

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

REPLY COMMENTS OF THE UNITED STATES POSTAL SERVICE ON RECONSIDERATION (August 11, 1998)

By Order No. 1215, issued on July 8, 1998, the Commission invited comments and reply comments on the matters returned by the Governors for reconsideration in this docket. These reply comments respond to the comments filed on July 30, 1998 by the OCA and the American Library Association (ALA) regarding Library mail, and CTC Distribution Services and UPS regarding the Parcel Post DDU rates.

The OCA is in fundamental agreement with the Commission and the Governors that it is important to attempt to maintain a distinction between Library mail and Special mail. OCA Comments at 6-7. The OCA also appears to share the common view that any action taken with respect to Library mail should be an "interim" measure only. *Id.* The sole issue in contention, therefore, is the question of exactly what procedure is most appropriate under the circumstances.^{1/}

The Postal Service does not agree with the OCA's contention that equivalent

^{1/} To whatever extent the OCA's comments are suggesting, at the bottom of page 4, that the Governors intended to approve the recommendation to extend eligibility to pay Special rates "through an addition to the DMCS" (rather than through repetition in the Library rate schedule of elements from the Special rate schedule), such a suggestion is in error. In fact, the Governors have sought to avoid making any change to the DMCS in this respect.

rates for Library and Special mail jeopardize the distinction between the subclasses because "a large number of Library mailers may switch to the Special Standard subclass if they find it more convenient to use Special Standard." It seems much more reasonable to expect that, as long as there is no rate incentive to switch, libraries that have traditionally entered their mail in the Library subclass will continue to use the subclass intended for their use. The Postal Service rejects the suggestion (OCA Comments at 6) that the "only effective way to ensure a viable Library Mail subclass is to recommend rates that are somewhat lower than the rates of Special Standard Mail." As an "interim" measure, equivalent rates for the two subclasses, coupled with the historical practices of Library mailers, should be adequate for that purpose. On the other hand, if mailers that formerly used the Library subclass are willing to abandon that practice to suit their own convenience, it becomes more difficult to identify reasons why anyone else should be concerned with preserving the existence of the Library subclass.

The OCA's comments claim that, under the approach to the Library mail problem suggested by Governors in their Decision, the requirements of RFRA are not met. OCA Comments at 7. But as the OCA also acknowledges, the Commission likewise "has not explicitly fulfilled the RFRA requirement" in formulating its initial own recommendations on Library mail. OCA Comments at 6. The Postal Service proposed Library rates in this proceeding, sponsored in testimony by witness Adra, that explicitly met the objectives of RFRA (as well as all other ratemaking policies of the Act). For reasons stated in its Opinion, the Commission chose not recommend

the rates proposed by witness Adra. In seeking to improve what the Commission recommended instead, the Governors were not attempting to address and resolve all possible issues regarding the rates for Library mail. Rather, in the context of the "interim" approach recommended by the Commission, the Governors tried to limit their suggestions to "form," leaving the "substance" of the rates that would actually be paid by Library mailers unchanged.^{2/}

The comments of the ALA are quite similar to those of the OCA in seeking to obtain Library rates which are lower than the Special rates recommended by the Commission by application of the OCA's proposed "cost proxy" approach. Not surprisingly, the comments of the ALA and the OCA therefore suffer from many of the same defects. But the ALA has also presented some additional views that warrant response.

Most troubling is ALA's claim (pages 5-6) that the record contains no credible evidence to support the assumption that the unit attributable costs of Library mail are 2.7 percent higher than the corresponding unit costs of Special. While this may be literally true, it is by no means clear why ALA imagines that this claim advances the cause of its preferred alternative. In fact, the evidence of record, as summarized on

^{2/} To the extent that tension exists between the provisions of RFRA and other statutory policies, there is still no basis to favor the approach advocated by the OCA. For example, the cost and revenue figures shown on the first page of the Commission's Appendix G suggests that, even at the rate levels assumed to be applicable by the Commission, Library mail may fail to cover its costs, as required by section 3622(b)(3). Given the Commission's figures, the comments of the OCA do not explain how Library rates which were even lower, as the OCA insists they must be, would reasonably be expected to comply with section 3622(b)(3).

Schedule 1 of Appendix G of the Commission's Opinion, indicates that the unit costs of Library are not merely 2.7 percent higher, they are **over 33 percent higher** (\$2.02 versus \$1.51). Contrary to what ALA appears to be attempting to imply, the establishment of a Library rate schedule using the corresponding rate elements from the Special rate schedule by no means constitutes an imposition on Library mailers. It represents, rather, *conferment of a substantial benefit*. In fact, the magnitude of the benefit could probably not be justified were it not the case, as acknowledged by witness Adra, that the vast majority of Library pieces would migrate to Special (and thus pay Special rates anyway) if the rates for Library were set to exceed those of Special. The substantive approach developed by the Commission and accepted by the Governors for this case is a practical ratemaking resolution to a complex set of circumstances.

The comments of both the OCA and the ALA advocate application of the same cost proxy methodology which the Commission explicitly rejected in its Opinion. The Governors, in contrast, moved beyond the Postal Service's proposed Library rates, and suggested nothing more than a refinement on the Commission's recommended approach. If the Commission is prepared to abandon that approach (i.e., equal rates for Special and Library), it should return to the ratemaking methodology and results proposed on the record by the Postal Service, not those proposed by the OCA and the ALA.

With respect to the DDU rates for Parcel Post, both UPS and CTC acknowledge that the Commission may wish to make adjustments. The parties differ

in their views to the extent that UPS favors limiting the adjustment to an increase in the 2-pound DDU rate, while CTC favors offsetting an increase in the 2-pound rate with rate decreases for other DDU rate cells.

UPS supports its view by noting that the increase in revenue expected to be associated with an increase in the 2-pound DDU rate to \$1.29 would be approximately \$80 thousand, which is a small fraction of either total Postal Service revenue, or total Parcel Post revenue. UPS Comments at 3. UPS describes the effect as "infinitesimal." This raises the question, however, of why, if UPS were truly of the opinion that the financial consequences of its proposed rate adjustment were so insignificant, did it even bother to have raised the matter in its June 5th motion?

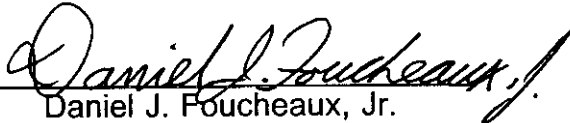
CTC may indirectly provide the answer to this question in its comments, on page 4 and in its Exhibit A, where it shows that an \$80 thousand increase in revenue from 2-pound DDU pieces would constitute almost an 8 percent increase in total DDU revenue. This figure may place the matter in the most appropriate perspective, and also may explain why both UPS and CTC view the issue as far from academic. CTC provides a set of proposed new DDU rates that are revenue neutral, relative to the set initially recommended by the Commission. The rates proposed by CTC appear to conform to the suggestion by the Governors that, if rate adjustments are believed to be warranted, such adjustments might be designed to leave overall DDU revenue

unaffected. Presumably, however, other DDU rates might achieve this objective as well.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

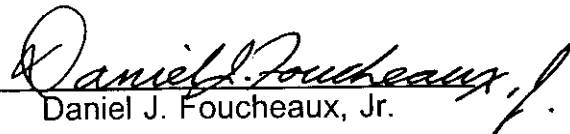
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August 11, 1998

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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