

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

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POSTAL RATE AND FEE CHANGES, 1997

Docket No. R97-1

NOTICE OF THE UNITED STATES POSTAL SERVICE
OF DECISION OF THE GOVERNORS

The following Decision of the Governors has been mailed to the service list in

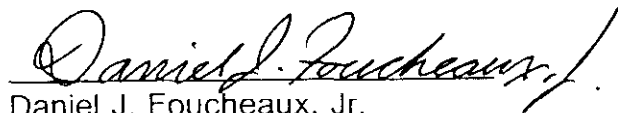
Docket No. R97-1:

Decision of the Governors of the United States Postal Service on
the Further Recommended Decision of the Postal Rate Commission
on Postal Rate and Fee Changes, Docket No. R97-1 (October 5,
1998)

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorney:



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October 13, 1998

DECISION OF THE GOVERNORS OF THE UNITED STATES POSTAL SERVICE
ON THE FURTHER RECOMMENDED DECISION OF THE POSTAL RATE COMMISSION
ON POSTAL RATE AND FEE CHANGES, DOCKET NO. R97-1

October 5, 1998

On May 11, 1998, the *Postal Rate Commission* issued its *Opinion and Recommended Decision* in Docket No. R97-1. On June 29, 1998, in two separate decisions, we accepted most of the recommended rate and classification changes, rejected the recommendations regarding Courtesy Envelope Mail and Prepaid Reply Mail, and allowed under protest and returned for reconsideration three relatively limited matters. Following the receipt of initial and reply comments on those matters from all interested parties, the Commission issued its *Opinion and Further Recommended Decision* upon reconsideration on September 24, 1998.

With respect to each of these three matters, the Governors have concluded that the rates and fees recommended by the Postal Rate Commission upon reconsideration will help maintain a fair and equitable mail classification system, and are in accordance with the policies of the Postal Reorganization Act. Therefore, we approve the relatively minor changes in the rate schedules for those three subclasses, along with associated classification changes, recommended by the Commission in its further *Recommended Decision*.

EXPLANATION

Standard Mail

Parcel Post. In June, we asked the Commission to reconsider the Destination Delivery Unit (DDU) portion of Parcel Post rates because a question had arisen regarding the recommended 2-pound DDU rate of \$1.10. In response to a motion filed by UPS on June 5, the Commission indicated in Order No. 1213 (June 19, 1998) that the rate it had recommended for that cell is "anomalous," but the Commission would quickly consider corrective action if we were to request reconsideration of the matter. Having had the opportunity to reexamine the DDU rates, the Commission has recommended that the 2-

pound DDU rate be adjusted, but that the other DDU rates be adjusted as well so as to leave the overall DDU target revenue unchanged. This is accomplished by raising the 2-pound rate, and reducing all other DDU rates slightly, through the application of an adjustment factor to the avoided costs for each rate cell. We agree with the Commission that the adjusted DDU rates are fair and equitable, and result in rational and identifiable relationships among the rate elements. We approve the new DDU rate schedule for Parcel Post recommended by the Commission.

Library Mail. We requested that the Commission reconsider its Library mail recommendations for three reasons. First, we had concerns that the Commission might not have adequately responded to the Postal Service's request for a recommended decision on rates for Library mail. Second, in the context of the Commission determination to make the rates for Special Standard mail available to Library mail, we were not sure whether the Commission intended that the worksharing discounts for Special Standard should be available as well. Third, we thought it might be possible to avoid the need for a classification "bridge" that would expand the standards of eligibility for Special Standard to include all mail eligible for entry as Library mail.

The Commission has addressed our first concern by very explicitly recommending a complete rate schedule for Library mail. Relative to our second concern, the new rate schedule makes clear that Library mailers will be able to take advantage of the same presortation discounts available to Special Standard mailers. This result seems reasonable because, as the Commission explains, the substantial eligibility overlap between Library and Special means that few, if any, mailers would be precluded from obtaining the discounts even if they were omitted from the Library rate schedule. Instead, the effect of such omission would be merely to force such mailers to switch from the Library subclass to Special, frustrating our mutual objective to preserve the identity of the Library subclass to the maximum extent practicable.

To create the necessary classification structure for such presort discounts, the Commission has recommended corresponding new provisions within the DMCS section on Library mail. These provisions make such discounts available to Library mailers on the same terms as

those applicable to Special Standard mailers. As we noted in our first Decision on this matter, however, these classification changes were not proposed in the testimony of any witness on the record, and therefore lack direct record support. The Commission's recommendations must be based on record evidence. In this instance, since mailers could qualify for the same discounts by switching subclasses, insistence on further evidence seems unnecessary to the circumstances. We approve the recommended changes in DMCS sections 323.2 and 382.

With respect to our third concern, we are still of the opinion that a classification "bridge," which would explicitly open up the Special Standard subclass to all matter otherwise eligible for entry as Library mail, is unnecessary. As the Commission has now recommended rate schedules for Library and Special Standard which are identical in all respects, and as we are now approving those rate schedules, we can identify no purpose to a new classification provision which might cause some Library mailers to consider themselves part of the Special Standard subclass, and enter their mail accordingly. Over time, if the rates for the two subclasses are proposed to diverge, it might make sense to revisit this issue on the record of some future proceeding. For now, however, the classification "bridge" seems premature, and we therefore reject recommended DMCS section 323.11.k, upon which we had deferred action in our June Decision on this matter.

Before concluding our discussion on Library mail, we wish to underline our agreement with the Commission's handling of arguments about the reported costs for this subclass. We agree that concerns about the reliability of these costs do not justify either substituting the reported costs for Special Standard as a proxy, or making no change at all in Library rates. See the Further Recommended Decision at page 14. In its "Comments on Reconsideration," filed July 30, 1998, the American Library Association (ALA) argued that the Postal Service "has failed to offer any explanation for the 'sharp' rise in the costs it has attributed to Library Mail in recent years, other than to admit the possibility of 'instability due to the small volume and nature of the IOCS sampling procedures.'" ALA Comments at 6. The record disproves this claim. In fact, when asked by ALA to "explain why the costs attributed by the Postal Service to library rate mail have increased so much in the last few years," Postal Service witness Alexandrovich responded as follows:

I disagree with the premise that there has been an exceptional increase in the costs of library rate mail over the past few years. Between 1993 (the base year for the R94-1 case) and 1996 (the base year for the current case), total CRA costs for library rate mail *declined* by 22.4 percent, from \$67.0 million in FY 1993 to \$52.0 million in FY 1996. On a unit basis, FY 1996 costs of \$1.7256 per piece are essentially the same as their FY 1993 level of \$1.7318 per piece.

The slight decrease in library rate unit costs over this period was accompanied by a significant decline in average weight per piece, from 2.74 pounds in FY 1993 to 1.69 pounds in FY 1996. As a result, the cost per pound increased over 48 percent between FY 1993 and FY 1996. I am unaware of any study on the characteristics of library rate mail that would explain this change in average weight per piece, but my speculation is that it reflects an increasing proportion of audio and video tapes, cd-rom discs, floppy discs, and other relatively lightweight electronic media in the library rate mail mix.

Over 40 percent of library rate costs are incurred in cost segments 3, 6, 7, and 10, which are predominantly driven by volume, shape, and automation compatibility. Piece weight is a relatively insignificant cost driver. Hence, the cost per piece has not decreased as the average weight per piece has declined.

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The very plausible explanations offered by witness Alexandrovich regarding the recent trends in reported Library mail data with respect to total costs, per-piece costs, and per-pound costs, undermine any suggestion that reported Library mail costs are not adequate for ratemaking purposes. In particular, the available cost information does not justify lower rates for Library mail than the ones now approved. As shown in Appendix G to the first Commission's Recommended Decision, the Commission estimates that, with unit revenues of \$1.66 and unit costs of \$2.02, the Postal Service would lose over 36 cents on each test year piece of Library mail. Acknowledging the existence of some imprecision in the cost estimate (i.e., the true costs could be somewhat higher or somewhat lower), we conclude that Library mailers are being treated fairly at the rate levels that the Commission has recommended and we have approved.

Periodicals

Within County. In a letter to the Chairman of the Board of Governors dated May 20, 1998, the Secretary of the Commission brought to our attention an anomalous consequence of its initially recommended rates for within-county. In order to afford the Commission the opportunity to correct this situation, we returned the within-county rates for reconsideration. The Commission has now modified its recommended rates slightly to address the matter, and the anomaly (i.e., higher rates for more finely presorted automation mail) has been eliminated. We approve the rate changes recommended by the Commission. The effect of this revision on within-county revenues will be *de minimis*.

ESTIMATE OF ANTICIPATED REVENUE

The Postal Reorganization Act requires that our Decision include an estimate of anticipated revenues, 39 U.S.C. § 3625(e). In June, we estimated that the rates that we were accepting would result in test year costs and revenues of approximately \$60.9 billion.¹ None of the changes we approve today will have any material effect on the costs and revenues of the three subclasses involved, or on the Postal Service's overall costs and revenues. Therefore, our estimate of anticipated revenue remains unchanged.

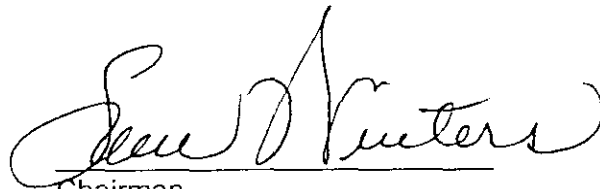
¹This amount is based on the hypothetical FY 1998 test year analysis employed by the Commission in its Opinion and Recommended Decision (May 11, 1998), and the Governors' Decision of June 29, 1998, supported by cost and revenue estimates established on the record in Docket No. R97-1.

ORDER

In accordance with the foregoing Decision of the Governors, the changes in postal rates and fees and in the Domestic Mail Classification Schedule attached hereto and incorporated herein are hereby approved and ordered into effect. The attached rate schedules for Within County Periodicals, Library Rate Mail, and DDU Parcel Post, and fee Schedule 1000, replace the schedules for those subclasses which were allowed under protest in our earlier Decision, but which had yet to be implemented. In accordance with Resolution No. 98-12 of the Board of Governors, dated October 5, 1998, the changes will take effect at 12:01 a.m. on January 10, 1999.

The foregoing was adopted by the Governors on October 5, 1998.

By The Governors:



Chairman

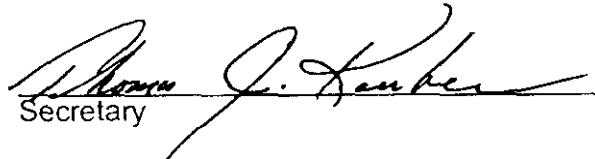
RESOLUTION OF THE BOARD OF GOVERNORS
OF THE
UNITED STATES POSTAL SERVICE
Resolution No. 98-12

Effective Date of New Rates
of Postage and Fees

RESOLVED:

Pursuant to section 3625(f) of Title 39, United States Code, the Board of Governors determines that except as further provided in this Resolution, the rates of postage and fees for postal services and the changes in mail classification that were ordered to be placed into effect by the Decision of the Governors adopted on October 5, 1998, shall become effective at 12:01 a.m. on January 10, 1999.

The foregoing Resolution was adopted by the Board of Governors on October 5, 1998.


Secretary

**ATTACHMENT A
TO THE
DECISION OF THE GOVERNORS OF THE
UNITED STATES POSTAL SERVICE
ON THE FURTHER RECOMMENDED DECISION OF
THE POSTAL RATE COMMISSION IN DOCKET NO. R97-1**

CHANGES TO DOMESTIC RATES AND FEES

**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 parcels¹ 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

ATTACHMENT B
TO THE
DECISION OF THE GOVERNORS OF THE
UNITED STATES POSTAL SERVICE
ON THE FURTHER RECOMMENDED DECISION OF
THE POSTAL RATE COMMISSION IN DOCKET NO. R97-1

CHANGES TO THE DOMESTIC MAIL CLASSIFICATION SCHEDULE

AMEND THE DMCS BY INSERTING UNDERLINED TEXT AND
DELETING BRACKETED TEXT 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.
