

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

INITIAL COMMENTS OF THE UNITED STATES POSTAL SERVICE ON RECONSIDERATION (July 30, 1998)

By Order No. 1215, issued on July 8, 1998, the Commission invited comments on the matters returned by the Governors for reconsideration in this docket. These comments are filed in response to that Order. Overall, the views of the Postal Service regarding each of the three matters returned mirror those expressed by the Governors in their Decision of June 29.

With respect to the automation discounts for Within County Periodicals, there seems to be consensus that the discounts recommended by the Commission are anomalous. For prebarcoded mail, absolute rate levels should not rise as the level of presortation increases. There are presumably a variety of means by which the Commission may wish to correct this anomaly in its recommended rates. One suggestion might be to focus on the automation discounts for Nonprofit Periodicals, not in terms of their absolute levels, but in terms of the ratio of discount to the base rate. For instance, one could calculate the ratio of Nonprofit prebarcode discount to Nonprofit base rate (e.g., for Required presort letters, 6.2 cents to 25.1 cents, or .247), and apply that ratio to the corresponding Within County base rate to obtain a corresponding prebarcoding discount (e.g., for Required presort letters, .247 times 9.5 cents, or a Within County discount of 2.3 cents). Such an approach is not perfect (an additional adjustment must be made to keep the 3-Digit flat automation rate lower than the Required flat automation rate), but it could be used to resolve the basic problem without

disrupting the other Within County rates, and with de minimis effect on subclass net revenue. As noted above, of course, other approaches might achieve these objectives as well.

With respect to the Destination Delivery Unit (DDU) rates for Parcel Post, as with the Within County rates, the Commission has expressed a willingness to revisit its recommendations. As the Governors noted in their Decision, however, they are satisfied with the overall revenue effects of the DDU rates as recommended, and do not necessarily seek for the Commission to alter its recommendations. To maintain the 2-pound DDU rate at the level originally recommended, the Commission would need to clarify the basis for that rate, relative to the otherwise applicable rate design methodology, and provide explicit justification for it. Were the Commission instead to increase the 2-pound DDU rate, it should look to see whether other DDU rates could be adjusted downward to leave net DDU revenue unaffected. In either case, the Commission's overall evaluation should explain how the resulting rates are consistent with the record and the policies of the Act.

With respect to Library rates, the Governors have already suggested an approach that, although slightly different than the one recommended by the Commission, would appear to achieve all of the same objectives. The approach initially recommended by the Commission was to create classification language to expand the eligibility criteria for Special Standard mail to explicitly include all mailings that would otherwise qualify for the Library subclass, and to create a combined rate schedule for the two subclasses which extended the applicability of rates for the Special subclass to include Library mail as well. The Governors noted three problems with this approach. First, it was not clear whether the Commission had actually responded to the request for a recommended decision on Library mail rates. Second, it was not clear whether rates applicable to presort categories of Special mail were intended to be available for Library mail users. Third, it was not clear that

a classification distinction between Library and Special could be maintained under such a regime.

The Governors suggested that, instead of recommending a combined rate schedule, the Commission recommend separate schedules for Special and Library mail. The rate schedule for Library would include only the nonpresort rate elements of the Special rate schedule. This approach would presumably generate the same revenue from Library as shown in the Commission's Appendix G, yet would obviate the need for any related classification changes. The separate identity of Library mail would be preserved, and costs could continue to be collected for pieces marked as such. Of course, over time, if the cost characteristics of the two subclasses continued to develop in opposing directions, there may be no choice but to abandon the hope of preserving cost-based rates for Library mail that are lower than the corresponding rates for Special. The approach advocated by the Governors, like the one initially recommended by the Commission, does not attempt to address this more fundamental problem.

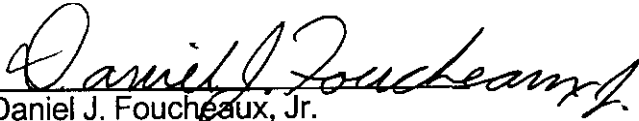
Beyond the above comments on the three specific matters returned for reconsideration, the Postal Service observes that no party moved for reopening the *evidentiary record by the deadline set for such motions, July 20*. The Commission would appear to be on track for relatively expeditious reconsideration of all three matters, on the *basis of the existing evidentiary record*. As noted in our *Statement of July 7*, the Postal Service believes that the interests of all affected parties are best served by issuance of a further recommended decision on a timetable that would allow incorporation of any

necessary rate adjustments into planning schedules for overall rate implementation on January 10 of next year.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

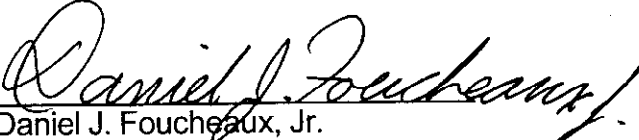
By its attorney:


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July 30, 1998

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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