

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

ANNUAL COMPLIANCE REPORT, 2008

Docket No. ACR2008

UNITED STATES POSTAL SERVICE
FY 2008 ANNUAL COMPLIANCE REPORT
(December 29, 2008)

Section 3652 of title 39 requires the Postal Service to provide, within 90 days after the end of each fiscal year, a variety of data on “costs, revenues, rates, and quality of service” in order to “demonstrate that all products during such [fiscal] year complied with all applicable requirements of [title 39].” The Postal Service hereby files its Annual Compliance Report (ACR) for FY 2008.

I. Overview of Report

A. Transition Issues

The FY 2007 ACR filed last year was the first ACR ever filed by the Postal Service. It covered a fiscal year that started several months prior to the passage of the Postal Accountability and Enhancement Act (PAEA), and during which the pricing approaches approved under the former requirements of the Postal Reorganization Act (PRA) were still in effect. These circumstances gave rise to a host of transition issues, as discussed at some detail in the first ACR. FY07 ACR (Dec. 28, 2007) at 1-3.

Given that the PAEA was in effect throughout FY 2008, and that the Postal Service had some ability to adjust its reporting systems in response to new requirements, the transition issues this year are less acute than they were last year.

Nonetheless, they have not disappeared entirely, as efforts are still underway to meld the Postal Service's reporting abilities to meet the demands of the new reporting environment. For example, the lists of market dominant and competitive products within the Mail Classification Schedule (MCS) were still not finalized until after the start of FY 2008, so data were not available from every postal quarter for some product splits. Plus, unexpected kinks are inevitable in converting processes as complex as revenue, cost, and volume reporting from one set of output products to another. Substantial progress has been made in FY08, however, in achieving a report which more closely resembles the format and content contemplated by the new statutory reporting provisions. But, just as last year's ACR was a first-time effort in all respects, this year's ACR is a first-time effort at trying to apply the standards of the PAEA (rather than those of the previous PRA) to the results by product contained within this report. Furthermore, this effort is being made in the absence of final rules concerning the form and content of this Report. It seems likely that this effort will provide further opportunities for all participants to learn more about the most appropriate ways for this process to be conducted.

B. Contents, Roadmap, and Methodology

Much of the information within this Report is included in materials appended as separate items. A list of those materials is attached. The appended materials are sequentially numbered and labeled as USPS-FY08-1, USPS-FY08-2, etc. Materials in the nonpublic annex (discussed below in Part V) are labeled as USPS-FY08-NP1, USPS-FY08-NP2, etc.¹ All materials on the list (both public and nonpublic) are

¹ In those designations, the NP is intended to signify "nonpublic."

submitted in an electronic format, although a few are submitted in hard copy format as well. Each item includes a Word (or PDF) document with a preface explaining the purpose, background, and structure of that material, as well as its relationship with the other materials.

A separate roadmap document is included as USPS-FY08-9. The roadmap document consolidates in one place a brief description of each of the materials provided, as well as the flow of inputs and outputs among them. It also includes a discussion of any methodology changes between the FY 2008 analyses included in this Report and the Commission's methodologies in the FY 2007 Annual Compliance Determination (ACD).

Broadly speaking, there are four distinct major sets of items included in the appended material. The first set consists of the subclass/product costing material traditionally filed in omnibus rate cases and, more recently, on an annual basis in response to the Commission's periodic reporting rules. The focus of these materials, in terms of the ultimate output, is the CRA report.² The second set consists of the comparable costing material with respect to international mail, filed in recent years in response to the Commission's international reporting requirements. The focus of these materials, in terms of output, is the ICRA report. The third set consists of material relating to intra-subclass cost analyses that were historically provided only in omnibus rate cases, which include those analyses necessary for an examination of workshare discounts pursuant to section 3652(b) (a topic discussed in Part II.F below). In the

² In the PRA environment, the basic CRA reporting level was the subclass. Under the new PAEA environment, the basic CRA reporting level is the product. While a number of current products were formerly subclasses, other products are either a portion of one old subclass, or perhaps portions of several old subclasses. In any event, basic reporting data for products are now found in the CRA (or its international counterpart, the ICRA).

PAEA environment, the special cost study materials generally focus on categories below the product level. The fourth set is billing determinant information which, for both domestic and international mail, has generally been filed with the Commission on an annual basis.

Therefore, all four of these major sets of material (CRA, ICRA, cost studies, and billing determinants) are familiar to the Commission, both from prior rate cases and the FY07 ACR. Moreover, they are presented in formats similar (if not identical) to what both the Commission and other parties participating in postal rate proceedings have seen and worked with in the past. In that sense, the Postal Service has sought to maximize the ease with which these materials may be reviewed. One significant change, however, is that certain materials, which formerly were presented in one version containing information on both market dominant and competitive products, have now been split into two versions, one public, and the other nonpublic. The public versions of these materials are limited either to information on market dominant products, or to information on individual market dominant products and comparable aggregate information on competitive products as a whole. Correspondingly, the nonpublic versions are either limited to information on competitive products, or contain information on both types of products in contexts in which it is not possible to segregate the two. In the nonpublic versions, however, competitive product information is disaggregated to individual competitive products. This is discussed further in Part V below, and in the Postal Service's Response to Order No. 155, also being filed today.

The methodologies employed are in general also quite familiar to the Commission and parties that have historically been involved in postal ratemaking.

Because heavy reliance is placed on replicating the methodologies used most recently by the Commission, the scope of new methodologies has been minimized. Postal operations and postal data collection are not entirely static, however, and consequently some minor changes in methodology are identified and discussed. This is done in two places. First, methodology changes are identified in a separate section in the roadmap document, USPS-FY08-9. Second, they are discussed in the Word (or PDF) preface accompanying each of the appended materials; often, this preface contains a discussion that is more detailed than that contained in the roadmap document. Thus, if a change relates to an area of particular interest to the reader, it may be useful to refer to the particular item in question, rather than relying exclusively on the roadmap document. Overall, however, with some exceptions, including those which have been previously approved by the Commission in the proceedings discussed in the next paragraph, the basic costing methodologies applied are those most recently employed by the Commission.

On August 11, 2008, the Postal Service filed a motion regarding eight proposed changes in costing methodology for the FY08 ACR. That pleading resulted in the initiation of Docket No. RM2008-2, and the establishment of procedures to consider the Postal Service's proposals. Order No. 99 (August 18, 2008). Subsequent proposals have been the subjects of Docket Nos. RM2008-6, RM2009-1, and RM2009-2. See Order No. 108 (Sept. 18, 2008); Order No. 130 (Nov. 7, 2008), and Order No. 139 (Nov. 21, 2008). The Postal Service ultimately submitted thirteen proposals for review in these rulemaking dockets. Disposition of those proposals were rendered in Order No. 115 (Oct. 10, 2008) (Proposals One through Nine), Order No. 118 (Oct. 22, 2008)

(Proposals Ten and Eleven), and Order No. 156 (Dec. 23, 2008) (Proposal Thirteen).

With respect to Proposal Twelve, there was apparently insufficient time for the Commission to make any final determinations, but initial and reply comments were filed by several parties in Docket No. RM2009-1, and it seems fair to say that the parties have had the opportunity to familiarize themselves with the proposed methodological changes, and that there was no major opposition to the principal thrust of the proposal.³

Finally, section 3652(g) requires the Postal Service to submit, together with this Report, a copy of its most recent comprehensive statement. The Postal Service's current expectation is that its FY 2008 Comprehensive Statement will be available sometime in early to mid-January. A copy of its FY 2007 Comprehensive Statement can be found at usps.com.

II. Market-Dominant Products

A. Applicable Requirements of title 39

In its FY 2007 ACR, the Postal Service submitted that, because the rates and fees in effect during that fiscal year had all been established pursuant to the PRA, and because the PRA standards remained in effect throughout that fiscal year, they should be evaluated by reference to the standards of the PRA, rather than those of the PAEA. FY 2007 ACR at 1, 6-7. The Commission did not share that interpretation of the circumstances existing at the end of FY07. See FY 2007 ACD at 7-9. Nonetheless, it

³ In light of the uncertain status of Proposal 12, but the generally positive feedback provided by parties in their comments, the Postal Service prepared its flats models (USPS-FY08-11) as if the proposed changes had been accepted. The one exception is that the Postal Service implemented one improvement suggested by Time Warner, as discussed on page 3 of the Postal Service's December 10 Reply Comments in Docket No. RM2009-1. Importantly, however, although the Postal Service's USPS-FY08-11 models are based on the new methodologies, they also include a toggle switch that allows the results to be regenerated using the old methodologies, if desired.

bears noting that the rates and fees in effect during the majority of FY 2008 were established using PRA procedures and applying PRA standards. For domestic market-dominant products, the rates and fees offered by the Postal Service during approximately the first two-thirds of FY 2008 (until May 12, 2008) were essentially all recommended by the Commission and approved by the Governors in Docket No. R2006-1, pursuant to the process of former sections 3621-3625 of title 39. These rates and fees were reviewed by the Commission in its FY07 ACD. After that, and until the end of the fiscal year, the rates and fees largely resulted from Docket No. R2008-1, the first omnibus market dominant rate adjustment under the PAEA.

For international services, former section 407(a) of title 39 allowed the Postal Service to set rates and fees without prior evaluation by the Commission. The Postal Service was subject to general limitations contained in title 39, such as the requirement of fair and equitable apportionment of costs, the principle that rates should not impair the overall value of postal services to the people, and the prohibition on undue or unreasonable discrimination or preferences among mailers. For the bulk of FY 2008 (until May 12, 2008), the international rates and fees followed the schedule that the Postal Service promulgated in 72 Fed. Reg. 16,604 (Apr. 4, 2007), which was reviewed by the Commission in its FY07 ACD. As noted by the Postal Service in its prior ACR, international mail as a whole was considered the appropriate level of aggregation for determining cost coverage under the PRA. Therefore, the international rates and fees in effect for most of FY 2008 were not necessarily designed to achieve a target of 100 percent cost coverage for individual rate categories within the overall international mail class. For the balance of the fiscal year, after May 12, 2008, the rates and fees for

market dominant international mail products were those established under the provisions of the PAEA in Docket No. R2008-1.

B. Product-by-Product Costs, Revenues, and Volumes

Last year, there were relatively few instances in which the categories of mail as they existed in FY 2007 under the PRA directly matched the new list of market-dominant “products.” As a consequence, it was generally not possible to decompose the reported costs for FY 2007 into a format that could be rolled up into the elements of the new product list (although the situation was somewhat better with respect to volumes and revenues). For FY 2008, however, with the limited exceptions indicated below, cost, revenues, and volumes for all market dominant products of general applicability are directly shown in the FY 2008 CRA (or ICRA). The exceptions are:

Address List Services

Within the CRA, data for this product are included under “Other Special Services.” Consequently, the CRA does not isolate the FY 2008 costs, revenues, or volumes for this product. Information on this product, however, is included in USPS-FY08-28, the Special Cost Studies Workpaper on Special Services.

Caller Service

Within the CRA, data for this product are included under “Post Office Box.” Consequently, the CRA does not isolate the FY 2008 costs, revenues, or volumes for this product. Information on this product, however, is included in USPS-FY08-28, the Special Cost Studies Workpaper on Special Services.

Change of Address Credit Card Authentication

Within the CRA, data for this product are included under “Other Special Services.” The CRA does not isolate the FY 2008 costs, revenues, or volumes for this product. In FY 2008, data obtained through the Address Management center in Memphis indicate volume of 7,982,263. Therefore, customers paid approximately \$8 million in fees, but the Postal Service accrued only a portion of that as its share of the revenue.

Confirm

Within the CRA, data for this product are included under “Other Special Services.” The CRA does not isolate the FY 2008 costs, revenues, or volumes for this product. Information on this product, however, is included in USPS-FY08-28, the Special Cost Studies Workpaper on Special Services.

Post Office Box Service

While this product might appear to match what is reported in the CRA as “Post Office Box”, that reporting category also includes caller service. Consequently, the CRA does not isolate the FY 2008 costs, revenues, or volumes for this product. However, netting out information on caller services that is included in USPS-FY08-28, the Special Cost Studies Workpaper on Special Services, should provide a useful basis to estimate information on Post Office boxes.

International Reply Coupon Service

The ICRA does not isolate the FY 2008 costs, revenues, or volumes for this product, either inbound or outbound.

International Business Reply Mail Service

The ICRA does not isolate the FY 2008 costs, revenues, or volumes for this product, either inbound or outbound.

Negotiated Service Agreements (NSAs)

For market-dominant NSAs, the revenues, costs, and volumes have not been extracted from the applicable products in the FY 2008 CRA. Therefore, they are reflected in the CRA product totals. Available FY08 information on market dominant NSAs, however, is separately reported in USPS-FY08-30. As shown in USPS-FY08-30, the amount of activity relating to those NSAs was relatively minor in FY08. Therefore, neither their inclusion nor their omission would have had any material affect on CRA calculations such as unit costs, unit revenues, or cost coverages for large market dominant products within First-Class Mail or Standard Mail.

Old First-Class Mail Categories

The FY 2008 CRA and related reports include information on the new products described in the Mail Classification Schedule (MCS). They do not, however, include data matching the old CRA reporting format, reflecting the old mail categories of the DMCS. Particular interest has been expressed in the old First-Class Mail categories. For purposes of aiding the transition from the old reporting format to the new, the following information is provided on the old First-Class Mail Categories.

FY08 CRA-TYPE DATA FOR OLD (DMCS) CATEGORIES OF FIRST-CLASS MAIL

Notes	RPW Revenue A	RPW Volume	Attributable Costs B	Total Volume C	Product Specific F	Revenue per Piece D	Attributable Cost per E	Contribution per Piece (D-E)	Cost Coverage (D/E)
First-Class Mail									
Single Piece Letters	18,895,935	36,711,881	11,622,556	11,612,967	9,589.0	\$ 0.515	\$ 0.317	\$ 0.198	162.6%
Presort Letters	16,962,411	49,162,965	5,912,899	5,900,058	12,841.0	\$ 0.345	\$ 0.120	\$ 0.225	286.9%
Total Letters	35,858,345	85,874,846	17,535,454	17,513,024	22,430.0	\$ 0.418	\$ 0.204	\$ 0.213	204.5%
Single Piece Cards	500,490	1,845,860	446,509	446,027	482.0	\$ 0.271	\$ 0.242	\$ 0.029	112.1%
Presort Cards	732,237	3,555,997	282,270	281,341	929.0	\$ 0.206	\$ 0.079	\$ 0.127	259.4%
Total Cards	1,232,726	5,401,857	728,779	727,368	1,411.0	\$ 0.228	\$ 0.135	\$ 0.093	169.1%
Fees	185,533								
Total First-Class	37,276,604	91,276,703	18,264,234	18,240,393	23,841.0	\$ 0.408	\$ 0.200	\$ 0.208	204.1%

C. Service Performance

Section 3652(a)(2)(B)(i) requires the Postal Service to provide measures of the level of service, described in terms of speed and reliability, for its market-dominant products. The following systems used by the Postal Service to collect service level information were designed and deployed before the enactment of the PAEA and are in the process of being enhanced and augmented to meet the new statutory requirements: External First-Class Measurement system (EXFC), the International Mail Measurement System (IMMS), and Delivery Confirmation service. These systems produce the results for single piece First-Class Mail, single-piece First-Class Mail International, and retail Package Services parcels, respectively.⁴ Acting under authority of subsections 3691(b)(1)(D) and (b)(2), the Commission approved the Postal Service’s proposed approaches for internal measurement of the service performance of various market dominant products on November 25, 2008.⁵ These approaches include, for example,

⁴ Package Services market dominant products include single-piece Parcel Post, Bound Printed Matter, and Media Mail/Library Mail. Due to their small volumes, these products are grouped together as Package Services for purposes of service performance measurement.

⁵ See Order No. 140.

the continued use of Delivery Confirmation for parcel-shaped mail; and a hybrid system for presort First-Class Mail, Standard Mail letters, and Standard Mail flats that relies on internal Intelligent Mail Barcode (IMb) scans in combination with delivery information provided by external third-party reporters. A hybrid system also is being developed for Periodicals mail. The Postal Service will continue to implement these systems, in order to report a broader range of data in its FY 2009 ACR. In the meantime, less comprehensive data are reported below for FY2008.

Single-piece First-Class Mail service performance data are generated by the External First-Class Measurement system. EXFC measures delivery performance from collection box to mailbox delivery. The system is managed independently by a contractor using test mail pieces sent to a nationwide panel of receivers. EXFC continuously tests a panel of 463 3-digit ZIP Code areas selected on the basis of geographic and volume density. These areas represent 90 percent of originating First-Class Mail volume and 80 percent of destinating First-Class Mail volume. The system mirrors actual customer experience, and over time has become more rigorous. It will be expanded to cover virtually all 3-digit ZIP Code areas in 2009.

Single-piece First-Class Mail International service performance is currently measured by the International Mail Measurement System (IMMS). IMMS provides an independent (third-party) measure of the length of time it takes for the domestic leg of transit for single-piece international First-Class Mail letters. Transit time for outbound mail begins when letters are mailed from collection boxes or mail chutes in the same 3-digit ZIP Code areas tested in EXFC, and ends when the pieces are sorted at the designated international processing center in the United States. Similarly, transit time

for inbound mail begins at arrival at the USPS international processing center and ends with delivery to the intended recipient. On-time performance is measured using the same set of service standards as domestic First-Class Mail because the focus is on the domestic leg of transit.

Retail Package Services parcels are measured using Delivery Confirmation scans. When retail clerks apply the Delivery Confirmation forms to parcels, they scan the Delivery Confirmation barcodes. The scans are captured via either a POS terminal at the retail counter or an Intelligent Mail handheld scanning device. Postal Service delivery personnel scan the Delivery Confirmation barcodes upon delivery or attempted delivery, either of which serves to "stop-the-clock."

The chart below provides service level information for single-piece First-Class Mail, single-piece First-Class Mail International, and Package Services:

Annual Service for Market Dominant Products – FY 2008	
Mail Class	Percentage On-Time
First-Class Mail (Note 1)	
Single-Piece Overnight	96.5
Single-Piece Two Day	94.1
Single-Piece Three Day	91.7
Single-Piece First-Class Mail International Letters (Note 1)	93.4
Package Services – Retail Single Piece Ground (Note 2)	63.9

Note 1: The First-Class Mail numbers represent the performance for single-piece First-Class Mail letters, cards, and flats. The Single-Piece First-Class Mail International letters number is a composite of overnight, 2-day, and 3-day performance. All results exclude data from ZIP Code areas 700 and 701 in quarter 1 and 701 in quarter 2, as testing was suspended in those areas due to the impact of Hurricane Katrina.

Note 2: Retail Package Service composite performance as measured by Delivery Confirmation. This includes single-piece Parcel Post, Bound Printed Matter, Library and Media Mail.

FY2008 EXFC service performance scores were record-setting. The Postal Service achieved all time high scores for single-piece First-Class Mail with overnight, two-day and three-day service standards. The National annual score for Overnight service was 96.5 percent in FY2008, which is 0.9 percentage points higher than in FY2007; two-day service was 94.1 percent, which is 1.7 percentage points higher than in FY2007; and three-day service was 91.7 percent; which is 2.1 percentage points higher than in FY2007. International Mail measurement also saw improved service performance in FY2008 with a 93.4 percent on-time score, which is 2.0 percentage points higher than in FY2007.

Service improvements are the result of several key processing and transportation initiatives. Postal managers at headquarters and in the field developed specific metrics to measure key processing and delivery cycles during a full 24-hour period known as the “24-hour clock,” and the quality and depth of distribution in our automation processes known as “pieces-at-risk.” These activities and reports have given field managers the necessary tools to focus on specific processes and time frames to improve the quality of distribution and improve mail flow through processing facilities and into delivery units.

The Postal Service has used EXFC to measure single-piece First-Class Mail service performance since the early 1990s. This type of measurement sets the stage for continuous improvement through increased focus on performance. In FY2009, we face new challenges by expanding our service measurement from 463 to 891 3-digit ZIP

Code pairs and adjusting our network capabilities to meet customer and business needs.

D. Customer Satisfaction

Section 3652(a)(2)(B)(ii) requires the Postal Service to provide measures of the degree of customer satisfaction with the service provided for its market dominant products. The table below reflects the Customer Satisfaction Measurement (CSM) survey data responsive to the requirements of this portion of the statute.⁶ The results represent data from all customers (residential and business customers). For each row of data, the table indicates the mailing service and the corresponding customer rating (the combined rating of Excellent, Very Good, and Good).

**Customer Satisfaction with Mailing Services
FY 2008 Annual Report**

Mailing Services	Customer Ratings % Rated E/VG/G
First-Class Mail	94.1
Single-Piece International	90.2
Periodicals	89.0
Single-Piece Parcel Post	92.1
Media Mail	93.0
Bound Printed Matter	91.8
Standard Mail	85.7
Library Mail	94.3

⁶ As requested on page 56 of the FY07 ACD, copies of the CSM questionnaires are provided as USPS-FY08-38.

E. Product Analysis

FIRST-CLASS MAIL

First-Class Mail is considered by many as the “flagship” product of the Postal Service. Any matter eligible for mailing (except Standard Mail entered as Customized Market Mail) is eligible for mailing via First-Class Mail service. A critical feature of First-Class Mail is that it is confidential and sealed against postal inspection, except as authorized by law. This product is used by households for personal and business correspondence and transactions such as bill-paying. Business users may choose First-Class Mail because of its reliability and service standard, which is higher than Standard Mail and the other market dominant mail classes. Mail containing personal information is required to be sent First-Class Mail, Express Mail, or Priority Mail, unless it meets the Standard Mail or Periodicals preparation requirements for incidental First-Class Mail attachments or enclosures. Express Mail and Priority Mail, designated as competitive products, are more expensive and offer equal or faster service and/or other features.

Presort prices are available to First-Class Mail customers mailing letters or postcards, with the minimum volume requirement of 500 pieces per mailing. This product has more volume than any other in the class and includes incentives to reduce costs and increase efficiency through worksharing, which is discussed in more detail in Section II.F.

As has been the trend since 2006, overall First-Class Mail volumes are declining, especially in single-piece letters/postcards. In 2008, total First-Class Mail volume dropped to 91.3 billion pieces. This is a decline of 4.6 billion pieces, or 4.7 percent,

from the previous year. By comparison, overall First-Class Mail volumes declined 0.7 percent from 2006-2007 and 1.8 percent from 2007-2008. The 4.7 percent volume drop from 2007-2008 demonstrates an accelerating decline and represents a major concern to the Postal Service. The Postal Service is keenly aware of the volume and commensurate revenue drop and is looking for ways to address the situation.

The cost coverage for First-Class Mail is generally higher than other market dominant classes and, of all mail classes, First-Class Mail traditionally has made the highest contribution to covering institutional costs due to the combination of the high volume of mail involved and its cost coverage. This is a reflection of the high value of service in terms of delivery, privacy, and other features of First-Class Mail, such as the fact that forwarding or return of undeliverable mail is built into the basic price structure. In addition, many ancillary services are available to First-Class Mail customers. By providing such a high-value service to both consumer and business customers, First-Class Mail also promotes the public policies of title 39.

The pricing for single-piece letters and postcards is important to ensuring the simplicity of the price structure and maintaining identifiable relationships among the various classes of mail for postal services. The higher coverage was deemed by the Commission to be appropriate in the prior pricing regime, and remains appropriate, given the value of First-Class Mail. It also helps to assure adequate revenues to the Postal Service. The continued health of First-Class Mail is therefore of critical importance to the Postal Service, both to assure adequate revenues and, given its large volume and contribution, to help create predictability and stability in rates by providing a solid and reliable base.

Product	Volume (Million)	Revenue (\$Million)	Attributable Costs	Contribution	Revenue / Piece	Cost / Piece	Unit Contribution	Cost Coverage
Single-Piece Letters/Postcards	35,356	14,854	8,888	5,997	0.420	0.251	0.169	167.1
Presorted Letters/Postcards	51,936	17,060	5,723	11,338	0.328	0.110	0.218	298.1
Flats	3,380	4,056	2,571	1,486	1.200	0.761	0.440	157.8
Parcels	606	1,121	1,080	41	1.851	1.784	0.067	103.8
Total First-Class Mail (incl. fees)	91,277	37,277	18,261	19,016	0.408	0.200	0.208	204.1
Outbound Single-Piece First-Class Mail Int'l	420	747	525	222	1.778	1.250	0.528	142.2
Inbound Single-Piece First-Class Mail Int'l	417	205	258	(53)	0.492	0.618	(0.126)	79.6

As shown in Table 1, in FY 2008 First-Class Mail covered its attributable costs, and made a significant contribution toward the Postal Service's institutional costs. In the most recent price adjustment for First-Class Mail (Docket No. R2008-1), the weighted average class increase was 2.886 percent, within the cap of 2.9 percent.

First-Class Mail Products

First-Class Mail has six products: Single-Piece Letters/Postcards; Presorted Letters/Postcards; Flats; Parcels; Outbound First-Class Mail International; and Inbound Single-Piece First-Class Mail. Table 1 shows that (with the exception of Inbound Single-Piece First Class Mail) each of these products covered its attributable costs and made a contribution to institutional costs during FY 2008.

1. Single-Piece Letters/Postcards

This product consists of letter-shaped single piece First-Class Mail, and single piece First-Class Mail cards. The cost coverage for this product in FY 2008 was 167.1

percent, which is reasonable given the value of First-Class Mail service. However, this product has experienced large volume drops – larger than the First-Class Mail class average. Two explanations for the decrease are the ease with which single-piece users may switch to electronic alternatives, as well as the general economic decline.

2. Presorted Letters/Postcards

This product consists of letter-shaped pre-sorted First-Class Mail, and presorted First-Class Mail cards. As noted above, the minimum volume requirements for eligibility is 500 pieces per mailing.

The cost coverage for First-Class Mail Presorted Letters/Postcards was 298.1 percent, which is reasonable given the value that this product accords to business mailers who meet the presort requirements. Despite the decline in overall First-Class Mail and, as noted above, particularly in single-piece letters and postcards, customers are still using the automation prices (AADC, AADC, 3-digit, and 5-digit) as well as the nonautomation presort prices.

Since the final rate case, the passthroughs for all categories have been near 100 percent in the development of prices. Worksharing in First-Class Mail is discussed further in Section II.F of this report. As noted above, the volume decline for this product is not as large as for Single Piece, which may demonstrate this product's value in addition to First-Class Mail's service and other features, including available ancillary services.

3. Flats

The First-Class Mail Flats product is available for single-piece or for bulk mailings. Although most mail in this category is single-piece, presort prices are offered for Mixed ADC, ADC, 3-digit, and 5-digit sortation. Worksharing in First-Class Mail is discussed further in Section II.F of this report.

The product's cost coverage was 157.8 percent.

4. Parcels

The First-Class Mail Parcels product includes single-piece and presort prices (5-digit, 3-digit, ADC). Most parcels are mailed at the single piece prices. Worksharing in First-Class Mail is discussed further in Section II.F of this report.

The product's cost coverage was 103.8 percent. Although this is a relatively low percentage, it is high in terms of contribution per piece. Future pricing and product strategies will take the cost coverage and contribution into consideration.

5. Outbound Single-Piece First-Class Mail International

Outbound First-Class Mail International consists of single-piece Letters, Postcards, Flats, and Parcels. The product's cost coverage was 142.2 percent in FY 2008

6. Inbound Single-Piece First-Class Mail International

Inbound Single-Piece First-Class International Mail consists of single-piece Letters, Postcards, Flats, and Parcels from foreign postal administrations for delivery in the U.S. It is priced according to a UPU terminal dues formula that references a portion of the domestic one-ounce First-Class Mail Letter rate for the first year and then applies

a percentage increase to the per item and per kilogram rates for the next three years. Because the UPU domestic rate-referencing formula is not cost-based, the FY 2008 cost coverage for this product was 79.6 percent.

STANDARD MAIL

Standard Mail is primarily used by businesses for advertising purposes. The class is also used by nonprofit customers for fundraising activities. It consists mainly of circulars and catalogs, but also includes some merchandise. Any item whose content is not unique to the recipient can be sent using Standard Mail. Standard Mail is a commercial bulk mail class and requires a permit and a minimum of 200 pieces or 50 pounds of mail per mailing. Standard Mail pieces must weigh less than 16 ounces and must be presorted.

Standard Mail provides a lower level of service, speed and privacy, and requires greater mailer preparation, than First-Class Mail, and mail processing and delivery can be deferred to meet the Postal Service's operational needs. Consistent with its lower value of service, mailers receive lower prices than First-Class Mail. In general, business mailers use Standard Mail to send items of lower intrinsic importance and value as well as items that do not require expeditious delivery, taking advantage of the class's lower prices. And, while Standard Mail has a large and complex pricing structure, its principal users are sophisticated businesses that are able to handle that complexity. Moreover, the complexity of the pricing structure allows the Postal Service to flexibly tailor pricing to meet the complex needs of its customers—thereby encouraging mail use—and to encourage efficient use of the mail.

Product	Volume (Million)	Revenue (\$Million)	Attributable Costs	Contribution	Revenue / Piece	Cost / Piece	Unit Contribution	Cost Coverage
HD / Sat. Letters	5,599	734	351	383	0.131	0.063	0.068	208.9
HS / Sat. Flats & Parcels	13,584	2,158	812	1,346	0.159	0.060	0.099	265.4
Carrier Route	12,070	2,731	1,817	913	0.226	0.151	0.076	150.2
Letters	57,086	10,555	5,472	5,077	0.185	0.096	0.089	192.7
Flats	10,011	3,664	3,892	(228)	0.366	0.389	(0.023)	94.1
Parcels & NFM's	734	647	814	(167)	0.882	1.109	(0.227)	79.6
Total Standard Mail (incl. fees)	99,084	20,586	13,167	7,419	0.207	0.133	0.075	156.4
Former Regular & Nonprofit Regular *	67,831	14,866			0.219			
Former ECR & Nonprofit ECR *	31,253	5,624			0.180			

* These are included for completeness.

As shown in Table 2, in FY 2008 Standard Mail covered its attributable costs and made a significant contribution toward covering the Postal Service's institutional costs. In the most recent price adjustment for Standard Mail (Docket No. R2008-1), the weighted average class increase was 2.838 percent, within the cap of 2.9 percent. Standard Mail is used by both commercial mailers and by qualified nonprofit mailers who receive preferred pricing. By law, when the Postal Service adjusts Standard Mail prices, the average revenue per piece for Standard Mail sent by nonprofit mailers must be 60 percent of the average revenue per piece for Standard Mail sent by commercial customers. When the Postal Service adjusted its prices in May 2008, the ratio was 60.0 percent.

Standard Mail Products

The Standard Mail class has six products: Letters; Flats; NFMs and Parcels; Carrier Route Letters, Flats and Parcels; High Density and Saturation Letters; and High Density and Saturation Flats and Parcels. Each product has both commercial and nonprofit mail. Table 2 shows that each of these products, except Flats and NFMs/Parcels, covered its attributable costs and made a contribution toward institutional costs. Since this is the first time the Postal Service has had CRA-level detail for these products, there is no prior data for comparison. As such, pricing and/or other changes to the Flats and NFMs/Parcels products must be mindful of these data, but also recognize that this is the first year for reporting attributable costs for the various product groupings. As the Postal Service moves forward, it will endeavor to ensure that it is measuring costs consistent with the new groupings. Furthermore, the Postal Service does not want to diminish the importance of each product making a positive contribution, and will work to achieve that result. At the same time, however, the Postal Service must be careful to move with discretion as experience is gained with the new structure and its measured costs. (The cost coverages will be noted in the sections below.)

1. High Density and Saturation Letters

The Standard Mail High Density and Saturation Letters product is used by businesses to send geographically targeted messages to potential customers. It is used to communicate messages that do not require the most expeditious, and therefore more expensive, mail processing and delivery. Consistent with this lower level of service, its prices are below the prices for First-Class Mail letters. High Density and Saturation

Letters serve an advertising market in which business customers have many alternative options to convey their message. The Postal Service has long recognized this fact when pricing this product. To retain and grow the volume of High Density and Saturation Letters, the Postal Service has maintained its price below the price of regular Standard Mail Letters, despite the fact that both letters are increasingly processed and delivered via the same channels.

In recognition of its market characteristics, High Density and Saturation Letters received an increase of 1.7 percent in the May 2008 price adjustment, well below the average increase for Standard Mail. This product has the lowest overall price offered by the Postal Service to send advertising mail. Nevertheless, based upon FY 2008 costs, the High Density and Saturation Letters product covered its attributable costs with a coverage of 208.9 percent, thereby making a reasonable contribution toward the Postal Service's institutional costs.

High Density and Saturation Letters are eligible for price discounts for drop shipping. Mailers who do this extra work pay lower prices consistent with the costs their worksharing avoids for the Postal Service. In the most recent price adjustment for High Density and Saturation Letters in May 2008, the passthroughs of the worksharing avoided costs for High Density and Saturation Letters were all at 100 percent (subject to rounding). The Commission found that the High Density and Saturation Letters price changes were consistent with the standards of the PAEA. Worksharing in Standard Mail is discussed further in Section II.F of this report.

The Standard Mail High Density and Saturation Letters product meets the public's need for a business-oriented, lower value, lower priced alternative to First-Class

Mail letters to reach geographically concentrated customers with advertising messages. The product is reasonably and fairly priced for the value its customers receive, bears a fair share of the institutional cost burden of the Postal Service, and is available to business customers without undue discrimination. Therefore, Standard Mail letters promote the policy goals of title 39.

2. High Density and Saturation Flats/Parcels

The Standard Mail High Density and Saturation Flats and Parcels product is used by businesses predominantly to send geographically targeted messages to potential customers. It is also used occasionally to distribute product samples to geographically concentrated markets. This product is used to communicate messages or deliver samples that do not require the most expeditious, and therefore more expensive, mail processing and delivery. Consistent with this lower level of service, its prices are below the prices for First-Class Mail flats and parcels. High Density and Saturation Flats and Parcels serve an advertising market in which business customers have many alternative options to convey their message or distribute samples. The Postal Service has long recognized this fact when pricing this product. To retain and grow the volume of the High Density and Saturation Flats and Parcels product, the Postal Service has maintained its price below the price of regular Standard Mail Flats and Parcels / NFM's, despite the fact that the High Density flats component of this product is often processed and delivered via the same channels as regular Flats.

In recognition of its market characteristics, the average price of High Density and Saturation Flats and Parcels was increased by 2.1 percent in the May 2008 price adjustment, below the average increase for Standard Mail. This product has the lowest

overall price offered by the Postal Service to send advertising flats or product samples. Nevertheless, based upon FY 2008 costs, the High Density and Saturation Flats and Parcels product covered its attributable costs with a coverage of 265 percent, thereby making a reasonable contribution toward the Postal Service's institutional costs.

High Density and Saturation Flats and Parcels are eligible for price discounts for drop shipping. Mailers who do this extra work pay lower prices consistent with the costs their worksharing avoids for the Postal Service. In the most recent Standard Mail price adjustment in May 2008, the passthroughs of the worksharing avoided costs for High Density and Saturation Flats and Parcels were all at 100 percent (subject to rounding). The Commission found that the High Density and Saturation Flats and Parcels price changes were consistent with the standards of the PAEA. Worksharing in Standard Mail is discussed further in Section II.F of this report.

The Standard Mail High Density and Saturation Flats and Parcels product meets the public's need for a business-oriented, lower value, lower priced alternative to First-Class Mail flats and parcels options to reach geographically concentrated customers with advertising messages and lightweight merchandise samples. High Density and Saturation Flats and Parcels are required to be sequenced in delivery order (or to be addressed using sequenced detached address labels), allowing the Postal Service to deliver them more efficiently. The product is reasonably and fairly priced for the value its customers receive; it bears a fair share of the institutional cost burden of the Postal Service; and is available to business customers without undue discrimination. Therefore, Standard Mail letters promote the policy goals of title 39.

3. Carrier Route (Letters, Flats and Parcels)

Though it also includes both letter- and parcel-shaped mail, the Standard Mail Carrier Route product consists predominantly of catalogs and other advertising flats sent by businesses and having a minimum address density of ten pieces per carrier route. There are relatively few letters and almost no parcels in this product. Although historically part of the Enhanced Carrier Route Product (including Nonprofit Enhanced Carrier Route), the Carrier Route product is more akin to the Letters, Flats and Parcels / NFM products in that advertising mail pieces are generally demographically, rather than geographically, targeted.

The Carrier Route product allows businesses to send customers promotional material that does not require the most expeditious mail processing and delivery. This allows the Postal Service to reduce its costs compared to products like First-Class Mail letters, flats, and parcels; consistent with these lower costs, Standard Mail Carrier Route prices are lower than the prices for similarly-shaped First-Class Mail. Although mail pieces in this product are required to be presorted by carrier routes, delivery point sequencing for letters has seriously eroded the value of carrier route presorting. The expected deployment of FSS equipment is expected to have similar consequences for flat-shaped mail also. This calls into question the current large price differences between Carrier Route mail pieces and similar pieces in the most heavily presorted categories of other Standard Mail products.

Carrier Route mail pieces are eligible for price discounts off the list prices for drop shipping. Mailers who do this extra work pay lower prices consistent with the costs their worksharing avoids for the Postal Service. In the most recent price adjustment for

Standard Mail, in May 2008, the passthroughs of the worksharing avoided costs for Carrier Route mail pieces were all at 100 percent (subject to rounding). The Commission found that the Standard Mail Carrier Route Letters, Flats and Parcels price changes were consistent with the standards of the PAEA. Worksharing in Standard Mail is discussed further in Section II.F of this report.

In the May 2008 price adjustment, Standard Mail Carrier Route pieces received an increase of 3.0 percent, only slightly above the average increase for Standard Mail as a whole, but higher than the increase for Flats. The higher increase for Carrier Route recognized, in part, that the price gap between Carrier Route Flats and regular Flats was out of alignment, given the similar content of the two products and the anticipated reduced value of the carrier route presorting. This almost-average increase should not have caused rate shock or any undue hardship for Carrier Route mailers.

Table 2 shows that, based upon FY 2008 costs, the Carrier Route Letters, Flats, and Parcels product covered its attributable costs with a cost coverage of 150.2 percent. This cost coverage shows that the Carrier Route product made a reasonable contribution toward the Postal Service's institutional costs.

The Standard Mail Carrier Route Letters, Flats and Parcels product helps to meet the public's need for a business-oriented, lower value, lower priced alternative to First-Class Mail letters, flats and parcels. The Standard Mail Carrier Route product is reasonably and fairly priced for the value its customers receive, bears a fair share of the institutional cost burden of the Postal Service, and is available to business customers without undue discrimination. Therefore, this product promotes the policy goals of title 39.

4. Letters

The Standard Mail Letters product is used primarily for demographically targeted advertising, including fundraising by nonprofit organizations. It provides a way for businesses to communicate with customers, or potential customers, that does not require the most expeditious, and therefore, more expensive, mail processing and delivery. Consistent with these features, its prices are below the prices for First-Class Mail letters. In the May 2008 price adjustment, Standard Mail Letters received an increase of 3.3 percent. This increase, only slightly above the average increase for Standard Mail as a whole, should not have caused rate shock or any undue hardship for letters mailers. Based upon FY 2008 costs, the Letters product covered its attributable costs with a coverage of 192.7 percent, thereby making a reasonable contribution toward the Postal Service's institutional costs.

Standard Mail Letters are eligible for price discounts for presorting, prebarcoding and drop shipping. Mailers who do this extra work pay lower prices consistent with the costs their worksharing avoids for the Postal Service. In the most recent price adjustment for Standard Mail Letters in May 2008, the passthroughs of the worksharing avoided costs for Standard Mail Letters were all at 100 percent (subject to rounding). The Commission found that the Standard Mail Letters price changes were consistent with the standards of the PAEA. Worksharing in Standard Mail is discussed further in Section II.F of this report.

Overall, the Standard Mail Letters product meets the public's need for a business-oriented, lower value, lower priced alternative to First-Class Mail letters. Standard Mail Letters' pricing meets all the requirements specific to this product

described in the law. The Standard Mail Letters product is reasonably and fairly priced for the value its customers receive, bears a fair share of the institutional cost burden of the Postal Service, and is available to business customers without undue discrimination. Therefore, Standard Mail letters promote the policy goals of title 39.

5. Flats

The Standard Mail Flats product consists primarily of advertising flyers and catalogs that are demographically targeted. It is primarily used by businesses selling merchandise and for fundraising by nonprofit organizations. Like Standard Mail Letters it allows businesses to send existing or potential customers promotional material that does not require the most expeditious, and therefore, more expensive, mail processing and delivery. Consistent with these features, Standard Mail Flats prices are below the prices for First-Class Mail flats. In the May 2008 price adjustment, Standard Mail Flats received an increase of 0.9 percent. This increase, which was well below the average increase for Standard Mail as a whole (2.838 percent), was given in consideration of the substantial price increases recently experienced by Standard Mail Flats mailers as a result of Docket No. R2006-1, and in recognition of the potential erosion in mail volume that a second large increase in Flats prices might have precipitated. The Postal Service in announcing this modest increase was also mindful of the alternatives that catalog mailers have to contact their customers.

Table 2 suggests that the Flats product had a cost coverage of 94.1 percent in FY 2008. The Postal Service believes that future pricing and product actions need to take these data into consideration, but, as noted in the Standard Mail overview, is also

mindful of the fact that this is the first year that costs have been quantified according to the new product structure.

Standard Mail Flats are eligible for price discounts for presorting, prebarcoding and drop shipping. Mailers who do this extra work pay lower prices consistent with the costs their worksharing avoids for the Postal Service. In Docket No. R2008-1, the Commission found that the Standard Mail Flats price changes were consistent with the standards of the PAEA. Worksharing in Standard Mail is discussed further in Section II.F of this report.

The Standard Mail Flats product meets the public's need for a business-oriented, lower value, lower priced alternative to First-Class Mail flats. The Standard Mail Flats product is available to customers without undue discrimination, and promotes the policy goals of title 39.

6. Parcels and Non-Flat Machinables (NFMs)

The Standard Mail Parcels and NFMs product consists of parcel-shaped pieces that do not meet the eligibility standards for letters or flats. It is primarily used by businesses fulfilling merchandise orders and for fundraising by nonprofit organizations. Like other Standard Mail products, it provides an option for businesses to send customers merchandise and promotional material that do not require the most expeditious, and therefore more expensive, mail processing and delivery. Consistent with these features, Standard Mail Parcels and NFMs prices are below the prices for First-Class Mail and Priority Mail parcels.

In the May 2008 price adjustment, Standard Mail Parcels and NFMs prices increased 9.7 percent on average. This increase was well above the average increase

for Standard Mail as a whole (2.838 percent), and was given because the Postal Service was concerned that Standard Mail parcel-shaped pieces were not adequately covering their attributable costs. As seen in Table 2, the concerns were justified. Based upon FY 2008 costs, the Parcels and NFMs product coverage was 79.6 percent. The Postal Service believes that future pricing and product actions need to take these data into consideration, but, as noted in the Standard Mail overview, is also mindful of the fact that this is the first year that costs have been quantified according to the new product structure.

Like other Standard Mail products, Parcels and NFMs are eligible for price discounts for presorting, prebarcoding, and drop shipping. Mailers who undertake this extra work pay lower prices consistent with the costs their worksharing avoids for the Postal Service. In Docket No. R2008-1, the Commission found that the Standard Mail Parcels and NFMs price changes were consistent with the standards of the PAEA. Worksharing in Standard Mail is discussed further in Section II.F of this report.

The Standard Mail Parcels and NFMs product meets the public's need for a business-oriented, lower value, lower priced alternative to First-Class Mail and Priority Mail parcels. It is available to customers without undue discrimination, and promotes the public policy goals of title 39.

PERIODICALS

The Periodicals Mail class consists of magazines, newspapers, or other periodicals that meet the specific criteria for eligibility, including applicable editorial content, circulation, advertising, and other requirements established by law. Eligible publications include general publications, publications requested by the recipient, and

publications of institutions and various government agencies, as well as foreign publications. The Periodicals Mail class has existed as a preferred class of mail because of periodicals' high intrinsic worth, specifically their educational, cultural, scientific, and informational value, which benefits both individuals and society.

In the most recent price adjustment, Periodicals increased by 2.724 percent, within the cap. However, Periodicals has not been covering its attributable costs, which continued during FY 2008. This presents a special challenge to the Postal Service and mailers, respectively, since the Periodicals class does not satisfy section 3622 of title 39, and publishers' margins are typically very low. In addition, the industry itself is facing challenges such as electronic alternatives, the high costs of paper and other non-postal costs, and the substantial decline in advertising.

The Postal Service, Periodicals publishers and mailers, and the Commission have recognized the special role and current situation of Periodicals. Significant efforts are underway to try to improve Periodicals, such as the joint PRC/USPS review of Periodicals. It would be premature to make any definitive pronouncement on the future actions necessary to improve the current situation while such work is in progress. The Postal Service will continue to pursue these efforts, as well as use the annual price change mechanism to fine-tune prices that lead to cost-reducing behavior.

Product	Volume (Million)	Revenue (\$Million)	Attributable Costs	Contribution	Revenue / Piece	Cost / Piece	Unit Contribution	Cost Coverage
Within County Periodicals	831	89	94	(5)	0.107	0.114	(0.006)	94.5
Outside County Periodicals	7,774	2,188	2,638	(450)	0.281	0.339	(0.058)	82.9
Total Periodicals Mail	8,605	2,277	2,732	(455)	0.265	0.317	(0.051)	84.0

Periodicals Products

The Periodicals Mail class has two products: Within County Periodicals and Outside County Periodicals. Table 3 shows that neither product covered its attributable costs in FY 2008, and that total Periodicals' coverage was 84.0 percent. As discussed above, efforts are underway to report on the situation and to determine what steps can be taken to improve Periodicals' contribution. Although Periodicals is challenged in terms of cost coverage, its important role in allowing for dissemination of educational, cultural, scientific, and information value to the recipient of mail matter is vital, and promotes the public policies of title 39. Efforts will continue to improve Periodicals in order to benefit the Postal Service, publishers, mailers, and recipients of periodicals and other publications.

1. Within County Periodicals

Within County Periodicals prices are lower than Outside County prices. Within County prices are available for Periodicals that are entered in the county where they are published for delivery within that county. Other detailed requirements apply.

As shown in Table 3, Within County Periodicals' cost coverage was 94.5 percent in FY 2008.

2. Outside County Periodicals

Periodicals Mail that is not eligible for Within County Periodicals prices must pay Outside County prices. Certain categories, such as Nonprofit, Classroom, or Science of Agriculture publications, are separately authorized to qualify for Periodicals prices. Given the general societal benefit of information dissemination, discussed

above, there are other special provisions, including a discount for certain Outside County periodicals of limited circulation.

As shown in Table 3, Outside County Periodicals' cost coverage was 82.9 percent in FY 2008.

PACKAGE SERVICES

Package Services is a class of mail comprised primarily of parcels. It is mainly used to ship merchandise packages, but it also includes some catalogs and other bound printed items that are too heavy to be sent as Standard Mail. Any item that is not required to be sent as First-Class Mail, or is entered as Periodicals, can be sent using one or more of the Package Services products. Package Services is used by both commercial mailers and by households, and has products and mail categories designed to meet the needs of each group of mailers. Package Services mail may weigh up to 70 pounds, except for mail entered as Bound Printed Matter Parcels or Bound Printed Matter Flats, which have lower, 15-pound, weight limits.

Package Services products provide a lower level of service and speed, and in some cases require greater mailer preparation than First-Class Mail, and mail processing and delivery can be deferred to meet the Postal Service's operational needs. Package Services mail can also be opened for postal inspection. Consistent with this lower value of service, mailers receive lower prices than First-Class Mail and Priority Mail. In general, mailers often use Package Services products to send items of lower intrinsic value and importance as well as items that do not require expeditious delivery, taking advantage of the class's lower prices.

In May 2008, Package Services prices increased 2.875 percent. This increase was within the 2.9 percent cap. Also, as shown below in Table 4, the Package Services class covered its attributable costs and made a contribution (albeit a low contribution) to the Postal Service's institutional costs.

Product	Volume (Million)	Revenue (\$Million)	Attributable Costs	Contribution	Revenue / Piece	Cost / Piece	Unit Contribution	Cost Coverage
Single-Piece Parcel Post	90	718	784	(66)	8.020	8.752	(0.732)	91.6
Bound Printed Matter Flats	290	262	157	105	0.904	0.543	0.362	166.7
Bound Printed Matter Parcels	309	430	399	31	1.393	1.291	0.102	107.9
Media Mail/Library Mail	159	419	479	(60)	2.643	3.024	(0.382)	87.4
Total Package Services Mail (incl fees)	846	1,833.1	1,818.7	14.4	2.166	2,149	0.017	100.8
Inbound Surface Parcel Post	0.6	9.0	5.7	3.3	14.947	9.422	5.525	158.6

Package Services Products

The Package Services mail class has five products: Single-Piece Parcel post; Bound Printed Matter Flats; Bound Printed Matter Parcels; Media Mail/Library Mail; and Inbound Surface Parcel Post (at UPU rates). Overall cost coverage for Package Services was 100.8 percent, with wide variations in coverage among the products, which are discussed in detail below.

1. Single-Piece Parcel Post

Any mailable matter that is not required to be sent using First-Class Mail, or that is entered as Periodicals, can be sent using Single Piece Parcel Post. This product meets the needs of businesses and households for a lower cost way to ship parcels that do not require the most expeditious, and therefore more expensive, mail processing and

delivery. Consistent with this lower value of service, the prices for Single Piece Parcel Post are below the prices for retail Priority Mail. In the May 2008 price adjustment, Single Piece Parcel Post received an increase of 3.3 percent. This was slightly higher than the average increase for Package Services because the Postal Service was concerned that Single Piece Parcel Post was not adequately covering its costs. Table 4 shows that Single Piece Parcel Post had a coverage of 91.6 percent in FY 2008. Had the higher May 2008 prices been in place for all of FY 2008, it is likely that the cost coverage would have been higher, although Single Piece Parcel Post may still have failed to cover its costs adequately. The Postal Service believes future pricing and product actions need to take these data into consideration, but, as noted in the Standard Mail overview, is also mindful of the fact that this is the first year that costs have been quantified according to the new product structure.

The May 2008 increase, though above the Package Services average, was still moderate, and should not have caused rate shock or any undue hardship for parcels mailers. Furthermore, Single Piece Parcel Post has a price structure that, for the most part, is simple and conceptually easy for relatively unsophisticated retail customers to understand. In each of its two pricing categories, prices vary by weight and distance. Prices are presented in easy to read tables that are convenient for users. Single Piece Parcel Post has no worksharing pricing categories and no special mail preparation is required to use this product.

Overall, Single Piece Parcel Post meets the public's need for a business- and consumer-oriented, lower value, lower priced alternative to Priority Mail. Single Piece Parcel Post thus promotes the policy goals of title 39.

2. Bound Printed Matter Flats

Like Media Mail (discussed below), Bound Printed Matter (BPM) Flats is a content-restricted product. Its name fairly well describes allowable content. This product is a commercial product that is used by businesses to send large catalogs and similar flat-shaped flexible items that are too heavy to be sent using Standard Mail. Unlike Media Mail, BPM Flats are mainly advertising matter, and are not typically used for personal, literary, or educational correspondence. BPM Flats mail pieces may weigh up to 15 pounds, though most heavier pieces do not qualify as flats and must be mailed using the BPM Parcels product.

The BPM flats product meets the needs of businesses seeking to send customers promotional material that does not require the most expeditious mail processing and delivery. This allows the Postal Service to reduce its costs compared to products like Priority Mail. Consistent with these lower costs, BPM Flats prices are lower than the prices for similarly-shaped Priority Mail. Mailers can lower their cost of mailing even further by drop shipping, presorting, or prebarcoding their mail pieces. Mailers who do this extra work pay lower prices consistent with the costs their worksharing avoids for the Postal Service. In the most recent price adjustment for BPM Flats, in May 2008, the passthroughs of the worksharing avoided costs for BPM Flats mail pieces were all at or below 100 percent, with one exception. In Docket No. R2008-1, the Commission accepted the Postal Service's justification and found that the BPM Flats price changes, including worksharing discounts were consistent with the standards of the PAEA. Worksharing in BPM Flats is discussed further in Section II.F of this report. The BPM Flats rate design is more complex than that of Media Mail or Single

Piece Parcel Post, but it is a business product and its users are overwhelmingly sophisticated commercial mailers for whom the complexity of the pricing schedules should pose no problems.

BPM flats prices increased by 0.4 percent in the May 2008 price adjustment. This increase was well below the average increase for Package Services as a whole (2.875 percent) for three reasons. First, as shown in Table 4, BPM Flats has a healthy cost coverage, while many other Package Services products do not. Although CRA-level cost data by product were not available at the time the Postal Service adjusted its prices, it had concerns (that Table 4 show were justified) that several other Package Services products were not adequately covering their attributable costs. Because Package Services prices as a whole were constrained by the cap (2.9 percent for the May 2008 change), above-average increases for some products could only be implemented if other product prices were given increases below the cap. Second, the Postal Service began to realign BPM Flats and BPM Parcels prices in Docket No. R2001-1 so that they would better reflect their costs. Although these two categories now constitute separate products, the Postal Service still believes that the price differences between BPM Flats and BPM Parcels can stand further adjustment. Third, the Postal Service believed that using its pricing flexibility to hold down the increase for BPM Flats would encourage volume growth in this profitable and operationally efficient category of mail.

Table 4 shows BPM Flats covered its attributable costs with a cost coverage of 166.7 percent in FY 2008. This cost coverage shows that BPM Flats made a reasonable contribution toward the Postal Service's institutional costs.

The BPM Flats product helps to meet the public's need for a business-oriented, lower value, lower priced alternative to Priority Mail to send large catalogs that cannot be sent using Standard Mail. BPM Flats is reasonably and fairly priced for the value its customers receive, bears a fair share of the institutional cost burden of the Postal Service, and is available to business customers without undue discrimination. Therefore, BPM Flats promote the policy goals of title 39.

3. Bound Printed Matter Parcels

Bound Printed Matter (BPM) Parcels is a content-restricted product with the same content requirements as BPM Flats. This product is a commercial product that is used by businesses to send books, directories, and large catalogs that are too heavy to be sent using Standard Mail, and too rigid or too thick to qualify as BPM Flats. Unlike Media Mail, BPM Parcels may contain advertising matter. BPM Parcels mail may weigh up to 15 pounds.

The BPM Parcels product mainly meets the needs of businesses seeking to fulfill customer orders for books and large catalogs that do not require the most expeditious mail processing and delivery. This lower level of service allows the Postal Service to reduce its costs compared to products like Priority Mail. Consistent with its lower costs, BPM Parcels prices are lower than the prices for similarly-shaped Priority Mail. Mailers can lower their cost of mailing even further by drop shipping, presorting, or prebarcoding their mail pieces. Mailers who do this extra work pay lower prices consistent with the costs their worksharing avoids for the Postal Service. In the most recent price adjustment for BPM Parcels, in May 2008, the passthroughs of the worksharing avoided costs for BPM Parcels mail pieces were all at or below 100 percent (subject to

rounding), with one exception. In Docket No. R2008-1, the Commission accepted the Postal Service's justification and found that the BPM Parcels price changes, including worksharing discounts, were consistent with the standards of the PAEA. Worksharing in BPM Parcels is discussed further in Section II.F of this report. The BPM Parcels rate design is more complex than that of Media Mail or Single Piece Parcel Post, but it is a business product and its users are overwhelmingly sophisticated commercial mailers for whom the complexity of the pricing schedules should pose no problems.

In the May 2008 price adjustment, the Postal Service increased the prices of BPM Parcels by 2.1 percent on average. This increase was slightly below the average increase for Package Services as a whole (2.875 percent) for several reasons. First, the Postal Service believed that BPM Parcels were covering their costs, whereas there were concerns that other Package Services products like Media Mail and Single Piece Parcel Post were not. At the same time, the Postal Service wished to improve the cost coverages of parcels in general, including BPM Parcels, so BPM Parcels' prices were given higher increases than BPM Flats. Table 4 bears these concerns out. Based on FY 2008 cost data, BPM Parcels covered their costs, but were still far below BPM Flats in their relative contributions to institutional costs. Because Package Services prices as a whole were constrained by the cap (2.9 percent for the May 2008 change), above-average increases for some products could only be implemented if other product prices were given increases below the cap. Therefore, the Postal Service used its pricing flexibility to give BPM Parcels increases that were above those for BPM Flats, but still below the cap to send price signals to BPM Parcels and Flats mailers that would increase profitable mail volume and encourage operational efficiency. While the cost

coverage for BPM Parcels shown in Table 4 is not as great as the Postal Service might have hoped, the Postal Service is aware that its price increase was in effect for less than half the fiscal year. Had the current prices been in effect for the full year, it is expected that BPM Parcels' cost coverage and contribution would have been larger.

The BPM Parcels product helps to meet the public's need for a business-oriented, lower value, lower priced alternative to Priority Mail to send books and large catalogs that cannot be sent using Standard Mail or BPM Flats products. The BPM Parcels product is reasonably and fairly priced for the value its customers receive, and bears a reasonable share of the institutional cost burden of the Postal Service, given the price increase constraints on Package Services as a whole, and is available to business customers without undue discrimination. Therefore, BPM Parcels promote the policy goals of title 39.

4. Media Mail/Library Mail

Media Mail is a content-restricted product. By law, its content must consist of books, noncommercial films, computer-readable media, and similar media items that typically have educational, cultural, scientific or informational value. Media Mail items cannot contain advertising, other than incidental announcements of books. This product is used by businesses and by the general public to send books and eligible media or other permitted items either for business, or for personal, educational, or literary purposes. Media Mail also has a preferred-price category, Library Mail. Libraries, educational institutions and certain other nonprofit organizations use Library Mail to send eligible items to their customers. By law, Media Mail prices are unzoned and do not vary by distance.

Media Mail meets the needs of businesses, households, and eligible organizations for a low cost way to ship eligible materials that do not require the most expeditious, and therefore more expensive, mail processing and delivery. Consistent with this lower value of service, the prices for Media Mail are below the prices for retail Priority Mail and Single Piece Parcel Post. In the May 2008 price adjustment, Media Mail received an increase of 4.5 percent. This was higher than the average increase for Package Services because the Postal Service was concerned that Media Mail was not adequately covering its costs. Table 4 shows that Media Mail's coverage was 87.4 percent in FY 2008. Even had the May 2008 prices been in place for all of FY 2008, it is likely Media Mail's measured costs would have fallen short of revenue. The Postal Service believes that future pricing and product actions need to ensure that Media Mail will make a reasonable contribution toward the Postal Service's institutional costs in the future while being mindful of the constraints imposed by the price cap for the class.

The May 2008 increase, though above the Package Services average, was still moderate, and should not have caused rate shock or any undue hardship for parcels mailers. Media Mail has a simple price structure. Within each pricing category, the prices vary only by weight. Prices are presented in easy to read tables that are convenient for users. Media Mail has two worksharing pricing categories to meet the needs of business mailers, in addition to its single piece category that is used by both businesses and consumers. Media Mail users are eligible for price discounts for presorting and prebarcoding. Mailers who do this extra work pay lower prices. The discounts for basic presorting and for prebarcoding are consistent with the costs their worksharing avoids for the Postal Service. The discount for 5-digit presorting exceeds

the Postal Service’s avoided costs. In the most recent price adjustment for Media Mail in May 2008, the passthrough of the worksharing avoided costs for 5-digit presorting exceeded the 100 percent passthrough guideline; in Docket No. R2008-1, the Commission accepted the Postal Service’s justification for this passthrough and found that the Media Mail price changes were consistent with the standards of the PAEA. Worksharing in Media Mail is discussed further in Section II.F of this report.

By law, Library Mail prices are to be set at 95 percent of Media Mail prices. The current prices meet this requirement.

Media Mail meets the public’s need for an affordable business- and consumer-oriented, lower value, lower priced alternative to Priority Mail and Single Piece Parcel Post to mail books and other eligible matter. Its pricing meets all the requirements specific to this product described in the law. It is available to customers without undue discrimination, and its pricing reasonably and fairly reflects the value its customers receive and the educational, cultural, scientific and informational value of its content. In general, Media Mail promotes the policy goals of title 39.

5. Inbound Surface Parcel Post (at UPU rates)

Inbound Surface Parcel Post is priced per the inward land rate CPI adjustment requirements of the UPU.

SPECIAL SERVICES

Product	Volume (Million)	Revenue (\$Million)	Attributable Costs	Contribution	Revenue / Piece	Cost / Piece	Unit Contribution	Cost Coverage
Caller Service	N/A	98.4	61.9	36.5	N/A	N/A	N/A	159.0
Certified Mail	269	717.8	602.6	115.3	2.669	2.241	0.042	119.1
COD	1	8.1	6.8	1.3	7.044	5.917	1.126	119.0

Insurance	52	144.6	143.9	0.7	2.802	2.788	0.014	100.5
Registered Mail	4	56.9	57.7	(0.9)	14.732	14.954	(0.222)	98.5
Stamped Envelopes	343	23.4	10.0	13.4	0.068	0.029	0.039	233.1
Stamped Cards	49	1.2	1.4	(0.2)	0.024	0.276	(0.004)	85.6
Other Ancillary Services	1,208	734.5	533.7	200.8	0.608	0.442	0.166	137.6
Total Ancillary Services	1,927	1,686	1,356	330	0.875	0.704	0.172	124.4
Int'l Ancillary Services	2	27			12.990			
Address List Services	0	0	0	(0.0)	0.328	0.331	(0.003)	99.3
Change of Address Credit Card Authentication	8	8						
Confirm	N/A	2.6	1.2	1.4	N/A	N/A	N/A	214.0
Int'l Reply Coupon Service	0	0						
Int'l Business Reply Mail Service	0.14	0.19			1.39			
Money Orders	149	223	153	71	1.500	1.020	0.470	146.0
Post Office Box Services	N/A	897	640	256	N/A	N/A	N/A	140.0
Total Special Services Mail	4,010	5,316	4,098	1,218.3	1,326	1.022	0.304	129.7

Note: Premium Forwarding Service was moved to the competitive product list per PRC Order of July 16, 2008 (Docket No. MC2008-4).

Special Services Products

Special Services includes a broad spectrum of products. Ancillary Services is a product comprised of the many services that may be obtained in conjunction with other products. The other products within Special Services are generally “stand-alone” in that they can be purchased without necessarily paying postage for any other product.

Rather than recite the policy goals for each of the products in the sections below, it is noted that the many services meet the specific needs of customers, are priced in a manner that is fair for the value they provide, and cover their attributable costs. Thus, special services generally promote the policy goals of title 39.

1. Ancillary Services

The Ancillary Services are those special services that may only be used in conjunction with another product. Some of the services are quite small (e.g., Stamped Cards has less than \$1.2 million in revenue), whereas others such as Certified Mail are responsible for \$717 million in revenue. Total revenues for all Ancillary Services in FY 2008 were \$1.7 billion.

2. International Ancillary Services

International Ancillary Services generated \$27 million in revenue in 2008.

3. Address List Services

The Postal Service provides address list services to decrease the amount of undeliverable mail and to help mailers enter mail that has better address hygiene. Total revenue for Address List Services was \$32,834.

4. Caller Service

Caller Service includes revenues from both Caller Service and Reserve Number Products. Caller Service allows business customers to pick up their box mail at a post office call window or loading dock when the office is open. Caller Service customers may choose when to pick up their mail and, accordingly, can have increased access to their mail even if the box section is not open.

Reserve Numbers allow a company to reserve a box number for future Caller Service use. Caller Service and Reserve Number revenues were \$98.4 million in FY2008.

5. Change-of-Address Credit Card Authentication

To ensure that Change of Address Requests made either over the phone or via the internet are valid, the Postal Service charges a fee of \$1 to a credit card to ensure that the address for which the change is requested matches the address on the credit card used to pay the \$1 fee. In FY 2008, customers paid \$8 million, but the Postal Service accrued only retained a portion of that revenue.

6. Confirm

Confirm allows subscribers to monitor letters and flats as they are processed. Confirm service generated \$2.6 million in revenue in FY 2008.

7. International Reply Coupon Service

International Reply Coupon Service generated no revenue in 2008.

8. International Business Reply Mail Service

International Business Reply Mail Service generated \$190,000 in revenue in 2008.

9. Money Orders

The three types of Postal Service Money Orders (APO/FPO, up to \$500 and over \$500) generated a combined \$223 million in revenue in 2008.

10. Post Office Box Service

Post Office Box Service includes revenues from Post Office Box Rentals, Caller Service, and Reserve Number. Post Office Boxes are available in 5 different rental

sizes and have seven different fee groups. \$798.2 million were from actual box rentals, while the remaining \$98.4 million of the total \$896.7 million Post Office Box Service is from Caller Service and Reserve Number.

Negotiated Service Agreements

The Postal Service had a total of seven Market Dominant Negotiated Service Agreements (NSAs) that were in effect for some part of FY 2008. The seven were Bank of America, Bookspan, Bradford, Chase/Bank One, Discover, HSBC, and Lifeline Screening. Because Bank of America was only in effect for part of FY 2008, however, and had not reached its first anniversary by the end of the fiscal year, its preliminary data are not included in this ACR. Of the remaining six, two (Chase and HSBC) were not active, either because the rebate cap had been exceeded previously, or because no eligible ACS mail was entered. By its original terms, the Discover NSA expired one quarter into the fiscal year, and no rebates were paid over that period. Of the remaining three NSAs, two (Bookspan and Bradford) had sufficient volumes to qualify for discounts, and the other (Lifeline Screening) did not. Details are provided in USPS-FY08-30.

Each of the NSAs in effect throughout FY 2008 was intended to improve the net financial position of the Postal Service by increasing the overall contribution to institutional costs, or enhance the performance of mail preparation, processing, transportation, or other functions. By providing discounts on incremental pieces above a threshold, each of these NSAs encouraged customers to mail more pieces than they otherwise would have. Because those pieces still provided contribution to institutional costs, even after discounts were included, the NSAs contributed to the improvement of

the net financial position of the Postal Service. The NSAs for which FY08 data are included in this ACR also did not cause unreasonable harm to the marketplace, because similar functionally-equivalent NSAs were, or could have been, made available to similarly-situated mailers.⁷

The data in USPS-FY08-30 show that, between Bookspan and Bradford, the amount of rebates paid in FY08 was \$438 thousand, and likewise suggest that \$68 thousand in ACS savings were generated in the one quarter before the Discover NSA expired. Beyond that, interpretations would differ on the net value to the Postal Service of those three deals. Using the valuation method traditionally employed by the Postal Service, the calculations in USPS-FY08-30 show a cumulative net benefit (after rebates are deducted) of \$1.776 million. Using the Panzar/Wolak approach favored by the Commission, however, the cumulative net benefit is \$73 thousand. Either way, it would appear that the cumulative net effect of all six NSAs covered in this report was not sufficient to materially alter the reported overall contribution or cost coverage for First-Class Mail or Standard Mail.

F. Workshare Discounts

With respect to each market-dominant product for which a workshare discount was in effect during the reporting year, section 3652(b) requires the Postal Service to report certain information about those discounts.⁸ Specifically, the PAEA requires that the Postal Service provide:

⁷ The pending complaint case filed by Capital One (Docket No. C2003-1) involves the Bank of America NSA which, as noted above, is not covered by this report.

⁸ The workshare data provided in this Annual Compliance Report will also be used when the Postal Service files a notice of rate adjustment that includes workshare discounts. 39 C.F.R. § 3010.14(b)(5)

- (1) The per-item cost avoided by the Postal Service by virtue of such discount.
- (2) The percentage of such per-item cost avoided that the per-item workshare discount represents.
- (3) The per-item contribution made to institutional costs.

The data bearing upon workshare discounts can be found in USPS-FY08-3.⁹ In that document, the workshare discounts are shown as the difference between the current price of the workshared piece and a benchmark piece as shown on Postal Service Notice 123—Price List. Passthroughs are calculated for each discount as the ratio of the discount to the avoided cost. Per-item unit contribution is addressed at the product level in the CRA, in terms of its availability at this time. The passthrough percentages in USPS-FY08-3 illuminate the relative contribution impact for each worksharing item.

As in the FY07 ACR, the analyses presented in USPS-FY08-3 show the required information for workshare discounts within each market-dominant product. They do not analyze inter-product or non-workshare price differences. The language of section 3652(b), which directs the Postal Service to provide the specified workshare data “*with respect to each market-dominant product for which a workshare discount was in effect,*”¹⁰ suggests that the proper analysis is to measure worksharing differences on an intra-product, rather than inter-product, basis. This is buttressed by the fact that section 3652 generally requires the reporting of data by product. Thus, the Postal Service has

provides that the notice must contain a schedule of the workshare discounts included in the proposed rates, along with a schedule listing the avoided costs that underlie each such discount. The avoided costs figures must be developed from the most recent Annual Compliance Report.

⁹ USPS-FY08-3 cites to the applicable cost studies that have also been filed.

¹⁰ Emphasis added.

provided its analysis of worksharing price differences within products, rather than between products.¹¹

In addition, when selecting the relevant price relationships within each product for purposes of section 3652(b), the Postal Service was guided by the definition of worksharing established by the PAEA. Section 3622(e)(1) defines the term “workshare discount” as “rate discounts provided to mailers for the presorting, prebarcoding, handling, or transportation of mail. . . .” In Order No. 43, the Commission explicitly provided that “workshare discounts, as defined in the PAEA, do not include shape-based differences.”¹² The Postal Service analyses therefore present cost differences resulting from the four listed worksharing activities, and, as in the FY07 ACR, do not compare rate differences to cost differences arising from nonworksharing attributes such as shape.

For example, within the First-Class Mail Presorted Letters/Postcards product, the cost difference between automation letters sorted to the 3-digit and 5-digit levels is analyzed in USPS-FY08-3 because it is due to worksharing activities, in this case presortation and prebarcoding. However, within that same product, cost differences between letters and postcards are not presented. In addition, consistent with section 3652(b), the Postal Service does not provide an analysis of the cost difference between the First-Class Mail Presorted Letters/Postcards and First-Class Mail Flats products.

¹¹ The Postal Service recognizes that the Commission deferred this issue in the last ACD, and instead chose to use “the same analytical framework for evaluating worksharing discounts as it used to design the worksharing discounts in Docket No. R2006-1.” ACD at 62-64. As in the last ACR, the Postal Service has provided data sufficient to perform either analysis. See ACD at 63 (citing Postal Service Reply Comments at 19-20).

¹² Order No. 43 (Oct. 29, 2007) at 42.

Furthermore, in evaluating passthroughs for the FY 2008 ACR, the Postal Service notes that changes in costs between the FY 2007 and FY 2008 ACRs results in some passthroughs increasing and some decreasing. In fact, some discounts now have passthroughs below 100 percent when the estimated passthrough for the May price change (Docket No. R2008-1) was 100 percent, and some are now greater than 100 percent. Overall, any evaluation of the statutory appropriateness of passthroughs needs to be made in the context not only of the calculated cost avoidance, but also considering all of the statutory criteria, such as the objective that prices be predictable and stable. An increase or decrease in a passthrough based on the cost avoidances calculated in a given fiscal year is not a de facto requirement that prices change; rather it is an indication that a specific discount / cost avoidance relationship needs to be fully re-evaluated in the context of all of the statutory criteria. This re-evaluation will be undertaken by the Postal Service when it prepares its next price adjustment, which will be reviewed by the Commission. This is consistent with the fact that section 3622(e) must, for reasons discussed previously by the Postal Service in its response to CIR No. 1 in Docket No. R2008-1, be applied over the long-term, as a principle that should guide pricing over a series of price adjustments.

FIRST-CLASS MAIL

1. Single-Piece Letters / Postcards

First-Class Mail single-piece letters and cards has just one worksharing discount, which is applicable to both Qualified Business Reply Mail (QBRM) letters and QBRM cards. While the calculated passthrough is currently 101.4 percent, when the avoided

costs are rounded to the nearest tenth-cent (as are the discounts), the passthrough is 100 percent.

2. Presorted Letters / Postcards

There are eight passthroughs within this product. In Docket No. R2008-1, the Postal Service listed two discounts for which the passthrough exceeded 100 percent after rounding to the nearest tenth of a cent: Automation 5-digit letters, and Nonautomation Presort Cards. In its review of the Notice, the Commission included a slight cost change that resulted in a 100 percent passthrough for 5-digit automation letters. For Nonautomation Presort Cards, the Commission noted that its methodology resulted in a 67 percent passthrough, rather than the 157 percent passthrough described by the Postal Service.

The new passthroughs use the current discounts, and the FY08 calculated cost avoidances. The result is several passthroughs that exceed 100 percent: Nonautomation Presort Cards; Nonautomation Presort Letters; and the Automation 3-digit discount for letters and for cards.

The first passthrough over 100 percent, for Nonautomation Presort Cards, arises when the current discount is divided by the FY08 cost avoidance between Nonautomation Presort Cards and Automation Cards. In Docket No. R2008-1, the Commission reviewed this discount and found that it produced a passthrough of less than 100 percent. In its Docket No. R2008-1 price adjustment, the Postal Service used a greater than 100 percent passthrough to avoid reducing the nonautomation presort card rate and keep a reasonable price differential between Mixed AADC automation card rate and the nonautomation presort card rate in order to promote the efficiency

gains derived through the automation program. Even with the higher passthrough, the difference shrunk from 2.1 cents (Docket No. R2006-1) to 1.9 cents (Docket No. R2008-1). Future price adjustments will be mindful of these updated cost avoidances.

The Nonautomation Presort Letters discount was set at 100 percent in Docket No. R2008-1. Dividing that discount by the measured avoided costs presented in this ACR result in a passthrough of 148 percent. The discount will be revisited in the upcoming price adjustment.

The 3-digit automation discounts for letters and cards were also set at 100 percent in May. Applying the discount to the FY 2008 measured avoided costs results in passthroughs of 166 and 187 percent, respectively. These cost avoidances are extremely small (0.3 cents and 0.2 cents), so small deviations in avoided costs can result in large percentage-point swings in passthroughs. The level of these discounts will be reexamined in the next price change.

3. Flats

First-Class Mail Automation Flats passthroughs were 95 percent of the avoided costs in Docket No. R2008-1, which resulted in slight reductions in the prices for 3-Digit and 5-Digit Automation Flats. Since then, the cost avoidance estimates have been revised due to an eligibility error that was discovered and corrected in Proposal 8 (filed in Docket No. RM2008-2). The passthroughs for the cost avoidances from the Mixed ADC to ADC presort levels and the ADC to 3-Digit presort levels are now slightly over 150 percent, while the passthrough for the cost avoidance between the 3-Digit and 5-Digit levels is approximately 71 percent. These findings from Docket No. RM2008-2 will be considered in future price adjustments.

4. Parcels

The resulting passthroughs within this product are both lower than 100 percent, as they were in Docket No. R2008-1.

PERIODICALS

While the Postal Service recognizes the importance of cost data with regard to Periodicals, section 3622(e)(2)(C) of title 39 exempts passthroughs for discounts “provided in connection with subclasses of mail consisting exclusively of mail matter of educational, cultural, scientific and informational value” from the 100 percent passthrough standard of section 3622(e). However, for reasons of openness and transparency the Postal Service discusses Periodicals passthroughs below.

1. Outside County

In the May price adjustment, of the eighteen passthroughs listed as “presorting”, ten were over 100 percent. Using the costs presented in this ACR, the number of passthroughs exceeding 100 percent has fallen to five.

Several considerations are relevant here. First, the Docket No. R2008-1 price adjustment was an across-the-board change based on the applicable price cap, so the resulting passthroughs were partly due to a policy decision to allow Periodicals customers time to adjust to the then-new (R2006-1) price structure (which had been in place for less than a year). Second, the FY 2008 cost avoidances are calculated based on the model that incorporates significant methodological changes and data updates. See USPS FY08-11. Therefore, the resulting passthroughs may differ from those in the

past. Future price changes will acknowledge these costs in evaluating the appropriate passthroughs.

2. Within County

The FY 2008 Within County cost avoidances are based on proxies from other classes of mail. While suitable for pricing purposes, these costs are not specific to Within County. No passthrough for Within County exceeds 100 percent.

STANDARD MAIL

1. Letters

Two passthroughs within this product exceed 100 percent: (1) the presort discount for automation 3-digit letters compared to AADC letters, and (2) the presort discount between nonmachinable ADC letters and nonmachinable mixed AADC letters. Both of these passthroughs were at or below 100 percent when the discounts were announced in Docket No. R2008-1, so there was no need to cite an exemption to the passthrough limitation. The increases in the passthroughs in both these cases are due to lower estimated avoided costs between FY 2007 and FY 2008. These new cost measurements, and other factors, will be considered in the next price change.

2. Flats

Three passthroughs within this product exceed 100 percent: (1) the presort discount between automation ADC flats and mixed ADC flats, (2) the presort discount between nonautomation ADC flats and nonautomation mixed ADC flats, and (3) the pre-barcoding discount between automation mixed ADC flats and nonautomation mixed ADC flats.

The two presort discounts both had passthroughs that were at or below 100 percent when the discounts were announced in Docket No. R2008-1, so there was no need to cite an exemption to the passthrough limitation. The increases in passthroughs in both these cases are due to lower estimated avoided costs between FY 2007 and FY 2008. These new cost measurements, and other factors, will be considered in the next price change.

The pre-barcoding discount had a passthrough of 265.4 percent in Docket No. R2008-1. The Postal Service justified this passthrough under section 3622(e)(2)(D) of title 39, as explained in its response to CIR No. 1. The Commission accepted the Postal Service's justification and the pre-barcoding discount was implemented on May 12, 2008. An increase in the avoided costs between FY 2007 and FY 2008 has reduced the passthrough from 265.4 percent in Docket No. R2008-1 to 227.4 percent in ACR 2008. The previous justification for this discount still applies.

3. Parcels and NFMs

Three worksharing discounts for Standard Mail Parcels and NFMs exceed a 100 percent passthrough. These are the presort discounts between (1) BMC machinable parcels and mixed BMC machinable parcels and (2) between 5-digit machinable parcels and BMC machinable parcels. There is also (3) the drop ship discount between origin entry and DDU entry. None of these passthroughs exceeds 106.5 percent. In each of these three cases the passthroughs were higher when the Postal Service announced the discounts in Docket No. R2008-1 (approximately 116 percent for each of the presort discounts, and 124 percent for the DDU discount). The decreases in the passthroughs in all of these cases are due to higher estimated avoided costs in FY 2008 compared to

FY 2007. The Postal Service justified these passthroughs over 100 percent under section 3622(e)(2)(D) of title 39, as explained in its response to CIR No. 1. The Commission accepted the Postal Service's justification and the discounts were implemented on May 12, 2008. Again, since the effective passthroughs are now lower using the FY08 costs, the previous justifications of these discounts still apply.

4. Carrier Route; High Density and Saturation Letters; and High Density and Saturation Flats and Parcels.

Each of these three Standard Mail products offer drop ship discounts. Only two of these discounts have passthroughs that exceed 100 percent. These are the DDU drop ship discounts for Carrier Route parcels and for High Density and Saturation parcels, which stand at 105.9 percent based on the cost avoidances in this ACR. In Docket No. R2008-1, these passthroughs were 123.9 percent. The Postal Service justified these passthroughs under section 3622(e)(2)(D) of title 39, as explained in its response to CIR No. 1. The Commission accepted the Postal Service's justification and these DDU discounts were implemented on May 12, 2008. The previous justifications for these discounts still apply.

PACKAGE SERVICES

1. Media Mail

Media Mail and Library Mail each have two presorting discounts and a pre-barcoding discount. In both Media Mail and Library Mail, the presort discount between basic presort and 5-digit presort exceeds 100 percent. These presort discounts also exceeded 100 percent in Docket No. R2008-1. In each case the Docket No. R2008-1 passthroughs exceeded 200 percent. The Postal Service justified these passthroughs

under sections 3622(e)(2)(B) and 3622(e)(2)(C) of title 39, as explained in its response to CIR No. 1. The Commission accepted the Postal Service's justification and these presort discounts were implemented on May 12, 2008. The passthroughs are now significantly lower than those used in Docket No. R2008-1, albeit still over 100 percent. The previous justifications for these discounts still apply.

2. BPM Flats

Bound Printed Matter Flats has presort, pre-barcoding and drop ship discounts. Three discounts within this product have passthroughs that exceed 100 percent.

The discount for carrier route presorting has a passthrough of 109.1 percent. The reason for the excess passthrough is that the estimated avoided costs have decreased from FY 2007 to FY 2008. In Docket No. R2008-1, this discount was set at 100 percent of its avoided costs. Since the previous cost data used to set the present price resulted in a passthrough of 100 percent, there was no need for justification of the passthrough. Ostensibly, carrier route presorting helps promote efficiency; nonetheless, future price changes will consider the new cost data, and other factors.

The BPM Flats DMBC and DSCF discounts also exceed 100 percent of FY 2008 avoided costs. Both of these discounts also exceeded 100 percent of avoided costs in Docket No. R2008-1 (144 and 115 percent, respectively). The Postal Service justified these passthroughs under section 3622(e)(2)(B) of title 39, as explained in its response to CIR No. 1. The Commission accepted the Postal Service's justification and these presort discounts were implemented on May 12, 2008. Both of the drop ship passthroughs have declined (to 140 and 107 percent, respectively) since Docket No.

R2008-1 because the avoided costs have increased between FY 2007 and FY 2008.

The previous justifications for these discounts still apply.

3. BPM Parcels

Bound Printed Matter Parcels has presort, pre-barcoding and drop ship discounts. Four of these discounts have passthroughs that exceed 100 percent.

The discount for carrier route presorting has a passthrough of 109.1 percent. The reason for the excess passthrough is that the estimated avoided costs have decreased from FY 2007 to FY 2008. In Docket No. R2008-1, this discount was set at 100 percent of its avoided costs. Since the previous cost data used to set the present price resulted in a passthrough of 100 percent, there was no need for justification of the passthrough when the price changes were filed. Ostensibly, carrier route presorting helps promote efficiency; nonetheless, future price changes will consider the new cost data, and other factors.

The BPM Parcels DMBC, DSCF, and DDU discounts also exceed 100 percent of FY 2008 avoided costs, the latter two only minimally (105 and 103 percent, respectively). All three of these discounts also exceeded 100 percent of avoided costs in the Docket No. R2008-1. The Postal Service justified these passthroughs under section 3622(e)(2)(B) of the PAEA, as explained in its response to CIR No. 1. The Commission accepted the Postal Service's justification and these discounts were implemented on May 12, 2008. All of the drop ship passthroughs have declined since Docket No. R2008-1 was filed because the avoided costs have increased between FY 2007 and FY 2008. The previous justification for these discounts still apply.

III. Competitive Products

A. Applicable Requirements of title 39

In its FY 2007 ACR, the Postal Service submitted that, because the rates and fees in effect during that fiscal year had all been established pursuant to the PRA, they should be evaluated by reference to the standards of the PRA, rather than those of the PAEA. FY 2007 ACR at 1, 6-7.¹³ The Commission did not share that interpretation of the circumstances existing at the end of FY07. See FY 2007 ACD at 7-9.

Nonetheless, it bears noting that the rates and fees in effect during the majority of FY 2008 were established using PRA procedures applying PRA standards. For domestic competitive products, the rates and fees offered by the Postal Service during approximately the first two-thirds of FY 2008 (until May 12, 2008) were essentially all recommended by the Commission and approved by the Governors in Docket No. R2006-1, pursuant to the process of former sections 3621-3625 of title 39. These rates and fees were reviewed by the Commission in its FY07 ACD. After that, and until the end of the fiscal year, the rates and fees largely resulted from Docket No. CP2008-3, the first omnibus competitive rate adjustment under the PAEA. The second omnibus competitive rate adjustment will be implemented in January of 2009. See Docket No. CP2009-8.

For international services, former section 407(a) of title 39 allowed the Postal Service to set rates and fees without prior evaluation by the Commission. The Postal Service was subject to general limitations contained in title 39, such as the requirement of fair and equitable apportionment of costs, the principle that rates should not impair

¹³ The Postal Service did, however, provide a discussion of its FY07 data by reference to the standards of the PAEA. See ACR at 26-28.

the overall value of postal services to the people, and the prohibition on undue or unreasonable discrimination or preferences among mailers. For the bulk of FY 2008 (until May 12, 2008), the international rates and fees followed the schedule that the Postal Service promulgated in 72 Fed. Reg. 16,604 (Apr. 4, 2007) which was reviewed by the Commission in its FY07 ACD.¹⁴ As noted by the Postal Service in its prior ACR, international mail as a whole was considered the appropriate level of aggregation for determining cost coverage under the PRA. Therefore, the international rates and fees in effect for most of FY 2008 were not necessarily designed to achieve a target of 100 percent cost coverage for individual rate categories within the overall international mail class. For the balance of the fiscal year, after May 12, 2008, the rates and fees for market competitive international mail products of general applicability were those established under the provisions of the PAEA in Docket No. CP2008-3.

B. Product-by-Product Costs, Revenue, and Volumes

Last year, there were some instances in which the categories of mail as they existed in FY 2007 under the PRA directly matched the new list of competitive “products,” and other instances in which they did not. As a consequence, it was only with respect to a subset of competitive products that it was possible to decompose the reported costs for FY 2007 into a format that could be rolled up into the elements of the new product list (although the situation was somewhat better with respect to volumes and revenues). For FY 2008, however, cost, revenues, and volumes for competitive

¹⁴ Moreover, although the Postal Service offered negotiated rates to individual mailers under international customized mailing (ICM) agreements, these special rates were not “undue or unreasonable” in light of those mailers’ needs and their ability to provide volume and postage commitments. See *UPS Worldwide Forwarding v. USPS*, 66 F.3d 621, 631-38 (3d Cir. 1995), *cert. denied*, 516 U.S. 1171 (1998).

products of general applicability are directly shown in the FY 2008 CRA (or ICRA). For competitive products not of general applicability, available data on international customized mailing agreements (ICMs) for FY 2008 are presented in USPS-FY08-NP2. There was one domestic competitive product not of general applicability (Express Mail Contract 1) with an implementation date in FY08, but that NSA had no operational activity (and thus no data to report) until after the start of FY09.

C. Section 3633 Standards

The new competitive product pricing standards of section 3633 have been implemented by the Commission at 39 C.F.R. § 3015.7. This section discusses the available FY 2008 data with reference to those standards.

First, subsection 3633(a)(1) states that competitive products should not be cross-subsidized by market-dominant products. The Commission's regulations define the most appropriate test for this standard as the incremental cost test for the aggregation of competitive products.¹⁵ Simply stated, if the aggregate revenues from competitive products equal or exceed the aggregate incremental costs of competitive products, then competitive products overall are not being cross-subsidized by market-dominant products. As the regulations anticipate, however, a measure of such incremental costs is not available. Under these circumstances, the regulations specify use of competitive products' attributable costs, supplemented by any causally-related group-specific costs (for the group of competitive products).¹⁶ This year, for the first time, the Postal Service has initiated the process of identifying causally-related group-specific costs, and some results are available. Estimates of group-specific costs, to supplement product

¹⁵ See 39 C.F.R. § 3015.7(a).

¹⁶ *Id.*

attributable costs, are presented in USPS-FY08-33 and USPS-FY08-NP10. For market dominant products, the FY08 estimate of group specific costs is \$17.0 million, and for competitive products, it is \$49.4 million. USPS-FY08-33, USPS-FY08-NP10. In accordance with the Commission's intentions, as expressed in Order No. 115, the Postal Service is only using these estimates of group specific costs for purposes of testing for cross-subsidy of competitive products. Order No. 115 (Oct. 10, 2008) at 14. Summing the aggregate attributable costs for competitive products of \$6.6021 billion (shown on page 2 of USPS-FY08-1) with the above competitive group-specific cost figure of \$49.4 million from USPS-FY08-NP10, yields a total of \$6.6515 billion. This amount is well below total competitive products revenue of \$8.4345 billion (also shown on page 2 of USPS-FY08-1). Therefore, based on these estimates, it is clear that competitive products in FY08 were not cross-subsidized by market dominant products, and thus were in compliance with subsection 3633(a)(1).

Second, subsection 3633(a)(2) requires that each competitive product cover its attributable costs. Comparing the revenue of each competitive product shown in the Nonpublic CRA (USPS-FY08-NP11) with its attributable costs suggests that all of the competitive products are covering their attributable costs, with the exceptions of International Priority Airmail (IPA) tendered at noncontractual rates, Inbound Surface Parcel Post (at Non-UPU rates), and International Money Transfer Services. These products are all quite small, each providing only a small fraction of one percent of the total revenue of competitive products. Although the situation with Inbound Surface Parcel Post (at Non-UPU rates) is similar to that experienced last year (see FY07 ACD at 122), the Postal Service has undertaken to improve the performance of inbound

surface parcels through the negotiation of new rates for inbound parcels tendered by Canada Post, which the Commission recently approved under Order No.147 and which are to become effective in January 2009.

Premium Forwarding Service (PFS) is a service which was only transferred to the list of competitive products midyear. Moreover, during the course of the year, efforts were made to begin separating the shipping portion of PFS costs from Priority Mail costs, where they had previously been reported. As explained on page 7 of USPS-FY08-1, however, some data system changes were not undertaken until midyear, and the result was PFS costs reported in the FY08 Nonpublic CRA that do not fully reflect the costs of the product over the entire year. In contrast, the PFS revenue and volume reported in the FY08 CRA do reflect activity over the entire year. To address the requirement of subsection 3633(a)(2) for PFS, the Postal Service has undertaken a supplemental analysis to provide a fuller estimate of PFS costs. This analysis is shown in USPS-FY08-NP27. The basic approach used therein is to impute the average FY08 unit transportation and delivery costs of Priority Mail to PFS pieces. While the results of this exercise are not definitive, they do suggest that an enhanced estimate of FY08 PFS costs is still slightly below reported FY08 PFS revenue, and the requirements of subsection 3633(a) thus appear to have been met. See USPS-FY08-NP27. With respect to an incomplete segregation of PFS costs from Priority Mail cost in the FY08 CRA, however, it bears noting that, since both products are in the competitive category, any shortcoming in this regard would not affect the FY08 aggregate reported costs for competitive products as a whole.

Third, subsection 3633(a)(3) states that competitive products must collectively cover what the Commission determines to be an appropriate share of the Postal Service's institutional costs. In its regulations, the Commission has determined that an appropriate minimum share is 5.5 percent of total institutional costs.¹⁷ Page 2 of USPS-FY08-1 shows total institutional cost of \$32.219 billion. Applying the 5.5 percent to that figure yields a target contribution of \$1.772 billion. To evaluate achievement relative to that target, we once again refer to page 2 of USPS-FY08-1, and subtract total competitive attributable costs of \$6.602 billion from total competitive product revenue of \$8.435 billion, leaving an aggregate competitive product contribution of \$1.833 billion. The target is exceeded, and the requirement of subsection 3633(a)(3) has been met.

IV. Market Tests

The Postal Service does not currently offer any "market tests of experimental products" under the provisions of 3641. However, during parts of FY 2008, one "experiment" (pursuant to Commission Rules 67-67d) and one "provisional service" (pursuant to Commission Rules 171-176) were in effect. Both were subsequently converted to permanent status. These services are described below:

Premium Forwarding Service (PFS): Premium Forwarding Service was offered as an experimental service as a result of Docket No. MC2005-1. PFS is designed for residential customers who want to receive substantially all of their mail at a temporary domestic address, rather than piece-by-piece through temporary forwarding. The Postal Service proposed that PFS be converted to a permanent offering in Docket No. MC2007-3. The Commission issued a recommended decision in compliance with that

¹⁷ See 39 C.F.R. § 3015.7(c).

request on January 7, 2008, and the Governors' Decision approving that recommendation was signed on January 24, and filed on January 25, 2008.

Subsequently, in Docket No. MC2008-4, the Postal Service petitioned to transfer PFS from the list of market dominant products to the list of competitive products. That transfer was approved by Commission Order No. 88 (July 16, 2008). Available FY 2008 data on revenue, costs, and volume for PFS have been included in the Nonpublic CRA (USPS-FY08-NP11), along with comparable data for the other competitive products.

Repositionable Notes: Repositionable Notes were offered as a provisional service as a result of Docket Nos. MC2004-5 and MC2006-2. This service allows bulk mailers of letters and flats to mechanically attach removable, self-adhesive notes to the outside of their mail pieces for a small additional charge. During FY 2008, in Docket No. MC2008-2, the status of RPNs was changed from provisional to permanent. Order No. 67 (March 19, 2008). FY2008 data are reported in the billing determinants.

V. Nonpublic Annex

Section 3652(f)(1) contemplates the use of a nonpublic annex for documents or other materials that the Postal Service considers exempt from public disclosure, pursuant to 39 U.S.C. § 410(c) and 5 U.S.C. § 552(b). In particular, section 410(c)(2) exempts from mandatory disclosure "information of a commercial nature...which under good business practice would not be publicly disclosed." Last year's ACR had a nonpublic annex containing, generally speaking, the following: 1) the billing determinants for domestic and international competitive products, 2) the ICRA, and all supporting documentation underlying the ICRA, and 3) data for international customized agreements with customers. The other information in the FY 2007 ACR

was submitted in the public portion of the filing. Nevertheless, there was also extensive discussion explicitly alerting readers that how materials were treated in the FY 2007 ACR could not provide a reasonable basis for expectations regarding how such materials would be treated going forward. FY 2007 ACR (Dec. 28, 2007) at 30-34. Specifically, the Postal Service stated that “in the future it will be necessary to protect sensitive commercial information about competitive products that was formerly made public under the PRA. “ *Id.* at 33.

Consistent with that discussion in the FY 2007 ACR, the Postal Service believes that certain materials filed in the public portion of the FY 2007 ACR should be shifted into the nonpublic annex of the FY 2008 ACR. In addition to the types of materials listed above that were in the nonpublic annex in FY07, and that are included there as well in FY08, this year’s nonpublic annex also includes versions of the CRA and Cost Segments and Components reports that break out information for individual competitive as well as market dominant products, the CRA “B” workpapers and the CRA model, the files relating to the costing data systems (IOCS, CCCS, RCCS, and TRACS), and special cost study workpapers or other similar background materials which contain sensitive information on competitive products. In accordance with section 3652(f)(1), a complete listing of what is within the FY08 nonpublic annex is provided in the attached list of documents.¹⁸

¹⁸ To the extent possible, if material relating to market dominant products can reasonably be segregated from sensitive information regarding competitive products, the Postal Service has split its data presentation into public and nonpublic portions, as indicated on the attached list. Moreover, to facilitate access to the totality of core costing documentation, the Postal Service on December 12, 2008, filed a motion seeking the establishment of protective conditions under which eligible individuals could obtain access to those portions of the core costing documentation which appear solely in the nonpublic annex. On December 23, 2008, the Commission denied the request to establish protective conditions. Order No. 155 (Dec. 23, 2008). Instead, the Commission indicated a preference for enhanced efforts to produce public versions of materials with sensitive information eliminated. The Postal Service’s efforts to respond

In determining what to place in the nonpublic annex in this Report, the Postal Service has to some extent followed recent and past practice in withholding certain documents from disclosure, as those practices generally reflect prior considerations (which continue to be appropriate today) that certain information is commercially sensitive. For example, the Commission's current periodic reporting rules recognize the commercial sensitivity of the billing determinants for competitive products, by allowing the billing determinants for "Express Mail, Priority Mail, and parcel post" to be filed on a one-year lag.¹⁹ In addition, documentation pertaining to costs, revenues, volumes, and billing determinants for international mail typically have been filed without public disclosure, in connection with the Commission's Reports to Congress on International Mail Costs, Volumes and Revenues under former section 3663 of title 39.²⁰ The continued confidentiality of this data remains essential to the Postal Service's ability to negotiate international customized mailing agreements (ICMs), other bilateral and multilateral agreements with foreign postal administrations, and vendor arrangements that support international services. For ICMs and foreign post arrangements, revenue, piece, and weight data have also historically been treated as commercially sensitive and confidential. This treatment reflects the Postal Service's assessment that public disclosure of actual data concerning agreements, as well as retail services that compete with offerings by freight forwarders and other private international delivery companies, would interfere with the Postal Service's ability to compete for customers. This practice

to Order No. 155 are detailed in a separate pleading filed today, Response of the United States Postal Service to Commission Order No. 155.

¹⁹ See 39 C.F.R. 3001.102(a)(10); PRC Order No. 1423 at 6 (November 8, 2004) (citing Order No. 839 at 7-8).

²⁰ See, e.g., Letter from R. Andrew German, Managing Counsel, Legal Policy and Ratemaking Law, to Steven W. Williams, Secretary, Postal Regulatory Commission (March 15, 2007) at 2.

was consistently followed by the Postal Service in the numerous ICMs and other competitive agreements filed with the Commission during the course of this fiscal year.

Of course, while ICMs have been common in the past for international competitive products, the Postal Service has only recently under the PAEA begun to negotiate similar contract pricing arrangements with respect to domestic competitive products. Domestic customers for competitive products who under the PRA could influence the postal prices they paid only by participation in postal rate proceedings can now directly negotiate with the Postal Service for what they view as more favorable rates for their particular circumstances. Access to virtually any cost information on competitive products may give them an advantage in the negotiation process which, by definition, could act to the detriment of the Postal Service during that same negotiation process. These developments require reassessment to achieve an equilibrium that respects the Postal Service's enhanced competitive role, and the Commission's new responsibilities. Indeed, the language of the PAEA calls for such an equilibrium.²¹

Costing information for products as a whole, or for specific product features, tend to be highly confidential in the business world, and the Postal Service should be able to protect them in accordance with industry standards. The ability of the Postal Service to negotiate favorable contracts could be severely compromised if costing information becomes available either to the customers with whom the Postal Service is negotiating, or to competitors who might also be seeking to negotiate contracts with the same customers. Postal Service's competitors, for example, could use such information to target their efforts and undercut the Postal Service's prices. The Postal Service is

²¹ See, e.g., 39 U.S.C. § 3652(e)(1).

aware of no competitor or private shipping company of comparable size and scope that releases similar information to the public.

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UNITED STATES POSTAL SERVICE

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December 29, 2008

**LIST OF MATERIALS
PROVIDED BY THE UNITED STATES POSTAL SERVICE
FOR PURPOSES OF THE
FISCAL YEAR 2008 ANNUAL COMPLIANCE REPORT**

Number

- USPS-FY08-1 FY 2008 Public Cost and Revenue Analysis (PCRA) Report
- USPS-FY08-2 FY 2008 Public Cost Segments and Components Report
- USPS-FY08-3 FY 2008 Discounts and Passthroughs of Workshare Items
- USPS-FY08-4 FY 2008 Market Dominant Billing Determinants
- USPS-FY08-5 Cost Segment and Components Reconciliation to Financial Statements and Account Reallocations (Reallocated Trial Balances)
- USPS-FY08-6 General Classification of Accounts (Formerly Handbook F-8)
- USPS-FY08-7 Cost Segment 3 Cost Pools & Other Related Information (Public Portion)
- USPS-FY08-8 Equipment and Facility Related Costs
- USPS-FY08-9 FY 2008 ACR Roadmap Document
- USPS-FY08-10 FY 2008 Special Cost Studies Workpapers - Letter Cost Models (First and Standard)
- USPS-FY08-11 FY 2008 Special Cost Studies Workpapers - Flat Cost Models (First and Standard) & Periodicals Cost Model

USPS-FY08-12 Standard Mail Hybrid/Parcel Cost Study

USPS-FY08-13 FY 2008 Special Cost Studies Workpapers - Drop Ship Cost Avoidances for Periodicals and Standard Mail

USPS-FY08-14 Mail Characteristics Study (Public Portion)

USPS-FY08-15 FY 2008 Special Cost Studies Workpapers - Parcels Cost Models (Public Portion)

USPS-FY08-16 FY 2008 Special Cost Studies Workpapers - Bound Printed Matter and Parcel Post Transportation Costs / Bulk Parcel Return Service Cost Study (Public Portion)

USPS-FY08-17 FY 2008 Special Cost Studies Workpapers - Parcel Post Regression Analysis (Public Portion)

USPS-FY08-18 FY 2008 ECR Mail Processing Unit Costs

USPS-FY08-19 FY 2008 Delivery Costs By Shape

USPS-FY08-20 FY 2008 Window Service Cost by Shape

USPS-FY08-21 FY 2008 QBRM and BRM Costs

USPS-FY08-22 FY 2008 Bound Printed Matter Mail Processing Costs

USPS-FY08-23 MODS Productivity Data

USPS-FY08-24 FY 2008 Non-Operation Specific Piggyback Factors (Public Portion)

USPS-FY08-25 FY 2008 Mail Processing Piggyback Factors (Operation Specific)

USPS-FY08-26 FY 2008 Mail Processing Costs by Shape (Public Portion)

- USPS-FY08-27 FY 2008 Nonprofit Mail Cost Approximations
- USPS-FY08-28 FY 2008 Special Cost Studies Workpapers – Special Services (Public Portion)
- USPS-FY08-29 FY 2008 Special Cost Studies Workpapers – Delinked FCM Workshare Estimates
- USPS-FY08-30 FY 2008 Market Dominant NSA Materials
- USPS-FY08-31 FY 2008 CRA Model (Model Files, Cost Matrices, and Reports) (Public Version)
- USPS-FY08-32 FY 2008 CRA “B” Workpapers (Public Version)
- USPS-FY08-33 FY 2008 Group Specific Costs (Public Portion)
- USPS-FY08-34 City Carrier Cost System (CCCS) Statistical and Computer Documentation (Public Version)*
- USPS-FY08-35 Rural Carrier Cost System (RCCS) Statistical and Computer Documentation (Public Version)*
- USPS-FY08-36 Transportation Cost Systems (TRACS) Statistical and Computer Documentation (Public Version)*
- USPS-FY08-37 In-Office Cost System (IOCS) Statistical and Computer Documentation (Public Version)*
- USPS-FY08-38 USPS Market Dominant Product Customer Satisfaction Measurement Survey Instruments

* USPS-FY08-34, 35, 36, and 37 will separately be filed shortly. A notice of filing will be submitted for each as they become available.

BELOW ITEMS WILL BE DESIGNATED AS NONPUBLIC ANNEX:

- USPS-FY08-NP1 FY 2008 Competitive Product Billing Determinants
- USPS-FY08-NP2 FY 2008 International Cost and Revenue Analysis (ICRA) report (Hard Copy & Excel)
- USPS-FY08-NP3 FY 2008 International Cost Segments and Components Report (Hard Copy & Excel)
- USPS-FY08-NP4 FY 2008 ICRA Domestic Processing Model (Cost Matrices, Reports, Control File, & Changes)
- USPS-FY08-NP5 FY 2008 ICRA Overview/Technical Description
- USPS-FY08-NP6 FY 2008 International Cost Segment Spreadsheets
- USPS-FY08-NP7 Cost Segment 3 International Subclass Costs by Cost Pools (Volume Variable Cost Pools)
- USPS-FY08-NP8 FY 2008 International Billing Determinants
- USPS-FY08-NP9 FY 2008 Miscellaneous International Data
- USPS-FY08-NP10 FY 2008 Group Specific Costs
- USPS-FY08-NP11 FY 2008 Nonpublic Cost and Revenue Analysis (NPCRA) Report (Hard copy & Excel)
- USPS-FY08-NP12 FY 2008 Nonpublic Cost Segments and Components Report (Hard copy & Excel)
- USPS-FY08-NP13 FY 2008 CRA Model (Model Files, Cost Matrices, and Reports)
- USPS-FY08-NP14 FY 2008 CRA "B" Workpapers

USPS-FY08-NP15 RESERVED

USPS-FY08-NP16 RESERVED

USPS-FY08-NP17 RESERVED

USPS-FY08-NP18 Cost Segment 3 Cost Pools & Other Related Information (Nonpublic Portion)

USPS-FY08-NP19 FY 2008 Non-Operation Specific Piggyback Factors (Nonpublic Portion)

USPS-FY08-NP20 RESERVED

USPS-FY08-NP21 In-Office Cost System (IOCS) Statistical and Computer Documentation (Nonpublic Version) (Source Code and Data on CD-ROM)

USPS-FY08-NP22 City Carrier Cost System (CCCS) Statistical and Computer Documentation (Nonpublic Version) (Source Code and Data on CD-ROM)

USPS-FY08-NP23 Rural Carrier Cost System (RCCS) Statistical and Computer Documentation (Nonpublic Version) (Source Code and Data on CD-ROM)

USPS-FY08-NP24 Transportation Cost Systems (TRACS) Statistical and Computer Documentation (Nonpublic Version) (Source Code and Data on CD Rom)

USPS-FY08-NP25 Mail Characteristics Study (Nonpublic Portion)

USPS-FY08-NP26 FY 2008 Special Cost Studies Workpapers – Special Services (Nonpublic Portion)

USPS-FY08-NP27 FY2008 Premium Forwarding Service Cost Estimation

CERTIFICATE OF SERVICE

I hereby certify that I have this date served the foregoing document in accordance with Section 12 of the Rules of Practice and Procedure.

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