or zones 1&2). This flat editorial pound rate increases by 14.29  
16 percent, less than three percentage points above the average increase. Through this rate  
17 design, the Postal Service believes that mailers, both large and small, would have the  
18 potential to move significant volume of mail to destinating facilities.

19           The introduction of the editorial pound dropship uses FY 2005 editorial pound  
20 distribution data from USPS-LR-L-87, Table 6, sponsored  
21 by witness Loetscher. These are the best data available to derive distance-related  
22 editorial pounds distribution information, though they are not further broken down to the

1 Periodicals subclasses. Slight adjustment has been employed to make the data  
2 consistent with the billing determinants data.

#### 3 ***4. Other Elements in Designing Pound Rates***

4 For other elements of Periodical pound rate design, I propose to continue the  
5 traditional ratemaking practices established in previous rate cases. The use of average  
6 haul, the calculation of pound miles to allocate distance-related transportation cost, and  
7 the allocation of residual revenue requirement on a per pound basis have remained the  
8 same. Science of Agriculture pound rates for the nearer zones including DDU, DSCF,  
9 DADC, and zones 1 & 2 are based on 75 percent of the pound rates developed for  
10 Outside County. The non-advertising or editorial pound rates for Science of Agriculture  
11 are separately estimated and proposed in this proceeding, also at 75 percent of the  
12 comparable Outside County rates. This approach deviates from past practices but is  
13 consistent with the introduction of destination entry rates for other non-advertising pounds.

#### 14 **C. Piece Rates**

15 The proposed piece rate design includes the elimination of pallet discounts  
16 (destination and non-destination entry) and the co-palletization experiment discounts. I  
17 also propose to increase per-piece dropship discounts and to increase certain  
18 passthroughs in developing piece rates. I will start the discussion with the elimination of  
19 the per-piece pallet discounts and co-palletization discounts.

#### 20 ***1. Per-Piece Pallet Discount and Co-Palletization Discounts***

21 The Postal Service has been working closely with the Periodicals industry to  
22 contain costs and improve Periodicals efficiency. In terms of rate design, we want to send

1 the right pricing signal to encourage better mail preparation and more worksharing, be it  
2 the per-piece pallet discounts or per-piece dropship discounts. The Postal Service has  
3 also worked to develop a way for smaller-circulation publications to be combined and  
4 prepared in the more efficient manner normally associated with larger circulation mailings.

5 Basically, the per-pallet discounts and the discounts offered by co-palletization  
6 experiments share the same purpose: to encourage better mail preparation and promote  
7 more worksharing. To permanently admit these pricing signals into Periodicals rate  
8 structure as well as to simplify the rate chart, I propose replacing the per-piece pallet  
9 discounts and the experimental co-palletization discounts with a combination of the  
10 introduction of editorial pound dropship rates, the increased per-piece dropship discounts,  
11 and the container rate discussed above in the pound rate section. An assessment of the  
12 impact makes me expect that mailers would have comparable if not better incentives  
13 under these proposals. Moreover, the elimination of both the restrictions on the qualifying  
14 co-palletization publications, and the documentation requirements, in the co-palletization  
15 experiments, will expand the pool of publications participating in co-palletization.

## 16 ***2. Dropship Discounts***

17 The non-transportation related (handling) cost savings form the basis of the per-  
18 piece dropship discounts. I am proposing to increase the DADC discount from \$0.002 to  
19 \$0.003 and the DSCF discount from \$0.008 to \$0.011, while maintaining the DDU  
20 discount at the current level of \$0.019.

21 In this docket I propose to continue splitting the non-transportation costs equally  
22 between pieces and pounds. I believe the proposed dropship discounts for editorial  
23 content should go a long way in sending correct signals for the dropship decision, while

1 mitigating the impact on those who may not be able to take advantage of these incentives.  
2 Meanwhile, the Postal Service also would like to encourage those who have been  
3 dropshipping to continue depositing mail closer to the point of delivery.

### 4 **3. Presort Tiers**

5 The proposed 3-digit and 5-digit presort rates reflect witness Miller's mail  
6 processing and witness Kelly's and witness Talmo's delivery cost studies, using 100  
7 percent passthroughs. The 3-digit non-automation rate increases from 34.1 to 36.4 cents,  
8 a 6.7 percent increase, while the 5-digit non-automation rate increases from 27.0 to 28.3  
9 cents, a 4.8 percent increase.

10 The Postal Service believes that presortation to the 5-digit automation flat and  
11 carrier route basic levels will continue to have value in future mail processing and delivery  
12 environments. I therefore propose to maintain these discounts at their current levels, by  
13 increasing the passthroughs to 899 percent and 148 percent, respectively. Maintaining  
14 the level of these discounts is important while the operational environment of the  
15 automated sorters of flats continue to evolve. While Optical Character Readers (OCRS)  
16 have reduced the value of barcodes, plans for processing flats, including delivery point  
17 sequencing and the Flats Sorting System (FSS), may make a slightly different (11-digit)  
18 barcode more valuable in the long run. Moreover, providing significant incentives also  
19 serves the purpose of mitigating the rate increase and retaining the hard-won presortation  
20 and barcoding by mailers.

21 Table 5 below presents a comparison of Outside County rates and percent  
22 changes. Nonprofit and Classroom rate categories use the same schedule but receive a 5  
23 percent discount on all postage except for advertising pounds and ride-along postage.

1 **Table 5 Outside County Current vs. Proposed Rates**

Regular Rate	Current Rate	Proposed Rate	Percent Change
<b>Advertising Pounds</b>			
Destinating Delivery Unit	\$ 0.167	\$ 0.181	8.38%
Destinating SCF	\$ 0.214	\$ 0.230	7.48%
Destinating ADC	\$ 0.235	\$ 0.251	6.81%
Zones 1&2	\$ 0.261	\$ 0.279	6.90%
Zone 3	\$ 0.281	\$ 0.301	7.12%
Zone 4	\$ 0.332	\$ 0.358	7.83%
Zone 5	\$ 0.410	\$ 0.444	8.29%
Zone 6	\$ 0.491	\$ 0.535	8.96%
Zone 7	\$ 0.589	\$ 0.644	9.34%
Zone 8	\$ 0.672	\$ 0.738	9.82%
<b>Editorial Pounds</b>			
Destinating Delivery Unit	\$ 0.203	\$ 0.154	-24.14%
Destinating SCF	\$ 0.203	\$ 0.193	-4.93%
Destinating ADC	\$ 0.203	\$ 0.210	3.45%
Editorial Pound Rate (All other Zones)	\$ 0.203	\$ 0.232	14.29%
<b>Science of Agriculture</b>			
<b>Advertising Pounds</b>			
Destinating DDU	\$ 0.125	\$ 0.136	8.80%
Destinating SCF	\$ 0.160	\$ 0.172	7.50%
Destinating ADC	\$ 0.176	\$ 0.188	6.82%
Zones 1 & 2	\$ 0.196	\$ 0.209	6.63%
<b>Nonadvertising</b>			
Destinating DDU	\$ 0.203	\$ 0.115	-43.35%
Destinating SCF	\$ 0.203	\$ 0.144	-29.06%
Destinating ADC	\$ 0.203	\$ 0.157	-22.66%
Zones 1 & 2	\$ 0.203	\$ 0.174	-14.29%
<b>Presort Rate Pieces</b>			
BASIC NON-AUTOMATION	\$ 0.393	\$ 0.437	11.20%
BASIC AUTOMATION LETTER	\$ 0.296	\$ 0.333	12.50%
BASIC AUTOMATION FLAT	\$ 0.343	\$ 0.398	16.03%
3-DIGIT NON-AUTOMATION	\$ 0.341	\$ 0.364	6.74%
3-DIGIT AUTOMATION LETTER	\$ 0.262	\$ 0.278	6.11%
3-DIGIT AUTOMATION FLAT	\$ 0.298	\$ 0.327	9.73%
5-DIGIT NON-AUTOMATION	\$ 0.270	\$ 0.283	4.81%
5-DIGIT AUTOMATION LETTER	\$ 0.206	\$ 0.214	3.88%
5-DIGIT AUTOMATION FLAT	\$ 0.238	\$ 0.255	7.14%
CARRIER ROUTE BASIC	\$ 0.172	\$ 0.186	8.14%
CARRIER ROUTE HIGH DENSITY	\$ 0.138	\$ 0.162	17.39%
CARRIER ROUTE SATURATION	\$ 0.118	\$ 0.131	11.02%
PERCENTAGE EDITORIAL DISCOUNT	\$ (0.078)	\$ (0.089)	14.10%
WKSHARING DISCNTDELIVERY OFFICE ENTRY	\$ (0.019)	\$ (0.019)	0.00%
WKSHARING DISCNT SCF ENTRY	\$ (0.008)	\$ (0.011)	37.50%
WKSHARING DISCNT ADC ENTRY	\$ (0.002)	\$ (0.003)	50.00%
RIDE-ALONG PIECE	\$ 0.131	\$ 0.155	18.32%
CONTAINER RATE	N/A	\$ 0.850	N/A

2

1                   **4. Ride-Along Pieces**

2                   In FY2005, the volume growth of ride-along pieces slowed from the strong growth  
3 trend in FY 2001 through FY 2004. In this docket, instead of developing a separate  
4 volume forecast for ride-along pieces, I choose to follow the volume forecast for the  
5 overall Periodicals class. The rate increase for ride-along pieces follows the original  
6 methodology which was used when the ride-along per-piece rate was introduced – using  
7 the Zone 8 advertising pound rate on a 3.3 ounce piece, which yields a rate of \$0.152. In  
8 order to keep the Periodicals cost coverage at a moderate yet acceptable level, the ride-  
9 along piece rate is adjusted to \$0.155, which should not have a large impact on other  
10 Periodicals rates, and would still be cheaper than alternatives for mailing advertising  
11 materials.

12                   **V. Within County**

13                   Within County rate design essentially has not changed from the previously  
14 established practice of the Commission and the Postal Service. The Within County cost  
15 coverage, which is half of the Outside County (pre-discount) cost coverage, ends up at  
16 103.6 percent. The proposed overall increase is 24.2 percent. That result is higher than  
17 the increase for the Outside County subclass because of different Within County costs,  
18 and is balanced by the rate reduction for Within County in Docket No. R2005-1. Within  
19 County discounts are generally based on cost avoidance derived for the Outside County  
20 subclass with appropriate passthroughs. Table 6 below presents a comparison of  
21 proposed versus current Within County rates.

1 **Table 6 Within County Current vs. Proposed Rates**

Pounds	Current Rates	Proposed Rates	Percent Change
Delivery Unit	\$ 0.109	\$ 0.142	30.28%
General	\$ 0.142	\$ 0.179	26.06%
Pieces			
BASIC NON-AUTOMATION	\$ 0.103	\$ 0.117	13.59%
BASIC AUTOMATION LETTER	\$ 0.049	\$ 0.057	16.33%
BASIC AUTOMATION FLAT	\$ 0.075	\$ 0.108	44.00%
3-DIGIT NON-AUTOMATION	\$ 0.095	\$ 0.108	13.68%
3-DIGIT AUTOMATION LETTER	\$ 0.047	\$ 0.050	6.38%
3-DIGIT AUTOMATION FLAT	\$ 0.071	\$ 0.097	36.62%
5-DIGIT NON-AUTOMATION	\$ 0.085	\$ 0.098	15.29%
5-DIGIT AUTOMATION LETTER	\$ 0.045	\$ 0.051	13.33%
5-DIGIT AUTOMATION FLAT	\$ 0.065	\$ 0.093	43.08%
CARRIER ROUTE BASIC	\$ 0.049	\$ 0.060	22.45%
CARRIER ROUTE HIGH DENSITY	\$ 0.033	\$ 0.044	33.33%
CARRIER ROUTE SATURATION	\$ 0.027	\$ 0.032	18.52%
WKSHARING DISCNTDELIVERY OFFICE ENTRY	\$ (0.006)	\$ (0.008)	33.33%
RIDE-ALONG PIECES	\$ 0.131	\$ 0.155	18.32%

3 **VI. DMCS Changes**

I propose adding “and may be reduced by applicable destination entry discounts” to the end of the first sentence in DMCS 421.2, consistent with my proposal to make dropship discounts apply to the nonadvertising portion of Outside County subclass mail.

I propose to add “and Container” in DMCS 421.3, between “Piece” and “Rates,” and to add the following new section, consistent with my proposal for a new container rate:

4 **“421.35 Container Rate.** The container rate applies to each container in which  
5 Outside County subclass mail is presented, as specified by the Postal  
6 Service.”  
7

I also propose adding a reference to the container rate in DMCS 422.42, on Science of Agriculture rates, along with changing “Mail” to mail in the third line of that section. I also fix an omission by adding “DADC” after “DSCF” in this section.

1 **“422.42 Rates.** Science of Agriculture mail is subject to pound rates, piece rates, the  
 2 container rate, and piece rate discounts (except for the discount set forth in  
 3 section 421.47) for Outside County Periodicals Mail, except for DDU, DSCF,  
 4 DADC, and Zone 1 & 2 pound rates. Rates for Science of Agriculture are set  
 5 forth in Rate Schedule 421.

Finally, I propose to delete DMCS 421.48 and 421.49, as the existing pallet discounts will be replaced with my proposals in this case, including the new container rate. DMCS 421.50 will expire upon implementation of this rate case, by its own terms.

## 6 **VII. Classification Criteria**

7 Section 3623(c) of title 39 U.S.C. requires the Commission to make its decision on  
 8 establishing a new classification in accordance with the following factors:

- 9 1. the establishment and maintenance of a fair and equitable classification
- 10 system for all mail;
- 11 2. the relative value to the people of the kinds of mail matter entered into the
- 12 postal system and the desirability and justification for special classifications
- 13 and services of mail;
- 14 3. the importance of providing classifications with extremely high degree of
- 15 reliability and speed of delivery;
- 16 4. the importance of providing classifications which do not require an extremely
- 17 high degree of reliability and speed of delivery;
- 18 5. the desirability of special classifications from the point of view of both the
- 19 user and of the Postal Service; and
- 20 6. such other factors as the Commission may deem appropriate;

21 The container rate meets the fairness and equity criterion, because the rate  
 22 reflects mailer preparation practices and promotes efficiency improvements. It provides  
 23 the opportunity to all Periodicals mailers, large and small, to work with the Postal Service  
 24 and progress towards more efficient mail preparation. These rates would be desirable  
 25 from the perspectives of both the Postal Service and mailers (criterion 5) because they  
 26 better reflect costs and encourage efficient mail preparation. In particular, I expect many  
 27 small mailers would choose to take advantage of the proposed incentives. In the long run,

1 the more efficient material handling under these proposals would hold down further rate  
2 increases and therefore benefit the entire Periodicals community.

3 The proposed dropship rates for editorial pounds, plus the increased discounts for  
4 pieces dropshipped to the destinating ADC, SCF, and DDU (for Outside County and  
5 Science of Agriculture), meet the fairness and equity criterion. Mailers that do not have  
6 the volume or density to dropship to DDUs would receive discounts for bringing the mail  
7 to the destination DSCFs or DADCs. Furthermore, the rates for such mail would better  
8 reflect the underlying costs. These incentives would also lead to speedier and more  
9 reliable delivery, thereby satisfying the spirit of criterion 3. Mailers who combine with other  
10 mailers for more efficient dropshipping and containerization will see the reward of postage  
11 savings in the short term.

12

13