

UNITED STATES OF AMERICA
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

Before

Chairman Edward J. Gleiman,
Vice-Chairman W. H. "Trey" LeBlanc III,
Commissioners Ruth Y. Goldway
and George A. Omas

Postal Rate and Fee Changes

Docket No. R97-1

OPINION
and
FURTHER RECOMMENDED DECISION



Washington, DC 20268-0001
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I. INTRODUCTION AND PROCEDURAL HISTORY

In response to a Postal Service request filed July 10, 1997, the Commission recommended comprehensive changes in postal rates and fees in an Opinion and Recommended Decision issued May 11, 1998. The Governors of the Postal Service substantially accepted the Commission's recommendations in their decision, but returned three matters for reconsideration. Decision of the Governors of the United States Postal Service on the Recommended Decision of the Postal Rate Commission on Postal Rate and Fee Changes, Docket No. R97-1 (Governors' Decision) (dated June 29, 1998 and filed June 30, 1998).

The matters returned to the Commission concern Standard Mail Parcel Post Destination Delivery Unit (DDU) rates, Library Standard Mail rates, and certain Within County Periodicals discounts. In particular, the issues involve the legitimacy of the recommended rate of \$1.10 for 2-pound Standard Mail Parcel Post Destination Delivery Unit mail, given that it results from "hard coding" rather than application of the methodology used for all other parcel post rate cells; the efficacy of combined, rather than separate, rate schedules for Library and Special Standard Mail; and an anomalous relationship among the rates for presorted automation Within County Periodicals publications.

The Commission, as requested, has reconsidered each of the matters returned by the Governors. Its recommended decision reflects the following conclusions:

- the 2-pound DDU rate should be increased, but other DDU rates should be adjusted so that the changes are essentially revenue neutral;
- the rate schedule for Library Mail should enumerate available rates;
- adjustments in the Within County prebarcode discounts are warranted.

Each of these recommendations have been designed to have no impact on the costs or revenues of the affected subclasses. Therefore these recommendations will change

neither the projected test year financial results of the Postal Service, nor the relative contributions to institutional costs of the subclasses of mail that were found appropriate in the May 11 opinion.

The Service's procedural suggestions. In a formal statement addressing the request for reconsideration, the Service affirmatively noted that "in none of these instances does there appear to be any fundamental disagreement between the Governors and the Commission." Statement of the United States Postal Service Regarding Reconsideration (Postal Service Statement on Reconsideration) (July 7, 1998) at 1. Instead, the Service said:

With respect to two matters, rates for Within County Periodicals and Destination Delivery Unit (DDU) Parcel Post, the Commission itself identified the need for return of the recommended decision by the Governors as a mechanism to allow reconsideration of specific rates. With respect to Library Mail, the Governors have merely suggested an alternative means of more directly achieving the same objective.

Id. at 1 (footnotes omitted).

The Commission actions referred to by the Service were a May 20, 1998 letter sent to the Board of Governors acknowledging the Within County problem, and an order addressing a request of the United Parcel Service (UPS) for a change in the DDU rate recommendation. See Motion of United Parcel Service for Amendment of Recommended Decision to Correct Rate Recommendation for DDU Parcel Post (UPS Motion) (June 5, 1998) and Order No. 1213 (June 19, 1998).

The Postal Service further observed, as a practical consideration, that the Governors had set January 10, 1999 as the implementation date for new rates. The Service stated that if the Commission altered any of its recommendations upon reconsideration, it would be highly desirable, in terms of minimizing potential disruption and confusion, for the Governors to be able to act on the revised recommendations sufficiently before the scheduled implementation date. Postal Service Statement on Reconsideration at 1-2. The Service saw no apparent reason why reconsideration of

any of the three returned matters would warrant reopening the record, but acknowledged that it would be appropriate for the Commission to solicit the comments of interested parties on procedural options. *Id.* at 2. Accordingly, the Service suggested a relatively brief reconsideration process, allowing interested parties an opportunity to suggest procedures, to submit substantive technical or legal arguments, and to reply to such arguments. *Ibid.*

Order No. 1215. In Order No. 1215, issued July 8, 1998, the Commission provided notice of the Governors' action, briefly reviewed points raised in the Service's statement, and invited comments. Among other things, it noted that participants would be allowed to present justification for reopening the evidentiary record; however, in the absence of persuasive arguments, the Commission said it would reconsider the pending matters on the basis of the existing evidentiary record, as the Service had suggested. The Commission set July 20, 1998 as the deadline for submission of suggestions on procedure, July 30, 1998 as the deadline for comments on the merits, and August 11, 1998 as the deadline for reply comments.

Response to Order No. 1215's invitation for comments on procedural aspects of the reconsideration. The Commission received one comment — from the National Newspaper Association (NNA) — on reconsideration procedures. NNA's comment also stated its agreement that the Within County rates in issue were anomalous. Citing "the paucity of record evidence and the likelihood that no probative evidence would be available at this early stage of FSM 1000 deployment," NNA indicated its agreement that there was no reason to reopen the record. *Comments on Procedures for Reconsideration of R97-1 (NNA Comments) (July 20, 1998)* at 2. Also, noting the likelihood that the Postal Service would be the only other participant interested in the Within County rate anomalies, NNA said it believed a settlement could be reached once "a set of rates reflecting the appropriate discount relationships" had been calculated. *Ibid.*

NNA stated that it inferred "from the Commission's May 20, 1998 letter to the Governors that the Commission believes the prebarcoded mail discounts should be

recalculated to reflect degrees of presortation,” and said it agreed with this position. *Ibid.* On the assumption that the Commission had a set of corrected rates in mind, NNA suggested that the Presiding Officer present the Commission's draft rates on its own motion and establish a short period for settlement, with discussions leading to submission of either a joint motion for acceptance or a partial settlement among interested parties. NNA suggested that this process parallel the schedule for comments laid out in Order No. 1215, with draft rates available before July 30 to enable those who wished to comment upon them to do so, and a deadline of August 11 (or earlier) for submission of motions or partial settlement agreements. *Id.* at 3.

Other comments. On the question of library rates, the Commission received comments on the merits from the American Library Association (ALA), the Office of the Consumer Advocate (OCA), and the Postal Service.¹ On Parcel Post DDU rates, the Commission received comments from CTC Distribution Services, L.L.C. (CTC), UPS, OCA and the Postal Service.²

¹ See Comments of the American Library Association on Reconsideration (ALA Comments), Office of the Consumer Advocate Comments in Response to Order No. 1215 (OCA Comments), and Initial Comments of the United States Postal Service on Reconsideration (Postal Service Comments) (all filed July 30, 1998). See also Reply Comments of the United States Postal Service on Reconsideration (August 11, 1998).

² See CTC Distribution Services, L.L.C. Comments Regarding the Modification of Parcel Post Destination Delivery Unit Rates on Reconsideration by the Commission (CTC Comments) (July 30, 1998) and CTC Distribution Services, L.L.C. Reply comments Regarding the Modification of Parcel Post Destination Delivery Unit Rates on Reconsideration by the Commission (August 11, 1998); Office of the Consumer Advocate Comments in Response to Order No. 1215 (July 30, 1998); Comments of United Parcel Service on Reconsideration (UPS comments) (July 30, 1998) and Reply Comments of United Parcel Service on Reconsideration (UPS Reply Comments) (August 11, 1998); and Initial Comments of the United States Postal Service on Reconsideration (July 30, 1998) and Reply Comments of the United States Postal Service on Reconsideration (August 11, 1998).

II. PARCEL POST — DESTINATION DELIVERY UNIT RATES

Background. With respect to Parcel Post rates and classification provisions generally, the Governors' Decision finds the Commission's recommendations to be in accordance with applicable statutory criteria, responsive to the needs of Parcel Post users, and in the public interest. Governors' Decision at 10. However, the Governors note that a question has arisen since issuance of the Commission's decision regarding the amount of the 2-pound rate recommended for the newly-adopted Destination Delivery Unit (DDU) category, and ask the Commission to reconsider the initially-recommended rate of \$1.10. *Ibid.*

As the Governors observe, intervenor United Parcel Service filed a motion on June 5 requesting that the Commission amend its decision by changing the recommended 2-pound DDU rate from \$1.10 to \$1.29. UPS Motion at 1. In its motion, UPS stated that its review of the Commission's workpapers underlying the recommended Parcel Post rates led it to conclude that the recommended \$1.10 rate is erroneous because it differs from the result produced by applying the methodology described in Library Reference PRC-15, which purportedly would have yielded a rate of \$1.29. *Id.* at 1-2. Instead, UPS observed, the recommended \$1.10 rate apparently had been "hard coded," and it was unclear whether this treatment was intended or inadvertent. *Id.* at 2. In view of the significant difference between the recommended rate and the output of the Commission's adopted methodology — as well as the difference from the Postal Service's corresponding proposed DDU rate — UPS requested that the Commission amend its recommended decision to change the \$1.10 rate to \$1.29.³

The Commission disposed of United Parcel Service's motion in Order No. 1213, Order Denying Request to Amend Recommended Decision, issued on June 19, 1998. In

³ The UPS Motion was opposed by intervenor CTC Distribution Services, L.L.C. CTC Distribution Services, L.L.C. Response to United Parcel Service Motion for Amendment to Recommended Decision (June 18, 1998). The Postal Service filed a response that did not directly oppose the UPS request for relief. Response of the United States Postal Service to Motion of UPS for Amendment of Recommended Decision (June 15, 1998).

the order, the Commission discussed its past practice of issuing errata to correct unintentional errors or ambiguities in its decisions, and announced the issuance of such an errata notice in Docket No. R97-1 on the same day. However, the Commission declined to include the DDU rate change requested by UPS among its errata.

The Commission confirmed UPS' premise that the recommended 2-pound DDU rate had indeed been "hard coded"; that this procedure was not in furtherance of any intended outcome; and that it was also inconsistent with the development of other rates in the DDU schedule. Order No. 1213 at 3. Nevertheless, the Commission stated, this rate was not recommended inadvertently, and it was used in developing final estimates of test year revenues, volumes and costs. Accordingly, the Commission noted, correcting the initially-recommended rate would require recalculating and rebalancing the factors on which rates had been based. This being the case, the Commission concluded that granting the relief requested by UPS would exceed the legitimate ambit of errata notices, and that the circumstances were similar to those presented by the recommendation of arguably anomalous Within County Periodicals rates. As in the letter sent to the Governors on May 20 regarding the Within County rate issue, the Commission noted that prompt corrective action was available to the Governors through the reconsideration mechanism. *Ibid.*

The Governors have availed themselves of this avenue of additional scrutiny and request reconsideration in their Decision filed June 30, 1998. Stating that they "are satisfied with the overall revenue effects of establishing the DDU discounts as recommended[,]” *id.* at 10, the Governors elected to allow the recommended DDU Parcel Post rates to take effect under protest, in order to provide the Commission an opportunity to re-examine the recommended rates and make further recommendations. In doing so, however, the Governors stress that they are not necessarily seeking an alteration in the recommended DDU rates. Further, they state, even if the Commission recommends an adjustment in the 2-pound DDU rate, it is the Governors' expectation that "some of the additional revenue that might be generated by a higher 2-pound rate could be used to

mitigate rates in other DDU rate cells, leaving the net revenue consequences . . . unchanged.” *Id.* at 10-11.

Comments on Reconsideration. The parties who have submitted comments on reconsideration present divergent suggestions as to how the Commission should resolve the DDU issue. Their views differ both on the question of whether the initially-recommended 2-pound rate should be modified and, if so, what other changes should be recommended in the schedule of DDU rates.

United Parcel Service states that the Commission has unquestioned authority to correct the “anomalous” \$1.10 rate, and argues that it should be increased to \$1.29 because it is not supported by “one scintilla of evidence[.]” UPS Comments at 2. In contrast, the Postal Service, CTC and OCA argue that the \$1.10 rate may be maintained if the Commission finds sufficient justification for affirming its initial recommendation. The Postal Service suggests that in order to maintain the \$1.10 rate, 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” with respect to the evidentiary record and the policies of the Act. Postal Service Comments at 2. CTC states that the threshold issue posed on reconsideration is “whether the \$1.10 rate proposed for 2-pound DDU is justifiable and desirable[;]” if this is the case, “the Commission need simply provide an explicit reasoning for its recommendation.” CTC Comments at 2 (footnote omitted). OCA declares that its position is “that it may be appropriate to continue to recommend the 2-pound rate of \$1.10, but that the issue of cost recovery should be discussed and the Commission’s position clearly stated.” OCA Comments at 4.

Should the Commission decide to recommend a different 2-pound rate on reconsideration, the commenting parties offer similarly divergent views on what other revisions in the DDU rate schedule would be appropriate. UPS argues that the Commission should adhere to the rate design methodology that would produce a 2-pound rate of \$1.29, “leaving unchanged all other rates resulting from [the

Commission's] methodology[,] in light of the "infinitesimal" net revenue and cost coverage effects of that change. UPS Comments at 3-4.

The Postal Service comments that, in the event the Commission recommends an increased 2-pound rate, "it should look to see whether other DDU rates could be adjusted downward to leave net DDU revenue unaffected." Postal Service Comments at 2. CTC argues that the Commission should adhere to its preference in prior dockets "to avoid developing rates on remand which would generate unanticipated revenue for the Postal Service[.]" 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." CTC Comments at 3-4. To achieve this objective, CTC proposes a DDU rate schedule that "start[s] with a 2-pound rate of \$1.20 and progress[es] 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." *Id.* at 4 (footnote omitted), Exhibit A.

Commission Recommendation on Reconsideration. Upon reconsideration of the record made on the pertinent issues in this proceeding, the technical bases of the Commission's original recommendations concerning the DDU category of Parcel Post, and the comments provided by the parties in response to Order No. 1215, the Commission concludes that the Parcel Post rates initially recommended for the DDU category in the decision of May 11 should be amended. The primary basis for this conclusion is the evident inconsistency of the initially-recommended 2-pound rate element with the overall rate design methodology used to develop other DDU rates.

As the Commission noted in Order No. 1213, the selection of a "hard-coded" rate of \$1.10 was both incompatible with the rate design methodology otherwise applied and "not in furtherance of any intended outcome." Order No. 1213 at 3. On the contrary, in the absence of other overriding considerations, the result of including an artificially suppressed rate element for the 2-pound cell — which accounts for more than 51 percent of total estimated DDU parcel volumes — is a distortion of the rate design through which revenues are recovered from DDU parcels of different weights.

As Order No. 1213 also suggests, had the Commission detected the anomalous hard-coded rate element prior to issuance of the Decision of May 11, the likely outcome would have been amending the rate element to \$1.29 and rebalancing overall Parcel Post revenues through minor revisions in rate elements within all five rate schedules for the subclass. At this juncture, however, the Governors have expressed their approbation of all other Parcel Post rates and their associated revenues. Nor does any participant commenting in response to Order No. 1215 suggest any alteration in other Parcel Post rate schedules. Accordingly, the Commission concludes that the appropriate course of action at this time is an amendment that confines alterations in rate elements to the schedule for DDU parcels exclusively.

United Parcel Service proposes that the Commission limit its amendment to recommending a 2-pound DDU rate of \$1.29, arguing that the resulting additional revenue “would have a negligible effect on Parcel Post’s cost coverage[,]” and that recommending reductions in other DDU rates would constitute further departures from the underlying methodology. UPS Reply Comments at 2-3. However, the Commission is disinclined to recommend this proposed solution for two reasons. First, the Commission finds no apparent justification on the record for increasing the overall institutional cost contribution of the Parcel Post subclass above the level incorporated in the initially-recommended rates, which exceeds the percentage markup advocated by UPS earlier in this proceeding.⁴ Second, the Governors have expressed their approval of the initially recommended revenue levels for the Parcel Post subclass generally and the DDU rate category particularly, and this consensus reinforces the Commission’s disinclination to recommend rates that would further increase Parcel Post revenues.

Therefore, the corrective action the Commission recommends is designed to rebalance the revenues already associated with the DDU rate category. CTC has

⁴ United Parcel Service witness Henderson advocated a cost coverage of 107 percent for Parcel Post in this proceeding. PRC Op. R97-1, May 11, 1998, para. 5642. In the Commission’s original decision, the narrative opinion erroneously reports that the recommended Parcel Post rates incorporate a coverage of 109 percent. *Id.*, para. 5645. The cost, volume and revenue summary contained in Appendix G displays a resulting coverage of 108 percent. *Id.*, Volume 2, Appendix G, Schedule 1.

proposed one way of achieving this objective, by applying a proportional adjustment factor to each rate element, after incorporating the 2-pound rate of \$1.29. CTC Comments at 4-5, Exhibit A. CTC's proposed alternative rate schedule would increase progressively from a 2-pound rate of \$1.20 to a 70-pound rate of \$3.36.

The Commission recommends an alternative approach that preserves revenue neutrality, contains rates close to those advanced by CTC, but is designed to recover revenues on a somewhat different basis. Rather than maintaining proportional relationships among the absolute numerical values of the rate elements, the Commission has derived a schedule that applies an adjustment factor to the avoided costs for each weight cell. Incorporation of such a factor in rates is similar to the Commission's methodology for recognizing cost avoidances and constraints among the inter-BMC, intra-BMC, and destination-BMC Parcel Post rate categories. See Appendix A.

The resulting recommended rates progress from \$1.21 at the 2-pound level to \$3.37 for a 70-pound parcel. In the Commission's opinion, recommending rates that are based in a clear way on the costs for the parcels at each weight increment is the most equitable approach to amending the DDU schedule, in response to § 3622(b)(1). Moreover, a rate schedule adjusted in this fashion results in rational and identifiable relationships among the rate elements, and thus is more compatible with the § 3622(b)(7) factor.

III. LIBRARY MAIL

Background. In its original Request, the Postal Service proposed that the pre-existing rates for the Library Mail subclass be increased by 14.3 percent on average, based on data which indicated substantial cost level increases for the subclass. The Postal Service witness who developed the proposed rates anticipated that the vast majority of Library Mail — some 95 percent of eligible pieces — would not pay the proposed rates, but instead would be mailed as Special Standard Mail and pay the generally lower rates proposed for that subclass. USPS-T-38 at 22-23. Nonetheless, the Service’s financial analysis for its proposal included within Library Mail, pieces that it expected actually to be mailed as Special subclass Standard Mail, and to pay rates under the schedule for that subclass. Compare USPS-Exhs. 30A and B.

The Commission’s Office of the Consumer Advocate proposed an alternative approach to arriving at cost-based rates for Library Mail in this proceeding. Citing the “volatile” character of Library Mail’s largest cost components due to the small volume sampled and high coefficients of variance, OCA’s witness proposed using the estimated costs of Special subclass Standard Mail as a proxy for those of Library Mail, and basing rates on these proxy costs. This approach, the witness noted, would be congruent with the Commission’s treatment of the costs of Classroom Periodicals in Docket No. MC96-2. Tr. 24/13093-97. On brief, the ALA endorsed this approach; the Postal Service opposed it, while stating that it was “quite sympathetic with the motivation underlying the proposal[.]” PRC Op. R97-1, para. 5739, *quoting* Postal Service Brief at V-213-14.

In the Opinion and Recommended Decision of May 11, the Commission declined to recommend the Postal Service’s proposal for Library Mail because of its anomalous result for this statutorily-favored mail classification: the *de facto* abolition of the subclass by rate increase. *Id.*, para. 5740. However, the Commission also declined to adopt OCA’s proposed alternative because Special subclass Standard Mail is sufficiently different from Library Mail that it could not “recommend using the costs of the former as a proxy with a level of assurance.” *Id.*, para. 5742.

Rather than accepting either proposal, the Commission recommended adoption of a remedial classification provision admitting all matter currently eligible for mailing as Library Mail to the Special subclass, and thereby allowing access to mailing at its rates. *Id.*, para. 5744. The Commission explicitly declined to recommend discrete rates for Library Mail, recommending instead a rate schedule that directs the attention of mailers to the availability of Special Standard rates for matter eligible to be mailed as Library Mail. In so doing, the Commission emphasized that the recommended solution was not intended to abolish Library Mail as a recognized mail classification, but rather to give the Postal Service “an opportunity to focus special scrutiny on Library Mail with a view to developing a permanent solution to the rate anomaly posed in this case.” *Id.*, para. 5745.

While the Governors find the “general result” intended by the Commission’s recommendation for Library Mail to be “acceptable,” they have returned the recommended decision on that subclass for further deliberations, citing several considerations. Governors’ Decision at 12. As an initial matter, the Governors express concern whether the Commission’s recommended solution is consistent with its duty under 39 U.S.C. § 3622 to render a recommended decision on the Postal Service’s omnibus Request for changes in rates. *Ibid.*

Second, the Governors find the joint rate schedule recommended for Library Mail and Special Standard Mail to be “unclear,” largely in connection with the question of Library Mail’s eligibility for the presorted rate categories of Special Standard Mail. While the Governors note that the Commission did not explicitly recommend a classification change that would qualify Library Mail for Level A and Level B Special Standard Mail rates, and that Appendix G to the Commission’s decision does not indicate any Library Mail volumes in these categories, they observe that an intent to preclude eligibility “cannot be deduced from the rate schedule itself.” *Ibid.*

Third, the Governors opine that permitting all Library Mail to qualify for Special Standard Mail rates “may be inconsistent with the Commission’s stated intent to seek to preserve the Library Mail subclass” because in their view “such a change would actually

encourage mailer behavior so blurring the distinction between the two subclasses that collection of accurate Library Mail cost data under such a regime might be virtually impossible.” Id. at 12-13. Additionally, they note that no proposal explicitly designed to accomplish such a change was advanced on the record during the proceeding. Id. at 13.

These anticipated problems could be avoided, the Governors state, by the Commission’s recommendation of a discrete rate schedule for Library Mail which contains the rate elements for the unsorted category of Special Standard Mail. Except for the absence of the presorted rate categories, they note, this outcome “closely corresponds to the treatment afforded Classroom Periodicals vis-a-vis the Nonprofit Periodicals rate schedule.” Ibid. The Governors also observe that recommending such a rate schedule would obviate the need for a temporary mail classification “bridge,” and any future action required to remove it.

While the Governors accept the recommended joint rate schedule under protest, take no action on the recommended classification “bridge” provision, and return this matter to the Commission for further deliberations, they conclude by emphasizing that they “embrace the practical rate consequences apparently intended” by the initial recommendation for Library Mail. However, they seek recommendation of a discrete rate schedule on the grounds of “greater clarity, less administrative disruption, and enhanced prospects for the future viability of Library Mail as a distinct subclass.” Ibid.

Comments on Reconsideration. In its comments, the Postal Service endorses the Governors’ suggestion that the Commission recommend separate rate schedules for Special and Library Standard Mail, excluding the presort discounts of the Special subclass from the Library subclass rate schedule. Postal Service Comments at 2-3. The two other commenting parties suggest dispositions that differ both from the Commission’s original recommendation and the Governors’ suggestions for establishing Library Mail rates.

The OCA explains why it continues to view its earlier proposal as superior. The ALA urges the Commission either to recommend that Library rates remain at the level established in Docket R94-1, or to assume that the unit attributable costs of Library and

Special Standard Mail are the same, and to recommend separate rates for Library Mail that would continue to be 2.7 percent below those for Special Standard Mail in accordance with the Revenue Forgone Reform Act of 1993 (RFRA). ALA Comments at 6-7.

Commission Recommendation. Both the Commission and the Governors are concerned with preserving the recognizable subclass of Library Mail. The Commission was of the view that the Library Mail rate proposal submitted by the Postal Service as part of the July 1997 Request would have effectively eliminated Library Mail. The rates proposed by the Service for Library Mail were higher than those proposed for Special Standard Mail, and since almost all Library Mail was then eligible to be sent as Special Standard Mail, only a minuscule volume would have been sent as Library Mail had the Service's proposal been approved. In fact, the Commission was concerned that the only mailers that would use Library Mail rates might be those who were so uninformed that they were unaware that lower rates were available for their mail matter.

The OCA and ALA argue that the Commission should prevent this massive diversion by recommending Library rate levels generally below those for Special Standard Mail, either by using the costs of the latter as a proxy to be marked up under the RFRA formula or by resolving to leave pre-existing rates for Library Mail unchanged. The Commission finds these arguments unpersuasive. While the Postal Service has conceded the "instability" and "volatility" of its cost estimates for Library Mail in this case,⁵ and the Commission continues to view them with concern, it would be unjustified to assume that the costs of Library Mail have not changed since rates were recommended in Docket No. R94-1. Likewise, as the Commission found in the decision of May 11, Library Mail is sufficiently different from Standard Mail that a cost proxy cannot be used with a reasonable level of assurance in this case. No new evidence or analysis justifies either taking such a step on reconsideration, or finding that reported cost estimates are so insubstantial as to justify leaving Library Mail rates unchanged.

⁵ See PRC Op. R97-1, para. 5741; Governors' Decision at 11.

The Commission attempted to resolve this anomalous situation by recommending a classification change that would clarify that as the preferred category intended to be eligible for low rates, “all mail currently eligible for mailing as Library Mail” would be eligible for either Special Standard Mail rates or Library Mail rates, whichever was lower. PRC Op. R97-1, para. 5743.⁶ The Commission’s unstated assumption was that libraries and other users of Library Mail rates would continue to identify their mailpieces as Library Mail so long as they could take advantage of the lowest available rate.

The Governors suggest that the unusual situation of a Library Mail rate schedule that refers mailers to the Special Standard Mail rate schedule could easily lead mailers to identify mailpieces as Special Standard Mail, and thus effectively eliminate identifiable Library Mail from the mailstream. The Governors suggest that a Library Mail rate schedule that numerically shows the lowest rates for which Library Mail is eligible would avoid this potential confusion. The Commission will follow the Governors suggestion in this regard.

The Governors also find the May 11, Opinion and Recommended Decision unclear as to whether the Commission intended to recommend that Special Standard Mail presort discounts be made available to Library Mail. This question involves the same issues as were addressed in extending single piece Special Standard Mail rates to Library Mail.

Currently, essentially all⁷ of Library Mail is eligible for Special Standard Mail rates, so a fortiori, essentially all presorted Library Mail is eligible for Special Standard Mail presort rates. If presorted Library Mail can get lower, discount rates only by shifting into

⁶ The Governors express doubt over whether the recommendation of a rate schedule containing only text, that refers readers to numbers found elsewhere, is a valid recommended decision. The Commission considers that recommendation to comply with 39 U.S.C. § 3624(d). It effectively changed Library Mail rates, and was an integral part of the Commission finding that recommended rates would provide a specific amount of test year Library Mail revenues.

⁷ Postal Service witness Adra estimated that 95 percent of Library Mail would be sent as Special Standard Mail, but he offered no factual basis for this estimate. Further, he did not provide evidence that there is any volume of Library Mail currently in the system that is ineligible for Special Standard Mail rates, so his estimate could as easily have been 98, or even 100 percent. The classification change recommended by the Commission made this uncertainty moot.

Special Standard Mail, it will do so. The unavailability of specific Library Mail presort discounts should not be allowed to cause Library Mail that is (or can be) presorted to shift into Special Standard, potentially exacerbating cost distinctions between the two subclasses, and distorting any effort to carefully examine the cost behavior of these similar subclasses and obtain accurate Library Mail cost data. See, Governors' Decision at 13.

PRC Op. R97-1, Appendix G, does not quantify presorted Library Mail, as no volume estimates for such mail were presented. Both the Postal Service and the Commission revenue projections are consistent with the assumption that any Library Mail that can be presorted could, and would, pay Special Standard Mail presort rates. The current rates, established in Docket R94-1, allow presorted pieces eligible for Library Mail that weigh seven pounds or less to pay lower rates by using Special Standard Mail. Presumably, those Library Mail users sophisticated enough to presort, already have switched into the less costly Special Standard Mail subclass, a factor that may have contributed to the divergent unit cost trends of Library and Special Standard Mail.

The appropriate course of action in this circumstance is to clarify that presorted Library Mail can both retain its status as Library Mail and take advantage of existing Special Standard Mail presort discounts. This will have no measurable effect on Postal Service revenues, and will allow and foster the continuation of Library Mail as a viable separate subclass. For this reason, the existing Special Standard Mail presort discounts will be enumerated in the Library Mail rate schedule recommended on reconsideration.⁸ Conforming changes to the Domestic Mail Classification Schedule are also recommended.

Extending the presort discounts currently available to Special Standard Mail pieces to Library Mail is directly responsive to statutory classification factors. Items eligible for Library Mail rates already receive reduced rates when mailed as Special Standard Mail if they weigh seven pounds or less. Allowing qualified mailings to retain

⁸ The Postal Service has discretion to implement regulations that will assure identification of pieces eligible for Library Mail that pay presort discount rates. See DMCS § 342.

their identity as Library Mail when obtaining access to presort discounts will make for a more fair and equitable classification schedule. 39 U.S.C. § 3623(c)(1). Additionally, minor classification changes that provide a means for maintaining a system that will preserve a viable Library Mail subclass are in accord with the desires of both the Postal Service and Library Mail users. 39 U.S.C. § 3623(c)(5).

Were some Library Mail to remain ineligible for Special Standard Mail rates and discounts, current information would dictate that a very few Library Mail users might have to pay higher rates than those applicable to Special Standard Mail, as initially proposed by the Postal Service. For the reasons described previously, that result is contrary to the preferences expressed by this Commission, the Postal Service Governors, and Library Mail users such as ALA. The changes recommended herein will result in a simple, identifiable relationship between Library and Special Standard Mail rates, consistent with 39 U.S.C. §§ 3622(b)(7) and 3623(c)(6).

The Commission and the Governors appear to agree that Library Mail should not pay higher rates than Special Standard Mail. To achieve this end, the Commission recommended a new DMCS § 323.11 k. classification bridge to eliminate this anomaly. The Governors took no action on that recommendation. Full notice was given that the issue of the relationship between the rates and classifications of Special and Library Standard Mail had been returned for reconsideration, and participants were invited to submit evidence and argument. No mailer expressed any opposition to the proposition that Library Mail should not pay higher rates than Special Standard Mail. Acceptance of the classification changes recommended by the Commission would achieve that result and have the positive effect of eliminating a source of potential continuing confusion.

IV. WITHIN COUNTY DISCOUNTS

Background. The May 11, 1998 Opinion and Recommended Decision, recommended a classification change requested by the Postal Service, increasing the number of Within County presort tiers from two to four. The Commission also recommended separate discounts for barcoded letters and barcoded flats, for each tier except carrier route. The presort rates and the barcode discounts were based on costs for Nonprofit Periodicals, but were tempered to ease the transition to the new rate structure.

Shortly after issuing its decision, the Commission informed the Board of Governors that the barcode discounts recommended for a small segment of Within County Periodicals provide rates for barcoded pieces that do not reflect the proper relative benefit for presortation.⁹ The letter further noted that this result was unintended, and that the Commission would consider alternatives designed to provide more appropriate price signals should the Governors request reconsideration of this issue. See May 20, 1998 Commission Letter to the Board of Governors.

The Governors' Decision referred to the Commission's correspondence, and requested reconsideration of the rates in question.

Comments on Reconsideration. Three participants —NNA, the Postal Service and OCA — responded to the Commission's request for comments on how the rate relationships should be corrected. See Order No. 1215 (July 8, 1998). NNA suggested that the Commission present draft rates that could be used as the basis for a settlement agreement. NNA Comments at 3. The OCA agreed that the rates should be re-examined but, like NNA, did not suggest specific adjustments. OCA Comments at 1-2. The Service noted that there were a variety of means the Commission could employ

⁹ In most cases, the rates the Commission originally recommended are higher for more finely presorted pieces. This relationship runs counter to the cost patterns for the mail involved, and therefore sends signals to mailers that tend to discourage presortation. The Commission estimates that the amount of mail affected by this anomalous recommendation is about 1.4 percent of Within County Periodicals volume, or 13.8 million pieces.

to correct the anomaly, and suggested that one option would be to use Nonprofit Periodicals rates to establish ratios between the presort tiers and the associated barcode discounts, and then apply these ratios to Within County. Postal Service Comments at 1. The Service said this approach would avoid disrupting other Within County rates and have a *de minimis* effect on subclass net revenue. *Id.* at 2.

Commission Recommendation on Reconsideration. The Service uses required presort letters to explain its “ratio” approach. In Nonprofit, the ratio of the barcode discount to the piece rate for required presort letters is 6.2/25.1, which equals 0.247. If this ratio is applied to the 9.5-cent piece rate for required presort letters in Within County, the result is a barcode discount of 2.3 cents. Other barcode discounts would be established similarly and, as the Service indicates, *id.* at 1, some further adjustment would be needed as well.

The barcode discount for required presort letters in the Commission’s May 11 Recommended Decision is 6.2 cents. Reducing this to 2.3 cents, with corresponding reductions in the other barcode discounts, would result in a substantial reduction in the automation incentive provided, and thus a reduction in the support for the Service’s automation program. Also, this approach would result in an increase in the revenue from Within County mail.

As an alternative, the Commission recommends an approach which aims at limited adjustment in the 3-digit barcode discounts, along with balancing adjustments to the basic and 5-digit discounts. By acknowledging the volumes in the affected barcode categories, these adjustments can be made to avoid anomalous final rates and to achieve a final revenue which is very close to the revenue of the May 11 rates. See Appendix A. This approach also involves a much more limited reduction in the support for the automation program. Specifically, basic, 3-digit, and 5-digit barcode discounts for letters are changed from May 11 levels of 6.2 cents, 4.7 cents, and 3.5 cents, to recommended levels of 4.9 cents, 4.4 cents, and 3.9 cents, respectively. For flats, corresponding May 11 discounts of 4.6 cents, 2.4 cents, and 2.1 cents are recommended to be 3.0 cents, 2.6 cents, and 2.2 cents.

These rates are fair to mailers and preserve, to the extent feasible, a reasonable relation to costs. In the future, when experience is gained with the new discount structure in Within County, further adjustments can be made. This recommendation produces rational, identifiable relationships between rates, 39 U.S.C. § 3622(b)(7), and supports the Service's automation program through cost-based worksharing discounts, 39 U.S.C. § 3622(b)(3).

UNITED STATES OF AMERICA
POSTAL RATE COMMISSION
WASHINGTON, DC 20268

Before Commissioners: Edward J. Gleiman, Chairman;
W.H. "Trey" LeBlanc III, Vice Chairman;
Ruth Y. Goldway and George A. Omas

Postal Rate and Fee Changes

Docket No. R97-1

FURTHER RECOMMENDED DECISION

(Issued September 24, 1998)

The Commission, upon reconsideration of the record in the above-entitled proceeding, having issued its Opinion on Reconsideration, which is attached hereto and made a part hereof,

IT IS ORDERED:

1. That the Commission's Opinion be transmitted to the Governors of the Postal Service and that the Governors thereby be advised that:
 - a. The rates of postage and fees for postal services set forth in Appendix One are in accordance with the policies of title 39 of the United States Code and the factors set forth in § 3622(b) thereof; and they are hereby recommended to the Governors for approval.
 - b. The changes to the Domestic Mail Classification Schedule set forth in Appendix Two are in accordance with the policies of title 39 of the United States Code and the factors set forth in § 3623(c) thereof; and they are hereby recommended to the Governors for approval.

By the Commission.
(S E A L)

Margaret P. Crenshaw
Secretary

RECOMMENDED RATE SCHEDULES

Reconsideration of the matters identified in the Governors' Decision entails several changes in the rate schedules issued as part of the Domestic Mail Classification Schedule (DMCS). In Periodicals Rates Schedule 423.2 (Within County, Full Rates), the discounts for prebarcoded letters and flats recommended upon reconsideration are shown in italics. In other schedules affected by the reconsideration, replacement schedules have been provided.

**STANDARD MAIL
RATE SCHEDULE 322.1E**

**PARCEL POST SUBCLASS
DESTINATION DELIVERY UNIT RATES**

(dollars)

Weight (Pounds)		Weight (Pounds)	
		36	2.46
2	1.21	37	2.47
3	1.26	38	2.51
4	1.32	39	2.54
5	1.37	40	2.57
6	1.41	41	2.60
7	1.45	42	2.62
8	1.50	43	2.65
9	1.55	44	2.67
10	1.59	45	2.70
11	1.63	46	2.74
12	1.67	47	2.77
13	1.72	48	2.79
14	1.74	49	2.82
15	1.78	50	2.84
16	1.82	51	2.87
17	1.85	52	2.90
18	1.90	53	2.92
19	1.92	54	2.94
20	1.96	55	2.98
21	1.99	56	3.01
22	2.02	57	3.03
23	2.06	58	3.07
24	2.08	59	3.07
25	2.12	60	3.10
26	2.15	61	3.13
27	2.19	62	3.16
28	2.21	63	3.18
29	2.25	64	3.21
30	2.27	65	3.24
31	2.31	66	3.27
32	2.33	67	3.29
33	2.36	68	3.31
34	2.40	69	3.34
35	2.43	70	3.38
		Oversize parcels ¹	8.69

SCHEDULE 322.1E NOTES

- ¹ See DMCS section 322.161 for oversize Parcel Post.
- ² Parcel Post pieces exceeding 84 inches in length and girth combined and weighing less than 15 pounds are subject to a rate equal to that for a 15 pound parcel for the zone to which the parcel is addressed.
- ³ A fee of \$100.00 must be paid each year for DBMC, DSCF, and DDU.

**STANDARD MAIL
RATE SCHEDULES 323.1 AND 323.2
SPECIAL AND LIBRARY RATE SUBCLASSES**

Schedule 323.1: Special

		Rates (cents)
First Pound	Not presorted ⁴	113
	LEVEL A Presort (5-digits) ^{1, 2}	64
	LEVEL B Presort (BMC) ^{1, 3, 4}	95
Each additional pound through 7 pounds		45
Each additional pound over 7 pounds		28

Schedule 323.2: Library

First Pound	Not presorted ⁴	113
	LEVEL A Presort (5-digits) ^{1, 2}	64
	LEVEL B Presort (BMC) ^{1, 3, 4}	95
Each additional pound through 7 pounds		45
Each additional pound over 7 pounds		28

SCHEDULE 323.1 AND 323.3 NOTES

- ¹ A fee of \$100.00 must be paid once each 12-month period for each permit.
- ² For mailings of 500 or more pieces properly prepared and presorted to five-digit destination ZIP Codes.
- ³ For mailings of 500 or more pieces properly prepared and presorted to Bulk Mail Centers.
- ⁴ For Barcoded Discount, deduct \$0.03 per-piece

**PERIODICALS
RATE SCHEDULE 423.2**

**WITHIN COUNTY
(Full Rates)**

	Rate (cents)
Per Pound	
General	13.3
Delivery Office ¹	10.7
Per Piece	
Required Presort	9.5
Presorted to 3-digit	8.8
Presorted to 5-digit	8.0
Carrier Route Presort	4.3
Per Piece Discount	
Delivery Office ²	0.4
High Density (formerly 125 piece) ³	1.4
Saturation	1.8
Automation Discounts for Automation Compatible Mail ⁴	
From Required:	
Prebarcoded Letter size	4.9
Prebarcoded Flat size	3.0
From 3-digit:	
Prebarcoded Letter size	4.4
Prebarcoded Flat size	2.6
From 5-digit:	
Prebarcoded Letter size	3.9
Prebarcoded Flat size	2.2

SCHEDULE 432.2 NOTES

- ¹ Applicable only to carrier route (including high density and saturation) presorted pieces to be delivered within the delivery area of the originating post office.
- ² Applicable only to carrier presorted pieces to be delivered within the delivery area of the originating post office.
- ³ Applicable to high density mail, deducted from carrier route presort rate. Mailers also may qualify for this discount on an alternative basis as provided in DMCS section 423.83.
- ⁴ For automation compatible pieces meeting applicable Postal Service regulations.

SCHEDULE 1000

	Fee
First-Class Presorted Mailing	\$100.00
Periodicals	
A. Original Entry	\$305.00
B. Additional Entry	\$50.00
C. Re-entry	\$50.00
D. Registration for News Agents	\$50.00
Regular, Enhanced Carrier Route, Nonprofit, and Nonprofit Enhanced Carrier Route Standard Mail Bulk Mailing	\$100.00
Parcel Post: Destination BMC, SCF, and DDU	\$100.00
Special and Library Standard Mail Presorted Mailing	\$100.00
Authorization to Use Permit Imprint	\$100.00
Merchandise Return (per facility receiving merchandise return labels)	\$100.00
Prepaid Reply Mail Permit (see Fee Schedule 934)	
Business Reply Mail Permit (see Fee Schedule 931)	
Authorization to Use Bulk Parcel Return Service	\$100.00

RECOMMENDED CHANGES IN THE DOMESTIC MAIL CLASSIFICATION SCHEDULE

Reconsideration of the matters identified in the Governors' Decision entails several changes in the language contained in the Domestic Mail Classification Schedule. Proposed additions to text of the classification schedules are underlined and proposed deletions are in brackets.

AMEND THE DOMESTIC MAIL CLASSIFICATION
SCHEDULE AS FOLLOWS:

**STANDARD MAIL
CLASSIFICATION SCHEDULE**

* * * * *

323.2 Library Subclass

* * * * *

[323.22 **Basic Rate Category.** The basic rate category applies to all Library subclass mail.]

323.22 **Single-Piece Rate Category.** The single-piece rate category applies to Library subclass mail not mailed under section 323.23 or 323.24.

323.23 **Level A Presort Rate Category.** The Level A presort rate category applies to mailings of at least 500 pieces of Library subclass mail, prepared and pre-sorted to five-digit destination ZIP Codes as specified by the Postal Service.

323.24 **Level B Presort Rate Category.** The Level B presort rate category applies to mailings of at least 500 pieces of Library subclass mail, prepared and pre-sorted to destination Bulk Mail Centers as specified by the Postal Service.

323.2[3]5 **Barcoded Discount.** The barcoded discount applies to Library subclass mail that is entered at designated facilities, bears a barcode specified by the Postal Service, is prepared as specified by the Postal Service in a mailing of at least 50 pieces, and meets all other preparation and machinability requirements of the Postal Service.

* * * * *

382 Special and Library Subclasses

A presort mailing fee as set forth in Schedule 1000 must be paid once each year at each office of mailing by or for any person who mails presorted Special or Library subclass mail. Any person who engages a business concern or other individuals to mail presorted Special or Library subclass mail must pay the fee.

* * * * *

Revenue Calculations for DDU Parcels

Wt. Lbs.	May 11 Parcel Post DDU Rates \$/piece	Volume Pieces	May 11 DDU Revenue \$	Revised DDU Rates \$/piece	Revised Revenue \$
2	1.10	414,965	456,462	1.21	502,108
3	1.35	153,982	207,876	1.26	194,017
4	1.42	82,000	116,440	1.32	108,240
5	1.48	47,787	70,725	1.37	65,468
6	1.53	31,139	47,643	1.41	43,906
7	1.58	14,418	22,780	1.45	20,906
8	1.63	15,867	25,863	1.50	23,801
9	1.69	4,991	8,435	1.55	7,736
10	1.74	3,418	5,947	1.59	5,435
11	1.78	9,259	16,481	1.63	15,092
12	1.83	3,264	5,973	1.67	5,451
13	1.88	2,558	4,809	1.72	4,400
14	1.91	2,053	3,921	1.74	3,572
15	1.95	821	1,601	1.78	1,461
16	2.00	3,894	7,788	1.82	7,087
17	2.03	2,172	4,409	1.85	4,018
18	2.08	914	1,901	1.90	1,737
19	2.11	526	1,110	1.92	1,010
20	2.15	2,500	5,375	1.96	4,900
21	2.19	833	1,824	1.99	1,658
22	2.22	902	2,002	2.02	1,822
23	2.26	1,053	2,380	2.06	2,169
24	2.29	530	1,214	2.08	1,102
25	2.33	1,932	4,502	2.12	4,096
26	2.36	895	2,112	2.15	1,924
27	2.40	226	542	2.19	495
28	2.43	247	600	2.21	546
29	2.47	422	1,042	2.25	950
30	2.49	1,332	3,317	2.27	3,024
31	2.53	812	2,054	2.31	1,876
32	2.56	398	1,019	2.33	927
33	2.59	226	585	2.36	533
34	2.63	619	1,628	2.40	1,486
35	2.66	142	378	2.43	345

Wt. Lbs.	May 11 Parcel Post DDU Rates \$/piece	Volume Pieces	May 11 DDU Revenue \$	Revised DDU Rates \$/piece	Revised Revenue \$
36	2.69	141	379	2.46	347
37	2.71	165	447	2.47	408
38	2.75	111	305	2.51	279
39	2.78	97	270	2.54	246
40	2.81	242	680	2.57	622
41	2.84	76	216	2.60	198
42	2.86	64	183	2.62	168
43	2.90	88	255	2.65	233
44	2.92	38	111	2.67	101
45	2.95	89	263	2.70	240
46	2.99	69	206	2.74	189
47	3.02	19	57	2.77	53
48	3.04	50	152	2.79	140
49	3.07	75	230	2.82	212
50	3.10	109	338	2.84	310
51	3.13	116	363	2.87	333
52	3.16	205	648	2.90	595
53	3.18	275	875	2.92	803
54	3.20	43	138	2.94	126
55	3.24	33	107	2.98	98
56	3.27	19	62	3.01	57
57	3.29	0	0	3.03	0
58	3.33	52	173	3.07	160
59	3.34	31	104	3.07	95
60	3.37	0	0	3.10	0
61	3.40	0	0	3.13	0
62	3.43	51	175	3.16	161
63	3.45	15	52	3.18	48
64	3.48	0	0	3.21	0
65	3.51	17	60	3.24	55
66	3.54	0	0	3.27	0
67	3.56	0	0	3.29	0
68	3.58	0	0	3.31	0
69	3.61	11	40	3.34	37
70	3.65	0	0	3.38	0
		Totals	1,047,626		1,049,609
				Difference	1,983

Barcode Discounts for Within County Mail

	May 11 Discounts \$/piece	Volume Pieces	May 11 Discount Leakage \$	Revised Discounts \$/piece	Revised Leakage \$
Discounts f/ Basic Letters	0.062	264,515	16,400	0.049	12,961
Flats	0.046	890,746	40,974	0.030	26,722
Discounts f/ 3-digit Letters	0.047	305,573	14,362	0.044	13,445
Flats	0.024	1,004,944	24,119	0.026	26,129
Discounts f/5-digit Letters	0.035	1,376,508	48,178	0.039	53,684
Flats	0.021	11,095,145	232,998	0.022	244,093
		Totals	377,031		377,034
				Difference	3