

PRC Glossary of Postal Terms

The Postal Regulatory Commission (PRC) glossary is a list of economic, statistical, and technical terms frequently used in this website. This glossary draws on a number of sources for its substance such as: Commission opinions, material filed in Commission proceedings, pertinent statutory authority, published sources and public documents.

The glossary definitions are not "official" or "authoritative" interpretations of the Commission. Each definition represents at least one interpretation of the meaning of the term.

Comments and suggestions for further improvement are welcomed; contact the Rates and Classification Specialist (James Callow at james.callow@prc.gov).

PRC Glossary of Terms Used In Postal Ratemaking (Q-T)

RAMSEY PRICING - The name given to a method for pricing the products or services of a regulated firm to maximize the economic welfare of society. Also referred to as Value of Service Pricing, or Public Interest Pricing. The regulated firm operates subject to a budgetary constraint or break-even requirement. In a competitive market, prices for products that are set equal to marginal cost are considered to be economically efficient prices so that such prices lead to the most efficient allocation of society's human, capital and material resources. For the regulated firm, however, marginal cost prices yield insufficient revenues to cover the firm's overhead costs. Consequently, Ramsey prices are considered the "second-best" (or alternatively, "next-best") prices that would maximize economic welfare, given that they exceed marginal cost, while at the same time allowing the firm to earn enough revenue to cover all of its costs.

The determination of Ramsey prices requires development of quantitative demand information based on market research surveys or known relationships between prices and the quantity demanded for existing services. This information is used to develop elasticities of demand that are used in Ramsey pricing models. The prices of postal products and services are not based directly or predominantly on Ramsey pricing formulae.

RANDOM SAMPLE – A random sample is a set of observations drawn from a population in such a way so as to ensure that each time an observation is selected, every observation in the population has an equal chance of being selected. More specifically, if a sample consisting of n observations is selected from a population in such a way that every observation in every set of size n taken from the population has an equal probability of being selected, the n observations are said to be a random sample.

RANDOM VARIABLE – A random variable is a variable that assumes numerical values that are associated with outcomes determined by chance, i.e., the random outcomes of an experiment. For example, a random variable would be the number of incorrect answers by students on a standardized test. Strictly speaking, random variables are functions.

Random variables are of two types: discrete and continuous. Discrete random variables have values that are finite, or countable. Example: the number of students taking a standardized test. Continuous random variables can assume values corresponding to any point on a continuous scale or within an interval. The values of continuous random variables arise from measurement. Examples such as time, length and temperature are considered continuous random variables as their quantities are measured on a continuous scale.

RATE SHOCK - An extremely large increase in rates that could cause financial harm to purchasers of goods and services.

REASONABLY ASSIGNABLE COSTS – Costs that are causally related to mail characteristics other than mail volume, such as delivery service standards related to speed and reliability. This cost concept is now considered obsolete.

REGRESSION ANALYSIS – Regression analysis is an analytical method used to estimate the relationship between variables. Using regression analysis, it is possible to predict the value of one or more dependent variables from changes in other independent variables. For example, if Total Payroll is the dependent variable, and Hourly Wage Rates the independent variable, then Total Payroll is some function of the Hourly Wage Rate. The most common form of regression analysis is ordinary least squares (straight-line) regression. There are many other types of regression analysis, including generalized least squares. Also, different forms of regression analysis occur by selection and manipulation of the sample data, e.g., time series, cross-sectional, or fixed effects.

RESIDUAL COSTS – The term residual costs is synonymous with institutional or overhead costs. In the postal context, those costs that remain (i.e., the residual) after subtracting attributable costs from total accrued costs. Residual costs are not attributed to specific subclasses of mail. See **INSTITUTIONAL COSTS**

RESIDUAL MAIL – Matter that remains after completion of a presort sequence. It lacks the [minimum volume required by mailing standards for] package, tray, or sack preparation to a particular destination. Residual mail usually does not qualify for [discounted] presort rate[s]. Source: Glossary of Postal Terms, USPS Publication 32, May 1997.

RESIDUAL SHAPE SURCHARGE – In Standard Mail, a surcharge applicable to a mailpiece that is prepared as a parcel, or is not letter-size or flat-size.

REVENUE FORGONE APPROPRIATIONS – For a number of years, preferred-rate categories of mail were supported to varying degrees by the appropriation of monies from Congress, referred to as “revenue foregone” appropriations. These appropriations reimbursed the Postal Service for revenue that was not received because of the lower rates mandated by Congress for preferred-rate mail. However, the Revenue Foregone Reform Act of 1993 (as amended) eliminated congressional appropriations for preferred-rate mail, except for free mail for the blind and voting rights. See **PREFERRED-RATE MAIL**.

REVENUE LEAKAGE – Generally, a loss of postal revenue from discounts. Leakage occurs in two contexts. In general rate proceedings, the loss of revenue from discounts is offset by increases in the rates for other categories of mail within the same subclass. In the case of Negotiated Service Agreements (NSAs), leakage results from discounts designed to induce additional mail pieces being “paid” on mail pieces that would be sent even absent the NSA discounts. Such lost revenue must be recovered through higher mail volume, or additional costs savings.

REVENUE REQUIREMENT – An estimate of the total amount of revenue to be obtained through rates and fees that is necessary to cover the total costs (including contingency and an allowance for the recovery of Prior Years’ Losses) of the Postal Service in a test year (or any prospective test period). See **CONTINGENCY; PRIOR YEARS’ LOSSES**

RIDE-ALONG – A piece of Standard Mail that will “ride-along,” as an attachment to or an enclosure, with a host magazine, newspaper, or other Periodicals publication. A single, uniform rate is charged for the ride-along piece, in addition to the rate applicable to the host publication. To be eligible for the ride-along rate, the piece must qualify as Standard Mail if mailed separately; not exceed any dimension of the host publication; not exceed 3.3 ounces, or the weight of the host publication, whichever is greater; and, not obscure the title of the host publication or the address label.

ROUTE COVERAGE – The percent of total addresses or delivery points on a delivery route that receive mail on a given day is often referred to as the coverage on the route.

RURAL CARRIER – In rural communities lacking convenient postal facilities, a [Postal Service] employee assigned to deliver and collect all mail classes, thus providing most services available at a small post office. Source: Glossary of Postal Terms, USPS Publication 32, May 1997.

SAMPLE – A sample is a set of observations or data points selected or otherwise obtained from a population, i.e., a subset of a population.

SCHEME – A systematic plan for the distribution of mail by its destination as determined by mail processing operations. Each scheme is made up of more than 99 but fewer than 1000 such items. Schemes are made up of address items; each item containing a single set of addresses and routing information. For example, Adair Street, along its length, is divided into five address items, as follows:

Adair Street	Route
100-299	02
300-699	04
700-1099	06
1100-1499	08
1500-out	10

Some employees are required to memorize one or two schemes. Source: Glossary of Postal Terms, USPS Publication 32, May 1997.

SCRIPT – Mail displaying handwritten addresses.

SECTIONAL CENTER FACILITY (SCF) – A postal facility that serves as the distribution and processing center for post offices in a designated geographic area which is defined by the first three digits of the ZIP Code of those offices. This facility may serve more than one 3-digit ZIP Code area. Source: Glossary of Postal Terms, USPS Publication 32, May 1997.

SECTOR – The sixth and seventh digits of the ZIP + 4 code. It is a geographic portion of a ZIP Code area or a rural route, several city blocks or a large building, part of a post office box section, or an official designation. Source: Glossary of Postal Terms, USPS Publication 32, May 1997.

SEGMENT – The eighth and ninth digits of the ZIP + 4 code. It is a specific block face, apartment house bank of boxes, a firm, a floor in a large building, or other specific location. Source: Glossary of Postal Terms, USPS Publication 32, May 1997.

SEPARATIONS – A compartment in mail processing equipment used to hold mail that has been separated. Also, a division (or segmentation) of sorted mail, after distribution, according to a scheme (for example, ZIP Code, city, or house number ranges). Source: Glossary of Postal Terms, USPS Publication 32, May 1997.

SHELL CLASSIFICATION – In postal ratemaking, the establishment of a mail classification for a new mail product or service that does not specify the rate (or rates), thereby leaving the rate(s) to be determined in a subsequent rate proceeding.

SHORT-RUN COSTS – Costs that result from a change in output that are incurred in the short-run where no change in capacity can be made. The term short-run is not defined as any specific period, such as a month or a calendar year. Rather, it is that period in which management's ability to change productive capacity is temporarily constrained, given past investments in plant and equipment. In the postal context, an example of a short-run cost is the cost of mail processing clerks. Variations in the volume of mail to be processed can be accommodated by increasing or decreasing the number of clerk workhours, as appropriate.

SMALL OFFICE/HOME OFFICE (SOHO) – A target market for the sale of postal products and services, consisting of small businesses or businesses operated out of a home.

SOX -- The Sarbanes-Oxley Act of 2002 (Public Law 107-204), The legislation establishes new or enhanced standards for all U.S. public company boards, management, and public accounting firms. The Act contains 11 titles, or sections, ranging from additional Corporate Board responsibilities to criminal penalties, and requires the Securities and Exchange Commission (SEC) to implement rulings on requirements to comply with the new law. The Act also covers issues such as [auditor](#) independence, corporate governance, [internal control](#) assessment, and enhanced financial disclosure.

STAMPED CARDS – Cards sold by the Postal Service with the postage pre-printed or pre-affixed on the card. By contrast, post cards are sold by commercial vendors and require the addition of postage.

STAND-ALONE COSTS – Those costs that are the minimum costs necessary for a firm to provide a single service by itself, without reference to any other service provided by the firm. That is, those costs that would be incurred by an efficient producer if it were to undertake to supply only that service. Stand-alone costs can be defined for any subgroup or combination of services.

STANDARD DEVIATION (s , s_x , σ , or σ_x) – Standard deviation is defined as the positive square root of the variance, also known as "root mean square error" or Standard Error. For normal ("bell-shaped") distributions, 66 percent of all the observations lie within one standard deviation of the mean and 95 percent lie within two standard deviations of the mean.

SUPPLEMENTAL DELIVERY SERVICES:

Post Office Box Service – A premium delivery service offered as an alternative to carrier or general delivery, consisting of delivery to a post office box rented to customers for a fee. It permits customers to obtain their mail during the hours the post office box lobby is open. Fees depend on the type of free delivery service provided and the box size.

Caller Service – An alternative delivery service provided for a fee at all post offices to customers with large volumes of mail, to customers needing multiple separations, or to customers needing a post office box number address when no post office boxes are available. Source: Glossary of Postal Terms, USPS Publication 32, May 1997.

Firm Holdout – A service for customers who receive 50 or more pieces of mail on the first delivery trip on a carrier route. These customers may pick up their mail at the post office once a day. Source: Glossary of Postal Terms, USPS Publication 32, May 1997.

General Delivery – An alternative delivery service that allows customers with proper identification to pick up mail at post office windows. Source: Glossary of Postal Terms, USPS Publication 32, May 1997. It is a means of delivery primarily at offices without carrier delivery service, and is often made available to persons with no fixed address or with irregular or unpredictable access to the post office, or those who prefer not to use post office boxes.

SUPPLY-SIDE EFFECTS – References to "supply-side" effects relate to issues involving the costs of production, and firms' willingness to produce at various prices.

TEST YEAR – In postal ratemaking, a prospective fiscal year in which proposed rates are projected to generate sufficient total revenues to equal the projected total costs of the Postal Service. A test year is described under two scenarios. The test year before rates (TYBR) describes the test year predicated on the continuation without change of existing rates. The test year after rates (TYAR) describes the test year predicated on the implementation of the proposed rates under consideration.

TIME SERIES ANALYSIS – Time series analysis is analysis of the movement or fluctuation of time series data in order to account for the changes in the data over time. The method of ordinary least squares or of moving averages, for example, can be used to fit a trend line to the data to project future occurrences.

TIME SERIES DATA – Time series data are data that are collected, observed, or recorded at regular intervals of time, e.g., First-Class Mail volume from 1970 to 1992.

TOTAL ACCRUED COSTS – The total costs of the Postal Service, generally for a fiscal year, reported in the cost accounting records of the Postal Service.

TOTAL FACTOR PRODUCTIVITY (TFP) – Total factor productivity is designed to be a more comprehensive and meaningful measure of efficiency than labor productivity alone. This measure of productivity is a ratio of the real output of a firm divided by real factor inputs, the latter consisting of the quantity of labor, capital and materials. The Postal Service now publishes its total factor productivity as an index. The TFP index uses a weighted index of real physical output in the numerator and a weighted index of *all* physical inputs in the denominator. Thus, if the index of output in a base year is 1.0 and the index of inputs is 1.0, then the TFP index in that year would be 1.0. If the output in the next year was 1.25 (representing a 25 percent increase in output) and the index of inputs was 1.08, the TFP index would be $1.25/1.08 = 1.1574$, indicating an increase in productivity of 15.74 percent.

TWO-PASS SORTING – A method used in the automated processing of mail to sort mail to a “sector/segment” or carrier walk sequence. It requires the mail to be processed twice.