

**BEFORE THE  
POSTAL REGULATORY COMMISSION  
WASHINGTON DC 20268-0001**

REGULATIONS ESTABLISHING SYSTEM )  
OF RATEMAKING )

Docket No. RM2007-1

**INITIAL COMMENTS OF  
ALLIANCE OF NONPROFIT MAILERS AND  
MAGAZINE PUBLISHERS OF AMERICA, INC.  
ON FURTHER ADVANCE NOTICE OF PROPOSED RULEMAKING  
(ORDER NO. 15)**

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June 18, 2007

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The Alliance of Nonprofit Mailers (“ANM”) and Magazine Publishers of America, Inc. (“MPA”) respectfully submit these joint comments in response to Order No. 15, the further Advanced Notice of Proposed Rulemaking (“ANPR”) issued by the Commission on May 17, 2007, and published in the Federal Register at 72 Fed. Reg. 29284 (May 25, 2007). These comments respond to Questions 2, 3 and 8(c) posed by the Commission.

**Question 2**

As a general rule, ANM and MPA agree that the same “volume weights” should be used to determine average revenue per piece under existing and new rates for calculating the average rate increase for each mail class. Otherwise, increases in worksharing spurred, for example, by the new set of rates would deflate average revenue per piece (e.g., upgrading a flat from 5-Digit Automation to Carrier Route Basic reduces the piece-rate postage on that piece by 9.9 cents), thus allowing the Postal Service to increase rates by more than inflation, but still meet the inflation-based rate cap.

Consistent with this approach, when the Postal Service makes structural changes to a rate design and thus has no billing determinant data that matches the altered rate design, the volume weights used for the new, altered rate structure should be based on a mail characteristics study for the same time period as the billing determinant data used to calculate average revenue per piece under the existing rates. This method ensures that the average revenue per piece under existing and new rates is based upon an identical mail base, i.e., a constant mail mix.<sup>1</sup>

This approach is similar to the one used by the Commission to determine Test Year After Rates revenue for the Periodicals Outside County subclass in Docket No. R2006-1. In PRC-LR-L-14, Test Year Before Rates billing determinants were derived from FY 2005 billing determinants. However, because no FY 2005 billing determinant data were available for the altered set of Periodicals Outside County rates recommended by the Commission, Test Year After Rates billing determinants were based on a mail characteristics study (USPS-LR-L-91) that disaggregated the FY 2005 Periodicals Outside County volumes into the new rate categories.

On a related point, however, there must be an exception or adjustment to the general rule of using the same volume weights to calculate average revenue per piece under existing and new rates when changes in mail preparation requirements have significant rate implications. For example, an increase in the minimum number of

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<sup>1</sup> Given the increased importance of the calculation of the average rate increase under the PAEA's rate indexing system, ANM and MPA respectfully submit that the mail characteristics study used to develop volume weights for the new rates must be for *exactly the same time period* as the billing determinants used to calculate average revenue per piece under the existing rates. Otherwise, differences in mail preparation between the two periods could cause the average rate increase to be misestimated.

pieces in a Carrier Route Basic bundle from six pieces to ten pieces would cause some Periodicals Outside County flats to shift from paying the lower Carrier Route Basic rate (16.9 cents) to paying the higher 5-Digit Automation rate (26.8 cents).

Such a change would be a *de facto* rate increase, and therefore must be accounted for when evaluating compliance with section 3622(d) of the PAEA. A possible way to account for such changes would be to adjust the volume weights applied to the new rates (but not to the existing rates) to reflect the impact of the rule change on rate eligibility. Following through with the above example, if a rule change caused a portion of Carrier Route Basic flats to fall back a presort level, the volume weights used to calculate average revenue per piece under the new rates should be adjusted accordingly.

### **Question 3**

The Postal Service need not file any data establishing that worksharing discounts for Periodicals are consistent with the requirements of Section 3622(e) because Periodicals are exempt from the limitation on the size of worksharing discounts. Section 3622(e)(2) states:

The Postal Regulatory Commission shall ensure that such discounts do not exceed the cost that the Postal Service avoids as a result of workshare activity, unless...(C) the discount is provided in connection with subclasses of mail consisting exclusively of mail matter of educational, cultural, scientific, or informational value[.]

This exemption clearly applies to Periodicals subclasses because, as the Commission has found, these subclasses consist exclusively of mail matter that has educational, cultural, scientific, or informational (“ECSI”) value.

Eligibility for the Periodicals class is conditioned, among other things, on a minimum amount of nonadvertising—or editorial—content (footnoted omitted). The presence of this type of content entitles all Periodicals mail to special consideration, given explicit statutory recognition of educational, cultural, scientific and informational value as a ratemaking criterion. See 39 U.S.C. § 3622(b)(8).

R2000-1 PRC Op. and Rec. Decis. ¶ 5573.<sup>2</sup>

It is significant that Section 3622(e)(2)(C) specifically refers to the exact same four categories – educational, cultural, scientific, and information value – as specified in Section 3622(b)(8) of the PRA. This was not a coincidence. Section 3622(e)(2)(C) of an earlier version of the Senate bill – S. 2468 – listed only three of these categories – educational, cultural, or scientific.<sup>3</sup> The provision of the PAEA ultimately enacted into law, however, lists all four categories from Section 3622(b)(8) of the PRA.

### **Question 8(c)**

Question 8(c) asks how Retiree Health Benefit costs should be classified in attributing costs to competitive products under 39 U.S.C. §§ 3631(b) and 3633(a)(2). ANM and MPA discussed the attribution of Retiree Health Benefit costs at pages 25-33 of their joint reply brief in Docket No. R2006-1 (filed January 4, 2007), and at pages 9-10 of their May 7, 2007 reply comments in this docket. We incorporate by reference here our prior analysis of the issue.

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<sup>2</sup> This ECSI value is a major justification for the low cost coverage for Periodicals subclasses. See, e.g., R2001-1 Op. & Rec. Decis. ¶ 3175.

<sup>3</sup> See H.R. Rep. No. 318, 108<sup>th</sup> Cong., 2d Sess. 12, 40, 43, 101 (Aug. 25, 2004).

## CONCLUSION

ANM and MPA respectfully request that the Commission adopt the standards and procedures proposed herein.

Respectfully submitted,

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