



# 2007 Rate and Rule Changes: Making Sense of It All

MFSA Southern California Chapter  
Norwalk, CA  
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# Topics

- Rate case overview
- Changes by class
- Address quality
- Implementation
- Related issues

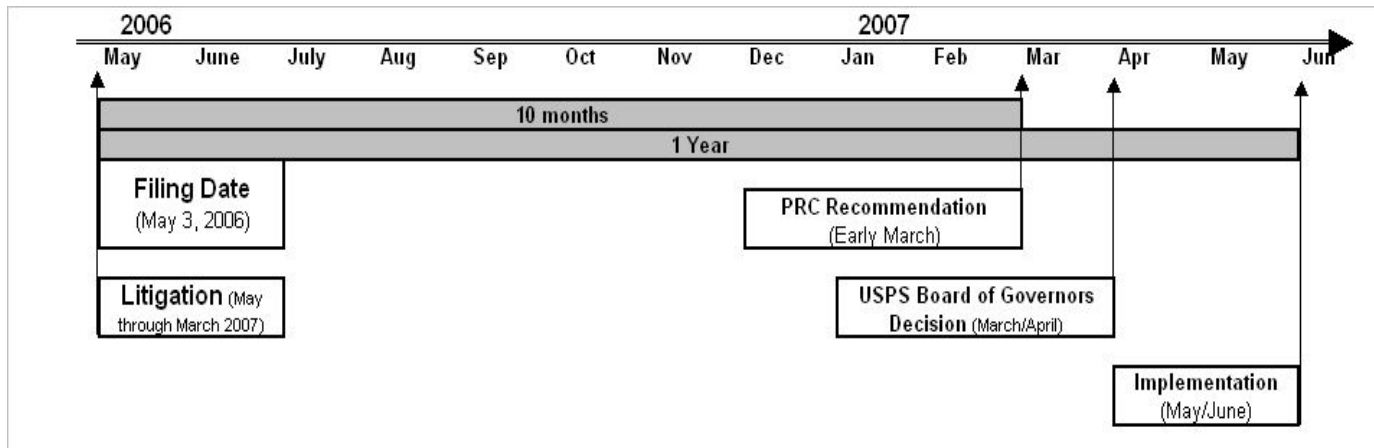


# Rate Case Overview

- R-2005
  - Across-the-board increase of  $\pm 5.4\%$
  - Needed solely to fund escrow requirement
  - Effective January 8, 2006
- R-2006
  - Traditional omnibus case; as filed, “average” increase 8.5%
  - Filed May 3, 2006; PRC decision February 26, 2007
  - Included funding for escrow and USPS operating expenses
  - Proposed significant rate structure and classification changes
  - Effective May 14, 2007
- After R-2006
  - PL 109-435 allows one more rate case under current process
  - USPS plans annual increases beginning in 2009



# Rate Case Overview



- USPS filed its case with the PRC last May 3, starting the ten-month ratesetting process
- The PRC had to issue a “recommended decision” to the BOG by March 5; actually issued on February 26
- Senior USPS management will review the PRC decision and submit a recommendation to the BOG
- The Governors vote to accept the decision, reject the decision and return it for reconsideration, or allow it under protest
- The BOG sets the effective date for the revised rates



# Rate Case Overview

- Cost data
  - Updates cost studies; incorporates “cost-based pricing”
  - Adjusts attributable costs, redistributes institutional costs
  - Revalues worksharing discounts
- Rate design
  - Less carrier route, deaveraged presort levels
  - Shape-based rates, focused on “efficient” mail
  - Less emphasis on weight
  - “Value pricing” – DALs, RPNs, address services
- Signals
  - Adapt mailpieces to mail processing equipment
  - “Inefficient” mail pays for its “inefficiency”
  - Stronger correlation between cost and price



# Rate Case Overview

- “Average”
  - Overall increase: 8.5% as filed; 7.6% as returned by PRC
  - Neither is representative of the actual increase for any class, or to be experienced by any individual ratepayer

“Average” increases	USPS Requested	PRC Recommended
First-Class Mail	7.1%	6.9%
Periodicals	11.7%	11.8%
Standard Mail	9%	9.3%
Package Services	13.4%	16.6%
Priority Mail	13.8%	13.6%
Express Mail	12.5%	12.5%
Overall	8.5%	7.6%



## Changes by Class – Priority Mail

- PRC modified USPS-proposed rates
- “Average” increase: 13.6%
- Rate structure changed
  - Zone 3 rates separated from local and zones 1 and 2 up to 32 pounds; rates are the same for zones 1, 2 and 3 from 32-70 pounds
- Weight de-emphasized
  - 13.6% increase in 1-pound rate (to \$4.60)
  - 20% decrease at 70 pounds
- Flat Rate box made permanent (\$9.15)
- Flat Rate envelope retained (1-lb. rate, \$4.60)
- Pick-up fee rises \$1 to \$14.25



## Changes by Class – First-Class Mail

- PRC modified USPS-proposed rates
- “Average” increase: 6.9%
- Shape-based rates
  - Shape defined by dimension, flexibility, thickness criteria
  - Common rate replaced by separate letter, flat, parcel rates
  - Introduced in single-piece, presort, and automation rates
  - Nonstandard surcharge eliminated
  - Recognizes different characteristics and costs
  - Encourages conversion to more efficient formats
- Less emphasis on weight
  - Second-ounce rate reduced
  - Rates lower for flats weighing more than six ounces



## Changes by Class – First-Class Mail

- Single-piece rate (first ounce): \$0.41 (+5.1%)
- Presort rates (first ounce)
  - Letters: \$0.373 (+.5%)
  - Flats: \$0.699 (+62.9%)
- Second ounce rate reduced
  - From \$0.24 to \$0.17 – single-piece rate
  - From \$0.237 to \$0.17 – non-automation letters/flats/parcels
  - From \$0.237 to \$0.125 cents – automation letters
- Weight limits
  - 3.5 ounces – letters (heavier letters rated as flats)
  - 13 ounces – flats and parcels (heavier pieces rated as Priority Mail)



# Changes by Class – First-Class Mail

- Automation
  - Letters: +6.5%-10.4%
  - Cards: +2.7%-7.8%
  - Flats: +1.9%-64.5%
  - Parcels (new): +87.2%-117.8%
    - Require 5-digit UCC/EAN Code 128 barcode or Postnet barcode
    - A \$0.05 surcharge applies to:
      - Nonbarcoded pieces
      - Parcels weighing less than two ounces
      - Irregularly-shaped parcels not prepared in 5-digit scheme or 5-digit containers
- Automation carrier route rate eliminated for letters and cards



## Changes by Class – First-Class Mail

- Letter size pieces...
  - Proposed \$0.17 surcharge for nonmachinable letters **not** recommended; additional costs are included in the one-ounce rate flat-size postage
  - Weighing more than 3.5 ounces, or
  - Exceeding any of the dimensions for a letter... are subject to postage as a **flat**
- Flat size mailpieces...
  - That are rigid, or
  - Not “uniform in thickness”, or
  - Exceeding any of the dimensions for a flat... are subject to postage as a **parcel**



## Changes by Class – Periodicals

- PRC modified USPS-proposed rates
- “Average” increase: 11.8%
  - Impact varies based on weight, ad content, etc.
  - Some light-weight magazines increasing 5% to 20%
- Radical change in rate structure
  - Pound rates retained, but piece rates replaced by complex matrix where rate is determined based on combination of piece/bundle, container type, container sort, and container point of entry
  - Historical revenue split (40% from pound rates, 60% from piece rates) adjusted to shift 10% of revenue from pound rates to new piece/container rates
  - New piece/container rate matrix recommended instead of USPS-proposed \$0.85 container charge
  - Impacts light weight magazines negatively



## Changes by Class – Standard Mail

- PRC modified USPS-proposed rates
- “Average” increase: 9.3%
- Pieces weighing 3.3 oz. or less (excluding dest. entry)
  - Letters
    - ECR: +7.5% to +10.8%
    - Automation: +6.7% to +9.1%
    - Nonautomation: -12.8% to +58.9%
  - Flats
    - ECR: +10.7% to +22.1%
    - Automation: +21.8% to +50.9%
    - Nonautomation: +19.4% to +41.9%
  - Parcels
    - ECR: -2.8% to +20.2%
    - Nonautomation: +11.2% +86.6%



## Changes by Class – Standard Mail

- Separate shape-based rates
  - Letters, flats, parcels
  - Flats and parcels formerly processed on UFSM1000 become “not flat-machinable”
  - Shape defined by dimension, flexibility, thickness criteria
- Residual shape surcharge eliminated
- Nonmachinable surcharge for letters replaced
  - Nonmachinable letter rates (pieces not exceeding 3.3 ozs.)
  - Flat or parcel rates
- Surcharges added
  - Saturation ECR flats: \$0.015 for each DAL
  - Nonbarcoded letters and parcels
  - Flats not sorted to five digits
  - NFMs not sorted to 5-digit/5-digit scheme containers



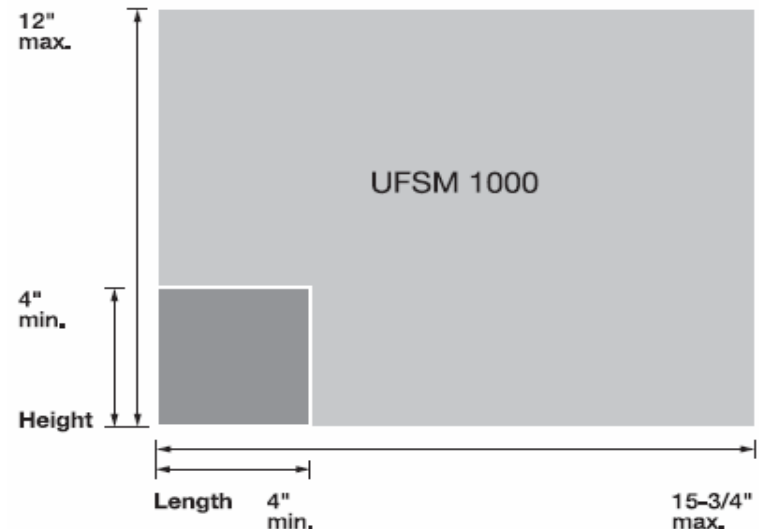
## Changes by Class – Standard Mail

- Presorted (nonautomation) letters divided into *machinable* and *nonmachinable*
- Basic and 3/5 rates deaveraged
  - 3/5 becomes separate 3-digit and 5-digit rates
  - Basic becomes MXD ADC and ADC
- Customized MarketMail reduced
  - Currently \$0.605 per piece; proposed at \$0.489; recommended at \$0.46
- “Standard Mail Forwarding” for ACS mailers
- Comparable changes for heavier pieces, Nonprofit



# Changes by Class – Standard Mail

- “Not Flat-machinable” flats
  - Dimensions compatible with the UFSM1000 but:
    - Rigid
    - Thickness of  $\frac{3}{4}$ ” or more, or less than  $\frac{3}{4}$ ” if length and/or width is 6” or less
    - Greater than 12” x 15”
    - Less than 5” x 6” *and* thicker than  $\frac{1}{4}$ ” (up to  $1\frac{1}{4}$ ”) regardless of rigidity
  - \$0.05 surcharge applies if:
    - Under six ounces and not UCC/EAN 128 or Postnet barcoded
    - Over six ounces and not UCC/EAN 128 barcoded unless prepared in 5-digit/scheme containers



Minimum: 4 inches  
Maximum: 15-3/4 inches

Minimum: 4 inches  
Maximum: 12 inches

Minimum: Pieces at least 4 inches but less than 5 inches long, greater than  $\frac{1}{4}$  inch thick. Pieces at least 5 inches long, 0.009 inch thick.  
Maximum: Pieces 13 inches long or less,  $1\frac{1}{4}$  inches thick. Pieces longer than 13 inches up to and including 15-3/4 inches,  $\frac{7}{8}$  inch thick.



# Changes by Class – Standard Mail

- Parcels
  - Current pricing: \$0.242 residual shape surcharge plus the applicable non-letter rate
  - Recommended: separate prices for parcels with different preparation guidelines for machinable and irregular parcels
  - \$0.05 surcharge applies to parcels
    - Under six ounces if not UCC/EAN 128 or Postnet barcoded
    - Over six ounces if not UCC/EAN 128 barcoded unless prepared in 5-digit/scheme containers



# Changes by Class – Package Services

- **Bound Printed Matter**
  - PRC modified USPS-proposed rates
    - Single-piece: +7.1% to +10.4%
    - Presort: +13.5% to +20.1% per piece  
+20.1% to +28.4% per pound
    - Larger destination entry discounts
- **Library Mail and Media Mail**
  - PRC modified USPS-proposed rates
    - Media Mail -5.7% to +34%
    - Rate for first pound higher than requested, but rates for second and additional pounds at or lower than current rate
- **Parcel Post/Parcel Select**
  - PRC modified USPS-proposed rates
  - Most rates for lower weights, near zones, reduced from USPS request



# Address Quality

- USPS emphasis on address quality
  - Use of CASS-certified software
  - “Move update” standards
  - “Intelligent” mail technology
  - Reduction in UAA volume and cost
- Proposed implementation standards
  - For any discounted postage rate on letters, flats or parcels:
    - Address lists must be matched and coded using a CASS-certified address matching methods
    - The correct ZIP+4 code must be used on each mailpiece



# Address Quality

- Delivery Point Validation (DPV)
  - Checks primary address to confirm that it really exists
  - Identifies deficiencies in address elements
- LACS
  - Converts rural-style addresses to city-style
  - Database retains rural-type info for only one year
- DPV/LACS required as part of CASS Cycle L (8/1/2007)



# Rate Implementation

- **Governors decision**
  - Accepted recommended rates under protest
  - Returned some parts for reconsideration
    - Priority Mail flat-rate box
    - First-Class Mail nonmachinable surcharge
    - Standard Mail flats
  - Set May 14 as the effective date for most rates
  - Deferred effective date for Periodicals changes to July 15
- **Rate eligibility requirements (DMM standards)**
  - Final rule posted online March 19, published in the March 26 *Federal Register*
  - New postage statements available online March 21
  - Proposed rule for Periodicals to be published in the March 27 *Federal Register*



# Rate Implementation

- Rulemaking process
  - *Proposed* rate and classification changes issued earlier
  - Based on rate case content
  - The result of the rate case (recommended decision) differs from the Postal Service's request
  - Final Rule will present actual DMM standards
- Rate eligibility requirements (DMM standards)
  - Ensure necessary mailer behavior
  - Align with cost projections, enable savings in costs
- Key elements:
  - Efficiency
  - Shape-based rates – shape matters
  - Address quality
- Changes are as complex as Classification Reform



# Rate Implementation

- Concerns
  - Timing of announcements
    - PRC Recommended Decision – issued February 26
    - USPS Governors' vote – March 19
    - USPS final rule – expected shortly
  - Scope of changes
    - Rate structure and tables
    - Presort hierarchy
    - Preparation standards
    - Destination entry points
  - Work requirement for USPS, vendors, mailers
    - Systems, software
    - Rules, forms
    - Training
  - Lead time before rates are effective – May 14



# Rate Implementation

- The “to-do” list: preparing for rate implementation
  - Modeling
    - Presort iterations, rework destination entry pattern
    - Production, postage costs
  - Mailpiece design
    - Processing category, size, weight
    - Address, barcode placement
  - Production changes
    - Data management (mail.dat, etc.)
    - Workflow impacts from mailpiece format, addressing, etc.
  - Address management
    - Use of USPS tools, update method, frequency
    - Anticipate strengthened USPS standards
    - Implement DPV/LACS on August 1
    - Proof of compliance (Form 6014)
  - *Consider changes as business opportunities*

# Related Issues – Postal Reform



- Major provisions
  - Updates 1970 business model
  - Establishes “competitive” and “market-dominant” products
  - Streamlines ratesetting
  - Generally caps rate increases to CPI
  - Strengthens PRC and oversight of USPS
  - Imposes reporting requirements
  - Provides for review of monopoly, effectiveness of legislation
- CSRS-related issues
  - Eliminates annual escrow requirement
  - Returns military-related retiree costs to Treasury
  - Mandates use of funds to prefund future health case costs



## Related Issues – Do-Not-Mail

- Motivated by disinformation
  - Privacy activists
  - Environmentalists
  - Direct mail competitors
- Inspired by other successful “do-nots”
- Legislative consequences
  - Pressure for federal legislation
  - 2007 proposals in 15 states: AR, CO, CT, HI, MA, MD, MI, MO, MT, NJ, NY, TX, VA, WA, VT
  - Limited success – so far
- Required responsiveness by mailing community
  - *Mail and Jobs* website
  - Coalition



## Related Issues – Tax-on-Postage

- Motivated by desire to recoup lost tax revenue
  - Driven by state concerns over budgets, taxes
  - Aimed at collecting taxes on remote purchases
  - SSUTA agreement and definitions
- SSUTA adoption
  - Participation by 37 states; other states considering
  - Legislation not passed in all “participating” states
- Current status
  - 12 states apparently taxing postage, others considering
  - 27 participating states not taxing postage
  - Uniform provisions of “template” adopted irregularly
- MFSA-led coalition seeking interpretive ruling
- Mailers need to monitor legislative activity



## Related Issues – Tax-on-Postage

- Nonparticipating states apparently NOT taxing postage – 7 (AL, AK, CO, CT, ID, RI, WI)
- Participating SSUTA states without adopted definitions and apparently NOT taxing postage – 16 (AZ, AR, CA, FL, GA, HI, IL, LA, ME, MD, MA, MS, MO, NM, NY, TN, TX)
- Participating SSUTA states NOT taxing postage – 11 (IA, MI, MN, NC, OK, SC, SD, UT, VT, WA)
- States with no sales tax – 4 (DE, MT, NH, OR)
- Nonparticipating states apparently **taxing postage** – 2 (PA, VA)
- Participating SSUTA states **taxing postage** – 10 (IN, KS, KY, NE, NV, NJ, ND, OH, WV, WY)



# Looking Ahead

- Short term
  - Rate case implementation
  - Final rule (DMM standards)
  - Effective date, implementation lead-time
- Long term
  - Implementation of postal reform
    - Burden on ratepayers from health cost prefunding
    - Size, frequency of rate cases
    - USPS latitude in pricing, products, operations
  - USPS success in cost reductions
    - Network realignment
    - Continued staff reductions
    - Greater system efficiency



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# Questions