

DOCKET SECTION

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

Postal Rate and Fee Changes, 1997)

Docket No. R97-1

CTC DISTRIBUTION SERVICES, L.L.C.
COMMENTS REGARDING THE MODIFICATION
OF PARCEL POST DESTINATION DELIVERY UNIT RATES
ON RECONSIDERATION BY THE COMMISSION
(July 30, 1998)

On July 8, 1998, the Postal Rate Commission issued Order No. 1215 inviting written comments on matters returned by the Postal Service Board of Governors for reconsideration, including, *inter alia*, the recommended Standard Mail B Parcel Post Destination Delivery Unit rates.

On June 5, 1998, United Parcel Service (UPS) had requested that the Commission amend its Opinion and Recommended Decision to change the rates. In its request, UPS specifically questioned the validity of the recommended 2-pound DDU rate of \$1.10, because of a perceived inconsistency with the methodology used to design rates for the remainder of the DDU rate cells. The Commission denied UPS' request on June 19, 1998, stating that the 2-pound rate "was not recommended inadvertently," and that "Commission estimates of Test Year revenues, volumes, and costs, were developed using this rate, and correcting it would require recalculating and rebalancing the factors on which rates were based." PRC Order No. 1213, p. 3.

In returning this matter to the Commission for further consideration, the Board of Governors emphasized that they were "not necessarily seeking for the Commission to alter its

recommendation,” and that any increase in revenue due to a change the 2-pound rate should be used to mitigate rates for the remainder of DDU rate cells. Decision of the USPS Board of Governors on Docket No. R97-1, p. 10. On July 7, 1998, the Postal Service filed a Statement on Reconsideration, further emphasizing the fact that there is “no fundamental disagreement between the Governors and the Commission” on the matters returned for reconsideration, including the Commission’s recommended Standard Mail B Parcel Post DDU rate design. *Statement of the USPS Regarding Reconsideration*, p. 1.

The threshold issue which the Commission faces is whether the \$1.10 rate proposed for 2-pound DDU mail is justifiable and desirable.¹ If so, the Commission need simply provide an explicit reasoning for its recommendation. If it is not, and the rate should be increased,² the *second significant issue the Commission faces is how other DDU-entry rates are “recalculated”* so as not to use the occasion of the current remand to place excessive burdens on users of the new DDU-entry rate cells. Simply applying to the 2-pound rate the same formula used to design rates for the remainder of the DDU rate cells would increase the 2-pound DDU rate to

¹ To put the Commission’s recommended rate of \$1.10 for 2-pound DDU parcel post into context, it is comparable with other subclasses’ delivery unit entry rates. For example, the single-piece local rate for a 2-pound piece qualifying under the Bound Printed Matter subclass is \$1.16.

² A rate design for DDU parcel post without the large increment between the 2- and 3-pound rates would be simpler than, and in the long run may be somewhat preferable to, the Commission’s originally recommended rate design, so long as any modifications are revenue neutral.

\$1.29. Such an increase may not seem large, but it would have a substantial adverse effect on the relatively low volume of mail anticipated in these new rate categories.³

Also, any increase in the net revenue generated by DDU-entered parcel post would increase the burden of institutional costs on these parcels, which was determined by the Commission based on the record in Docket No. R97-1, and which is already higher than requested by the Postal Service.

In the past, the Commission has sought to avoid developing rates on remand which would generate unanticipated revenue for the Postal Service. On remand in Docket No. R90-1, for example, when the Commission increased numerous rates in order to reflect more appropriate billing determinants along with an alternate method for projecting volume, the Commission sought “to preserve to the extent feasible the relative contributions reflected in [the] markup indices.”⁴ *Op. & Rec. Dec. Upon Further Reconsideration*, Docket No. R90-1, p. 84.⁵ In light of the Governors’ suggestion (described, *supra*) that any increase to the 2-pound rate be **revenue neutral**, and particularly taking into consideration the continued Postal

³ Projected volumes and revenues would have to be recomputed to reflect the change.

⁴ The Commission explained that “[o]n reconsideration, the Commission has proceeded with the knowledge that rates which preserve the markup index relationships found proper in the earlier decisions in this docket would be fair and equitable, and would satisfactorily balance the various policy criteria applicable to postal rates.” *Op. & Rec. Dec. Upon Further Reconsideration*, Docket No. R90-1, p. 72.

⁵ Revenue decreases are not viewed to be as problematic, however; on remand in Docket No. R94-1, for example, the Commission recommended rates which resulted in a projected revenue decrease of approximately \$9 million from the rates originally recommended. *Op. & Further Rec. Dec.*, Docket No. R94-1, p. 70.

Service profitability,⁶ and in view of the fact that these remand proceedings are abbreviated, with no opportunity to present additional testimony either in support of or in opposition to increasing the Postal Service's revenue from DDU parcel post, the Commission should strive for **revenue neutrality**. This could be attained by redesigning all DDU parcel post rates so as to generate the same level of revenue as would be produced by the rates originally recommended.

Increasing the 2-pound DDU rate, without any changes to the remaining rates, and not taking into account any volume effects, would generate a net increase in the Commission's Test Year revenue for DDU-entered parcel post of \$79,665, or 7.53 percent. This result is shown in columns 6 and 7 of attached Exhibit A. If the 2-pound rate is to be increased, the revenue in each rate cell (including the 2-pound rate cell) should be reduced by an appropriate amount so as to achieve revenue neutrality. Column 8 of Exhibit A shows a proportional adjustment designed to preserve revenue neutrality. The resulting rates, shown in column 9 of Exhibit A, start with a 2-pound rate of \$1.20 and progress in exact accordance with the progression of the recommended rates absent the wide increment between the 2- and 3-pound rates in the Commission's original recommendation.⁷ This approach would address more

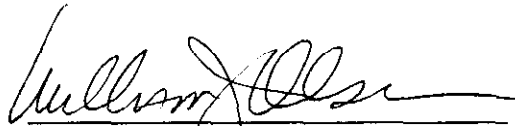
⁶ The cumulative profit through Accounting Period 10 of PFY 1998 (ended June 19, 1998) was \$1.25 billion.

⁷ In Exhibit A the adjusted revenues in column 8 are divided by the estimated volumes in column 2 to arrive at the rates in column 9. This approach assumes that projected volumes within individual rate cells are unaffected by changing the rates in different cells. So long as the resulting rates achieve revenue neutrality, this assumption would appear to be consistent with the two-step forecasting technique adopted by the Commission and explained in Appendix H of the *Opinion and Recommended Decision*.

thoroughly UPS' concerns that the rates for DDU parcel post be based on a consistent methodology for every rate cell, without any "hard coded" rates. Exhibit A presents the rates which would be generated by this approach to rate design.

Irrespective of whether the Commission chooses to retain the rate it originally recommended for 2-pound DDU parcel post, it is imperative that its final recommendation not produce an unmitigated increase in rates for mailers who will be asked to use the new parcel post offering of DDU-entered rates. If the 2-pound rate is to be increased, all recommended rates should be modified as set out in Exhibit A.

Respectfully submitted,

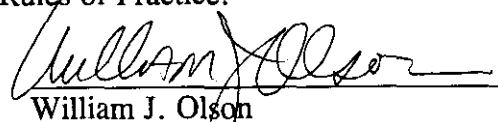


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CERTIFICATE OF SERVICE

I hereby certify that I have this day served this document upon all participants of record in this proceeding in accordance with the Rules of Practice.



William J. Olson

July 30, 1998

EXHIBIT A

**REVISED RATE LEVEL CALCULATIONS
DDU PARCEL POST**

WT (lbs)	USPS	Percent of Total Volume	PRC Rate	Extended Revenue	UPS	UPS Revenue @ \$1.29 Base	UPS	Proposed New Rates
	Estimated Volume				Proposed Rate		Revenue Scaled to Correct for Overage	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
2	419,290	51.3%	\$ 1.10	\$ 461,219	\$ 1.29	\$ 540,884	\$ 503,027	\$ 1.20
3	155,587	19.0%	\$ 1.35	\$ 210,042	\$ 1.35	\$ 210,042	\$ 195,341	\$ 1.28
4	82,855	10.1%	\$ 1.42	\$ 117,654	\$ 1.42	\$ 117,654	\$ 109,419	\$ 1.32
5	48,285	5.9%	\$ 1.48	\$ 71,462	\$ 1.48	\$ 71,462	\$ 66,460	\$ 1.38
6	31,464	3.8%	\$ 1.53	\$ 48,140	\$ 1.53	\$ 48,140	\$ 44,771	\$ 1.42
7	14,568	1.8%	\$ 1.58	\$ 23,017	\$ 1.58	\$ 23,017	\$ 21,406	\$ 1.47
8	16,032	2.0%	\$ 1.63	\$ 26,132	\$ 1.63	\$ 26,132	\$ 24,303	\$ 1.52
9	5,043	0.6%	\$ 1.69	\$ 8,523	\$ 1.69	\$ 8,523	\$ 7,926	\$ 1.57
10	3,454	0.4%	\$ 1.74	\$ 6,010	\$ 1.74	\$ 6,010	\$ 5,589	\$ 1.62
11	9,358	1.1%	\$ 1.78	\$ 16,657	\$ 1.78	\$ 16,657	\$ 15,491	\$ 1.66
12	3,298	0.4%	\$ 1.83	\$ 6,035	\$ 1.83	\$ 6,035	\$ 5,613	\$ 1.70
13	2,585	0.3%	\$ 1.88	\$ 4,860	\$ 1.88	\$ 4,860	\$ 4,520	\$ 1.75
14	2,074	0.3%	\$ 1.91	\$ 3,961	\$ 1.91	\$ 3,961	\$ 3,684	\$ 1.78
15	830	0.1%	\$ 1.95	\$ 1,619	\$ 1.95	\$ 1,619	\$ 1,505	\$ 1.81
16	3,935	0.5%	\$ 2.00	\$ 7,870	\$ 2.00	\$ 7,870	\$ 7,319	\$ 1.86
17	2,195	0.3%	\$ 2.03	\$ 4,456	\$ 2.03	\$ 4,456	\$ 4,144	\$ 1.89
18	924	0.1%	\$ 2.08	\$ 1,922	\$ 2.08	\$ 1,922	\$ 1,787	\$ 1.93
19	531	0.1%	\$ 2.11	\$ 1,120	\$ 2.11	\$ 1,120	\$ 1,042	\$ 1.96
20	2,526	0.3%	\$ 2.15	\$ 5,431	\$ 2.15	\$ 5,431	\$ 5,051	\$ 2.00
21	842	0.1%	\$ 2.19	\$ 1,844	\$ 2.19	\$ 1,844	\$ 1,715	\$ 2.04
22	911	0.1%	\$ 2.22	\$ 2,022	\$ 2.22	\$ 2,022	\$ 1,881	\$ 2.06
23	1,064	0.1%	\$ 2.26	\$ 2,405	\$ 2.26	\$ 2,405	\$ 2,236	\$ 2.10
24	536	0.1%	\$ 2.29	\$ 1,227	\$ 2.29	\$ 1,227	\$ 1,142	\$ 2.13
25	1,952	0.2%	\$ 2.33	\$ 4,548	\$ 2.33	\$ 4,548	\$ 4,230	\$ 2.17
26	904	0.1%	\$ 2.36	\$ 2,133	\$ 2.36	\$ 2,133	\$ 1,984	\$ 2.19
27	228	0.0%	\$ 2.40	\$ 547	\$ 2.40	\$ 547	\$ 509	\$ 2.23
28	250	0.0%	\$ 2.43	\$ 608	\$ 2.43	\$ 608	\$ 565	\$ 2.26
29	426	0.1%	\$ 2.47	\$ 1,052	\$ 2.47	\$ 1,052	\$ 979	\$ 2.30
30	1,346	0.2%	\$ 2.49	\$ 3,352	\$ 2.49	\$ 3,352	\$ 3,117	\$ 2.32
31	820	0.1%	\$ 2.53	\$ 2,075	\$ 2.53	\$ 2,075	\$ 1,929	\$ 2.35
32	402	0.0%	\$ 2.56	\$ 1,029	\$ 2.56	\$ 1,029	\$ 957	\$ 2.38
33	228	0.0%	\$ 2.59	\$ 591	\$ 2.59	\$ 591	\$ 549	\$ 2.41
34	625	0.1%	\$ 2.63	\$ 1,644	\$ 2.63	\$ 1,644	\$ 1,529	\$ 2.45
35	143	0.0%	\$ 2.66	\$ 380	\$ 2.66	\$ 380	\$ 354	\$ 2.47
36	142	0.0%	\$ 2.69	\$ 382	\$ 2.69	\$ 382	\$ 355	\$ 2.50
37	167	0.0%	\$ 2.71	\$ 453	\$ 2.71	\$ 453	\$ 421	\$ 2.52
38	112	0.0%	\$ 2.75	\$ 308	\$ 2.75	\$ 308	\$ 286	\$ 2.56
39	98	0.0%	\$ 2.78	\$ 272	\$ 2.78	\$ 272	\$ 253	\$ 2.59
40	245	0.0%	\$ 2.81	\$ 688	\$ 2.81	\$ 688	\$ 640	\$ 2.61

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**REVISED RATE LEVEL CALCULATIONS
DDU PARCEL POST**

WT (lbs) (1)	USPS Estimated Volume (2)	Percent of Total Volume (3)	PRC Rate (4)	Extended Revenue (5)	UPS Proposed Rate (6)	UPS Revenue @ \$1.29 Base (7)	UPS Revenue Scaled to Correct for Overage (8)	Proposed New Rates (9)
41	77	0.0%	\$ 2.84	\$ 219	\$ 2.84	\$ 219	\$ 203	\$ 2.64
42	65	0.0%	\$ 2.86	\$ 186	\$ 2.86	\$ 186	\$ 173	\$ 2.66
43	89	0.0%	\$ 2.90	\$ 258	\$ 2.90	\$ 258	\$ 240	\$ 2.70
44	38	0.0%	\$ 2.92	\$ 111	\$ 2.92	\$ 111	\$ 103	\$ 2.72
45	90	0.0%	\$ 2.95	\$ 266	\$ 2.95	\$ 266	\$ 247	\$ 2.74
46	70	0.0%	\$ 2.99	\$ 209	\$ 2.99	\$ 209	\$ 195	\$ 2.78
47	19	0.0%	\$ 3.02	\$ 57	\$ 3.02	\$ 57	\$ 53	\$ 2.81
48	51	0.0%	\$ 3.04	\$ 155	\$ 3.04	\$ 155	\$ 144	\$ 2.83
49	78	0.0%	\$ 3.07	\$ 239	\$ 3.07	\$ 239	\$ 223	\$ 2.86
50	110	0.0%	\$ 3.10	\$ 341	\$ 3.10	\$ 341	\$ 317	\$ 2.88
51	117	0.0%	\$ 3.13	\$ 366	\$ 3.13	\$ 366	\$ 341	\$ 2.91
52	207	0.0%	\$ 3.16	\$ 654	\$ 3.16	\$ 654	\$ 608	\$ 2.94
53	278	0.0%	\$ 3.18	\$ 884	\$ 3.18	\$ 884	\$ 822	\$ 2.96
54	43	0.0%	\$ 3.20	\$ 138	\$ 3.20	\$ 138	\$ 128	\$ 2.98
55	33	0.0%	\$ 3.24	\$ 107	\$ 3.24	\$ 107	\$ 99	\$ 3.01
56	19	0.0%	\$ 3.27	\$ 62	\$ 3.27	\$ 62	\$ 58	\$ 3.04
57	-	0.0%	\$ 3.29	\$ -	\$ 3.29	\$ -	\$ -	\$ 3.07
58	53	0.0%	\$ 3.33	\$ 176	\$ 3.33	\$ 176	\$ 164	\$ 3.10
59	31	0.0%	\$ 3.34	\$ 104	\$ 3.34	\$ 104	\$ 96	\$ 3.11
60	-	0.0%	\$ 3.37	\$ -	\$ 3.37	\$ -	\$ -	\$ 3.14
61	-	0.0%	\$ 3.40	\$ -	\$ 3.40	\$ -	\$ -	\$ 3.17
62	52	0.0%	\$ 3.43	\$ 178	\$ 3.43	\$ 178	\$ 166	\$ 3.19
63	15	0.0%	\$ 3.45	\$ 52	\$ 3.45	\$ 52	\$ 48	\$ 3.21
64	-	0.0%	\$ 3.48	\$ -	\$ 3.48	\$ -	\$ -	\$ 3.24
65	17	0.0%	\$ 3.51	\$ 60	\$ 3.51	\$ 60	\$ 55	\$ 3.26
66	-	0.0%	\$ 3.54	\$ -	\$ 3.54	\$ -	\$ -	\$ 3.29
67	-	0.0%	\$ 3.56	\$ -	\$ 3.56	\$ -	\$ -	\$ 3.32
68	-	0.0%	\$ 3.58	\$ -	\$ 3.58	\$ -	\$ -	\$ 3.36
69	11	0.0%	\$ 3.61	\$ 40	\$ 3.61	\$ 40	\$ 37	\$ 3.36
70	-	0.0%	\$ 3.65	\$ -	\$ 3.65	\$ -	\$ -	\$ 3.36
SUM	817,838	100.0%		\$ 1,058,553		\$ 1,138,218	\$ 1,058,553	
				EXCESS REVENUE		\$ 79,665		
				OVERAGE FACTOR		107.53%		

(Note: USPS Estimated Volumes from PRC-LR-15)