

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

REPOSITIONABLE NOTES MARKET TEST

Docket No. MC2004-5

REQUEST OF THE UNITED STATES POSTAL SERVICE
FOR A RECOMMENDED DECISION FOR
A MARKET TEST OF REPOSITIONABLE NOTES ON
FIRST-CLASS MAIL, STANDARD MAIL, AND PERIODICALS

UNITED STATES POSTAL SERVICE

By its attorneys:

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July 16, 2004

Documents relating to this request may be served upon Mr. Foucheaux at the above address.

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(July 16, 2004)

Pursuant to chapter 36 of title 39, United States Code, the United States Postal Service has determined that conducting a market test to evaluate the possibility of a permanent change in the Domestic Mail Classification Schedule (DMCS) would be in the public interest and in accordance with the policies and applicable criteria of that title. The market test would establish new classifications and rates for the attachment of Repositionable Notes (RPNs) on the covers of First-Class Mail, Standard Mail, and Periodicals.

The Postal Service intends for the Commission to apply its expedited rules of practice and procedure for market tests, §§ 3001.161 – 166 of Title 39, Code of Federal Regulations. Among other purposes, the rules pertaining to market test filings are designed to facilitate the Postal Service's compliance with its statutory duty to "plan, develop, promote, and provide adequate and efficient postal services," 39 U.S.C. § 403(a), by allowing it to change classifications and rates expeditiously in order to test customer response in the marketplace for the purpose of developing information necessary to support a permanent change. The Postal Service is not filing a request for a permanent change at this time for the reasons explained in its Motion for Waiver of

Request for Permanent Change as a Condition for Market Test Procedures, filed herewith.

This filing is consistent with the logic of the market test rules. A market test is a preferable option to further market research, in light of the expensive nature of such research and the superiority of actual market testing. Market testing will provide detailed information about the demand for RPNs among various mail categories, as explained in the Postal Service's data collection plan (USPS-T-1, at 6-7), with the potential for supporting a request to establish the proposed or similar change on a permanent basis.

Consistent with the Commission's market test rules, the Postal Service proposes that the market test be in effect for one year. As indicated in its testimony, "the Postal Service will endeavor to determine, before the end of that year, whether: (1) it wishes and is able to file a request for a permanent service, (2) it needs to request either an extension of the market test in order to determine the contours of a permanent service, or a revised test which might include other prices or features, or (3) it prefers to simply let the market test expire." USPS-T-1, at 6.

The Postal Service files this proposal with the expectation that the rate and classification embodied in it will be attractive to mailers and will contribute to the long-term viability of the postal system. The proposed classification will further the general policies of the Postal Reorganization Act in that it will create an additional type of mail service designed to meet the needs of different categories of mail users. See 39 U.S.C. § 403(b). The requested changes also conform to the criteria of 39 U.S.C. §§ 3622(b) and 3623(c), as explained in the accompanying testimony. USPS-T-2, at 5-11.

In accordance with the Commission's Rules of Practice and Procedure, the Postal Service submits herewith information and data which explain the nature and scope, significance, and effect of the proposed changes. The Postal Service's direct testimonies accompany this Request. The testimony and exhibits have been marked for identification as shown in Attachment D to this Request.

The instant filing incorporates by reference materials submitted with the Postal Service's Request in Docket No. R2001-1, as well as other materials routinely provided to the Commission by the Postal Service. The Postal Service believes that its submissions comply with the Commission's filing requirements in Rules 54 and 64 of the Rules of Practice and Procedure (39 C.F.R. §§ 3001.54 and 64). Since the Commission could conclude otherwise, the Postal Service is today filing a separate conditional motion for a waiver of certain filing requirements in Rules 54 and 64.

Accordingly, the Postal Service requests that the Commission submit to the Governors of the Postal Service a recommended decision supporting implementation of the market test, as requested.

UNITED STATES POSTAL SERVICE

By its attorneys:

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July 16, 2004

INDEX OF ATTACHMENTS TO REQUEST, MC2004-5
Repositionable Notes Market Test

Attachment A: Domestic Mail Classification Schedule Language

Attachment B: Rate and Fee Schedules

Attachment C: Certification

Attachment D: Index of Testimony, Exhibit Title, and Associated Attorney

Attachment E: Compliance Statement

REQUESTED CHANGES IN THE DOMESTIC MAIL CLASSIFICATION SCHEDULE

In this Request, the Postal Service asks the Commission to recommend certain changes in the Domestic Mail Classification Schedule (DMCS). The DMCS currently in effect is published on the Postal Rate Commission website (www.prc.gov). The most recent version is dated October 19, 2003.

Proposed additions to text are underlined; deletions are marked with ~~strike-through~~. (Note: There are no deletions proposed.)

* * * * *

FIRST-CLASS MAIL CLASSIFICATION SCHEDULE

* * * * *

221 Letters and Sealed Parcels Subclass

* * * * *

221.22 Presort Rate Category. ...

* * * * *

221.221 Repositionable Notes. Repositionable Notes may be attached to the exterior of letter-size and flat-size Presort rate category mail, as specified by the Postal Service. The additional charge for the Repositionable Notes is specified in note 3 to Rate Schedule 221. This provision expires on [insert date insert date one year from the implementation date set by the Board of Governors.]

* * * * *

221.3 Automation Rate Categories – Letters and Flats

* * * * *

221.32 Letter Categories

* * * * *

221.326 Repositionable Notes. Repositionable Notes may be attached to the exterior of Automation letter rate category mail, as specified by the Postal

Service. The additional charge for the Repositionable note is specified in note 3 to Rate Schedule 221. This provision expires on [insert date one year from the implementation date set by the Board of Governors.]

221.33 Flats Categories

* * * * *

221.336 **Repositionable Notes.** Repositionable Notes may be attached to the exterior of Automation flats rate category mail, as specified by the Postal Service. The additional charge for the Repositionable note is specified in note 3 to Rate Schedule 221. This provision expires on [insert date one year from the implementation date set by the Board of Governors.]

* * * * *

**STANDARD MAIL
CLASSIFICATION SCHEDULE**

* * * * *

321 Regular Subclass

* * * * *

321.8 **Repositionable Notes.** Repositionable Notes may be attached to the exterior of letter-size or flat-size Regular subclass mail, as specified by the Postal Service. The additional charge for the Repositionable note is specified in note 6 to Rate Schedule 321A or note 4 to Rate Schedule 321B. This provision expires on [insert date one year from the implementation date set by the Board of Governors.]

* * * * *

322 Enhanced Carrier Route Subclass

* * * * *

322.8 **Repositionable Notes.** Repositionable Notes may be attached to the exterior of letter-size or flat-size Enhanced Carrier Route subclass mail, as specified by the Postal Service. The additional charge for the Repositionable note is specified in note 6 to Rate Schedule 322. This provision expires on [insert date one year from the implementation date set by the Board of Governors.]

323 Nonprofit Subclass

* * * * *

323.8 **Repositionable Notes.** Repositionable Notes may be attached to the exterior of letter-size or flat-size Nonprofit subclass mail, as specified by the Postal Service. The additional charge for the Repositionable note is specified in note 6 to Rate Schedule 323A or note 4 to Rate Schedule 323B. This provision expires on [insert date one year from the implementation date set by the Board of Governors.]

* * * * *

324 Nonprofit Enhanced Carrier Route Subclass

* * * * *

324.8 **Repositionable Notes.** Repositionable Notes may be attached to the exterior of letter-size or flat-size Nonprofit Enhanced Carrier Route subclass mail, as specified by the Postal Service. The additional charge for the Repositionable note is specified in note 6 to Rate Schedule 324. This provision expires on [insert date one year from the implementation date set by the Board of Governors.]

* * * * *

**PERIODICALS
CLASSIFICATION SCHEDULE**

* * * * *

424 **Repositionable Notes.** Repositionable Notes may be attached to the exterior of letter-size and flat-size Periodicals mail, as specified by the Postal Service. The additional charge for the Repositionable note is specified in note 8 to Rate Schedule 421 or note 3 to Rate Schedule 423. This provision expires on [insert date one year from the implementation date set by the Board of Governors.]

REQUESTED CHANGES IN RATES AND FEES

In conjunction with the requested changes in the Domestic Mail Classification Schedule (DMCS) set forth in Attachment A, the Postal Service also is requesting that the Commission recommend corresponding changes to the attendant rate and fee schedules.

Proposed additions are underlined; deletions are marked with ~~strike-through~~.

(Note: There are no deletions proposed.)

FIRST-CLASS MAIL RATE SCHEDULE 221

LETTERS AND SEALED PARCELS

SCHEDULE 221 NOTES

3. Add \$0.005 per piece for Presorted, Automation Letters and Automation Flats pieces bearing a Repositionable Note as defined in Classification Schedule 221.221, 221.326, and 221.336.

**STANDARD MAIL
RATE SCHEDULE 321A**

**REGULAR
PRESORTED CATEGORIES**

SCHEDULE 321A NOTES

6. Add \$0.015 per piece for pieces bearing a Repositionable Note as defined in Classification Schedule 321.8.

**STANDARD MAIL
RATE SCHEDULE 321B**

**REGULAR
AUTOMATION CATEGORIES**

SCHEDULE 321B NOTES

4. Add \$0.015 per piece for pieces bearing a Repositionable Note as defined in Classification Schedule 321.8.

**STANDARD MAIL
RATE SCHEDULE 322**

ENHANCED CARRIER ROUTE

SCHEDULE 322 NOTES

6. Add \$0.015 per piece for pieces bearing a Repositionable Note as defined in Classification Schedule 322.8.

**STANDARD MAIL
RATE SCHEDULE 323A**

**NONPROFIT
PRESORTED CATEGORIES**

SCHEDULE 323A NOTES

6. Add \$0.015 per piece for pieces bearing a Repositionable Note as defined in Classification Schedule 323.8.

**STANDARD MAIL
RATE SCHEDULE 323B**

**NONPROFIT
AUTOMATION CATEGORIES**

SCHEDULE 323B NOTES

4. Add \$0.015 per piece for pieces bearing a Repositionable Note as defined in Classification Schedule 323.8.

**STANDARD MAIL
RATE SCHEDULE 324**

NONPROFIT ENHANCED CARRIER ROUTE

SCHEDULE 324 NOTES

6. Add \$0.015 per piece for pieces bearing a Repositionable Note as defined in Classification Schedule 324.8.

**PERIODICALS
RATE SCHEDULE 421**

OUTSIDE COUNTY (INCLUDING SCIENCE OF AGRICULTURE)

SCHEDULE 421 NOTES

8. Add \$0.015 per piece for pieces bearing a Repositionable Note as defined in Classification Schedule 424.

**PERIODICALS
RATE SCHEDULE 423**

WITHIN COUNTY

SCHEDULE 423 NOTES

3. Add \$0.015 per piece for pieces bearing a Repositionable Note as defined in Classification Schedule 424.

CERTIFICATION

I, William P. Tayman, Jr., Manager, Corporate Financial Planning, United States Postal Service, am familiar with the attached Request of the United States Postal Service for a Recommended Decision on a Repositionable Notes Market Test, together with the accompanying direct testimony.

Pursuant to Rule 54(p) of the Postal Rate Commission's Rules of Practice and Procedure, 39 C.F.R. § 3001.54(p), I hereby certify that I have read the Request, that the cost statements and supporting data submitted as part of that Request, which purport to reflect the books of the Postal Service, accurately set forth the results shown by such books, and that, to the best of my knowledge, information, and belief, every statement contained in the Request is proper.

William P. Tayman, Jr.

INDEX OF TESTIMONIES: DOCKET NO. MC2004-5

WITNESS	TESTIMONY	EXHIBIT	WORKPAPERS	ATTORNEY	
		TITLE	NO.		
Mr. Holland	USPS-T-1			None per se; but see USPS-LR-1 and 2	Scott L. Reiter 202-268-2999
Mr. Kaneer	USPS-T-2			None	Scott L. Reiter 202-268-2999

Docket No. MC2004-5 Request

ATTACHMENT E

COMPLIANCE STATEMENT

This Attachment contains a statement of the manner in which the Postal Service has supplied the information requested in sections 54, 64, and 162 of the Commission's Rules of Practice and Procedure (39 CFR §§3001.54, 3001.64, and 3001.162). Where information required by these rules is not included in direct testimony or exhibits of the Postal Service's witnesses, it is contained in the Request or its attachments, or has been incorporated by reference in the Request, testimony, exhibits, or attachments made available to the Commission in Docket No. R2001-1. Alternatively, the pertinent filing requirements should be waived in accordance with the accompanying Statement of the United States Postal Service Concerning Compliance with Filing Requirements and Conditional Motion for Waiver, also filed today. A Motion for Waiver of Request for Permanent Change as a Condition of Market Test Procedures is also filed herewith.

RULE: 54(a)(1)

REQUIREMENT: This rule requires a description of any changes proposed by the Postal Service in the attribution procedures applied by the Commission in the most recent general rate proceeding in which its recommended rates or fees were adopted. If a request proposes to change the cost attribution principles applied by the Commission in the most recent general rate proceeding in which its recommended rates were adopted, the Postal Service's request shall include an alternate cost presentation satisfying Rule 54(h) that shows what the effect on the Postal Service's request would be if it did not propose changes in attribution principles. If the required information is set forth in the Postal Service's prepared direct evidence, it shall be deemed to be part of the formal request without statement.

No changes in cost attribution principles applied by the Commission in Docket No. R2001-1 are proposed. Insofar as they may apply, the Postal Service incorporates by reference the testimonies and costing presentations submitted with its Request in Docket No. R2001-1.¹

¹ See Request of the United States Postal Service for a Recommended Decision on Changes in Rates of Postage and Fees for Postal Services and Request for Expedition, Docket No. R2001-1, Attachment G (Sept. 24, 2001). The Compliance Statement in that case provides direction to pertinent testimony and documentation.

RULE:54(b)(1), (2), (3), (4)

INFORMATION REQUESTED: These rules request the submission of schedules of the existing effective rates of postage and fees for all postal services and those rates and fees as proposed to be changed or adjusted. The schedules must:

- (1) show the full rates and, where applicable, the phased rates under section 3626 of title 39, U.S.C., and any proposed adjustment to such phased rates under section 3627 of title 39, U.S.C., indicated by the circumstances known at the time of the filing;
- (2) be presented in a summary fashion and a tariff-like form, specifying those rules, regulations and practices which establish the conditions of mailability and the standards of service. Specifically, they must address such functions as mail pickup and delivery, processing and other similar functions;
- (3) contain a statement of the degree of economic substitutability between the various classes and subclasses; and
- (4) be accompanied by an identification of all nonpostal services.

1. Present and Proposed Rates, Fee and Classification Schedule Provisions.

Attachment A to this Request includes the proposed changes to Domestic Mail Classification Schedule § **XXX** for Repositionable Notes.

Attachment B sets forth the proposed additions to Rate Schedules **XXX**, **XXX**, and **XXX** for the First-Class Mail, Standard Mail, and Periodicals.

With the exception of the above, no alteration of existing rates, fees, or classifications is proposed.

2. Rules, Regulations, and Practices that Establish Conditions of Mailability and Standards of Service.

The rules, regulations, and practices that establish conditions of mailability and standards of service generally are published in the Domestic Mail Manual and are

incorporated by reference in 39 C.F.R. § 111.1. The practices of the Postal Service regarding, and the conditions for, Repositionable Notes are discussed in the testimony of witness Holland (USPS-T-1). The Postal Service's response to Rule 54(b)(2) should not be construed to admit that the Commission's jurisdiction extends to any of the specified rules, regulations, or practices.

3. Degree of Economic Substitutability and Identification of Nonpostal Services.

With regard to classes of mail and special services generally, and identification of nonpostal services, the Postal Service incorporates by reference the testimony and supporting documentation filed with its Request in Docket No. R2001-1. Substantial information relevant to economic substitutability was included in the testimonies of witnesses Tolley, Thress, and Musgrave (USPS-T-7-9).

The proposed implementation of a market test of Repositionable Notes is not expected to cause significant substitution among mail classes, subclasses or rate categories, or have a significant impact on mail volumes.

If the information and materials cited and incorporated above are deemed insufficient under the Commission's filing requirements, the Postal Service requests that

this provision be waived.²

4. Identification of Nonpostal Services

There are no nonpostal services in this request.

² See Statement of the United States Postal Service Concerning Compliance with Filing Requirements and Conditional Motion for Waiver, also filed today.

RULE:54(c)

INFORMATION REQUESTED:

This rule requires "an identification of the characteristics of the mailer and recipient, and a description of the contents of items mailed within the various classes and subclasses of mail and service."

With regard to classes of mail and special services generally, the Postal Service incorporates by reference testimony and supporting documentation submitted with its Request in Docket No. R2001-1. With regard to the proposed market test of Repositionable Notes, information responsive to this rule may be found in the testimony of witness Holland (USPS-T-1).

If the information and materials cited and incorporated above are deemed insufficient under the Commission's filing requirements, the Postal Service requests that this provision be waived.

RULE: 54(d)

INFORMATION REQUESTED:

This rule requests "an identification of the physical attributes of the items mailed by class and subclass, including shape, weight, and distance."

With regard to classes of mail and special services generally, the Postal Service incorporates by reference testimony and supporting documentation submitted with its Request in Docket No. R2001-1. Additional information regarding the physical attributes of Repositionable Notes and their host pieces is provided in the testimony of witness Holland (USPS-T-1).

If the information and materials cited and incorporated above are deemed insufficient under the Commission's filing requirements, the Postal Service requests that this provision be waived.

RULE: 54(e)

INFORMATION REQUESTED:

To the extent such information is not included within material supplied under rule 54(b)(2), this rule requests "a summary statement describing special service arrangements provided to, or requested or required of, mailers by the Postal Service which bear upon the cost of service or the value of the mail service to both the sender and the recipient, *e.g.*, services relating to mailer preparations in excess of requirements specified by the [*Domestic Mail Manual*], pick-up and delivery, expedited or deferred processing, and other similar activities performed."

Information responsive to this rule is contained in the Request and supporting materials filed in Docket No. R2001-1 (see Docket No. R2001-1 Compliance Statement, Rule 54(e)), which are incorporated by reference here. The requirements for the proposed Repositionable Notes market test classification and rates are described in the testimony of witness Holland (USPS-T-1), and in the DMM, which is referenced in response to Rule 54(b).

If the information and materials cited and incorporated above are deemed insufficient under the Commission's filing requirements, the Postal Service requests that this provision be waived.

RULE:54(f)(1)

INFORMATION REQUESTED:

This rule requests the submission of "the total actual accrued costs during the most recent fiscal year for which they are reasonably available."

The total actual accrued costs for FY 2003 are presented in the Cost & Revenue Analysis (CRA) Report, on file with the Commission. Operating and other expenses for FY 2003 are contained in the United States Postal Service Annual Report for FY 2003. A copy of this Annual Report has been filed with the Commission.

RULE:54(f)(2) (Basic Submissions)

INFORMATION REQUESTED:

This rule requests:

- for the year in which the filing is made, estimates of the total actual accrued costs of the Postal Service, assuming the prefiling (existing) rates and fees;
- for the year in which the filing is made, estimates of the total actual accrued costs of the Postal Service, assuming the proposed rates and fees;
- for a year which forms the basis for the proposed rates and fees, beginning not more than 24 months after the filing date of the Request, estimates of the total actual accrued costs of the Postal Service, assuming the prefiling (existing) rates and fees;
- for a year which forms the basis for the proposed rates and fees, estimates of the total actual accrued costs of the Postal Service, assuming the proposed rates and fees.

With regard to classes of mail and special services generally, the Postal Service incorporates by reference testimony and supporting documentation submitted with its Request in Docket No. R2001-1. Because of the nature of the Repositionable Notes market test being proposed, and its expected limited impact on Postal Service revenues and lack of impact on costs, the Postal Service has not prepared a full analysis of the effects on the Postal Service's total costs in the present fiscal year, or a rollforward analysis in a future test year. Such a full analysis of overall revenues and costs is unnecessary and inappropriate in the context of the proposed market test. As explained in the testimony of witness Kaneer (USPS-T-2), currently-existing rates and classifications will remain unchanged, while an additional option to use RPNs is introduced. By maintaining the status quo in all respects but one, the Postal Service

expects to acquire reliable information regarding customer reactions to that single new offering.

However, if the information and materials cited and incorporated above are deemed insufficient under the Commission's filing requirements, the Postal Service requests that this provision be waived.

RULE:54(f)(2) (Methods and Procedures)

INFORMATION REQUESTED:

For the estimated total accrued costs specified in this provision, the rule requests an explanation of the methods and procedures used for the cost projections, including

- an explanation of the projection of total volumes;
- an explanation of the effect of the projected volume levels on estimated total costs;
- specification of the cost savings which will be realized from gains and improvements in total productivity, indicating such factors as operational and technological advances and innovations;
- identification of abnormal costs which are expected to be incurred in the test year.

With regard to estimates pertaining to classes of mail and special services generally, the Postal Service incorporates by reference testimony and supporting documentation submitted with its Request in Docket No. R2001-1. Because of the nature of the market test being proposed, and its expected limited financial impact, the Postal Service has not prepared a full analysis of the effects on the Postal Service's total costs and total volumes in the present fiscal year, or a rollforward analysis in a future test year.

If the information and materials cited and incorporated above are deemed insufficient under the Commission's filing requirements, the Postal Service requests that this provision be waived.

RULE:54(f)(3)(i) and (ii) (Operating Costs)

INFORMATION REQUESTED:

This rule requires that the cost presentations prepared in response to paragraphs (f)(1) and (f)(2) of Rule 54 must show the following:

- the Postal Service's operating costs, described in "sufficient detail as to the accounting and functional classifications and with such reasonable explanation so that the actual or estimated amount for each item of expense may be readily understood"; and
- full explanations for the amounts included for depreciation on capital facilities and equipment, debt service, contingencies, and extraordinary or nonrecurring expenses.

The Postal Service incorporates by reference the testimony and supporting documentation of witness Tayman submitted in connection with the Postal Service's Request in Docket No. R2001-1. Witness Tayman's testimony presents operating costs and other financial expenses with regard to all existing mail categories and services. Because of the nature of the market test being proposed, the Postal Service has not prepared a full analysis of the effects on the Postal Service's total costs and total volumes in the present fiscal year, or a rollforward analysis in a future test year.

If the information and materials cited and incorporated above are deemed insufficient under the Commission's filing requirements, the Postal Service requests that this provision be waived.

RULE:54(f)(3)(iii) (Cost Assignment and Distribution)

INFORMATION REQUESTED:

This rule requires that the cost presentations prepared in response to paragraphs (f)(1) and (f)(2) of Rule 54 must show the assignment and distribution of costs to each of the functions "comprising the mail process," including,

- an itemization of costs by the major accounts as reflected by the Service's books of account for all cost segments;
- an itemization of costs by functions such as collection, acceptance, general overheads, etc.;
- an assignment and distribution of the costs by account, together with related mail volumes, for each function;
- an assignment and distribution of the costs by account, together with related mail volumes, to "such subfunctions within each category for which information is available or can be developed";
- an explanation of the method by which the costs by account are assigned and distributed to functions.

With regard to estimates pertaining to classes of mail and special services generally, the Postal Service incorporates by reference testimony and supporting documentation submitted with its Request in Docket No. R2001-1. (See Docket No. R2001-1 Compliance Statement, Rule 54(f)(3)(iii)). Because of the nature of the market test being proposed, the Postal Service has not prepared a full analysis of the effects on the Postal Service's total costs and total volumes in the present fiscal year, or a rollforward analysis in a future test year.

If the information and materials cited and incorporated above are deemed insufficient under the Commission's filing requirements, the Postal Service requests that this provision be waived.

RULE:54(g)

INFORMATION REQUESTED:

This rule requests historical costs for "each fiscal year since the last filing pursuant to this section" to be submitted "in a form as nearly consistent as possible with the filing under [rule 54(f)], together with explanations of any departures from such form and the effect of such departures."

Operating and other expenses for FY 2003 are contained in the United States Postal Service Annual Report from FY 2003, which has been filed with the Commission. Total and distributed costs for FY 2003 are presented in the Cost & Revenue Analysis (CRA) Report, also on file with the Commission.

RULE: 54(h)(1)

INFORMATION REQUESTED:

This rule requests the separation of actual and estimated total costs, for the fiscal years specified in Rule 54(f), as between postal services (including international mail) and nonpostal services. "The presentation shall show the methodology for separating postal costs as between postal services and nonpostal services, and shall be in sufficient detail to allow a determination that no nonpostal costs have been assigned or allocated to postal services."

With regard to estimates pertaining to classes of mail and special services generally, the Postal Service incorporates by reference testimony and supporting documentation submitted with its Request in Docket No. R2001-1. These materials discuss separation of costs among domestic, international, and nonpostal services (see Docket No. R2001-1 Compliance Statement, Rule 54(h)(1)). Because of the nature of the market test being proposed, the Postal Service has not prepared a full analysis of the effects on the Postal Service's total costs and total volumes in the present fiscal year, or a rollforward analysis in a future test year.

If the information and materials cited and incorporated above are deemed insufficient under the Commission's filing requirements, the Postal Service requests that this provision be waived.

RULE:54(h)(2) and (3) (Separation of costs by functions)

INFORMATION REQUESTED:

For the actual and estimated total costs presented for the years specified in rule 54(f), these rules request that the costs be separated as follows:

- those direct costs which can be attributed to each class of mail or type of mail service;
- those indirect costs which can be attributed to each class of mail or type of mail service;
- any other costs of the Service which can be reasonably assigned to each class of mail or type of mail service;
- any other costs of the Postal Service which cannot be attributed or reasonably assigned.

The methodology used to derive these costs is requested to be set forth in detail.

With regard to estimates pertaining to classes of mail and special services generally, the Postal Service incorporates by reference testimony and supporting documentation submitted with its Request in Docket No. R2001-1. Because of the nature of the market test being proposed, the Postal Service has not prepared a full analysis of the effects on the Postal Service's total costs and total volumes in the present fiscal year, or a rollforward analysis in a future test year.

If the information and materials cited and incorporated above are deemed insufficient under the Commission's filing requirements, the Postal Service requests that this provision be waived.

RULE:54(h)(4), (12)

INFORMATION REQUESTED:

This rule applies to the costs identified in rule 54(h)(2). It requests that these costs be separately attributed to mail classes, subclasses, and special services. It also requests identification of the methodology used in attribution and an analysis of the effect of costs on the following:

- volume;
- peaking patterns;
- priority of handling;
- mailer preparations;
- quality of service;
- the physical nature of the item mailed;
- expected gains in total productivity, indicating such factors as operational and technological advances and innovations;
- any other factor affecting costs.

The data relevant to the analyses of the effect on costs of these factors is also to be provided.

With regard to estimates pertaining to classes of mail and special services generally, the Postal Service incorporates by reference testimony and supporting documentation submitted with its Request in Docket No. R2001-1 (see Docket No. 2001-1 Compliance Statement, Rule 54(h)(4), (12)). Because of the nature of the market test being proposed, the Postal Service has not prepared a full analysis of the effects on the Postal Service's total costs and total volumes in the present fiscal year, or a rollforward analysis in a future test year.

If the information and materials cited and incorporated above are deemed

insufficient under the Commission's filing requirements, the Postal Service requests that these provisions be waived.

RULE:54(h)(5) - (h)(10) (Rollforward model)

INFORMATION REQUESTED:

These provisions generally specify particular items which are to be included in the presentation of the process by which base year costs are rolled-forward to test-year costs, such as listings of the forecasting factors, piggyback factors, interim period workpapers, and an overall summary cost table. Rules 54(h)(6) and (7) request an explanation of the attributable cost final adjustments and the "other services" adjustments.

With regard to estimates pertaining to classes of mail and special services generally, the Postal Service incorporates by reference testimony and supporting documentation submitted with its Request in Docket No. R2001-1. Cost estimates for the proposed market test have not been developed through the rollforward process described in those materials. Because of the nature of the market test being proposed, the Postal Service has not prepared a full analysis of the effects on the Postal Service's total costs and total volumes in the present fiscal year, or a rollforward analysis in a future test year.

If the information and materials cited and incorporated above are deemed insufficient under the Commission's filing requirements, the Postal Service requests that these provisions be waived.

RULE:54(h)(11) (Nonattributed costs)**REQUIREMENT:**

This rule applies to costs that are identified as "nonattributed or unassigned" pursuant to rule 54(h)(2). It requests an explanation as to why such costs cannot be attributed or assigned. It further requests the identification, to the extent possible, of all such costs which benefit more than one class of mail or type of service (but not all classes or types), together with the mail classes or types of services so benefitted.

With regard to estimates pertaining to classes of mail and special services generally, the Postal Service incorporates by reference testimony and supporting documentation submitted with its Request in Docket No. R2001-1. The Compliance Statement therein (Rule 54(h)(11)) discusses nonattributed costs generally, and the extent to which they benefit more than one class of mail. Because of the nature of the market test being proposed, the Postal Service has not prepared a full analysis of the effects on the Postal Service's total costs and total volumes in the present fiscal year, or a rollforward analysis in a future test year.

If the information and materials cited and incorporated above are deemed insufficient under the Commission's filing requirements, the Postal Service requests that this provision be waived.

RULE:54(i)

REQUIREMENT:

This rule requires a statement of the criteria employed by the Postal Service in construction of the proposed rate schedule. The statement is to include:

- the identification of the relationship between the revenues derived from the rates and fees for a particular class and subclass of mail or service and the costs attributed and assigned to that class or subclass of service;
- the identification of the procedures and methods used to apportion (to postal services) that part of the total revenue requirement, which is in excess of costs attributed;
- such other studies, information and data relevant to the criteria established by section 3622 of title 39, U.S.C., with appropriate explanations as will assist the Commission in determining whether or not the proposed rates or fees are in accordance with such criteria.

The instant Request proposes only a market test of Repositionable Notes.

Because of the nature of the market test being proposed, the Postal Service has not prepared a full analysis of the effects on the Postal Service's total costs and total volumes in the present fiscal year, or a rollforward analysis in a future test year. No cost effects are expected, and the proposed market test rates are expected to have a limited financial impact and are not based on considerations affecting a revenue requirement. As such, it is not appropriate or necessary to develop detailed revenue/cost analyses or analyses of institutional cost contributions. The testimony of witness Kaneer (USPS-T-2) provides information responsive to the third subpart of this rule, pertaining to the criteria established by section 3622 of Title 39.

If the information and materials cited and incorporated above are deemed insufficient under the Commission's filing requirements, the Postal Service requests that

this provision be waived.

RULE:54(j)(1), (2), (3), and (4)

INFORMATION REQUESTED:

These rules request specification of revenues for certain fiscal years, including the test year. Revenues are to be submitted for

- test year (FY 2003), assuming prefiling (existing) rates and fees;
- test year (FY 2003), assuming proposed rates and fees.

The actual and estimated revenues for these years are to be shown in total and separately for each class and subclass of mail and postal service and for all other sources from which the Postal Service collects revenues.

Each revenue presentation is to be supported by identification of the methods and procedures employed.

With regard to estimates pertaining to classes of mail and special services generally, the Postal Service incorporates by reference testimony and supporting documentation submitted with its Request in Docket No. R2001-1. Because of the nature of the market test being proposed, the Postal Service has not prepared a full analysis of the effects on the Postal Service's total costs and total volumes in the present fiscal year, or a rollforward analysis in a future test year.

If the information and materials cited and incorporated above are deemed insufficient under the Commission's filing requirements, the Postal Service requests that this provision be waived.

RULE:54(j)(5) (volume estimates)

REQUIREMENT:

This rule requires that the Postal Service present for each class and subclass of mail and special service

- for each postal quarter beginning with the first quarter of the most recent complete fiscal year and ending one year beyond the last quarter of the test year, actual or estimated mail volumes at the prefiled (existing) rates and fees;
- for each postal quarter beginning with the quarter in which the rates are assumed to become effective and ending one year beyond the last quarter of the test year, the estimated volume of mail assuming the effectiveness of the proposed rates.

With regard to estimates pertaining to classes of mail and special services generally, the Postal Service incorporates by reference testimony and supporting documentation submitted with its Request in Docket No. R2001-1. Because of the nature of the market test being proposed, the Postal Service has not prepared a full analysis of the effects on the Postal Service's total costs and total volumes in the present fiscal year, or a rollforward analysis in a future test year.

If the information and materials cited and incorporated above are deemed insufficient under the Commission's filing requirements, the Postal Service requests that this provision be waived.

RULE:54(j)(5), (6), (7) (Demand study -- methodology and documentation)

REQUIREMENT:

These rules require that the volume estimates provided pursuant to Rule 54(j)(5) must be derived from an econometric demand study relating postal volumes to their economic and noneconomic determinants, including postal rates, discounts and fees, personal income, business conditions, competitive and complementary postal services, competitive and complementary nonpostal activities, population, trend, seasonal patterns and other factors. The study must be furnished with the request, and any departure from the assumptions and specifications in the demand study made in estimating volumes of any class or subclass of mail must be explained. If different billing determinants are used for volume forecasting and revenue forecasting purposes, a supporting rationale must be provided.

For volume and revenue estimates, and subject to rule 54(a)(2), the Postal Service is to provide:

- a detailed explanation of the methodology employed to forecast volumes for each class and subclass of mail and postal service. Representative derivations of these forecasts from the econometric demand study must be presented in detail for two major mail classes, showing each intermediate value or factor employed. For remaining classes and subclasses of mail, such derivations may be summarized, except where their derivations depart from the representative methods presented;
- a detailed explanation of the methodology employed to forecast changes in revenues for each class and subclass of mail and postal service resulting from changes in rates and fees;
- a computer implementation of the methodology employed to forecast volumes and revenues for each class and subclass of mail and postal service. The computer implementation must comply with Rule 31(k)(3), and must be able to compute forecasts of volumes and revenues compatible with those specified in Rules 54(j)(2), (3), and (5) for
 - any set of rates and fees within a reasonable range of the prefiled (existing) and the proposed rates,
 - any date of implementation within the range spanned by the assumed date of implementation and the start of the test year,
 - alternative forecasts of the economic determinants of postal volumes, other than postal rates and fees, and

- alternative values of any parameters with assigned values that are based upon unverifiable judgments.

Subject to rule 54(a)(2), the Postal Service must make available at the offices of the Commission, in a form that can be read directly by a standard digital computer, the following:

- all of the input files and programs needed to replicate the requested econometric demand study;
- any input files and programs employed to derive a price index for any class or subclass of mail or postal service from postal rates, discounts, and fees;
- any input files and programs used to prepare data for use in the requested econometric demand study.

With regard to volume projections generally and estimates pertaining to classes of mail and special services, the Postal Service incorporates by reference testimony and supporting documentation submitted with its Request in Docket No. R2001-1. Because of the nature of the market test being proposed, the Postal Service has not prepared a full analysis of the effects on the Postal Service's total costs and total volumes in the present fiscal year, or a rollforward analysis in a future test year.

If the information and materials cited and incorporated above are deemed insufficient under the Commission's filing requirements, the Postal Service requests that this provision be waived.

RULE:54(k)

INFORMATION REQUESTED:

This rule requests that the Postal Service provide, for FY 2002 and FY 2003 (the two fiscal years immediately preceding the year in which the request is filed), the Balance Sheet, the Statement of Income and Expense, basic statistical information, and the Statement of Income and Expense by budget category. This includes data with respect to the following:

- (1) the Balance Sheet and a supporting schedule for each item that appears thereon;
- (2) the Statement of Income and Expense and a supporting schedule for each item appearing thereon;
- (3) as appropriate, statistical data with respect to revenue, pieces (by physical attributes, showing separately amounts of mail identified as stamped, metered, and imprinted, or other), weight, distance, postal employees (number, total payroll, productivity, etc.), postal space, post offices (number, classes, etc.), and any other pertinent factors which have been utilized in the development of the suggested rate schedule; and
- (4) the Statement of Income and Expense by cost segment.

In addition, this rule requires that the Postal Service provide a reconciliation of the budgetary information with the actual accrued costs for the most recent fiscal year (FY 2003). If the fiscal information for the immediately preceding fiscal year is not fully available on the date of filing, the Postal Service is required to make a preliminary or pro forma submittal, and file an updated report once the fiscal information is completed.

Financial information for FYs 2002 and 2003 has been provided to the Commission in the United States Postal Service Annual Report for FY 2002, and the United States Postal Service Annual Report for FY 2003, both of which have been filed with the Commission. In addition, Cost and Revenue Analysis Reports for FY 2002 and FY 2003 are on file with the Commission. See also Attachment C to the Postal Service's Request in Docket No. MC2004-1 (Certified Financial Statements for years ending September 30, 2003, and September 30, 2002)

RULE: 54(l)(i)

REQUIREMENT:

This rule requires a statement (which can be in workpaper form) indicating for each class and subclass of mail and postal service the relevant billing determinants (e.g., the volume of mail related to each rate element in determining revenues) separately for the current rates and the proposed rates. Proposed changes in rate design and the related adjustments are to be explained in detail.

With regard to billing determinants pertaining to classes of mail and special services in general, the Postal Service incorporates by reference testimony and supporting documentation submitted with its Request in Docket No. R2001-1. Billing determinants for FY 2002 are on file with the Commission. Billing determinants for FY 2003 are not yet available. Additional information pertaining to the proposed additions to the First-Class Mail, Standard Mail, and Periodicals Rate Schedules is presented in the testimony of witness Kaneer (USPS-T-2). Under the proposal, no existing rates would be changed or adjusted.

RULE: 54(l)(ii)

REQUIREMENT:

This rule requires, subject to subsection (a)(2), the base year volume of third-class bulk mail by ounce increment for each shape (letter-size, flat, irregular parcels, and parcels), submitted separately for regular and preferred, by presort level.

The Postal Service incorporates by reference testimony and supporting documentation submitted with its Request in Docket No. R2001-1. This information is not affected by the proposed market test.

RULE:54(m)

REQUIREMENT:

This Rule requires a statement, which can be in workpaper form, presenting detailed calculations of continuing appropriations according to 39 U.S.C. § 2401(c), phasing appropriations under 39 U.S.C. § 3626, and any proposed adjustment to such phased rates under 39 U.S.C. '§3627 indicated by circumstances known at the time of the filing. Calculation of all the phased rates for the entire applicable phasing period are to be explained in detail.

With regard to mail categories and special services in general, the Postal Service incorporates by reference the materials submitted with its Request in Docket No.

R2001-1. This rule is not applicable to the instant Request, since no changes are proposed for any preferred subclasses of mail.

Rule: 54(n)

REQUIREMENT:

This Rule requires identification of any performance goals which have been established for the classes and subclasses of mail. The Request is to identify the achieved levels of service for those classes and subclasses of mail and mail services for which performance goals have been set.

The Postal Service incorporates by reference the material filed with the Request in Docket No. R2001-1 (see Docket No. R2001-1 Compliance Statement, Rule 54(n)).

This rule is not applicable to the instant Request, since no changes are proposed for any performance goals for any subclasses of mail.

Rule: 54(o)

REQUIREMENT:

This Rule requires seven sets of workpapers to be filed with the Request.

There are no workpapers filed with the Request. Workpapers for testimony filed in Docket No. R2001-1 are on file with the Commission.

Rule: 54(p)

INFORMATION REQUESTED:

This Rule requests one or more certifications stating that the cost statements and supporting data submitted as part of the formal request, as well as the accompanying workpapers, which purport to reflect the books of the Postal Service, accurately set forth the results shown by such books. The requested certification is to be signed by one or more representatives of the Postal Service authorized to make such certification.

The requested certification is submitted as Attachment C to this Request.

Rule: 54(q)

INFORMATION REQUESTED:

This Rule requests an opinion from an independent public accountant to the extent and as required by 39 U.S.C. § 2008(e).

An opinion by the independent accounting firm of Ernst & Young covering Fiscal Years 2003 can be found in the United States Postal Service Annual Report for FY 2003, which has been filed with the Commission.

Rule: 64(b)(1), (2), (3), (4)

INFORMATION REQUESTED:

These subsections request, for every classification change proposed:

- (1) copies of the currently-effective Domestic Mail Classification Schedule and the proposed changes thereto;
- (2) specification of the Rules, regulations and practices that establish the conditions of mailability and standards of service;
- (3) a statement of the degree of economic substitutability between the various classes and subclasses; and
- (4) an identification of all nonpostal services.

See response to Rule 54(b).

Rule: 64(c)(1), (2), (3)

INFORMATION REQUESTED:

This Rule asks for information regarding the users of the Postal Service, the nature of the items mailed and the methods of mailing used. Specifically, this section requests the following:

- (1) an identification of the characteristics of the mailer and the recipient, and a description the contents of items mailed within each class and subclass;
- (2) identification of the physical attributes of the items mailed by class and subclass, including shape, weight and distance; and
- (3) to the extent it is not provided under paragraph (b)(2), a summary statement that describes special service arrangements provided to, or requested or required of, mailers by the Postal Service that affect the cost of service or its value to the mailer or recipient.

See response to Rules 54(c), (d) and (e).

E-38

Rule: 64(d)

INFORMATION REQUESTED:

This Rule requests that effects of the changes on cost assignments, total costs, and total revenues be provided, on a before and after change basis.

See response to Rules 54(f)(1)-(3), 54(h), and 54(j).

Rule: 64(e)

INFORMATION REQUESTED:

This subsection requires that, whenever the Postal Service proposes to reassign a portion of one existing class or subclass of mail or service to another existing class or subclass of mail or service, the request must include a comparison of the before and after costs and revenues of handling the relevant classes or subclasses, and before and after costs and revenues of the portion that is to be reassigned.

This proposal does not involve the reassignment of part of an existing class or subclass of mail to another existing class or subclass.

E-40

Rule: 64(f)

INFORMATION REQUESTED:

This Rule requests a complete statement of the reasons and bases for the proposed changes.

The testimonies of witnesses Holland (USPS-T-1) and Kaneer (USPS-T-2) provide the reasons and bases for the proposed changes.

Rule: 64(g)

INFORMATION REQUESTED:

This Rule sets forth the requested format and filing requisites for workpapers.

See response to Rule 54(o).

Rule: 64(h)

INFORMATION REQUESTED:

This Rule calls for compliance with specified subsections of Rule 54 when the Postal Service proposes a change in the mail classification schedule having a rate, fee or total cost change implication.

Compliance with pertinent parts of Rule 54 is explained above in this Compliance Statement. Other pertinent information is provided in the response to this rule in Docket No. R2001-1 and in the testimony and supporting materials filed in that docket. These materials are incorporated by reference. A statement and conditional motion setting forth grounds for waiver of portions of Rule 54, if necessary, accompanies this Request.

In addition to the information required by Rules 54 and 64, Rule 162 establishes specific requirements for market tests. Each requirement is listed below, followed by the response.

RULE: 162(a)

INFORMATION REQUESTED:

A description of the services to be provided in the market test, and the relationship between the services to be provided and the permanent change or changes in the mail classification schedule requested by the Postal Service.

Information pertinent to this rule is provided in the testimony of witness Holland (USPS-T-1) and in Attachment A to this Request. A motion for waiver of the requirement that the market test be conducted in the context of a request for a permanent change in mail classification has been filed with the Request.

E-44

RULE: 162(b)

INFORMATION REQUESTED:

A statement of each rate or fee to be charged for each service to be provided during the market test, together with all information relied upon to establish consistency of those rates and fees with the factors specified in section 3622(b).

Information pertinent to this rule is provided in the testimony of witness Kaneer (USPS-T-2) and in Attachments A and B to this Request.

RULE: 162(c)

INFORMATION REQUESTED:

A description of the number and extent of the service areas in which the market test will be conducted, including the number and type of postal facilities which will be used.

Information pertinent to this rule is provided in the testimony of witness Holland (USPS-T-2).

E-46

RULE: 162(d)

INFORMATION REQUESTED:

A statement of the planned duration of the market test.

Information pertinent to this requirement is provided in the testimony of witness Holland (USPS-T-2) and in Attachment A to this Request.

RULE: 162(e)

INFORMATION REQUESTED:

Proposed Domestic Mail Classification Schedule provisions which incorporate the information required in paragraphs (a) through (d) of this section.

Attachment A includes proposed Domestic Mail Classification Schedule language responsive to this rule.

E-48

RULE: 162(f)

INFORMATION REQUESTED:

A statement of the goals and objectives of the proposed market test, supported by quantitative projections of anticipated results to the extent practicable.

Information responsive to this requirement is provided in the testimonies of witnesses Holland (USPS-T-1) and Kaneer (USPS-T-2).

RULE: 162(g)

INFORMATION REQUESTED:

A statement of those features of the proposed market test that, in the opinion of the Postal Service, cannot be modified without significantly impairing the value of the test.

None of the features of the market test which the Postal Service is requesting the Commission to recommend are sought to be insulated from modification under this provision.

RULE: 162(h)

INFORMATION REQUESTED:

An estimate of the number of customers who will participate in the market test, to the extent that such an estimate is practicable, together with a description of the means by which the Postal Service plans to provide equal access to all potential users in the test market service areas.

Information responsive to this rule is provided in the testimonies of witnesses Holland (USPS-T-1) and Kaneer (USPS-T-2).

RULE: 162(i)

INFORMATION REQUESTED:

A plan for testing the proposed change or changes in the market, including a plan for gathering the data needed to support a permanent change in mail classification and for reporting the test data to the Commission. If periodic reporting of the test data would be harmful to the purposes of the test, such as by revealing information that might encourage competitors or mailers to take actions that would affect the test results, the plan may provide for presentation of the test data as part of the subsequent filing of data supporting a permanent mail classification change.

A motion for waiver of the requirement that the market test be conducted in the context of a request for a permanent change in mail classification has been filed with this Request. The Postal Service is requesting permission to conduct a market test in order to determine whether to request a permanent classification and to determine the contours of that request. The information requested in this rule is covered by the data collection plan contained in the testimony of witness Holland (USPS-T-1).

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.

Scott L. Reiter

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July 16, 2004