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UNITED STATES OF AMERICA
POSTAL RATE COMMISSION

Before:

Chairman Omas,
Vice ChairmanTisdale,
and Commissioners
Goldway and Hammond

Postal Rate and Fee Changes | Docket No. R2005-1

OPINION
AND
RECOMMENDED DECISION

Washington, DC 20268-0001
November 1, 2005

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SUMMARY

The Postal Rate Commission finds that the rationale presented in support of a proposed Stipulation and Agreement offered in this case is persuasive, and as a result recommends the 5.4% across-the-board rate increase requested by the Postal Service with only minor adjustments.

The increase is designed to fund a $3.1 billion year-end escrow payment required by law. A broad cross-section of interested participants, including mailers of every class of mail, employee organizations, and a major competitor favor meeting this obligation through a simple, equivalent rate increase applicable to all mailers. Except in a few special situations where existing law requires some other result, the Commission approves the requested increases.

This is the first time that the Postal Service has requested a rate increase intended to generate only the funds necessary to meet a single fixed expense. Notably, this escrow expense can not be directly associated with specific mail types or mail users.

Normally the Postal Service requests different percentage increases for the various types of mail so that variations in the costs of handling different pieces, and other established ratemaking policies, are appropriately reflected in rates. Cost-based rates have been the touchstone of postal ratemaking for 35 years, and the Commission has significant concerns about deviating from that policy, even for a limited time. However the Postmaster General, appearing as a witness before the Commission, indicated that additional rate adjustments were currently under consideration and likely would be submitted in the near future.

Facing an additional, imminent rate case most participants are willing to accede to the Postal Service's preference, and defer the complex cost analyses necessary to apply efficient component pricing principles until that case. This may be explained, in part, by the fact that the Postal Service could easily have filed a request for substantially more money had it not limited its focus to funding its escrow payment.

After careful consideration, the Commission agrees that under these unique circumstances, small equal increases now, to be followed by a proceeding to "true-up" rates after a thorough examination of postal costs, is consistent with sound public policy. The Commission's preference is to develop rates that accurately reward mailers' worksharing. It is concerned that the delay in recognizing the impact of recent innovations and improvements in postal operations, coupled with the passage of time, will probably result in unusually disproportionate increases and decreases in different rates in the next case. The Postal Service and mailers seem prepared for that possibility as they too recognize that proper cost-based rates foster efficiency and promote a healthy postal system. The Commission's Opinion identifies areas where additional analysis appears particularly necessary.

Although this recommendation is based on the concept of across-the-board 5.4% increases, the Commission's recommendations vary from the Postal Service's Request as necessary to comply with specific statutory requirements or to correct errors in the execution of that premise.

- Within County rates decrease 2.3% so that they cover costs as required by § 3622(b)(3) and comply with the preferred rate formula of § 3626(a)(3);
- Standard Nonprofit rates increase 3.0% and Nonprofit ECR rates increase 12.3% to comply with the preferred rate formula of §3626(a)(6)(A);
- Media and Library rates increase by 12.7% so that they cover costs as required by § 3622(b)(3);
- Registered Mail fees increase 5.6% instead of the 70% increase requested;
- Minor corrections reduce an ECR piece rate and increase one permit and one accounting fee.

I. PROCEDURAL HISTORY

A. Background

[1001] On April 8, 2005, the United States Postal Service, pursuant to 39 U.S.C. § 3622(a), filed an omnibus rate request with the Postal Rate Commission. The Request sought a recommended decision on a generally uniform increase of 5.4 percent for essentially all domestic rates and fees. This approach, as applied to the First-Class stamp, yields a 2-cent increase, which raises the price from 37 cents to 39 cents.[1]

[1002] The Request identifies three main exceptions to the uniform systemwide increase: Registered Mail fees, which increase on average by about 70 percent based on underlying costs; Within County Periodicals rates, which decline by 5.4 percent based on a statutory markup formula; and Confirm service, which the Postal Service excludes from consideration pending an internal review. In a departure from standard practice, the Request excludes mail classification and rate design changes.

[1003] *Rationale for nature and scope of the case*. In a related document, the Postal Service identifies the escrow obligation established in Public Law 108-18 as the main motivation for the filing. It states that this obligation drives the amount of additional revenue it seeks, the timing of the filing, the across-the-board approach, the absence of classification and rate structure changes, and the anticipated implementation date in early January 2006.[2] The Request, along with associated materials, identifies the base year as FY 2004 and FY 2006 as the test year; provides pertinent cost, volume and revenue estimates; and addresses numerous policy and statutory considerations.

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[1] *See* Request of the United States Postal Service for a Recommended Decision on Changes in Rates of Postage and Fees for Postal Services, April 8, 2005 (Request). The proposed changes appear in Attachment A of the Request.

[2] United States Postal Service Request for Expedition and Early Consideration of Procedures Facilitating Settlement Efforts, April 8, 2005.

[1004] *Supporting materials, motions and related requests*. The Request is accompanied by 33 pieces of direct testimony prepared by 31 witnesses, along with related exhibits and workpapers. Postmaster General Potter (USPS-T-1) appears as the lead policy witness, and witness Alenier (USPS-T-33) submits the first "roadmap" testimony under recently-enacted Commission rule 53(b).

[1005] In a related document, the Postal Service sought expedition and immediate authorization to conduct settlement discussions. In support thereof, it cited the unique nature of the Request, expressed confidence in its ability to craft a successful settlement of all material issues, and noted that preliminary settlement discussions were already underway. Several Postal Service motions, also contemporaneously filed, sought waiver of Commission rules relating to submission of library references. One included a request for protective conditions for a library reference containing costs and data associated with the FedEx transportation agreement. The requested protective conditions were granted in all material respects by P.O. Ruling No. R2005-1/3, issued May 4, 2005, with certain advance notice requirements deleted, as suggested by the Office of the Consumer Advocate (OCA).

[1006] *Initial Commission action*. In PRC Order No. 1436, issued April 12, 2005 (Initial Order), the Commission provided public notice of the Postal Service's Request; instituted formal proceedings under the caption of Docket No. R2005-1, Postal Rate and Fee Changes; and announced several preliminary procedural steps. 70 FR 20187 (April 18, 2005). The latter included authorization of settlement negotiations, without prejudice to participants' opportunity to seek a hearing. The Commission also expressed its willingness to develop an accelerated procedural schedule to accommodate the Postal Service's interest in early implementation of rate and fee changes.

[1007] The Initial Order designated Shelley S. Dreifuss to represent the interests of the general public as OCA; appointed the Postal Service as settlement coordinator; set deadlines for intervention, comments, and answers to motions; and scheduled a prehearing conference for Thursday, May 5, 2005. A Notice of Inquiry (NOI) issued shortly thereafter sought comments on statements in the Request and in supporting

testimony about the possibility that the Postal Service might delay implementation of Registered Mail fee increases.[3]

[1008] *Participation; scheduling*. In addition to the Postal Service and the OCA, 43 participants intervened in this case. A list of participants appears in Appendix A. A settlement conference, conducted by the Postal Service, was held immediately after the prehearing conference.[4] An ensuing report noted that the Postal Service, based on the results of the conference, intended to vigorously pursue settlement and, toward that end, to circulate a proposed draft agreement for comment.[5]

[1009] On May 19, 2005, the Presiding Officer issued a comprehensive procedural schedule that allowed litigation and settlement negotiations to continue on parallel tracks; however, given the possibility of settlement, the schedule reflected a shorter-than-standard period for discovery on the Postal Service's direct case. In response to participants' stated interest in more extensive discovery on testimony supporting two new major cost attribution studies, an additional week of discovery on that testimony was allowed.[6] The Commission held six days of hearings on direct testimony (June 27 through June 29, 2005, and July 6 through July 8, 2005). The testimony and written cross-examination of Postal Service witnesses not appearing at the hearing were entered into the evidentiary record via motion.

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[3] Notice of Inquiry No. 1 Concerning Registered Mail, April 26, 2005. This was the only NOI issued during the course of this case. Comments on the NOI were due May 10, 2005, and Reply Comments were due May 17, 2005. *See* Office of the Consumer Advocate Comments on Notice of Inquiry No. 1 Concerning Registered Mail; Comments of Valpak Direct Marketing Systems, Inc. and Valpak Dealers' Association, Inc. in Response to Notice of Inquiry No. 1; Response of United States Postal Service to Notice of Inquiry No. 1 Concerning Registered Mail, all filed May 10, 2005; and Reply Comments of United States Postal Service on Notice of Inquiry No. 1 Concerning Registered Mail, May 17, 2005.

[4] Presiding Officer's Ruling No. 1, April 28, 2005, granting Motion of United States Postal Service for Settlement Conference Following Prehearing Conference, April 27, 2005.

[5] First Report of the United States Postal Service as Settlement Coordinator, May 10, 2005. The Service circulated the referenced draft agreement on July 1, 2005.

[6] Extended discovery was allowed on witnesses Shaw (USPS-T-2); Pafford (USPS-T-4); Harahush (USPS-T-5); Van-Ty-Smith (USPS-T-11); Bozzo (USPS-T-12); Smith (USPS-T-13); Bradley (USPS-T-14); Stevens (USPS-T-15); Kelley (USPS-T-16); Miller (USPS-T-19); McCrery (USPS-T-29); Lewis (USPS-T-30); Loetscher (USPS-T-32); and Alenier (USPS-T-33).

[1010] The procedural schedule set July 19, 2005 as the deadline for participants other than the Postal Service to file direct testimony and August 9, 2005 as the deadline for discovery against that testimony. Valpak Direct Marketing Systems, Inc. and Valpak Dealers' Association, Inc. (collectively referred to as Valpak), filed testimony pursuant to this opportunity. The Valpak-sponsored testimony, presented by witnesses Mitchell (VP-T-1) and Haldi (VP-T-2), was received in hearings held on August 24, 2005.

[1011] The deadline for filing rebuttal to the Valpak testimony was September 8, 2005. The Postal Service filed three pieces of rebuttal testimony and Advo, Inc. filed two. The Commission held two days of hearings (on September 14 and 15, 2005) to receive the testimony of the rebuttal witnesses.

[1012] *Settlement-related activity*. On July 7, 2005, the Postal Service filed its second settlement report. It noted therein that it had not been able to submit an agreement prior to the end of discovery as originally anticipated, but had circulated a draft agreement on July 1, 2005 to the entire service list. It also acknowledged the existence of new testimony and potential opposition, but suggested that these matters might not present insurmountable obstacles to acceptance of a settlement agreement signed or supported by a majority of the participants. Second Report of the United States Postal Service as Settlement Coordinator, July 7, 2005.

[1013] The Postal Service submitted a Stipulation and Agreement on July 22, 2005 and, in an accompanying notice, identified August 5, 2005 as the date for submission of signature pages.[7] The Postal Service subsequently submitted a set of 35 signature pages, and reported that 10 participants had not signed the agreement. Notice of United States Postal Service of Filing Signatures for Stipulation and Agreement, September 23, 2005.

[1014] *Briefs*. Initial briefs were filed September 26, 2005; reply briefs were filed October 3, 2005. As oral argument was not requested, none was held.

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[7] *See* Notice of the United States Postal Service Submitting Stipulation and Agreement, July 22, 2005, and Stipulation and Agreement, July 22, 2005 (Settlement Proposal).

[1015] *Related actions*. The Presiding Officer issued 90 rulings, 14 Information Requests, and numerous bench rulings. Presiding Officer's Ruling No. R2005-1/90, issued October 6, 2005 closed the evidentiary record.[8]

[8] An Office of the Consumer Advocate Motion Requesting the Commission to Institute Rulemaking Proceeding to Establish Periodic Reporting Requirements for the United States Postal Service for Quality of Service Performance Standards and Measurements and to Amend Rule 54(n) to Require the Most Current Performance Standards and Measurements to be Included in Formal Requests for Changes in Rates and Fees was filed on October 26, 2005. Participants have not had an opportunity to respond to this motion prior to issuance of this Opinion and Recommended Decision. In view of the procedural posture of the case, the Commission takes neither affirmative nor negative action on the OCA motion at this time.

B. Significant Developments

[1016] This docket has been marked by several significant developments, apart from its exclusive association with the statutory escrow obligation, the accelerated (and, in some instances, abbreviated) procedural schedule, and the settlement that has been filed. One is the submission of Postmaster General Potter's testimony on the policy rationale underlying the filing and his subsequent appearance in the Commission's hearing room. As the Postal Service has noted, this is the first time a Postmaster General has testified in an omnibus rate case. The Commission appreciates the Postmaster General's willingness to make a personal appearance and to fully assume and execute the duties and obligations of a witness in this proceeding.

[1017] The Postal Service's submission of witness Alenier's inaugural "roadmap" testimony in compliance with recently-enacted rule 53(b), developed in Docket No. RM2003-1, is another matter of first impression. Alenier's testimony meets the Commission's expectations, significantly easing the burden of understanding the complex interrelationship of the various pieces of the Postal Service's direct case. Several other Postal Service witnesses provided "roadmap" sections in their testimony. The Commission commends the Postal Service for its response to the new rule. This contributed to the Commission's willingness and ability to consider the instant Request on an expedited basis.

[1018] The Postal Service's response to rule 53(b) contrasts sharply to its stance on submission of interim cost information as required by Rule 102(a). The Commission continues to strongly believe that submission of this required material in a timely fashion would materially assist the Commission and others with preparing for, and participating in, rate cases. Compliance would thereby advance the Postal Service's interest in expediting consideration of its requests. The Commission urges Postal Service management to rethink its refusal to cooperate in this area.

[1019] *Recognition of cooperative efforts*. The Commission acknowledges the diligent efforts of Postal Service counsel in serving as settlement coordinator. Prompt

settlement reports assisted in developing an effective procedural schedule. The Commission also appreciates the efforts expended by all participants in operating under a compressed schedule, resolving discovery issues informally, complying with the conditions for submission and review of material filed under protective conditions, and working productively throughout the Commission's move to new office space.

II. REVIEW OF PROPOSED SETTLEMENT

[2001] As in the most recent omnibus rate case, Docket No. R2001-1, the Postal Service and other signatories ask the Commission to base its recommendations on a Stipulation and Agreement advanced by a majority of the participants. Advocacy of a nonunanimous settlement as the basis of a decision, resisted by opponents who argue for a somewhat different outcome, places this proceeding in a posture analogous to that in Docket No. R2001-1. Thus, the Commission's role and statutory responsibilities in this proceeding correspond to those exercised in the last rate case in many respects. However, in addition to many similarities, there are crucial differences between the two cases. Our review of the proposed settlement will begin by identifying these significant features.

A. Comparison with Docket No. R2001-1 — Similarities and Differences

[2002] In Docket No. R2001-1, the Postal Service's filing of what otherwise might have been a routine omnibus rate request was overtaken by cataclysmic events. As the Comission's opinion noted:

> In an unfortunate coincidence, the Postal Service announced its intention to seek higher rates to raise needed revenues on September 11, 2001, at approximately the same time terrorists were attacking New York and Washington, D.C. Shortly thereafter, the mails were used to distribute lethal anthrax spores.
>
> These events, coupled with a slowing economy, undermined many of the cost and revenue projections on which its specific rate proposals were premised. At the initial prehearing conference scheduled to discuss procedures for considering the Postal Service Request, the Commission challenged all interested parties to explore whether they could respond to

> these unprecedented events in a way that would help the entire mailing community get through the crisis. The Chairman stated:
>
> I have often heard it said that there could never be a settlement in an omnibus rate case. There are too many conflicting interests, and too much money is at stake. But it seems to me that if there was ever a time when 'business as usual' was not an attractive course of action, and when cooperative efforts to promptly resolve issues through settlement might be the right course of action, that time is now.

PRC Op. R2001-1, Summary at i.

[2003] Fortunately, the Postal Service and the Nation's mail system are not confronted by such exigent circumstances now. However, the character of the Request in this proceeding is distinctive in one unprecedented and unique respect. Postmaster General John E. Potter, testifying to explain the policy foundation of the Postal Service Request, highlighted this feature:

> The Postal Service's decision to seek changes in postal rates and fees at this time represents a policy judgment about the most reasonable, practical and effective way to meet a currently unavoidable financial obligation in Fiscal Year 2006. Otherwise, the Postal Service would not have filed this request now. Instead, in all likelihood, we would now be preparing to file in the future a more traditional omnibus filing.
>
> When it enacted the Civil Service Retirement Funding Reform Act of 2003 Public Law 108-18, Congress directed the Postal Service to place approximately $3.1 billion in escrow, beginning in FY 2006. As it is now defined, the escrow fund has not been dedicated to a specific purpose or use. Yet, under the existing system governing postal finances and ratemaking, present and future mailers must pay the bill. After careful consideration, the Postal Service has determined that satisfying this obligation would best be accomplished now through moderate, across-the-board changes in all rates and fees, except for limited exceptions dictated by statute or other extraordinary circumstances.

USPS-T-1 at 2. Thus, for the first time in the history of ratemaking under the Postal Reorganization Act of 1970, the Governors have filed a Request to increase rates for the

sole purpose of meeting a single financial commitment, rather than for recovery of projected increases in the overall costs of the Postal Service. Moreover, this financial commitment is one imposed by law, not the product of autonomous decisionmaking by the Board of Governors.

[2004] Postmaster General Potter's testimony also identifies another distinctive feature of the Postal Service's Request in this case: the across-the-board basis of the suggested rate increases. To meet the Postal Service's "peculiar financial obligation under Public Law 108-18[,]" which the law defines as an operating expense, he testifies that the Board of Governors directed the Postal Service to incorporate "a simple, uniform solution" of a 5.4 percent increase over existing rates and fees in its Request. *Id.* at 4-5. The Postmaster General testifies that this is a fair and reasonable approach under the circumstances, as it would generally require mailers to pay the same percentage increase over the rates and fees they now pay. He also claims that the proposed solution would have practical advantages:

> One compelling justification for this approach is the likelihood that it will enhance the prospect for settlement of issues in this proceeding, permit a more expeditious conclusion, and allow the Postal Service to begin early in calendar year 2006 to generate the additional revenues necessary to meet the obligation. Moreover, early settlement will allow the Postal Service and postal stakeholders to concentrate on prospective legislative reform and return the pricing focus to issues such as appropriate changes in the rate structure and alignment of institutional cost burden in the interim. In order to simplify this proceeding and to advance the prospect for settlement among as many parties as possible, the Board did not authorize the proposal of any classification changes in this docket.

Id. at 5-6.

[2005] The settlement agreement in Docket No. R2001-1 was not premised upon an across-the-board increase in rates and fees. However, this approach is not unprecedented. In Docket No. R94-1, the Postal Service proposed rates that generally incorporated a 10.3 percent increase over pre-existing levels. A settlement agreement based on the Postal Service's filing was proffered on behalf of the Postal Service and a

majority of the parties in the case, but was actively opposed by several parties. The Commission did not accept the proposed stipulation and agreement as the basis for its decision, finding it to be contrary to facts developed on the evidentiary record and established pricing principles.[9]

[9] *See* PRC Op. R94-1, ¶¶ 1006-27.

B. Legal Standards for Evaluation

[2006] The Commission most recently reviewed the matter of legal standards appropriate for evaluating settlement agreements in omnibus rate proceedings in the Opinion in Docket No. R2001-1. PRC Op. R2001-1, ¶¶ 2014-19. In that proceeding, the Commission began by recognizing that the policies and criteria established in the Postal Reorganization Act constitute the primary source of legal standards for assessing the merits of rates agreed upon in a Stipulation and Agreement. It also identified consistency with statutory provisions—most notably the statutory requirement in § 3622(b)(3)—as the fundamental benchmark against which a proposed settlement must be judged. *Id.,* ¶ 2014.

[2007] The Commission likewise recognized its obligation under the Administrative Procedure Act to base its decision on adequate factual support by substantial record evidence, as required in the formal, on-the-record proceedings mandated for postal rate and mail classification cases in § 3624(a). Accordingly, in considering rates proposed in a settlement agreement, the Commission found that it "must appraise the extent to which record evidence indicates that the agreed-upon rates are compatible with applicable statutory considerations, such as the § 3622(b) ratemaking factors." *Id.*, ¶ 2015.

[2008] As in Docket No. 2001-1, there is opposition to the Stipulation and Agreement proposed in this case, including the submission of contravening evidence. Therefore, as in the preceding omnibus rate docket, additional requirements apply to the Commission's deliberations. The resulting dispute on issues of material fact requires that the proposed settlement be considered as one proposal on the merits, in competition with the different outcomes advanced by opponents. This means that evaluation of the rates agreed upon in the settlement agreement must include consideration of the evidence submitted by opponents as well as their alternative rate proposals. Considering proposed alternatives, and explaining the Commission's choice among competing proposals, is responsive to the general legal requirement of reasoned decisionmaking. *Id.*, ¶ 2016.

[2009] In the case of a contested settlement agreement, the Commission must also make additional efforts to satisfy its obligation to conduct proceedings in accordance with standards of procedural fairness to all participants. *Id.*, ¶ 2018. Chapter I of this Opinion documents the procedural steps taken to accommodate the proposed Stipulation and Agreement, as well as its opponents' efforts to make alternative recommendations. As in Docket No. R2001-1, the Commission concludes in this case that the procedures and schedule adopted in this proceeding have provided adequate opportunities for all interested parties to address matters at issue. No participant has lodged an argument to the contrary.

[2010] In the R2001-1 proceeding, the Postal Service asked the Commission to assign compelling weight under the § 3622(b)(9) factor to the unprecedented set of financial and operational challenges it faced in the wake of September 11, 2001 and ensuing events, and to the financial benefits that would accrue as a result of prompt approval of the settlement. *Id.*, ¶ 2019. The Postal Service once again proposes that the Commission rely on its authority under § 3622(b)(9) to consider "such other factors as the Commission deems appropriate" in this case "to give weight to the Board's policy judgment regarding the best way to address the extraordinary imposition of an escrow requirement that has no clear status or specifically defined use in the context of postal operations and finances." Postal Service Brief at II-8, II-22. While conceding that current circumstances are not similar to the "perilous uncertainty facing the nation and the postal community following September 11," the Postal Service argues that the Board's judgment makes sense, and has been explained and justified in the testimony of Postmaster General Potter and Mr. Tayman, the Postal Service's financial policy witness. *Id*. at 11-22.

[2011] The Postal Service further asks the Commission to take into consideration economic uncertainties of the future — driven in part by national weather catastrophes affecting postal operations, expenses, and the national economy — and the Postal Service's election in this case to construct a revenue requirement that incorporates a zero contingency amount. *Id.* at II-23. Finally, in the face of testimony highlighting the

importance of maintaining rational cost and rate relationships, the Postal Service argues that the evidentiary record in this case provides sound, reliable support for the settlement rates, and asks the Commission to consider the proximity of the next omnibus rate filing, on which the Postal Service "is currently working to develop its proposals…." *Id.* at II-25, *citing* Tr. 11/6228-30.

[2012] The Commission concludes, as a general matter, that the circumstances of this case and the R2001-1 proceeding are sufficiently different that the § 3622(b)(9) factor cannot justifiably assume the compelling role in this case that it played in the previous omnibus rate docket. The introduction of the escrow obligation imposed by Pub. L. 108-18 cannot fairly be compared with the exigencies of the post-September 11 period.

[2013] However, this conclusion does not render the § 3622(b)(9) factor wholly inapplicable to the Commission's decisionmaking in this case. As discussed in chapter V, the unusual set of circumstances in this proceeding legitimately raise "other considerations" than those customarily addressed in an omnibus rate proceeding. Therefore, the Commission's deliberations have included the § 3622(b)(9) factor in the balance of statutory considerations applied in this decision.

C. Technical Standards for Evaluation

[2014] The Opinion in R2001-1 also specifically addressed the technical standards applicable to settlement proposals in omnibus rate proceedings. The Commission began by noting that, unlike the deliberative functions it usually performs in an omnibus rate proceeding, appraising the technical merits of a settlement agreement involves reviewing a set of agreed-upon rates, rather than formulating its own recommended rates that incorporate the Commission's independent findings in such separate areas as cost analysis, pricing, and rate design. PRC Op. R2001-1, ¶ 2020.

[2015] Next, in response to a controversy regarding the appropriate breadth of technical scrutiny to apply in the case, the Commission found that previously recognized ratemaking principles provide one valuable benchmark for assessing the technical merits of settlement rates, and undertook to examine record evidence to determine the consistency of those rates with established Commission methodologies. However, the Commission also noted that the agreement of the settlement's proponents to forgo filing testimony on technical issues limited the extent to which consistency with established methodologies could be fully determined. *Id.*, ¶¶ 2022-23.

[2016] For this reason, the Commission found existing costing methods and rate relationships, as well as its recent rate recommendations, to be "particularly useful alternative sources of benchmarks for conducting its analysis" in the case. *Id.*, ¶ 2024. It found that the then-existing rate schedule reflected the Commission's most recent recommendations as to ratemaking methodology, and also provided reference points for determining reasonable institutional cost contributions under § 3622(b) generally, impact assessments under § 3622(b)(4), and evaluation of the appropriateness of various rate design features. *Ibid.*

[2017] In view of the widespread acceptance of the settlement rates and the Postal Service's special needs at the time, the Commission found "that the agreed-upon rates should be held to a standard of reasonable consistency with past ratemaking practices, as illustrated in pre-existing rates and rate relationships." *Id.*, ¶ 2025. Where the record

could be fully analyzed under established methodologies, the Commission undertook to cast its findings by reference to them. Where this was not possible, the Commission noted the apparent technical deficiencies, and appraised the settlement's merits by reference to the results of the preceding omnibus rate proceeding, Docket No. R2000-1. *Ibid.*

[2018] While the analytical path taken by the Commission in response to the Stipulation and Agreement in R2001-1 provides useful guidance for this case, changes in circumstances between the two cases require a somewhat different approach.

[2019] The principle difference results from the fact that the vast majority of the proffered settlement rates are produced by "layering" a uniform 5.4 percent increase upon rates that were themselves the product of an agreement in Docket No. R2001-1. By the parties' own declaration in that case, adoption of the settlement rates was not intended to establish any precedent for future proceedings.[10] Furthermore, in many respects, the Commission cannot state that "the current rate schedule reflects the Commission's most recent recommendations as to ratemaking methodology[,]" as it did in the R2001-1 opinion. PRC Op. R2001-1, ¶ 2024. (Footnote omitted.) For the most part, the most recent recommendations were made in Docket No. R2000-1. Therefore, current rates and their interrelationships are of more limited utility in performing technical analysis in this case.

[2020] Second, unlike the R2001-1 proceeding, the Postal Service's filing in this case has incorporated new costing presentations. On brief, the Postal Service explains that in providing the full panoply of studies in its costing presentation, it generally refrained from proposing new methodologies, relying instead on established methods as appropriate. However, because of changes in operations and updates of certain

[10] "The undersigned parties also agree that, as the matters presented in the Postal Service's Request, in any Commission Recommended Decision, or in any decision of the Governors of the Postal Service in this proceeding have not actually been litigated, they are not entitled to precedential effect in any other proceeding." Docket No. R2001-1, Notice of the United States Postal Service Withdrawing Proposals and Submitting Revised Stipulation and Agreement, February 13, 2002, Stipulation and Agreement at 6, ¶ 10.

methodologies already in effect, the Postal Service concluded that "[i]t would have been unreasonable to revert to outdated procedures and approaches as if the new information and analyses did not exist." Postal Service Brief at IV-2. Accordingly, the Postal Service included 13 pieces of testimony which either present or use new methods to produce subclass costs in its direct case.[11]

[2021] Soon after the initiation of this proceeding, several participants submitted pleadings requesting more time for discovery on witnesses involved with the studies proposing new treatment of mail processing costs and city carrier out-of-office costs. The Presiding Officer accommodated these requests by extending the deadline for discovery on these witnesses, who were designated "Group B" Postal Service witnesses, and scheduling their oral cross-examination after the appearance of the Postal Service's other witnesses.[12]

[2022] One participant in this case, Valpak, elected to file testimony that challenges certain aspects of the Postal Service costing presentation. The Postal Service and Advo Inc. filed testimony in rebuttal to Valpak's direct case.

[2023] As a result, the Commission is called upon to review a set of agreed-upon rates under circumstances in which (1) there have been no authoritative decisions on appropriate ratemaking methodologies or standards since Docket No. R2000-1; (2) the rates currently in effect — themselves the product of a settlement — are of limited use for analytical purposes; (3) the Postal Service proposes significant methodological changes in the treatment of mail processing costs and city carrier out-of-office costs; and (4) a participant challenges the institutional cost burden these rates impose on Standard ECR as well as the application of the Postal Service's costing methods to a segment of that subclass.

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[11] These costing changes are summarized in the testimony of Postal Service witness Karen Meehan, USPS-T-9, at 6-11. *See also* USPS-T-33 at 42-50.

[12] *See* Presiding Officer's Ruling No. R2005-1/11 at 2-3.

[2024] Under these circumstances, the Commission will assess the merits of the proposed Stipulation and Agreement. For the most part, this assessment will be grounded in methods and principles employed in the R2000-1 decision. Wherever the Postal Service or a participant has proposed a new methodology or approach, the Commission will appraise its merits in light of the corresponding established method or ratemaking principle, the relevant record evidence, and the merits of alternative approaches advanced by other participants. Finally, where the record cannot be fully analyzed through the lens of established methodologies or meritorious proposed alternative approaches, the Commission will identify the evident technical deficiencies and base its assessment on ratemaking principles of general applicability, such as the maintenance of rational relationships among rates.

III. REVENUE REQUIREMENT

[3001] The Postal Service's Request in this proceeding raises issues concerning the bases of its claimed need for additional revenues from rates that have never before been addressed in a Commission omnibus rate decision. The Postal Service's filing in support of its Request features the familiar trappings of volume, cost, and revenue estimates for the selected test year, fiscal year 2006. These projections, as revised by the Postal Service during the course of this docket, will be discussed in the latter part of this section, and are not controversial. However, as noted in the preceding section, rather than rely solely on these familiar estimates of prospective revenue need — which indicate a test year before-rates revenue deficiency of approximately $2.88 billion[13] — the Governors have chosen to predicate the Request on recovery of an independent financial obligation, the requirement imposed by the Postal Civil Service Retirement System Funding Reform Act of 2003, Pub. L. No. 108-18, 117 Stat. 624, to place approximately $3.1 billion in escrow beginning in the test year.

[3002] Further, the Postal Service's filing reveals that it enters this proceeding in the unprecedented financial position of having realized sufficient net earnings since the last omnibus rate case that it anticipates a total cumulative net income, or retained earnings, of approximately $2.58 billion as of the end of fiscal year 2005. Tr. 2/203. This favorable reversal of financial fortune follows an era in which the Postal Service sustained cumulative losses that eroded its equity and led it to request recognition of a provision to recover prior years' losses through prospective rate increases. The Commission granted that request in Docket No. R76-1.[14] For the first time since that proceeding, the Postal Service has not requested an amount to restore cumulative net losses in this case,[15] because happily they do not exist. However, now that the Postal Service enjoys a net

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[13] Tr. 2/164.

[14] PRC Op. R76-1, June 30, 1976, at 25-51.

[15] Exhibit USPS-6A Revised, *supra.*

increase in equity, neither has it factored its cumulative net income into its proposed revenue requirement in this case. Tr. 2/111.

[3003] Inasmuch as the majority of participants have agreed to the Postal Service's proposed rates by becoming signatories to the Stipulation and Agreement proffered in this case, there is little opposition to the proposed revenue requirement or its unprecedented basis in Pub. L. 108-18. However, the two participants who do contest it raise fundamental challenges to the bases of the Postal Service's stated revenue need, and argue for a lesser amount to be recovered in recommended rate increases.

[3004] The Office of the Consumer Advocate asserts that the Postal Reorganization Act makes no provision for any "special" rate cases, and that the revenue sufficiency provisions of 39 U.S.C. § 3621 apply equally in all omnibus rate proceedings. OCA Brief at 18. OCA also claims that filing a rate case based on recovering the escrow flouts the purpose of Pub. L. 108-18 to require use of its consequent savings to hold down increases in postal rates. *Id.* at 22-26. Furthermore, OCA argues that, in enacting § 3621, Congress did not intend to authorize the Postal Service to retain earnings; that all the Postal Service's profits and losses, including accumulated earnings, must be taken into account in determining the revenue requirement; and that cumulative earnings are simply the reverse of prior years' losses, and thus should be used to even-up the Postal Service's books under § 3621. *Id.* at 10-18.

[3005] On the basis of these legal positions, OCA argues that the Postal Service's estimated revenue shortfall for the test year must be offset by its cumulative earnings, yielding only a net deficit of $303 million recoverable in rate increases. Therefore, in order to break even in the test year, OCA claims that rates may lawfully be raised only to erase the $303 million net deficit—which translates into aggregate rate increases of slightly more than 0.8 percent. *Id.* at 9, 28-31.

[3006] Intervenor Valpak similarly argues that the Postal Service's proposed revenue requirement should be reduced to account for what it characterizes as unprecedented and unauthorized retained earnings. Like OCA, Valpak argues that the Postal Reorganization Act in its current form does not authorize the Postal Service to

retain earnings, and further cites pending postal reform legislation which would explicitly authorize retained earnings as implicit confirmation of its argument. Valpak Brief at I-7-13. Valpak likewise claims that the retained earnings documented in the Postal Service's case should be used to reduce the revenue requirement. *Id.* at I-13-16. According to Valpak, at a bare minimum the Commission should apply the "one-ninth" amortization provision heretofore used to spread the recovery of prior years' losses to reduce the revenue requirement by $286.351 million.[16] *Id.* at I-16-19.

[3007] Because the proposed Stipulation and Agreement is based on the revenue requirement incorporated in the Postal Service's Request, these divergent proposals require the Commission to address two questions of first impression in this Opinion. First, what effect should the accumulation of net earnings — or accretions to the equity of the Postal Service — have, if any, on the level of aggregate revenues properly recoverable under § 3621 through increased rates? Second, whatever the answer to the first question, does a proper interpretation of § 3621 allow a large financial responsibility such as the escrow obligation under Pub. L. 108-18 to supervene the usual measure of revenue deficiency for rate setting purposes? These questions will be addressed in turn below.

[16] Valpak also proposes an additional reduction of $281.473 million in the revenue requirement to eliminate the test year revenue surplus estimated by the Postal Service. *Id.* at I-20.

A. The Role of Equity in Postal Ratemaking

[3008] In enacting the Postal Reorganization Act of 1970, Pub. L. 91-375 included a provision stating that: "The initial capital of the Postal Service shall consist of the equity, as reflected in the budget of the President, of the Government of the United States in the former Post Office Department." 39 U.S.C. § 2002(a). Pursuant to the guidelines specified within that subsection, the amount of the statutory initial capital —and thus the equity — of the Postal Service was established at $1.686 billion.[17]

[3009] Following passage of the Postal Reorganization Act, the Postal Service experienced net losses that significantly eroded its equity.[18] However, this development had no influence on postal ratemaking until the Postal Service filed its Request in Docket No. R76-1.

[3010] In that proceeding, against a background that featured "a pattern of continuous erosion in equity offset by debt financing,"[19] the Postal Service proposed inclusion of $207.8 million in the revenue requirement for restoration of past operating losses.[20] Some parties in that docket opposed recognition of this provision as a legitimate element of the Postal Service's revenue need.[21]

[3011] Nevertheless, the Commission approved inclusion of the prior years' losses item in the revenue requirement. It found the underlying principle of recovery of past losses to be "necessarily implied by the Act[,]" particularly because it is "consistent with the 'central purpose' of the statute 'to place the Postal Service on a self-sufficient

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[17] Docket No. R76-1, Direct Testimony of Ralph L. Osborne on Behalf of United States Postal Service, at 5.

[18] *Ibid.*

[19] *Id.* at 8.

[20] PRC Op. R76-1, *supra*, at 25.

[21] *Id.* at 32-34.

basis.'"[22] It also found that the Act should not be read to restrict the Postal Service to remunerating its past losses through borrowing alone.[23]

[3012] The Commission expressed "serious reservations" regarding the Postal Service's concept of equity, finding that the standard accounting definition of assets minus liabilities cannot be uncritically applied to the Postal Service because it is not a privately-owned enterprise, and because "the Act is so structured as to make it clear that the Service was not to seek a profit."[24]

[3013] Nonetheless, the Commission stated its belief that Congress intended the Postal Service to have a reasonable supply of operating funds, or net working capital, in order to execute its functions. For this reason, the Commission opined that the Postal Service would be well advised to consider its financial requirements in terms of a working capital allowance.[25] In light of the evident difficulties raised by the Postal Service's theory of equity, the Commission recommended that it consider six questions, including examination of the possible ways in which a workable method of establishing its working capital needs could be constructed.[26]

[3014] In the following omnibus rate proceeding, the Postal Service presented three different forms of analysis in support of the amount it proposed for recovery of prior years' losses: a working capital theory, an equity theory, and a balance sheet theory.[27] The Commission expressed a general preference for the equity theory, which was based on the analysis of the ratio of equity to total assets, but found that the record did not quantify the fair market value of assets for either the Postal Service or entities to which it could be compared.[28] However, in view of the dire financial condition of the Postal

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[22] *Id.* at 26, *quoting Direct Mail Advertising Association v. United States Postal Service,* 458 F.2d 813, 814-817 (D.C. Cir. 1972).

[23] *Id.* at 27, 30-40.

[24] *Id*. at 44-45.

[25] *Id.* at 46-47.

[26] *Id.* at 49-50.

[27] PRC Op. R77-1, May 12, 1978, at 48-49.

Service at that time, the Commission found the Postal Service's proposed annual recovery of $334 million to be necessary to fulfill the breakeven requirement of § 3621.[29]

[3015] The Commission's philosophy regarding the propriety and function of the provision for recovery of prior years' losses has remained much the same in subsequent rate decisions.[30] However, because the Postal Service has not heretofore filed rate requests that report accumulated retained earnings, the Commission has not had occasion to consider what doctrines should apply to accretions to equity, or how such amounts should be treated for ratemaking purposes under § 3621.

[3016] On brief, the Postal Service argues for an expansive, or even unrestricted, approach to its ability to accumulate retained earnings without any corresponding adjustment to prospective rates. The Postal Service agrees that, as a public enterprise, it was not created to make a profit. *Id.* at 6. Nonetheless, it cites 39 U.S.C. §§ 2003(c), 2005, and 2009 as support for authority to accumulate and retain net income. *Id.* at 14-16. The Postal Service also argues that the authority of the Board of Governors under 39 U.S.C. § 3622 to time the filing of rate requests, read together with the § 3621 goal of long-term financial self-sufficiency recognized in the Commission's previous rate decisions, renders "the amount of cumulative net income that is prudently maintained by a $73 billion organization … is a matter of financial policy, which is left to postal management and the Governors to determine." *Id.* at 13. While it concedes that "there has been no official policy directive regarding cumulative net income, similar to that which evolved over time with respect to recovery of cumulative net losses," the Postal Service denies that there is a policy void, and states that the operative policy was set by the Board of Governors when it authorized filing of its Request in the context of the unique circumstances of this case. *Id.* at 27-28.

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[28] *Id.* at 49-51.

[29] *Id.* at 52-54.

[30] *See* the relevant portions of past rate decisions cited in the Postal Service Reply Brief at 18, nn. 22-25.

[3017] The Commission does not dispute the Postal Service's authority, under the terms of Chapter 20 of Title 39, to accumulate net income as a reasonable tool for its financial and operational management. This authority is implicit in the financial opportunities Chapter 20 makes available: as the Postal Service notes, § 2003(c) authorizes investment of "money … in excess of current needs," and borrowing authority under § 2005 is optional, extending to such obligations as it determines necessary to carry out the purposes of this title.

[3018] However, this authority does not necessarily compel a conclusion that the amount of such retained surpluses, and its implications regarding revenue sufficiency for ratemaking purposes, are excluded from review by the Commission in the exercise of its assigned functions under Chapter 36. As the Commission has held since the earliest days of postal ratemaking under the Act, its ratemaking functions necessarily involve independent findings under 39 U.S.C. § 3621.[31] At the Postal Service's bidding, this review has included the impact of prior losses of equity on current revenue needs. It would be unrealistic to assume that the statutory framework of ratemaking review includes deliberations on the impact of equity erosion on revenue sufficiency, and corresponding adjustments in revenues from rates, but categorically excludes symmetrical consideration of the impact of positive returns to equity.

[3019] On the other hand, there appears to be insufficient justification for the conclusion asserted by OCA, namely that the revenue and cost equalization mandated in § 3621 is so inimical to earnings retention that the ratemaking process requires that all cumulative earnings be offset against estimates of future revenue deficiency. OCA argues that the language of § 3621 and its legislative history support an inference that the statutory ratemaking scheme makes no room for retained earnings in the break-even equation. However, even if the statute does not explicitly contemplate retention of earnings in achieving break even, its overall financial policy is one of breaking even, not at every instance, but rather *over a reasonable period of time*.[32] Therefore, the existence

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[31] PRC Op. R71-1, June 5, 1972, at 13-24.

of cumulative earnings may merit only partial recognition in establishing the level of sufficient revenues in any given ratemaking proceeding.

[3020] In this regard, we find the opinions offered by Postmaster General Potter to be suggestive of what might prove to be the right approach to dealing with retained earnings. In a colloquy with the Director of the Office of the Consumer Advocate concerning the existence of cumulative net income and appropriate ways of treating it in an omnibus rate case, Mr. Potter stated:

> We will when we file a true omnibus rate case. In this case, we're filing, very specifically. We made a policy decision to file very specifically for the escrow. So if you look at this case, it's extremely narrow. I think if we have a cumulative net income, and we file the omnibus rate case, you will see us proffer a policy on how we deal with that situation.

Tr. 2/76. Earlier in the same colloquy, Mr. Potter stated:

> Theoretically, I guess if you look at what we do when we had a negative cumulative net income, you divide by nine, you might want to play that scenario out.

Ibid.

[3021] As the speculative tone of Postmaster General Potter's oral cross-examination suggests, the appropriate treatment of retained earnings has been largely a matter of conjecture in this proceeding. No participant filed testimony on the subject. Therefore, the differing treatments of cumulative net income advocated by OCA and Valpak find no support in the record. Under these circumstances, the Commission finds that no specific adjustment in the revenue requirement to reflect the existence of a net return to equity is warranted in this case. However, the Commission shares Postmaster General Potter's anticipation that this issue will be revisited in any

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[32] *See* PRC Op. R90-1, January 4, 1991, ¶ 2045, *citing National Association of Greeting Card Publishers v. U.S. Postal Service*, 607 F.2d 392, 431-32 (D.C. Cir. 1979).

subsequent omnibus rate proceeding that features a financial posture in which the Postal Service enjoys cumulative net income, and we urge the Postal Service to consider both the policy implications of this development and to formulate measures appropriate for its recognition in rate recommendations.

B. The Escrow Requirement and its Application to Ratemaking

[3022] As the introduction to this section notes, rather than basing its Request on an estimated revenue shortfall between a historical base year and a projected test year, the Postal Service proposes to define its revenue requirement in this case by reference to its independent financial obligation under Pub. L. 108-18 to place approximately $3.1 billion in escrow beginning in the test year. Assessing the propriety of this proposal requires an interpretation of the requirements and other guidance contained in Pub. L. 108-18 in light of the governing standard in 39 U.S.C. § 3621, as well as a review of pertinent facts in the record made in this proceeding.

[3023] Section 3 of the Postal Civil Service Retirement System Funding Reform Act of 2003 contains both specific requirements and policy guidance for disposition of the savings accruing to the Postal Service as the result of its enactment. Section 3(a) imposes requirements geared to specified years. Subsection (1) requires that savings attributable to fiscal years 2003 and 2004 be used to reduce postal debt, while forbidding the Postal Service to incur additional debt. For savings attributable to fiscal year 2005, subsection (2) requires their use "to continue holding postage rates unchanged and to reduce the postal debt . . . ." For fiscal years after fiscal year 2005, subsection (3) declares savings "shall be considered to be operating expenses of the Postal Service and, until otherwise provided for by law, shall be held in escrow and may not be obligated or expended."

[3024] Section 3(c) of the Act imposes reporting requirements on the Postal Service.

[3025] Section 3(d) declares the Sense of Congress — rather than imposing statutory commands — in three areas. First, subsection (1) states an expectation that savings accruing to the Postal Service "will be sufficient to allow the Postal Service to fulfill its commitment to hold postage rates unchanged until at least 2006[.]" Subsection (2) anticipates that, "because the Postal Service still faces substantial obligations related to postretirement health benefits for its current and former employees, some portion of

the savings … should be used to address those unfunded obligations[.]" Finally, subsection (3) states an expectation that none of the resulting savings be used in computing any bonuses for Postal Service executives.

[3026] Witness Tayman reports on the Postal Service's performance under the terms of Pub. L. 108-18. He testifies that savings resulting from the Act in FY 2003 and FY 2004 were used to reduce debt by amounts that exceeded the statutory plan. For FY 2005, he notes that rates have been held constant, and states that the Postal Service plans to continue reducing its debt. He also anticipates that, in order to fund the escrow requirement without raising rates in FY 2006, the Postal Service would need to borrow $1.782 billion. For FY 2006 and beyond, he testifies that the Postal Service will be required to carry the $3.1 billion escrow amount as restricted cash on its balance sheet. USPS-T-6 at 11-12, 16; Tr. 2/248-49.

[3027] Thus, the Postal Service has complied with the requirements of § 3(a)(1) and (2) of the 2003 Act. In order to comply with the prospective requirement of § 3(a)(3), the Postal Service is reserving the $3.1 billion escrow amount—for which the Act commands treatment as an operating expense—as restricted cash. Witness Tayman testifies that in order to honor the escrow requirement, which will be permanent unless altered by subsequent legislation, "we have to maintain … [the $3.1 billion amount] until the end of 2007 when we add another $3.4 billion to it." Tr. 2/249.

[3028] Postmaster General Potter summarizes the Postal Service's current situation in the following way:

> The Postal Service, thus, finds itself in the peculiar situation of being required to ensure that its revenues in FY 2006 are sufficient to cover not only actual operational expenses but also an additional $3.1 billion to be put in escrow. We are faced with the task of reconciling what to do when Public Law 108-18 says that the $3.1 billion dollar escrow amount for FY 2006 may not be obligated or expended by the Postal Service; Congress has not dedicated it to any particular use; and Public Law 108-18

> declares that the escrow shall be considered as an operating expense of the Postal Service.

USPS-T-1 at 4.

[3029] As Postmaster General Potter observes, the escrow provision in section 3(a)(3) of Pub. L. 108-18 explicitly requires that the savings for 2006 "be considered to be operating expenses of the Postal Service." As such, the test year obligation of $3.1 billion is by statutory definition recognized for inclusion in the "total estimated costs" of the Postal Service. 39 U.S.C. § 3621.

[3030] Under these unique legislative strictures and the factual circumstances summarized above, it is appropriate for the Governors to request, and the Commission to recognize the $3.1 billion escrow amount as establishing the incremental revenue need of the Postal Service in this case, rather than the lesser test year deficit estimated in the Postal Service's testimony.

[3031] This approach is consistent with the Commission's policy of taking Postal Service financial obligations specifically imposed by legislation into account in the ratemaking process. In Docket No. R90-1, during the pendency of that proceeding, Congress passed the Omnibus Budget Reconciliation Act of 1990 (OBRA), which included provisions that retroactively assessed the Postal Service $2.14 billion as its portion of the health benefits and cost of living adjustments that the federal government had paid Postal Service retirees from July 1, 1971 through September 30, 1986. While the Postal Service did not advocate addition of any amount resulting from this new obligation to its estimated revenue requirement, the Commission found it appropriate to recognize $557 million as the financial impact of OBRA in the test year. The Commission stated:

> It is evident—essentially as a matter of law—that the recent enactment of OBRA has altered matters. We have examined the revenue issues, therefore, in light of the effect of that legislation as well as of the actual FY 1990 results. In our view, the resulting revenue requirement, is supported by the facts of this case and by our reasoned disposition of the

> parties' contentions; it need not rest simply on postal management's judgment, though in our view it does no violence to the discretionary choices expressed therein.

PRC Op. R90-1, January 4, 1991, ¶ 2015 (footnote omitted).

[3032] Beginning with the Commission's decision in Docket No. R90-1, OBRA-related expenses have been included in the revenue requirement in omnibus rate proceedings and recovered through rates. Payments of principal have been included in Cost Segment 18; related interest expenses have been included in Cost Segment 20. In this proceeding, the Postal Service discloses that its cumulative expenses under OBRA total $21.099 billion through FY 2004, of which $18.959 billion have been treated as operating expenses.[33]

[3033] Rather than seeking to recover the entire amount of the FY 2006 escrow obligation through rate increases now, the Postal Service could have resorted to other funding alternatives, such as borrowing, commitment of cash reserves,[34] or some combination thereof. This approach would serve Pub. L.108-18's intent to delay imposition of new rate increases on the mailing industry,[35] but § 3(d)(1) of the Act does not require such forbearance. Indeed, new borrowing for this purpose would appear to run counter to one of the Act's cardinal purposes, reducing the aggregate level of the Postal Service's debt.[36] Absent suggestions of impropriety, the Commission's review of the Postal Service's revenue needs does not extend to options it has chosen in the course of managing its finances. Having established that the FY 2006 escrow obligation is appropriate for recovery under § 3621, the Commission's inquiry is at an end.

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[33] Response of Postal Service Witness Tayman to VP/USPS-T6-10(a), (g), Tr. 2/190-91.

[34] As of the end of August, 2005, the Postal Service reports a balance of $1.972 billion in cash and cash equivalents. United States Postal Service Financial & Operating Statements, August, FY 2005, at 10. Witness Tayman testifies that the Postal Service's annual report for 2004 indicates that "on a pay period basis, we had nearly $2 billion of expense that has to be met every two weeks." *Id.* at 227.

[35] Senate Comm. on Governmental Affairs, Postal Civil Service Retirement System Funding Reform Act of 2003, S. Rep. No. 108-35, 108th Cong., 2nd Sess. 4 (2003).

[36] *Ibid*.

[3034] Therefore, the Commission finds the incremental revenue requirement of the Postal Service in this docket to be $3.1 billion.

[3035] The Office of the Consumer Advocate argues that, if pending legislation that would relieve the Postal Service of the escrow obligation passes during FY 2006, the Postal Service would reap a windfall from the adoption of the rates proposed in the settlement agreement. OCA Reply Brief at 20. Even if legislation passes after the end of FY 2006 and the escrow obligation remains, OCA further argues, that money would not be lost forever to the Postal Service, and at least some of it could increase retained earnings that have already accumulated. *Id*. at 21. However, the impact of any legislative action, including action on the two bills under current consideration, S. 662 and H.R. 22, is uncertain. The future financial obligations and opportunities to be assigned to the Postal Service cannot be assumed. Further, in light of the estimated $2.88 billion revenue deficiency for the test year, relief from the escrow requirement would likely yield no significant windfall to the Postal Service.

C. Technical Bases of Revenue Requirement Estimation

1. The Rollforward Process

[3036] The Postal Service, in accordance with established practice in Commission rate proceedings, has estimated its future revenue needs by identifying a recently concluded fiscal year as a base period, adjusting its reported historical results through an intermediate period, and rolling results forward by incorporating the effects of numerous expense and volume factors to arrive at cost and revenue estimates in a selected test year. This process is described in the testimonies of witnesses Tayman, USPS-T-6, and Waterbury, USPS-T-10.

[3037] The Postal Service has used fiscal year 2004 as the base year from which to project costs and revenues. USPS-T-6 at 20. The Postal Service uses fiscal year 2006 as the test year for ratemaking purposes in this proceeding. Witness Meehan, in USPS-T-9, provides the Base Year (FY 2004) Cost and Revenue Analysis (CRA) using the Postal Service's proposed cost attribution treatment for this docket. Witness Tayman develops cost change factors used to roll forward the base year costs to the test year (FY 2006), provides the rationale for not including a contingency provision in the proposed revenue requirement, and explains how the Postal Service has been able to eliminate the need for a provision to recover prior years' losses. Witness Waterbury presents the Postal Service's newly redesigned CRA roll forward model and develops costs by class, subclass and special service for the interim period (FY 2005) and the test year.

[3038] The redesigned CRA cost rollforward model is a significant departure and improvement from the old computer mainframe COBOL model used in every rate filing since Docket No. R74-1. The new forecasting model is built upon a common computer spreadsheet format, much like the Commission's new cost rollforward model developed after the last rate proceeding, Docket No. R2001-1.

[3039] Witness Page, in USPS-T-23, develops mail mix final adjustments for the interim year and the test year. He also provides final adjustments to reflect cost changes from the Bank One and Discover negotiated service agreements. The Postal Service filed the revenue requirement calculations developed with its proposed attributable cost treatment and, in LR-K-93 through LR-K-97, with the cost treatment used by the Commission in Docket R2001-1.

[3040] For reasons discussed in chapter IV, the Commission continues to maintain the R2001-1 attributable cost treatment for mail processing, but employs the Postal Service's new city carrier cost study introduced in this docket. The Commission also accepts the correction to the distribution of window service "waiting time" costs advocated by witness Bradley in USPS-T-31. However, the Commission does not accept the Postal Service's treatment of the contractual FedEx day turn costs. These changes were incorporated into the Postal Service's revenue requirement calculations as presented in USPS-LR-K-93 through USPS-LR-K-97, in addition to computation corrections and expense forecast updates that were identified in the record. *See* Appendix D. The most significant of these corrections are:

- Subsequent to the filing of this docket, the Postal Service and the American Postal Worker's Union reached agreement on an extension of their labor agreement, originally scheduled to expire on November 20, 2005. The Commission requested updates of the revenue requirement calculations needed to reflect this contract extension. The Postal Service responded with the requested updates, in addition to updating the September, 2005 COLA payment, which was an estimate in the Postal Service's original calculations. Taking these updates into account increases the revenue requirement by $160 million. *See* Response of the United States Postal Service to Presiding Officer's Information Request No. 13, September 1, Question 1.

- The Postal Service filed revisions to the revenue requirement on June 9, 2005, to correct errors found in the development of final adjustments and the computation of interest income and interest expense. These corrections increased the revenue requirement by $25.1 million and also increased estimated test year revenues by $194.5 million. *See* Exhibit USPS 6A-1 and USPS 6A-2.

2. Volume Forecasts

[3041] To obtain its test year volume forecasts in this proceeding, the Postal Service relied upon familiar expert witnesses employing familiar forecasting procedures. Although this case constitutes the first omnibus rate proceeding in well over 25 years that has not featured Dr. George Tolley as the primary sponsor of the Postal Service's volume forecasts, his associates — themselves veterans of the last several cases — have accomplished that function. The testimony of witness Thress appears as USPS-T-7, and the testimony of witness Bernstein appears as USPS-T-8.

[3042] As those witnesses explain, test year forecasts are based primarily on an examination of the markets in which mail services are offered, the factors which have explained mail volume changes historically, and the best available information as to how those factors are expected to change going forward. Witness Thress models mail markets using a set of demand equations, identifies and quantifies the factors that affect mail volumes, and projects these factors through the test year for the purpose of developing a set of volume forecasts. Such a forecasting procedure has in the past generally proven accurate in providing mail volume forecasts over the typical rate case time horizon.

[3043] One feature of the Postal Service's forecasting presentation in this case is a continuing focus on the impact on the Postal Service of technological diversion. Both witness Bernstein and witness Thress address trends in technological diversion, and current efforts to actually integrate the expected impact of such technological diversion into the test year forecasts. The witnesses include available and projected information on expenditures on internet service providers, number of broadband subscribers, and internet advertising expenditures as additional components of their First-Class and Standard Mail demand analyses and forecasts. Their testimonies show that technological diversion due to innovations such as the internet is likely to be a growing concern for the foreseeable future.

[3044] The base year used in making the volume forecasts in this case consists of the four fiscal quarters from 2004Q2 through 2005Q1, corresponding to calendar year 2004. Witness Thress forecasts volumes for the test year (FY 2006) assuming current rates (denominated as TYBR), and for the test year assuming implementation of the Postal Service's proposed rates on October 1, 2005 (denominated as TYAR). Volume forecasts are done on a quarterly basis and then aggregated to form the before- and after-rate test year forecasts. The after-rate test year volumes, calculated using the Postal Service proposed forecasting method and the Commission's recommended rates, are presented in Appendix H.

[3045] Appendix G, Schedule 1 presents by subclass the attributable costs and revenues generated with the Commission's recommended rates. Total estimated revenues exceed the test year target revenue of $3.081 billion by $111 million, in comparison with a surplus of approximately $80 million resulting from the initial proposal.

[3046] Both projected surplus figures are larger than the results of past Commission recommended decisions in omnibus rate proceedings. In typical cases, the Commission customarily "fine tunes" revenues by adjusting individual rate elements within subclasses and mail categories. However, the uniform level of rate changes supported by a broad cross-section of participants and recommended in this case limits the Commission's ability to balance revenues generated by new rates with target revenues.

[3047] In any event, both these results are overtaken by the attribution methodological assumption that the new rates will be implemented on the first day of the test year, October 1, 2005, which obviously will not be the case. Witness Tayman estimates that if the new rates are implemented no sooner than January, 2006, as the Postal Service plans, actual FY 2006 income is likely to be from $800 million to $1 billion less than the projected test year results. USPS-T-6 at 54; Tr. 2/63, 107. Consequently, introduction of the recommended rates in the second quarter of the test year will generate additional revenues that do not exceed the target of $3.081 billion.

[3048] The following table displays the revenue and cost consequences of implementing the rates proposed by the Postal Service and those recommended by the Commission in this case. The first column displays: (1) the net revenue target proposed by the Postal Service; (2) its estimate of the change in revenue produced by implementing its proposed rates; (3) the decrease in costs resulting from volume decreases produced by elasticity effects of the increased rates; (4) the resulting net change in revenue; and (5) the difference between the net revenue change and the initial target of $3.081 billion. The second column reports the same revenue target, and the respective revenue and cost consequences of implementing the rates recommended by the Commission. The third column reports the difference between the respective amounts of items (2) through (4) for the Postal Service proposal and the Commission's recommendations. These differences result from the few departures from the rates and fees proposed by the signatories in the Commission's rate recommendations; from cost level changes resulting from differences between Postal Service attribution methodology and the Commission's methods; and from corrections to revenue estimates made in response to information disclosed by the Postal Service during this proceeding.

R2005-1 Revenue Request
($000)

	Proposed	Recommended	Difference
P.L. 108-18 Escrow Requirement	**3,081,016**	**3,081,016**	**0**
Change in Revenue	**2,583,653**	**2,576,761**	**(6,891)**
Decrease in Costs	**(577,672)**	**(615,625)**	**(37,951)**
Change in Net Revenue	**3,161,325**	**3,192,386**	**31,059**
Surplus/(Deficiency)	**80,309**	**111,370**	**31,059**

IV. COST ATTRIBUTION

A. Procedural Issues

[4001] In this docket, the Postal Service submitted a comprehensive attributable cost presentation. Its submission includes testimony proposing that the established attribution analyses that the Commission applies to mail processing labor costs and to city delivery carrier street time costs be replaced with new analyses that it has developed.

[4002] With respect to cost attribution principles, this docket is in much the same posture as Docket No. R2001-1. Here, as there, the Postal Service proposed a Stipulation and Agreement that had as one of its intended consequences, obviation of the need to litigate cost attribution principles. The Stipulation and Agreement filed in this docket, section II, paragraphs 12 and 16, states:

> The signatories agree that, in any future proceeding, adherence to this agreement is not intended to constitute or represent agreement with, or concession to the applicability of any … method of cost of service determination … that may underlie, or be thought to underlie, this Stipulation and Agreement.
>
> …The undersigned parties also agree that, as the matter presented in the Postal Service's Request, in any Commission Recommended Decision, or in any decision of the Governors of the Postal Service in this proceeding have not actually been fully litigated, they are not entitled to precedential effect in any other proceeding.

[4003] As in Docket No. R2001-1, this has the effect of leaving the attribution principles adopted by the Commission in Docket No. R2000-1, the most recent omnibus rate proceeding in which attribution principles were fully litigated, as applicable precedent in this docket. While Valpak filed a direct case that addressed issues of cost

responsibility at the rate category level, including the costs of the use of detached labels and the proper size of the letter/flat differential in Standard ECR Mail, no participant filed evidence addressing the Postal Service's proposed changes to the established cost attribution principles by which the cost responsibility of subclasses is determined.

[4004] As a general matter, this leaves established attribution principles in place for purposes of determining whether subclasses are priced to recover their attributable costs. *See* § 3622(b)(3) of the Act. With respect to costs, this docket has focused on the Postal Service's obligation under Public Law 108-18 to make escrow payments to a fund established by Congress in the amount of approximately $ 3.1 billion in the test year. This category of cost is new to postal ratemaking. Subsection B of this chapter concludes that while the escrow requirement is potentially attributable to subclasses, under currently prevailing circumstances it is an institutional cost, and therefore allocable to subclasses according to the non-cost factors of § 3622(b).

[4005] We have also determined that special circumstances in this docket warrant our making an exception to the rule that precedent governs the selection of attributable cost principles where participants, by agreement, have not litigated issues of cost attribution. For the limited purpose of determining whether subclasses of mail meet the requirement of § 3622(b)(3), the Commission has determined that using the city delivery carrier street time cost analysis proposed by the Postal Service will yield the most accurate estimate of those costs.

[4006] The Commission itself has repeatedly noted that the established analysis is, in most respects, obsolete and inadequate. *See* PRC Op. R97-1, ¶ 3225; PRC Op. R2000-1, ¶ 3087. The congressionally mandated *Data Quality Study* conducted in 1999 to assess the Postal Service's data quality shortcomings as they relate to ratemaking singled out the established carrier street time cost attribution methods as the cost methods most in need of reform. *See* A.T. Kearney, "Technical Report #3: Simulation Analysis of Data Quality Issues," *Data Quality Study*, April 16, 1999 (Data Quality Study) at 12, 59. This study is available at www.prc.gov/periodic/DataQualityStudy.exe.

[4007] There is near unanimity on the part of the postal community that the established method is unlikely to capture current patterns of cost incurrence. USPS-T-30 (Lewis) at 1-2; Advo Brief at 36-37; OCA Brief at 87. After nearly two decades, the Postal Service has submitted a new carrier street time study specifically designed to support econometric estimates of volume variable costs that are based on relatively current data, rather than the obsolete data on which the established carrier street time attribution principles are based. (For purposes of this discussion, these data will be referred to as “legacy” data.) The legacy data dates from the mid- to late-1980s and reflects the operational and economic conditions that prevailed at that time.

[4008] In the Commission's view, this unusual circumstance makes it more appropriate to make use of the results of the more recent study, despite their having been only partially litigated, than to adhere to the results of special studies that clearly do not reflect current delivery operations and economic conditions.

[4009] This is appropriate not just because of the agreed-upon inadequacy of these studies, but because embracing the results of the new study is done for a very limited purpose. The limited purpose is to identify what is likely to be a more accurate attributable cost floor for the various subclasses in order to apply the requirement of 39 U.S.C. § 3622(b)(3) that each subclass earn enough revenue to cover its attributable cost. These attributable cost estimates do not serve as a platform on which to adjust rate relationships among subclasses or within a subclass, given the Commission’s endorsement of the Postal Service’s proposed uniform, across-the-board rate increase.

[4010] With respect to determining whether a subclass of mail is satisfying the requirement of § 3622(b)(3), replacing the established analysis with the results of the new street time study has a minor impact only on the rates for Media and Library Rate mail, and Within County Periodicals. Finally, it is important to reemphasize that under the special circumstances of this docket, where it is understood that cost attribution alternatives have not been fully litigated, the Commission's decision to apply the Postal Service's proposed method for attributing carrier street time costs imparts no precedential weight to that method in subsequent proceedings.

[4011] The Commission makes use of the Bradley study estimates of attributable city delivery carrier costs despite substantial concerns about the quality of the data and its effect on econometric modeling. To help the Postal Service and the parties understand its concerns and to encourage progress in the analysis of delivery costs, a discussion of those issues is included in Appendix I. Because the Commission perceives a commonality of data quality issues between the City Carrier Street Time Study (CCSTS) data used by witness Bradley and the MODS data underlying the mail processing variability models of witness Bozzo, the discussion in Appendix I extends to MODS data and the implications of data quality problems for the econometric modeling of both carrier street time and mail processing labor costs.

[4012] *Implications of an incomplete record*. Although the Postal Service's across-the-board rate proposal was to be independent of attributable cost relationships, a considerable amount of detailed discovery was addressed to the Bradley study, most notably by the OCA. The OCA has had a longstanding interest in obtaining documentation of the study sufficient to evaluate it and undertake an alternative study of its own, if it determined that there was a need for an alternative study.

[4013] The postal community first learned of the Bradley study when its results were incorporated in the Postal Service's FY 2003 Cost and Revenue Analysis report (CRA). Incorporating the results of a major cost attribution study into the Postal Service's standard annual financial reports before it had been vetted in rate hearings before the Commission was a departure from the Postal Service's past practice. By incorporating the study results in the CRA, the Postal Service was obligated under the Commission's Periodic Reporting Rule [39 CFR § 3001.102] to give the public a general understanding of the kind of data that were used and the kind of analysis that was applied. The Postal Service provided a briefing on the required materials on May 25, 2004. On December 2, 2004, the OCA sought additional material related to the study, some explicitly required by the Periodic Reporting Rule (the City Carrier Cost System data for FY 2003) and some not (e.g., CCSTS sample design and sample editing information). The Postal Service

refused to provide either, whether or not required by the Rule, asserting that the requested materials would only be provided when a future rate case is filed.[37]

[4014] The Postal Service filed its request in this docket on April 8, 2005. The OCA diligently pursued discovery related to the Bradley study, focusing on the characteristics of the CCSTS data used by witness Bradley, and seeking to determine whether other data that could confirm or supplement his research existed. Learning that there are Delivery Operations Information System (DOIS) data that might serve this purpose, the OCA sought excerpts of DOIS data on carrier street time hours and delivered volumes extending back four years from the present, arguing that capturing long-run variability of carrier street time required panel data with a longer time dimension than the 11-day period covered by the CCSTS data used in witness Bradley's models.

[4015] The Postal Service objected, insisting that such data could not be provided before late September. It became clear that it would not be feasible to prepare and litigate an alternative carrier street time cost study based on DOIS data in the time allotted. Confronted with this limitation, the OCA dropped its pursuit of an alternative carrier study in this docket. It pledged not to file a direct case in return for a Postal Service commitment to publicly disseminate data on service performance of selected postal products, and to consider making other consumer-oriented reforms. Its commitment to forgo litigation did not extend to the briefing phase of this proceeding. Unaware of these negotiations, the Presiding Officer granted the OCA's motion to compel production of the requested DOIS data. P.O. Ruling No. R2005-1/46 at 11. The DOIS data were provided on September 22, 2005, after hearings had concluded.

[4016] The OCA's brief criticizes the Bradley study at length, sometimes asserting facts and theories that go beyond the record. OCA Brief at 55-87. Signatories to the Stipulation and Agreement strenuously object to this aspect of the OCA's brief, urging

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[37] Letter of Daniel J. Foucheaux, Chief Counsel, Ratemaking, to Shelley S. Dreifuss, Director, Office of the Consumer Advocate, dated January 14, 2005, which appears as an attachment to Office of the Consumer Advocate Proposal of Rules in Response to Commission Order No. 1423, filed January 21, 2004, in Docket No. RM2005-1.

the Commission to disregard extra-record materials that were introduced on brief, on the ground that they have not had a chance to test them on the record. Postal Service Reply Brief at 46-50; Advo Inc. and the Saturation Mailers Coalition Joint Reply Brief at 18-20; Periodicals Coalition Reply Brief at 3-4.

[4017] In view of the fact that the Commission is using the results of the Bradley study in its estimate of subclass attributable costs, comments on brief that are critical of the study have played no role in the Commission's recommended decision. Which of the OCA's criticisms on brief are extra-record, and the Commission's view of those criticisms, are moot, as a legal matter. They have value only as suggestions for improving future carrier street time analyses. The same is true of the Commission's criticisms in Appendix I of the CCSTS and MODS data and the modeling of those data.

[4018] MMA urges the Commission not to address witness Bradley's proposed street time attribution analysis on the merits, arguing that the complexities of the study, and its ramifications, could not adequately be evaluated on the partial record made. It cites as a particular ground for caution the large shift in costs from the institutional category to the attributable category caused by the roughly four-fold increase it implies will occur in collection costs over the FY 2003 to FY 2006 period (from $197 million to $910 million). MMA notes that most of that increase would be borne by First-Class single-piece letters. MMA Brief at 36-37. The Commission agrees that this dramatically higher estimate of collection costs on regular routes warrants caution in accepting the results of the Bradley study. This observation is particularly relevant in light of the fact that a slight modification in the specification of the carrier cost model proposed by witness Bradley would greatly reduce the estimated marginal cost of collected mail. *See* Appendix I, Table I-4. The Commission urges the Postal Service to carefully analyze this issue prior to the next rate proceeding. It is also worth noting that rates for First-Class single-piece mail are based on the settlement agreement and will not be affected by the Commission's decision to use the results of the Bradley study.

[4019] The Postal Service's test year accrued and attributable costs calculated according to the Commission's methods, by subclass, are displayed in Appendix F.

B. Escrow Requirement

[4020] In 2002, the Office of Personnel Management (OPM) undertook a review of Postal Service payments into the Civil Service Retirement Fund (CSRF) for pension obligations to current employees and retirees in the Civil Service Retirement System (CSRS). OPM found that the Postal Service's deferred pension obligation was $5 billion, rather than the previously estimated $32 billion, and that if the Service continued to make annual payments based on the statutory funding formula applied to the latter figure it would eventually over-fund the obligation by $78 billion. The over-funding resulted in large part from actual rates of return that differed from estimated rates of return and corrections of prior actuarial assumptions. *See* GAO-03-448R, Review of OPM Analysis of USPS Funding of CSRS Costs, January 30, 2003.

[4021] In response, Congress enacted Pub. L.108-18 which changed the formula for calculating the normal cost contribution rate from a static to a dynamic basis.[38] This change increased the annual employer contribution for CSRS participants but eliminated the annual payments for unfunded liabilities for wage increases and annuitants' cost of living adjustments. The legislation also established a supplemental liability related to past service costs. As of fiscal year 2003, the supplemental liability was $3.5 billion and the annual amortization payments were $240 million. USPS-T-6 at 10. These changes resulted in a much lower overall annual payment. Table 4-1 shows the reduction in payment for FY 2006 – FY 2015.

[38] Dynamic assumptions include interest earnings on pension fund assets, wage inflation and benefit inflation. Static assumptions only include interest earnings on pension fund assets. No assumptions are included for either future wage or benefit inflation.

Table 4-1

Fiscal Year	Reduction in Payment as a Result of Pub. L. 108-18 (Billions of Dollars)
2006	(3.081)
2007	(3.316)
2008	(3.607)
2009	(3.781)
2010	(4.069)
2011	(4.392)
2012	(4.589)
2013	(4.950)
2014	(5.309)
2015	(5.362)

Source: USPS-T-6 at 11.

[4022] The difference between the payment required under the new legislation and the estimated payment required prior to the legislation is referred to as "savings." These "savings" range from $2.7 billion to $7.0 billion. *See* USPS-LR-K-50 at VI, i. The legislation specified that the "savings" attributable to fiscal years 2003 and 2004 be used to reduce postal debt, the "savings" attributable to fiscal year 2005 be used to hold postage rates stable and to reduce postal debt, and the "savings" for fiscal years after 2005 be held in escrow and not obligated or expended.

[4023] *Treatment of Cost Related to Escrow Payment.* Pub .L. 108-18 specified that the escrow payment be considered an operating expense of the Postal Service and be recovered through rates. The first step in recovering the cost through rates is to determine whether the cost is attributable to classes and subclasses of mail or is an institutional cost.

[4024] According to the Postal Service, funding the escrow account should be considered an institutional cost. The Service gives two reasons for this determination — the amount of the escrow expense is arbitrary, and the purpose of the escrow has not been established. Thus, the Service concludes, it is not causally related to any postal

product or service, and therefore must be considered an institutional cost. *See* USPS-T-13, part II. Valpak witness Mitchell concurs that the costs should be considered institutional, "I agree that the escrow costs are an operating expense (so classified by Congress), do not vary with volume, and should not be attributed." Tr. 9/5395. No other participant offers testimony on the appropriate cost treatment of the escrow.

[4025] *Commission's Analysis.* In Docket No. R80-1, the Commission outlined six basic steps for determining cost attribution and distribution:

> (1) isolation of carefully defined, homogeneous cost elements (e.g., city delivery carrier access time); (2) identification of specific characteristics of mail likely to cause costs (e.g. pieces or service standards);
> (3) establishment of the existence of causal linkages between individual cost elements and individual characteristics of mail; (4) determination of whether a cost-causal linkage justifies treatment of a functional cost as attributable, assignable, or residual; (5) determination of the extent of a causal relationship (e.g. extent of variability of access time); and
> (6) distribution of the attributable and assignable portions of cost elements to classes and services according to a suitable distribution key.

PRC Op. R80-1, ¶ 0314.

[4026] The escrow expense can be evaluated according to these steps:

(1) Isolation of cost elements —

The cost can be isolated as the difference between the payment due prior to and subsequent to passage of Pub .L. 108-18.

(2) Identification of mail characteristics likely to cause costs —

The mail characteristics that are likely to cause changes in this cost are a weighted average of mail volume, weight, and all of the other cost-drivers that are used to attribute costs to mail classes. The number of employees is indirectly dependent on the amount and mix of these cost drivers.

(3) Establishment of causal linkages between cost elements and mail characteristics —

> There is a causal link between these mail characteristics and the *amount* of the escrow payment. The "savings" amount that has to be held out in the escrow fund is calculated as the difference between two amounts directly related to CSRS pension costs for the Postal Service. Pension costs, in turn, are attributable. However, the *origin* of the escrow obligation does not appear to be linked to mail volume or other cost-driving characteristics.

(4) Determination of treatment of the cost as attributable, assignable, or residual —

> The Commission concludes that because a clear causal link between the origination of the escrow and the cost-driving characteristics of mail has not been established, the cost should be considered residual.

(5) Determination of the extent of a causal relationship —

> There is a causal relationship between the amount of the expense and volume and related cost-driving characteristics of mail. The extent of this causal relationship also depends on the mix of craft employees in the test year. However, there is no causal relationship between the origin of the expense and the assortment of cost-driving mail characteristics.

(6) Distribution of attributable and assignable portions of cost elements to classes and services according to a suitable distribution key —

> A suitable distribution key would depend on how the escrow fund was used. In the instant proceeding, the fund is not to be obligated or expended so a distribution key cannot be determined.

[4027] The escrow is unique in that it is an operating expense that is not currently related to the operations of the Postal Service. Therefore, it cannot be causally related to any functional cost of the Postal Service. At some future time, Congress could specify that the escrow funds be used to fund Retiree Health Premium costs. In that case, the costs would be attributable to all mail according to the weighted average attributable cost of all labor. Alternatively, Congress could specify that the funds are to be used to purchase more efficient processing equipment, in which case they would be attributable according to equipment depreciation. Congress could specify that the funds are to be used to pay for transportation expenses, in which case they would be attributable to

classes of mail based on transportation mode; or Congress could specify some other use of the funds that would determine how they should be attributed.

[4028] The Commission agrees with the Postal Service that, in the instant proceeding, the escrow should be considered an institutional expense. However, in the event that Congress specifies a use for the funds, attribution of this expense will need to be reevaluated.

[4029] It should be noted that treating the escrow savings as an institutional expense contributes to a lower overall attribution level in R2005-1 than in R2001-1. In R2001-1, the attribution level was 61 percent. In R2005-1, it is 56.3 percent. *Compare*, Appendix E with PRC Op. R2001-1, Appendix E.

C. Relative Merits of the Established Analysis and the Bradley Study

[4030] In Docket No. R97-1, the Commission commented that

> the basic data on which city delivery carrier cost attribution must rely come largely from obsolete special studies that no longer conform to current delivery operations or the current state of analysis.

PRC Op. R97-1, ¶ 3225.

[4031] The *Data Quality Study* shared this concern. It found that the estimates of attributable city carrier street time costs derived from these special studies had coefficients of variation ranging from 40 to 60 percent, and that city delivery carrier street time cost estimates are the largest source of sample error in the Postal Service's estimates of overall subclass unit attributable costs of all of the cost functions that it examined. The *Data Quality Study* went on to note that

> [T]he econometric use of data contained in these carrier related data collection systems has been controversial since they were developed by the Postal Service and accepted by the Commission in Docket No. R84-1. The controversies seem to reflect the difficulty of conducting good, generally accepted, econometric analysis on the data collected.

A.T. Kearney, "Technical Report #1: Economic Analysis of Data Quality Issues" at 45.

[4032] Proposed analyses do not improve upon established ones simply because the underlying data are more current. Data must not only be current, but be reasonably free of both sample error and reporting error. The data must be of a kind that can be translated into meaningful econometric variables. The data also must be modeled in a way that makes theoretical sense, and yield results that are consistent with operational experience.

[4033] The new CCSTS proposed by witness Bradley clearly improves upon the established analysis in several of these respects. The most obvious is that it is based upon sample data that is fresh enough to approximate test year operational and

economic conditions that determine the need for street time labor. The CCSTS sample data were collected in 2002, whereas the legacy data dates from the mid- and late-1980s before Delivery Point Sequencing (DPS) and other significant operational changes had altered the delivery environment.

[4034] *Description of the established analysis*. The established analysis consists of a set of special studies based on separate cross-sectional datasets collected at different times using different sample designs. The Street Time Sample (STS) study used a tally technique similar to the IOCS to sample work activity on the street and allocate all street time to broad functional cost pools (e.g., travel time, runtime, load time).

[4035] The "runtime" cost pool is disaggregated into fixed time ("route time") and variable time ("access time") by regressing runtime on various levels of simulated stop coverage. The regression used experimental data collected under the Curbline Access Test (CAT) and Foot Access Test (FAT) studies. A portion of the resulting access cost pool was then distributed to the subclasses under Single Subclass Stop (SSS) analysis. Under that analysis, stops that receive mail of only one subclass on a given day are identified, and the cost incurred in approaching those stops is attributed to the responsible subclass.

[4036] Similarly, under the established analysis, the "load time" cost pool is disaggregated into volume variable ("elemental") load time and other load time by regressing load time on volumes of mail of the basic types (letter, flat, parcel, accountable, and collection mail). The regression used load time data gathered by a "stop watch" technique administered by data technicians and volume data by type collected during the Load Time Variability (LTV) study. Other load time was considered to vary with changes in the percentage of delivery points that were covered. The cost of this "coverage related load time" was attributed to subclasses according to their share of single subclass deliveries.

[4037] *Description of the Bradley study*. The Postal Service's proposed analysis obtains time and volume data only from the CCSTS sample. The majority of these panel data were collected over 11 contiguous days during the last week of May and the first

week of June, 2002. USPS-T-14 at 31. It is a much larger sample than any of the datasets used in the established analysis. It is a systematic stratified sample of ZIP Codes. It is divided into three strata according to size, gauged by the number of carrier routes each contains. The CCSTS sample is designed to record data for every day on every city carrier route within the sampled ZIP Codes. USPS-T-16 at 8-11.

[4038] Carriers were asked to track all of the time that they spent on the street throughout the day with the use of hand-held scanners. They were asked to mark the beginning and ending of each category of activity by scanning one of 36 different barcodes. USPS-T-15 at 20. Their scans were intended to identify when they were engaged in regular delivery activity on specific route segments (foot/loop/curb/centralized, etc.), and when regular delivery activity was interrupted by special forms of delivery, such as making a special trip to deliver a large parcel. They were also asked to track the time spent traveling between route segments or departing from the regular route to reach special delivery points. In addition, they were asked to track their time spent organizing mail in the truck, and time not related to delivery (lunch, breaks, etc.). *Id.* at 13.

[4039] The CCSTS collected volumes by day and by route, according to handling characteristic. These included letters of three kinds (DPS Letters, Non-DPS Automation Letters, Non-DPS Other Letters), Cased Flats, and Sequenced Mail (mailer-sequenced saturation mail). These are routinely reported by DOIS. Two kinds of parcels (those too large to fit in the mailbox and those that were not) and Accountables (mailpieces requiring customer contact), were counted by hand. Mail collected from the customer's mailbox was measured in feet and inches. *Id.* at 21-22.

[4040] The Postal Service's proposed analysis uses separate regression equations to model the response of "regular" delivery time to volume, and the response of large parcel/accountable delivery time to volume. Witness Bradley argues that route days are a standard length by design, and, therefore, there is too little time variation to yield a successful model at the route level. Accordingly, he fits his proposed model at the ZIP Code level, where route restructuring decisions are made.

[4041] Whereas the established analysis attempts to isolate route time, access time, and load time as basic functions to be analyzed for variability, the Bradley analysis attempts to isolate network travel time from regular delivery time, on the assumption that network travel time does not vary with volume. The Bradley analysis also attempts to isolate time spent exclusively to deliver large parcels and accountables.

[4042] The following diagram summarizes and compares the established analysis and the Bradley analysis in terms of their basic analytic structure.

Table 4-2

Structure and Properties of Alternative City Carrier Cost Analysis

Established Analysis	Bradley Study
Load Access	Large parcel/accountable delivery
Route	Regular delivery segments
Travel	Network Travel
Support	Support
Isolates access, load, and route time	Largely avoids artificial distinctions between access, load, and route time
Single subclass attribution	Attributes only marginal costs
Data collected and/or audited by data technicians	Data self-reported by carriers or supervisors. Not audited at collection stage
Models stop, container, receptacle characteristics	Omits stop, container, receptacle characteristics

Applying the Bradley analysis in place of the established analysis raises test year volume variability of city delivery carrier costs (Segments 6 and 7) from 48.6 percent to 51.5 percent, which increases attributable costs in those segments by approximately

$400 million. It also shifts attributable costs between subclasses. For example, the unit cost of Enhanced Carrier Route mail decreases by 0.37 cents, while the unit cost of First-Class single-piece mail increases by 1.42 cents.

[4043] *Obsolescence*. The various studies that make up the established analysis are built upon the Street Time Sample (STS) study — a one-time study conducted in 1986. It produced a simple profile of carrier street activity, showing the relative proportions of time taken up by various economically meaningful carrier functions. When tallied, carriers reported the activity in which they were engaged. The tally process subsampled what was already a very small sample. At the end of the day, engineers debriefed the carrier on the selections made, which the engineers then translated into functional categories or cost pools, such as "travel time," "runtime" and "load time," for further econometric analysis. *See* PRC Op. R87-1 at ¶¶ 3287-89.

[4044] The profile sketched by the STS sample remains frozen in the 1980s. Since then, the delivery environment has changed substantially. The most important change is the frequency with which the carrier has to take separate, sorted bundles to the street. The widespread adoption of delivery point sequencing of letter mail requires the carrier to take a second letter-shaped bundle to the street. The number of bundles of saturation (mailer-sequenced) mail has also increased. Other important changes are the reduction in the proportion of foot delivery relative to other modes; the location of delivery units at greater distances from the routes they serve; growth of flat-shaped and package-shaped mail relative to letter mail; and the growth of street time as a proportion of total carrier time. USPS-T-30 at 3-4. Since it is 16 years older, the STS sample is much less likely than the CCSTS sample to reflect the current profile of carrier street activity.

[4045] The established analysis splits the STS "runtime" cost pool (time traveling between stops) into an institutional component ("route time") and a volume variable component ("access time"). It does this using the "Foot Access Test" (FAT) and the Curbline Access Test (CAT). These tests were conducted in 1986 and 1989, respectively. They simulate the effect on "runtime" time of stopping at different percentages of possible addresses on real mail routes without delivering real mail.

Through use of a regression model, the portion of runtime that is found to vary as the percentage of addresses visited varies becomes the “access time” cost pool. The established analysis uses Carrier Cost System (CCS) volume data to identify the percentage of addresses visited that receive only one subclass of mail on the sampled days and attributes that percentage of access time to that subclass. Since the CAT and FAT tests do not involve live mail, and the CCS updates stop coverage percentages each year, obsolete data have a relatively minor impact on attributable access cost analysis.

[4046] Under the established analysis, “load time” is the time that a carrier spends at an address taking mail from his bag and depositing it into the customer’s mailbox. The established analysis splits the STS “load time” cost pool into two components for purposes of estimating volume variability. “Elemental” load time is the additional load time at a stop caused by increased volume, given that the stop is already receiving some mail. It is considered fully variable with volume. The load time that remains (“coverage-related” load time) is considered system-level load time (load time that changes as the percentage of possible deliveries receiving mail changes).

[4047] The time data and shape-volume data used in these analyses come from the 1985 LTV study. The established analysis uses the CCS to identify the percentage of possible deliveries to which only one subclass of mail is delivered at the time of sampling and attributes that percentage of the load time cost pool to the subclass that is responsible. Obsolete data are likely to have a more meaningful impact on LTV-based estimates of elemental and coverage-related load time, since they use econometric models that were fit with variables (load time, shape volumes, stop characteristics, container and receptacle types) observed on sampled routes as they existed in 1985.

[4048] *Sample size and design*. The Postal Service argues that the established analysis has numerous weaknesses that go beyond the obsolescence of the data on which its variability models are based. Witness Kelley asserts that because it is a systematic stratified sample, the CCSTS sample design is more efficient and more representative of the delivery network than those used in the established analysis. He criticizes the STS tally-based data, which consists of excerpts of street time activity on

the routes observed. He notes that this adds a second stage of sample error to that which arises from sampling of routes. He also argues that because there were only three tallies per route day, data collection errors were magnified because each tally was so heavily weighted. He regards the CCSTS sample as clearly superior because it records the entire street time for each route/day without subsampling. USPS-T-16 at 14-15.

[4049] Witness Kelley also argues that the CCSTS sample is superior to the STS because of its much larger size. He asserts that the CCSTS data are less vulnerable to non-sample error, since "an incorrect scan sequence by a carrier would only consist of a few minutes of time, which presumably would be lessened by a large amount of time scanned accurately." *Id.* at 16. Where the STS sample consisted of 91 post offices, the CCSTS sample frame had 167 ZIP Codes. Witness Kelley asserts that this decreased first-stage sample error by 26 percent relative to the STS sample. He emphasizes that because the CCSTS sample is larger and records the entire street portion of the route/day, it was expected to capture 15 times as much sampled street time as the STS. *Id.* at 15-16.

[4050] The properties of the CCSTS systematic stratified sample are summarized in Table A at page 18 of Appendix I. With regard to sample error, the precision of the CCSTS relative to the established analysis cannot be readily quantified from the record. The CCSTS sample frame was designed to yield coefficients of variation (CVs) below 10 percent for the "vast majority of the variables of interest" (such as time and volume). USPS-T-16 at 8. Witness Kelley reports that under the final sample frame, the "preponderance" of such variables have estimated CVs under six percent. *Id.* at 13.

[4051] The record does not provide a CV for the STS sample. For that reason, an accurate comparison of the impact of sample error on unit volume variable street time costs associated with these competing analyses cannot be made on this record. Appendix I, ¶ 14, notes that witness Kelly's theoretical sample design was not adhered to in two significant respects, which has the potential effect of introducing bias into the collected datasets, and reducing the efficiency of the sample.

[4052] *Non-sample error*. The only evidence on the record that allows a comparison of the accuracy of the CCSTS data with the accuracy of the data that underlie the established analysis relates to non-sample error. According to witness Stevens, the STS sample consisted of 7,103 total tallies, 7.75 percent of which were "missed" tallies, which witness Stevens interprets as tallies that the debriefing technician could not place in a valid activity category. Tr. 6/1939.

[4053] The carrier had 36 scans to distinguish among — a considerably more complex set of choices than the carrier was given in the STS study. The carrier was instructed not to try to correct scans when a mistake was made, but to choose the correct scan as soon as he became aware of a mistake. No debriefing to fix or change recorded invalid sequences, and no corrections of known errors was attempted prior to uploading the data into the mainframe computer. *Id.* at 1940.

[4054] After reviewing the scan data that it had collected, the Postal Service decided to reinterpret some facially invalid scan sequences as valid, reducing the frequency of rejected scan pairs. *Id.* at 1980-81. [Postal Service Response to Presiding Officer's Information Request No. 9, Question 5.] This resulted in an overall error rate for scan pairs of 6.9 percent, which accounted for 9.7 percent of utilized scan time. The Postal Service argues that this percentage compares favorably to the STS rate of non-sample error of 7.75 percent. *Id.* at 1939. Based on these measures, the CCSTS does not clearly improve on the STS data in terms of non-sample error.

[4055] Witness Bradley excludes this error time from the measurement of delivery times used to estimate delivery time variability. Doing so might be appropriate if erroneous time observations were not correlated with the variables that he uses to explain delivery time. Unfortunately, this is not the case. Appendix I, Table I-5 shows that the non-attributed time resulting from erroneous CCSTS scans is significantly correlated with all of the shape/volume variables in witness Bradley's regular delivery variability model. Correlation between the errors and explanatory variables may cause the estimated coefficients of those variables to be biased.

[4056] A potentially more serious problem arises from the manner in which the Postal Service treats invalid scan time in forming pools of accrued street time costs. Rather than omit time associated with invalid scan sequences, it distributes that time to cost pools in proportion to time associated with valid scan sequences. This “piggyback” approach assumes that invalid scan time is proportional to valid scan time. Tr. 6/1922-23.

[4057] A proportionality assumption in this context is strained. Interpreting CCSTS scans is difficult, as evidenced by the fact that in addition to the approximately 10 percent of scanned time that could not be assigned to cost pools, judgmental “decision rules” were needed to assigned another 18 percent. In order to assume that invalid scans are proportional to valid scans, one must assume that the carrier is equally likely to misinterpret each of the many scan pairs with which he was confronted. This seems unlikely.

[4058] The “piggyback” calculation is presented in USPS-LR-K-79. Step 1 shows that parcel/accountable delivery time, including the time spent “deviating” to make such deliveries, is 4.37 percent of the total. When the Postal Service tabulated the 10 scan pairs that generated the most invalid time, however, it can be seen that invalid time involving parcels and accountables constituted 39 percent of that time. Tr. 6/1878-79. This suggests that scan pairs involving parcel and accountable delivery were much more likely to be misinterpreted or misapplied by the carrier than other scan pairs. If so, the parcel/accountable accrued cost pool would be misestimated, and therefore, the attributable cost of delivering parcel and accountables would be misestimated. This aspect of the CCSTS data warrants further investigation.

[4059] The Commission’s concern about the non-sample error in the CCSTS data goes beyond the incidence of obviously invalid scan pairs. Examination of the data shows that they suffer from a wide range of apparent anomalies. For example, there are a number of instances where all of the time reported on a route is invalid. There are also numerous instances suggesting matching errors, where positive time is reported but there is no reported volume, and others where there is reported volume with no

associated time. These instances were particularly frequent in the large parcel/accountable data. These and other apparent anomalies are displayed in Appendix I, Tables II-III.

[4060] As discussed in Appendix I, where there are obvious anomalies of many kinds observable in the data, it implies that there are basic flaws in the way that the data are being collected and reported, and that erroneous data — both obvious and non-obvious — are common in the dataset. Although the Commission prefers to use the results of witness Bradley's variability analysis because they are the only results that reflect the current street delivery environment, the potential bias of those results arising from non-sample error remains a significant concern of the Commission.

[4061] *Fragmentation and inconsistent variable definitions*. The Postal Service contends that a major weakness of the established analysis is that it is fragmented. Witness Bradley comments, at USPS-T14-7-8:

> Carrier street time is analyzed through a series of special studies, on data taken at different times, under different measurement systems. To calculate volume variable city carrier street time, the Postal Service must rely upon, jointly, the results of the Street Time Sampling Study, the Load Time Variability Study, the Curbline Access Test/Foot Access Test study and the Access Variability Study. Most of these individual studies look at only a single, limited aspect of carrier street activity.
>
> The Street Time Sampling Study attempted to identify time proportions for a carrier's total street time, but the other studies looked at only small, perhaps arbitrary, sections of carrier time.

[4062] Witness Bradley says this fragmented approach fails to capture system level effects. He specifically criticizes the LTV study as capable only of measuring the effect of volume on load time at a covered stop, and not the propensity of volume to effect load time as it changes the number of covered stops. He also says that by focusing on stop-level and route-level affects, the established analysis cannot capture the Postal Service's "primary mechanism for adjusting street time to sustained increases or decreases in volume" which he asserts is through route restructuring to achieve a

standard length of time per route. He asserts that this effect appears only above the route level. *Id.* at 9.

[4063] Witness Bradley contends that the established analysis imposes artificial conceptual boundaries on "a fluid, ongoing delivery process," which has led to measurement difficulties and internal inconsistencies. He cites the separation of delivery activity into "access time" (the time the carrier spends approaching a specific address) and "load time" (the time he spends identifying and depositing mail at the address). He complains that in practice, a carrier blends these functions, identifying and separating mail for deposit while he approaches an address. *Ibid.*

[4064] Bradley argues that the artificiality of these distinctions makes these activities difficult to measure. As evidence, he points to the different estimates of accrued load time implied by the STS and the LTV studies. *Id.* at 10. He makes a similar criticism of the CAT/FAT studies, which, he contends, try to distinguish between "route time" (a geographically determined minimum length of travel that must be walked or driven to serve a route) and "access time" (the time required to approach a specific address). Witness Bradley asserts that, in practice, a carrier blends these functions, as he adapts his travel to the day's volume. He also criticizes as artificial the CAT/FAT experiments, in which carriers were timed covering a route visiting different patterns of stops, but carrying no mail. *Ibid*. He asserts that established analysis of access time variability is not able to isolate the access time required for different kinds of mail such as large parcels and accountables that can require retracing of the route. *Id.* at 11.

[4065] The Commission agrees that the dependence of the established analysis on separate STS, CAT/FAT and LTV samples, which were all collected at different times using different sample frames and sampling methods, is a source of imprecision in its variable street time estimates that the CCSTS data does not share. Witness Bradley correctly observes that integrating the results of these studies that employ data and variable definitions that are not entirely compatible makes it difficult to econometrically model street time variability. The comprehensive nature of the CCSTS dataset, and the generally consistent definition of its major variables, give the Bradley study an advantage

over the established analysis. This supports the Commission's conclusion that it is likely to more accurately reflect current street time variability.

[4066] *System-level models and route restructuring*. Witness Bradley asserts that only his study captures system-level responses of street time to sustained changes in volume. The validity of this assertion is not obvious, based on this record. In forming functional pools of accrued cost, the established analysis collects comprehensive information about the delivery system's accrued street time. It then attempts to measure the effect of volume growth on time at the stop, as well as the effect of volume growth on the number of covered stops and covered deliveries. If one were to assume that the primary sustained response of the delivery network to volume changes is change in the number of routes per ZIP Code, it could be argued that the mechanism by which added or deleted routes affect time spent on the street is through the extra stops and deliveries that have been assigned to them, and changes in the average time per stop or delivery. Arguably, these effects could be captured by models that focus on stops and deliveries.

[4067] The OCA argues that the Bradley study is handicapped by its inability to capture sustained responses of street time to sustained changes in volume because it is based on time and volume data that covers only 11 consecutive days in a single year (2002). The OCA also argues that to capture the effects of route and network optimization under recurring cyclical and seasonal conditions it is necessary to have panel data that covers approximately the period of time over which rates will be in effect. OCA Brief at 66-68. According to witness Bradley, all effects may be assumed to be reflected in the relationships of volume and time that are observed across ZIP Codes in the CCSTS data. Therefore, it may be assumed that route optimization has been captured by his ZIP-level variability models. Response of Postal Service Witness Bradley to Oral Question from the Bench, July 15, 2005, at 4-5.

[4068] Witness Bradley's assumption that his ZIP-level model captures the effects of route restructuring is problematic. Nothing in his model specification explicitly recognizes or measures this phenomenon, and the presence of substantial route-level errors undermines the ability of a ZIP-level model to implicitly account for restructuring.

[4069] As defined, the model variables were to be made up of observations made every day for a contiguous 11-day period taken from every route within a sampled ZIP Code. Appendix I, Table I-IV, shows that 45 percent of the sampled ZIP Codes contained routes that were missing one or more of the route/days so defined. The day-to-day fluctuations in the time and volume variables on given routes due to reporting omissions are interpreted by witness Bradley's ZIP-level model as fluctuations in the ZIP Code level variables. OCA Brief at 67. Blending of these effects creates the danger that whatever route restructuring effect might be reflected in the cross-sectional dimension of the data, it cannot be distinguished from the effects of scale and/or the effects of fluctuations in the reporting of data. *See* Appendix I, section 7.c..

[4070] Witness Bradley's theoretical justification for seeking to model the effects of changes in volume only at the ZIP Code level is that routes are actively managed to conform to a standard eight-hour workday, and will be restructured if the route varies significantly from that on a sustained basis. Because of this management policy, he asserts, there is little variation in time to be observed in response to changes in volume at the route level. USPS-T-14 at 25-26.

[4071] The CCSTS data, however, do not entirely suppport witness Bradley's theory. Examination of the data shows that the coefficient of variation for regular and parcel/accountable delivery time collected by the CCSTS is high (47 percent) at the route level. Another indication of how much time varies at the route level is that on more than one-fourth of the routes sampled, the standard deviation of street time from the route mean was 1.5 hours or more. *See*, Appendix I, section 7.d. This far exceeds the threshold variance that should precipitate restructuring the route under the management policy described by witness Bradley. *See*, threshold time variance that establishes a carrier's right to have his route re-evaluated in *City Delivery Carriers Duties and Responsibilities*, Handbook M-41, United States Postal Service, March 1, 1998, section 918.1g. Having such a large proportion of routes out of adjustment suggests that route volumes can be far from optimal in the short run and that there must be more to delivery unit work load balancing than restructuring routes. Perhaps there is more reliance on

permanent handoffs, or on adjusting the number of routers, unassigned regular carriers (“floaters"), and part-time carriers than witness Bradley assumes.

[4072] *Econometric techniques*. Witness Bradley criticizes the econometric techniques used in the established street time analysis, validly noting that modeling volume variability is made difficult by its small datasets and reliance on variables that are difficult to measure. The econometrics that witness Bradley uses, however, also raise questions that bear further examination.

[4073] His regular delivery model seeks to measure the response of the regular delivery time pool to variations in the volume of letters, flats, sequenced mail, collection mail and small parcels. For reasons discussed earlier, all of these variables are measured at the ZIP Code level. To capture the influence of network characteristics, witness Bradley includes the number of delivery points, and the number of deliveries per square mile in the ZIP Code, as explanatory variables. USPS-T-14 at 25-27. Witness Bradley's large parcels/accountables model is similar, but does not include the number of deliveries per square mile as an explanatory variable. (He assumes that carriers are already near the appropriate delivery point when they make an additional approach and/or deposit exclusively to deliver these items, making it unnecessary to measure geographic density.) *Id.* at 27-28.

[4074] Witness Bradley tested several variations of his variability model. Most of the results are summarized in the table below.

Table 4-3

Results of Testing Plausible Variations in Postal Service's Proposed Model							
		Col 1	Col 2	Col 3	Col 4	Col 5	Col 6
		Proposed	Proposed w/ Interaction Terms	Proposed w/ Interaction Terms Except Small Parcels	Route Level	Fixed Effects	DPS Bundle
Letters	Variability	22.3%	22.6%	23.3%	2.9%	5.4%	6.9%
	Marginal Secs	1.4	1.5	1.5	0.2	0.3	1.3
Flats	Variability	7.1%	11.4%	11.1%	-3.5%	4.3%	6.6%
	Marginal Secs	1.4	2.3	2.2	-0.7	0.7	1.3
Sequenced Mail	Variability	1.3%	0.7%	0.8%	1.6%	1.5%	1.2%
	Marginal Secs	0.8	0.5	0.5	1.1	0.7	0.8
Collection Mail	Variability	8.8%	4.7%	5.1%	0.2%	2.0%	8.6%
	Marginal Secs	4.0	2.2	2.3	0.1	0.7	3.8
Small Parcels	Variability	1.6%	-2.0%	0.5%	3.3%	0.8%	0.3%
	Marginal Secs	9.6	-12.3	2.9	20.5	3.7	2.0
DPS'd Mail	Variability						20.7%
	Marginal Secs						1.9
Note 1: Variability estimates in Column 3 from Tr. 6/2264. All other variability estimates are found in USPS-T-14.							
Note 2: Marginal seconds estimates in Columns 2 and 3 are found in PRC-LR-14, "Additional Marginal Time.xls." Marginal seconds estimates for the remaining columns from Tr. 6/2220-24.							

[4075] One of the model variations that witness Bradley tested was a pooled model with a general quadratic functional form for his regression of time on volumes. The pooled model reflects the effects of the cross-sectional and the time dimension of the panel data in a neutral way. The full quadratic form included squared terms and interaction terms for all of his explanatory variables. The results of applying the full quadratic model are displayed in column 2 of the table. Estimating the full quadratic model revealed heteroscedasticity in the errors. Witness Bradley used a

heteroskedasticity-compensated variance/covariance matrix to calculate t-values and other statistics for testing the statistical significance of his estimates.

[4076] Estimating the full quadratic model also revealed serious multicollinearity (correlation of the explanatory variables). One apparent consequence of multicollinearity is the negative coefficient this model estimated for small parcels. Witness Bradley attributes the multicollinearity that he detects to the wide range of ZIP Code sizes in the sample, and the expected close correlation of ZIP Code volume with ZIP Code size. USPS-T-14 at 36. Since multicollinearity yields imprecisely estimated coefficients, witness Bradley takes steps to mitigate it. This is usually attempted, witness Bradley explains, by removing variables that are not necessary to maintain the integrity of the model, but reduce multicollinearity. USPS-T-14 at 37.

[4077] He asserts that the higher order cross-product terms are the "natural" candidates, because removing them would allow the shape/volume variables to remain in the model and preserve its quadratic form. He estimates his model without any cross-product terms. The results are displayed in column 1 of Table 4-3. He finds that removing all cross-product terms eliminates the negative variability estimated for small parcels, and otherwise leaves the estimated shape/volume variabilities little changed. He is satisfied that these results are generally consistent with the variability results obtained from the established analysis, and with operational expectations. *Id.* at 38-40. Ultimately, he proposes that the Commission use this model to estimate the volume variability of regular delivery time costs. He concludes that it is not necessary to remove cross-product terms from the quadratic parcel/accountable model, since it exhibits less multicollinearity. *Id.* at 42.

[4078] As Appendix I, section 7.d. explains, removing all cross-product terms regardless of their statistical or theoretical significance is a step that risks the integrity of the model. The set of cross-product terms that witness Bradley removes from his model is statistically significant as a group. *See* Tr. 6/2263. Witness Bradley acknowledges that they are correlated with the explanatory terms that remain in his model, and that their removal biases the coefficients of the remaining terms. Tr. 6/2258-62. The gain in

precision from removing all interaction terms from his model, however, did not appear to solve the multicollinearity problem, since the coefficients of three out of the five shape/variables in his proposed model still are not statistically different from zero. *See* Appendix I, Table I-4.

[4079] A potentially more effective approach would have been to examine the Variance Inflation Factor values displayed in Table 4 of witness Bradley's testimony, to determine which terms are most highly correlated, to selectively remove them, and to test the improvement in multicollinearity. USPS-T-14 at 37. As an illustration of what might be done along these lines, the Commission asked witness Bradley to estimate the proposed model with only the cross-products that involve small parcels removed. The result is displayed in column 3 of Table 4-3. This reduced multicollinearity and had the added benefit of changing the coefficient for small parcel variability from negative to positive. *Id.* at 40; *see also* Tr. 6/2263. A more thorough and systematic testing of candidate terms for elimination might have reduced multicollinearity while minimizing the introduction of bias.

[4080] Witness Bradley investigates the properties of other models of delivery time variability. A fixed effects estimator sweeps out differences across routes to focus on effects observable within a given route across a series of days. According to witness Bradley, using a fixed effects estimator is appropriate when there are "location-specific omitted effects that could be influencing the estimated coefficients." USPS-T-14 at 44. The results of applying a fixed effects estimator to the regular delivery model are summarized in column 5 of Table 4-3.

[4081] The fixed effects estimator yields dramatically lower estimates of variability and of marginal time than the variants of the pooled model summarized in columns 1, 2, and 3 of the table. The fixed effects estimator predicts that a 50 percent increase in regular volumes delivered on city routes would increase carrier street time by only 7 percent. Tr. 6/2241. Witness Bradley speculates that this result may reflect absorption of temporary volume fluctuations from day to day at the route level. He rejects these results as unrealistic.

[4082] Witness Bradley also investigates a pooled quadratic model that is estimated using route/day observations without aggregating them up to ZIP/day observations. This greatly increases the available observations from 1,545 to 30,087. The results are displayed in column 4 of Table 4-3. Despite the wealth of data, the equation results in an extremely poor fit, with an R-square of only 0.0617. USPS-T-14 at 46. The estimated variabilities are even lower than the results obtained using the fixed effects estimator. They show almost no relationship between the time on the route and the volume of mail delivered. Witness Bradley asserts that these results

> reflect the fact that routes are adjusted to the standard carrier day. When a route receives too much volume, its number of delivery points is reduced. Thus, it is possible to observe routes with large and small volumes but roughly the same amount of street time.

Id. at 47.

[4083] The last column on Table 4-3 shows the results of estimating the variability of delivery time separately for DPS letters and cased letters. The results are generally consistent with witness Bradley's proposed model, except that this results in a five-fold reduction in the variability and the marginal delivery time for small parcels. Witness Bradley rejects it, apparently for that reason. *Id.* at 48.

[4084] Witness Bradley also estimates the quadratic model on cross-sectional data alone. This reduces the observations greatly (from 1,545 to 145). The result is an increase in multicollinearity and loss of precision in estimated coefficients of the explanatory variables. Witness Bradley rejects the cross-sectional model for that reason. *Id.* at 49.

[4085] *Are the study results reasonable, robust, and stable?* In arguing for the adoption of his proposed model in place of the established analysis, witness Bradley emphasizes his belief that the estimates that result are reasonable from an operational standpoint, and stable and robust for the various alternative models that he estimates.

Tr. 6/2223-24. This conclusion may be overstated. The results summarized in Table 4-3 provide several grounds for concern.

[4086] The variability and the resulting unit marginal delivery times estimated for the shape/variables used in witness Bradley's alternative models are neither as stable nor as robust as the Commission would expect to see if it were a mature and thoroughly vetted variability analysis. For example, using a fixed effects estimator dramatically reduces the variabilities estimated by the proposed model. Witness Bradley speculates that this reflects "a short run absorption of temporary changes in volume" over the 11-day data collection period. *Id.* at 45. The variabilities drop even more drastically in the route level model. Witness Bradley asserts that this reflects the fact that the number of delivery points in each route are adjusted to produce a standard carrier day. *Id.* at 47. Presumably, this is the same longer-run response that witness Bradley asserts is the main source of variability reflected in his ZIP-level model.

[4087] The CCSTS data, however, do not seem to support witness Bradley's explanations of the dramatically lower variabilities obtained by the fixed effects and the route-level variants of the preferred model. As noted, he explains that street time on a given route is standardized in the short run due to absorption of volume fluctuations, and in the long run due to adjustments to the number of delivery points per route. The data show there is ample variability of both street time and volume on the route level to be captured by an appropriate model. A quarter of all sampled routes have standard deviations of street time of at least 1.5 hours — indicating that they are out of adjustment by management standards. In addition, the ratio of the standard deviation of street time to the standard deviation of volume on the route level is 3.6 to 1. (The ratio at the ZIP Code level is only slightly higher at 4.2 to 1.) *See* Appendix I, section 7.d. Rather than volume fluctuations at the route level being absorbed in the short run or adjusted away in the long run, the data indicate that delivery time varies far more widely than volume, and their relative variabilities are approximately the same at the route and the ZIP level. That witness Bradley's proposed model fails almost entirely to either reflect or explain this

route-level variation implies either that the CCSTS data are not accurate, or the proposed model is misspecified.

[4088] The unstable relationships among shape variabilities displayed in the table are troubling, as are the unstable relationships among shape marginal delivery times. The estimates for a given shape can vary widely across the alternative model specifications shown. Estimated marginal delivery times for small parcels, for example, range from 20.5 seconds for the route level model to a negative 12.3 seconds for the full quadratic model. The marginal delivery times for collection mail move in the opposite direction, going from 0.1 seconds in the route level model, to 2.2 seconds in the full quadratic model. Estimates for the major shapes are unstable as well. Marginal delivery time for letters and for flats are both 1.4 seconds in the proposed model. In most of the alternatives, they differ substantially. The relative difference is greatest in the route level model, where the marginal time for letters is 0.2 seconds, while the marginal time for flats is a negative 0.7 seconds.

[4089] Multicollinearity may have much to do with these unreasonable and unstable results in the variants of witness Bradley's proposed model. As noted above, it remains a serious problem, even after the remedial steps taken by witness Bradley to produce his proposed regular delivery model. This should not be surprising, given that the model seeks to explain the behavior of delivery time in response to five shape/volume variables that are closely related. These variables are products or product groups that respond in very similar ways to market and demographic influences. Because they tend to move in tandem, it is difficult to statistically distinguish the impact of one of these variables on delivery time from the impact of the others.[39]

[4090] It may be that estimating a model of the variability of aggregate delivered volume warrants further investigation as an alternative approach that might yield more robust results. For example, witness Bradley estimates a translog model that combines

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[39] *See* Wooldridge, Jeffrey M., *Introductory Econometrics*, 3d. ed, Southwestern College, 2005, at 104.

the shape/variables used in his regular delivery models into one volume variable. Remaining explanatory variables are delivery points and density. His translog model yields an aggregate volume variability of 34 percent, somewhat below the aggregate volume variability of 41 percent that he obtains from his proposed regular delivery model. *See* USPS-T-14 at 55. His translog model yields sensible coefficients with the expected signs. *Id.* at 56. When aggregate variability is estimated, multicollinearity is no longer strong enough to undermine the statistical significance of the variability estimate. Therefore, removing variables, with the concomitant introduction of bias, is not needed. The drawback of this approach, of course, is that the variability of particular mail shapes cannot be distinguished from one another. Further work needs to be done with respect to both data quality and model specification in order to achieve a robust and economically meaningful estimate of carrier street time variability that is consistent with operational experience.

[4091] The Commission is gratified that the Postal Service has reviewed its approach to carrier street time variability analysis from the “ground up” and collected new data on carrier street time activity that are designed to support improved econometric modeling of that variability. It urges the Postal Service to continue its analytical work to improve the quality of the data gathered, and to explore additional econometric models that will yield more robust results.

D. Purchased Air Transportation Costs

[4092] In Docket No. R2001-1, purchased air transportation costs were assumed to be 100 percent volume variable, and therefore 100 percent attributable to the subclasses carried by air. In Quarter 2 of FY 2002, the Postal Service, without notice to the Commission or the public, began attributing less than 100 percent of the costs associated with the Day-Turn portion of the FedEx purchased transportation contract. The change was apparently intended to reflect a change in the FedEx contract that introduced declining block rates for transportation purchased by the Postal Service.

[4093] Witness Bradley provides the theoretical basis for calculating the volume variability of declining block contract rates. USPS-T-31 at 15-18. The Postal Service calculates volume variability by multiplying the charge applicable to the last schedule block (marginal cost) times average daily volume, and then dividing by the total cost for transporting the entire average daily volume based on the declining rate schedule. The resulting test year variability of these costs is estimated to be approximately 75 percent. Witness Nash explains that the variability calculation takes into account any changes in rates that may be due to new addenda, or to scheduled annual increases in contract rates. USPS-T-17 at 3 (protected).

[4094] The Commission's estimate of purchased air transportation costs has not incorporated the Postal Service's proposal to base attribution of these costs on the declining block rate structure introduced into the FedEx contract. The proposed analysis might be viewed as a change that reflects new operational/legal circumstances in a relatively straightforward way. However, neither the method of calculating variability nor the method of distributing variable costs has been litigated. There is, for example, a significant unlitigated issue as to how to properly treat the remaining 25 percent of purchased air transportation costs that are not estimated to be volume variable. The Postal Service proposes that these costs be treated as institutional. Priority Mail and First-Class Mail, however, are the only subclasses of mail with significant volumes transported under the Day-Turn portion of the FedEx contract, and it appears that the

contract exists for the purpose of transporting those two classes. Thus, it may be that the treatment applied in the past to costs in the dedicated air networks may be appropriate. *See* PRC Op. R2000-1, ¶ 3304 *et seq*. Whether costs incurred for the benefit of essentially only two subclasses of mail should be borne by the network as a whole is an issue that warrants prior review in an actively litigated proceeding. In light of these circumstances, the Commission chooses to employ the cost allocation method for purchased air transportation used in Docket No. R2000-1, the most recent case in which attribution issues were resolved.

E. Mail Processing Costs

[4095] The Commission's approach to analyzing the variability of mail processing labor costs is based on the conceptual premise that the Postal Service consistently embraced prior to Docket No. R97-1 that the need for mail processing labor within a rate cycle is essentially a piece-, bundle-, or container-driven activity without significant economies of scale or scope, and is therefore approximately 100 percent variable with volume. This conceptual premise is rooted in operational experience, but is difficult to verify empirically without reliable data.

[4096] Beginning in Docket No. R97-1, and continuing through this docket, the Postal Service has submitted a number of iterations of essentially the same econometric model based on MODS data on hours worked and piece handlings observed at the level of individual mail processing operations in its major processing centers. The resulting econometric estimates of the volume variability of labor have been substantially below 100 percent. In the Commission's view, this is an unrealistic result that is influenced significantly by the use of MODS data of suspect quality.

[4097] In this docket, Postal Service witness Bozzo has estimated a model with several important improvements over the models offered in previous dockets, all of which were rejected by the Commission. For the first time, witness Bozzo recognizes the likelihood of a significant attenuation bias in his variability estimates, at least for manual letter and flat sorting operations, due to errors in the piece-handling data on which his estimates are based. For these operations, witness Bozzo uses an "instrumental variables" approach to mitigating this downward bias, which increases his estimated variablilities for these operations dramatically to nearly 100 percent. This result appears to validate the Commission's concern that erroneous MODS data have a significant downward impact on variability estimates for mail processing generally.

[4098] Nevertheless, the Commission's prior identification of other disqualifying defects and unresolved issues with respect to MODS datasets and the previous

iterations of the Bozzo/Bradley mail processing models appear to be largely unaffected by the changes that witness Bozzo makes to his model in this docket.

[4099] The Commission does not reach the merits of the new mail processing variability analysis presented in this docket by the Postal Service. For reasons discussed in Section A, above, the established mail processing variability analysis is governing precedent. There are no special circumstances comparable to those that apply to city delivery carrier cost attribution, in which the established analysis is tied to grossly obsolete and unrepresentative data, and a study based on current data is available to replace it. However, In Appendix I, the Commission identifies properties of the MODS datasets used by witness Bozzo in this docket, and their implications for econometric modeling that the Commission believes warrant further research and review prior to the next general omnibus rate filing.

F. Window Service Costs

[4100] The Postal Service identifies a computational error that affects the attribution of window service costs in the "B" workpapers submitted by witness Meehan. *See* USPS-LR-K-5, Base C/S 3 - CLERKS & MAILHANDLERS-CAGS A-J, CSO3.xls, w/s 3.2.1, WINDOW SERVICE VVC. Witness Bradley presents the correction in USPS-T-31 at 19-36. According to the established methodology, accrued waiting time costs should be distributed to acceptance and other window activities in proportion to the accrued costs of those activities. In the spreadsheets, however, some window activities, such as stamp sales, did not receive their proportion of waiting time costs. Witness Bradley corrects this error. Once accrued waiting time costs are correctly distributed to the various window activities, the portion that is attributable, and the distribution of that attributable portion to subclasses, follows the pattern of attribution and distribution already determined for the various individual window activities.

[4101] This correction conforms the attribution of waiting time costs to that which the established method intended, but failed to do. The intended method is described in the Postal Service's "Summary Description of USPS Development of Costs by Segments and Components, FY 2004" in USPS-LR-K-1 at 3-3. Because this correction conforms the method applied to the method described in USPS-LR-K-1, it is consistent with precedent. Accordingly, it is incorporated into the Commission's method of estimating base year attributable costs.

G. Space-Related Costs

[4102] The Postal Service introduces a FY1999 facility space usage study in this rate case to assist in the calculation of attributable costs for rents, fuels, utilities and other space-related costs that vary with area. *See* USPS-LR-K-62. Data are collected on square footage allotted for each Postal Service operation and function. The FY1999 study was conducted to update the FY 1992 version, which was used before the advent of MODs cost pools. USPS-T-13 at 11. Seven hundred forty one facilities out of the approximately 35,000 Postal Service facilities were surveyed, based on a scientific sample that was stratified by size. USPS-LR-K-62 at III-12, USPS-T-13 at 11, 13. The square footage data from FY 1999 were updated to BY 2004, based on known changes in space utilization, and then to TY 2006, based on expected changes in space utilization in the test year.

[4103] The updates are consistent with established attribution principles and appear to be reasonable. For this reason, the Commission makes use of the FY 1999 facility space usage study in the same manner that the Postal Service has applied it.

V. PRICING

A. The Across-the-Board Proposal

[5001] This 13th omnibus rate proceeding is unusual in many respects. This backdrop has had a substantial bearing on the Commission's consideration of the issues presented. Among these features are: the limited nature of the request, the policy reasons supporting it, the proposed across-the-board increase, the pre-filing meetings with mailers and others designed to achieve consensus for the Postal Service's rate filing, the likely interim duration of the proposed rates, and the filing of a near unanimous settlement agreement.

[5002] In three prior dockets, R74-1, R94-1, and R2001-1, the Commission has had occasion to consider rate settlements. While each is distinguishable from the instant settlement by its circumstances, the Commission's review of each was, as it is in every proceeding, guided by the policies and ratemaking criteria of the Postal Reorganization Act. 39 U.S.C. §§ 101 *et seq.* The Commission's review of the instant settlement likewise adheres to that standard.

[5003] An overarching requirement of the Act is the breakeven constraint imposed on the Postal Service. "Postal rates and fees shall provide sufficient revenues so that the total estimated income and appropriations to the Postal Service will equal as nearly as practicable [its] total estimated costs …." 39 U.S.C. § 3621. Section 3621 also instructs that "rates and fees shall be reasonable and equitable …."

[5004] To change rates and fees, the Postal Service is required to request a recommended decision from the Commission if it determines that "such changes would be in the public interest and in accordance with the policies of [the Act]." 39 U.S.C. § 3622(a). Those policies include, among others, the principle that "rates shall be established to apportion the costs of all postal operations to all users of the mail on a fair

and equitable basis." 39 U.S.C. § 101(d); *see also* 39 U.S.C. § 403(c) (no undue or unreasonable discrimination among users of the mails).

1. The Postal Service's Rate Filing

[5005] Postmaster General Potter explains that the impetus behind the Postal Service's rate filing is the "currently unavoidable financial obligation in Fiscal Year 2006" imposed on the Postal Service by Pub. L. 108-18, the Postal Civil Service Retirement System Funding Reform Act of 2003, 117 Stat. 624 (April 23, 2003). USPS-T-1 at 2; *see also* USPS-T-6 (Tayman) at 5 ("[W]ere it not for the escrow funding requirement imposed by Pub. L. 108-18 beginning in FY 2006, there would be no need to request an increase in postal rates at this time.") Underscoring the narrow basis of the Postal Service's filing, witness Potter indicates that: (a) if the escrow obligation did not exist, the Postal Service would not have filed the instant rate request; USPS-T-1 at 7; (b) if legislation were enacted relieving the Postal Service of the escrow obligation before the Commission issues its recommended decision, the Postal Service would withdraw its request; *ibid.;* (c) if such legislation were enacted without limitations placed on the Postal Service after the Commission issues its recommended decision approving the Postal Service's request, the Postmaster General would recommend to the Governors that they not implement the rate changes; Tr. 1/57; and (d) if the escrow amount had been different, the Postal Service would have proposed proportionally larger or smaller rate and fee changes. USPS-T-1 at 5, n.1.

[5006] Having decided to request a change in rates and fees to meet the FY 2006 financial obligation imposed on the Postal Service by Pub. L. 108-18, the Board of Governors directed the Postal Service to request an across-the-board 5.4 percent increase in rates and fees. Witness Potter provides the policy rationale for this pricing approach, with additional support provided by witness Robinson, who presents proposed rate and fee levels described in terms of cost coverage. USPS-T-27 at 2, 4-9. Witness Taufique provides the proposed rates and fees. *See* USPS-T-28.[40]

[5007] Witness Potter characterizes the Postal Service's rate request as unique because of the obligation fixed on it by statute. Pub. L. 108-18 obligates the Postal Service to fund the approximate $3.1 billion escrow amount in FY 2006. Although Pub. L. 108-18 identifies that obligation as an operating expense, the Postal Service is precluded from expending or committing those funds. USPS-T-1 at 4. The funds associated with the escrow amount are not volume variable; thus, they are "not causally related to any postal product or service to be offered in the test year." USPS-T-13 at 8. Pub. L. 108-18 does not provide a purpose for the escrow funds, a situation that may be remedied only by future legislation. *Ibid. See also* USPS-T-1 at 2-4; and USPS-T-6 at 11-12.

[5008] Under these circumstances, the Postal Service considered the escrow obligation as "fixed on the entire postal system." USPS-T-1 at 5. Concluding that "this factor should be a controlling consideration" underlying its rate request, the Postal Service embraced the across-the-board approach as most reasonable because, among other things, it would increase rates uniformly thereby maintaining pre-existing rate relationships and enhance the prospect of settlement. *Id*. at 5-6; USPS-T-27 at 21-22.

[5009] The Postal Service hoped that the across-the-board approach would encourage the possibility of settlement among the usually fractious participants. This fit with its hope that early resolution of this proceeding would lead to early implementation of the new rates so that a relatively small percentage increase would produce sufficient revenues in 2006 to substantially cover its escrow obligation. Postal Service Brief at II-1-3.

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[40] Witnesses Robinson and Taufique note the exceptions to the across-the-board approach required by statute or due to rounding conventions. As to the former, the Postal Service proposes to increase fees for Registered Mail by approximately 70 percent to comply with section 3622(b)(3) (attributable cost floor) and to decrease the rates for Within County Publications by 5.4 percent to comply with section 3626(a)(3) (markup 50 percent of that for Outside County Publications). The use of rounding conventions, *e.g.*, rounding Priority Mail rates to the nearest nickel increment, and other relatively minor adjustments also resulted in exceptions to the 5.4 percent across-the-board approach. *See* USPS-T-27 at 2-3 and USPS-T-28 at 2-3. The Periodicals Application Re-Entry Fee increased by 12.5 percent to cover attributable costs and due to the five dollar rounding constraint. USPS-T-27 at 16, n.8.

2. Valpak's Opposition to Across-the-Board Pricing

[5010] Valpak, through the testimony of witness Mitchell, (VP-T-1; Tr. 9/5264 *et seq*.) argues that the across-the-board approach should be rejected and that in its place the Commission should employ a more conventional approach, which Valpak proposes should include no increase for Enhanced Carrier Route (ECR), the subclass of mail it uses. Valpak Brief at II-1 *et seq.* Valpak disputes that the predicate for the Postal Service's request, Pub. L. 108-18, justifies an across-the-board approach, arguing that the test year deficit cannot be ascribed to the FY 2006 escrow payment. *Id.* at II-2-3. Further, it contends that because Pub. L. 108-18 labels the escrow obligation as an "operating expense," it should be recovered like any other operating expense incurred by the Postal Service, which is to say, without according it unique status. *Id.* at II-4-8. Valpak challenges the proposed rates as not being cost based and argues that, if adopted, they are likely to hamper the development of future rates. It contends that settlement is not a preferable outcome to cost based rates. *Id.* at II-9-16.

3. Commission's Analysis

[5011] The Commission's decision to accept the across-the-board pricing approach in this case is based on numerous considerations, but ultimately rests on the finding that, under the circumstances, the recommended rates satisfy the policies and criteria of the Act. The considerations that influenced the Commission's decision are discussed below.

[5012] *Unusual circumstances.* Plainly, this rate request is atypical. As a general matter, a decision to request a change in rates may be driven by changes in operating costs caused by, for example, inflation, technological change, capital requirements, or some combination of factors. The request in this proceeding has none of those trappings. The sole impetus for this request, as Postmaster General Potter and others have testified, is to fund the approximate $3.1 billion FY 2006 escrow obligation imposed on the Postal Service by Pub. L. 108-18. But for this expense, the Postal Service would

not have filed its request; it would have withdrawn it if legislation had been enacted eliminating the obligation before the Commission issued its decision; or, at the Postmaster General's urging, not implement it if legislation is passed subsequent to the Commission's decision.

[5013] The possibility that such legislation may be enacted was not idle speculation, either when the Postal Service prepared its filing or during settlement negotiations. Congress did then and continues to actively consider legislation affecting the Postal Service, including its escrow obligation.

[5014] Further distinguishing this case from a typical omnibus rate proceeding, this case is devoid of any proposed classification changes and, more notably, excludes a contingency provision. The absence of the latter supports the rationale underlying the Request, namely that it is triggered by the statutory obligation. Under these circumstances, a contingency is not needed because the filing seeks only to recover a known amount in the test year. *See* GCA Brief at 12-13.

[5015] As witness Tayman notes, "The escrow is a legislated expense, over which management has no control, and provides no economic benefit to the Postal Service." USPS-T-6 at 12. The funds can be neither expended nor obligated by the Postal Service. The escrow represents a fixed obligation, unrelated to any postal operations. These features distinguish it from other postal-related institutional costs in that it makes no contribution to the Postal Service's operations. In short, the funds represent an anomalous expense or, as one party put it, "a unique external financial imposition on the Service." APWU Brief at 3.

[5016] Valpak challenges the premise for the Postal Service's filing as invalid. It argues that there is no causal link between the deficit and the escrow payment and therefore the deficit should be recovered "according to the ratesetting policies of the Postal Reorganization Act." Valpak Brief at II-1. Witness Mitchell discusses the residual nature of deficits. Tr. 9/5276-77. His view might not be out of place in a regulatory textbook giving a broad overview of rate case filings; however, this does not mean that it has application in all instances. Valpak does not convincingly sever the nexus between

the specific statutory obligation imposed on the Postal Service and the limited rate request it filed.

[5017] Pub. L. 108-18 created an unavoidable financial obligation in FY 2006. The Postal Service chose to recover that expense through a limited rate filing. The request would be withdrawn if Congress eliminated the obligation; it would have been proportionally smaller or larger had the escrow obligation been different. To be sure, the Postal Service could have, as a matter of policy, chosen to file a different case. Consistent with the Act and the Commission's rules, it was free to fashion the relief it desired. On this record, the Commission finds that the Postal Service has justified the approach it has taken.

[5018] The Commission does not view the use of the phrase "operating expense" in Pub. L. 108-18 as requiring that the escrow funds be recovered in any predetermined manner. Certainly, they are distinguishable from operating expenses incurred routinely by the Postal Service, *e.g.*, they are statutorily based; cannot be expended or obligated by the Postal Service; are unrelated to the provision of any postal service; and provide no economic benefit to the Postal Service.[41]

[5019] Finally, even aside from the foregoing, Valpak contends that the "deficit should be funded according to the ratesetting policies of the [Act]." Valpak Brief at II-1. As discussed below, the Commission finds that the approach taken satisfies the criteria of the Act. This is not to say that some method other than across-the-board could not be used, or that across-the-board is appropriate in many circumstances, but merely that the Commission finds it an appropriate way to obtain the specific revenue amount sought in this proceeding.

[5020] The Postal Service's Request is unlike any conventional omnibus rate proceeding. In the final analysis, until the matter is resolved by Congress, the disposition

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[41] As the Postal Service points out, obligations imposed on it in various Omnibus Budget Reconciliation acts concerned personnel policies applicable to postal employees. Postal Service Reply Brief at 53-54. Witness Robinson distinguishes these Acts from Pub. L. 108-18: "This is fundamentally different from the escrow obligation which is unrelated to the current or past operation and administration of the Postal Service or Post Office Department." Tr. 3/441.

of the escrow funds will remain in legislative limbo. *See* Pub. L. 108-18 § 3(e)(4). For purposes of this proceeding, however, it is clear that the Postal Service's request is *sui generis,* a limited one-time filing based on a specific statutory directive.

[5021] *Settlement.* A goal of the across-the-board pricing approach was to facilitate the possibility of settlement. To that end, the Postal Service consulted with prospective parties well before it filed its rate request. United States Postal Service Request for Expedition and Early Consideration of Procedures Facilitating Settlement Efforts, April 8, 2005 at 5-6. Subsequent to its rate filing, the Postal Service convened a settlement conference open to all participants. The Postal Service represents that parties, including the OCA, participated actively in developing the settlement agreement. Postal Service Brief at II-12-13. These efforts culminated in the filing of the Stipulation and Agreement (settlement) in this proceeding on July 22, 2005. On September 23, 2005, the Postal Service filed the signatures of the 35 parties supporting the settlement.

[5022] Two factors appear to have coalesced, boosting the prospect of settlement. First, in various public forums, representatives of major mailing interests have endorsed the concept of more frequent but smaller rate increases in lieu of fewer but larger ones. *See, e.g.*, Ratemaking Summit comments, Tr. 1/15, 19, 24-25, 36-37, and 44-45, May 28, 2002. This proceeding dovetails with that notion since the proposed rate increase can fairly be described as relatively modest. The proposed 5.4 percent proposed increase is lower than the cumulative rate of inflation since the current rates became effective in 2002, not only underscoring the limited basis of this request, but also serving as testament to the Postal Service's cost cutting efforts and improved productivity.

[5023] Second, nearly unanimously, the parties found the settlement to be a reasonable tradeoff for the possibility of achieving a different (and from their perspective potentially better) result through litigation. In essence, they deferred that possibility until the filing of a more traditional omnibus rate request. This, in turn, had salutary effects. Settlement enabled the parties not opposed to it to avoid the time and expense of litigating this case. Moreover, and significantly, it produced rate certainty, a critical

planning tool for most commercial mailers. Undoubtedly, the parties' decisions were influenced by the likelihood that they would have an opportunity to address rate and cost issues more thoroughly in the near future, as the next omnibus proceeding is likely to be filed in 2006. *See, e.g.*, APWU Brief at 6; MMA Brief at 7; ABA&NAPM Brief at 3-4; and PostCom Reply Brief at 4-5.

[5024] In this proceeding, Valpak prefers litigation to settlement, arguing that the latter is not more important than moving immediately toward more cost-based rates. Valpak Brief at II-13-16. Valpak is alone in its preference and, indeed, in its opposition to across-the-board pricing.

[5025] The settlement is supported or not opposed by every participant, except Valpak and the OCA.[42] Thirty-five parties, representing mailers from all sectors of the mailing industry, competitors, and employee groups, are signatories to it. The widespread support (as well as the lack of opposition) from participants with diverse, and often competing, interests is tangible proof that they consider the rates and fees produced under the across-the-board pricing approach to be fair and equitable in the context of this proceeding. *See, e.g.*, Periodicals Coalition Brief at 14; DMA Brief at 11-13; Pitney Bowes Brief at 2-3; and MMA Brief at 7. While this does not obviate the need for the Commission to assess the merits of the settlement independently, this broadly supported agreement provides an independent, "marketplace" assessment of the reasonableness of the proposed rates and thus affects the Commission's consideration of the proposal in terms of the policies and pricing factors of the Act.

[5026] *Interim duration.* The Postmaster General testifies that the Postal Service is likely to file an omnibus rate case in calendar year 2006. Tr. 2/55, 80. Rate case preparations are underway. Tr. 11/6228-30. The likely interim nature of the rates

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[42] The OCA's opposition to the settlement relates to revenue requirement, not pricing. As an alternative to its proposal that the Commission reject the settlement, OCA proposes that any shortfall in revenues could be remedied by an across-the-board increase of 0.8 percent or deferral of the proposed 5.4 percent increase until August 2006. OCA Brief at 1, 5, and 28-29. Two limited participants, Douglas Carlson and David Popkin, contest charges for electronic return receipt and for change-of-address orders, respectively. Their comments are addressed in Chapter VI F. below.

recommended in this proceeding bears significantly on the Commission's consideration of the settlement proposal. It also appears to have been an important caveat for settling parties. *See, e.g.*, APWU Brief at 6; GCA Brief at 1; MMA Brief at 7; Pitney Bowes Brief at 5-6; MOAA Brief at 3; PSA Brief at 3; DMA Brief at 10-11.

[5027] Current rates, which have been effective since June 30, 2002, are a product of settlement achieved in Docket No. R2001-1 under exigent circumstances substantially different from those presented here. Those rates were found to be fair and equitable. The across-the-board approach builds on those rates uniformly, thus nominally preserving the pre-existing rate relationships. *See* PRC Op. R87-1, ¶ 4026 ("The existing rate relationships are presumptively reasonable.")

[5028] Although it has not committed to filing its next rate request by a date certain, the Postal Service has begun developing its next Request. Tr. 11/6228-30. On brief, it echoes the Postmaster General's testimony that the proposed rates are likely to be short-lived: "[t]he results of the current case are likely to be overtaken by the results of a more conventional rate case in the foreseeable future." Postal Service Brief at II-25; *see* Tr. 2/80 (Witness Potter -- "I think with the notion that there is a rate case that's coming on the heels of this one, ….")

[5029] The representations that rates recommended in this proceeding are likely to be effective for only a relatively short period and the express willingness of settlement proponents to defer a more in-depth examination of rate-related matters are important factors in persuading the Commission to put aside whatever reservations it may have about an across-the-board pricing approach. The near unanimous support is not inconsequential. It is one of the key distinctions between this proceeding and the settlements proposed in Docket Nos. R74-1 and R94-1. Moreover, the circumstances surrounding the Postal Service's filing are cited by virtually every signatory as justifying the settlement. *See, e.g.*, ABA&NAPM Brief at 3; Periodicals Coalition Brief at 4, 12; MMA Brief at 4, 6; Pitney Bowes Brief at 3-4; and PSA Brief at 2-3. That, too, is a notable distinction from those previous cases. Considering the circumstances presented

as a whole, the Commission concludes that the across-the-board approach is adequately supported.

[5030] On brief, Valpak argues that adoption of the proposed rates may have an unsettling effect in the next rate case since they "would likely exacerbate future instances of rate shock." Valpak Brief at II-13. Apart from the fact that the comment is necessarily speculative, it does highlight a risk that settling parties run, one presumably considered and deemed acceptable.[43] The implicit message appears to be that rate shock should have less weight as a mitigating factor in the next case if it is the result of rate increases *not* adopted in this case.

[5031] In rebuttal to witness Mitchell, witness Keifer urges the Commission to disregard Mitchell's contentions about the possible future impact of its decision in this case. His comments underscore the significance attached to the timing and scope of the next proceeding. "In this case, witness Potter has testified that the Postal Service intends to file the next rate case soon. His assurance of an opportunity in the near future to investigate rate relationships and consider appropriate changes blunts whatever residual merit Mr. Mitchell's claims may have." Tr. 11/6173-74.

[5032] Rate shock arguments are often raised in rate proceedings. They are likely to be raised in the next proceeding as well, in which case the Commission will assess their merits based on the record developed in that proceeding. Parties should be aware that the Commission will seek to obtain economically efficient cost-based rates and appropriate allocation of institutional burdens. The discussion of rate design in the following chapter highlights several problematic areas deserving of closer examination in the next proceeding.

[5033] *The settlement in Docket No. R94-1 is distinguishable.* On three prior occasions, the Postal Service has filed settlements in an effort to resolve rate proceedings. Two are relevant to the Commission's consideration of pricing issues in

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[43] Participants were made fully aware of the scope of problems in this area by Presiding Officer's Information Request No. 1, issued April 22, 2005, that identified the extent to which proposed rates varied from economically efficient component prices.

this proceeding: Docket No. R94-1, because the proposed settlement employed an across-the-board approach, and Docket No. R2001-1, because the Commission relied on criterion 9 in approving the settlement.[44] The extraordinary circumstances in Docket No. R2001-1 are not present in this proceeding. Nonetheless, the set of circumstances presented in this case does justify use of criterion 9 in assessing the settlement rates.

[5034] In Docket No. R94-1, the Postal Service proposed a 10.3 percent across-the-board increase. It filed a proposed settlement based on its Request, executed by a majority (approximately two-thirds) of the parties to the case. In support of the settlement, the Postal Service argued that the across-the-board approach would serve several policy goals, including: (1) satisfying its short-term revenue needs; (2) maintaining and increasing mail volumes; (3) responding to customers' needs; and (4) facilitating mail classification reform. PRC Op. R94-1, ¶ 4001. While the Commission recognized the legitimacy of these policy goals, it found them insufficient to support the across-the-board proposal. Thus, the Commission rejected the settlement, in principal part, because an across-the-board approach "would shift an excessive burden to First-Class mailers, benefiting commercial users of bulk subclasses of second-, third-, and fourth-class mail." *Id*. at i.

[5035] There are notable distinctions in the circumstances attending Docket Nos. R94-1 and R2005-1. The Request in Docket No. R94-1 was a run-of-the-mill general rate request, with no independent statutory counterpart. Docket No. R2005-1 would not have been filed but for the statutory obligation imposed by Pub. L. 108-18. At 10.3 percent, the proposed increase was substantial, nearly twice that proposed in the current proceeding.

[5036] While the Docket No. R94-1 settlement was supported by a majority of participants, it was contested by a variety of interests, including mailers, a private sector competitor of the Postal Service, and the OCA. In this proceeding, only one party,

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[44] A settlement was also filed in the second omnibus rate case, Docket No. R74-1, after completion of hearings but before issuance of an initial decision by the Presiding Administrative Law Judge. For a discussion of this settlement, *see* PRC Op. R2001-1, ¶¶ 2003-07.

Valpak, submitted testimony in opposition to the settlement. This difference has considerable import, particularly given the unanimity expressed by mailers, private sector companies, and postal unions. This should not be read as suggesting that the Commission views settlements as referendums, where the number of voters, pro or con, is determinative. Any settlement presented to the Commission will be evaluated, as this one was, on its merits and the on the record developed in that proceeding. *See* PRC Order No. 1443, August 23, 2005, at 14-20.

[5037] In both dockets, the Postal Service's filing has been characterized as an interim rate request: in Docket No. R94-1, due to anticipated classification reform; and in this proceeding, the likelihood of a new omnibus rate filing in 2006. In Docket No. R94-1, the Commission considered "whether there is sufficient evidence to support the conclusion that an across-the-board approach will actually tend to further reclassification." PRC Op. R94-1, ¶ 1015. The Commission concluded that there was no record evidence "suggest[ing] that mailers will be less receptive to reforms of product lines if rate increases for existing subclasses are not identical." *Ibid.* Hence, the Commission did not find the prospect of classification reform sufficient reason to adopt an across-the-board approach at the subclass level.

[5038] In this case, starting with the Postmaster General, there have been numerous representations that the Postal Service will be filing a general omnibus rate case in the relatively near term. Unlike the prior proceeding, in this case there is substantial evidence that parties have willingly made the tradeoff to forego litigation in exchange for the opportunity to address rate and cost issues thoroughly in the relatively near term. *See*, *e.g.*, APWU Brief at 6; MMA Brief at 7; Pitney Bowes Brief at 5-6; PSA Brief at 3; ABA&NAPM Brief at 3-4; and GCA Brief at 2-3.

[5039] In summary, compelling support exists for the proposition that this case is atypical and that, under the circumstances, the across-the-board approach is reasonable.

B. The Proposed Rate Levels are Reasonable

[5040] Section 3622 sets out the ratemaking factors governing the Commission's rate recommendations. In addition to the nine enumerated factors, the Commission's recommendations are to be "in accordance with the policies of [the Act]," which include, for example, sections 101 and 403(c).

[5041] The ratemaking criteria found in § 3622(b) are as follows:

> (b) Upon receiving a request, the Commission shall make a recommended decision on a request for changes in rates or fees in each class of mail or type of service in accordance with the policies of this title and the following factors:
>
> (1) the establishment and maintenance of a fair and equitable schedule;
>
> (2) the value of the mail service actually provided each class or type of mail service to both the sender and the recipient, including but not limited to the collection, mode of transportation, and priority of delivery;
>
> (3) the requirement that each class of mail or type of mail service bear the direct and indirect postal costs attributable to that class or type plus that portion of all other costs of the Postal Service reasonably assignable to such class or type;
>
> (4) the effect of rate increases upon the general public, business mail users, and enterprises in the private sector of the economy engaged in the delivery of mail matter other than letters;
>
> (5) the available alternative means of sending and receiving letters and other mail matter at reasonable costs;
>
> (6) the degree of preparation of mail for delivery into the postal system performed by the mailer and its effect upon reducing costs to the Postal Service;
>
> (7) simplicity of structure for the entire schedule and simple, identifiable relationships between the rates or fees charged the various classes of mail for postal services;
>
> (8) the educational, cultural, scientific, and informational value to the recipient of mail matter; and
>
> (9) such other factors as the Commission deems appropriate.

[5042] Of these criteria, only (b)(3) is a requirement. Recommended rates must be designed to recover "the direct and indirect postal costs attributable to that class or type [of mail]." To satisfy this attributable cost floor, the Commission's recommended rates must recover attributable costs, which include both volume variable costs and product specific costs, *i.e.*, fixed costs directly associated with one class or service.[45]

[5043] Costs not found to be attributable are classified as institutional. These costs are assigned to the various classes and types of mail based on the remaining, non-cost factors of the Act. This exercise normally entails relating and ranking the various classes and types of mail according to their non-cost characteristics, which the Commission has described as "a process of balancing the competing goals enumerated in the Act in a fair and equitable manner." PRC Op. R90-1, ¶ 4008.

[5044] The Postal Service sponsors the testimony of two pricing witnesses: Robinson (USPS-T-27) provides rate levels and Taufique (USPS-T-28) sets forth proposed rates and fees that form the basis of the proposed settlement rates. While witness Robinson reviews each of the non-cost factors, concluding that the settlement rates satisfy the statutory criteria, she relies in particular on criterion 9, such other factors deemed appropriate by the Commission. USPS-T-27 at 5-6; 22-23. Likewise, on brief, the Postal Service urges the Commission to rely on criterion 9 "to consider factors not specifically enumerated in section 3622(b)." Postal Service Brief at II-22.

[5045] As discussed above, Valpak opposes the across-the-board pricing approach, arguing generally that the Commission should develop different rates in a traditional fashion, and specifically that the non-cost criteria of the Act support a reduced institutional cost burden for ECR mail. Witness Mitchell argues that the cost coverage of ECR is too high. He recommends that the Postal Service's proposed ECR coverage be reduced by ten percentage points. Since this would have little effect on current ECR rates, witness Mitchell proposes that current ECR rates be left unchanged. Tr. 9/5346.

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[45] Postal Service witness Robinson uses test year incremental costs developed by witness Kay to satisfy this requirement. USPS-T-27 at 26; Exh. USPS-27E. She also uses incremental costs as a test for cross-subsidy. USPS-T-27 at 16.

The Commission will not adopt this proposal as it is unconvinced that the proposed result is appropriate.

[5046] Central to Valpak's argument that the cost coverage for ECR is too high is the claim that it would be lower if third-class bulk rate regular (BRR) had not been split into separate subclasses in Docket No. MC95-1. In support of this contention, witness Mitchell argues that BRR's cost coverage (and below average markup index) in Docket No. R90-1 demonstrate that the proposed ECR coverage is too high some 15 years later. *Id*. 5311-14. The Commission is unpersuaded, notwithstanding Mr. Mitchell's in-depth analysis and thoughtful examination of ECR-related issues.

[5047] As the Postal Service points out, at the time of classification reform, the types of mail that comprised BRR exhibited significantly different costs, with the costs of what became ECR being lower. Postal Service Reply Brief at 63. Thus, the implied cost coverage for the latter would have been greater than on a combined basis.

[5048] In the intervening time period since reclassification, the Postal Service has filed four rate cases. Rates recommended in Docket Nos. R97-1, R2000-1, and R2001-1, including for ECR, were found to be fair and equitable. Mr. Mitchell appears to recognize the validity of this conclusion, but would distinguish Docket No. R2001-1 because, due to settlement, it "did not receive the benefit of what [he] would call full Commission deliberation." Tr. 9/5300. To the extent that is a criticism of considering the settlement in this case, it lacks merit.

[5049] Mr. Mitchell expresses frustration that progress toward full recognition of the value of service of ECR mail is occurring very slowly. *Ibid.* To some degree this complaint is understandable, in the sense that mailers have unmet expectations, but that does not justify Valpak's proposal in this case that ECR rates remain unchanged from current levels.

[5050] It is a given that cost and rate relationships may change over time. Thus, the duration of the interim between cases may have important implications. Ironically, in that regard, witness Mitchell's argument would likely be the same even if R2001-1 had been fully litigated. In this proceeding, however, that concern assumes decidedly less

significance because the next omnibus rate filing is, by all accounts, looming on the horizon. This prospective short-term interim is particularly pertinent when coupled with the broadly supported settlement. On balance, the Commission concludes that, under the circumstances, the benefits of the settlement outweigh the alternative approach advanced by Valpak. Accordingly, the Commission rejects Valpak's proposal to maintain ECR rates at their current level.

[5051] This conclusion should not be read as suggesting that the concerns raised by Valpak and, on brief, by others are not important. In the next chapter, the Commission identifies several cost and rate-related issues that warrant analysis in the next rate proceeding. While it is fruitless to speculate on particulars of the next rate filing, it is the Commission's expectation that passthroughs and markups will be examined thoroughly.

C. Adjustments to Comply with Statutory Requirements

[5052] The Commission's analysis of the settlement rates begins with an examination of the attributable costs of each subclass and service to assure itself that, based on the Commission's costing methodology, the proposed rates satisfy criterion 3's attributable cost floor requirement. The Commission has reviewed the underlying costs presented in support of the Postal Service's direct case, and on which the proposed settlement rates rely. As discussed above in Chapter IV, the Commission utilizes the new carrier cost study, which it has found to be an improvement over previous analyses. Since by its terms, the settlement provides that nothing in the Request, the Commission's decision, or the Governor's decision shall have potential precedential effect in future cases, this was done for purposes of evaluating proposed rates in light of section 3622(b)(3). Stipulation and Agreement, § II ¶ 16. That analysis reveals that an adjustment to certain rates is necessary to bring them into compliance with section 3622(b)(3); these include Within County Periodicals and Media/Library rates.

[5053] Under the settlement, proposed Within County rates would be reduced by 5.4 percent. The Commission's adjustment to Within County rates is relatively minor, caused initially by the failure of the proposed rates to recover attributable costs. Under the Commission's methodology, the cost coverage of this subclass at proposed rates is 98.1 percent. Thus, an adjustment is required. An adjustment is also necessary to reflect section 3626(a)(3), which sets the markup for such mail equal to one-half the markup for Outside County Periodicals. Under the Commission's attributable cost levels, the cost coverage for Outside County Periodicals at proposed rates is 102.9. Thus, by statute, cost coverage for Within County becomes 101.4. With these adjustments, recommended Within County rates are 2.3 percent below current rates instead of 5.4 percent as proposed under the settlement.

[5054] An increase in Media Mail and Library Mail rates is needed because, at proposed settlement rates, the combined cost coverage is 89.1 percent, substantially below the threshold required by section 3622(b)(3). Accordingly, an adjustment is

necessary. The Commission's recommended rates, which yield a cost coverage of 100.2 percent, represent an average increase of 12.7 percent. Consistent with section 3626(a)(7), Library Mail rates are set 5 percent below corresponding Media Mail rates.

[5055] While the Commission reluctantly recommends this increase, the Act forecloses not doing so. Moreover, in light of the circumstances of this case, the Commission mitigates the increase by employing a minimally acceptable cost coverage. Since, as noted above, the rates recommended in this proceeding are likely to be relatively short-lived, interested parties will have another opportunity to analyze the costs, revenues, and volumes for this mail in the near term.

[5056] Pub. L. 106-384 amended the Postal Reorganization Act to require, among other things, that rates for Nonprofit Regular and Nonprofit ECR (NECR) be equal, as nearly as practicable, to 60 percent of the estimated average revenue per piece received by the Postal Service from the most closely corresponding commercial subclass. *See* § 3626(a)(6)(A). Witness Taufique indicates that the proposed rates yield average increases of 5.4 percent for Nonprofit Regular and 5.9 percent for NECR. USPS-T-28 at 11. The proposed Nonprofit Regular rates generate revenue per piece that is 60.9 percent of Standard regular and proposed NECR rates generate revenue per piece that is 56.4 percent of ECR. Tr. 14/6567; *see also* USPS-T-28 at 11.

[5057] For the Postal Service, witness Taufique argues that his proposed nonprofit rates are as close to 60 percent of the corresponding commercial subclass as is practicable under the unique circumstances of the Postal Service's across-the-board rate request. USPS-T-28 at 12. He states that proposing a rate "approaching the statutory ratio more closely" was considered "impracticable" since NECR rates would have to increase by about 13 percent. *Ibid.*

[5058] Three parties address whether the proposed rates comply with section 3626(a)(6)(A). Valpak contends that the proposed NECR rates violate the statute, challenging the suggestion that such rates satisfy the "as nearly as practicable" standard. Valpak Brief at VI-7-11. It urges the Commission to set NECR rates, as nearly as

practicable, to 60 percent of ECR commercial rates. *Id.* at X-2. Alternatively, Valpak suggests that compliance could be achieved by lowering ECR rates. *Id.* at VI-11.

[5059] On brief, the Postal Service argues that Valpak reads the phrase "as nearly as practicable" as imposing "a rule of absolutely strict adherence to the 60 percent target," except for the need to use minor rounding conventions. Postal Service Reply Brief at 66. The Postal Service contends that Valpak's "speculation about the intent of the statute," while "not unreasonable," is unfounded because it cites no legislative history or Commission precedent "support[ing] the conclusion that rounding conventions are the *only* policy considerations that justify deviations from the 60 percent target." *Ibid*. (Emphasis in original; footnote omitted.) The Postal Service argues that "limited flexibility inherent in § 3626(a)(6)(A)" accommodates policy considerations other than rounding "as long as the resulting rates are consistent with the spirit and intent of § 3626(a)(6)(A); *e.g.*, the results are — in the particular context —as near to 60 percent as practicable." *Id.* at 67.

[5060] The Alliance of Nonprofit Mailers (ANM), a signatory to the settlement, states its position that § 3626(a)(6)(A) establishes a binding and nondiscretionary constraint with departures from the 60 percent ratio authorized only by the tenth-of-a-cent rounding convention. Comments of Alliance of Nonprofit Mailers in Support of Stipulation and Agreement, September 23, 2005, at 3 (ANM Brief). Nonetheless, ANM endorses the settlement, citing the unique circumstances of this case, which include: the developments leading to the across-the-board proposal; the non-precedential effect of the settlement, and the Postal Service's agreement "to adhere strictly to 39 U.S.C. § 3626(a)(6) in future cases." *Id.* at 7.

[5061] In its reply brief, ANM reiterates its position and in the process concurs with Valpak that section 3626(a)(6)(A) is a binding statutory requirement, mandating that rates for Standard nonprofit subclasses be set to equal "as nearly as practicable" 60 percent of the average revenue per piece of the corresponding commercial subclass. ANM Reply Brief at 1-2. ANM indicates that it is willing to forego adherence to this requirement with respect to NECR rates for reasons specific to this proceeding. It notes

that Nonprofit Regular rates also deviate from the 60 percent ratio, but in the opposite direction, producing average revenue per piece of 60.9 percent of Regular Mail. Because it views the net revenue effect of these two deviations as essentially a wash, ANM states that "[it] is concerned less with the financial effect of these disparities than with the precedential effect of allowing them." *Id.* at 2. To address the latter, ANM secured the Postmaster General's commitment that future rate or classification requests involving this mail would deviate from the 60 percent ratio only for reasons of rounding or intervening statutory change. *Id.* at 2-3.

[5062] ANM opposes Valpak's suggestion that NECR rates be brought into compliance with section 3626(a)(6)(A) by making no change in commercial ECR rates. *Id.* at 2. In the alternative, ANM suggests that if the proposed Standard nonprofit rates are found to violate the law "the most logical remedy" would be to increase NECR rates by more than 5.4 percent and increase Nonprofit Regular by less than 5.4 percent. *Id.* at 3. It contends that this remedy would be "virtually revenue neutral for both the nonprofit mailing community as a whole and the Postal Service." *Ibid.*

[5063] The settlement includes a statement that settlement rates may be adjusted to satisfy section 3622(b)(3). Stipulation and Agreement, § II ¶ 5. No mention is made of any other statutory provision. Perhaps it was included in recognition of costing methodologies employed by the Commission. Regardless, the Commission views its inclusion as largely superfluous and the omission of any other statutory provision as immaterial to its review of the settlement. Any settlement submitted to the Commission is reviewed for its consistency with the Act, including, for example, cost, policy, and pricing considerations. *See* 39 U.S.C. §§ 3622(b)(3), 403(c), and 3626(a), respectively. Attempts to foreclose such review are nugatory. *See* PRC Order No. 1443, August 23, 2005, at 17. ("[T]wo absolute requirements must be met before a settlement can be accepted. First, a settlement must be consistent with applicable statutory requirements ….")

[5064] The Commission will not turn a blind eye to the pricing directive of section 3626(a)(6)(A). It requires that rates for the Standard nonprofit subclasses *shall be*

established to equal, as nearly as practicable, 60 percent of the average revenue per piece of the corresponding commercial subclass. At 56.4 percent, the proposed NECR rates simply are not equal "as nearly as practicable" to the 60 percent benchmark. Nor is witness Taufique's rationale that it would be "impracticable" to achieve closer compliance with the 60 percent ratio sustainable.

[5065] Likewise, the Postal Service's argument is unconvincing that policy considerations, here the unusual circumstances of its request, justify NECR rates that fall substantially below that benchmark. The standard suggested by the Postal Service (Postal Service Reply Brief at 67) is so amorphous that it would accommodate virtually any deviation from the 60 percent benchmark.

[5066] The Postal Service's attempt to characterize rounding as a "policy consideration" is misplaced. More aptly, rounding is a rate design convention used to adjust rates to address, for example, the need for rates in whole cents or tenth-of-a-cent increments. Moreover, even assuming *arguendo* that "limited flexibility inherent in § 3626(a)(6)(A)" accommodates considerations other than rounding, the Commission finds that the rationale suggested by the Postal Service is not a "compelling policy consideration." The use of an across-the-board approach is not a valid reason to deviate so substantially from the pricing directive of section 3626(a)(6)(A); nor does the possibility of a rate increase (or decrease) greater than or less than the average support a deviation from the benchmark as substantial as proposed for NECR.

[5067] The alternative suggested by Valpak, lower the proposed ECR rates, might have brought NECR rates into compliance with section 3626(a)(6)(A), but that option would run counter to the policy considerations supporting the proposed across-the-board approach and the stated goals of settlement signatories. *See, e.g.*, Postal Service Brief at II-1-3; Periodicals Coalition Brief at 3-8; MMA Brief at 8; and ABA&NAPM Brief at 3-4. To the extent that Valpak is requesting that the Commission consider this option, the Commission rejects it. Because, under the circumstances, an across-the-board approach has been found to be reasonable, any departure for other than statutory

reasons would shift the escrow burden among users in a manner so as to undermine that approach.

[5068] The Commission finds it necessary to adjust both the NECR and Nonprofit Regular rates to comply with the statute. These adjustments yield increases of 3.0 percent for the Nonprofit subclass and 12.3 percent for NECR. Some perspective here may be useful. ANM, which essentially endorses this adjustment, suggests that these adjustments are "virtually revenue neutral" for nonprofit mailers as a whole and the Postal Service. ANM Reply Brief at 3. In fact, nonprofit mailers, as a whole, are better off, while the Postal Service will realize marginally less revenue from this mail. On a consolidated basis, the recommended rates for nonprofit mailers are nearly one percent below the proposed settlement rates. However, these variations from a uniform increase are simply an unavoidable consequence of adhering to the statutory prescription, which, it may be recalled, discounts the subject mail 40 percent, not something greater or lesser, from the corresponding regular rates.

Fees for Registered Mail. The Commission has several concerns about witness Potter's stated intention to urge the Board to defer implementation of the increase in Registered Mail fees should the Commission adopt the Postal Service proposal to increase those fees by approximately 70 percent. USPS-T-27 at 17. At the outset, the Commission appreciates the Postmaster General's reluctance to implement fee increases of this magnitude. Appropriately, he has directed management to review this service, including operations, costs, customer needs, and fee schedule. USPS-T-1 at 7. Unfortunately, no progress in this effort has been reported to the Commission. These efforts aside, however, there is no reason to disregard the statute.

[5069] Deferring implementation of a fee increase in the manner contemplated runs afoul of section 403(c), which bars the Postal Service from granting any undue or unreasonable preferences among users of the mail. Use of an across-the-board approach was justified as an equitable means to spread the burden of the escrow obligation. *See, e.g.*, USPS-T-27 at 8. Plainly, that policy is breached if any type of mail or service is relieved of its obligation to pay newly recommended rates and fees, especially a class or service that is already failing to recover its costs. Moreover, in

proposing an across-the-board approach, the Postal Service specifically recognized statutory exceptions that might preclude that result. *See* Postal Service Brief at V-27. ("Except where §§ 3622(b)(3) and 3626(a) compel a different result, the controlling principle of the Postal Service's pricing approach in the current docket has been to apply uniform percentage rate increases across-the-board.") Thus, had the Commission been obliged to recommend the Postal Service's proposed fee increase for Registered Mail, that result would need be implemented.

[5070] Under the Act, rates and fees are developed in a two-step process, entailing attribution and assignment. Section 3622(b)(3) requires that rates and fees for all classes and services recover their attributable costs plus a reasonable assignment of a portion of the remaining costs. This directive is not discretionary.

[5071] The Act does not contain the equivalent of a line item veto. Section 3625 spells out the Governors' options regarding review of a recommended decision. While the effective date of new rates is determined by the Board, the options available to the Governors do not permit discriminatory implementation of approved rate changes.

[5072] The Commission finds it appropriate, under the circumstances, to conform the proposed increase for Registered Mail to the across-the-board approach. The settlement's proposed 70 percent increase is based on cost estimates using a methodology that varies from accepted Commission practice. A 5.4 percent increase is supported by the underlying costs as found by the Commission. This adjustment was considered very closely, and the Commission's decision was influenced heavily by witness Robinson's acknowledgement that, had she been aware of lower estimated costs for Registered Mail, she would have proposed a lower percentage increase for such mail. USPS-T-27 at 24A (revised June 24, 2005). The reason for the Postal Service's proposed outsized increase for Registered Mail, *i.e.*, markedly increased attributable cost estimates, does not exist under the Commission's analysis. For these reasons, the Commission concludes that application of the across-the-board approach would be appropriate, bringing Registered Mail in line with all other proposed increased rates.

D. The Settlement is Consistent with the Non-cost Factors and Policies of the Act

[5073] Having satisfied itself that the proposed rates, adjusted where necessary to comply with the Act, satisfy criteria 3, the Commission evaluates the settlement in light of the policies and non-cost factors of the Act. In every rate case, context has significant bearing on the relative importance of the non-cost factors. This proceeding is no exception.

[5074] With one exception, Docket No. R2001-1, every omnibus rate case has been vigorously contested. In those instances, as it evaluated application of the non-cost factors of the Act, the Commission considered the merits of participants' arguments that a certain factor should be given a greater or lesser weight based on the record before it. As the Commission has noted, "[t]he importance of a factor depends on the surrounding circumstances[.]" PRC Op. R90-1, ¶ 4002.

[5075] In this proceeding, the settlement forms the context for considering the non-cost factors of the Act. As a preliminary matter, the Commission does not arrive at its findings in the manner employed by witness Robinson. She evaluated the non-cost criteria as part of the Postal Service's direct case. The Commission's review is from the perspective of having a broadly supported settlement before it, cognizant of the related circumstances that gave rise to it.

[5076] Through the prism of the settlement, the Commission has satisfied itself that the recommended rates adequately reflect the relevant non-cost factors. This is not to suggest that each non-cost factor was given equal weight; nor does the Act require that. In essence, the Commission has done what witness Mitchell suggests is to be done: "In the end, the Commission makes a recommendation based on the Act, its judgment, and the record developed." Tr. 9/5285.

[5077] The settlement is responsive to several criteria, beginning with criterion 4, and the Commission relies on those in concluding that the proposed rates are fair and equitable (criterion 1). As several parties have argued, the nearly unanimously

supported (or unopposed) settlement is a powerful indication that the proposed rates are fair and equitable. *See, e.g.*, DMA Brief at 11; Periodicals Coalition Brief at 14; Postal Service Brief at II-10-11. The breadth of the settlement provides corroboration; signatories include commercial mailers of all subclasses of mail, a major competitor in the parcel delivery business, and associations representing postal employees.

[5078] It is largely self-evident that the settlement adequately addresses criterion 4, effect of rate increases on mailers and competitors. In the first instance, the average 5.4 percent increase is relatively modest. Secondly, the vast majority of mailers, representing every major mailing interest, endorses the settlement. No competitor has raised any objection that the rates are unfair, improper, or unduly discriminatory.

[5079] Valpak raises cost coverage concerns with respect to one subclass, and proposes that current ECR rates be maintained. These issues are not unimportant and the Commission has considered Valpak's position carefully. But, again, context is critical. Valpak's presentation fails to adequately rebut the central element of the Postal Service's filing, namely, that it would not have filed but for the statutory obligation imposed by Pub. L. 108-18. Against the backdrop of the settlement, this shortcoming is critical since, as one party notes, it undercuts the suggestion that Valpak's issues should be dealt with in this proceeding. DFS Brief at 4. Furthermore, the Postal Service's representations that it will, in the relatively near future, file a general omnibus rate request allay the Commission's concerns that the issues raised by Valpak and alluded to by others will go unheard for an extended period.

[5080] This observation segues to criterion 6, degree of preparation. The hallmark of recent rate cases has been the focus on workshare discounts to reflect degree of mail preparation by mailers. The Commission is mindful that parties have been and continue to be keenly interested in this issue. The fact that parties such as APWU, MMA, Pitney Bowes, and ABA&NAPM, that have strongly differing views on this issue, endorse the settlement and find the proposed rates fair under the circumstances is demonstrable proof that criterion 6 is reflected in the rates. Given the Commission's oft-expressed preference for efficient component pricing (ECP), this is not to say that these are (or are

not) the rates the Commission would recommend in a fully litigated, general omnibus rate case. *See* PRC Op. R2001-1, ¶¶ 3039-65. It appears that the opportunity to revisit this (and other) issues in the next general rate case significantly influenced parties to embrace the settlement. *See, e.g.*, MMA Reply Brief at 2 ("MMA and APWU also both take specific comfort in the prospect that workshare discount issues will be addressed in the near future when the Postal Service files a more traditional omnibus rate case.") (Footnote omitted.)

[5081] Criterion 7, simplicity of rate schedule and identifiable rate relationships, is also fostered by the settlement as existing schedules and rate relationships are maintained though a simple, uniform increase. Similarly, the generally uniform increase continues to reasonably reflect criterion 8: educational, cultural, scientific, and informational value. With respect to the increase in Media and Library rates necessary to satisfy criterion 3, the Commission reduced the cost coverage to minimally acceptable levels in recognition of the circumstances surrounding the settlement and criterion 8.

[5082] Of the remaining criteria, exclusive of 9, the Commission finds that neither criterion 2, value of service, nor criterion 5, available alternatives, is directly implicated, although, to a degree, they are generally reflected in the proposed rates through the Commission's cumulative judgments underlying current rates. In weighing these two factors, which the Commission has noted may involve competing considerations, the Commission concludes that, under the circumstances, neither impacts the settlement rates in a way which would justify distributing the escrow obligation other than on an across-the-board basis.

[5083] Witness Robinson urges the Commission to rely heavily on criterion 9, other factors deemed appropriate, contending that the statutorily imposed escrow obligation is a unique financial obligation that warrants different treatment than employed in other omnibus rate cases. USPS-T-27 at 5-6. On brief, the Postal Service echoes this position, specifically requesting the Commission "to give weight to the Board's policy judgment" regarding recovery of the escrow obligation through rates. Postal Service Brief at II-22.

[5084] No party suggests that the circumstances in this proceeding parallel the extraordinary events that overtook Docket No. R2001-1 which caused the Commission to employ criterion 9 in its pricing deliberations. Nonetheless, numerous parties suggest that there are compelling distinctions between this rate filing and general omnibus rate filings that justify reliance on criterion 9. These distinctions include, among other things: the limited nature and statutory basis of the Request, the near unanimous settlement, and the likelihood a general rate request would be filed in 2006. The Commission does not disagree that these circumstances merit greater reliance on criterion 9 than ordinarily employed in general rate cases.

[5085] The Commission cautions, however, that this reliance should not be read too broadly; it stems from the unique combination of events that affect this proceeding, not merely, for example, that the financial obligation arose by statute. In considering whether to apply criterion 9, the Commission took the Board's policy judgment into account, as the Postal Service requested. Among the policies of the Act, section 101(d) directs that "[p]ostal rates shall be established to apportion the costs of all postal operations to all users of the mail on a fair and equitable basis." Pub. L. 108-18 imposes an unavoidable financial obligation on the Postal Service in fiscal year 2006. Faced with this statutory imperative, the Board determined that the most equitable means for recovering the $3.1 billion escrow expense was through a limited rate case filing with rates and fees increased uniformly across-the-board. Since the rate filing was precipitated by the statutory obligation, the Board's decision to seek a limited across-the-board rate increase can be viewed as fully consistent with the requirement that costs be apportioned on a fair and equitable basis.

[5086] Had a broader cross-section of participants opposed the Board's view, or had this case involved no other relevant circumstances, it is doubtful that the Board's viewpoint alone would have been sufficient to outweigh all other considerations. However, it is not necessary to reach that issue since other significant circumstances exist. Specifically, in tandem, the near unanimous settlement and the likelihood of a

general omnibus rate filing in the near term convince the Commission that reliance on criterion 9 is warranted.

[5087] The settlement's benefits outweigh potential drawbacks. It is an interim solution designed to address a specific, limited issue in an equitable manner while also bridging to the next general rate filing.

[5088] The agreement embodies tradeoffs among the participants, including the willingness to accept a modest increase in order to avoid the risk and expense of protracted litigation. For its part, the Postal Service satisfies its policy objectives, including the opportunity to coordinate the effective date of the rate changes with recovery of its escrow obligation.

[5089] The settlement contains the usual language limiting its scope; more specifically, it does not bind signatories to any ratemaking or costing principle or interpretation of law that "may underlie, or be thought to underlie, [the settlement]." Stipulation and Agreement, § II ¶ 12. While doubtless significant to the signatories, this provision is also an important component of the Commission finding that the settlement is reasonable under the circumstances. It assures that the results of the settlement will not have consequences beyond their immediate application.

[5090] Rate certainty is achieved, affording most mailers a valued planning tool.

[5091] Finally, the Postal Service represents that it is likely to file a general omnibus rate case in 2006. Tr. 2/55. The Commission ascribes real value to this representation. Surely, it influenced settlement negotiations and is an important element in the Commission's consideration of the record before it. The likelihood of a general omnibus rate filing in 2006 would naturally dampen enthusiasm for litigation in 2005. Stated otherwise, it makes the prospect of settlement more attractive, or conversely, the need for litigation less pressing in 2005. The Commission perceives it similarly. Avoiding the former while preparing for the latter appears to be a tradeoff central to the parties' agreement. *See, e.g.*, Periodicals Coalition Brief at 5-6; APWU Brief at 1-2; Pitney Bowes Brief at 5-6; and MMA Brief at 7 ("This consideration is important for MMA

because . . . there are important cost and rate structure issues that the Postal Service should and the Commission must address in the next omnibus case.”)[46]

[5092] These circumstances — a statutorily linked basis for the request, a relatively modest increase spread proportionately, interim rate stability, and the looming prospect of a rate case — combined to make settlement an appealing option for the parties. That it was achieved and is broadly supported demonstrate the signatories’ perception that the result is fair and equitable. In its evaluation of the record, the Commission has taken these circumstances into account and concludes that the settlement rates, adjusted to comply with the statute, are consistent with the ratemaking factors and policies of the Act.

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[46] The Postal Service likewise recognizes the pivotal role of its next rate filing. “In a traditional omnibus case we could potentially reexamine costing methodologies and the alignment of discounts, as well as consider potential classification changes. These issues will be reviewed prior to the filing of the next omnibus rate filing. In fact, we believe it is more appropriate to examine the entire array of discounts at that time.” Response of the United States Postal Service to Presiding Officer’s Information Request No. 1, May 9, 2005, part b (Taufique). Tr. 3/607.

VI. RECOMMENDED RATES AND ASSOCIATED ISSUES

A. Express Mail

[6001] Express Mail is an expedited service available to any mailable matter that is sealed against inspection, weighs no more than 70 pounds, and has a combined length and girth that does not exceed 108 inches. Four categories of service are available: Post Office to Post Office, Post Office to Addressee, Custom Designed, and Same Day Airport.[47] Pickup Service is available for a fee of $12.50. Express Mail is advertised as offering guaranteed next-day and second-day delivery nationwide, subject to refund, with certain exceptions, if the cited performance standard is not met. Rates for Express Mail are unzoned and calculated on a per-piece basis according to its weight and service option. Express Mail is insured to $100 against loss or damage. Signature proof of delivery and tracking information are also available without additional cost.

[6002] The settlement incorporates the Express Mail rates initially proposed by the Postal Service in this case. Consequently, the Express Mail changes to be reviewed are those contained in the Postal Service's Request.

[6003] Witness Taufique presents the Postal Service's proposal for Express Mail. USPS-T-28 at 8-9. He applies the 5.4 percent increase to the current rates, rounding the result to the nearest 5-cent increment. This process yields proposed increases for individual rates ranging from 5.3 percent to 5.6 percent. Witness Robinson provides a general discussion of how the across-the-board approach satisfies statutory requirements. Consistent with the Postal Service’s limited request, no Express Mail classification changes are proposed.

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[47] This service has been suspended indefinitely for security reasons.

[6004] The Commission finds the proposed Express Mail rates to be consistent with the ratemaking requirements of the Act. The cost coverage for the proposed rates is 171.8 percent of attributable costs as determined by the Commission.

[6005] The Commission commends OCA and the Postal Service for reaching an agreement that will benefit retail postal customers. *See* Office of the Consumer Advocate Notice to the Commission of an Agreement Reached with the Postal Service that OCA will not File a Direct Case, in Exchange for Postal Service Commitments which are Beneficial to Consumers, July 19, 2005. The Postal Service has agreed to post, at retail facilities and on its web site, service performance data for Express Mail as well as for other services. Having ready access to this information will enable mailers to distinguish more easily among services and thus be able to make better informed decisions.

[6006] The current rates for Express Mail rest on a rate design introduced in Docket No. R2001-1 by the Postal Service. That rate design differs from the one employed in Docket No. R2000-1. Differences between the two are briefly highlighted below.

[6007] In Docket R2000-1, attributable costs were distributed to rate cells for three categories of Express Mail (exclusive of Same Day service) to which a percentage markup was applied. *See* Docket No. R2000-1, USPS-T-36 at 8-9. Rate increases were constrained by a minimum and maximum percentage increase, subject to the 5-cent rounding convention. In addition, rates for Post Office to Addressee were set to be at least twice the zone 5 Priority Mail rates. A number of rate cells in each category, particularly for pieces weighing between 20 and 35 pounds, were adjusted to preserve a rational relationship between adjacent cells.

[6008] In Docket No. R2001-1, the initial Post Office to Addressee rates were designed first following the same methodology as in R2000-1. As in the prior proceeding, these rates were constrained by minimum and maximum percentage increases. Witness Mayo then applied a rate differential to each rate cell to arrive at the proposed Post Office to Post Office and Custom Designed rates. Docket No. R2001-1, USPS-T-35 at 28. She developed a Post Office to Post Office rate differential by

multiplying a cost differential by the expected markup and rounding up to the nearest nickel. *Ibid.* The cost differential represented the delivery costs associated with delivering mail from the destination Post Office to the Addressee. Custom Designed rates were developed by adding 30 cents to the corresponding Post Office to Post Office rate.

[6009] Express Mail rate design warrants closer examination in the next omnibus rate proceeding. In particular, the application of minimum and maximum constraints causes deviations from cost based rates and creates an uneven application of the markup. Interested persons should be forewarned that elimination of constraints may result in large increases in certain rate cells.

B. First-Class Mail

[6010] Any matter eligible for mailing may, at the option of the mailer, be mailed as First-Class Mail, with the exception of Customized Market Mail. First-Class Mail is sealed against postal inspection and shall not be opened except as authorized by law. Certain mail matter wholly or partially in handwriting or typing, having the characteristics of actual and personal correspondence, or bills and statements of accounts must be mailed as First-Class Mail, unless mailed as Express Mail or otherwise exempt from this requirement. *See* DMCS § 210. First-Class Mail includes the Letters and Sealed Parcels, Cards, and Priority Mail subclasses.

1. Letters and Sealed Parcels, Cards

[6011] The First-Class Mail Letters and Sealed Parcels subclass consists of any mail matter weighing 13 ounces or less that is not mailed under the Card or Priority Mail subclasses. First-Class Mail Letters and Sealed Parcels may be mailed within Single-Piece, Presorted, Automation Letters and Automation Flats rate categories. The Single-Piece category includes single-piece letters and Qualified Business Reply Mail (QBRM) letters. The Automation Letters category consists of five rate tiers based on the level of mail preparation performed by the mailer: Mixed Automated Area Distribution Center (Mixed AADC), AADC, 3-digit, 5-digit, and carrier route. The Automation Flats category consists of four rate tiers based on the level of mail preparation performed by the mailer: Mixed Area Distribution Center (Mixed ADC), ADC, 3-digit, and 5-digit. There are distinct rates applicable to additional ounces, nonmachinable surcharges, and heavy piece discounts.

[6012] The First-Class Mail Cards subclass consists of Stamped Cards and postcards. Stamped Cards are purchased through the Postal Service as a special service. *See* DMCS § 962. Postcards are privately printed mailing cards of uniform thickness that do not exceed 6 inches in length, 4-1/4 inches in height, or 0.016 inches in

thickness. First-Class Mail Cards may be mailed within Regular, Presorted, and Automation rate categories. The Regular category includes single-piece cards and Qualified Business Reply Mail (QBRM) cards, and the presort rate applies to qualified bulk mailings that are not automation-compatible. The Automation category consists of five rate tiers based on the level of mail preparation performed by the mailer: Mixed AADC, AADC, 3-digit, 5-digit, and carrier route.

[6013] Witness Taufique sponsors the proposed First-Class Mail rates presented in the Request, which are adopted by the settlement. USPS-T-28 at 4-6. A two-cent increase is proposed for the first-ounce single-piece First-Class Mail letters rate, thereby raising the rate from 37 cents to 39 cents. A one-cent increase is proposed for the single-piece additional ounce rate, increasing the rate from 23 cents to 24 cents. A one cent increase is proposed for the single-piece First-Class Mail cards rate, thereby raising the rate from 23 cents to 24 cents. A 5.4 percent increase is applied to all other First-Class Mail rates, subject to rounding constraints. No classification changes are proposed. Witness Robinson provides a general discussion of how the across-the-board rate increase satisfies the pricing factors of the Act. USPS-T-27.

[6014] First-Class Letters and Sealed Parcels revenue will exceed estimated attributable costs by $18.9 billion, resulting in a cost coverage of 211.3 percent for the subclass. First-Class Cards revenue will exceed estimated attributable costs by $421 million resulting in a cost coverage of 153.0 percent. The Commission finds approval of the First-Class Mail Letters and Sealed Parcels and the First-Class Mail Cards rates proposed by the settlement consistent with the ratemaking criteria of the Act.

[6015] Some time has passed since the last fully litigated rate case, and a full examination of worksharing costs and rate design was not performed in the Docket No. R2001-1 case or the current case. It is therefore extremely unlikely that the rates incorporated in the settlement are sending accurate signals to mailers about the most efficient ways to prepare and enter mail.

[6016] The Postal Service and several parties have indicated that they expect that the next omnibus rate case will include a review of rate design issues. Tr. 3/607, MMA

Brief at 7, APWU Brief at 6. The Commission shares the goal of efficient, cost-based postal rates using the best possible estimates of costs, and anticipates that the next omnibus rate case will provide an opportunity to move toward that goal.

[6017] In Docket No. R2001-1, the Postal Service proposed several significant modifications to the established method of estimating worksharing related costs. The Commission did not make recommendations regarding those changes in that case. PRC Op. R2001-1, ¶ 3072-73. In the current docket, the Postal Service's estimates of worksharing related costs employ the methodology proposed in the previous docket, and several relatively minor additional changes are incorporated. As a result, a number of issues regarding the methodology remain unresolved, and will require a full examination in the next omnibus rate case. In addition, several parties indicated on brief that there are other issues relating to the calculation of cost avoidances that they may seek to address in the next case.

[6018] *Nonautomation presort letters*. First-Class nonautomation presort letters stand out as a clear example of an area where the resolution of costing issues will be necessary to facilitate a return to traditional cost-based rate design in the next case. As described in POIR No. 1, the Postal Service's estimates of costs avoided by nonautomation presort letters in this case are negative; that is, the Postal Service reports non-automation presorted mail costs more than similar mail that is not presorted. This result applies using either the Postal Service's or the Commission's costing methodology. In his response to the POIR, Postal Service witness Abdirahman explains that he believes this counterintuitive result is due to a change in cost methodology first implemented in FY 1999.

[6019] Under the newer methodology, cost tallies associated with mail pieces bearing 9-digit barcodes are classified as nonautomation tallies, whereas the previous methodology classified them as automation tallies. Abdirahman states that the result of the methodology change is dramatically higher cost estimates for nonautomation letters, and slightly lower cost estimates for automation letters. He explains that there are difficulties in accurately distinguishing automation and nonautomation letters in the cost

sampling system. "Based solely on the physical examination of mail piece characteristics (e.g., barcodes), it is not always possible for data collectors to determine whether the revenue of a given mailpiece, and the piece itself, was recorded at the nonautomation rates or automation rates[.]" Tr. 4/1076-77. He asserts that a different method, whereby IOCS costs for automation and nonautomation letters are not estimated separately, may be more appropriate. Tr. 4/1074-77.

[6020] A subpart of POIR No. 1 asked the Postal Service to examine the potential impact of using an outdated entry profile to weight the modeled costs of machinable and nonmachinable nonautomation presort letters in the calculation of the CRA proportional adjustment factor.[48] The response indicates that the current mix of nonautomation presort letters may be more machinable than that of the entry profile. *Ibid*. If this were the case, the correct nonautomation presort CRA proportional adjustment factor would probably be higher, and so would the resulting cost of machinable nonautomation presort letters. Rather than supporting the Postal Service's position that the cost of machinable nonautomation presort letters may be overestimated, the response suggests that, *ceteris paribus*, the use of the old entry profile may be causing the cost to be underestimated.

[6021] Anomalous results from the estimation of nonautomation presort letter costs first appeared in Docket No. R2000-1. In responses to a POIR and questions from the bench, the Postal Service focused on two potential explanations. Initially, the Presiding Officer questioned the Postal Service about a significant reduction in the estimated worksharing savings of nonautomation presort (calculated using base year 1998 data), as compared with the Docket No. R97-1 estimate. At that time, the treatment of tallies for mail bearing 9-digit barcodes was unchanged from the prior case. The Postal Service's response emphasized the fact that nearly 25 percent of nonautomation presort letters were processed manually. Docket No. R2000-1, Tr. 46D/21463-78.

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[48] The entry profile dates from Docket No. R97-1, when the volume of nonautomation presort letters was over 6.5 billion. In base year 2004, the volume of nonautomation presort letters was less than 2.2 billion. This casts doubt on the assumption that the Docket No. R97-1 profile remains a fair representation of the current situation.

[6022] Later, as a result of updating the studies to reflect FY 1999 costs, the estimated savings of nonautomation presort letters became negative. In response to questions from the bench, the Postal Service expanded its previous explanation to include the additional impact of the change in treatment of tallies for mail bearing 9-digit barcodes. Docket No. R2000-1, Tr. 46C/21033-40.

[6023] In Docket No. R2001-1, as part of the analysis in support of its proposal to expand the nonstandard surcharge, the Postal Service developed separate costs for machinable and nonmachinable nonautomation presort letters. Enabled by the newly de-averaged costs, it proposed to estimate the worksharing savings of nonautomation presort letters using the cost of machinable nonautomation presort letters, rather than the average of both machinable and nonmachinable nonautomation presort letters. Docket No. R2001-1, USPS-T-22 at 6. Machinable pieces are much less costly to process than nonmachinable pieces. Consequently, this approach resulted in a substantial positive estimate of savings, which appeared to resolve much of the problem that had arisen in Docket No. R2000-1. Unfortunately, the counterintuitive negative savings reappeared in the instant docket despite the use of machinable nonautomation presort letters as the basis for estimating the worksharing cost avoidance.

[6024] Beyond estimating the costs avoided by nonautomation presort letters, there are other related issues that could be affected by similar problems. Nonautomation presort cards serve as the starting benchmark for estimating the costs avoided by automation mixed AADC presort cards. If any of the problems with nonautomation letter costs affect the costs of nonautomation cards, it is important that they are addressed as well. Also, the problems in categorizing IOCS tallies could potentially impact the estimated in-office city carrier costs for automation and nonautomation mail. The Commission strongly urges the Postal Service to thoroughly examine the process of estimating costs for processing nonautomation presort letters in an attempt to satisfactorily resolve these issues in the next omnibus rate case.

[6025] *Bulk metered mail benchmark.* In Docket No. R2001-1, the Postal Service isolated costs for machinable and nonmachinable nonautomation presort letters in

support of its proposal to expand the definition of the nonstandard surcharge. At the same time, the Postal Service proposed to use the newly available delivery cost for machinable mixed AADC nonautomation presort letters as the proxy for the delivery cost of the bulk metered mail benchmark. This represented a change from the previous case, in which the average delivery cost of all nonautomation presort letters was used as the proxy.

[6026] Parties point out on brief that this change has a significant impact on the resulting estimates of worksharing cost avoidance. MMA Brief at 22-23 and ABA&NAPM Brief at 8-10. Therefore, it is particularly important that this issue receive a full examination on the record in the next rate case.

[6027] *Modeled RBCS operations.* In its brief, MMA discusses in some detail why it believes the methodology of estimating worksharing related mail processing costs used by the Postal Service is flawed. Much of this discussion focuses on the modeling of the Remote Barcode System (RBCS) operations. MMA Brief at 28-31. Without a full exploration on the record, it is not possible to draw conclusions. Nevertheless, there are indications of counterintuitive results that warrant further focused examination. For example, the model suggests that a greater percentage of bulk metered mail is processed entirely on automation equipment than either automation Mixed AADC or automation AADC presort letters. Tr. 4/1001-2.

[6028] *QBRM cost avoidance.* The model used to estimate the mail processing costs avoided by Qualified Business Reply Mail (QBRM) in the current and previous rate cases differs from the method last approved by the Commission. One difference is removal from the model of any operations subsequent to the outgoing primary operation. *Id*. at 794-6. Another change is the application of the CRA adjustment factor for Bulk Metered Mail (BMM) to the modeled QBRM and handwritten reply mail costs, whereas

the nonautomation presort CRA adjustment factor had been used in the past.[49] *Id.* at 806. The validity of these changes should be tested.

[6029] *Potential proposals discussed on brief.* Several parties indicate on brief aspects of the Postal Service's approach to measuring worksharing savings that they believe should be changed. ABA and NAPM advocate the use of a different proxy for the delivery costs of BMM. They support using either First-Class single-piece letters or a percentage of the cost of single-piece letters based on the relationship between the mail processing costs of single-piece and BMM letters. ABA and NAPM also present arguments supporting expansion the mail processing cost pools classified as worksharing related, as well as including some transportation and other non-processing and non-delivery costs in the estimates of worksharing savings. ABA&NAPM Brief at 10-15.

[6030] MMA advocates a redesign of worksharing discounts to allow high volume mailers to receive recognition for the greater savings MMA asserts that they generate for the Postal Service. It also supports the use of the delivery cost of all metered mail letters as the proxy for the delivery cost of BMM. MMA Brief at 16-21, 35-36.

[6031] Pitney Bowes asserts that single-piece metered letters should be the benchmark for workshared First-Class Mail. It also presents technical appendixes and a detailed discussion of mail processing operations to support its position that there are many cost pools incorrectly classified as non-worksharing related by the Postal Service. PB Brief at 9-28.

[6032] *NSA adjustments.* There are two NSAs that were implemented after the base year in this case. Since both will presumably be in effect during the test year, it is necessary to adjust the results of the volume, revenue and cost forecasting models to account for their impact on the test year. The Postal Service's calculations of

[49] The use of the BMM CRA adjustment factor reinforces the importance of ensuring the most accurate possible modeling of RBCS operations, because the modeled cost of RBCS affects the modeled cost of BMM and therefore the BMM CRA adjustment factor.

adjustments to account for the test year effects of these NSAs contain several apparent errors.

[6033] The NSAs in question were both designed with the expectation that the Postal Service would lose some revenue in the form of discounts awarded to mail that would have been sent, even absent the NSA. The resulting loss of revenue is called revenue leakage, and the mail for which revenue leakage occurs is called exposed mail. In this case, the Postal Service's adjustments for revenue effects fail to take into account the revenue leakage expected as a consequence of the NSAs.

[6034] The NSAs also are expected to result in additional mail sent in response to incentives built into the agreements. This is referred to as incremental mail, and it generates additional revenues for the Postal Service. Under the declining block rate schedules in the NSAs, incremental mail pays rates that may reflect different, deeper discounts than exposed volume. However, the Postal Service's adjustments calculate the total discounts paid on incremental mail using the average discount of the exposed mail, instead of the average discount of the incremental mail.

[6035] The changes to subclass mail volumes resulting from the NSAs are incorporated into the final cost adjustments. The calculations assume that the profile of the incremental First-Class Mail volumes is the same as all of the mailer's existing First-Class letters. The new mail generated by the NSAs in question is expected to be almost exclusively marketing, or solicitation, mail. Therefore, it would probably be more accurate to assume that the incremental mail has the same profile as each mailer's existing First-Class marketing (or solicitations) letters.

[6036] This is the first rate case to incorporate adjustments to account for the existence of Negotiated Service Agreements (NSAs). The Commission expects that as the number and financial significance of NSAs increase, these adjustments will increase in importance and will be refined and improved.

2. Priority Mail

[6037] Priority Mail serves as the extension of First-Class Mail for pieces weighing more than 13 ounces, but it may be used for lighter-weight First-Class pieces, and for all mailable items up to 70 pounds in weight. Priority Mail competes in the two- to three-day document and package delivery market, offering expedited handling and transportation, as well as some features similar to services sold by private competitors, such as delivery confirmation. Consequently, the Priority Mail subclass contains both monopoly letter mail and items that competing carriers are authorized to carry outside the restrictions of the Private Express Statutes.

[6038] Priority Mail rates are unzoned for pieces weighing up to one pound. Rates for pieces over one pound are zoned. The Postal Service offers a flat-rate envelope that is charged the one-pound rate, and experimental flat-rate boxes that are charged $7.70 regardless of the actual weight of the contents. Parcels weighing less than 15 pounds, measuring over 84 inches in length and girth combined are charged the 15-pound rate for the zone to which they are addressed. Pickup service is available to Priority Mail for a fee of $12.50 per pickup stop.

[6039] The settlement incorporates Priority Mail rates initially proposed by the Postal Service in this case. Consequently, the Priority Mail changes to be reviewed are those contained in the Postal Service's original Request.

[6040] In this docket, Postal Service witness Taufique presents the Postal Service's proposed Priority Mail rates. USPS-T-28 at 7-8. He applies the 5.4 percent increase to the current rates, rounding the result to the nearest five-cent increment. Witness Taufique notes an exception for the development of the two-pound rates for Zones 1 through 3 which, to preserve at least a 10-cent differential between Priority Mail rates and the corresponding Parcel Post Inter-BMC/ASF rates, are rounded to the higher increment. *Id.* at 7. This process yields proposed increases ranging from 5 percent to 6.3 percent. Witness Robinson provides a general discussion of how the

across-the-board increase satisfies statutory requirements. Consistent with the Postal Service's limited request, no classification changes are requested for Priority Mail.

[6041] The Commission finds the proposed rates for Priority Mail consistent with the ratemaking requirements of the Act. The cost coverage for the proposed rates is 140.1 percent of attributable costs as determined by the Commission.

[6042] The Commission has several rate design concerns regarding Priority Mail. The vast majority of Priority Mail that uses air transportation flies on the FedEx Day Turn Network. Under the FedEx contract, Day Turn Network transportation costs are incurred by cubic feet rather than weight and distance. To allocate FedEx transportation costs to the weight categories, a conversion factor between weight and cubic feet is necessary. In response to Presiding Officer's Information Requests, witness Taufique indicates that the Postal Service is currently studying the relationship between weight and cubic feet as part of "a substantive review of the relationship between parcel size and cost." Tr. 3/718, 720. The review was not completed at the time of witness Taufique's responses. A conversion factor should be available in the next proceeding to facilitate the allocation of FedEx transportation costs to weight increments.

[6043] In a related issue, the Postal Service should review the justification for employing its current 8 zone rate structure when a limited amount of underlying costs are incurred on a distance-related basis. Due to the use of FedEx, distance-related air transportation costs have dropped to just 5 percent of air transportation costs in the base year 2004. Air transportation is used for transporting mail for Zones 5 through 8.

[6044] The data underlying the current Priority Mail rate design are problematic in certain respects. These include the following areas, some of which the Postal Service has begun to study.

- Balloon-rated parcels. In response to POIR 5, Question 3d, witness Taufique states the Postal Service is in the process of examining the relationship between parcel size and cost and that balloon-rated parcels are among those being studied. *Id.* at 718.
- Local share of total Local and Zones 1 through 3 postage pounds. The Postal Service uses the results of a Docket No. R90-1 analysis to determine Local postage pounds. In response to POIR 5, Question 5b, witness Taufique indicates

that the Postal Service will look into updating the 12.35 percent Local share (of total Local and Zones 1 through 3 postage pounds). *Id.* at 721.

- Weight-related nontransportation costs. In Docket No. R2001-1, the Postal Service used a 2-cent per pound charge for weight-related nontransportation costs, such as acceptance, sorting, and delivery. While this has been an issue in prior proceedings, empirical evidence to support this charge appears to be lacking.

[6045] The Postal Service should endeavor to update each of the foregoing or, at a minimum, address not doing so in its next rate filing.

C. Standard Mail

1. Introduction and Summary

[6046] *Background.* Standard Mail consists primarily of advertising circulars, catalogs, and product samples. It contains four subclasses: (1) Regular, (2) Nonprofit, (3) Enhanced Carrier Route (ECR), and (4) Nonprofit Enhanced Carrier Route (NECR). It is a bulk class requiring a permit and a minimum of 200 pieces or 50 pounds per mailing. Each piece must weigh less than one pound and must be sorted to at least the basic level for nonautomation letters and all nonletters, and to mixed automated area distribution centers (MAADC) or to an automated area distribution center (AADC) for automation letters.[50]

[6047] Standard Mail Regular and Nonprofit subclasses reflect the same rate structure. Both contain the same presort, prebarcode, and dropship categories. Both contain rate distinctions for letters, flats, and residual shape pieces. Both contain a nonmachinable surcharge for letters. Similarly, the rate structures are the same for ECR and NECR. Both subclasses contain the same density (basic, high density, and saturation), prebarcode, and dropship categories. Both contain rate distinctions for letters, flats, and residual shape pieces. Nonprofit and NECR rates are subject to 39 U.S.C. § 3626(a)(6)(A) which requires that the average revenue per piece for Nonprofit and NECR mail be equal to 60 percent of the average revenue per piece for the corresponding commercial subclass.[51]

[6048] *Proposal*. The Postal Service's proposed rates for each of the Standard subclasses reflect its across-the-board approach whereby every rate increases by 5.4 percent with some exceptions due to rounding and maintaining consistency between

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[50] DMCS § 320. DMM §§ 240a-e, 340a-c, 440a-b. *See also* 703 for some specific preparation requirements that apply to Standard Mail.

[51] Specifically, the average revenue per piece for the commercial subclass must be calculated using TYBR volumes and recommended rates.

discounts. The proposed rates for Regular and Nonprofit subclasses have not been controversial. However, Valpak has raised concerns about ECR cost coverage, the letter-flat rate differential, and other ECR rate design matters. It also alleges that the Postal Service's proposed rates for NECR are not in compliance with § 3626(a)(6)(A). Advo counters Valpak's assertions on costing issues related to the letter/flat rate differential and other matters.

[6049] *Summary of Commission recommendations*. The Commission is recommending the Postal Service's proposed rates for the Regular subclass. To comply with § 3626(a)(6)(A), the Commission is recommending rates that reflect an average rate increase for the Nonprofit subclass of 3.0 percent rather than the Postal Service's average rate increase of 5.6 percent. Recommended rates for the Nonprofit subclass reflect an average revenue per piece that is 59.7 percent of the average revenue per piece for Regular subclass calculated in accordance with the requirements of § 3626(a)(6)(A).

[6050] The Commission is recommending the Postal Service's proposed rates for ECR subclass with one exception. To comply with § 3626(a)(6)(A), recommended rates for NECR subclass reflect an average rate increase of 12.3 percent compared with the 5.9 percent average rate increase proposed by the Postal Service. USPS-T-28 at 11. Recommended rates for NECR reflect an average revenue per piece that is 59.8 percent of the average revenue per piece for ECR subclass calculated in accordance with the requirements of § 3626(a)(6)(A).

[6051] The Commission's recommended rates for nonprofit ECR result in an increase in revenue of $16.9 million. The recommended rates for nonprofit regular result in a reduction of revenue of $33 million. Taken together, the recommended nonprofit rates result in a reduction of revenue of $16.1 million.

[6052] There are two NSAs that were implemented after the base year in this case. Since both will presumably be in effect during the test year, it is necessary to adjust the results of the volume, revenue and cost forecasting models to account for their impact on the test year. As a result of these NSAs mail volume is expected to shift from Standard

Regular and ECR to First-Class. The result of the NSAs is a reduction in TYAR revenue of $13.5 million for Standard Regular and $0.6 million in ECR.

2. Regular Subclass

[6053] The Postal Service develops proposed rates for the Regular subclass by increasing each rate by 5.4 percent.[52] Because of rounding, the resulting percentage rate changes are slightly higher or lower than 5.4 percent. Also, witness Taufique adjusts some rates to ensure that discounts for each dropship level are the same across rate categories. Tr. 3/622. According to the Postal Service, this rate approach produces an average rate increase of 5.3 percent for Regular subclass. USPS-T-28 at 11.

[6054] For reasons discussed elsewhere in this decision, the Commission accepts the Postal Service's across-the-board approach. Accordingly, the Commission recommends the Postal Service's proposed rates for Regular subclass. It should be noted that there was a minor controversy over heavy automation letter rates. As explained below, this does not affect the Commission's recommended rates, which match the rates appearing in the Stipulation and Agreement. Rather, it affects only TYAR revenues.

[6055] *Heavy automation letters*. Heavy automation letters are prebarcoded letters weighing more than 3.3 ounces, but not more than 3.5 ounces. Postage for these pieces is based on the piece and pound rate charges for nonletters weighing more than 3.3 ounces less a discount for being letter-shaped. There are no rates for heavy automated letters listed in Rate Schedule 321B; however, there is a Note 2 to that schedule that explains how to calculate postage for these pieces. It provides:

> Letters that weigh more than 3.3 ounces but no more than 3.5 ounces pay the nonletter piece and pound rate but receive a discount off the piece rate

[52] USPS-LR-K-115, File: USPST28Aspreadsheets, Sheet: S-15, Cell D3.

> equal to the applicable nonletter minimum piece rate minus the applicable letter minimum piece rate corresponding to the correct presort tier.

Rate Schedule 321B, Note 2.

The note explains that the calculation of postage for these pieces requires the piece and pound rate for nonletters, which are listed in the rate schedule, and a discount based on minimum piece rates which are also listed in the rate schedule. Witness Taufique begins the process by which he develops proposed rates and TYAR revenues, by first creating a piece rate and pound rate for heavy automated letters based on current rates. The piece rate is reduced by the discount as described in Note 2. Then he increases each rate by 5.4 percent to create proposed rates. In a response to an interrogatory from Valpak, the Postal Service acknowledges that using Note 2 does not reproduce some of the proposed rates shown in witness Taufique's spreadsheets for heavy automated letters. The reason is that the proposed rates appearing in witness Taufique's spreadsheets are not developed using Note 2, but rather as described above. The Postal Service provides alternative rates based on Note 2 and declares this approach to be acceptable. Tr. 3/659.

[6056] However, characterizing this approach as acceptable understates its importance. According to Note 2, it is the only way to calculate postage for heavy automated letters. Further, Note 2 was proposed by the Postal Service in Docket No. R2001-1, recommended by the Commission, and adopted by the Governors. For these reasons, postage for heavy automated letters is calculated by mailers using Note 2 and acceptance clerks verify postage calculations using Note 2. The Commission expects this process, i.e., using Note 2, to continue in the future. It is noteworthy that the Commission's recommendation includes not only the rates and discounts listed in the main body of the rate schedule, but extends also to rates, discounts, and surcharges that are contained in notes to the rate schedule. The Postal Service is not proposing to change Note 2. Thus by recommending the same Regular subclass rates that appear in the Stipulation and Agreement, the Commission is also recommending heavy automated letter rates as defined in Note 2. This definition includes the piece and pound rates for

nonletters and the minimum piece rates, all of which are listed in the main body of Rate Schedule 321B, and that are supposed to be used in calculating the postage for heavy automation letters. Thus, there is no difference between recommended rates and settlement rates. However, an accurate calculation of TYAR postage, and therefore TYAR revenues, for this mail requires that Note 2 be used rather than witness Taufique's approach. This change reduces TYAR revenue about $11,000.[53]

[6057] *Observation regarding future cases*. It should be noted that if the next rate case follows a traditional approach to rate design whereby recommended rates more fully reflect efficient component pricing, i.e., passthroughs for all worksharing discounts and letter-flat differentials that would be closer to 100 percent, there may be substantial increases in some rates.

3. Nonprofit Subclass

[6058] The Postal Service develops proposed rates for Nonprofit subclass by increasing each rate by 5.4 percent.[54] Because of rounding, some resulting percentage rate changes are slightly higher or lower than 5.4 percent. Also, witness Taufique adjusts some rates to ensure that discounts for each dropship level are the same across rate categories. Tr. 3/622. According to the Postal Service, this approach produces an average rate increase of 5.6 percent for the Nonprofit subclass, and a ratio of Nonprofit subclass average revenue per piece to Regular subclass average revenue per piece of 61 percent. USPS-T-28 at 11.

[6059] As noted earlier, the Commission recommends Nonprofit subclass rates that produce, as nearly as practicable, an average revenue per piece that is 60 percent of the average revenue per piece for Regular subclass. The actual figure for recommended

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[53] Using Note 2, the heavy automation piece rate for a AADC letter, after applying the discount for being letter-shaped, is reduced from witness Taufique's 7.0 cents to 6.9 cents

[54] USPS-LR-K-115, File: USPST28Aspreadsheets, Sheet: S-18, Cell D3.

rates is 59.7 percent and is based on an average revenue per piece calculated for the commercial counterpart using TYBR volumes and recommended rates. The reduction from 61 percent to 59.7 percent results in average rate increase of 3.0 percent for Nonprofit subclass rather than the 5.6 percent increase embedded in the Postal Service's recommended rates. The result is a reduction in Postal Service net revenues of approximately $33 million. Nonetheless, the Commission's recommendation in total will generate additional revenues of approximately $111 million in excess of the $3.08 billion escrow obligation.

[6060] *The development of recommended rates*. Recommended rates were generally developed using witness Taufique's across-the-board approach. Exceptions were made for destination entry discounts which have been the same for every Standard subclass since Docket No. R97-1.[55] USPS-LR-K-73 at 7-16. Because the destination entry discounts for the other Standard subclasses reflect a 5.4 percent increase, the recommended discounts for Nonprofit subclass also reflect a 5.4 percent increase. The same approach must also be taken for the residual shape surcharge. Thus, the recommended surcharge reflects the 5.4 percent increase applicable to all other Standard subclasses. The recommended destination entry discounts and residual shape surcharge are the same as contained in the proposed settlement agreement.

[6061] To avoid making adjustments to rates to ensure consistency between discounts, the Commission modified Taufique's procedure for applying an across-the-board increase by applying the same percentage increase to the benchmark rate, each worksharing discount, and each letter-flat differential. For heavy automated letters, the Commission used the formula from the rate schedule previously discussed. Compliance with § 3626(a)(6)(A) was achieved by increasing the benchmark rate,

[55] Beginning in Docket No. R97-1, the Postal Service calculated avoidable destination entry cost for Standard Class mail as a whole, not for each subclass. Because the avoidable costs, as calculated, do not vary by subclass, neither do the discounts based on those costs. *See* PRC Op. R97-1, ¶ 5490.

discounts, and letter-flat differentials by a factor of 1.031.[56] The development of these rates is shown in PRC-LR-12.[57]

[6062] *Observation regarding future cases*. As noted in the analysis of Standard Regular, if the next rate case follows a traditional approach to rate design whereby recommended rates more fully reflect efficient component pricing, i.e., passthroughs for all worksharing discounts and letter-flat differentials that are closer to 100 percent, there may be substantial increases in some rates.

4. Enhanced Carrier Route Subclass

[6063] *Rates*. Enhanced Carrier Route (ECR) rates in the proposed settlement build on current rate relationships and rate design elements by applying an across-the-board 5.4 percent increase to each rate. Due to rounding constraints, some increases are slightly higher or lower than 5.4 percent. In addition, Postal Service witness Taufique adjusts some rates by a tenth of a cent to ensure that discounts are the same across rate categories. The overall average rate increase is 5.6 percent. USPS-T-28 at 11.

[6064] For reasons discussed elsewhere in this decision, the Commission is accepting the Postal Service's across-the-board approach. Accordingly, the Commission is recommending the proposed settlement rates for Standard ECR subclass with one exception. The exception is a technical correction to the nonletter basic piece rate for pound-rated mail. ECR subclass includes two categories of nonletter mail, piece-rated and pound-rated. The pound-rated nonletter rates include both a piece and a pound component. The current high density discount, which is taken from the basic piece rate,

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[56] This approach was used by the Postal Service and the Commission in developing across-the-board rates within then Third-Class Bulk Rate Regular and within Third-Class Bulk Rate Nonprofit. *See* PRC Op. R94-1, ¶¶ 5302 and 5333.

[57] *See* File: USPST28A-PRC-Reg NP. Changes in this spreadsheet apply to only Regular and Nonprofit subclasses.

is the same for both categories because the avoidable costs apply to both piece- and pound-rated mail. The across-the-board procedure used in this case for calculating rates inadvertently creates different discounts for the piece- and pound-rated mail. A parallel situation occurs in the proposed rates for Standard nonprofit mail. POIR No. 12, Question 5, asks the Postal Service to provide revised rates or a rationale for the deviation. The Postal Service does not provide a rationale for why the discounts should be different. Instead, witness Taufique illustrates that if the rates were to be adjusted to maintain the same discounts between piece-rated and pound-rated mail, the piece rates would be lowered by one-tenth of a cent. The Commission's recommendation lowering Standard nonprofit rates obviates the need to make the correction in that subclass; however, witness Taufique's method is used to make the correction in the ECR subclass. This correction results in a basic piece rate of 7.1 cents, rather than the proposed 7.2 cents, and reduces net revenues by $2.2 million.

[6065] Valpak sponsors two witnesses who propose changes to ECR. Witness Mitchell proposes a lower cost coverage for ECR, and several changes in ECR rate design. Tr. 9/5343-53. Witness Haldi proposes adjustments to the unit delivery costs, and an alternative method for estimating the marginal city carrier delivery cost of sequenced mail. Tr. 9/5487-38.

[6066] *ECR cost coverage.* Witness Mitchell asserts that the proposed cost coverage for ECR mail is excessive, and proposes lowering the coverage by ten percentage points or leaving the rates for ECR mail unchanged in this docket. Tr. 9/5346. As discussed earlier, the Commission does not accept this proposal. *See* Chapter V**.** The cost coverage for ECR and nonprofit ECR combined is 237.8 percent.

[6067] *Decoupling basic ECR and regular 5-Digit automation rates and increasing the letter/flat differential in ECR.* Witness Mitchell argues first, that the ECR basic rate should be decoupled from the Regular 5-Digit automation rate, and second, that the letter/flat differential for ECR mail be set at a level that reflects a passthrough of at least 100 percent.

[6068] According to witness Mitchell, the Postal Service claims that as a means of encouraging automation the ECR Basic Rate should be higher than the 5-digit automation rate in the Standard Regular subclass. Mitchell believes that the Service is implying that if the ECR rate were lower, automation mail would migrate from Regular 5-Digit Automation to ECR Basic and no longer bear a barcode. Witness Mitchell asserts that this possibility is unlikely because mailers would need much higher density to use ECR basic rather than Standard Regular 5-digit, and the two groups of mailers are "different in kind" from one another. He then states that ECR and Standard Regular are separate subclasses, and their rates should be set through independent application of the non-cost factors of the act and accepted rate design procedures. Tr. 9/5351.

[6069] Mitchell claims that the failure to recognize in rates any of the cost difference between letters and flats in ECR basic is misguided. He suggests that this zero percent passthrough between ECR basic letters and ECR basic flats is a means of keeping the ECR basic letter rate artificially above the Regular 5-digit automation letter rate. He proposes decoupling the rates for ECR Basic letters and Standard Regular 5-digit automation letters, and recognizing the cost difference between ECR Basic letters and flats in the rates by applying a passthrough of 100 percent. He asserts that a zero percent passthrough is not only unfair to ECR basic ratepayers but also to ECR high density and saturation mailers because these rates are discounted directly from the basic letter rate. Tr. 9/5350-52.

[6070] Witness Mitchell argues that a passthrough of greater than 100 percent, even as great as the subclass cost coverage level, would also be appropriate because letters and flats are processed in separate mailstreams and are essentially different products. Cost differences between the two are not linked to worksharing. Hence, encouraging the lowest cost producer to perform the work is not an issue. Tr. 9/5350-51.

[6071] In rebuttal testimony, Advo witness Crowder counters that because the letter/flat cost differential reflects some weight-related costs and ECR flats are subject to a pound rate, any rate differential between letters and flats should reflect a passthrough considerably below 100%. Tr. 10/5728. She argues that, "because weight-related costs

are recovered separately through the pound rate, the weight-related portion of costs captured in the letter-flat unit cost differential must be excluded when setting the letter-flat differential." *Id.* at 5735. She proposes that these costs be excluded by setting the passthrough for the differential below 100 percent. She calculates that the proposed rates and the Commission's costing methodology, with adoption of the new city carrier cost study, yield a passthrough of the letter-flat difference at the Saturation level of 60.7 percent. She claims that because only 65.6 percent of Saturation flat test year after rates revenue is from pieces, the implicit ratemaking assumption is that 65.6 percent of Saturation flat costs are shape-related. Therefore, she contends that the passthrough derived from the proposed rates is sufficient to reflect the shape-based cost differences, and concludes there is no reason to increase the letter/flat rate differential. *Id.* at 5745.

[6072] Witness Crowder agrees with witness Mitchell that flats and letters could be viewed as separate products. She also says that shape is not the only determinant of different products, and contends that Basic flats and High Density/Saturation flats could also be viewed as separate products. She then calculates that at the high density and saturation levels the flat product has a higher cost coverage than the letter product, 290.4 percent to 282.9 percent. She gives two reasons for this difference in cost coverage: flats are dropshipped deeper into the postal system; and revenues are derived from both a piece and a pound rate. Tr. 10/5740-43.

[6073] On brief, Valpak responds that the proportion of weight-related costs reflected in the differential might be quite small given the average weight of letters versus non-letters and the fact that the piece rate does not include transportation costs. Valpak acknowledges that some weight-related costs might be captured in the piece rate but contends that, "the question of an appropriate pound rate … is important in its own right." Valpak Brief at VII-10. However, according to Valpak, lowering the pound rate would necessarily require increasing the minimum piece rate in order to meet the subclass revenue requirement. Consequently, the benefits of doing so are not immediately apparent. Valpak also states that witness Crowder's discussion related to the cost coverage of letters and flats at the high density and saturation level is irrelevant given

that no party has proposed separate subclasses for saturation letters and saturation flats.

[6074] The Commission finds that both Valpak's and Advo's arguments have merit. Valpak provides thoughtful discussion of why the letter/flat differential should be recognized in basic ECR rates. Witness Crowder provides testimony claiming that some of the differential is already captured in the rate structure through the pound rate. Upon analysis, the Commission finds that this is likely true to some extent, although in this docket the pound rate is calculated by applying a 5.4 percent increase, rather than based on cost studies. It is not apparent that the current ECR rate design best balances these concerns.

[6075] The Commission is open to considering these arguments in future rate cases. Witness Crowder's discussion of the cost coverages of letters and flats at the Saturation level, while interesting, does not address Valpak's proposal to increase the differential at the Basic level. The Commission finds persuasive witness Mitchell's arguments for decoupling the ECR basic and Standard Regular 5-digit automation rates, and expanding the letter/flat differential at the basic level to better reflect cost differences. However, for reasons stated elsewhere in this decision, the Commission finds it appropriate to accept the settlement, and therefore recommends the proposed across-the-board rate increase. For that reason the Commission does not recommend increasing the letter/flat differential in this docket.

[6076] *Other rate proposals.* Witness Mitchell provides other suggestions related to rate design in ECR. Among them are applying passthroughs of 100 percent to workshare category unit cost differences, and updating the dropship cost avoidances. Tr. 10/5353. The Commission agrees that, in general, 100 percent passthroughs should be applied and updated cost studies should be used. However, given the circumstances of this case the Commission does not recommend altering the ECR rates from those adopted in the settlement.

[6077] *Unit cost of detached address labels.* Postal Service witness Kelley proposes an adjustment in city carrier costs for ECR saturation mail to reflect the cost of

processing detached address labels (DAL). USPS-LR-K-67. A DAL is a letter-shaped mail piece that contains addressing information for a physically separate non-letter ECR Saturation mail piece. The Postal Service's Revenue, Pieces and Weight (RPW) system records all DAL revenue as nonletter revenue with the DAL and accompanying piece counted as one item. Both the city and the rural carrier systems record street-time costs related to DALs as applicable to letters. Tr. 9/5487-91. Thus, a mismatch between costs and revenues occurs. Witness Kelley's adjustment properly reallocates DAL costs from saturation letter costs to saturation flat costs, lowering the unit cost of saturation letter mail and increasing the unit cost of saturation flat mail.[58]

[6078] The Postal Service does not keep track of the actual volume of DALs that are mailed. Therefore, an estimate of the volume must be developed to make this adjustment. The Postal Service estimates a DAL volume of 3.4 billion based on delivery points and the Household Diary Study. Moving the delivery costs of this estimated DAL volume from letters to flats reduces the total attributable unit delivery cost of ECR saturation letters from 6.67 cents to 4.14 cents, and increases the total attributable unit delivery cost of ECR saturation non-letter mail from 3.19 cents to 4.16 cents. USPS-LR-K-67, Table 1 (revised).

[6079] Valpak witness Haldi argues that this adjustment is too small. He develops an alternative estimate that is based on analysis of SEC filings for large saturation mailers. He estimates DAL volume of 4.5 billion. Tr. 9/5555. On rebuttal, witness Crowder further refines the estimate by incorporating changes that arose during oral cross examination of witness Haldi. Tr. 10/5780-82.

[6080] The Commission finds that the DAL adjustment suggested by witness Crowder reflects the minimum number of DALs. *See* Valpak Brief III-9-10. The Postal Service should be able to extract information on the actual number of DALs in the mailstream from its existing data systems. The Commission suggests that the Postal

[58] For the impact of the revised DAL volumes on delivery costs, see PRC-LR-7, which is an adaptation of the revised version of witness Kelly's USPS-LR-K-67.

Service collect and maintain this information in light of the importance of fairly reflecting the costs of these pieces in rates. Because the Commission recommends the rates resulting from an across-the-board approach, the lower unit cost of saturation letter mail does not affect the rate in this instance. However, in future rate cases the revised unit costs should be reflected in rates.

[6081] *Possible additional inaccuracies in saturation letter and flat costs.* Witness Haldi asserts that the unit cost of ECR sequenced letters may be further overstated. He says that two Postal Service witnesses have cited recording errors as possible reasons for anomalous cost results. He believes that these recording errors could lead to underestimation of the volume of cased ECR saturation flats taken to the street. His reasoning is as follows.

[6082] The Postal Service uses costs developed from the In Office Cost System (IOCS) to estimate the number of hours used to case flats. It then divides those hours by the average rate for casing flats to estimate the volume of flats cased. Cased DAL volume is recorded as cased flat volume. Therefore, according to witness Haldi, the number of cased flats taken to the street is underestimated because (1) the procedure used is actually estimating the total number of pieces cased, both flats and DALs, rather than just flats; (2) if DALs are cased at a faster rate than flats, using the casing rate of flats underestimates the actual volume; and (3) the cased DALs represent flats taken to the street. He contends that if the volume is underestimated then the city carrier costs are also underestimated. Tr. 9/5494-96.

[6083] Haldi also argues that letter costs are overstated due to the attribution of mail processing costs of automated DALs to letters rather than flats. He claims that "some unknown volume of DALs is sorted on automation equipment." *Id*. at 5497. He reasons that if DALs are being processed on automated equipment, the cost of processing them will be attributed to letters rather than flats. He also claims that misidentification of heavy weight letters and non-letters as letters may lead to costs related to flats being attributed to letters. Witness Haldi does not propose any specific

remedy for these issues. Rather he suggests that the Postal Service obtain more accurate data related to DALs. *Id.* at 5502.

[6084] On rebuttal, Advo witness Crowder attempts to counter Haldi's contentions. First, she contends that if the volume of cased flats taken to the street is underestimated then the volume of uncased flats is overestimated, and the city carrier costs attributable to uncased flats is overstated. Since the unit delivery cost of sequenced mail is less than the unit delivery cost of regular mail, an adjustment would actually lower the unit cost of flats. Second, she contends that the volume of automated DALs is very small and most of that volume is properly attributed through the IOCS tallies anyway. Finally, she argues that if the Postal Service costing systems are biased, the bias hurts flats and not letters because, based on Postal Service responses to a series of questions from Valpak, it appears that the RPW is more likely to overstate letter revenue than to overstate flat revenue. Regardless, according to witness Crowder, the per-piece IOCS cost variances are very small, and it is impossible to determine the direction of any bias. Tr. 10/5754.

[6085] The Commission finds that both witness Haldi's arguments and witness Crowder's rebuttal may have merit. However, no quantification of the unit cost impacts has been made on this record. In addition, the Postal Service has stated that efforts to improve data systems regarding DALs are underway. USPS-RT-1 at 32, Tr. 11/6180. The Commission encourages the Service to continue these efforts.

[6086] *Marginal delivery cost of sequenced mail.* Witness Haldi claims that the city carrier in-office unit cost for saturation letters is overstated. He cites as evidence of this the fact that the in-office unit cost, as given by Postal Service witness Kelley, is 0.53 cents for flats and 1.21 cents for letters. This result occurs in spite of the fact that the average casing rate for letters is almost twice that of flats.[59] Witness Haldi believes that this anomalous result is due to a severe capacity constraint in the amount of saturation mail that can be carried as a third bundle by city carriers. When saturation

[59] A Postal Service study presented in docket R90-1 found that letters that were presented in line-of-travel could be sorted at a rate of 41.2 pieces per minute, while line-of-travel flats were sorted at a rate of 27.4 pieces per minute.

mail is presented to the Postal Service it can either be manually cased with other mail by the carrier or it can forgo manual casing and be carried to the street as a third bundle. Haldi believes that the use of the third bundle option is constrained by the length of the carrier's arms, the configuration of the carrier's vehicle, and work rules adopted in negotiated contracts. He contends that the first two constraints cannot be removed and the third constraint would be difficult to remove. Consequently, he believes the constraint is "far more permanent" than other constraints faced by the Postal Service. Tr. 9/5513.

[6087] Witness Haldi states that because of this constraint only a portion of saturation mail is taken to the street as a third bundle. He contends that the majority of the time the mail taken to the street as a third bundle is flat mail rather than letter mail, citing Postal Service data that show 74.3 percent of all saturation flats are taken to the street as a third bundle, while only 36.2 percent of saturation letters are handled that way. Tr. 9/5510. Due to the manner in which IOCS tallies are taken, mail that goes directly to the street will have little or no in-office processing costs attributed to it. Consequently, saturation letters are far more likely to incur casing costs than saturation flats.

[6088] Haldi contends that, as a result of the Postal Service's preference for casing letter mail over flat mail, the unit costs used in ratemaking are average costs rather than marginal costs. He proposes that the Postal Service use a modeled unit cost, as was done in Docket No. MC95-1, to assure that both letters and flats bear the cost of the constraint. Lacking modeled costs, he develops alternative marginal city carrier direct costs for saturation ECR mail of 3.2 cents for letters and 4.0 cents for flats.[60] Tr. 9/5533.

[6089] In rebuttal testimony, Postal Service witness Lewis presents evidence that this constraint appears to exist only about 10 percent of the time. First, he states that only delivery routes other than curbline, cluster box, centralized, or dismount are subject to the constraint. Somewhat less than 44.3 percent of all delivery routes fall into that

[60] These costs are calculated by adding in-office costs, which consist of casing costs for saturation mail, to street costs. The in-office cost was calculated in response to a Valpak interrogatory. *See* Tr. 7/2889-92.

category. Second, the constraint only occurs on days when there is more than one saturation bundle that needs to be delivered. According to a study conducted by witness Lewis, this occurs on 23 percent of delivery days. Tr. 11/5945.

[6090] Witness Bradley argues, also on rebuttal, that the established cost methodology measures costs in relation to current operating procedures and is the appropriate measure of marginal cost for products. He provides mathematical analysis that shows that the Postal Service's calculation of average unit cost for in-office carrier activities is the same as marginal cost. *Id.* at 6055. Witness Crowder argues that there is no capacity constraint, and witness Haldi's remedy of using a modeled marginal cost rather than actual unit cost results in much higher delivery costs for both letters and flats. She concludes that his proposal should be rejected. Tr. 10/5757-69.

[6091] On brief, Valpak argues that the issue of the third bundle and whether it is dealt with properly in costing and ratemaking is a serious one that deserves attention in future dockets. Valpak claims that the problem with the Postal Service's current costing methodology is that it ignores interdependent relationships between the volume of saturation letters and flats and the unit cost of in-office casing. Valpak contends that it is unclear whether the higher in-office unit cost for letters is caused by letter volume or flat volume. Valpak Brief at IV-18-31.

[6092] The Commission agrees with witness Bradley that the current cost system is designed to reflect current operating procedures. In addition, evidence suggesting the limited nature of a capacity constraint for handling third bundles has been presented. Therefore, the Commission rejects witness Haldi's proposed alternative for calculating the marginal city carrier costs for saturation ECR in this docket.

5. Nonprofit Enhanced Carrier Route Subclass

[6093] Witness Taufique develops proposed rates for the Nonprofit ECR subclass by applying a 5.4 percent increase to each rate. USPS-T-28A. Due to rounding, some rates increase more than 5.4 percent and some rates increase less. Witness Taufique

also adjusts some rates to ensure consistency of dropship discounts. Under the proposed rates the average increase for the subclass as a whole is 5.9 percent. These rates result in a ratio of Nonprofit ECR revenue per piece to ECR revenue per piece of 56.4 percent. Tr. 14/6567; *see also* USPS-T-28 at 11.

[6094] Consistent with the statutory requirements of 39 U.S.C. § 3626(a)(6)(A), the Commission is recommending NECR subclass rates that produce, as nearly as practicable, an average revenue per piece that is 60 percent of the average revenue per piece for ECR subclass. Accordingly, the recommended rates for nonprofit ECR are higher than those proposed by the Postal Service and stipulated in the settlement. The recommended rates generally have been developed using an across-the-board approach to be consistent with the settlement. Exceptions were made for the dropship discounts and the residual shape surcharge which, as a matter of consistency with ECR and Standard Regular, reflect a 5.4 percent increase. Similarly, the rate for ECR Basic Automation letters increases by 5.4 percent in order to keep it below the Regular 5-Digit Automation letter rate.

[6095] To avoid having to make adjustments to individual rates the Commission modifies witness Taufique's across-the-board approach by applying the same percentage increase to the basic rate, the pound rate, and each worksharing discount and letter/flat differential. Except where noted earlier, these rates and discounts increase by 11 percent. Using this approach, the recommended rates reflect an average increase of 12.3 percent. The resulting average revenue per piece for nonprofit ECR is 59.8 percent of the average revenue per piece for ECR mail and is based on average revenue per piece calculated for the commercial counterpart using TYBR volumes and recommended rates. The result is an increase in Postal Service revenues of around $17 million.

D. Periodicals

1. Introduction and Summary

[6096] *Background*. The Periodicals class is used by mailers of magazines, newspapers, and other periodical publications. Its hallmark is that rate eligibility turns, in part, on maintaining a requisite percentage of editorial (nonadvertising) content.[61]

[6097] Periodicals consists of two subclasses for ratemaking purposes: Outside County and Within County. Outside County includes Regular Rate, Nonprofit, and Classroom Mail. Nonprofit and Classroom mailers receive a statutory rate preference. It is defined as a five percent deduction from all rate elements in the Regular Rate schedule except advertising pounds.

[6098] The rate structure in both subclasses consists of per-piece and per-pound charges, with discounts for dropshipping, presorting and barcoding. The Outside County structure includes discounts for presenting mail on pallets.[62] In addition, the rates for the Outside County subclass include both advertising and editorial components. By contrast, Within County subclass rates do not distinguish between editorial and advertising material.

2. The Settlement Proposal for the Periodicals Class

[6099] The settlement proposal seeks to increase each rate in the Outside County subclass by 5.4 percent. Actual percentage increases for individual rate cells deviate

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[61] A publication may qualify for mailing at Periodicals rates if it meets the requirements in DMCS § 411.2 through 411.5 and the requirements for one of the qualification categories in §§ 412-415. DMCS § 412.4 indicates that a publication must not have advertising in excess of 75 percent in more than one-half of its issues during any 12-month period. The Postal Service's Domestic Mail Manual sets out related rules on permits, mail preparation and other details. *See* DMM § 707.

[62] These discounts were an outcome of Docket No. R2001-1.

somewhat from 5.4 percent because of rounding effects. The Within County settlement proposal calls for each rate to *decrease* 5.4 percent. USPS-T-28 at 14. This significant departure from the target percentage is not a consequence of rounding; instead, Postal Service witnesses Robinson and Taufique attribute it to the operation of 39 U.S.C. § 3626(a)(3). USPS-T-27 at 10; USPS-T-28 at 14. This statutory provision establishes a rule requiring that the markup for Within County Periodicals be equivalent to half the markup of Outside County Periodicals. Taufique notes that he determined, in conjunction with Robinson, that application of the statutorily-defined markup in the context of the Service's across-the-board approach would result in proposed decreases for Within County rates.[63] USPS-T-28 at 14.

[6100] *Ride-Along rates*. Ride-Along pieces are advertising attachments or enclosures that are allowed to be included in (and thus "ride-along" with) a Periodicals publication for a flat rate, which is assessed in addition to the Periodicals postage due on the host publication. The current rate for a Ride-Along is 12.4 cents; the settlement proposal establishes it at 13.1 cents in both subclasses. This is a 5.65 percent increase over the current 12.4 cents. Exh. USPS-28A, Table 4 at 15; Stipulation and Agreement, Rate Schedule 421, Note 6 and Rate Schedule 423, Note 3.

[6101] *Fees*. In addition to across-the-board rate changes, the settlement proposal includes increases in three of the four fees that apply to Periodicals mailers; one fee remains unchanged. Exh. USPS-28A at 56. These fees, which appear in Fee Schedule 1000 — Miscellaneous Fees, are addressed in the Special Services section of this Opinion.[64]

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[63] "Markup" is one of several terms used in postal rate discussions. It is defined as contribution divided by attributable cost. "Contribution" equals RPW adjusted revenue minus attributable cost. Cost coverage is defined as adjusted revenue divided by attributable cost. For markup and cost coverage comparisons, the Commission defines Periodicals "adjusted revenue" as RPW adjusted revenue minus all preferred mail discounts. *See* PRC Ops. R2000-1 and R2001-1, Appendix G, Schedule 1.

[64] The settlement proposal and the Commission's recommendation leaves one fee unchanged (news agent registration); increases one (the re-entry fee) by 12.5 percent; and increases the other two (for original entry and additional entry) by 5.3 percent and 8.3 percent, respectively..

[6102] *Additional notes*. Postal Service witness Taufique asserts that the Service's filing as it relates to Periodicals includes two noteworthy aspects. One is the submission of the first separate volume forecast for Ride-Along pieces. The other is a change in the mail mix associated with a cost reduction program. This program entails revisions to sacking preparation rules for all sacks containing less than 24 pieces. USPS-T-28 at 13. These aspects of the filing are addressed following the rate presentation.

[6103] *Participants' positions*. Participants in this case representing senders of Periodicals mail include ANM, ABM, CRPA, Dow Jones, The Hearst Corporation, MPA, McGraw-Hill, NNA, NAA, PPA, and Time Warner. Each has signed the Stipulation and Agreement. ANM, Time Warner, and jointly, ABM and McGraw-Hill, filed separate comments or briefs in this case, and Time Warner, along with ABM, Dow Jones, MPA and McGraw-Hill, filed a joint brief as the Periodicals Coalition.

3. The Commission's Recommendations — Outside County Rates

[6104] The Commission recommends, without change, the set of Periodicals Outside County rates and fees identified in the settlement proposal. The recommended rates represent an across-the-board increase; they do not reflect application of traditional rate design methodology. Pound charges, for example, do not reflect the actual distribution of pound miles in the base year. This result carries forward into the test year; thus, in the future, some rate elements may require larger than expected increases to realign rates with costs. Consequently, mailers must stand forewarned that some may face "rate shock" in subsequent proceedings. The Commission recommendations do not include any classification changes consistent with the settlement.

[6105] Table 6-1 displays a comparison of current and recommended Outside County rates and discounts, including the Ride-Along rate. The recommendations, as indicated previously, are identical to those in the settlement proposal. In several cells, differences between current and recommended discounts are extremely slight; also, in

some cells, current and recommended discounts are the same. (Cells with identical discounts are identified in italics in the tables.) This result occurs when a relatively modest percentage increase is applied to a low base amount and rounding conventions are applied. Other Periodicals rate schedules exhibit this to some extent as well, for the same reasons.[65]

Table 6-1
Periodicals Mail —
Outside County Subclass Rate and Discount Comparisons
Regular, Nonprofit* and Classroom*

Rate Element	Current Rate	Proposed and Recommended Rate
Pound Rates (cents per pound)		
Destination Delivery Office Entry	15.8	16.7
Destination SCF Entry	20.3	21.4
Destination ADC Entry	22.3	23.5
Zones 1 & 2	24.8	26.1
Zone 3	26.7	28.1
Zone 4	31.5	33.2
Zone 5	38.9	41.0
Zone 6	46.6	49.1
Zone 7	55.9	58.9
Zone 8	63.8	67.2
Editorial Pound Rate	19.3	20.3
Piece Rates (cents per piece)		
Basic Presort	37.3	39.3
Barcode discount for letters	9.2	39.3
Barcode discount for flats	4.8	39.3
3-digit Presort	32.4	34.1
Barcode discount for letters	7.5	34.1
Barcode discount for flats	4.1	34.1
5-digit Presort	25.6	27.0
Barcode discount for letters	6.1	27.0
Barcode discount for flats	3.0	27.0
Carrier Route Presort	16.3	17.2
High density discount	3.2	17.2
Saturation discount	5.1	17.2
Per-piece editorial discount	7.4	7.8
Per-piece DDU entry discount	1.8	1.9
Per-piece DSCF entry discount	*0.8*	*0.8*
Per-piece ADC entry discount	*0.2*	*0.2*
Per-piece pallet discount	*0.5*	*0.5*
Per-piece dropship pallet discount	1.5	1.6
Ride-Along (cents)	12.4	13.1

* Deduct 5%

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[65] The rates for Science of Agriculture publications are developed in this way and reflect application of § 3626(a)(5).

[6106] *Co-pallet experiments*. The Commission recommends the settlement proposal changes for the ongoing experimental Periodicals co-palletization discounts. A comparison to current discounts appears in Table 6-2.

Table 6-2
Current and PRC Recommended Experimental Co-palletization Discounts*

Rate Element	Current Rate	Proposed and Recommended Rate
Pound Rates (cents per pound)		
Copalletization DSCF discounts		
Zone 1 & 2 avoided	1.4	1.5
Zone 3 avoided	1.9	2.0
Zone 4 avoided	3.4	3.6
Zone 5 avoided	5.6	5.9
Zone 6 avoided	7.9	8.3
Zone 7 avoided	10.7	11.3
Zone 8 avoided	13.1	13.8
Copalletization DADC discounts		
Zone 1 & 2 avoided	*0.8*	*0.8*
Zone 3 avoided	1.3	1.4
Zone 4 avoided	2.8	3.0
Zone 5 avoided	5.0	5.3
Zone 6 avoided	7.3	7.7
Zone 7 avoided	10.1	10.6
Zone 8 avoided	12.5	13.2
Piece Rates (cents per piece)		
Co-palletization DSCF discount	1.0	1.1
Co-palletization ADC discount	*0.7*	*0.7*

* *Source*: PRC-LR-11 and Request, Attachment A at 26 (adapted).

[6107] *Financial summary*. Total RPW adjusted revenue for the Outside County subclass at Commission recommended rates is $ 2.2 billion. Total costs, using PRC costing, are $ 2.166 billion. Markup is 2.9 percent; cost coverage is 102.9 percent.

4. The Commission's Recommendations — Within County Rates

[6108] The standards that pertain to the development of Within County rates include two that are widely regarded as absolutes. One, which applies with equal force to the development of all rates, is set out in 39 U.S.C. § 3622(b)(3). It provides that each class of mail or type of mail service bear the direct and indirect postal costs attributable to that class or type, plus that portion of all other costs of the Postal Service reasonably assignable to such class or type. This provision has been interpreted as requiring that recommended rates and fees must generate revenues that exceed attributable costs by some reasonable, but undefined, amount.

[6109] The other standard, set out in 39 U.S.C. § 3626(a)(3), applies specifically to Within County. As noted by Taufique and Robinson, it states that the markup of Within County Periodicals over subclass costs "shall be equivalent to half the markup of Outside County Periodicals." USPS-T-27 at 3; USPS-T-28 at 14. Thus, the Service's interest in a systemwide average increase of 5.4 percent is subject to this rule.

[6110] Determining consistency with section 3626(a)(3) starts with two inputs: the Outside County markup and the relevant "section 3622(b)" costs for Within County. Rates must then be designed so that one-half of the Outside County markup, as applied to the subject costs, generates the appropriate revenue. In this instance, application of the markup rule not only precludes applying the Service's systemwide average increase to the Within County subclass but, as Taufique states, requires a reduction in current rates. USPS-T-28 at 14.

[6111] A supporting exercise appears in Robinson's Exhibit USPS-27G (revised). It demonstrates that she first establishes, under the revenue and cost assumptions the Service employs, that Within County's statutory "half" of Outside County's markup of 8.26% is 4.18%.[66] She then applies this markup to Within County incremental costs of

[66] The markup ratio is 50.5 percent under the Postal Service's calculation. USPS-T-27G (revised). Postal Service witness Kay (USPS-T-18) discusses the Postal Service's rationale for using incremental costs in lieu of attributable costs.

$66,277,000. This yields $69,045,000 as the target revenue to be generated from Within County rates, and still maintain consistency with the statutory markup rule. This revenue figure exceeds the test year costs the Service associates with the Within County subclass, so consistency with the cost floor requirement is not an issue. However, current rates must be adjusted (in almost all cases downward) so as not to exceed the revenue limit associated with the statutorily-defined markup.

[6112] Robinson observes, in connection with this exercise: "Based on estimated test-year incremental costs, the proposed 5.4 percent reduction in Within County Periodical rates results in a Within County markup that is 50.5 percent of the Outside County Subclass markup." USPS-T-27 at 10 (fn. omitted).

[6113] *Different results under Commission assumptions*. The Commission agrees with Robinson's basic approach to determining consistency with section 3626(a)(3), but applies a different definition of revenue, a different definition of costs, and different attributable cost treatment rules. Specifically, the Commission uses a total Outside County revenue figure, while the Postal Service uses a revenue figure that does not reflect the 5 percent discount given to preferred rate mail. It also uses attributable costs instead of incremental costs and, using accepted cost attribution methodology, reaches a higher level of attribution than the Service. The the difference between the Commission's attributable cost total and the Service's incremental cost total is illustrated in Table 6-3. When these alternatives are used in the markup exercise, they yield results that necessarily differ from the Postal Service's.

Table 6-3
Differences in Postal Service and PRC
39 U.S.C. § 3622(b) "Cost Floor" Cost Calculations[67]

	USPS Incremental Cost (000)	USPS Attributable Cost (000)	PRC Attributable Cost (000)	Attributable Cost Difference (000)
Outside County	2,073,270	2,054,221	2,165,744	111,523
Within County	66,277	65,191	69,766	4,575
Total Periodicals	2,139,547	2,119,412	2,235,510	116,098

Source: USPS-27A, USPS-27G, PRC-LR-11.

[6114] To comply with the requirements of § 3626(a)(3), the Commission must recommend an average reduction of 2.3 percent. Within County rates still decrease (in most cases) from their current level, thereby following the general pattern of the settlement proposal.

[6115] The Commission's recommended Within County rates are shown in Table 6-4. They represent a 2.3 percent overall reduction in current rates, and generate $ 69 million in revenue.[68] Cost coverage is 101.4 percent, compared with the Outside County cost coverage of 102.9 percent, and therefore consistent with the statutory markup formula.

[67] The Postal Service's adjusted revenue is $2.24 billion which includes $17.1 million in nonprofit and classroom discounts. *See* Exh. USPS-27G (revised).

[68] Traditionally, the relationship between pound rate revenues and piece rate revenues for Within County has mirrored the Outside County subclass's 60/40 split. The proposed/settlement rates for the Within County subclass generate 45 percent of test year revenues from pound charges and 55 percent of revenues from piece charges. The nature of the Postal Service's filing precludes consideration of the appropriate revenue split, as well as other significant rate design issues for Outside County subclass, such as those analyzed in Docket No. C2004-1.

Table 6-4
Periodicals Mail — Within County Subclass

Rate Element	Current Rate	USPS Proposed Rate	PRC Recommended Rate
Pound Rates (cents per pound)			
Destination Delivery Office Entry	11.2	10.6	10.9
General Entry	14.6	13.8	14.2
Piece Rates (cents per piece)			
Basic Presort	10.6	10.0	10.3
Barcode discount for letters	5.6	5.3	5.4
Barcode discount for flats	2.9	2.7	2.8
3-digit Presort	9.7	9.2	9.5
Barcode discount for letters	4.9	4.7	4.8
Barcode discount for flats	*2.4*	*2.3*	*2.4*
5-digit Presort	8.7	8.2	8.5
Barcode discount for letters	4.1	3.9	4.0
Barcode discount for flats	*2.0*	*1.9*	*2.0*
Carrier Route Presort	5.0	4.7	4.9
High density discount	*1.6*	*1.5*	*1.6*
Saturation discount	*2.2*	*2.1*	*2.2*
Per piece destination delivery unit discount	*0.6*	*0.6*	*0.6*
Ride-Along (cents)	12.4	13.1	13.1

[6116] A financial summary for the Periodicals class as a whole, based on Commission-recommended rates, appears in Table 6-5.

Table 6-5

Periodicals Mail Financial Summary
PRC Recommended Rates

(In Thousands)

	Adjusted Revenue*	Fees	Total Revenue	PRC Attributable Cost	Cost Coverage	Markup
Regular incl. R/A	$ 1,847,528	$ 14,650	$ 1,862,178			
Nonprofit	$ 343,543	$ 4,144	$ 347,687			
Classroom	$ 17,523	$ 147	$ 17,670			
Outside County	$ 2,208,593	$ 18,941	$ 2,227,534	$ 2,165,744	102.9%	2.9%
Within County	$ 69,019	$ 1,707	$ 70,726	$ 69,766	101.4%	1.4%
Total Periodicals	$ 2,277,611	$ 20,648	$ 2,298,260	$ 2,235,510	**102.8%**	2.8%

* Includes Ride-Along, and reflects subtraction of prefered mail discounts.

5. Further Observations

[6117] *Ride-Along volume and rate and Periodicals volume in general*. Witness Taufique asserts that since the Ride-Along category's debut as an experiment in February 2000, it "has shown consistent and substantial volume and revenue growth, in contrast to the slight decline in overall Periodicals mail volume." USPS-T-28 at 13. The Postal Service's filing identifies Ride-Along's compound growth rate as 11.26 percent. USPS-LR-K-115 at 83. Because this offering's growth pattern differs from that of Periodicals as a whole, the Postal Service forecasts Ride-Along volume separately from the overall Periodicals class.

[6118] The success of Ride-Along contrasts sharply with trends for the host class as a whole. The following table identifies the volume decline in Periodicals between FY 2001 and FY 2004.

Table 6-6
Periodicals Mail Volume FY 2001 — FY 2004

	FY 2001	FY 2002	FY 2003	FY 2004
	(000)	(000)	(000)	(000)
Periodicals:				
Within County	**879,101**	**849,911**	**793,521**	**760,020**
Regular Rate	7,065,823	6,787,814	6,517,359	6,462,075
Nonprofit	2,069,690	1,991,459	1,948,261	1,850,746
Classroom	62,752	60,575	60,764	62,430
Outside County	**9,198,265**	**8,839,848**	**8,526,384**	**8,375,251**
Total Periodicals	**10,077,366**	**9,689,759**	**9,319,905**	**9,135,271**

[6119] Witness Thress notes that these declines are part of a longer downward trend, which reveals that total Periodicals volume declined by approximately 8 percent from 1970 to 2004. USPS-T-7 at 167. He attributes the long-run trend to a decline in long-run demographic shifts away from reading. *Ibid.* He also asserts, among other things, that "the continuing negative impact of the internet on Periodicals mail volumes" is a prominent feature of the Postal Service's Periodicals mail volume forecasts. *Id.* at 173.

[6120] *Cost reduction program*. The cost reduction program involves a new mailing standard and preparation rule for sacks containing less than 24 pieces. This change will take effect during the test year.[69] Taufique testifies that 60 million 5-digit non-automation flats will move into the 3-digit non-automation flats category, and over 86 million 3-digit non-automation flats will move to basic non-automation flats category, generating cost savings of $15 million in the test year. *Id.* at 13.

[6121] Witness McCrery characterizes the Postal Service's cost reduction estimate as conservative because it reflects savings only at destination facilities. He expects that further workhour reductions will be realized at origin facilities with fewer origin sack

[69] *See* USPS-LR-K-49, Skin Sack Reduction Program.

handlings and through a reduction in the overall network sack sorting workload for Periodicals. Tr. 5/1692.

[6122] The Commission notes that the proposed sacking and other changes in Periodicals preparation practices have not emerged in a vacuum; to the contrary, they occur in the much broader context of Docket No. C2004-1, a formal complaint filed by five senders of Periodicals mail prior to the current rate request. The Complaint, in turn, is an outgrowth of concern over escalating cost trends discussed in earlier cases, dissatisfaction with the Postal Service's progress on promised classification reform, and new insights on cost causation as it relates to the continued efficacy of the longstanding Periodicals rate structure.

[6123] Various explanations have been offered for the well-documented cost increases in Outside County subclass. The Postal Service has responded with further dropship discounts, pallet incentives, and other measures designed to increase the efficiency of this mail. In Docket No. R2001-1, Postal Service witness Taufique testified that "the long-term health of Periodicals depends on cost containment and reasonable cost coverage." He added that "[a]bove average increases in cost and resulting lean mark-ups are not good omens for any subclass." USPS-T-34 at 8 (Docket No. R2001-1).

[6124] Subsequent to Docket No. R2001-1, the Postal Service sought recommended decisions on rate incentives for two co-palletization experiments for Outside County subclass mail to reduce the number of sacks being handled. The first of these experiments (Docket No. MC2002-3) has resulted in significant sack reductions to date.[70] Considerable discussion in Docket No. C2004-1 was devoted to the high cost of "skin sacks" containing few mailpieces. In this proceeding, the Postal Service announces new sack minimums that are expected to "encourage mail preparation that enhances Postal Service efficiency." USPS-T-28 at 13.[71]

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[70] Report to the Postal Rate Commission, Experimental Periodicals Co-Palletization Dropship Discounts, Fiscal Year 2005, from October, 2004 through March, 2005.

E. Package Services Mail

[6125] Package Services Mail includes the Parcel Post, Bound Printed Matter, Media Mail, and Library Mail subclasses. It may contain any mailable matter except mail required to be mailed as First-Class Mail or entered as Periodicals. Typically, it consists of parcels containing merchandise, although it also is used to mail heavier catalogs and directories. It is not sealed against postal inspection. There is no minimum weight requirement; each piece may weigh up to 70 pounds, except Bound Printed Matter which may not exceed 15 pounds. The combined length and girth of a piece may not exceed 108 inches, except that certain larger pieces are eligible to be mailed as Parcel Post.

1. Parcel Post

[6126] Parcel Post is defined as any Package Services Mail that is not mailed as Bound Printed Matter, Media Mail, or Library Mail. It may not exceed 70 pounds or 130 inches in combined length and girth. It is the only subclass available for mailing pieces measuring over 108 inches, but not over 130 inches, in length and girth combined. Such mail is subject to the prevailing oversized rate.

[6127] Witness Taufique sponsors the proposed Parcel Post rates presented in the Request, which are adopted by the settlement. USPS-T-28 at 15. The rates represent an average increase of 7.1 percent. No classification changes are proposed. Witness Robinson provides a general discussion of how the across-the-board rate increase satisfies the pricing factors of the Act. USPS-T-27.

[6128] The proposed rates reflect an across-the-board increase by rate cell of 5.4 percent. The higher average overall increase of 7.1 percent is the result of a change in volume mix between categories of Parcel Post. The change in volumes reflects that this

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[71] The Postal Service published a proposed rule on new standards for Periodicals Mail prepared in sacks while this case was pending. The notice indicates that the Postal Service intends to implement the proposed changes on March 1, 2006. 70 FR 47754 (August 15, 2005).

docket is the first time a separate elasticity is calculated for Parcel Select mail. As seen in Table 6-8, there is a large loss in volume from TYBR to TYAR in the dropship rate categories, which exhibit low revenue per piece, and a relatively small loss in volume in the Intra-BMC and Inter-BMC rate categories, which exhibit high revenue per piece. This leads to a weighted average increase that is higher than the average increase for each category.

Table 6-7
Parcel Post — Change in Volume from TYBR to TYAR by Category

Category	Volume	Revenue Per Piece	Volume	Revenue Per Piece	Change in Revenue Per Piece
Inter-BMC	81,664,633	$6.90	80,751,722	$7.27	5.4%
Intra-BMC	33,122,253	$4.37	32,752,870	$4.61	5.5%
Parcel Select	233,979,745	$2.05	217,931,561	$2.16	5.4%
Weighted Average		**$3.41**		**$3.65**	**7.1%**
Source: USPS-LR-K-115.					

[6129] Based on the Commission's costing methodology, the proposed settlement rates result in a cost coverage of 115.8 percent. The Commission recommends the Parcel Post rates proposed by the settlement as consistent with the ratemaking criteria of the Act.

[6130] *Change in cube weight relationship.* The relationship between cubic feet and weight for DBMC mail appears to have changed significantly from Docket No. R2001-1 to Docket No. R2005-1. Because per pound costs are distributed on the basis of this relationship, a significant change can have a major impact on rates. This change, if confirmed, may have important implications for future rates.

[6131] In response to POIR No. 4, Question 3(a), witness Mayes admits that the Postal Service does not know why the relationship has changed and says that the situation deserves monitoring:

> The apparent change in the nature of the cube-weight relationship for Parcel Select Parcel Post (DBMC, DSCF and DDU collectively) was not present in FY 2002 or FY 2003. An examination of the FY 2002, FY 2003 and FY 2004 data, all derived from the same data source as described in USPS-LR-K-47, reveals that FY 2004 is the first year in which there appears to be a shift in the relationship, the cause of which is not known …. [I]n all three years, virtually 100 percent of the volume was under 28 pounds, with 90-91 percent of the volume in the increments at or below 8 pounds, and 59 percent of the volume at or under 3 pounds. There is no evidence that the weight distribution had changed over the span of these three years.
>
> The average cubic feet per piece was 0.465 in FY 2002, 0.444 in FY 2003 and 0.45 in FY 2004. These figures are not remarkably different from each other, and given the similarity in the distributions of volume by weight increment, provide no indication of a noticeable shift in the average cube or average weight ….
>
> Given that the cube/weight relationship for Parcel Select seems to have changed in FY 2004, but with no apparent explanation, it is the intent of the Postal Service to continue to monitor the situation ….

Tr. 4/777-79.

[6132] The Postal Service is urged to review this issue for consideration in the next omnibus rate case.

[6133] *Nonmachinable surcharge passthrough of cost Increase.* Parcel Post pieces that weigh more than 35 pounds or are of unusual shape or size cannot be processed on automated equipment. The unit cost for processing these pieces is higher than the unit cost of machinable pieces. Since R2001-1 the difference in processing costs has grown. *See* Table 6-8.

Table 6-8
Change in Unit Cost from Docket No. R2001-1 to Docket No. R2005-1

Category	Average Unit Cost Increase in Machinable Mail	Average Unit Cost Increase in Nonmachinable Mail
Inter-BMC	-27%	14%
Intra-BMC	-23%	15%
DBMC	-21%	3%
DSCF	-22%	8%
Source: USPS-LR-J-86 and USPS-LR-K-103.		

[6134] The Postal Service has imposed a nonmachinable surcharge on these pieces. These surcharges began with the Inter-BMC category in Docket No. R80-1. In Docket No. R2000-1, the nonmachinable surcharge was extended to Intra-BMC and DBMC rate categories. The Postal Service proposed a passthrough of the additional costs incurred by these pieces of 35 percent, in part because the surcharges were new. The Commission rejected this proposed passthrough on the grounds that the surcharge was designed to recover the processing cost differences associated with non-machinable mail. Instead, the Commission recommended a 100 percent passthrough. PRC Op. R2000-1, ¶ 5834-6.

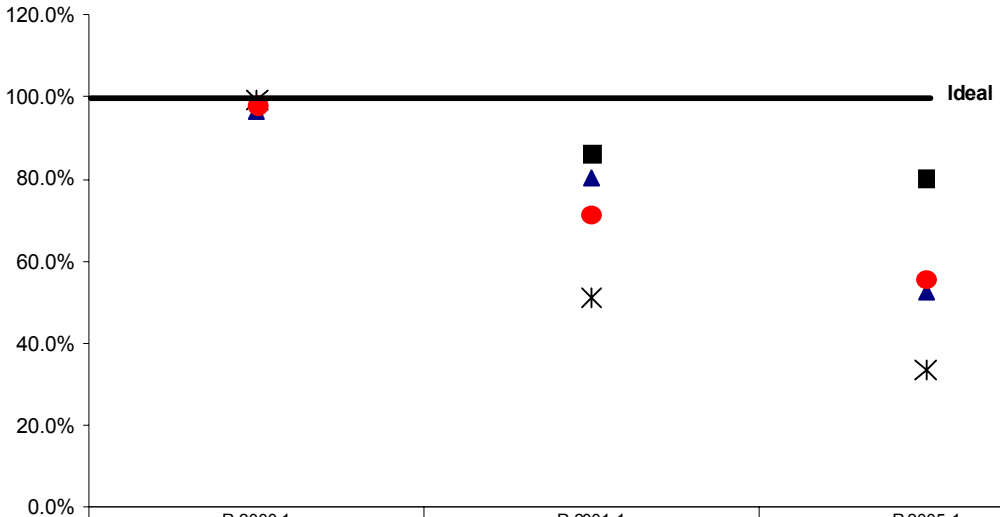
[6135] In Docket No. R2001-1, the Postal Service again extended the non-machinable surcharge, this time to include DSCF mail as well. The settlement in that case included a passthrough for the new surcharge of 100 percent; however, the passthroughs for the already established surcharges were below 100 percent.

[6136] The settlement in this docket shrinks the passthroughs further. *See* Chart 6-1. In addition, because all parcels over 35 pounds are subject to these surcharges the rate schedule resulting from the recommended rates contains a number of rate cells that

are significantly below 100 percent cost coverage. Returning to the 100 percent passthroughs for the nonmachinable surcharge recommended in Docket No. R2000-1 and bringing rate cells up to at least 100 percent cost coverage could involve significant rate adjustments. The Postal Service is urged to review this issue for consideration in the next omnibus rate case.

Chart 6-1

Parcel Post Nonmachinable Surcharge Passthroughs
R2000-1, R2001-1 & R2005-1 Proposed



	R 2000-1	R 2001-1	R 2005-1
Intra-BMC	99.3%	51.1%	33.5%
Inter-BMC	96.6%	80.2%	52.5%
DBMC	98.1%	71.4%	55.7%
DSCF		86.1%	80.1%

2. Bound Printed Matter

[6137] The Bound Printed Matter (BPM) subclass is limited to advertising, promotional, directory, or editorial material weighing up to 15 pounds. Examples include catalogs, books, telephone directories, and similar permanently bound volumes.

[6138] Witness Taufique sponsors the proposed BPM rates presented in the Request, which are adopted by the settlement. There are no changes to the existing rate structure, which includes separate rate schedules for flats and parcels/irregularly shaped

pieces, and extends a barcode discount to automatable flats. USPS-T-28 at 15-16. Witness Robinson provides a general discussion of how the across-the-board rate increase satisfies the pricing factors of the Act. USPS-T-27.

[6139] The Commission recommends the BPM rates proposed by the settlement as consistent with the ratemaking criteria of the Act. Under the Commission's methodology, the rates increase by 5.5 percent on average, reflecting a cost coverage of 121.8 percent.

3. Media Mail and Library Mail

[6140] Media Mail and Library Mail are statutorily derived, content-restricted classifications. Media Mail may contain books, sound and video recordings, certain films and film catalogs, printed music, certain test materials, play scripts and manuscripts, computer readable media, and certain other qualified items. Library Mail shares similar content restrictions, but certain other qualified items like bound volumes of academic theses, scientific or mathematical kits, museum specimens, and other library and museum materials also may be mailed. Unlike Media Mail, Library Mail is available only to qualified mailers. *See* DMCS § 524.11. Rates for Media Mail and Library Mail are required to be "uniform for such mail of the same weight, and shall not vary with the distance transported." 39 U.S.C. § 3683(a). Pub. L. 106-384 dictates that Library Mail rates be set, as nearly as practicable, five percent lower than Media Mail rates. Media Mail and Library Mail share the same rate design and rate structure considerations.

[6141] Witness Taufique sponsors the proposed Media Mail and Library Mail rates presented in the Request, which are adopted by the settlement. He develops the rates by applying a 5.4 percent increase to each rate cell. This results in an effective rate increase of 5.4 percent for Media Mail and 5.7 percent for Library Mail. The proposed rates conform to the requirements of Pub. L. 106-384. No classification changes are proposed. USPS-T-28 at 16-17.

[6142] The Postal Service collects cost data for Media Mail and Library Mail on a consolidated basis as a result of Pub. L. 106-384. Consequently, cost coverage is calculated only for the combined product. On a consolidated basis, under the PRC costing methodology, the rates proposed by the settlement result in a cost coverage of only 89.1 percent. This coverage does not conform with 39 USC § 3622(b)(3) of the act, which requires all classes and subclasses of mail to cover their attributable costs and make a reasonable contribution to institutional costs. Accordingly, the Commission recommends rates that result in a combined cost coverage of 100.2 percent. These rates reflect a 12.7 percent increase for Media Mail and a 12.6 percent increase for Library Mail.

[6143] The Commission is concerned that unit costs for Media and Library Mail exhibit substantial year-to-year fluctuations. *See* Table 6-9. The factors of the Act might justify a cost coverage higher than 100.2 percent for these subclasses, however, the cost fluctuations and the above average increase for Media and Library Mail make the recommended 100.2 percent cost coverage reasonable. The Postal Service is urged to explore why the unit costs for these subclasses continue to fluctuate.

Table 6-9
Comparison of Unit Cost for Media and Library Mail

Fiscal Year	Combined Unit Cost	Change From Previous FY
2000	$1.376	-8%
2001	$1.717	25%
2002	$1.972	15%
2003	$1.918	-3%
2004	$2.025	6%

Source: USPS CRA reports.

F. Special Services

[6144] The proposed settlement includes fee changes for special services, but does not include any classification changes for special services.

[6145] Under normal circumstances, the cost coverages for the special services receive extensive review with specific attention being given to all of the factors of the Act, including issues relating to value of service, effects on mailers, and the role of the special service in the Postal Service's mission. Given the settlement proposal in this case, however, the focus is on the adequacy of the coverages, under established Commission costing methods, rather than on a process of selecting specific coverages.

[6146] In its Request, the Postal Service proposes a 5.4 percent fee increase for all special services, subject to rounding constraints, with the three following exceptions: (1) an approximately 70 percent increase in Registered Mail fees; (2) a 12.5 percent increase in the Periodicals application re-entry fee; and (3) proposed termination of the automated address correction service's nickel rounding constraint. For the two cases where the proposed fee increase is greater than 5.4 percent, the Postal Service concludes that an above 5.4 percent fee increase is needed to cover costs.

[6147] The Commission has reviewed carefully the numerous revenue/cost relationships within the special services, including all of the resulting coverages. Subject to the minor modifications noted below, the Commission finds the settlement proposal's cost coverages and revenue/cost relationships related to special services to be reasonable and not inconsistent with the Act. Each special service fee increase meets the requirements of § 3622(b)(3).

[6148] With respect to the exceptions, the Commission agrees that the Periodicals application re-entry fee should be increased by 12.5 percent, but does not find that the Registered Mail fee needs to be increased by 70 percent to cover its cost. Under Commission methodology, Registered Mail would cover its cost with a 5.4 percent increase. Additionally, the Commission agrees that the nickel constraint rounding rule for automated address correction service should be eliminated. A more detailed discussion

of the reasons for the Commission's recommendations with respect to these services can be found in the sections below that specifically deal with the corresponding special service.

[6149] There are several other issues concerning special services addressed below. These issues include:

- On-site meter mail service may be an obsolete service due to technological advances;
- The Postal Service provided no cost data for parcel airlift;
- Accuracy of the electronic return receipt costs;
- Accuracy of the special handling costs; and
- Charges for change-of-address orders done by phone or internet.

[6150] In Docket No. R2001-1, the Commission expanded upon the concurring opinion in Docket No. R2000-1 and, *per curiam*, urged the Postal Service to review and perhaps simplify the panoply of special services offered at the retail window. Recognizing that the Postal Service believes this case to be unusual, the Commission nonetheless again finds itself in another rate case without a Postal Service review of special services. Accordingly, the Commission has not had the opportunity to address concerns about overlapping, confusing, outdated, and potentially more useful electronic services. Consistent with those prior opinions, the Commission strongly recommends that such a review be undertaken.

1. Address Correction Service (Fee Schedule 911)

[6151] Address correction service provides a mailer with an addressee's correct or forwarding address, if known, or a reason why the Postal Service is unable to deliver a mailpiece as addressed.[72] Both manual and automated services are available. Manual address correction service provides a mailer with a photocopy of the mailpiece along with the correct address information on Form 3547 (for First-Class Mail, Standard Mail, or Package Services), or the cover sheet of a periodical with the correct address

information attached on Form 3579 (for Periodicals). Automated address correction service electronically provides a mailer with correct address information or a reason for non-delivery. Periodicals automatically receive address correction service for 60 days following a change-of-address order. Address correction service is available by itself or in conjunction with forwarding and return service. USPS-T-28 at 18.

[6152] In previous cases, automated address correction service has adhered to a nickel rounding constraint rule, meaning that when proposing new fees for the service the proposed fee would be rounded to the nearest nickel interval. The Postal Service proposes to end this practice here as the settlement proposes to increase the fee by only one cent. Witness Taufique gives two reasons for this change: (1) due to nickel rounding, a 5.4 percent fee increase would cause no actual fee increase for automated address correction service; and (2) the nickel constraint rule is generally applied to retail products to simplify the buying process and is not necessary in address correction since automated address correction service is not a retail product. *Ibid.* The Commission believes the reasons given by witness Taufique to ignore the nickel rounding constraint

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[72] One of the methods that the Postal Service determines correct changes in addresses or forwarding addresses is by having customers fill out a change-of-address order to receive temporary or permanent forwarding of their mail. David B. Popkin takes issue with the Postal Service's handling of change-of-address orders. Currently, the Postal Service charges $1 on a major credit card to process a change-of-address order by internet or phone, but does not charge any fees for filling out a PS Form 3575 and sending that form back to the post office. Mr. Popkin argues that because the $1 fee does not appear in the DMCS, it is illegal and should be suspended since it has not yet been presented to the Commission for a recommended decision. Popkin Brief at 1-2.

The Postal Service argues that the credit card companies do not verify identities for enhanced security and fraud prevention on changes of addresses for free; they require a minimum charge. Thus, because the charge is a result of a third-party requirement, it argues that the $1 charge is not for a postal service within the meaning of Chapter 36 of the Act and is outside the scope of this proceeding. It notes that if customers wish to avoid this charge, they may mail the change-of-address order form to the Postal Service or complete the form at a retail outlet. Postal Service Reply Brief at 74-75.

Mr. Popkin raises valid concerns about the change-of-address order service that could result in a Commission recommendation for a classification change. However, given the unique circumstances of the settlement and the Postal Service's prediction of another omnibus rate case in the near future, the Commission does not believe that it is an appropriate time to recommend classification changes based upon Mr. Popkin's request. The Commission expects this issue to be raised again in the next omnibus rate case. In that next rate case, a more thorough discussion of the issues surrounding the change-of-address order fee will allow the Commission to consider the request and its implications before deciding whether to recommend changes to the DMCS based upon any change-of-address order fee.

are appropriate. Fee adjustments tied to a nickel rounding constraint are less important for a non-retail service since the simplification that nickel rounding seeks to obtain is not as apparent. In accordance with the settlement, the Commission recommends increasing the automated address correction service fee from 20 cents to 21 cents. In accordance with the settlement, the Commission recommends increasing the manual address correction fee from 70 cents to 75 cents. Combined, these fees will produce a cost coverage of 138.3 percent.

2. Mailing List Services (Fee Schedule 912)

a. ZIP Coding of Mailing Lists

[6153] The ZIP Coding of mailing lists service helps mailers use and sort by correct ZIP Code. For multiple 5-digit ZIP Code post offices, the Postal Service sorts the mailer's address cards by 5-digit ZIP Code, bundling the cards for each ZIP Code. One fee is charged per mailing list or set of cards. *Id.* at 33.

[6154] The projected test year cost is $73.81 per one thousand addresses for sorting of mailing list address cards by 5-digit ZIP Code. The proposed settlement increases the current fee of $100.00 per one thousand addresses to $105.00 per one thousand addresses. This fee will result in a cost coverage of 142.3 percent.

b. Correction of Mailing Lists

[6155] Eligible mailers may submit a name and address list, or an occupant list (address only list) to the Postal Service for correction. The mailing list may be submitted on cards or on sheets of paper, and must be separated by post office or carrier route as required. Name and address list corrections include eliminating names to which mail cannot be delivered or forwarded, providing forwarding information if an order is on file, correcting spelling of names and addresses, correcting ZIP Codes, post office box

numbers, and rural box numbers, and providing the name of the head of household when two or more names appear on the list. Occupant list corrections include deleting invalid addresses, correcting the last lines of the address, placing directional signals to indicate carrier route information, and providing the number of units in multiple unit dwellings. *Id.* at 22.

[6156] The test year cost for this service is 27.6 cents per address. The proposed settlement does not change the current fee of 30 cents per address or the $9.00 fee for correcting 30 addresses. The implied cost coverage is 108.7 percent.

c. Address Changes for Election Boards and Registration Commissions

[6157] This service provides election boards and voter registration commissions with change-of-address information. Election boards and voter registration commissions also have the option of using a "Return Service Requested" endorsement or the National Change of Address Linkage System to gather similar address information. The cost for the correction of mailing lists serves as a proxy for the cost of these address changes. *Ibid.*

[6158] The test year cost for this service is estimated at 27.6 cents per address. The settlement proposes to increase the current fee of 27 cents to 28 cents. At this level, cost coverage is estimated to be 101.4 percent. This recommendation is consistent with prior opinions specifying a minimal contribution to institutional costs, because "election boards serve a vital function in our democracy." PRC Op. R97-1, ¶ 5896.

d. Carrier Sequencing of Address Cards

[6159] This service provides mailers with address cards sorted into delivery sequence. Three levels of service are offered: (1) basic carrier route walk sequencing of cards, including the removal of cards with undeliverable or incorrect addresses; (2) the service described in (1) plus the insertion of blank cards indicating missing addresses; or (3) the service described in (1) plus the insertion of completed cards for the omitted

addresses. New address cards are provided free of charge for rural route delivery addresses that have been converted to city delivery route addresses. There is no charge for the delivery sequence sort, or for inserting blank cards. There is a fee applied to every card removed with an incorrect or undeliverable address, and to new completed cards inserted into the delivery sequence. USPS-T-28 at 20-21.

[6160] The cost for the correction of mailing lists, projected to be 27.6 cents in the test year, is a proxy for the cost of this service. The settlement proposal makes no changes to the current 30-cent fee. This proposal will produce cost coverage of 108.7 percent.

3. Post Office Boxes and Caller Service (Fee Schedule 921)

[6161] *Post Office Boxes.* Post office box service is available to any customer requiring more than free carrier delivery or general delivery. The service allows a customer to obtain mail during the hours a post office box lobby is open or access is otherwise available. Semi-annual fees are charged for post office box service, varying with the size of the box and the estimated cost of the space occupied by the box. Post office box service is offered for no fee to customers who are not eligible for carrier delivery. *Id.* at 27-28.

[6162] The existing fee structure allocates costs among seven fee groups (not including no-fee group E). The test year cost for this service is $39.16. Table 6-10 shows the fees proposed in the settlement:

Table 6-10
Proposed Post Office Box Fees

	Fee Group							
Box Size	1	2	3	4	5	6	7	E
1	$ 37.00	$ 31.00	$ 25.00	$ 20.00	$ 14.00	$ 13.00	$ 9.00	$ 0.00
2	53.00	47.00	40.00	36.00	23.00	19.00	14.00	0.00
3	105.00	84.00	72.00	66.00	36.00	35.00	24.00	0.00
4	216.00	179.00	124.00	116.00	69.00	63.00	42.00	0.00
5	348.00	332.00	220.00	184.00	132.00	102.00	74.00	0.00

The Commission recommends the fees for post office box service contained in the proposed settlement. This yields an estimated cost coverage of 139.5 percent. As initially noted in Docket No. R2001-1, in the future, the Postal Service should transition toward cost-based fees.

[6163] *Post office box key duplication or replacement service:* The Postal Service provides the first two box keys to post office box customers at no charge, upon payment of a refundable deposit. Customers may order duplicate, additional, or replacement keys for a fee. *Id.* at 27. The test year cost for this service is $3.48. The proposed settlement increases the duplicate post office box key fee from $4.40 to $4.65. This yields an estimated cost coverage of 133.8 percent.

[6164] *Post office box lock replacement service:* The Postal Service will change the lock on a post office box upon the request of the post office box customer. *Ibid.* The test year cost for this service is $7.79. The proposed settlement increases the fee for this service from $11.00 to $11.60. This yields an estimated cost coverage of 149.0 percent.

[6165] *Caller service:* Caller service is a premium service that allows business customers to pick up their box mail at a post office call window or loading dock during the time the office is open. Customers are able to pick up their mail early in the day to

process orders and financial transactions. Caller service also provides customers with a means to receive post office box type service when their volumes are too large for post office boxes or post office boxes are not available. *Ibid.* The test year annual cost for this service is $693.21. The proposed settlement increases the annual fee for this service from $824.00 to $868.00. This yields an estimated cost coverage of 125.2 percent.

[6166] *Reserve number service:* Reserved number service allows a customer to reserve a box number for future caller service use. Businesses could find the reservation of a caller service number useful if they are planning a promotion, campaign, or advertisement and would like to use a number that would correspond. *Ibid.* The test year annual cost for this service is $19.43. The proposed settlement increases the calendar year fee for reserved number service from $32.00 to $34.00. This yields an estimated cost coverage of 175.0 percent.

4. Business Reply Mail (Fee Schedule 931)

[6167] Business reply mail (BRM) is a special service that allows customers to distribute First-Class Mail and Priority Mail BRM cards, envelopes, self-mailers, cartons, and labels for eventual return to the customer. The customer agrees to pay postage and a per-piece fee for each BRM mailpiece that is actually returned. Postage is paid at the applicable First-Class Mail or Priority Mail rates. *Id.* at 19-20.

[6168] BRM service is available for purchase using the following four fee categories: (1) qualified BRM (QBRM); (2) advance deposit account BRM; (3) nonadvance deposit account BRM; and (4) nonletter sized weight-averaged BRM. Within QBRM there are two types: (a) QBRM that pays a quarterly fee, generally with a high return volume, and (b) QBRM that does not pay a quarterly fee. Each BRM fee category is subject to different Postal Service requirements, and could be preferable depending on a customer's level of return volume and type of mailpiece. The settlement fee proposals are considered separately for each of the BRM categories.

[6169] Each of the categories of BRM requires the payment of an annual permit fee. The test year cost for this service is estimated to be $119.94. The settlement proposal increases this fee from $150 to $160, as discussed in subsection 25 below. This results in an estimated cost coverage of 133.4 percent. Each category, except for nonadvance deposit account BRM, pays an accounting fee. The test year cost for this service is $382.82. The settlement proposal increases the accounting fee from $475.00 to $500.00 as discussed in subsection 25 below. This results in cost coverage of 130.6 percent.

[6170] *Qualified BRM with quarterly fee.* QBRM refers to a subset of BRM in which the mailpiece is approved by the Postal Service for processing as a QBRM mailpiece. QBRM pieces are cards and envelopes (up to two ounces) that are automation compatible, have a Facing Identification Mark (FIM) C, a unique ZIP+4 barcode, and meet other requirements specified by the Postal Service.

[6171] The QBRM with quarterly fee rate structure is designed for customers that receive a high volume of QBRM mailpieces since a lower per-piece fee is paid by the QBRM recipients who pay the quarterly fee. The QBRM with quarterly fee rate structure is composed of three elements: a reduced QBRM automation postage rate; a per-piece fee; and a QBRM quarterly fee.

[6172] The First-Class per-piece postage discount given to QBRM is discussed in Chapter VI, section B. The second and third components of QBRM with quarterly fee rate structure are the per-piece fee and the QBRM quarterly fee. The test year estimated cost per piece is $0.004. The proposal does not change the $0.008 per-piece fee for QBRM with a quarterly fee. This results in cost coverage of 180.6 percent. The test year estimated annualized cost for the QBRM quarterly fee is $3,280.84. The proposal raises the QBRM annualized quarterly fee from $7,200.00 to $7,600.00. This results in cost coverage of 231.6 percent.

[6173] *Qualified BRM without quarterly fee.* This fee category is useful to customers receiving lower volumes of BRM that meet all of the QBRM requirements, or who choose not to pay the quarterly fee. The QBRM without quarterly fee rate structure

is composed of two elements: the QBRM automation postage rate and a higher per-piece fee. The test year estimated unit cost for QBRM without quarterly fee is $0.044. The settlement does not change the current QBRM without quarterly fee per-piece fee of $0.06. The $0.06 per-piece fee is expected to generate a cost coverage of 136.9 percent for QBRM without quarterly fee.

[6174] *Advance deposit account BRM.* This fee structure is designed for customers who receive a high volume of BRM mail, but whose mailpiece is not approved for BRM Accounting System processing or otherwise fails to qualify as a QBRM mailpiece. Customers pay a basic per-piece fee that covers the costs for counting, rating and billing these mailpieces. The estimated test year unit cost for this service is $0.059. The settlement increases the per-piece fee from $0.10 to $0.11. The $0.11 per-piece fee is expected to generate cost coverage of 187.3 percent for advance deposit account BRM.

[6175] *Non-advance deposit account BRM.* This fee structure is provided for customers who receive a low volume of BRM mail, or who choose not to pay the annual accounting fee. Since these mailers receive a relatively small number of BRM pieces, it is in many cases uneconomical for them to maintain advance deposit accounts. Consequently, the Postal Service recovers maintenance costs for counting, rating, and collection on a per-piece basis. The per-piece estimated test year cost is $0.58. The settlement proposal increases the per-piece fee from $0.60 to $0.65. This results in a cost coverage of 112.1 percent.

[6176] *Nonletter-size weight-averaged BRM.* This fee category is typically used by customers receiving film and/or film canisters for processing. Weight averaging is used to count, rate, and bill the incoming BRM mailpieces based on a statistical projection from recent experience. The mailpieces must meet the basic BRM requirements established by the Postal Service, and cannot be letter or card-shaped, or exceed five pounds.

[6177] There are two components to the nonletter-size weight-averaged BRM fee structure: the per-piece fee and the monthly maintenance fee. The estimated test year cost per piece is $0.007. The settlement proposal contains no change to the $0.01

per-piece fee. This results in a cost coverage of 153.1 percent. The estimated test year annualized cost for monthly maintenance is $7,417.66. The settlement proposal increases the annualized monthly maintenance fee from $9,000.00 to $9,480.00. This results in a cost coverage of 127.8 percent.

5. Merchandise Return Service (Fee Schedule 932)

[6178] Merchandise return service allows the original mailer to pay return postage for parcels containing merchandise. It is similar to business reply mail and can be used currently for parcels first mailed at First-Class, Priority and Package Services rates. Users can purchase additional services such as registry, insurance, delivery confirmation, certificates of mailing, return receipt and special handling. Both a permit and an advance deposit account are required. There is no per-piece fee associated with this service. *Id.* at 24.

[6179] The estimated test year cost per permit is $119.94. The permit fee is proposed to increase to $160.00, from the current level of $150.00. This represents a cost coverage of 133.4 percent. The test year estimated cost for the advance deposit account is $382.82. The fee for maintaining an advance deposit account is proposed to increase to $500.00, from the current level of $475.00. This results in a cost coverage of 130.6 percent. The permit fee is at the same level as other permit fees, as is the accounting fee and are discussed in subsection 25 below.

6. On-Site Meter Service (Fee Schedule 933)

[6180] On-site meter service involves a Postal Service employee traveling to a customer site or to a meter manufacturer site to set a meter, examine a meter, or check a meter in or out of service. An initial charge is made per visit and then a separate charge

is made per meter reset or examined and per meter checked in or out of service. *Id.* at 24-25.

[6181] The estimated test year unit cost for meter access is $28.87. The settlement proposal increases the fee for meter access from $35.00 to $37.00. The estimated test year cost per meter reset or examined is $5.66. The settlement proposal increases this fee per meter reset or examined from $5.00 to $5.25. The estimated test year cost per meter checked into or out of service is $2.84. The settlement proposal increases the per meter checked into or out of service fee from $4.00 to $4.25. This represents a total cost coverage for on-site meter service of 125.3 percent.

[6182] The Commission notes that witness Taufique stated, "technology has rendered this service virtually obsolete." *Id.* at 24-25. Due to the unique circumstances of this case and the settlement, the Commission recommends the proposed fee changes to on-site meter service. However, the Commission recommends that the Postal Service review whether or not to eliminate this service and present its analysis in the next rate case.

7. Bulk Parcel Return Service (Fee Schedule 935)

[6183] Bulk parcel return service (BPRS) allows mailers of large quantities of Standard Mail machinable parcels that are either undeliverable-as-addressed or opened and remailed by addressees to be returned to designated postal facilities. It is available to high-volume mailers of parcels sent initially as Standard Mail. BPRS is restricted to those mailers who can demonstrate they either have a high probability of receiving, or do in fact, receive 10,000 returned machinable Standard Mail parcels per year. Each returned parcel is levied a per-piece fee, which is deducted from an advance deposit account. Mailers using this service must also pay an annual permit fee and an annual accounting fee, both of which are at the level of other permit and accounting fees. *Id.* at 18-19.

[6184] The test year cost for a permit is $119.94. The settlement proposal increases this fee from $150.00 to $160.00. This represents cost coverage of 133.4 percent. The test year cost for accounting is $382.82. The proposed settlement increases this fee from $475.00 to $500.00. This represents cost coverage of 130.6 percent. The BPRS per-piece test year cost is $1.17. The proposed settlement increases the per-piece fee from $1.80 to $1.90. This represents a cost coverage of 162.1 percent.

8. Shipper Paid Forwarding (Fee Schedule 936)

[6185] Shipper paid forwarding is an Address Change Service (ACS) that provides forwarding service for a period of one year from the date a recipient files a change of address form. The service is available to eligible shippers mailing Standard Mail machinable parcels and most Package Services parcels. Forwarded pieces are assessed postage according to the service provided, through an ACS participant code, from an advance deposit account for which the shipper pays an annual advance deposit accounting fee. Pieces that cannot be forwarded are returned and the shipper is charged appropriate postage. Shippers using this service must use the "Address Service Requested" endorsement and, for Standard Mail, may also use the bulk parcel return service. *Id.* at 30-31.

[6186] The proposed settlement increases the accounting fee for this service from $475.00 to $500.00, as discussed in subsection 25 below. The estimated test year cost for this service is $382.82. This represents cost coverage of 130.6 percent.

9. Premium Forwarding Service (Fee Schedule 937)

[6187] Premium Forwarding Service is a two year experiment which provides residential delivery customers, and certain post office box customers, the option to

receive substantially all classes of mail addressed to a primary address at a temporary address instead by means of a weekly Priority Mail shipment. Customers may use this service for a period of two weeks up to twelve months and cannot use Premium Forwarding Service simultaneously with temporary or permanent forwarding orders. Premium Forwarding Service is not available to customers whose primary address consists of a post office box of a certain size or a centralized delivery point. Premium Forwarding Service may not be combined with any services beyond those purchased by the original mailer. The Decision of the Governors of the United States Postal Service on the Opinion and Recommended Decision of the Postal Rate Commission Approving Stipulation and Agreement on Experimental Premium Forwarding Service, Docket No. MC2005-1, issued May 10, 2005, approved the Commission's recommended fees and classifications for this special service.

[6188] The Postal Service's filings in this case do not contain any requests for fee or classification changes for this service. The Commission does not recommend any fee or classification changes to the experimental Premium Forwarding Service.

10. Certified Mail (Fee Schedule 941)

[6189] Certified mail is a special service for use with First-Class and Priority Mail. The mailer receives a mailing receipt if the mail is deposited at a post office window or given to a rural carrier. The Postal Service obtains a signature upon delivery and retains a delivery record of the item mailed. The user can also check for the delivery date and time via the internet. Certified mail may be used in conjunction with return receipt or restricted delivery service. The fee for certified mail is in addition to postage. *Id.* at 21.

[6190] The estimated test year per-piece cost for certified mail is $1.65. The settlement proposal increases the fee from $2.30 to $2.40. This represents a cost coverage of 145.4 percent.

11. Registered Mail (Fee Schedule 942)

[6191] Registered Mail is the most secure method of sending mail offered by the Postal Service. A system of receipts is used to monitor and account for the flow of the mailpiece from acceptance to delivery. The sender is provided with a mailing receipt and can check for delivery date and time on the internet. The Postal Service retains a delivery record of the item mailed. The fee for Registered Mail is in addition to postage. *Id.* at 28-29; USPS-T-27 at 16-17.

[6192] The settlement proposal increases Registered Mail fees by 70 percent because "[e]stimated unit costs attributable to Registered Mail have increased substantially since the Postal Service's Docket No. R2001-1 filing, resulting in a 60.6 percent cost coverage in the test-year before rates." *Id.* at 16. Witness Robinson claims that Registered Mail costs are largely independent of volume and, therefore, the substantial decrease in registry volume has caused the proposed fee to be very high. As an added "measure of protection against a large rate increase for Registered Mail customers[,]" management proposes to recommend to the Board of Governors deferred implementation of this fee increase.[73] She characterizes the increase as "undesirable" but necessary to cover costs. In fact, witness Robinson only proposes such a large increase "to ensure that the fees for Registered Mail cover their incremental costs[,]" implying that the Postal Service would not have requested such an increase if costs would have been covered under a smaller fee increase. *Ibid.*

[6193] Fortunately, the increase does not need to be at 70 percent to cover costs. During the course of this proceeding, it was discovered that registry costs had been incorrectly calculated because international data were considered in the calculations. After these inaccuracies were brought to light, witness Robinson clarified her earlier testimony in this area and stated, "Had I been aware of the correct after-rates cost estimate prior to the filing of this request, management would have recommended that

[73] USPS-T-27 at 17; *see also* USPS-T-1 at 7.

the Governors request a lower percentage fee increase for Registered Mail."[74] Given these considerations, under Postal Service proposed costing methodology, an increase of 63 percent would result in a cost coverage of 102.8 percent as witness Robinson originally proposed.

[6194] As part of its broader argument that the Commission need only adopt a 0.8 percent across-the-board rate and fee increase, OCA argues that a 0.8 percent increase would be sufficient under Commission cost methodology to produce a cost coverage for Registered Mail greater than 100 percent.[75] It believes that a 0.8 percent fee increase is appropriate for Registered Mail because it would be the same as the increase in rates and fees for nearly all classes of mail and services and there would be no need for the Postal Service to delay implementation of such an increase.[76]

[6195] For the reasons discussed elsewhere in this Opinion, the Commission agrees with OCA that cost coverages, including Registered Mail cost coverages, should be determined under Commission methodology, but does not agree that a 0.8 percent across-the-board increase is appropriate. However, the Commission finds that even the "corrected" proposal of the Postal Service seeking a 63 percent increase is inappropriate under the circumstances. Application of Commission costing methodology requires only a 2.9 percent increase to obtain a cost coverage equivalent to that suggested by witness Robinson of 102.8 percent. Due to these considerations, the Commission recommends that the fee for Registered Mail be increased by approximately 5.4 percent in accordance with the across-the-board approach in the Request and proposed settlement.

[6196] This result is consistent with OCA's proposal that the increase in Registered Mail be in line with the "increase in rates and fees for nearly all mail classes

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[74] USPS-Y-27 at 24A, revised June 24, 2005; *See also* Notice of the United States Postal Service Regarding Filing of Supplemental Page to Testimony of Witness Robinson (USPS-T-27) [Errata], June 24, 2005, at 2; Exh. USPS-27A; *see also* Postal Service Brief at V-16 n.79.

[75] OCA Brief (Revised) at 114 ("Should the Commission recommend a 0.8 percent increase for rates and fees generally, it should recommend a 0.8 percent fee increase for Registered Mail.").

[76] *Id.* at 114, 116.

and services." *Id.* at 114. The Commission agrees that Registered Mail fees should remain true to the across-the-board approach since doing so is consistent with the law, the Request, and the settlement proposal.[77]

[6197] Registered Mail test year per-piece cost is $10.56. The Commission recommends that the fees be raised by 5.6 percent consistent with the spirit of the Postal Service's Request and the settlement proposal. Table 6-11 lists the current and Commission recommended fees for Registered Mail:

Table 6-11

Rate of Value ($)	Current ($)	PRC Recommendation ($)	Percent Increase (%)
No Insurance	7.50	7.90	5.3
0.01 to 100	8.00	8.45	5.6
100.01 to 500	8.85	9.35	5.6
500.01 to 1,000	9.70	10.25	5.7
1,000.01 to 25,000	9.70 + 0.85 for each 1,000 over 1,000.00	10.25 + 0.90 for each 1,000 over 1,000.00	
25,000.01 to 1,000,000	30.10 + 0.85 for each 1,000 over 25,000.00	31.85 + 0.90 for each 1,000 over 25,000.00	
1,000,000.01 to 15,000,000	858.85 + 0.85 for each 1,000 over 1,000,000.00	909.35 + 0.90 for each 1,000 over 1,000,000.00	
15,000,000 +	12,758.85 + amount determined by Postal Service	13,509.35 + amount to be determined by Postal Service	

[77] *See also* Postal Service Brief at V-11 ("Proposed cost coverages for Registered Mail and Periodicals Application Fees result from deviations from the across-the-board approach that are *necessary to meet the § 3622(b)(3) requirement that the fees generate sufficient revenue to cover volume-variable costs*.") (emphasis added). It further notes that "[t]hese proposed deviations [from the across-the-board approach] demonstrate the Postal Service's recognition of the mandatory nature of § 3622(b)(3)." *Id.* at V-16. Accordingly, the Commission believes that these corrections are consistent with the settlement agreement.

[6198] The Commission notes that the recommended fees do not reflect an exact, across-the-board increase of 5.4 percent. The rate design method employed by Postal Service witness Taufique has been applied to make each range increment increase by the same amount (90 cents not counting the uninsured category). This gives an overall cost coverage of 105.6 percent.

[6199] The Commission commends the Postal Service's decision to undertake "a comprehensive re-evaluation of the processes and procedures used in providing Registered Mail[,]" USPS-T-1 at 6-7, and urges the Postal Service to undertake this study expeditiously.

12. Insurance (Fee Schedule 943)

[6200] This special service provides up to $5,000 in indemnity coverage for lost, rifled or damaged articles. It is available for Express Mail and Package Services, and for First-Class Mail (including Priority) that contains items that could be sent as Standard Mail or as Package Services. Bulk insurance (which takes the form of a per-piece discount) is available for Standard Mail that is subject to the residual shape surcharge. Fees are charged based on the indemnity coverage chosen, except that Express Mail postage includes $100 of indemnity coverage. A per-piece discount is available for bulk mailers who send a minimum of 10,000 insured pieces annually. USPS-T-28 at 23.

[6201] Rather then focus on the discounts, the actual bulk insurance fees were increased by 5.4 percent to ensure that the customers participated in the across-the-board increase. Table 6-12 gives the current and proposed fees for regular and bulk insurance service:

The estimated test year cost for each $100 increment of insurance is $1.95. The overallcost coverage for insurance is 127.6 percent.

Table 6-12

Range	Curent–Regular	Proposed–Regular	Current–Bulk	Proposed–Bulk
$0.01 to $50	$1.30	$1.35	$0.70	$0.75
$50.01 to $100	$2.20	$2.30	$1.40	$1.50
$100.01 to $5,000	$2.20 + $1 for each $100 over $100	$2.30 + $1.05 for each $100 over $100	$1.40 + $1 for each $100 over $100	$1.50 + $1.05 for each $100 over $100

13. Collect on Delivery (Fee Schedule 944)

[6202] Collect on delivery (COD) is a service a mailer may use to mail merchandise prior to the recipient paying for the item. Upon delivery, the recipient pays for the merchandise plus the applicable COD fee. The Postal Service then transmits the amount collected back to the sender. COD mail is insured. *Id.* at 22.

[6203] The fees are based on the COD amount to be collected, or insurance coverage desired for a particular item. The amount to be collected from the recipient may not exceed $1,000. A set increment is added to the fee for different ranges of payments to be collected on delivery. The settlement proposal increases the lowest range 25 cents (from $4.50 to $4.75) and the additional fee for each higher collection range from $1.00 to $1.05. The current and proposed fees for COD are shown in Table 6-13:

The overall estimated test year cost per piece is $4.83. This results in a cost coverage of 128.8 percent.

Table 6-13

Range ($)	Current Fee ($)	Proposed Fee ($)
0.01 – 50	4.50	4.75
50.01 – 100	5.50	5.80
100.01 – 200	6.50	6.85
200.01 – 300	7.50	7.90
300.01 – 400	8.50	8.95
400.01 – 500	9.50	10.00
500.01 – 600	10.50	11.05
600.01 – 700	11.50	12.10
700.01 – 800	12.50	13.15
800.01 – 900	13.50	14.20
900.01 – 1,000	14.50	15.25

14. Return Receipts (Fee Schedule 945)

[6204] Return receipt service is designed to provide customers with proof of delivery of mail. The return receipt customer receives the signature of the recipient, the delivery date, and the address where the mailpiece was delivered if it differs from the address on the mailpiece. There are four types of return receipt service: basic return receipt, return receipt for merchandise, return receipt after mailing, and electronic return receipt. *Id.* at 29-30.

[6205] Basic return receipt, return receipt after mailing and electronic return receipt can be used with certified, COD, registered, Express Mail, and numbered insurance.

Return receipt for merchandise can be used with Priority Mail, Standard Mail subject to the residual shape surcharge, and Package Services mail, but it does not require a customer to purchase any other special service. Electronic return receipt provides the same information as the basic return receipt in an electronic format via e-mail, while return receipt after mailing allows a customer to purchase the return receipt service after the item has been mailed.

[6206] The settlement proposal makes changes to all of the return receipt fees. All the costs, current and proposed fees, and cost coverages are shown in Table 6-14:

Table 6-14

Type	Test Year Cost	Current Fee	Proposed Fee	Cost Coverage
Basic	$1.45	$1.75	$1.85	127.8%
Electronic	$0.89	$1.30	$1.35	151.1%
Merchandise	$2.46	$3.00	$3.15	127.9%
After Mailing	$2.25	$3.25	$3.45	153.1%

[6207] Douglas F. Carlson argues that the proposed fee for electronic return receipt is too high. Carlson Brief at 1-6. To support this contention, he identifies two items that the Postal Service assumed in their cost calculations for Docket R2001-1 that were never implemented: (1) the electronic return receipt would be sent via “secure, digitally encrypted” e-mail instead of regular mail, and (2) customers would provide their e-mail address to a window clerk which would be equal to the cost of filling out the traditional green Form 3811 return receipt instead of later supplying it via the Postal Service’s website. Accordingly, Mr. Carlson asserts that the proposed fee is too high since these additional “costs” are illusory, and that the only true costs are the small window acceptance costs and minimal e-mail costs which should translate into a fee for electronic return receipt of $0.25.

[6208] The Postal Service argues that there are no statutory requirements that limit the ability of the electronic return receipt fee to be subject to an across-the-board

increase, and that Mr. Carlson does not set forth any rationale for treating the fee for electronic return receipt differently from all the other rates and fees subject to the across-the-board Request here. Postal Service Reply Brief at 72-74. Additionally, it argues that the special cost study for electronic return receipt does support the costs it presented in this case. *Ibid.* The Postal Service asserts that the 25 seconds of estimated window time is a reasonable estimate for the time it would take for a clerk to listen and respond to a customer request for a return receipt, explain the distinction between traditional and electronic, and advise the customer on how to request electronic return receipt over the internet. Further, it points out that there are additional computer-related costs that Mr. Carlson does not consider, including storing and transmitting an electronic copy of the signature, which justify the 50 cents estimate of computer costs. USPS-T-24 at 12. The Postal Service's proposal increases the electronic return receipt fee by 3.8 percent. On this record, the conflicting claims concerning the costs of providing this service are not well developed, having been explored primarily on brief. Under the circumstances of this case, the Commission recommends that the Postal Service give Mr. Carlson's criticisms a hard look before the next rate case in an attempt to have cost calculations more accurately reflect the actual procedures preformed in providing the electronic return receipt service.

[6209] Mr. Carlson also recommends that electronic return receipt and certified mail be combined into one service. He argues that certified mail already performs all of the necessary procedures to gather the information to provide electronic return receipts, and 86.2 percent of certified mail users elect to purchase electronic return receipts. Carlson Brief at 5-6. Combining the two services, he asserts, would extend electronic return receipt to customers who do not deposit certified mail at a retail window, thereby increasing the value of certified mail service. The Postal Service contends that "the cost and revenue impacts of Mr. Carlson's concept need to be investigated further before such a proposal could be justified." Postal Service Reply Brief at 74 n.79. The Commission believes that an overall simplification of special services fees will foster the

use of First-Class Mail and, to that end, recommends that the Postal Service investigate and consider Mr. Carlson's proposal.

15. Restricted Delivery (Fee Schedule 946)

[6210] Restricted delivery is a special service that allows a mailer to limit mail delivery to the addressee or the addressee's authorized agent. The addressee or agent must be an individual (natural person) specified by name. Restricted delivery is only available in conjunction with certified mail, COD mail, mail insured for greater than $50.00, or Registered Mail. Restricted delivery is available either at the time of mailing, or after mailing. If purchased after mailing, additional charges may be assessed to cover the cost of contacting the delivery post office. USPS-T-28 at 29.

[6211] The fee for restricted delivery is charged in addition to postage and any other applicable fee. The estimated test year cost is $2.31. The settlement proposes to increase the fee for restricted delivery from $3.50 to $3.70. The cost coverage in the test year under the proposed fee is 160.1 percent.

16. Certificate of Mailing (Fee Schedule 947)

[6212] A certificate of mailing provides a mailer with evidence of mailing. It does not provide proof of delivery or insurance against damage or loss. Certificates of mailing are provided on Form 3817 for individual mailpieces, on Form 3877 (firm mailing book) for three or more mailpieces, and on Form 3606 for bulk mailings. A duplicate certificate of mailing is available for a fee at the time of the mailing or upon presentment of the original certificate. *Id.* at 21.

[6213] With the exception of fees for duplicate certificates of mailing, which the settlement proposes to increase from 90 cents to 95 cents, the settlement proposal and costs for the certificate of mailing service are shown in Table 6-15, below. The cost

coverage associated with all of these fees is 140.5 percent. The Commission recommends the proposed fees for certificate of mailing.

Table 6-15

Service	Current Fee	Proposed Fee	Target Year Costs
Individual Pieces			
Original Certificate	$0.90	$0.95	$0.67
Firm Mailing Book	$0.30	$0.30	$0.23
Bulk Pieces			
Up to 1,000 Pieces	$4.50	$4.75	$3.51
Each Additional 1,000 Pieces	$0.50	$0.55	$0.35

17. Delivery Confirmation (Fee Schedule 948)

[6214] Delivery confirmation provides a mailer with information about the date and time that an article was delivered, or, if delivery was not successful, the date and time of attempted delivery. Delivery confirmation can be purchased as a manual (retail) or an electronic (commercial) service. In the manual service, a mailing receipt is provided at the time of mailing, and the mailer can access delivery information over the internet or through the toll-free corporate call management system. Electronic delivery confirmation requires a mailer to apply a barcode to the mailpiece and provide an electronic manifest to the Postal Service. An electronic link must be established with the Postal Service to exchange electronic acceptance and delivery data. Delivery confirmation is currently available with First-Class Mail parcels, Priority Mail, Standard Mail parcels (electronic only), and Package Service parcels. *Id.* at 23.

[6215] Table 6-16 lists current and proposed fees for delivery confirmation.

Table 6-16

Type	Electronic		Retail	
	Current	**Proposed**	**Current**	**Proposed**
First-Class	$0.13	$0.14	$0.55	$0.60
Priority Mail	$0.00	$0.00	$0.45	$0.50
Standard Mail	$0.13	$0.14	n/a	n/a
Parcel Select	$0.00	$0.00	n/a	n/a
Other Package Services	$0.13	$0.14	$0.55	$0.60

The test year estimated per-piece cost for delivery confirmation is $0.11. This produces a cost coverage of 118.3 percent.

18. Signature Confirmation (Fee Schedule 949)

[6216] Signature confirmation provides a mailer with access to delivery confirmation information and an image of the recipient's signature. It can be purchased as a manual (retail) or an electronic (commercial) service. With the manual service, a numbered receipt is provided at the time of mailing and the mailer can then access delivery information over the internet or through the toll-free corporate call center. Electronic signature confirmation requires the mailer to apply a barcode to the mailpiece, and provide an electronic manifest to the Postal Service. Both manual and electronic users have the option of requesting a hard copy of the signature through either facsimile or First-Class Mail. Signature confirmation may be purchased only at the time of mailing and is available only with First-Class Mail parcels, Priority Mail, and Package Service parcels. USPS-T-28 at 31.

[6217] The current and proposed fees for each class of mail are identical for signature confirmation. The settlement proposal increases electronic signature confirmation from $1.30 to $1.35, and increases retail signature confirmation from $1.80

to $1.90. Estimated test year unit cost for signature confirmation is $1.43, and cost coverage is 115.7 percent.

19. Parcel Airlift (Fee Schedule 951)

[6218] Parcel Airlift provides air transportation of parcels to, from, or between military post offices outside the 48 contiguous states, or between these post offices and the point of embarkation or debarkation for the mail to or from these offices in the 48 contiguous states. The service is available on a space available basis for Package Services mail up to 30 pounds in weight, or 60 inches in length and girth combined. USPS-T-28 at 25.

[6219] The Postal Service supplies no before or after fee costs for parcel airlift. In the past two omnibus rate cases there has been mention of doing away with the service or for the Postal Service to implement a cost-based approach for its pricing.[78] The Commission does not find this lack of information to be a basis for rejecting the settlement in this situation and recommends those fees as proposed.

[6220] The fee for using parcel airlift depends on how much the parcel weighs. The settlement proposal does not change the $0.45 fee for parcels that are less than 2 pounds. The rest of the weight categories' fees are proposed to be increased as follows: parcels over 2 pounds but not more than 3 pounds from $0.85 to $0.90; parcels over 3 pounds but not more than 4 pounds from $1.25 to $1.30; and parcel over 4 pounds but at most equal to 30 pounds from $1.70 to $1.80.

[78] *See* PRC Op. R2000-1, ¶ 6130; PRC Op. R2001-1, ¶¶ 3271-72.

20. Special Handling (Fee Schedule 952)

[6221] Special handling provides preferential handling of a mailpiece during processing and transportation, but does not provide preferential delivery. A mailer may request the service with First-Class Mail, Priority Mail, and Package Services. Special handling is required when shipping honeybees, crickets, or baby poultry using Package Services. USPS-T-28 at 31-32.

[6222] The proposed settlement increases the special handling fee from $5.95 to $6.25 for items up to 10 pounds, and from $8.25 to $8.70 for items over 10 pounds.

[6223] The accuracy of the cost estimates for special handling is highly questionable. The past three rate cases show a history of unreliable cost estimates for special handling (R97-1, R2000-1 and R2001-1). In Docket No. R97-1, the Postal Service proposed to triple the special handling fees, provoking a negative response from several beekeeper and poultry organizations. The Commission questioned the accuracy of the IOCS costs reported for special handling and noted the devastating impact that such a large increase in fees could have on small businesses that rely upon this service, a service with few alternatives. The Commission concluded that pending the completion of a special study of costs, no increase could be justified based on the R97-1 record. In Docket No. R2000-1, the Commission again could not recommend a change to special handling fees because the cost estimates were questionable, and there was not a sufficient record to justify any change. In Docket No. R2001-1, the Postal Service still did not present a reliable measure of the costs for this service, but proposed fee increases because the fees had not increased since 1995. The Commission did feel constrained by the settlement in that case to raise fees, and stated that without the settlement, the cost data provided would probably not justify a fee increase. The Commission again urged the Postal Service to study the costs. PRC Op. R2001-1, ¶¶ 3274-77.

[6224] Here, yet again the Commission finds itself in the undesirable position of having to consider special handling fees without accurate cost estimates. Due to the settlement proposal, the Commission feels constrained to recommend the fees as

proposed, but strongly urges the Postal Service to undertake the long anticipated cost study for this service.

21. Stamped Envelopes (Fee Schedule 961)

[6225] Stamped envelopes, i.e., envelopes with postage pre-attached, may be purchased from the Postal Service as individual envelopes, in household quantities of 50, or in bulk quantities of 500. Only size 6-3/4 and over size 6-3/4 envelopes are available. Envelope formats include basic (no window), single window, and double window. They may be purchased with printed personalized information, or purchased plain. Envelopes may be printed with different postage values, including pre-cancelled. USPS-T-28 at 32-33.

[6226] Table 6-17 shows the current and proposed fees for stamped envelopes.

Table 6-17

Type	Current	Proposed
Basic 6-3/4, each	$0.08	$0.08
Basic 6-3/4, 500	$12.00	$13.00
Plain over size 6-3/4, each	$0.08	$0.08
Plain over size 6-3/4, 500	$14.00	$15.00
Personalized 6-3/4, 50	$3.50	$3.75
Personalized 6-3/4, 500	$17.00	$18.00
Personalized over size 6-3/4, 50	$3.50	$3.75
Personalized over size 6-3/4, 500	$20.00	$21.00

The estimated test year unit cost for stamped envelopes is $0.03. The cost coverage for stamped envelopes is 133.1 percent.

22. Stamped Cards (Fee Schedule 962)

[6227] Stamped cards are cards with postage pre-affixed. They are available from the Postal Service for the price of First-Class postage, plus a fee for the card. Stamped cards are available in single units, doubles (one for the sender and one for the return mailer), and in sheets of 40. *Id.* at 32.

[6228] The settlement proposal does not change any of the fees for stamped cards. The single card fee remains at $0.02, the double reply-paid cards remains at $0.04, and the sheet of 40 uncut cards remains at $0.80. With estimated test year unit costs at $0.015, this yields a cost coverage of 134.8 percent.

23. Money Orders (Fee Schedule 971)

[6229] The Postal Service offers a domestic money order, an APO/FPO (military) money order, and an inquiry service. Traditionally, domestic money order usage has been thought to be weighted toward people with modest income levels, people without checking accounts, or people without credit cards. Postal money orders are popular in rural areas where access to alternative money order services is limited. APO/FPO money orders are generally sold to military personnel at military installations. Both domestic and APO/FPO money orders can be issued up to a maximum amount of $1,000. Inquiry service verifies whether a postal money order was cashed, and provides a copy of the paid money order. *Id.* at 24.

[6230] The proposed settlement does not change the $0.25 APO/FPO money order fee. The proposed settlement does increase the other money order fees as follows: domestic money orders between $0.01 and $500.00 are proposed to increase from $0.90 to $0.95; domestic money orders between $500.01 and $1,000.00 are proposed to increase from $1.25 to $1.30; and the money order inquiry fee is proposed to increase from $3.00 to $3.15. The estimated test year unit cost for the money order service is

$0.72, yielding an overall cost coverage of 184.9 percent at proposed rates. The fees are recommended as proposed.

24. Confirm (Fee Schedule 991)

[6231] Confirm service permits subscribing customers to obtain information electronically, in near real time, regarding when and where mailpieces undergo barcode scans in mail processing operations. Scan information is not guaranteed for every piece of qualifying mail. Destination Confirm is for a subscriber's outgoing mail while Origin Confirm is for reply mail incoming to the subscriber. Confirm service is available for First-Class Mail including Priority, Standard, Periodical, and Package Service automation compatible mail. It is available in the following service levels: silver, gold or platinum.

[6232] The silver subscription has a term of three months and includes the use of one identification (ID) code and up to 15 million scans. Additional ID Codes may be licensed for a term of three months or until expiration of the subscription. Subscribers may license the use of additional scans in blocks of 2 million scans at any time prior to expiration of the subscription.

[6233] The gold subscription has a term of 12 months and includes the use of one ID Code and up to 50 million scans. Additional ID Codes may be licensed for a term of three months or until expiration of the subscription. Subscribers may license the use of additional scans in blocks of 6 million scans at any time prior to expiration of the subscription.

[6234] The platinum subscription has a term of 12 months and includes the use of three ID Codes and unlimited scans. Additional ID Codes may be licensed for a term of three months or until expiration of the subscription.

[6235] The Postal Service's filings in this case do not contain any requests for fee or classification changes for this service since the Postal Service "expects that it will address both fees and service aspects of Confirm in a separate proceeding to be filed in

the future."[79] In accordance with the settlement, the Commission does not recommend any fee or classification changes to Confirm service.

25. Miscellaneous Fees (Fee Schedule 1000)

A. Permit Fees

[6236] The proposed settlement includes fee increases for permits. It proposes to increase the permit fee from $150.00 to $160.00 for (1) First-Class presort; (2) Standard Mail; (3) Destination Entry Package Services (Parcel Select and Bound Printed Matter); (4) Media Mail and Library Mail presort; (5) Parcel Return Services (Parcel Select and Bound Printed Matter); (6) Business Reply Mail; (7) Bulk Parcel Return Service; (8) Merchandise Return Service; and (9) permit imprints. The fee for all permits is on an annual basis except for the permit imprint fee which is a one-time only fee for mailings requiring permit indicia. USPS-T-28 at 26. Parcel Return Services (Parcel Select and Bound Printed Matter) also have permit fees listed in Fee Schedule 1000, although the Postal Service's Request and the settlement agreement do not discuss this permit fee at all. Nonetheless, to promote consistency for all permit fees, the Commission recommends that the Parcel Return Service permit fee be similarly increased, from $150.00 to $160.00.

[6237] The estimated test year cost for a permit is $119.94. The cost coverage is therefore equal to 133.4 percent.

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[79] *See* Notice of the United States Postal Service Regarding Exclusion of Confirm Service From General Rate Proceeding, April 8, 2005 at 3. *See also* Postal Service Brief at I-4 n.18, V-7 n.70; USPS-T-1 at 7.

B. Annual Accounting Fees

[6238] Accounting fees are charged annually for advance deposits associated with certain postal services. The settlement agreement includes increases for accounting fees. It proposes to increase the accounting fees to $500.00 from the current level of $475.00 for Business Reply Mail (Fee Schedule 931); Merchandise Return Service (Schedule 932); Bulk Parcel Return Service (Fee Schedule 935); and Shipper Paid Forwarding (Fee Schedule 936). All of the fees are the same, based upon a cost study done for business reply mail. Parcel Return Services (Parcel Select and Bound Printed Matter) (Fee Schedules 521 and 522) also have accounting fees listed in Fee Schedule 1000, although the Postal Service Request and the settlement agreement do not discuss this accounting fee at all. Nonetheless, to promote consistency for all permit fees, the Commission recommends that the Parcel Return Service accounting fee be similarly increased, from $475.00 to $500.00.

[6239] The estimated test year annual accounting cost is $382.82 per service. The implied cost coverage is 130.6 percent.

C. Periodicals Application Fees

[6240] There are four types of Periodicals application fees: (1) a one-time original entry fee; (2) an additional entry fee for new mailing locations; (3) a reentry fee when the status of the publication is affected by a name change, frequency of issue change, preferential rate status charge, or office of publication change; and (4) a news registration application fee for news agents who handle two or more periodicals by different publishers. *Id.* at 26.

[6241] The original entry estimated test year cost is $392.87. The settlement proposal increases the fee from $375.00 to $395.00. This provides a cost coverage of 100.5 percent. The additional entry estimated test year cost is $59.94. The settlement proposal increases the additional entry fee from $60.00 to $65.00. This provides a cost coverage of 108.4 percent. The registration for news agents estimated test year cost is

$30.24. The settlement proposal does not change the $40.00 fee for registration of news agents. This provides a cost coverage of 132.3 percent.

[6242] The Periodicals re-entry fee is an exception to the across-the-board 5.4 percent increase. The Postal Service proposes to increase the fee from $40.00 to $45.00 which is a 12.5 percent increase. The Postal Service argues that the fee needs to be increased more than 5.4 percent in order to cover costs. The test year estimated cost for Periodicals re-entry is $43.73. This proposed fee, consistent with other annual fees, is rounded to the nearest $5.00 increment, and produces a cost coverage of 102.9 percent. The Commission therefore recommends the proposed increase.

UNITED STATES OF AMERICA
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

Before Commissioners: George A. Omas, Chairman;
Dawn A. Tisdale, Vice Chairman;
Ruth Y. Goldway and Tony Hammond

Postal Rate and Fee Changes Docket No. R2005-1

RECOMMENDED DECISION

(Issued November 1, 2005)

A full public hearing having been held in the above-entitled proceeding, and the Commission, upon consideration of the record, having issued its Opinion, which is attached hereto and made a part hereof,

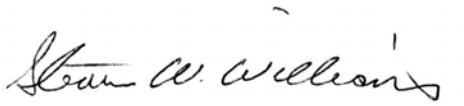
IT IS ORDERED:

1. That the Commission's Opinion be transmitted to the Governors of the Postal Service and that the Governors thereby be advised that the rates of postage and fees for postal services set forth in Appendix One hereof are in acordance with the policies of Title 39 of the United States Code and the factors set forth in § 3622(b) thereof; and they are hereby recommended to the Governors for approval.

2. Except to the extent granted or otherwise disposed of herein, all motions, exceptions, and other outstanding requests filed in Docket No. R2005-1 hereby are denied.

By the Commission.

(S E A L)



Steven W. Williams, Secretary

CONCURRING OPINION OF COMMISSIONER GOLDWAY

This decision marks the second consecutive omnibus rate case that the Postal Rate Commission (PRC) decision has been premised on a settlement.

I have been pleased to be part of a regulatory oversight organization that encourages harmony and consensus among postal stakeholders.[1] I am proud to serve with fellow commissioners who are striving to facilitate our own decisionmaking process and enhance the overall efficiency of the United States Postal Service. Nevertheless, I am concerned that the continuing reliance on settlements in major rate cases may lead to unfair rates and reduced efficiency within the Postal Service and, equally important for me, to a diminution of the transparency and accountability in the operations of the Commission and the Postal Service.

Rate cases that are presented as settlements cause harm by:

— eliminating or subordinating important costing issues;
— postponing many worthwhile structural changes;
— placing undue reliance on the open-ended "catchall" decisional factor;[2]
— exhibiting extensive advance collaboration with well-connected mailers; and
— risking the impression of a "take it or leave it" proposition in the view of some mailers.

Under the traditional rate case process, the legitimacy of our decisionmaking rests on the resolution of complex factual issues presented in an evidentiary record, and extrapolation from those facts into classification schemes and rates guided by the criteria set forth in the Postal Reorganization Act[3].

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[1] In the past four years the Commission has used part or all of proposed settlements as the basis for its recommended decisions in 11 rate and classification cases.

[2] *See*, 39 U.S.C. § 3622(b)(9), "such other factors as the commission may deem appropriate."

[3] 39 U.S.C. § 3622.

Congress gave the PRC important responsibilities, especially the duty of assuring that the policies of the Act are carried out through the pricing of postal products. The Commission assures that rates promote these public policies by evaluating evidence on the costs caused by each subclass of mail, and on the portion of the remaining (institutional) costs that should be allocated to each subclass. The rates recommended in this decision are not based on such evaluations, and as a result they will not produce the economic benefits of efficient component pricing or most fairly divide institutional cost burdens between mailers.

Previously in fully litigated rate cases, the Commission found its decisionmaking abilities hampered by a lack of up-to-date cost studies, incomplete cost data, or unexplained discrepancies between the testimony of one witness and that of another. But the Commission has more than 30 years of experience in analyzing postal data and our ability to consider the evidence we have, and our record for setting fair and equitable rates, is well-respected. However, if we continue to have cases in which most mailers agree to settle at an early stage in the proceeding, we will have far less information on which to base our findings. The information with which we are presented might be deemed prejudicial. For example, those stakeholders with fewer resources may be discouraged from participating when the majority claims to speak for all. Whether it is peer pressure or the high cost of litigating, when the outcome seems predetermined, many members of the public may not participate.

In negotiated settlements, parties meet in private. Factual data and statistical methodology may play a far less important role than concessions or agreements among the negotiating parties. I am concerned that in the future “insiders” could seek to preserve their own interests and the status quo. As this Commission opinion fully enumerates, there are already many instances in which status quo rates may not accurately reflect current costs. Further, I am concerned that many of the improvements

the Commission suggested in R2000-1 in particular regarding special services used by consumers and small businesses have yet to be addressed.

Several parties in this case filed briefs indicating they wanted to present evidence, but chose not to do so because the circumstances of this case supported settlement. While I fully support the Commission opinion accepting the proposed settlement as the basis for our decision in this case, it is important for parties to realize that the Commission does not view settlements as foreclosing its duty to carefully consider all applicable public policies. Parties that do not submit evidence run the risk that without the benefit of their knowledge and opinions, the Commission may reach a potentially adverse decision.

In this concurring opinion, I take the opportunity to urge all the members of the postal community to return to the more open and vibrant, if complex, process of rate review by participating fully in our hearings. The Commission is obliged to consider all the interests of the general public and it does so best only in full partnership with all stakeholders.

Ruth Y. Goldway, Commissioner

RATE SCHEDULES

EXPRESS MAIL
RATE SCHEDULES 121, 122 AND 123

Weight (lbs.)	Schedule 121 Same Day Airport Service	Schedule 122 Custom Designed	Schedule 123 Next Day & Second Day PO to PO	Schedule 123 Next Day & Second Day PO to Addressee
0.5		$11.30	$10.95	$14.40
1		15.70	15.40	18.80
2		15.70	15.40	18.80
3		19.10	18.75	22.20
4		22.40	22.10	25.50
5		25.65	25.35	28.75
6		28.95	28.60	32.05
7		32.15	31.85	35.25
8		33.50	33.20	36.65
9		35.05	34.75	38.15
10		36.40	36.10	39.50
11		38.20	37.90	41.30
12		41.00	40.70	44.10
13		43.00	42.70	46.10
14		44.10	43.80	47.20
15		45.50	45.15	48.60
16		47.10	46.80	50.20
17		48.70	48.40	51.80
18		50.15	49.85	53.30
19		51.70	51.40	54.80
20		53.25	52.90	56.35
21		54.75	54.45	57.85
22		56.30	55.95	59.40
23		57.85	57.55	60.95
24		59.35	59.00	62.45
25		60.80	60.50	63.95
26		62.40	62.10	65.50
27		63.85	63.55	67.00
28		65.45	65.15	68.55
29		67.00	66.65	70.10
30		68.50	68.20	71.60
31		70.05	69.70	73.15
32		71.60	71.30	74.75
33		73.05	72.75	76.15
34		74.70	74.35	77.80
35		76.10	75.80	79.20
36		77.75	77.40	80.85
37		79.45	79.15	82.60
38		81.35	81.05	84.50
39		83.20	82.90	86.30
40		85.10	84.80	88.20
41		87.00	86.70	90.10
42		88.95	88.65	92.05
43		90.75	90.45	93.85
44		92.60	92.30	95.70
45		94.30	93.95	97.40
46		95.70	95.40	98.80
47		97.45	97.15	100.55
48		98.95	98.65	102.10
49		100.45	100.15	103.55
50		102.05	101.70	105.15

EXPRESS MAIL
RATE SCHEDULES 121, 122 AND 123 (continued)

Weight (lbs.)	Schedule 121 Same Day Airport Service	Schedule 122 Custom Designed	Schedule 123 Next Day & Second Day PO to PO	Schedule 123 Next Day & Second Day PO to Addressee
51		$103.70	$103.40	$106.80
52		105.20	104.85	108.30
53		106.80	106.50	109.95
54		108.35	108.05	111.45
55		109.95	109.60	113.05
56		111.55	111.25	114.70
57		113.10	112.80	116.20
58		114.75	114.40	117.85
59		116.40	116.10	119.50
60		118.25	117.95	121.35
61		120.25	119.95	123.35
62		122.10	121.80	125.20
63		123.90	123.60	127.00
64		125.95	125.65	129.05
65		127.75	127.45	130.85
66		129.75	129.45	132.85
67		131.55	131.20	134.65
68		133.55	133.25	136.65
69		135.40	135.05	138.50
70		137.30	136.95	140.40

SCHEDULES 121, 122 AND 123 NOTES

1. The applicable 1/2-pound rate is charged for matter sent in a flat-rate envelope provided by the Postal Service.
2. Add $13.25 for each pickup stop.
3. Add $13.25 for each Custom Designed delivery stop.

FIRST-CLASS MAIL
RATE SCHEDULE 221

LETTERS AND SEALED PARCELS

	Rate
Single-Piece	
First ounce	$ 0.390
Additional ounces	0.240
Nonmachinable surcharge	0.130
Qualified Business Reply Mail	0.358
Presorted	
First ounce	0.371
Additional ounces	0.237
Nonmachinable surcharge	0.058
Heavy piece discount, per-piece	0.043
Automation Letters	
Mixed AADC	0.326
AADC	0.317
3-digit	0.308
5-digit	0.293
Carrier route	0.290
Additional ounces	0.237
Heavy piece discount, per-piece	0.043
Automation Flats	
Mixed ADC	0.359
ADC	0.351
3-digit	0.339
5-digit	0.318
Additional ounces	0.237
Nonmachinable surcharge	0.058
Heavy piece discount, per-piece	0.043

SCHEDULE 221 NOTES

1. A mailing fee of $160.00 must be paid once each year at each office of mailing by any person who mails at presorted or automation rates. Payment of the fee allows the mailer to mail at any First-Class Mail rate. For presorted or automation pieces weighing more than 2 ounces, subtract 4.3 cents per-piece.
2. First-Class Mail rates apply through 13 ounces. Heavier pieces are subject to Priority Mail rates.
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.

FIRST-CLASS MAIL
RATE SCHEDULE 222

CARDS

	Rate
Regular	
Single-piece cards	$ 0.240
Qualified Business Reply Mail	0.211
Presorted	0.223
Automation	
Mixed AADC	0.204
AADC	0.197
3-digit	0.193
5-digit	0.186
Carrier route	0.179

SCHEDULE 222 NOTES

1. A mailing fee of $160.00 must be paid once each year at each office of mailing by any person who mails at presorted or automation rates. Payment of the fee allows the mailer to mail at any First-Class Mail rate.

FIRST-CLASS MAIL
RATE SCHEDULE 223

PRIORITY MAIL

Weight (lbs.)	Local, Zones 1, 2 & 3	Zone 4	Zone 5	Zone 6	Zone 7	Zone 8
1	$4.05	$4.05	$4.05	$4.05	$4.05	$4.05
2	4.20	4.80	5.15	5.30	5.70	6.05
3	5.00	6.40	7.20	7.55	8.25	9.00
4	5.60	7.45	8.50	8.95	9.95	10.90
5	6.15	8.45	9.80	10.40	11.60	12.80
6	6.65	9.35	10.45	10.60	11.90	12.95
7	7.15	10.35	11.25	11.60	13.25	14.80
8	7.75	11.35	12.05	12.60	14.55	16.60
9	8.35	12.35	12.85	13.60	15.85	18.45
10	8.85	13.30	13.70	14.75	17.20	20.25
11	9.45	14.05	14.50	15.95	18.50	22.05
12	10.00	14.80	15.30	17.20	19.80	23.85
13	10.55	15.55	16.15	18.45	21.15	25.65
14	11.10	16.30	16.90	19.60	22.40	27.45
15	11.65	17.05	17.75	20.80	23.70	29.30
16	12.25	17.80	18.55	22.00	25.05	31.10
17	12.80	18.55	19.35	23.25	26.35	32.90
18	13.35	19.30	20.35	24.40	27.65	34.75
19	13.90	20.05	21.30	25.60	29.00	36.50
20	14.50	20.80	22.30	26.70	30.30	38.35
21	15.00	21.55	23.25	28.00	31.60	40.15
22	15.60	22.30	24.20	29.15	32.90	41.95
23	16.15	23.05	25.20	30.35	34.20	43.80
24	16.70	23.75	26.20	31.50	35.50	45.60
25	17.30	24.55	27.15	32.80	36.85	47.40
26	17.80	25.30	28.05	34.00	38.15	49.20
27	18.40	26.05	29.05	35.15	39.45	51.00
28	18.95	26.75	30.05	36.35	40.80	52.85
29	19.50	27.55	31.05	37.50	42.10	54.65
30	20.10	28.30	32.00	38.80	43.40	56.45
31	20.60	29.05	32.90	39.90	44.70	58.30
32	21.20	29.80	33.90	41.10	46.00	60.10
33	21.75	30.50	34.90	42.25	47.30	61.85
34	22.30	31.30	35.85	43.50	48.65	63.70
35	22.85	32.05	36.85	44.70	49.95	65.50
36	23.45	32.80	37.80	45.90	51.30	67.30
37	24.00	33.70	38.80	47.05	52.60	69.15
38	24.55	34.40	39.75	48.35	53.90	70.95
39	25.05	35.30	40.75	49.55	55.25	72.80
40	25.55	36.15	41.75	50.70	56.50	74.55

PRIORITY MAIL (continued)

Weight (lbs.)	Local, Zones 1, 2 & 3	Zone 4	Zone 5	Zone 6	Zone 7	Zone 8
41	$26.05	$36.90	$42.65	$51.90	$57.80	$76.35
42	26.55	37.80	43.60	53.00	59.20	78.20
43	27.05	38.60	44.60	54.30	60.50	80.00
44	27.55	39.40	45.60	55.45	61.85	81.80
45	28.05	40.25	46.55	56.65	63.20	83.65
46	28.55	41.10	47.50	57.80	64.50	85.45
47	29.05	41.90	48.50	59.10	65.90	87.20
48	29.55	42.80	49.50	60.30	67.20	89.05
49	30.05	43.60	50.40	61.45	68.55	90.85
50	30.50	44.45	51.40	62.65	69.90	92.70
51	31.05	45.25	52.35	63.80	71.20	94.50
52	31.50	46.10	53.35	65.10	72.50	96.30
53	32.05	46.90	54.30	66.25	73.85	98.15
54	32.50	47.70	55.30	67.40	75.15	99.90
55	33.05	48.60	56.30	68.55	76.40	101.70
56	33.50	49.40	57.20	69.85	77.75	103.55
57	34.05	50.20	58.15	71.00	79.05	105.35
58	34.50	51.05	59.15	72.20	80.35	107.15
59	35.05	51.90	60.15	73.35	81.70	109.00
60	35.50	52.70	61.15	74.60	83.00	110.80
61	36.05	53.60	62.05	75.85	84.30	112.60
62	36.50	54.35	63.05	77.00	85.65	114.40
63	37.05	55.25	64.05	78.20	86.95	116.20
64	37.50	56.05	65.05	79.40	88.20	118.05
65	38.05	56.80	65.90	80.60	89.55	119.85
66	38.50	57.70	66.90	81.75	90.85	121.65
67	39.05	58.60	67.90	82.95	92.15	123.50
68	39.50	59.35	68.90	84.10	93.50	125.25
69	40.05	60.20	69.85	85.35	94.80	127.05
70	40.55	61.10	70.80	86.55	96.10	128.90

SCHEDULE 223 NOTES

1. The 1-pound rate is charged for matter sent in a flat-rate envelope provided by the Postal Service.
2. Add $13.25 for each pickup stop.
3. EXCEPTION: Parcels weighing less than 15 pounds, measuring over 84 inches in length and girth combined, are chargeable with a minimum rate equal to that for a 15-pound parcel for the zone to which addressed.
4. A rate of $8.10 is charged for matter sent in a flat rate box provided by the Postal Service (experimental).

STANDARD MAIL
RATE SCHEDULE 321A

REGULAR
PRESORTED CATEGORIES

	Rate
Letter, minimum piece rate	
Piece Rate	
Basic	$ 0.282
3/5-digit	0.261
Destination Entry Discounts	
BMC	0.022
SCF	0.027
Nonletters, minimum piece rate	
Piece Rate	
Basic	0.363
3/5-digit	0.304
Destination Entry Discounts	
BMC	0.022
SCF	0.027
Nonletters, piece and pound rate	
Piece Rate	
Basic	0.209
3/5-digit	0.150
Pound Rate	0.746
Destination Entry Discounts (off pound rate)	
BMC	0.105
SCF	0.132

SCHEDULE 321A NOTES

1. A fee of $160.00 must be paid each 12-month period for each bulk mailing permit.
2. Residual shape pieces are subject to a surcharge of $0.242 per-piece. For parcel barcode discount, deduct $0.03 per-piece (machinable parcels only).
3. For nonletters, the mailer pays either the minimum piece rate or the pound rate, whichever is higher.
4. Nonmachinable letters are subject to a $0.042 nonmachinable surcharge.
5. Pieces entered as Customized Market Mail, as defined in DMCS section 321.22, are subject to the nondestination entry, nonletter minimum per-piece basic rate and the residual shape surcharge.
6. Add $0.15 per-piece for pieces bearing a Repositionable Note as defined in Classification Schedule 321.8.

STANDARD MAIL
RATE SCHEDULE 321B

REGULAR
AUTOMATION CATEGORIES

	Rate
Letters, minimum piece rate	
Piece Rate	
Basic	$ 0.231
3/5-digit	0.223
3-digit	0.214
5-digit	0.200
Destination Entry Discounts	
BMC	0.022
SCF	0.027
Flats, minimum piece rate	
Piece Rate	
Basic	0.316
3/5-digit	0.275
Destination Entry Discounts	
BMC	0.022
SCF	0.027
Flats, piece and pound rate	
Piece Rate	
Basic	0.162
3/5-digit	0.121
Pound Rate	0.746
Destination Entry Discounts (off pound rate)	
BMC	0.105
SCF	0.132

SCHEDULE 321B NOTES

1. A fee of $160.00 must be paid once each 12-month period for each bulk mailing permit.
2. Letters that weigh more than 3.3 ounces but not more than 3.5 ounces pay the nonletter piece and pound rate but receive a discount off the piece rate equal to the applicable nonletter minimum piece rate minus the applicable letter minimum piece rate corresponding to the correct presort tier.
3. For nonletters, the mailer pays either the minimum piece rate or the pound rate, whichever is higher.
4. Add $0.015 per-piece for pieces bearing a Repositionable Note as defined in Classification Schedule 323.8.

STANDARD MAIL
RATE SCHEDULE 322

ENHANCED CARRIER ROUTE

	Rate
Letters, minimum piece rate	
Piece Rate	
Basic	$ 0.204
High density	0.173
Saturation	0.160
Automation Basic	0.180
Destination Entry Discounts	
BMC	0.022
SCF	0.027
DDU	0.033
Nonletters, minimum piece rate	
Piece Rate	
Basic	0.204
High density	0.178
Saturation	0.169
Destination Entry Discounts	
BMC	0.022
SCF	0.027
DDU	0.033
Nonletters, piece and pound rate	
Piece Rate	
Basic	0.071
High density	0.045
Saturation	0.036
Pound Rate	0.643
Destination Entry Discounts (off pound rate)	
BMC	0.105
SCF	0.132
DDU	0.166

SCHEDULE 322 NOTES

1. A fee of $160.00 must be paid each 12-month period for each bulk mailing permit.
2. Residual shape pieces are subject to a surcharge of $0.211 per-piece.
3. For nonletters, the mailer pays either the minimum piece rate or the pound rate, whichever is higher.
4. Pieces that otherwise meet the requirements for basic automation, high density, and saturation letter rates that weigh more than 3.3 ounces but not more than 3.5 ounces pay the nonletter piece and pound rate but receive a discount off the piece rate equal to the applicable nonletter minimum piece rate minus the applicable letter minimum piece rate corresponding to the correct presort tier.
5. For letter-size pieces, not meeting the automation requirements specified by the Postal Service, the mailer pays the nonletter rate for the applicable density tier.
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

	Rate
Letters, minimum piece rate	
Piece Rate	
Basic	$ 0.170
3/5-digit	0.158
Destination Entry Discounts	
BMC	0.022
SCF	0.027
Nonletters, minimum piece rate	
Piece Rate	
Basic	0.237
3/5-digit	0.189
Destination Entry Discounts	
BMC	0.022
SCF	0.027
Nonletters, piece and pound rate	
Piece Rate	
Basic	0.113
3/5-digit	0.065
Pound Rate	0.602
Destination Entry Discounts (off pound rate)	
BMC	0.105
SCF	0.132

SCHEDULE 323A NOTES

1. A fee of $160.00 must be paid each 12-month period for each bulk mailing permit.
2. Residual shape pieces are subject to a surcharge of $0.242 per-piece. For parcel barcode discount, deduct $0.03 per-piece (machinable parcels only).
3. For nonletters, the mailer pays either the minimum piece rate or the pound rate, whichever is higher.
4. Nonmachinable letters are subject to a $0.021 nonmachinable surcharge.
5. Pieces entered as Customized Market Mail, as defined in DMCS sections 321.22 and 323.22, are subject to the nondestination entry, nonletter minimum per-piece basic rate and the residual shape surcharge.
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

	Rate
Letters, minimum piece rate	
Piece Rate	
Basic	$ 0.148
3/5-digit	0.140
3-digit	0.133
5-digit	0.118
Destination Entry Discounts	
BMC	0.022
SCF	0.027
Flats, minimum piece rate	
Piece Rate	
Basic	0.195
3/5-digit	0.171
Destination Entry Discounts	
BMC	0.022
SCF	0.027
Flats, piece and pound rate	
Piece Rate	
Basic	0.071
3/5-digit	0.047
Pound Rate	0.602
Destination Entry Discounts (off pound rate)	
BMC	0.105
SCF	0.132

SCHEDULE 323B NOTES

1. A fee of $160.00 must be paid each 12-month period for each bulk mailing permit.
2. Letters that weigh more than 3.3 ounces but not more than 3.5 ounces pay the nonletter piece and pound rate but receive a discount off the piece rate equal to the applicable nonletter minimum piece rate minus the applicable letter minimum piece rate corresponding to the correct presort tier.
3. For nonletters, the mailer pays either the minimum piece rate or the pound rate, whichever is higher.
4. Add $0.015 per piece for pieces bearing a Repositionable Note as defined in Classification Schedule 321.8.

STANDARD MAIL
RATE SCHEDULE 324

NONPROFIT ENHANCED CARRIER ROUTE

	Rate
Letters, minimum piece rate	
Piece Rate	
Basic	$ 0.140
High density	0.113
Saturation	0.105
Automation Basic	0.117
Destination Entry Discounts	
BMC	0.022
SCF	0.027
DDU	0.033
Nonletters, minimum piece rate	
Piece Rate	
Basic	0.140
High density	0.122
Saturation	0.116
Destination Entry Discounts	
BMC	0.022
SCF	0.027
DDU	0.033
Nonletters, piece and pound rate	
Piece Rate	
Basic	0.055
High density	0.037
Saturation	0.031
Pound Rate	0.411
Destination Entry Discounts (off pound rate)	
BMC	0.105
SCF	0.132
DDU	0.166

SCHEDULE 324 NOTES

1. A fee of $160.00 must be paid each 12-month period for each bulk mailing permit.
2. Residual shape pieces are subject to a surcharge of $0.211 per-piece.
3. For nonletters, the mailer pays either the minimum piece rate or the pound rate, whichever is higher.
4. Pieces that otherwise meet the requirements for basic automation, high density, and saturation letter rates that weigh more than 3.3 ounces but not more than 3.5 ounces pay the nonletter piece and pound rate but receive a discount off the piece rate equal to the applicable nonletter minimum piece rate minus the applicable letter minimum piece rate corresponding to the correct density tier.
5. For letter-size pieces, not meeting the automation requirements specified by the Postal Service, the mailer pays the nonletter rate for the applicable density tier.
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)

	Postage Rate Unit	Rate
Outside County		
Advertising		
Destinating Delivery Unit	Pound	$ 0.167
Destinating SCF	Pound	0.214
Destinating ADC	Pound	0.235
Zones 1 & 2	Pound	0.261
Zone 3	Pound	0.281
Zone 4	Pound	0.332
Zone 5	Pound	0.410
Zone 6	Pound	0.491
Zone 7	Pound	0.589
Zone 8	Pound	0.672
Nonadvertising	Pound	0.203
Science of Agriculture		
Advertising		
Destinating Delivery Unit	Pound	0.125
Destinating SCF	Pound	0.160
Destinating ADC	Pound	0.176
Zones 1 & 2	Pound	0.196
Zone 3	Pound	0.281
Zone 4	Pound	0.332
Zone 5	Pound	0.410
Zone 6	Pound	0.491
Zone 7	Pound	0.589
Zone 8	Pound	0.672
Nonadvertising	Pound	0.203
Outside County and Science of Agriculture		
Basic		
Nonautomation	Piece	0.393
Automation Letter	Piece	0.296
Automation Flat	Piece	0.343
3-Digit		
Nonautomation	Piece	0.341
Automation Letter	Piece	0.262
Automation Flat	Piece	0.298

OUTSIDE COUNTY (INCLUDING SCIENCE OF AGRICULTURE) (continued)

5-Digit		
Nonautomation	Piece	$ 0.270
Automation Letter	Piece	0.206
Automation Flat	Piece	0.238
Carrier Route		
Basic	Piece	0.172
High density	Piece	0.138
Saturation	Piece	0.118
Discounts		
Per-piece editorial discount	Piece	0.00074
Worksharing Discount DDU	Piece	0.019
Worksharing Discount DSCF	Piece	0.008
Worksharing Discount DADC	Piece	0.002
Worksharing discount pallets	Piece	0.005
Worksharing dropship pallet discount	Piece	0.011
Experimental Discounts		
Co-palletization 2 discounts DSCF	Piece	0.011
Zones 1 & 2 Avoided	Pound	0.015
Zone 3 Avoided	Pound	0.020
Zone 4 Avoided	Pound	0.036
Zone 5 Avoided	Pound	0.059
Zone 6 Avoided	Pound	0.083
Zone 7 Avoided	Pound	0.113
Zone 8 Avoided	Pound	0.138
Co-palletization 2 discounts DADC	Piece	0.007
Zones 1 & 2 Avoided	Pound	0.008
Zone 3 Avoided	Pound	0.014
Zone 4 Avoided	Pound	0.030
Zone 5 Avoided	Pound	0.053
Zone 6 Avoided	Pound	0.077
Zone 7 Avoided	Pound	0.106
Zone 8 Avoided	Pound	0.132

SCHEDULE 421 NOTES

1. The rates in this schedule also apply to Nonprofit (DMCS Section 422.2) and Classroom rate categories. These categories receive a 5 percent discount on all components of postage except advertising pounds. Moreover, the 5 percent discount does not apply to commingled nonsubscriber, nonrequestor, complimentary, and sample copies in excess of the 10 percent allowance under DMCS sections 412.34 and 413.42, or to Science of Agriculture mail.
2. Rates do not apply to otherwise Outside County mail that qualifies for the Within County rates in Schedule 423.
3. Charges are computed by adding the appropriate per-piece charge to the sum of the nonadvertising pound portion and the advertising pound portion, as applicable.
4. For postage calculations, multiply the proportion of nonadvertising content by this factor and subtract from the applicable piece rate.
5. Advertising pound rate is not applicable to qualifying Nonprofit and Classroom publications containing 10 percent or less advertising content.
6. For a Ride-Along item enclosed with or attached to a Periodical, add $0.131 per copy.
7. Experimental discounts expire the later of a) October 3, 2006, or b) if, by the expiration date specified in (a), a proposal for a permanent replacement for the co-palletization dropship discounts is pending before the Postal Rate Commission, then 1) three months after the Commission takes action on such request under 39 U.S.C. § 3624 or, if applicable, 2) on the implementation date for a permanent replacement for the co-palletization dropship discounts.
8. Add $0.015 per piece for pieces bearing a Repositionable Note as defined in Classification Schedule 424.

PERIODICALS
RATE SCHEDULE 423

WITHIN COUNTY

	Postage Rate Unit	Rate
Delivery Unit	Pound	$ 0.109
All other zones	Pound	0.142
Basic		
Nonautomation	Piece	0.103
Automation Letter	Piece	0.049
Automation Flat	Piece	0.075
3-Digit		
Nonautomation	Piece	0.095
Automation Letter	Piece	0.047
Automation Flat	Piece	0.071
5-Digit		
Nonautomation	Piece	0.085
Automation Letter	Piece	0.045
Automation Flat	Piece	0.065
Carrier Route		
Basic	Piece	0.049
High density	Piece	0.033
Saturation	Piece	0.027
Discounts		
Worksharing Discount DDU	Piece	0.006

SCHEDULE 423 NOTES

1. Charges are computed by adding the appropriate per-piece charge to the appropriate pound charge.
2. For a Ride-Along item enclosed with or attached to a periodical, add $0.131 per copy.
3. Add $0.015 per-piece for pieces bearing a Repositionable Note as defined in Classification Schedule 424.

PACKAGE SERVICES
RATE SCHEDULE 521.2A

PARCEL POST
INTER-BMC RATES

Weight (lbs.)	Zones 1 & 2	Zone 3	Zone 4	Zone 5	Zone 6	Zone 7	Zone 8
1	$3.89	$3.95	$3.95	$3.95	$3.95	$3.95	$3.95
2	4.06	4.06	4.36	4.36	4.73	4.73	4.73
3	4.90	4.90	5.85	5.96	6.02	6.08	6.66
4	5.12	5.48	6.63	7.30	7.53	7.59	8.29
5	5.30	6.02	7.31	8.17	9.04	9.11	9.94
6	5.93	6.33	7.84	8.96	10.03	10.43	12.11
7	6.11	6.62	8.34	9.70	10.91	12.01	13.52
8	6.30	6.88	8.75	10.37	11.71	13.22	15.85
9	6.44	7.13	9.21	11.01	12.47	14.10	17.96
10	6.62	7.98	9.59	11.60	13.18	14.94	19.12
11	6.76	8.22	9.98	12.16	13.84	15.73	20.18
12	6.89	8.44	10.33	12.69	14.46	16.46	21.19
13	7.03	8.63	10.67	13.19	15.05	17.15	22.12
14	7.17	8.87	10.99	13.65	15.61	17.81	23.02
15	7.29	9.07	11.31	14.10	16.14	18.43	23.86
16	7.40	9.26	11.59	14.52	16.64	19.02	24.67
17	7.54	9.42	11.89	14.92	17.12	19.59	25.43
18	7.64	9.60	12.14	15.30	17.58	20.12	26.16
19	7.77	9.78	12.41	15.67	18.01	20.64	26.86
20	7.86	9.94	12.63	16.02	18.42	21.13	27.53
21	7.98	10.11	12.86	16.36	18.82	21.60	28.16
22	8.07	10.24	13.09	16.67	19.20	22.05	28.77
23	8.18	10.42	13.33	16.98	19.57	22.47	29.35
24	8.25	10.55	13.52	17.28	19.92	22.89	29.92
25	8.36	10.69	13.73	17.56	20.26	23.28	30.46
26	8.44	10.82	13.92	17.83	20.58	23.67	30.98
27	8.55	10.96	14.10	18.10	20.90	24.04	31.48
28	8.62	11.09	14.31	18.35	21.20	24.39	31.96
29	8.72	11.23	14.49	18.59	21.49	24.74	32.42
30	8.80	11.34	14.65	18.83	21.77	25.06	32.87
31	8.90	11.45	14.82	19.06	22.04	25.38	33.31
32	8.96	11.58	14.99	19.28	22.30	25.69	33.73
33	9.04	11.70	15.16	19.49	22.56	25.98	34.13
34	9.13	11.78	15.29	19.70	22.80	26.28	34.52
35	9.21	11.91	15.45	19.90	23.03	26.55	34.90
36	9.28	12.01	15.62	20.09	23.26	26.82	35.26
37	9.35	12.10	15.74	20.27	23.48	27.08	35.61
38	9.42	12.23	15.88	20.46	23.69	27.33	35.96
39	9.51	12.30	16.01	20.63	23.90	27.58	36.29
40	9.58	12.42	16.15	20.80	24.10	27.82	36.62

PARCEL POST
INTER-BMC RATES (continued)

Weight (lbs.)	Zones 1 & 2	Zone 3	Zone 4	Zone 5	Zone 6	Zone 7	Zone 8
41	$9.67	$12.52	$16.27	$20.96	$24.31	$28.05	$36.93
42	9.73	12.61	16.40	21.12	24.49	28.27	37.24
43	9.78	12.70	16.53	21.28	24.67	28.49	37.53
44	9.85	12.77	16.64	21.43	24.85	28.70	37.82
45	9.92	12.88	16.77	21.58	25.03	28.91	38.09
46	9.99	12.96	16.89	21.72	25.20	29.11	38.37
47	10.08	13.06	16.99	21.86	25.36	29.30	38.63
48	10.13	13.14	17.12	21.99	25.53	29.49	38.88
49	10.18	13.23	17.22	22.12	25.68	29.67	39.14
50	10.24	13.29	17.31	22.25	25.83	29.85	39.38
51	10.32	13.39	17.43	22.38	25.98	30.03	39.62
52	10.37	13.47	17.53	22.49	26.13	30.20	39.84
53	10.45	13.53	17.60	22.61	26.27	30.37	40.07
54	10.50	13.64	17.72	22.72	26.40	30.52	40.28
55	10.55	13.67	17.82	22.84	26.53	30.68	40.51
56	10.63	13.79	17.91	22.95	26.67	30.83	40.71
57	10.69	13.85	18.01	23.05	26.79	30.98	40.92
58	10.74	13.92	18.09	23.16	26.91	31.12	41.11
59	10.81	13.99	18.19	23.26	27.04	31.27	41.31
60	10.87	14.06	18.29	23.36	27.15	31.41	41.49
61	10.95	14.16	18.36	23.45	27.27	31.54	41.68
62	11.00	14.21	18.45	23.55	27.37	31.67	41.85
63	11.04	14.29	18.54	23.64	27.49	31.80	42.02
64	11.09	14.34	18.61	23.73	27.59	31.93	42.19
65	11.15	14.42	18.70	23.82	27.70	32.05	42.36
66	11.23	14.49	18.77	23.90	27.79	32.17	42.53
67	11.29	14.56	18.86	23.99	27.90	32.28	42.69
68	11.33	14.62	18.95	24.07	27.99	32.40	42.83
69	11.38	14.67	19.02	24.15	28.09	32.51	42.99
70	11.45	14.76	19.10	24.22	28.18	32.62	43.14
Oversized	43.95	49.25	57.04	69.40	83.99	97.82	127.24

SCHEDULE 521.2A NOTES

1. For Origin Bulk Mail Center (OBMC) Presort Discount, deduct $1.23 per-piece.
2. For BMC Presort discount, deduct $0.30 per-piece.
3. For barcode discount, deduct $0.03 per-piece (machinable parcels only).
4. For nonmachinable parcels, add $2.90 per-piece.
5. Regardless of weight, any piece that measures more than 108 inches (but not more than 130 inches) in combined length and girth must pay the oversized rate.
6. Pieces exceeding 84 inches in length and girth combined and weighing less than 15 pounds are subject to a rate equal to that for a 15-pound parcel for the zone to which the parcel is addressed.
7. For each pickup stop, add $13.25.

PACKAGE SERVICES
RATE SCHEDULE 521.2B

PARCEL POST
INTRA-BMC RATES

Weight (lbs.)	Local Zone	Zones 1 & 2	Zone 3	Zone 4	Zone 5
1	$2.96	$3.12	$3.15	$3.21	$3.31
2	3.30	3.72	3.75	3.83	3.94
3	3.63	4.30	4.33	4.43	4.55
4	3.93	4.51	4.87	4.97	5.12
5	4.21	4.69	5.29	5.43	5.64
6	4.46	4.86	5.67	5.81	6.11
7	4.60	5.02	6.00	6.16	6.55
8	4.70	5.62	6.30	6.47	6.96
9	4.81	5.75	6.56	6.80	7.33
10	4.91	5.93	6.88	7.10	7.67
11	5.00	6.07	7.10	7.38	7.99
12	5.10	6.23	7.31	7.65	8.29
13	5.19	6.37	7.48	7.91	8.57
14	5.27	6.49	7.61	8.17	8.83
15	5.35	6.61	7.79	8.39	9.09
16	5.45	6.72	7.97	8.60	9.32
17	5.51	6.86	8.14	8.83	9.54
18	5.59	6.96	8.29	9.03	9.74
19	5.65	7.08	8.45	9.22	9.94
20	5.75	7.19	8.60	9.39	10.12
21	5.81	7.28	8.75	9.55	10.30
22	5.87	7.40	8.87	9.70	10.46
23	5.94	7.48	9.04	9.84	10.61
24	6.01	7.58	9.17	9.97	10.77
25	6.08	7.66	9.30	10.10	10.91
26	6.13	7.77	9.41	10.23	11.05
27	6.20	7.85	9.55	10.35	11.17
28	6.26	7.93	9.68	10.45	11.30
29	6.33	8.02	9.80	10.56	11.41
30	6.41	8.11	9.91	10.67	11.52
31	6.46	8.19	9.99	10.76	11.64
32	6.51	8.28	10.12	10.87	11.73
33	6.59	8.35	10.22	10.95	11.84
34	6.64	8.43	10.31	11.04	11.92
35	6.69	8.50	10.42	11.12	12.02
36	6.75	8.57	10.51	11.19	12.10
37	6.79	8.66	10.60	11.28	12.18
38	6.84	8.73	10.70	11.35	12.26
39	6.91	8.81	10.80	11.41	12.33
40	6.97	8.86	10.88	11.48	12.41

PARCEL POST
INTRA-BMC RATES (continued)

Weight (lbs.)	Local Zone	Zones 1 & 2	Zone 3	Zone 4	Zone 5
41	$7.03	$8.96	$10.99	$11.54	$12.48
42	7.08	9.01	11.07	11.62	12.54
43	7.14	9.07	11.15	11.68	12.60
44	7.21	9.15	11.24	11.74	12.65
45	7.25	9.20	11.31	11.91	12.70
46	7.29	9.30	11.40	11.96	12.75
47	7.36	9.37	11.47	12.02	12.81
48	7.41	9.42	11.56	12.06	12.86
49	7.45	9.50	11.64	12.11	12.91
50	7.50	9.53	11.71	12.15	12.96
51	7.57	9.62	11.77	12.21	13.02
52	7.60	9.69	11.88	12.25	13.07
53	7.65	9.72	11.93	12.28	13.12
54	7.72	9.78	11.97	12.33	13.18
55	7.77	9.84	12.02	12.38	13.23
56	7.80	9.91	12.06	12.43	13.28
57	7.85	9.98	12.08	12.45	13.33
58	7.91	10.03	12.12	12.49	13.39
59	7.96	10.09	12.15	12.53	13.44
60	7.98	10.16	12.18	12.55	13.49
61	8.07	10.22	12.22	12.60	13.54
62	8.09	10.28	12.25	12.66	13.60
63	8.15	10.33	12.27	12.73	13.65
64	8.20	10.39	12.29	12.79	13.70
65	8.24	10.45	12.33	12.85	13.75
66	8.27	10.52	12.35	12.92	13.81
67	8.35	10.58	12.38	13.00	13.86
68	8.39	10.60	12.40	13.04	13.91
69	8.40	10.68	12.42	13.11	13.97
70	8.41	10.73	12.45	13.18	14.02
Oversized	25.06	36.33	36.67	37.40	38.50

SCHEDULE 521.2B NOTES

1. For barcode discount, deduct $0.03 per-piece (machinable parcels only).
2. For nonmachinable parcels, add $1.42 per-piece.
3. Regardless of weight, any piece that measures more than 108 inches (but not more than 130 inches) in combined length and girth must pay the oversized rate.
4. Pieces exceeding 84 inches in length and girth combined and weighing less than 15 pounds are subject to a rate equal to that for a 15-pound parcel for the zone to which the parcel is addressed.
5. For each pickup stop, add $13.25.

PACKAGE SERVICES
RATE SCHEDULE 521.2C

PARCEL POST
PARCEL SELECT DESTINATION BULK MAIL CENTER RATES

Weight (lbs.)	Zones 1 & 2	Zone 3	Zone 4	Zone 5
1	$2.12	$2.38	$2.62	$3.26
2	2.36	2.91	3.36	3.89
3	2.62	3.45	4.05	4.51
4	2.87	3.95	4.65	5.07
5	3.10	4.43	5.08	5.59
6	3.32	4.85	5.44	6.06
7	3.52	5.23	5.77	6.51
8	3.72	5.61	6.07	6.91
9	3.91	5.94	6.38	7.28
10	4.09	6.29	7.07	7.63
11	4.26	6.61	7.34	7.95
12	4.43	6.91	7.61	8.26
13	4.58	7.17	7.86	8.54
14	4.74	7.29	8.13	8.80
15	4.89	7.46	8.35	9.04
16	5.03	7.63	8.57	9.29
17	5.18	7.79	8.80	9.50
18	5.30	7.95	8.99	9.71
19	5.44	8.09	9.19	9.91
20	5.57	8.24	9.36	10.08
21	5.69	8.39	9.51	10.26
22	5.81	8.52	9.67	10.42
23	5.92	8.67	9.81	10.59
24	6.04	8.79	9.94	10.73
25	6.16	8.92	10.07	10.88
26	6.26	9.02	10.19	11.01
27	6.38	9.16	10.31	11.14
28	6.47	9.29	10.41	11.26
29	6.58	9.40	10.54	11.37
30	6.68	9.51	10.63	11.49
31	6.78	9.59	10.72	11.60
32	6.87	9.71	10.82	11.71
33	6.97	9.80	10.92	11.79
34	7.06	9.90	10.99	11.89
35	7.15	10.00	11.09	11.98
36	7.24	10.48	11.17	12.07
37	7.33	10.57	11.24	12.15
38	7.41	10.67	11.32	12.23
39	7.49	10.76	11.38	12.31
40	7.58	10.85	11.45	12.37

PARCEL POST
PARCEL SELECT DESTINATION BULK MAIL CENTER RATES (continued)

Weight (lbs.)	Zones 1 & 2	Zone 3	Zone 4	Zone 5
41	7.66	10.96	11.51	12.44
42	7.74	11.04	11.58	12.51
43	7.82	11.13	11.65	12.82
44	7.89	11.20	11.71	13.12
45	7.97	11.27	11.87	13.45
46	8.04	11.37	11.92	13.77
47	8.12	11.44	11.97	14.09
48	8.19	11.53	12.03	14.43
49	8.26	11.60	12.08	14.77
50	8.34	11.68	12.12	15.12
51	8.40	11.75	12.17	15.47
52	8.47	11.84	12.22	15.83
53	8.54	11.89	12.26	16.21
54	8.60	11.94	12.31	16.59
55	8.67	11.98	12.36	16.75
56	8.74	12.02	12.38	16.82
57	8.80	12.05	12.42	16.93
58	8.86	12.09	12.46	17.01
59	8.93	12.12	12.49	17.09
60	8.98	12.15	12.52	17.18
61	9.04	12.18	12.56	17.26
62	9.11	12.22	12.63	17.33
63	9.16	12.24	12.70	17.41
64	9.22	12.27	12.75	17.49
65	9.28	12.30	12.82	17.55
66	9.34	12.33	12.90	17.64
67	9.39	12.35	12.95	17.70
68	9.44	12.36	13.01	17.77
69	9.50	12.38	13.07	17.84
70	9.55	12.41	13.14	17.91
Oversized	19.12	25.64	34.58	35.94

SCHEDULE 521.2C NOTES

1. For barcode discount, deduct $0.03 per-piece (machinable parcels only). Barcode discount is not available for DBMC mail entered at an ASF, except at the Phoenix, AZ, ASF.
2. For nonmachinable parcels, add $1.53 per-piece.
3. Regardless of weight, any piece that measures more than 108 inches (but not more than 130 inches) in combined length and girth must pay the oversized rate.
4. Pieces exceeding 84 inches in length and girth combined and weighing less than 15 pounds are subject to a rate equal to that for a 15-pound parcel for the zone to which the parcel is addressed.
5. A mailing fee of $160.00 must be paid once each 12-month period for Parcel Select.

PACKAGE SERVICES
RATE SCHEDULE 521.2D

PARCEL POST
PARCEL SELECT DESTINATION SECTIONAL CENTER FACILITY RATES

Weight (lbs.)	Rate	Weight (lbs.)	Rate
1	$1.61	36	$4.84
2	1.80	37	4.90
3	1.95	38	4.95
4	2.10	39	5.02
5	2.23	40	5.07
6	2.36	41	5.12
7	2.48	42	5.18
8	2.58	43	5.23
9	2.70	44	5.28
10	2.79	45	5.33
11	2.89	46	5.39
12	2.98	47	5.44
13	3.08	48	5.48
14	3.16	49	5.53
15	3.27	50	5.58
16	3.36	51	5.63
17	3.46	52	5.67
18	3.54	53	5.71
19	3.64	54	5.75
20	3.72	55	5.81
21	3.80	56	5.85
22	3.88	57	5.89
23	3.96	58	5.93
24	4.04	59	5.98
25	4.11	60	6.02
26	4.18	61	6.05
27	4.26	62	6.09
28	4.33	63	6.13
29	4.40	64	6.18
30	4.47	65	6.21
31	4.53	66	6.25
32	4.60	67	6.29
33	4.66	68	6.32
34	4.72	69	6.37
35	4.79	70	6.40
		Oversized	12.60

SCHEDULE 521.2D NOTES

1. Regardless of weight, any piece that measures more than 108 inches (but not more than 130 inches) in combined length and girth must pay the oversized rate.
2. Pieces exceeding 84 inches in length and girth combined and weighing less than 15 pounds are subject to a rate equal to that for a 15-pound parcel for the zone to which the parcel is addressed.
3. A mailing fee of $160.00 must be paid once each 12-month period for Parcel Select.
4. For nonmachinable parcels sorted to 3-digit ZIP code areas, add $1.15 per-piece.

PACKAGE SERVICES
RATE SCHEDULE 521.2E

PARCEL POST
PARCEL SELECT DESTINATION DELIVERY UNIT RATES

Weight (lbs.)	Rate	Weight (lbs.)	Rate
1	$1.30	36	$2.27
2	1.35	37	2.28
3	1.40	38	2.29
4	1.45	39	2.30
5	1.51	40	2.31
6	1.55	41	2.32
7	1.59	42	2.33
8	1.63	43	2.34
9	1.67	44	2.35
10	1.71	45	2.36
11	1.74	46	2.37
12	1.77	47	2.38
13	1.80	48	2.39
14	1.83	49	2.40
15	1.87	50	2.41
16	1.89	51	2.42
17	1.92	52	2.43
18	1.95	53	2.45
19	1.97	54	2.46
20	1.99	55	2.47
21	2.02	56	2.48
22	2.04	57	2.49
23	2.07	58	2.50
24	2.09	59	2.51
25	2.11	60	2.52
26	2.13	61	2.53
27	2.15	62	2.54
28	2.17	63	2.55
29	2.18	64	2.56
30	2.20	65	2.57
31	2.21	66	2.58
32	2.22	67	2.59
33	2.23	68	2.60
34	2.25	69	2.61
35	2.26	70	2.62
		Oversized	7.36

SCHEDULE 521.2E NOTES

1. Regardless of weight, any piece that measures more than 108 inches (but not more than 130 inches) in combined length and girth must pay the oversized rate.
2. Pieces exceeding 84 inches in length and girth combined and weighing less than 15 pounds are subject to a rate equal to that for a 15-pound parcel for the zone to which the parcel is addressed.
3. A mailing fee of $160.00 must be paid once each 12-month period for Parcel Select.

PACKAGE SERVICES
RATE SCHEDULE 521.2F

PARCEL POST
PARCEL SELECT RETURN SERVICES
RETURN DELIVERY UNIT RATE CATEGORY

Weight (lbs.)	Rate	Weight (lbs.)	Rate
1	$2.11	36	$2.11
2	2.11	37	2.11
3	2.11	38	2.11
4	2.11	39	2.11
5	2.11	40	2.11
6	2.11	41	2.11
7	2.11	42	2.11
8	2.11	43	2.11
9	2.11	44	2.11
10	2.11	45	2.11
11	2.11	46	2.11
12	2.11	47	2.11
13	2.11	48	2.11
14	2.11	49	2.11
15	2.11	50	2.11
16	2.11	51	2.11
17	2.11	52	2.11
18	2.11	53	2.11
19	2.11	54	2.11
20	2.11	55	2.11
21	2.11	56	2.11
22	2.11	57	2.11
23	2.11	58	2.11
24	2.11	59	2.11
25	2.11	60	2.11
26	2.11	61	2.11
27	2.11	62	2.11
28	2.11	63	2.11
29	2.11	64	2.11
30	2.11	65	2.11
31	2.11	66	2.11
32	2.11	67	2.11
33	2.11	68	2.11
34	2.11	69	2.11
35	2.11	70	2.11
		Oversized	7.92

SCHEDULE 521.2F NOTES

1. Regardless of weight, any parcel that measures more than 108 inches (but not more than 130 inches) in combined length and girth must pay the oversized rate.

PACKAGE SERVICES
RATE SCHEDULE 521.2G

PARCEL POST
PARCEL SELECT RETURN SERVICES
RETURN BMC RATE CATEGORY
MACHINABLE PIECES

Weight (lbs.)	Zones 1 & 2	Zone 3	Zone 4	Zone 5
1	$2.21	$2.25	$2.31	$2.40
2	2.81	2.85	2.92	3.04
3	3.39	3.43	3.52	3.65
4	3.60	3.96	4.07	4.22
5	3.78	4.38	4.52	4.73
6	3.95	4.76	4.90	5.21
7	4.11	5.09	5.25	5.64
8	4.71	5.40	5.57	6.05
9	4.85	5.65	5.89	6.42
10	5.03	5.98	6.20	6.77
11	5.16	6.20	6.47	7.08
12	5.32	6.41	6.75	7.39
13	5.46	6.58	7.00	7.66
14	5.59	6.70	7.26	7.93
15	5.70	6.88	7.48	8.18
16	5.82	7.06	7.69	8.41
17	5.96	7.23	7.93	8.63
18	6.05	7.39	8.13	8.83
19	6.18	7.55	8.32	9.03
20	6.28	7.69	8.48	9.21
21	6.38	7.84	8.64	9.39
22	6.49	7.97	8.79	9.55
23	6.58	8.14	8.94	9.71
24	6.67	8.26	9.06	9.87
25	6.76	8.39	9.19	10.00
26	6.86	8.51	9.33	10.14
27	6.95	8.64	9.44	10.27
28	7.02	8.77	9.54	10.39
29	7.11	8.90	9.65	10.51
30	7.20	9.00	9.76	10.61
31	7.28	9.09	9.85	10.73
32	7.38	9.21	9.96	10.82
33	7.44	9.32	10.04	10.93
34	7.53	9.40	10.13	11.01
35	7.59	9.52	10.21	11.11

SCHEDULE 521.2G NOTES

1. Parcels that weigh less than 15 pounds but measure more than 84 inches in combined length and girth are charged the applicable rate for a 15-pound parcel.

PACKAGE SERVICES
RATE SCHEDULE 521.2G (continued)

PARCEL POST
PARCEL SELECT RETURN SERVICES
RETURN BMC RATE CATEGORY
NONMACHINABLE PIECES

Weight (lbs.)	Zones 1 & 2	Zone 3	Zone 4	Zone 5
1	$3.63	$3.67	$3.73	$3.82
2	4.23	4.27	4.34	4.46
3	4.81	4.85	4.94	5.07
4	5.02	5.38	5.49	5.64
5	5.20	5.80	5.94	6.15
6	5.37	6.18	6.32	6.63
7	5.53	6.51	6.67	7.06
8	6.13	6.82	6.99	7.47
9	6.27	7.07	7.31	7.84
10	6.45	7.40	7.62	8.19
11	6.58	7.62	7.89	8.50
12	6.74	7.83	8.17	8.81
13	6.88	8.00	8.42	9.08
14	7.01	8.12	8.68	9.35
15	7.12	8.30	8.90	9.60
16	7.24	8.48	9.11	9.83
17	7.38	8.65	9.35	10.05
18	7.47	8.81	9.55	10.25
19	7.60	8.97	9.74	10.45
20	7.70	9.11	9.90	10.63
21	7.80	9.26	10.06	10.81
22	7.91	9.39	10.21	10.97
23	8.00	9.56	10.36	11.13
24	8.09	9.68	10.48	11.29
25	8.18	9.81	10.61	11.42
26	8.28	9.93	10.75	11.56
27	8.37	10.06	10.86	11.69
28	8.44	10.19	10.96	11.81
29	8.53	10.32	11.07	11.93
30	8.62	10.42	11.18	12.03
31	8.70	10.51	11.27	12.15
32	8.80	10.63	11.38	12.24
33	8.86	10.74	11.46	12.35
34	8.95	10.82	11.55	12.43
35	9.01	10.94	11.63	12.53
36	9.11	11.05	11.74	12.65
37	9.19	11.13	11.80	12.71

PARCEL POST
PARCEL SELECT RETURN SERVICES
RETURN BMC RATE CATEGORY
NONMACHINABLE PIECES (continued)

Weight (lbs.)	Zones 1 & 2	Zone 3	Zone 4	Zone 5
38	9.23	11.20	11.85	12.76
39	9.29	11.29	11.90	12.81
40	9.33	11.34	11.94	12.87
41	9.40	11.43	11.98	12.92
42	9.43	11.49	12.03	12.96
43	9.47	11.55	12.08	12.99
44	9.53	11.61	12.12	13.02
45	9.56	11.66	12.27	13.06
46	9.63	11.74	12.30	13.09
47	9.68	11.78	12.33	13.12
48	9.71	11.85	12.35	13.15
49	9.77	11.91	12.38	13.18
50	9.78	11.96	12.40	13.21
51	9.85	12.00	12.43	13.25
52	9.89	12.09	12.46	13.28
53	9.90	12.12	12.47	13.31
54	9.95	12.14	12.50	13.34
55	9.99	12.16	12.53	13.37
56	10.03	12.18	12.55	13.40
57	10.08	12.18	12.55	13.44
58	10.12	12.20	12.57	13.47
59	10.15	12.21	12.59	13.50
60	10.20	12.22	12.59	13.53
61	10.24	12.23	12.61	13.56
62	10.27	12.24	12.66	13.59
63	10.31	12.24	12.71	13.63
64	10.35	12.24	12.74	13.66
65	10.38	12.27	12.78	13.69
66	10.43	12.27	12.83	13.72
67	10.47	12.28	12.89	13.75
68	10.47	12.28	12.91	13.78
69	10.53	12.28	12.96	13.82
70	10.56	12.28	13.00	13.85
Oversized	27.39	27.73	28.46	29.56

SCHEDULE 521.2G NOTES

1. Parcels that weigh less than 15 pounds but measure more than 84 inches in combined length and girth are charged the applicable rate for a 15-pound parcel. Regardless of weight, any parcel that measures more than 108 inches (but not more than 130 inches) in combined length and girth must pay the oversized rate.

PACKAGE SERVICES
RATE SCHEDULE 522A

BOUND PRINTED MATTER
SINGLE-PIECE RATES

Weight (lbs.)	Zones 1 & 2	Zone 3	Zone 4	Zone 5	Zone 6	Zone 7	Zone 8
1.0	$1.97	$2.02	$2.07	$2.15	$2.22	$2.32	$2.50
1.5	1.97	2.02	2.07	2.15	2.22	2.32	2.50
2.0	2.04	2.11	2.17	2.28	2.38	2.51	2.74
2.5	2.12	2.20	2.28	2.41	2.54	2.70	2.99
3.0	2.19	2.29	2.38	2.54	2.70	2.89	3.24
3.5	2.27	2.38	2.49	2.68	2.86	3.08	3.49
4.0	2.34	2.47	2.59	2.80	3.01	3.27	3.73
4.5	2.41	2.56	2.70	2.94	3.17	3.46	3.98
5.0	2.49	2.65	2.80	3.07	3.33	3.65	4.23
6.0	2.64	2.82	3.01	3.33	3.65	4.03	4.72
7.0	2.78	3.00	3.23	3.59	3.96	4.41	5.22
8.0	2.93	3.18	3.44	3.86	4.28	4.79	5.71
9.0	3.08	3.36	3.65	4.12	4.60	5.16	6.21
10.0	3.23	3.54	3.86	4.38	4.91	5.54	6.70
11.0	3.37	3.72	4.07	4.65	5.23	5.92	7.20
12.0	3.52	3.90	4.28	4.91	5.54	6.30	7.69
13.0	3.67	4.08	4.49	5.18	5.86	6.68	8.19
14.0	3.82	4.26	4.70	5.44	6.18	7.06	8.68
15.0	3.96	4.44	4.91	5.70	6.49	7.44	9.18

SCHEDULE 522A NOTES

1. For barcode discount, deduct $0.03 per-piece (machinable parcels and automatable flats only).
2. For flats, deduct $0.08 per-piece.

PACKAGE SERVICES
RATE SCHEDULE 522B

BOUND PRINTED MATTER
PRESORTED AND CARRIER ROUTE RATES
FLATS, PARCELS, AND IRREGULAR PARCELS

Flats

	Zones 1 & 2	Zone 3	Zone 4	Zone 5	Zone 6	Zone 7	Zone 8
Per-Piece							
Presorted	$1.136	$1.136	$1.136	$1.136	$1.136	$1.136	$1.136
Carrier Route	1.031	1.031	1.031	1.031	1.031	1.031	1.031
Per-Pound	0.095	0.118	0.157	0.209	0.261	0.325	0.442

Parcels and Irregular Parcels

	Zones 1 & 2	Zone 3	Zone 4	Zone 5	Zone 6	Zone 7	Zone 8
Per-Piece							
Presorted	$1.217	$1.217	$1.217	$1.217	$1.217	$1.217	$1.217
Carrier Route	1.112	1.112	1.112	1.112	1.112	1.112	1.112
Per-Pound	0.095	0.118	0.157	0.209	0.261	0.325	0.442

SCHEDULE 522B NOTES

1. For barcode discount, deduct $0.03 per-piece (machinable parcels and automatable flats only). Barcode discount is not available for Carrier Route rates.

PACKAGE SERVICES
RATE SCHEDULE 522C

BOUND PRINTED MATTER
PRESORTED RATES, DESTINATION ENTRY
FLATS, PARCELS, AND IRREGULAR PARCELS

Flats

			DBMC			
	DDU	DSCF	Zones 1 & 2	Zone 3	Zone 4	Zone 5
Per-Piece	$0.561	$0.636	$0.862	$0.862	$0.862	$0.862
Per-Pound	0.032	0.063	0.077	0.108	0.147	0.197

Parcels and Irregular Parcels

			DBMC			
	DDU	DSCF	Zones 1 & 2	Zone 3	Zone 4	Zone 5
Per-Piece	$0.642	$0.717	$0.943	$0.943	$0.943	$0.943
Per-Pound	0.032	0.063	0.077	0.108	0.147	0.197

SCHEDULE 522C NOTES

1. For barcode discount, deduct $0.03 per-piece (machinable parcels and automatable flats only). Barcode discount is not available for DDU or DSCF rates or DBMC mail entered at an ASF (except Phoenix, AZ, ASF).
2. A mailing fee of $160.00 must be paid once each 12-month period to mail at any destination entry Bound Printed Matter rate.
3. The DDU rate is not available for flats that weigh 1 pound or less.

PACKAGE SERVICES
RATE SCHEDULE 522D

BOUND PRINTED MATTER
CARRIER ROUTE RATES, DESTINATION ENTRY
FLATS, PARCELS, AND IRREGULAR PARCELS

Flats

			DBMC			
	DDU	DSCF	Zones 1 & 2	Zone 3	Zone 4	Zone 5
Per-Piece	$0.456	$0.531	$0.757	$0.757	$0.757	$0.757
Per-Pound	0.032	0.063	0.077	0.108	0.147	0.197

Parcels and Irregular Parcels

			DBMC			
	DDU	DSCF	Zones 1 & 2	Zone 3	Zone 4	Zone 5
Per-Piece	$0.537	$0.612	$0.838	$0.838	$0.838	$0.838
Per-Pound	0.032	0.063	0.077	0.108	0.147	0.197

SCHEDULE 522D NOTES

1. A mailing fee of $160.00 must be paid once each 12-month period to mail at any destination entry Bound Printed Matter rate.

PACKAGE SERVICES
RATE SCHEDULE 522E

BOUND PRINTED MATTER
BPM RETURN SERVICE
RETURN BMC RATE CATEGORY

Weight (lbs.)	Zones 1 & 2	Zone 3	Zone 4	Zone 5
1.0	$1.72	$1.77	$1.81	$1.90
1.5	1.72	1.77	1.81	1.90
2.0	1.79	1.85	1.92	2.02
2.5	1.86	1.95	2.02	2.16
3.0	1.94	2.03	2.13	2.29
3.5	2.01	2.13	2.23	2.42
4.0	2.08	2.21	2.34	2.55
4.5	2.16	2.31	2.44	2.69
5.0	2.23	2.39	2.55	2.81
6.0	2.38	2.57	2.76	3.08
7.0	2.53	2.75	2.97	3.34
8.0	2.68	2.93	3.18	3.60
9.0	2.82	3.11	3.39	3.87
10.0	2.97	3.29	3.60	4.13
11.0	3.12	3.47	3.81	4.39
12.0	3.27	3.64	4.02	4.66
13.0	3.41	3.82	4.24	4.92
14.0	3.56	4.00	4.45	5.18
15.0	3.71	4.18	4.66	5.45

PACKAGE SERVICES
RATE SCHEDULE 523

MEDIA MAIL

	Rate
First Pound	
Single-Piece	$1.59
5-Digit Presort	0.90
Basic Presort	1.26
Each additional pound, through 7 pounds	0.48
Each additional pound, over 7 pounds	0.34

SCHEDULE 523 NOTES

1. A mailing fee of $160.00 must be paid once each 12-month period to mail at any Media Mail presorted rate.
2. For barcode discount, deduct $0.03 per-piece (machinable parcels only). Barcode discount is not available for pieces mailed at the 5-digit rate.

PACKAGE SERVICES
RATE SCHEDULE 524

LIBRARY MAIL

	Rate
First Pound	
Single-Piece	$1.51
5-Digit Presort	0.86
Basic Presort	1.20
Each additional pound, through 7 pounds	0.46
Each additional pound, over 7 pounds	0.32

SCHEDULE 524

1. A mailing fee of $160.00 must be paid once each 12-month period to mail at any Library Mail presorted rate.
2. For barcode discount, deduct $0.03 per-piece (machinable parcels only). Barcode discount is not available for pieces mailed at the 5-digit rate.

NEGOTIATED SERVICE AGREEMENTS
CAPITAL ONE NSA
RATE SCHEDULE 610A

Volume Block	Incremental Discounts
1,225,000,001 - 1,275,000,000	3.0¢
1,275,000,001 - 1,325,000,000	3.5¢
1,325,000,001 - 1,375,000,000	4.0¢
1,375,000,001 - 1,450,000,000	4.5¢
1,450,000,001 - 1,525,000,000	5.0¢
1,525,000,001 - 1,600,000,000	5.5¢
1,600,000,001 and above	6.0¢

CAPITAL ONE NSA
RATE SCHEDULE 610B

Volume Block	Incremental Discounts
1,025,000,001 - 1,075,000,000	1.0¢
1,075,000,001 - 1,125,000,000	1.5¢
1,125,000,001 - 1,175,000,000	2.0¢
1,175,000,001 - 1,225,000,000	2.5¢

CAPITAL ONE NSA
RATE SCHEDULE 610C
FOR ADJUSTED THRESHOLD (A.T.)

Volume Block	Incremental Discounts
A.T. + 1 - A.T. + 50,000,000	3.0¢
A.T. + 50,000,001 - A.T. + 100,000,000	3.5¢
A.T. + 100,000,001 - A.T. + 150,000,000	4.0¢
A.T. + 150,000,001 - A.T. + 225,000,000	4.5¢
A.T. + 225,000,001 - A.T. + 300,000,000	5.0¢
A.T. + 300,000,001 - A.T. + 375,000,000	5.5¢
A.T. + 375,000,001 and above	6.0¢

CAPITAL ONE NSA
RATE SCHEDULE 610D
FOR ADJUSTED THRESHOLD (A.T.)

Volume Block	Incremental Discounts
A.T. + 1 - A.T. + 50,000,000	1.0¢
A.T. + 50,000,001 - A.T. + 100,000,000	1.5¢
A.T. + 100,000,001 - A.T. + 150,000,000	2.0¢
A.T. + 150,000,001 - A.T. + 200,000,000	2.5¢

DISCOVER FINANCIAL SERVICES NSA
RATE SCHEDULE 611A

Volume Block	Incremental Discounts
405,000,000 to 435,000,000	2.5¢
435,000,001 to 465,000,000	3.0¢
465,000,001 to 490,000,000	3.5¢
490,000,001 to 515,000,000	4.0¢
515,000,001 and above	4.5¢

DISCOVER FINANCIAL SERVICES NSA
RATE SCHEDULE 611B
FOR ADJUSTED THRESHOLD (A.T.)

Volume Block	Incremental Discounts
A.T. to A.T. + 30,000,000	2.5¢
A.T. + 30,000,001 to A.T. + 60,000,000	3.0¢
A.T. + 60,000,001 to A.T. + 85,000,000	3.5¢
A.T. + 85,000,001 to A.T. + 110,000,000	4.0¢
A.T. + 110,000,001 and above	4.5¢

BANK ONE NSA
RATE SCHEDULE 612A

Volume Block	Incremental Discounts
535,000,001 to 560,000,000	2.5¢
560,000,001 to 585,000,000	3.0¢
585,000,001 to 610,000,000	3.5¢
610,000,001 to 645,000,000	4.0¢
645,000,001 to 680,000,000	4.5¢
680,000,001 and above	5.0¢

BANK ONE NSA
RATE SCHEDULE 612B
FOR ADJUSTED THRESHOLD (A.T.)

Volume Block		Incremental Discounts
A.T.	to A.T. + 25,000,000	2.5¢
A.T. + 25,000,001	to A.T. + 50,000,000	3.0¢
A.T. + 50,000,001	to A.T. + 75,000,000	3.5¢
A.T. + 75,000,001	to A.T. + 110,000,000	4.0¢
A.T. + 110,000,001	to A.T. + 145,000,000	4.5¢
A.T. + 145,000,001 and above		5.0¢

HSBC NORTH AMERICA HOLDINGS INC. NSA
RATE SCHEDULE 613A)

(FIRST YEAR OF AGREEMENT)

Volume Block	Incremental Discounts
615,000,001 to 655,000,000	2.5¢
655,000,001 to 675,000,000	3.0¢
675,000,001 to 695,000,000	3.5¢
695,000,001 to 715,000,000	4.0¢
715,000,001 to 735,000,000	4.5¢
735,000,001 and above	5.0¢

HSBC NORTH AMERICA HOLDINGS INC. NSA
RATE SCHEDULE 613B)

(SECOND YEAR OF AGREEMENT)

Volume Block	Incremental Discounts
725,000,001 to 765,000,000	2.5¢
765,000,001 to 785,000,000	3.0¢
785,000,001 to 805,000,000	3.5¢
805,000,001 to 825,000,000	4.0¢
825,000,001 to 845,000,000	4.5¢
845,000,001 and above	5.0¢

HSBC NORTH AMERICA HOLDINGS INC. NSA
RATE SCHEDULE 613C)

(THIRD YEAR OF AGREEMENT)

Volume Block	Incremental Discounts
810,000,001 to 850,000,000	2.5¢
850,000,001 to 870,000,000	3.0¢
870,000,001 to 890,000,000	3.5¢
890,000,001 to 910,000,000	4.0¢
910,000,001 to 930,000,000	4.5¢
930,000,001 and above	5.0¢

HSBC NORTH AMERICA HOLDINGS INC. NSA
RATE SCHEDULE 613D
FOR ADJUSTED THRESHOLDS (A.T.)

Volume Block	Incremental Discounts
A.T. to A.T. + 40,000,000	2.5¢
A.T. + 40,000,001 to A.T. + 60,000,000	3.0¢
A.T. + 60,000,001 to A.T. + 80,000,000	3.5¢
A.T. + 80,000,001 to A.T. + 100,000,000	4.0¢
A.T. + 100,000,001 to A.T. + 120,000,000	4.5¢
A.T. + 120,000,001 and above	5.0¢

FEE SCHEDULE 911

ADDRESS CORRECTIONS

Description	Fee
Manual Correction, each	$0.75
Electronic Correction, each	$0.21

FEE SCHEDULE 912

ZIP CODING OF MAILING LISTS

Description	Fee
Per 1,000 addresses, or fraction	$105.00

CORRECTION OF MAILING LISTS

Description	Fee
Per submitted address	$0.30
Minimum charge per list (30 items)	9.00

ADDRESS CHANGES FOR ELECTION BOARDS AND REGISTRATION COMMISSIONS

Description	Fee
Per Change of Address	$0.28

SEQUENCING OF ADDRESS CARDS

Description	Fee
Per correction	$0.30
Insertion of blanks	0.00

SCHEDULE 912 NOTES

1. When rural routes have been consolidated or changed to another post office, no charge will be made for correction if the list contains only names of persons residing on the routes involved.

FEE SCHEDULE 921

POST OFFICE BOXES AND CALLER SERVICE

I. Post Office Boxes

Semi-annual Box Fees

	Fee Group							
Box Size	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**E**
1	$ 37.00	$ 31.00	$ 25.00	$ 20.00	$ 14.00	$ 13.00	$ 9.00	$ 0.00
2	53.00	47.00	40.00	36.00	23.00	19.00	14.00	0.00
3	105.00	84.00	72.00	66.00	36.00	35.00	24.00	0.00
4	216.00	179.00	124.00	116.00	69.00	63.00	42.00	0.00
5	348.00	332.00	220.00	184.00	132.00	102.00	74.00	0.00

1. A customer ineligible for carrier delivery may obtain a post office box at Group E fees, subject to administrative decisions regarding customer's proximity to post office.
2. Box Size 1 = under 296 cubic inches; 2 = 296-499 cubic inches; 3 = 500-999 cubic inches; 4 = 1000-1999 cubic inches; 5 = 2000 cubic inches and larger.

Key Duplication and Lock Charges

Description	Fee
Key duplication or replacement	$ 4.65
Post office box lock replacement	11.60

II. Caller Service

Semi-annual Caller Service Fee	$434.00
Annual Call Number Reservation Fee	34.00

FEE SCHEDULE 931

BUSINESS REPLY MAIL

Description	Fee
Regular (no accounting fee)	
Permit fee (per year)	$160.00
Per-piece charge	0.65
Regular (with accounting fee)	
Permit fee (per year)	160.00
Accounting fee (per year)	500.00
Per-piece charge	0.11
Qualified Business Reply Mail, low-volume	
Permit fee (per year)	160.00
Accounting fee (per year)	500.00
Per-piece charge, basic	0.06
Qualified Business Reply Mail, high-volume	
Permit fee (per year)	160.00
Accounting fee (per year)	500.00
Quarterly fee	1,900.00
Per-piece charge, high-volume	0.008
Bulk Weight Averaged	
Permit fee (per year)	160.00
Accounting fee (per year)	500.00
Per-piece charge, bulk weight averaged	0.01
Monthly maintenance fee	790.00

FEE SCHEDULE 932

MERCHANDISE RETURN SERVICE

Description	Fee
Permit fee (per year)	$160.00
Accounting fee (per year)	500.00
Per-piece charge	0.00

FEE SCHEDULE 933

ON-SITE METER SERVICE

Description	Fee
Per employee, per visit	$37.00
Per meter reset or examined	5.25
Per meter checked into or out of service	4.25

SCHEDULE 933 NOTES

1. Fee for checking meters into or out of service does not apply if a Postal Service-approved automated process is used to check a secured meter into and out of service.

FEE SCHEDULE 934

[RESERVED]

FEE SCHEDULE 935

BULK PARCEL RETURN SERVICE

Description	Fee
Permit fee (per year)	$160.00
Accounting fee (per year)	500.00
Per-piece charge	1.90

FEE SCHEDULE 936

SHIPPER PAID FORWARDING

Description	Fee
Accounting fee (per year)	$500.00

FEE SCHEDULE 937

PREMIUM FORWARDING SERVICE

Description	Fee
Enrollment fee	$10.00
Weekly reshipment fee	$ 2.85

SCHEDULE 937 NOTE

1. The weekly reshipment fee is in addition to the postage applicable to a 3-pound parcel mailed to zone 6, as stated in Rate Schedule 223 (Priority Mail).

FEE SCHEDULE 941

CERTIFIED MAIL

Description	Fee
Fee per-piece, in addition to postage	$2.40

FEE SCHEDULE 942

REGISTERED MAIL

Declared Value			Fee (in addition to postage)	
$ 0.00			$7.90	
0.01	to	100	8.45	
100.01	to	500	9.35	
500.01	to	1,000	10.25	
1,000.01	to	2,000	11.15	
2,000.01	to	3,000	12.05	
3,000.01	to	4,000	12.95	
4,000.01	to	5,000	13.85	
5,000.01	to	6,000	14.75	
6,000.01	to	7,000	15.65	
7,000.01	to	8,000	16.55	
8,000.01	to	9,000	17.45	
9,000.01	to	10,000	18.35	
10,000.01	to	11,000	19.25	
11,000.01	to	12,000	20.15	
12,000.01	to	13,000	21.05	
13,000.01	to	14,000	21.95	
14,000.01	to	15,000	22.85	
15,000.01	to	16,000	23.75	
16,000.01	to	17,000	24.65	
17,000.01	to	18,000	25.55	
18,000.01	to	19,000	26.45	
19,000.01	to	20,000	27.35	
20,000.01	to	21,000	28.25	
21,000.01	to	22,000	29.15	
22,000.01	to	23,000	30.05	
23,000.01	to	24,000	30.95	
24,000.01	to	25,000	31.85	
25,000.01	to	$1 million	31.85	plus $0.90 handling charge for each $1,000 or fraction thereof over $25,000.00
Over $1 million	to	$15 million	909.35	plus $0.90 handling charge for each $1,000 or fraction thereof over $25,000.00
Over $15 million			13,509.35	plus amount determined by the Postal Service based on weight, space, and value

SCHEDULE 942 NOTES

1. Articles with a declared value of more than $25,000 can be registered, but compensation for loss or damage is limited to $25,000.

FEE SCHEDULE 943

INSURANCE

Description	Fee
Express Mail Insurance	
Merchandise coverage	
$0.01 to 100.00	$0.00
Fee per $100 or fraction over $100, up to $5,000	1.05
Document reconstruction coverage	
$0.00 to 100.00	0.00
Regular Insurance	
Amount of coverage	
$0.01 to 50.00	1.35
50.01 to 100.00	2.30
100.01 to 5,000.00	$2.30 plus $1.05 for each $100 or fraction thereof over $100
Bulk Insurance	
Amount of coverage	
$0.01 to 50.00	0.75
50.01 to 100.00	1.50
100.01 to 5,000.00	$1.50 plus $1.05 for each $100 or fraction thereof over $100

SCHEDULE 943 NOTES

1. Fees for bulk insurance represent a discount of $0.60 per-piece for coverage between $0.01 and $50.00 and a discount of $0.80 for coverage between $50.01 and $5,000.00.

FEE SCHEDULE 944

COLLECT ON DELIVERY

Description			Fee
Amount to be collected			
$ 0.01	to	$ 50	$4.75
50.01	to	100	5.80
100.01	to	200	6.85
200.01	to	300	7.90
300.01	to	400	8.95
400.01	to	500	10.00
500.01	to	600	11.05
600.01	to	700	12.10
700.01	to	800	13.15
800.01	to	900	14.20
900.01	to	1000	15.25
Notice of nondelivery			3.15
Alteration of COD charges			3.15
Designation of new addressee			3.15
Registered COD			4.20

FEE SCHEDULE 945

RETURN RECEIPTS

Description	Fee
Return Receipt	
Requested at time of mailing	
Original signature	$1.85
Copy of signature (electronic)	1.35
Requested after mailing	3.45
Return Receipt for Merchandise	
Requested at time of mailing	$3.15
Delivery record	3.45

FEE SCHEDULE 946

RESTRICTED DELIVERY

Description	Fee
Per-piece	$3.70

FEE SCHEDULE 947

CERTIFICATE OF MAILING

Description	Fee
Individual Pieces	
Original certificate of mailing for all classes of all ordinary mail	$0.95
Three or more pieces individually listed in a firm mailing book or an approved customer provided manifest	0.30
Each additional copy of original certificates of mailing or original mailing receipt for registered, insured, certified, and COD mail (each copy)	0.95
Bulk	
Identical pieces of First-Class and Standard Mail paid with ordinary stamps, precanceled stamps, or meter stamps are subject to the following fees:	
Up to 1,000 pieces (one certificate for total number)	4.75
Each additional 1,000 pieces or fraction	0.55
Duplicate copy	0.95

FEE SCHEDULE 948

DELIVERY CONFIRMATION

Description	Fee
First-Class Mail Letters and Sealed Parcels	
Electronic	$0.14
Retail	0.60
Priority Mail	
Electronic	0.00
Retail	0.50
Standard Mail	
Electronic	0.14
Package Services Parcel Select	
Electronic	0.00
Other Package Services	
Electronic	0.14
Retail	0.60

FEE SCHEDULE 949

SIGNATURE CONFIRMATION

Description	Fee
First-Class Letters and Sealed Parcels	
Electronic	$1.35
Retail	1.90
Priority Mail	
Electronic	1.35
Retail	1.90
Package Services	
Electronic	1.35
Retail	1.90

FEE SCHEDULE 951

PARCEL AIR LIFT

Description	Fee
For pieces weighing:	
Not more than two pounds	$0.45
Over two but not more than three pounds	$0.90
Over three but not more than four pounds	$1.30
Over four but not more than thirty pounds	$1.80

FEE SCHEDULE 952

SPECIAL HANDLING

Description	**Fee**
For pieces weighing:	
Not more than ten pounds	$6.25
More than ten pounds	8.70

FEE SCHEDULE 961

STAMPED ENVELOPES

Description	Fee
Plain stamped envelopes	
Basic, size 6-3/4, each	$0.08
Basic, size 6-3/4, 500	13.00
Basic, over size 6-3/4, each	0.08
Basic, over size 6-3/4, 500	15.00
Personalized stamped envelopes	
Basic, size 6-3/4, 50	3.75
Basic, size 6-3/4, 500	18.00
Basic, over size 6-3/4, 50	3.75
Basic, over size 6-3/4, 500	21.00

FEE SCHEDULE 962

STAMPED CARDS

Description	Fee
Single card	$0.02
Double reply-paid card	0.04
Sheet of 40 cards (uncut)	0.80

FEE SCHEDULE 971

MONEY ORDERS

Description	Fee
Domestic ($0.01 to $500.00)	$0.95
Domestic ($500.01 to $1,000.00)	1.30
APO/FPO ($0.01 to $1,000.00)	0.25
Inquiry, including a copy of paid money order	3.15

FEE SCHEDULE 991

CONFIRM

Description	Fee
Silver Subscription	
Subscription Fee (3 months)	$2,000.00
Additional ID Codes (lesser of 3 months or end of subscription term)	500.00
Additional Scans (block of 2 million)	500.00
Gold Subscription	
Subscription Fee (12 months)	4,500.00
Additional ID Codes (lesser of 3 months or end of subscription term)	500.00
Additional Scans (block of 6 million)	750.00
Platinum Subscription	
Subscription Fee (12 months)	10,000.00
Additional ID Codes (lesser of 3 months or end of subscription term)	500.00

FEE SCHEDULE 1000

MISCELLANEOUS FEES

Description	Fee
First-Class Presorted Mailing Fee (per year)	$160.00
Standard Mail Mailing Fee (per year)	160.00
Periodicals	
A. Original Entry	395.00
B. Additional Entry	65.00
C. Re-entry	45.00
D. Registration for News Agents	40.00
Parcel Select Mailing Fee (per year)	160.00
Bound Printed Matter: Destination Entry Mailing Fee (per year)	160.00
Media Mail Presorted Mailing Fee (per year)	160.00
Library Mail Presorted Mailing Fee (per year)	160.00
Authorization to Use Permit Imprint (one-time only)	160.00
Accounting Fee (per year)	500.00
Permit Fee (per year)	160.00
Parcel Return Services Accounting Fee (per year)	500.00
Parcel Return Services Permit Fee (per year)	160.00

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[1] Collectively referred to as Valpak.

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1. Advo, Inc.
2. Alliance of Independent Store Owners and Professionals
3. Alliance of Nonprofit Mailers
4. American Bankers Association
5. American Business Media
6. Association for Postal Commerce
7. Association of Alternate Postal Systems
8. Association of American Publishers
9. Coalition of Religious Press Associations
10. Continuity Shippers Association
11. DMA Nonprofit Federation
12. Direct Marketing Association, Inc.
13. Discover Financial Services LLC
14. Dow Jones & Company, Inc.
15. Greeting Card Association
16. The Hearst Corporation
17. Magazine Publishers of America
18. Mail Order Association of America
19. Mailing & Fulfillment Services Association
20. Major Mailers Association
21. McGraw-Hill Companies, Inc.
22. National Association of Letter Carriers
23. National Association of Postmasters of the United States
24. National Association of Presort Mailers
25. National Newspaper Association
26. National Postal Policy Council, Inc.
27. Newspaper Association of America
28. Parcel Shippers Association
29. Periodical Publications Association, Inc.
30. Pitney Bowes, Inc.
31. R.R. Donnelley & Sons Company
32. Saturation Mailers Coalition
33. Time Warner Inc.
34. United Parcel Service
35. United States Postal Service

WITNESSES' TESTIMONY

Abdirahman, Abdulkadir	*Postal Service*	USPS-T-21
Alenier, Howard S.	*Postal Service*	USPS-T-33
Bernstein, Peter	*Postal Service*	USPS-T-8
Bozzo, A. Thomas	*Postal Service*	USPS-T-12
Bradley, Michael D.	*Postal Service*	USPS-T-14
	Postal Service	USPS-T-31
	Postal Service	USPS-RT-3
Crowder, Antoinette	*Advo*	ADVO-RT-1
Cutting, Samuel T.	*Postal Service*	USPS-T-26
Haldi, John	*Valpak*	VP-T-2
Harahush, Thomas W.	*Postal Service*	USPS-T-5
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Lewis, jeffery W.	*Postal Service*	USPS-T-30
	Postal Service	USPS-RT-2
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Meehan, Karen	*Postal Service*	USPS-T-9
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	Postal Service	USPS-T-20
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Nash, Joseph E.	*Postal Service*	USPS-T-17
Otuteye, Godfred	*Advo*	ADVO-RT-2
Pafford, Bradley V.	*Postal Service*	USPS-T-4
Page, James W.	*Postal Service*	UPSP-T-23
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Stevens, Dennis P.	*Postal Service*	USPS-T-15
Taufique, Altaf H.	*Postal Service*	USPS-T-28
Tayman, William P.	*Postal Service*	USPS-T-6
Thress, Thomas E.	*Postal Service*	USPS-T-7
Van-Ty-Smith, Eliane	*Postal Service*	USPS-T-11
Waterbury, Lillian	*Postal Service*	USPS-T-10
Wesner, Karl D.	*Postal Service*	USPS-T-24

Revenue Requirement for Test Year with
Proposed Revenues and Costs
($000)

	USPS Filing 1/	USPS Revised 2/	PRC 3/
Mail and Special Services Revenue	72,462,616	72,455,761	72,445,677
Appropriations	222,837	222,837	222,837
Investment Income	37,720	239,121	228,559
Total Revenues & Operating Receipts	72,723,173	72,917,719	72,897,073
Postmasters	2,310,398	2,310,398	2,310,496
Supervisors	4,269,713	4,269,713	4,265,527
Clerks & Mailhandlers, CAG A-J	18,229,203	18,229,203	18,261,695
Clerks, CAG K	6,975	6,975	6,989
City Delivery Carriers, In-Office	4,930,014	4,930,014	4,964,136
City Delivery Carriers, Street Time	10,820,181	10,820,181	10,842,645
Vehicle Service Drivers	620,009	620,009	620,522
Rural Carriers	5,823,930	5,823,930	5,859,505
Custodial Maintenance Service	3,201,932	3,201,932	3,200,329
Motor Vehicle Service	1,000,584	1,000,584	999,005
Miscellaneous Operating Costs	312,788	312,788	312,769
Transportation	5,206,280	5,206,280	5,195,512
Building Occupancy	1,968,755	1,968,755	1,968,755
Supplies & Services	3,082,800	3,082,800	3,081,631
Research & Development	56,991	56,991	56,991
Administration & Regional Operations	8,364,787	8,364,787	8,369,098
General Management Systems	63,843	63,843	63,843
Depreciation & Servicewide Costs	2,712,673	2,712,703	2,712,743
Final Adjustments	(370,704)	(345,639)	(379,788)
Total Accrued Costs	72,611,152	72,636,247	72,712,402
Contingency	-	-	
Recovery of Prior Years Losses	-	-	
Total Revenue Requirement	72,611,152	72,636,247	72,712,402
Net Surplus (Deficiency)	112,021	281,472	184,671

/1 Revenues: USPS Exh. 6A
Accrued Costs: USPS Exhibit 10H
Final Adjustments, USPS LR-K-59
2/ Revenues: USPS Exh. 6A as revised by Exh. 6A-1
Accrued Costs: USPS Exhibit 10H
Final Adjustments: USPS LR-K-59 Revised
3/ Revenues: Appendix G, Schedule 1
Accrued Costs: Appendix F, Schedule 2
Final Adjustments: Appendix F, Schedule 2

DEVELOPMENT OF REVENUE REQUIREMENT AND COST ROLLFORWARD CORRECTIONS

Introduction. This appendix explains the various adjustments the Commission makes to the Postal Service's test year revenue requirement estimate. The Commission takes account of following types of changes: (1) Postal Service revisions to investment income, interest expense, and final adjustments; (2) adjustments to Postal Service compensation and benefits cost factors for known and certain events; (3) other revenue requirement adjustments; and (4) implementation of the Commission's cost attribution methodologies and revenue requirement changes.

The adjustments for known and certain events are implemented using the Postal Service revised revenue requirement spreadsheets filed as USPS-LR-K-149. The adjusted cost levels, acceptance of the Bradley city carrier street time cost study, the correction of segment 3 window service waiting time distribution, other Commission attribution changes, and the various corrections to the volume estimates were made using the Commission's cost rollforward model, PRC-LR-2.

1. Postal Service Revisions to Investment Income, Interest Expense, and Final Adjustments

On June 10, 2005, the Postal Service filed revisions to several exhibits and library references. The revisions related to corrections made in the interest rates used to develop investment income and interest expense in FY 2005 through FY 2006 After Rates (AR). Additionally, the Postal Service identifies several corrections needed in the workpapers that develop final adjustments to costs for FY 2005 through 2006 AR. The Postal Service, in addition to filing revisions to exhibits found in witnesses Tayman and Taufique's testimonies, also filed revised workpapers in USPS-LR-K-50 (revenue

requirement workpapers), USPS-LR-K-59 (USPS final cost adjustments), and USPS-LR-K-111 (PRC final cost adjustments).

The revision to investment income of $201 million does not affect the calculation of the test year revenue requirement. However, the revisions to interest expense and the final adjustments do have an effect. The only factor needed to be adjusted for interest expense occurred in the test year before rates (BR). However, corrections to the PRC version of the final adjustment workpapers occurred for FY 2005 through the test year AR and increased the revenue requirement $26.3 million.

2. Adjustments to Postal Service Compensation and Benefits Cost Factors for Known and Certain Events

The Postal Service's estimates for employee compensation and benefits are influenced by: (1) assumptions regarding the results of labor negotiations or settlements; (2) increases in the consumer price index; (3) management decisions regarding wage changes for nonbargaining employees; and (4) changes in the cost or structure of employee benefits. In the Postal Service's initial filing of April 8, 2005, the estimates for compensation and benefits for employees covered under the labor agreement with the American Postal Worker's Union (APWU) for the test year were assumed to be equal to the Employment Cost Index less one percent (ECI-1). This assumption was used because the APWU agreement was scheduled to expire on November 20, 2005, one month into the test year (FY 2006). Subsequent to the initial filing of this docket the Postal Service reached an agreement with the APWU on an extension of their current labor agreement to November 20, 2006. The Postal Service provided the changes to the revenue requirement workpapers needed to take into account the new contract extension with the APWU. Additionally, the Service noted that the COLA payment due in September, 2005 was substantially higher than originally estimated. The actual

September, 2005 COLA payment was substituted for the original estimate in the revised revenue requirement workpapers as well.

PRC-LR-4 contains the workpapers filed by the Service in USPS-LR-K-149 in addition to comparison tables showing the before and after effects of including the changes to compensation and benefits.

a. Adjustments Due to CPI-W Actual Results

The Postal Service uses estimates of the Urban Wage Earners and Clerical Workers (CPI-W) index based on the Global Insight Inc. January, 2005 estimates. The estimate for the January, 2005 and the July, 2005 CPI-W index was 555.7 and 561.5, respectively. The actual indices for those two months were 554.9 for January, 2005 and 568.8 for July, 2005. The following table compares the actual CPI-W indices and the COLA payments made, with those estimated by the Postal Service for the period.

Table D-1
COLA Data FY 2005

	CPI-W		Cost per Workyear	
	Actual	USPS Est.	Actual	USPS Est.
January, 2005	554.9	555.7	$208.00	$249.00
July, 2005	568.8	561.5	728.00	292.00

As the above table illustrates, the estimate for the July, 2005 COLA (payable in September, 2005) is significantly greater than originally estimated. The effect of adjusting the COLA is to increase costs in the test year by $266 million. This increase is partly offset by a decrease in the net pay change assumption discussed in the following section. Labor-related accrued costs for Repriced Annual Leave, Premium and Benefit rollup costs, and the Workload Mix Adjustment will increase as a result of this adjustment.

b. Net Pay Change (ECI Assumption)

The Postal Service uses the assumption that total wage increases for APWU employees will be equal to the rise in the Department of Labor Employment Cost Index (ECI). The successful negotiation of a one-year extension to the USPS/APWU labor agreement eliminates the need for this assumption in the calculation of net pay changes for the revenue requirement. Instead, the revised revenue requirement workpapers include the negotiated pay increase of 1.6% payable in March, 2006 in addition to the aforementioned COLA payments in lieu of the ECI-1 assumption. Additionally, the contract extension included pay grade upgrades for various crafts. The cost of these upgrades is also included in the estimate of net pay increases for the APWU employees. The net effect of replacing the ECI-1 assumption with the actual contractual pay increases and position upgrades negotiated in the contract extension is to reduce the revenue requirement by $153.6 million.

c. Other Changes to Compensation and Benefits Cost Levels

As noted above, there are several other compensation-related costs that are affected by the changes in COLA payments and contractual pay increases. The costs of premiums to basic pay, such as overtime and night differential, and the costs of various compensation-related benefits such as Social Security and CSRS/FERS retirement are directly tied to changes in the basic pay of employees. Additionally, the cost of Repriced Annual Leave and the workload mix adjustment is tied directly to changes in compensation. The net cost effect of the changed COLA and the contract extension is to increase the revenue requirement by $54.5 million.

d. Adjustments to Cost Reductions

The Postal Service has numerous programs and projects designed to produce cost savings in the interim year and the test year. Savings to the Postal Service from these programs are estimated to be approximately $1,276 million in FY 2005 and $1,333

million in the test year. Many of the cost reductions are based on estimates of workhour savings by craft from the implementation of the programs priced out at the estimated productive wage rate for the particular craft. The effect of updating the cost level factors for the actual COLA and the APWU contract extension will increase the savings associated with these cost reduction programs by $2.9 million.

e. Summary

The Commission's adjustments to compensation and benefits cost estimates through the test year increase the Postal Service's estimated compensation and benefits and other personnel-related test year expenses by approximately $163.8 million. Schedule D-1 summarizes the adjustments to compensation and benefits cost level, cost reductions, and service-wide costs effects for FY 2005 and the test year.

3. Other Revenue Requirement Adjustments

a. Correction of "Skin Sack" Cost Reduction Savings

Commission POIR 4, Question 6, requested the Postal Service to explain the derivation of the workhours saved in the skin sack cost reduction program. The response, subsequently revised, described the derivation of the workhour savings but also noted that the final development of the savings was not fully incorporated into the cost rollforward model in time for the April 8, 2005 filing. The Commission has incorporated the latest savings estimated by the Service as noted in the revised answer to POIR 4, Question 6. The changes were made in USPS-LR-K-49 and incorporated into the Commission's rollforward model factor files. Incorporation of the revised workhour savings increased the revenue requirement by $1.2 million.

b. Correction of Segment 10, Rural Carriers, Registry Unit Cost

On June 22, 2005, the Postal Service filed revisions to witness Meehan's testimony and USPS-LR-K-94 (PRC version of BY 2004 costs) to reflect a correction to the unit costs of Registry in cost segment 10, rural carriers. The error, identified through discovery, was that the inputs into the base year from the Rural Carrier Cost System (RCCS) included international registry inputs in addition to those for domestic registry.[1] This had the effect of inflating domestic registry costs in segment 10 and underestimating the corresponding international costs. The Commission makes the adjustments to correct this error. The adjustments to Base Year International costs and Registry costs in cost segment 10 are detailed in Schedule D-2. The effect is a minimal increase in the test year revenue requirement of $0.9 million.

c. Final Adjustments

The Postal Service has computed final adjustments for each year of the rollforward to estimate the cost effects of the changes in mail mix within subclasses from the base year to the test year. USPS-T-23 at 4-5. These final adjustments are calculated for FY 2005, the test year before rates, and the test year after rates. Commission changes in cost methodology cause changes in the unit costs that are used to estimate the cost effect due to mail mix changes within a subclass. The Commission has utilized the worksheets provided by the Postal Service in revised USPS-LR-K-111 to develop the final adjustments that are reflective of the Commission's cost methodology and volume changes due to corrections and the proposed rates.

Adjusting for Commission changes in cost attribution methodology and volumes moderated the negative impact of the final adjustments for the test year after rates, going from $(427.0) million to $(379.8) million.

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[1] *See* Notice of United States Postal Service of Filing Additional Page to Testimony of Karen Meehan (USPS-T-9), June 22, 2005. *See also* Notice of United States Postal Service of Filing Additional Pages to LR-K-94, June 22, 2005.

4. Implementation of the Commission's Cost Attribution Methodologies and Revenue Requirement Changes

For the purpose of developing the Commission's test year attributable costs and revenue requirement, changes were made to the Postal Service's rollforward factor files and the base year cost matrix. These changes are listed below:

- Adjustments to FY 2005 and the test year cost level factors, cost reductions programs, other programs, and the workyear mix adjustment, as discussed above;
- Attribution changes in cost segments 3, 6, 7 and 14, as discussed in the Opinion; and
- Adjustment of FY 2005, test year before rates, and test year after rates volumes for corrections to the volume estimation model and PRC adjustments to rates.

The adjustments made to the Postal Service's costs were calculated using the Commission's CRA/Cost rollforward model, PRC-LR-2. A detailed description of the methods and the operation of the model are in that library reference.

5. Summary

The Commission has made adjustments to the Postal Service's costs which increase the total test year after rates accrued costs by $78.0 million.

Comparison of Compensation and Benefit
Cost Level Effect
R2005-1
($ 000)

	Org. RR Assumptions	After New COLA & APWU Ext.	Difference
FY 2005:			
Compensation:			
Pay Increases	661,057	661,057	0
COLA	503,353	508,953	5,600
Net Lump Sum	14,691	14,691	0
Step Increases	(46,284)	(46,284)	0
Premiums	157,029	158,023	994
Total Compensation Change	1,289,846	1,296,440	6,594
Benefits:			
Health	353,400	353,400	0
Uniform Allow.	386	386	0
Basic Retirement	103,870	103,870	0
Roll-Ups	261,277	262,658	1,382
Total Benefits Change	718,933	720,314	1,382
Other Costs:			
Travel	4,375	4,375	0
Relocation	1,661	1,661	0
Total Other Costs Changes	6,036	6,036	0
Repriced Annual Leave	(29,517)	(14,264)	15,253
Total Personnel Cost Changes	1,985,298	2,008,527	23,229
Cost Reductions Programs	(1,276,350)	(1,276,547)	(197)
Workload Mix Adjustment	77,340	77,960	620
FY 2006:			
Compensation:			
Pay Increases	812,433	658,805	(153,628)
COLA	267,215	527,633	260,418
Net Lump Sum	21,889	21,878	(10)
Step Increases	(33,981)	(33,634)	347
Premiums	142,012	161,192	19,181
Total Compensation Change	1,209,567	1,335,875	126,308
Benefits:			
Health	322,026	321,771	(256)
Uniform Allow.	96	396	300
Basic Retirement	0	0	0
Roll-Ups	245,064	271,459	26,395
Total Benefits Change	567,186	593,626	26,440
Other Costs:			
Travel	11,401	11,397	(4)
Relocation	161	161	(0)
Total Other Costs Changes	11,562	11,558	(4)
Repriced Annual Leave	(4,937)	(15,845)	(10,908)
Total Personnel Cost Changes	1,783,378	1,925,214	141,836
Cost Reductions Programs	(1,332,938)	(1,335,653)	(2,715)
Workload Mix Adjustment	178,520	180,144	1,624
Final Adjustments	(425,604)	(426,403)	(799)
Cumulative Cost Level Change			163,778

Schedule D-2
Rural Carrier Registry Correction

	PRC Version		
	Comp. 69	Comp. 70	Total Vol. Var.
Original BY 2004 Registry Costs	4,482	401	4,883
Adjusted BY 2004 Registry Costs	1,928	173	2,101
Difference to International Mail	2,554	228	2,782

Comparison of Costs Attributed by
Cost Segment and Component
($ 000's)

	PRC R2005-1 Test Year			USPS R2005-1 Test Year		
	Accrued Cost	Attributable Cost	Percent Attributable	Accrued Cost	Attributable Cost	Percent Attributable
1. Postmasters						
EAS 22 and Below	2,255,447	413,864	18.35	2,255,349	413,767	18.35
EAS 23 and Above	55,049	-	0.00	55,049	-	0.00
Total	2,310,496	413,864	17.91	2,310,398	413,767	17.91
2. Supervisors & Technical Personnel						
Mail Processing	950,133	904,644	95.21	949,142	781,585	82.35
Window Service	215,112	83,683	38.90	215,078	89,282	41.51
Time and Attendance	91,770	56,545	61.62	91,848	52,749	57.43
Employee & Labor Relations	142	88	61.62	142	82	57.43
City Carriers	1,149,755	592,444	51.53	1,153,951	592,284	51.33
Rural Carriers	61,516	26,054	42.35	61,497	26,036	42.34
Vehicle Service	41,612	25,160	60.46	41,569	25,116	60.42
Higher Level Supervisors	308,046	91,950	29.85	308,537	85,400	27.68
Superv. Qual. Cntrl./Rev. Prot.	42,689	39,980	93.65	42,652	35,505	83.24
Superv. Central Mail Mark-Up	64,063	63,826	99.63	64,130	53,220	82.99
Joint Supv. Clerks & Carriers	366,337	254,812	69.56	366,777	235,992	64.34
Gen.Supv., Mail Process.	-	-	0.00	-	-	0.00
Gen.Supv., Coll.& Del.	-	-	0.00	-	-	0.00
Other Sup., Training	40,159	21,014	52.33	40,196	19,404	48.27
Other	934,191	-	0.00	934,191	-	0.00
Total	4,265,527	2,160,198	50.64	4,269,712	1,996,655	46.76
3. Clerks & Mailhandlers, CAG A-J						
Mail Processing	13,665,943	13,023,857	95.30	14,268,663	11,725,522	82.18
Window Service	2,630,539	1,023,330	38.90	2,631,599	1,092,420	41.51
Administrative Clerks	1,818,282	1,098,494	60.41	1,218,208	673,073	55.25
Time & Attendance	135,788	83,667	61.62	100,478	57,705	57.43
Specific Fixed	11,142	11,142	100.00	10,258	-	0.00
Total	18,261,695	15,240,490	83.46	18,229,205	13,548,720	74.32
4. Clerks, CAG K	6,989	4,761	68.12	6,975	4,746	68.05
6. City Carrier In-Office						
Direct Labor	3,571,771	3,102,009	86.85	3,545,636	3,080,764	86.89
CAG K	539	446	82.75	535	443	82.71
Support	812,003	705,363	86.87	806,066	700,186	86.86
Support Other	579,823	298,693	51.51	577,776	296,467	51.31
Total	4,964,136	4,106,511	82.72	4,930,014	4,077,859	82.71
7. City Carrier Street						
Delivery Activities	8,263,665	3,570,792	43.21	8,253,676	3,543,723	42.94
Delivery Activities Support	1,038,101	461,804	44.49	1,036,617	458,223	44.20
Network Travel Support	197,612	-	0.00	196,202	-	0.00
Network Travel	1,343,267	-	0.00	1,333,686	-	0.00
Total	10,842,645	4,032,595	37.19	10,820,181	4,001,945	36.99
Grand Total City Carriers	15,806,780	8,139,106	51.49	15,750,194	8,079,805	51.30

Comparison of Costs Attributed by
Cost Segment and Component
($ 000's)

	PRC R2005-1 Test Year			USPS R2005-1 Test Year		
	Accrued Cost	Attributable Cost	Percent Attributable	Accrued Cost	Attributable Cost	Percent Attributable
8. Vehicle Service Drivers	620,522	375,180	60.46	620,009	374,614	60.42
10. Rural Carriers						
Evaluated Routes	4,976,001	2,112,577	42.46	4,943,235	2,098,263	42.45
Other Routes	425,752	173,471	40.74	422,943	172,286	40.74
Equip. Maint. Allow.	457,752	-	0.00	457,752	-	0.00
Total	5,859,505	2,286,048	39.01	5,823,930	2,270,549	38.99
11. Custodial Maint. Service						
Mail Proc. Equip. Mtnc.	1,480,946	1,209,125	81.65	1,482,211	984,073	66.39
Clean.&Prot. Personnel	1,096,109	675,113	61.59	1,096,365	664,051	60.57
Bldg. & Plant Maint. Personnel	532,621	328,050	61.59	532,703	322,649	60.57
Contract Cleaners	90,653	55,835	61.59	90,653	54,907	60.57
Total	3,200,329	2,268,123	70.87	3,201,932	2,025,681	63.26
12. Motor Vehicle Service						
Personnel	434,998	110,477	25.40	435,749	110,387	25.33
Supplies & Materials	543,860	147,118	27.05	544,627	146,960	26.98
Vehicle Hire	20,147	9,829	48.78	20,208	9,823	48.61
Total	999,005	267,424	26.77	1,000,583	267,170	26.70
13. Misc. Operating Costs						
Drive out and Carfare	33,921	4,666	13.76	33,940	4,665	13.74
Tolls & Ferriage	340	-	0.00	340	-	0.00
Other	278,508	-	0.00	278,508	-	0.00
Total	312,769	4,666	1.49	312,788	4,665	1.49
14. Transportation						
Domestic Air	1,646,554	1,644,481	99.87	1,655,199	1,447,071	87.43
Alaskan Air	96,144	7,018	7.30	96,144	6,817	7.09
Highway	2,592,899	2,055,340	79.27	2,594,486	2,056,926	79.28
Railroad	129,852	127,934	98.52	130,354	128,436	98.53
Domestic Water	27,969	24,415	87.29	28,017	24,463	87.31
International Water	702,095	702,274	100.03	702,080	702,259	100.03
Total	5,195,512	4,561,462	87.80	5,206,280	4,365,972	83.86
15. Building Occupancy						
Rents	956,810	956,810	100.00	956,810	956,810	100.00
Fuel & Utilities	634,110	390,559	61.59	634,110	384,070	60.57
Other	377,835	429	0.11	377,835	-	0.00
Total	1,968,755	1,347,799	68.46	1,968,755	1,340,880	68.11

Comparison of Costs Attributed by
Cost Segment and Component
($ 000's)

	PRC R2005-1 Test Year			USPS R2005-1 Test Year		
	Accrued Cost	Attributable Cost	Percent Attributable	Accrued Cost	Attributable Cost	Percent Attributable
16. Supplies & Services						
Custodial & Building	163,126	100,472	61.59	163,126	98,803	60.57
Operating Equip. Maintenance	398,465	338,308	84.90	398,542	283,150	71.05
Stamps & Dispensers	104,997	104,795	99.81	104,994	104,792	99.81
Advertising	132,132	60,442	45.74	132,132	-	0.00
Stmp. Cds. & Emb. Stmp. Env.	7,874	7,874	100.00	7,874	7,874	100.00
Money Orders	7,052	7,052	100.00	7,052	7,052	100.00
Expedited Mail Supp. & Serv.	77,842	77,842	100.00	77,842	77,842	100.00
Misc. Postal Supp. & Serv.	1,290,702	780,776	60.49	1,291,794	725,881	56.19
Other	899,442	11,849	1.32	899,442	905	0.10
Total	3,081,631	1,489,409	48.33	3,082,797	1,306,298	42.37
18. Administrative & Regional Operations						
Workers Compensation	1,399,731	598,069	42.73	1,399,731	557,181	39.81
Repriced Annual Leave	104,391	62,504	59.87	100,046	55,807	55.78
Holiday Leave	3,700	2,215	59.87	3,700	2,064	55.78
Retiree Health Benefits	1,736,364	1,039,639	59.87	1,736,364	968,562	55.78
Annuitant Life Insurance	10,900	6,526	59.87	10,900	6,080	55.78
USPS Protection Force	80,346	49,486	61.59	80,358	48,672	60.57
Unemployment Compensation	76,185	45,615	59.87	76,185	42,497	55.78
CSRS Reform Escrow	3,081,016	-	0.00	3,081,016	-	0.00
CSRS/FERS Retire. Prin.	23,972	-	0.00	23,972	-	0.00
Money Orders	3,217	3,217	100.00	3,217	3,217	100.00
Other Personnel	1,407,273	12,694	0.90	1,407,293	-	0.00
Other	442,003	36,491	8.26	442,003	-	0.00
Total	8,369,098	1,856,458	22.18	8,364,787	1,684,080	20.13
20. Depreciation & Other Servicewide Costs						
Vehicle Deprec.	180,862	41,536	22.97	180,862	41,388	22.88
Mail Proc. Equip. Deprec.	1,386,682	701,977	50.62	1,386,682	602,085	43.42
Bldg. & Leasehold Deprec.	722,727	722,727	100.00	722,727	722,727	100.00
Indemnities	20,960	20,960	100.00	20,889	20,889	100.00
Note Interest Expense	1,433	917	64.02	1,433	855	59.65
Retirement Interest Expense	216,028	-	0.00	216,028	-	0.00
Other Interest	73,353	-	0.00	73,353	-	0.00
Other	110,698	-	0.00	110,698	-	0.00
Total	2,712,743	1,488,118	54.86	2,712,673	1,387,944	51.17
17. Res., Develop., & Engr.	56,991	-	0.00	56,991	-	0.00
19. Support Services	63,843	145	0.23	63,843	-	0.00
Final Adjustments	(379,788)	(964,749)		(370,704)	(860,468)	
Grand Total All Segments	72,712,402	40,938,503	56.30	72,611,148	38,211,078	52.62

Schedule 1

PRC Distribution of Attributable Costs to Classes and Subclasses
Test Year/PRC Recommended Rates
($000)

	Short Run Variable	Product Specific Costs	PESSA Costs	Total Attributable	Final Adjustments	Net Attributable	Contingency @ 0.0 Percent	Grand Total Attributable
First-Class Mail:								
Single-Piece Letters	10,602,329	9,696	1,444,722	12,056,748	0	12,056,748	0	12,056,748
Presort Letters	4,491,539	10,165	547,802	5,049,506	(120,165)	4,929,340	0	4,929,340
Total Letters	15,093,868	19,861	1,992,525	17,106,253	(120,165)	16,986,088	0	16,986,088
Single-Piece Cards	523,007	541	62,402	585,951	0	585,951	0	585,951
Presort Post Cards	188,433	625	21,113	210,171	(1,879)	208,292	0	208,292
Total Cards	711,440	1,166	83,515	796,122	(1,879)	794,242	0	794,242
Total First-Class	15,805,308	21,027	2,076,040	17,902,375	(122,045)	17,780,330	0	17,780,330
Priority Mail	2,801,438	37,246	269,120	3,107,805	24,849	3,132,654	0	3,132,654
Express Mail	419,370	20,162	45,502	485,034	0	485,034	0	485,034
Mailgrams	226	-	18	245	0	245	0	245
Periodicals:								
Within County	62,573	9	7,184	69,766	0	69,766	0	69,766
Outside County	1,909,396	95	256,254	2,165,744	0	2,165,744	0	2,165,744
Total Periodicals	1,971,969	103	263,438	2,235,510	0	2,235,510	0	2,235,510
Standard Mail:								
Enhanced Carrier Route	2,315,597	4,648	236,536	2,556,781	0	2,556,781	0	2,556,781
Regular Bulk & Nonprofit	8,624,346	8,815	1,215,787	9,848,947	(271,104)	9,577,843	0	9,577,843
Total Standard Mail	10,939,943	13,463	1,452,323	12,405,728	(271,104)	12,134,624	0	12,134,624
Package Services:								
Parcel Post	889,368	558	97,297	987,222	82,755	1,069,978	0	1,069,978
Bound Printed Matter	502,138	-	71,116	573,254	0	573,254	0	573,254
Media and Library	369,996	-	50,959	420,954	0	420,954	0	420,954
Total Package Services	1,761,501	558	219,371	1,981,430	82,755	2,064,186	0	2,064,186
USPS Penalty Mail	504,583	-	80,378	584,961	(584,961)	0	0	0
Free Mail for the Blind & Hndc	41,262	-	5,842	47,104	0	47,104	0	47,104
TOTAL DOMESTIC MAIL	34,245,600	92,559	4,412,034	38,750,193	(870,505)	37,879,687	0	37,879,687
International Mail	1,379,174	32,559	97,246	1,508,980	0	1,508,980	0	1,508,980
TOTAL ALL MAIL	35,624,775	125,119	4,509,280	40,259,173	(870,505)	39,388,667	0	39,388,667
Special Services:								
Registered Mail	29,217	-	12,165	41,382	0	41,382	0	41,382
Insured Mail	62,787	353	5,673	68,812	0	68,812	0	68,812
Certified Mail	454,463	146	5,673	460,281	0	460,281	0	460,281
Collect-On-Delivery	7,471	-	609	8,080	0	8,080	0	8,080
Money Orders	110,557	3,821	15,759	130,138	0	130,138	0	130,138
Stamped Cards	1,325	-	2	1,327	0	1,327	0	1,327
Stamped Envelopes	11,619	-	770	12,388	0	12,388	0	12,388
Special Handling	571	-	115	685	0	685	0	685
Post Office Boxes	96,723	1,285	511,907	609,915	0	609,915	0	609,915
Other Special Services	274,950	2,221	33,902	311,074	(94,243)	216,830	0	216,830
Total Special Services	1,049,683	7,826	586,573	1,644,082	(94,243)	1,549,838	0	1,549,838
Total Attributable	36,674,457	132,944	5,095,853	41,903,255	(964,749)	40,938,506	0	40,938,506
Other Costs	36,417,733	(132,944)	(5,095,853)	31,188,936	584,961	31,773,896	0	31,773,896
Total Costs	73,092,190			73,092,190	(379,788)	72,712,402	0	72,712,402
Prior Years Loss Recovery								-
Total Revenue Requirement								72,712,402

Appendix F
Schedule 2
PRC Distribution of Attributable Costs to Classes and Subclasses
Test Year/PRC Recommended Rates
($000)

	Post-Masters	Supervisors	Clerks & Mailhandlers CAG A - J	Clerks, CAG K	City Delivery Carriers	Vehicle Service Drivers	Rural Carriers	Custodial Maintenance Service	Motor Vehicle Service	Misc. Operating Costs
First-Class Mail:										
Single-Piece Letters	117,521	695,077	5,292,210	1,764	2,363,752	23,148	311,914	772,138	52,053	1,362
Presort Letters	89,348	275,140	1,671,151	581	1,250,782	24,868	312,247	272,793	32,404	703
Total Letters	206,869	970,218	6,963,361	2,346	3,614,534	48,017	624,161	1,044,931	84,457	2,065
Single-Piece Cards	3,609	36,160	248,230	76	154,628	217	22,235	28,526	3,170	88
Presort Post Cards	3,382	12,312	66,899	22	61,304	416	18,620	8,785	1,574	33
Total Cards	6,990	48,473	315,130	98	215,931	633	40,855	37,311	4,744	121
Total First-Class	213,859	1,018,690	7,278,491	2,444	3,830,465	48,649	665,015	1,082,242	89,201	2,187
Priority Mail	25,409	101,201	942,338	231	157,365	67,344	41,293	94,550	21,922	74
Express Mail	4,846	21,946	219,699	-	36,725	1,515	11,082	11,876	2,563	15
Mailgrams	-	16	6	-	178	-	4	3	13	0
Periodicals:										
Within County	432	3,710	18,994	7	19,906	1,964	13,001	1,932	1,038	11
Outside County	12,696	128,791	790,983	472	410,754	30,632	144,254	102,009	13,592	276
Total Periodicals	13,128	132,501	809,976	480	430,659	32,596	157,254	103,941	14,630	287
Standard Mail:										
Enhanced Carrier Route	34,964	124,773	427,039	112	889,293	45,809	534,480	69,605	36,138	478
Regular Bulk & Nonprofit	84,984	539,079	3,700,957	1,112	2,312,066	55,430	642,539	561,693	56,912	1,392
Total Standard Mail	119,948	663,852	4,127,996	1,223	3,201,358	101,239	1,177,019	631,299	93,051	1,869
Package Services:										
Parcel Post	6,791	35,642	277,861	-	73,124	69,969	33,026	36,912	18,814	29
Bound Printed Matter	4,031	27,487	189,330	-	92,926	31,719	28,244	28,765	11,865	40
Media and Library	2,281	16,990	148,945	-	38,725	9,865	11,848	21,157	3,949	18
Total Package Services	13,103	80,119	616,136	-	204,775	111,554	73,118	86,834	34,627	87
USPS Penalty Mail	-	37,399	357,457	193	39,256	4,122	2,654	30,214	1,187	29
Free Mail for the Blind & Hndc	-	2,248	19,502	-	4,808	675	2,921	2,510	311	2
TOTAL DOMESTIC MAIL	390,294	2,057,972	14,371,602	4,570	7,905,590	367,694	2,130,360	2,043,470	257,505	4,550
International Mail	8,730	36,014	373,221	1	39,742	7,485	7,961	40,789	2,878	23
TOTAL ALL MAIL	399,024	2,093,986	14,744,823	4,571	7,945,332	375,180	2,138,320	2,084,259	260,383	4,573
Special Services:										
Registered Mail	270	1,867	15,612	13	5,848	-	1,796	4,088	209	2
Certified Mail	3,914	24,750	134,728	67	128,294	-	100,009	9,399	4,499	64
Insured Mail	514	2,985	23,066	1	7,216	-	12,109	1,214	405	3
Collect-On-Delivery	61	290	1,938	1	1,056	-	1,783	134	58	1
Money Orders	1,387	8,408	87,582	-	-	-	1,451	3,682	27	-
Stamped Cards	11	0	0	-	-	-	-	0	-	-
Stamped Envelopes	122	412	4,300	-	-	-	-	182	-	-
Special Handling	40	41	436	-	-	-	-	46	-	-
Post Office Boxes	4,837	7,925	79,116	-	1,225	-	-	152,572	1	1
Other Special Services	3,685	19,534	148,889	109	50,139	-	30,581	12,547	1,842	22
Total Special Services	14,840	66,212	495,667	191	193,777	-	147,728	183,864	7,041	94
Total Attributable	413,864	2,160,199	15,240,490	4,761	8,139,109	375,180	2,286,048	2,268,123	267,424	4,666
Other Costs	1,896,631	2,105,329	3,021,205	2,228	7,667,671	245,342	3,573,457	932,206	731,581	308,103
Total Costs	2,310,496	4,265,527	18,261,695	6,989	15,806,780	620,522	5,859,505	3,200,329	999,005	312,769
Prior Years Loss Recovery										
Total Revenue Requirement										

Appendix F
Schedule 2
PRC Distribution of Attributable Costs to Classes and Subclasses
Test Year/PRC Recommended Rates
($000)

	Trans-portation	Building Occupancy	Supplies & Services	Research & Development	Admin. & Regional Operations	General Management Systems	Depreciation & Service-wide Costs	Total Attributable Costs	Final Adjustments	Contingency	Total PRC Attributable Costs
First-Class Mail:	589,329	347,689	486,980	-	564,580	-	437,228	12,056,748	-	-	12,056,748
Single-Piece Letters	433,777	128,981	160,174	-	234,921	-	161,636	5,049,506	(120,165)	-	4,929,340
Presort Letters	1,023,107	476,671	647,154	-	799,501	-	598,864	17,106,253	(120,165)	-	16,986,088
Total Letters	5,328	15,135	23,555	-	29,039	-	15,956	585,951	-	-	585,951
Single-Piece Cards	9,242	4,963	6,621	-	10,483	-	5,514	210,171	(1,879)	-	208,292
Presort Post Cards	14,570	20,098	30,176	-	39,522	-	21,469	796,122	(1,879)	-	794,242
Total Cards	1,037,676	496,769	677,330	-	839,024	-	620,333	17,902,375	(122,045)	-	17,780,330
Total First-Class	1,263,378	77,058	148,282	-	97,626	-	69,733	3,107,805	24,849	-	3,132,654
Priority Mail	101,763	13,672	32,297	-	17,977	-	9,057	485,034	-	-	485,034
Express Mail	-	4	6	-	12	-	3	245	-	-	245
Mailgrams											
Periodicals:	86	1,843	1,868	-	3,484	-	1,490	69,766	-	-	69,766
Within County	227,836	64,518	66,656	-	94,434	-	77,844	2,165,744	-	-	2,165,744
Outside County	227,922	66,361	68,524	-	97,918	-	79,334	2,235,510	-	-	2,235,510
Total Periodicals											
Standard Mail:	91,833	57,111	70,202	-	123,235	-	51,709	2,556,781	-	-	2,556,781
Enhanced Carrier Route	436,501	289,255	329,167	-	459,020	-	378,841	9,848,947	(271,104)	-	9,577,843
Regular Bulk & Nonprofit	528,334	346,366	399,368	-	582,256	-	430,550	12,405,728	(271,104)	-	12,134,624
Total Standard Mail											
Package Services:	328,700	25,381	20,269	-	31,525	-	29,179	987,222	82,755	-	1,069,978
Parcel Post	79,916	17,789	15,021	-	23,704	-	22,416	573,254	-	-	573,254
Bound Printed Matter	113,017	13,420	9,890	-	14,726	-	16,124	420,954	-	-	420,954
Media and Library	521,633	56,590	45,180	-	69,956	-	67,718	1,981,430	82,755	-	2,064,186
Total Package Services	22,795	21,471	18,527	-	27,496	-	22,161	584,961	(584,961)	-	-
USPS Penalty Mail	7,588	1,478	1,322	-	1,911	-	1,828	47,104	-	-	47,104
Free Mail for the Blind & Hndc	3,711,088	1,079,769	1,390,835	-	1,734,175	-	1,300,718	38,750,193	(870,505)	-	37,879,687
TOTAL DOMESTIC MAIL	850,372	25,933	35,805	-	47,467	145	32,414	1,508,980	-	-	1,508,980
International Mail	4,561,461	1,105,702	1,426,640	-	1,781,642	145	1,333,132	40,259,173	(870,505)	-	39,388,667
TOTAL ALL MAIL											
Special Services:	-	4,312	1,181	-	1,833	-	4,350	41,382	-	-	41,382
Registered Mail	-	12,083	11,564	-	23,229	-	7,682	460,281	-	-	460,281
Certified Mail	-	1,626	1,639	-	2,732	-	15,302	68,812	-	-	68,812
Insured Mail	-	168	152	-	305	-	2,134	8,080	-	-	8,080
Collect-On-Delivery	-	4,963	9,899	-	10,010	-	2,728	130,138	-	-	130,138
Money Orders	-	0	1,314	-	1	-	0	1,327	-	-	1,327
Stamped Cards	-	245	6,700	-	292	-	135	12,388	-	-	12,388
Stamped Envelopes	-	27	20	-	33	-	44	685	-	-	685
Special Handling	-	209,400	18,116	-	20,981	-	115,740	609,915	-	-	609,915
Post Office Boxes	-	9,272	12,183	-	15,400	-	6,870	311,074	(94,243)	-	216,830
Other Special Services	-	242,097	62,769	-	74,815	-	154,986	1,644,082	(94,243)	-	1,549,838
Total Special Services	4,561,461	1,347,799	1,489,409	-	1,856,458	145	1,488,118	41,903,255	(964,749)	-	40,938,506
Total Attributable	634,051	620,956	1,592,222	56,991	6,512,640	63,698	1,224,625	31,188,936	584,961	-	31,773,896
Other Costs	5,195,512	1,968,755	3,081,631	56,991	8,369,098	63,843	2,712,743	73,092,190	(379,788)	-	72,712,402
Total Costs											-
Prior Years Loss Recovery											72,712,402

Unit Attributable Cost Comparison
Test Year

	PRC R2001-1 ($)	PRC R2005-1 ($)	Change Over PRC R2001-1 (%)
First-Class			
Single Letter	0.2923	0.2840	-2.85%
Presort Letter	0.1166	0.1029	-11.68%
Total Letter	0.2004	0.1880	-6.18%
Cards	0.1491	0.1454	-2.49%
Priority Mail	3.2969	3.9191	18.87%
Express Mail	8.8148	9.6262	9.20%
Periodicals:			
Within County	0.0965	0.0933	-3.26%
Outside County	0.2719	0.2611	-3.99%
Standard Mail:			
Enhanced Carrier Route	0.0805	0.0724	-10.07%
Regular Bulk & Nonprofit	0.1590	0.1392	-12.42%
Total Standard Mail	0.1291	0.1165	-9.72%
Package Services:			
Parcel Post	2.8428	3.1802	11.87%
Bound Printed Matter	0.9520	0.9145	-3.94%
Media and Library	1.5757	2.1067	33.70%
Free for the Blind	0.8717	0.6254	-28.25%
International Mail	1.4185	1.7829	25.69%
Registry	5.6688	10.5598	86.28%
Certified	1.7244	1.6509	-4.26%
Insurance	1.7771	1.9457	9.48%
COD	4.4576	4.8289	8.33%
Money Orders	0.8122	0.7232	-10.95%

Test Year (2006) Volume, Cost , Revenue, and Cost Coverage by Class at Commission Recommended Rates

	Volume (000)	Attributable Cost ($ 000)	Revenue ($ 000)	Contribution to Institutional Cost ($ 000)	Cost/Pc. (Cents)	Rev./Pc. (Cents)	Contribution to Institutional Cost/Pc. (Cents)	Cost Coverage	Change in Rev./Pc.
First-Class Mail:									
Letters	90,421,819	16,986,088	35,889,526	18,903,438	18.785	39.691	20.906	211.3%	5.2%
Cards	5,463,895	794,242	1,214,840	420,598	14.536	22.234	7.698	153.0%	5.0%
Priority Mail	799,324	3,132,654	4,389,610	1,256,956	391.913	549.165	157.252	140.1%	5.4%
Express Mail	50,387	485,034	833,377	348,343	962.619	1,653.956	691.336	171.8%	5.5%
Mailgrams	1,359	245	609	364	18.010	44.814	26.804	248.8%	5.4%
Periodicals:									
Within County	747,701	69,766	70,726	960	9.331	9.459	0.128	101.4%	-2.3%
Outside County	8,296,244	2,165,744	2,227,534	61,790	26.105	26.850	0.745	102.9%	5.5%
Standard Mail:									
Regular	56,409,625		12,840,892			22.764			5.4%
Nonprofit	12,317,890		1,673,186			13.583			3.0%
Regular and Nonprofit	68,727,515	9,577,843	14,514,078	4,936,235	13.936	21.118	7.182	151.5%	5.0%
Enhanced Carrier Route (ECR)	32,202,480		5,747,885			17.849			5.5%
Nonprofit ECR (NECR)	3,110,308		331,994			10.674			12.3%
ECR and NECR	35,312,789	2,556,781	6,079,879	3,523,097	7.240	17.217	9.977	237.8%	5.7%
Package Services:									
Parcel Post	336,448	1,069,978	1,239,362	169,384	318.022	368.367	50.345	115.8%	7.1%
Bound Printed Matter	626,873	573,254	697,961	124,707	91.447	111.340	19.893	121.8%	5.5%
Media Mail	183,577		387,869			211.284			12.7%
Library Rate	16,243		33,840			208.331			12.6%
Media and Library	199,820	420,954	421,709	754	210.667	211.044	0.378	100.2%	12.7%
USPS Penalty Mail	666,538								
Free-for-the-Blind Mail	75,317	47,104		(47,104)	62.541				
International Mail 1/	846,345	1,508,980	1,839,768	330,788	178.294	217.378	39.084	121.9%	5.0%
Total All Mail	212,572,373	39,388,667	69,418,978	30,030,310	18.530	32.657	14.127	176.2%	5.0%
Special Services:									
Registry	3,919	41,382	43,684	2,302	1,055.981	1,114.733	58.751	105.6%	5.6%
Insurance	35,366	68,812	87,782	18,970	194.569	248.209	53.639	127.6%	4.5%
Certified	278,811	460,281	669,147	208,865	165.087	240.000	74.913	145.4%	4.3%
COD	1,673	8,080	10,404	2,323	482.894	621.745	138.851	128.8%	5.4%
Money Orders	179,939	130,138	240,573	110,436	72.323	133.697	61.374	184.9%	3.9%
Stamped Cards	89,429	1,327	1,789	462	1.484	2.000	0.516	134.8%	0.0%
Box/Caller Service	15,573	609,915	850,649	240,734	3,916.449	5,462.278	1,545.829	139.5%	5.6%
Stamped Envelopes	400,000	12,388	16,488	4,099	3.097	4.122	1.025	133.1%	4.5%
Other Special Services		217,515	610,766	393,251					
Other Income			495,418	495,418					
Total Mail & Services	212,572,373	40,938,506	72,445,677	31,507,171	19.259	34.080	14.822	177.0%	5.0%
Institutional Costs		31,773,896							
Prior Years Loss Recovery		0							
Appropriations			222,837						
Investment Income			228,559						
Total Revenue Requirement		72,712,402							
Total Revenues			72,897,073						
Net Surplus (Loss)			184,671						

Schedule 2

COMMISSION RECOMMENDED RATES
APPLIED TO TEST YEAR VOLUMES

FIRST-CLASS MAIL		Units (000)	Rate (cents)	Revenues (000)
Letters & Sealed Parcels Subclass				
Regular				
Single-Piece				
First-ounce		42,126,639	39.0	16,429,389
Additional ounces		14,111,798	24.0	3,386,832
Nonmachinable Pieces		478,476	13.0	62,202
Qualified Business Reply Mail		332,657	35.8	119,091
Total Pieces (or Postage Revenue)		42,459,296		19,997,514
Revenue x Adjustment Factor				20,262,320
Single-Piece Fees	Address Correction			27,698
	Business Reply			208,044
	Certificate of Mailing			2,560
	Special Handling			6,074
Total Single-Piece Revenue				20,506,695
Presort				
First-ounce		1,123,189	37.1	416,703
Heavy-Piece Discount		72,133	(4.3)	(3,102)
Additional ounces		274,631	23.7	65,088
Nonmachinable Pieces		28,455	5.8	1,650
Total Pieces (or Postage Revenue)		1,123,189		480,339
Revenue x Adjustment Factor				480,266
Presort Fees	Address Correction			733
	Certificate of Mailing			3
	Presort Permit			152
	Merch. Ret. Permit			4
Total Presort Revenue				481,157
Total Regular Letters		**43,582,485**		**20,987,852**
Automation				
Non-Carrier Route				
Letters				
Mixed AADC, First Oz.		2,846,518	32.6	927,965
AADC, First Oz.		2,574,212	31.7	816,025
3-Digit, First Oz.		22,743,156	30.8	7,004,892
5-Digit, First Oz.		17,292,398	29.3	5,066,673
Heavy-Piece Discount		90,719	(4.3)	(3,901)
Additional Ounces		1,625,534	23.7	385,252
Flats				
Mixed AADC, First Oz.		54,091	35.9	19,419
AADC, First Oz.		139,086	35.1	48,819
3-Digit, First Oz.		235,093	33.9	79,697
5-Digit, First Oz.		249,589	31.8	79,369
Heavy-Piece Discount		216,089	(4.3)	(9,292)
Additional Ounces		1,025,008	23.7	242,927
Nonmachinable Pieces		117,094	5.8	6,791
Total Pieces (or Postage Revenue)		46,134,142		14,664,635
Revenue x Adjustment Factor				14,656,532
Carrier Route				
First Ounce		629,387	29.0	182,522
Heavy-Piece Discount		734	(4.3)	(32)
Additional Ounces		27,188	23.7	6,443
Total Pieces (or Postage Revenue)		629,387		188,934
Revenue x Adjustment Factor				188,874
Automation Fees	Address Correction			30,506
	Certificate of Mailing			114
	Presort Permit			6,321
	Merch. Ret. Permit			176
Total Automation Letters		**46,763,529**		**14,882,523**
NSA Adjustment		75,805		19,151
Total First-Class Letters		**90,421,819**		**35,889,526**

COMMISSION RECOMMENDED RATES
APPLIED TO TEST YEAR VOLUMES

FIRST-CLASS MAIL (cont)		Units (000)	Rate (cents)	Revenues (000)
Cards Subclass				
Regular				
Single-Piece				
Stamped Cards		89,429	24.0	21,463
Post Cards at Card Rate		2,208,461	24.0	530,031
Post Cards at Letter Rate		143,767	39.0	56,069
Qualified Business Reply Mail		40,873	21.1	8,624
Total Pieces (or Postage Revenue)		2,482,529		616,187
Revenue x Adjustment Factor				617,711
Single-Piece Fees	Address Correction			1,619
	Business Reply			12,582
	Certificate of Mailing			150
Total Single-Piece Revenue				632,062
Presort				
Cards		294,933	22.3	65,770
Total Pieces (or Postage Revenue)		294,933		65,770
Revenue x Adjustment Factor				65,750
Presort Fees	Address Correction			192
	Certificate of Mailing			1
	Presort Permit			40
Total Presort Revenue				65,983
Total Regular Cards		**2,777,462**		**698,045**
Automation				
Non-Carrier Route				
Mixed AADC Cards		282,668	20.4	57,664
AADC Cards		213,891	19.7	42,136
3-Digit Cards		1,171,577	19.3	226,114
5-Digit Cards		950,167	18.6	176,731
Total Pieces (or Postage Revenue)		2,618,303		502,646
Revenue x Adjustment Factor				502,482
Carrier Route				
Cards		68,130	17.9	12,195
Total Pieces (or Postage Revenue)		68,130		12,195
Revenue x Adjustment Factor				12,191
Automation Fees	Address Correction			1,752
	Certificate of Mailing			7
	Presort Permit			363
Total Automation Cards		**2,686,433**		**516,795**
Total First-Class Cards		**5,463,895**		**1,214,840**
TOTAL FIRST-CLASS MAIL		**95,885,714**		**37,104,366**

COMMISSION RECOMMENDED RATES
APPLIED TO TEST YEAR VOLUMES

Priority Mail

Zone	Pieces		Revenues
Local, 1, 2, 3	306,638,359	$	1,386,374,558
4	117,927,144	$	624,127,891
5	131,132,258	$	739,322,170
6	75,567,722	$	448,375,407
7	56,539,941	$	360,755,976
8	111,518,575	$	788,571,966
	799,324,000	$	4,347,527,969
Postage Revenue		$	4,347,527,969
times base year revenue adjustments			1.00869
Revenue from rates			**4,385,307,987**
Pickup revenue		$	2,613,749
Revenue from fees			
Address Correction		$	90,707
Business Reply		$	1,085,621
Certificate of Mailing		$	42,847
Merchandise Return		$	98,479
Special Handling		$	370,190
Total revenue from fees		$	1,687,845
Total Priority Mail Revenue		**$**	**4,389,609,581**

COMMISSION RECOMMENDED RATES
APPLIED TO TEST YEAR VOLUMES

Express Mail

	Pieces		Revenues
Same day service	-	$	-
Next day - post office to addressee	50,167,490	$	2,135,857
Next day - post office to post office	66,221	$	825,655,574
Custom designed	153,214	$	6,731,771
Total Domestic Service	50,386,925	$	834,523,201
Revenue Adjustment Factor			0.994175019
Postage Revenue		$	829,662,119
Pick-up Revenue		$	3,715,202
Total Express Mail Revenue		**$**	**833,377,321**

COMMISSION RECOMMENDED RATES
APPLIED TO TEST YEAR VOLUMES

PERIODICALS-Within County

	Rate (cents)	Pieces (000)	Pounds (000)	Revenues (000)
Piece Rate Revenue				
Basic Presort	10.3	20,296		2,091
3-Digit Presort	9.5	25,209		2,395
5-Digit Presort	8.5	134,114		11,400
Carrier Route Presort	4.9	568,082		27,836
		747,701		
Pound Rate Revenues				
Regular	14.2		135,277	19,209
Delivery Office	10.9		107,607	11,729
Piece Discounts				
High density	(1.6)	117,265		(1,876)
Saturation	(2.2)	45,408		(999)
Delivery office entry	(0.6)	256,114		(1,537)
Automation Discounts for Automation Compatible Mail				
from Required:				
Pre-barcoded letters	(5.4)	560		(30)
Pre-barcoded flats	(2.8)	1,034		(29)
from 3-Digit:				
Pre-barcoded letters	(4.8)	4,429		(213)
Pre-barcoded flats	(2.4)	3,679		(88)
from 5-Digit:				
Pre-barcoded letters	(4.0)	4,691		(188)
Pre-barcoded flats	(2.0)	40,396		(808)
Revenue from Rates				68,892
Ride Along	13.1	1,099		144
				69,036
Times Correction Factor		0.9997		69,019
Fees				
Address Correction				1,671
Periodicals Application Fee				37
Total Fees				1,707
TOTAL PERIODICALS-Within County				**70,726**

COMMISSION RECOMMENDED RATES
APPLIED TO TEST YEAR VOLUMES

07/28/2005

PERIODICALS-Regular Rate

Pound Rate Revenue		Rate (cents)	Pieces (000)	Pounds (000)	Revenues (000)	
Advertising		---	---	---	---	
Delivery Office		16.7		19,583	3,270	
SCF		21.4		836,728	179,060	
ADC		23.5		154,910	36,404	
Zone:	1 & 2	26.1		126,734	33,078	
	3	28.1		63,212	17,763	
	4	33.2		87,765	29,138	
	5	41.0		85,413	35,019	
	6	49.1		35,854	17,604	
	7	58.9		26,955	15,876	
	8	67.2		29,122	19,570	386,782
Nonadvertising		20.3		1,772,399	359,797	359,797
Science of Agriculture						
Delivery office		12.5		85	11	
SCF		16.0		1,643	263	
ADC		17.6		408	72	
Zones 1&2		19.6		5,236	1,026	1,371

Piece Rate Revenue				
Required Preparation	39.3	385,690	151,576	
Presorted to 3-Digit	34.1	1,039,620	354,510	
Presorted to 5-Digit	27.0	2,191,239	591,634	
Presorted to Carrier Route	17.2	2,800,102	481,618	1,579,339
Piece Discounts				
Prepared to Delivery Office	(1.9)	64,688	(1,229)	
Prepared to SCF	(0.8)	3,231,530	(25,852)	
Prepared to ADC	(0.2)	677,622	(1,355)	
High Density	(3.4)	69,981	(2,379)	
Saturation	(5.4)	27,860	(1,504)	
Editorial content	(7.8)	3,859,114	(301,011)	
Worksharing discount-pallets	(0.5)	913,252	(4,566)	
Wksharing dropship dscnt pallets	(1.6)	3,690,541	(59,049)	
Co-palletization 1 DSCF Discount	(1.1)	17,400	(191)	
Co-palletization 1 DADC Discount	(0.7)	30,826	(216)	(397,353)
Automation Discounts for Automation Compatible Mail				
From Required:				
Pre-barcoded letter	(9.7)	28,709	(2,785)	
Pre-barcoded flats	(5.0)	134,508	(6,725)	(9,510)
From 3-Digit:				
Pre-barcoded letter	(7.9)	20,304	(1,604)	
Pre-barcoded flats	(4.3)	872,323	(37,510)	(39,114)
From 5-Digit:				
Pre-barcoded letter	(6.4)	293	(19)	
Pre-barcoded flats	(3.2)	2,038,111	(65,220)	(65,238)
Ride-Along revenue	13.1	208,862		27,361
				1,843,435
Times Correction Factor			1.0022	1,847,528
Fees				
Address Correction			14,337	
Periodicals Application			313	14,650

TOTAL PERIODICALS-Regular Rate				**1,862,178**
TOTAL PERIODICALS-OUTSIDE COUNTY				**2,227,534**

COMMISSION RECOMMENDED RATES
APPLIED TO TEST YEAR VOLUMES

07/28/2005

PERIODICALS-Nonprofit

		Rate (cents)	Pieces (000)	Pounds (000)	Revenues (000)	
Pound Rate Revenue						
Advertising						
	Delivery Office	16.7		462	77	
	SCF	21.4		76,094	16,284	
	ADC	23.5		14,517	3,412	
	Zone: 1 & 2	26.1		9,836	2,567	
	3	28.1		4,599	1,292	
	4	33.2		6,615	2,196	
	5	41.0		6,792	2,785	
	6	49.1		2,694	1,323	
	7	58.9		1,960	1,154	
	8	67.2		3,444	2,314	33,405
Nonadvertising		20.3		381,835	77,512	77,512
Advertising - Commingled						
	Delivery Office	16.7		0	0	
	SCF	21.4		23	5	
	ADC	23.5		1	0	
	Zone: 1 & 2	26.1		5	1	
	3	28.1		3	1	
	4	33.2		4	1	
	5	41.0		7	3	
	6	49.1		3	1	
	7	58.9		3	2	
	8	67.2		2	1	15
Non-advertising - Commingled		20.3		100	20	20
Piece Rate Revenue						
Required Preparation		39.3	73,086		28,723	
Presorted to 3-digit		34.1	190,017		64,796	
Presorted to 5-digit		27.0	468,577		126,516	
Presorted to Carrier Route		17.2	1,082,772		186,237	406,271
Commingled, Required Preparation		39.3	78		31	
Presorted to 3-digit		34.1	116		39	
Presorted to 5-digit		27.0	150		40	
Presorted to Carrier Route		17.2	200		34	145
Piece Discounts						
Prepared to Delivery Office		(1.9)	7,631		(145)	
Prepared to SCF		(0.8)	861,552		(6,892)	
Prepared to ADC		(0.2)	171,536		(343)	
High-Density		(3.4)	73,367		(2,494)	
Saturation		(5.4)	20,148		(1,088)	
Editorial content		(7.8)	1,385,265		(108,051)	
Worksharing discount-pallets		(0.5)	280,318		(1,402)	
Wksharing dropship dscnt pallets		(1.6)	964,034		(15,425)	
Co-palletization 1 DSCF Discount		(1.1)	2,138		(24)	
Co-palletization 1 DADC Discount		(0.7)	1,541		(11)	(135,874)
Commingled						
Delivery Office		(1.9)	30		(1)	
Prepared to SCF		(0.8)	409		(3)	
Prepared to ADC		(0.2)	51		(0)	
Editorial Discount		(7.8)	356		(28)	
Worksharing discount-pallets		(0.5)	121		(1)	
Wksharing dropship dscnt pallets		(1.6)	466		(7)	(40)
Automation Discounts for Automation Compatible Mail						
from Required:						
Pre-barcoded letters		(9.7)	9,565		(928)	
Pre-barcoded flats		(5.0)	24,741		(1,237)	(2,165)
from 3-Digit:						
Pre-barcoded letters		(7.9)	9,983		(789)	
Pre-barcoded flats		(4.3)	150,387		(6,467)	(7,255)
from 5-Digit:						
Pre-barcoded letters		(6.4)	1,045		(67)	
Pre-barcoded flats		(3.2)	427,797		(13,690)	(13,756)
Commingled:						
Basic Letter		(9.7)	0		0	
Basic Flat		(5.0)	13		(1)	
3-Digit Flat		(4.3)	92		(4)	
5-Digit Flat		(3.2)	140		(4)	
High Density		(3.4)	0		0	(9)
Ride-Along revenue		13.1	12,669			1,660
Postage not receiving 5% discount						33,536
Postage receiving 5% discount						324,733
Discount (5%)						(16,237)
Total						343,692
		Times Correction Factor		0.9996		343,543
Fees	Address Correction				4,055	
	Periodicals Application				89	4,144
TOTAL PERIODICALS-Nonprofit						**347,687**

COMMISSION RECOMMENDED RATES
APPLIED TO TEST YEAR VOLUMES

07/28/2005

PERIODICALS-Classroom

		Rate (cents)	Pieces (000)	Pounds (000)	Revenues (000)	
Pound Rate Revenue						
Advertising						
	Delivery Office	16.7		4	1	
	SCF	21.4		962	206	
	ADC	23.5		129	30	
	Zone: 1 & 2	26.1		180	47	
	3	28.1		431	121	
	4	33.2		872	289	
	5	41.0		779	319	
	6	49.1		158	78	
	7	58.9		171	101	
	8	67.2		275	185	1,377
Nonadvertising		20.3		29,778		6,045
Piece Rate Revenue						
Required Preparation		39.3	7,998		3,143	
Presorted to 3-digit		34.1	16,747		5,711	
Presorted to 5-digit		27.0	18,194		4,912	
Presorted to Carrier Route		17.2	21,659		3,725	17,492
Piece Discounts						
Prepared to Delivery Office		(1.9)	153		(3)	
Prepared to SCF		(0.8)	16,099		(129)	
Prepared to ADC		(0.2)	4,506		(9)	
High-Density		(3.4)	6		(0)	
Saturation		(5.4)	773		(42)	
Editorial content		(7.8)	60,587		(4,726)	
Worksharing discount-pallets		(0.5)	10,868		(54)	
Wksharing dropship dscnt pallets		(1.6)	20,043		(321)	
Co-palletization 1 DSCF Discount		(1.1)	0		0	
Co-palletization 1 DADC Discount		(0.7)	0		0	(5,283)
Automation Discounts for Automation Compatible Mail						
from Required:						
Pre-barcoded letters		(9.7)	607		(59)	
Pre-barcoded flats		(5.0)	1,584		(79)	
from 3-Digit:						(138)
Pre-barcoded letters		(7.9)	1,107		(87)	
Pre-barcoded flats		(4.3)	11,479		(494)	(581)
from 5-Digit:						
Pre-barcoded letters		(6.4)	2		(0)	
Pre-barcoded flats		(3.2)	16,584		(531)	(531)
Postage not receiving 5% discount						1,377
Postage receiving 5% discount						17,003
Discount (5%)						(850)
Total						17,530
Ride Along		13.1	155			20
Total						17,551
		Times Correction Fact		0.9984		17,523
Fees:	Address Correction				144	
	Periodicals Application				3	147
TOTAL PERIODICALS-Classroom						**17,670**

COMMISSION RECOMMENDED RATES
APPLIED TO TEST YEAR VOLUMES

	Unit	Rate ($)	TYAR Volume (000)		Revenue (000)	
Standard Mail Regular Subclass						
Presort Category						
Letters						
Basic	per piece	0.282	801,065		$225,900	
3/5-Digit	per piece	0.261	697,779		182,120	
subtotal				1,498,844		$408,021
Nonletters, Piece-Rated						
Basic	per piece	0.363	173,375		62,935	
3/5-Digit	per piece	0.304	326,554		99,272	
subtotal				499,929		162,208
Nonletters, Pound-Rated						
Basic	per piece	0.209	270,096		56,450	
3/5-Digit	per piece	0.150	601,901		90,285	
subtotal				871,997		146,735
Basic	per pound	0.746	130,750		97,540	
3/5-Digit	per pound	0.746	312,932		233,447	
subtotal				443,682		330,987
			pieces >	2,870,770		1,047,950
Dropship Discounts:						
Piece-Rated						
BMC	per piece	(0.022)	271,166		(5,966)	
SCF	per piece	(0.027)	442,643		(11,951)	
subtotal				713,809		(17,917)
Pound-Rated						
BMC	per pound	(0.105)	121,105		(12,716)	
SCF	per pound	(0.132)	79,279		(10,465)	
subtotal				200,383		(23,181)
Revenue from Rates			pieces >	**2,870,770**		**$1,006,853**
Fees						
Address Correction					$853.3	
Bulk Permit					1,723.1	
Certificate of Mailing					0.3	
BPRS Permit					1.3	
						$2,578.0
Total Revenue -- Presort Category						**$1,009,431**

COMMISSION RECOMMENDED RATES
APPLIED TO TEST YEAR VOLUMES

	Unit	Rate ($)	TYAR Volume (000)		Revenue (000)	
Standard Mail Regular Subclass (con)						
Automation Category						
Letters						
Basic	per piece	0.231	2,217,148		512,161	
AADC	per piece	0.223	2,496,325		556,681	
3-Digit	per piece	0.214	17,989,965		3,849,852	
5-Digit	per piece	0.200	19,265,167		3,853,033	
subtotal				41,968,605		8,771,728
Letters, Pound-Rated						
MAADC	per piece	0.077	8,500		655	
AADC	per piece	0.069	10,512		725	
3-Digit	per piece	0.060	46,627		2,798	
5-Digit	per piece	0.046	3,645		168	
subtotal				69,284		4,345
Letters, Pound-Rated						
MAADC	per pound	0.746	1,806		1,347	
AADC	per pound	0.746	2,226		1,661	
3-Digit	per pound	0.746	9,883		7,373	
5-Digit	per pound	0.746	774		578	
subtotal				14,690		10,959
Flats, Piece-Rated						
Basic	per piece	0.316	172,711		54,577	
3/5-Digit	per piece	0.275	5,622,897		1,546,297	
subtotal				5,795,608		1,600,873
Flats, Pound-Related						
Basic	per piece	0.162	222,991		36,125	
3/5-Digit	per piece	0.121	5,545,625		671,021	
subtotal				5,768,617		707,145
Basic	per pound	0.746	93,315		69,613	
3/5-Digit	per pound	0.746	1,947,985		1,453,197	
subtotal				2,041,300		1,522,810
			pieces >	53,602,113		12,617,860
Dropship Discounts						
Piece-Rated						
BMC	per piece	(0.022)	17,182,975		(378,025)	
SCF	per piece	(0.027)	14,674,241		(396,205)	
				31,857,216		(774,230)
Pound-Rated						
BMC	per pound	(0.105)	559,931		(58,793)	
SCF	per pound	(0.132)	871,722		(115,067)	
				1,431,653		(173,860)
Revenue from Rates			pieces >	**53,602,113**		**$11,669,770**
Fees						
Address Correction					$ 15,884.6	
Bulk Permit					32,076.0	
Certificate of mailing					5.5	
BPRS Permit					24.3	
						47,990
Total Revenue -- Automation Category						**$11,717,761**
Regular Subclass Total						
Total Postage/Pieces (excluding fees)				56,472,883		$ 12,676,623
Pieces Paid at First-Class Rates			8,669			4,997
Pieces Paid at Priority Rates			1			5
Plus Residual Shape Revenue						124,012
Barcode Discount						(8,823)
Nonmachinable Letter Surcharge						3,980
Revenue from postage, surcharges, discounts,& FCM/Priority						$ 12,800,794
Time Revenue Adjustment Factor						$ 1.00024
Adjusted Revenue						$ 12,803,828
Plus Fees						$ 50,568
NSA Adjustment			(71,929)			$ (13,504)
Total Revenue				56,409,625		**$ 12,840,892**
Revenue per Piece						$ 0.2276

COMMISSION RECOMMENDED RATES
APPLIED TO TEST YEAR VOLUMES

Standard Mail
Enhanced Carrier Route Subclass

	Unit	Rate ($)	TYAR Volume (000)		Revenue (000)	
Letters - Piece Rated						
Basic	per piece	0.204	2,204,590		449,736	
Automated	per piece	0.180	2,008,138		361,465	
High Density	per piece	0.173	487,032		84,257	
Saturation	per piece	0.160	3,023,503		483,760	
subtotal				7,723,263		1,379,218
Letters - Pound Rated						
Basic	per piece	0.047	4,607		217	
High Density	per piece	0.040	10,781		431	
Saturation	per piece	0.027	105,939		2,860	
subtotal				121,327		3,508
Nonletter - Piece Rated						
Basic	per piece	0.204	5,999,735		1,223,946	
High Density	per piece	0.178	898,517		159,936	
Saturation	per piece	0.169	6,627,213		1,119,999	
subtotal				13,525,464		2,503,881
Nonletter - Pound Rated						
Basic	per piece	0.071	6,239,250		442,987	
High Density	per piece	0.045	903,646		40,664	
Saturation	per piece	0.036	3,693,406		132,963	
subtotal				10,836,302		616,613
Basic	per pound	0.643	1,993,491		1,281,815	
High Density	per pound	0.643	342,131		219,990	
Saturation	per pound	0.643	1,167,733		750,852	
subtotal				3,503,356		2,252,658
			pieces >	32,206,356		6,755,879
Dropship Discounts						
Piece-Rated						
BMC	per piece	(0.022)	2,208,229		(48,581)	
SCF	per piece	(0.027)	12,669,594		(342,079)	
DDU	per piece	(0.033)	4,866,363		(160,590)	
subtotal				19,744,186		(551,250)
Pound-Rated						
BMC	per pound	(0.105)	226,710		(23,805)	
SCF	per pound	(0.132)	2,013,043		(265,722)	
DDU	per pound	(0.166)	1,184,222		(196,581)	
subtotal				3,423,975		(486,107)
Revenue from Rates			pieces >	**32,206,356**		**$ 5,718,521**
Fees						
Address Correction					$ 9,544	
Bulk Permit					19,273	
Certificate of Mailing					3	
BPRS Permit					15	
subtotal						$ 28,835
Enhanced Carrier Route Subclass Total						
Total Postage/Pieces (excluding fees)				32,206,356		$ 5,718,521
Times Revenue Adjustment Factor						1.000145
Adjusted Revenue						5,719,349
Plus Fees						28,835
Plus residual Shape Revenue		0.211	1,481			312
NSA Adjustment			(3,876)			(611)
Total Revenue - Enhanced Carrier Route				32,202,480		**$ 5,747,885**
Revenue per Piece						0.1785

COMMISSION RECOMMENDED RATES
APPLIED TO TEST YEAR VOLUMES

	Unit	Rate ($)	TYAR Volume (000)		Revenue (000)	
Standard Mail Nonprofit Subclass						
Presort Category						
Letters						
Basic	per piece	$0.170	500,113		85,019	
3/5-Digit	per piece	0.158	851,949		134,608	
subtotal				1,352,062		219,627
Nonletters, Piece-Rated						
Basic	per piece	0.237	69,700		16,519	
3/5-Digit	per piece	0.189	169,146		31,969	
subtotal				238,847		48,488
Nonletters, Pound-Rated						
Basic	per piece	0.113	34,772		3,929	
3/5-Digit	per piece	0.065	48,692		3,165	
subtotal				83,464		7,094
Basic	per pound	0.602	13,995		8,425	
3/5-Digit	per pound	0.602	18,324		11,031	
subtotal				32,318		19,456
			pieces >	1,674,373		294,665
Dropship Discounts:						
Piece-Rated						
BMC	per piece	(0.022)	70,222		(1,545)	
SCF	per piece	(0.027)	456,284		(12,320)	
subtotal				526,506		(13,865)
Pound-Rated						
BMC	per pound	(0.105)	1,602		(168)	
SCF	per pound	(0.132)	4,290		(566)	
subtotal				5,892		(734)
Revenue from Rates			pieces >	**1,674,373**		**$280,066**
Fees						
Address Correction					496.2	
Bulk Permit					1,946.7	
Certificate of Mailing					0.2	
BPRS Permit					0.8	
						$2,443.9
Total Revenue -- Presort Category						**$282,510**

COMMISSION RECOMMENDED RATES
APPLIED TO TEST YEAR VOLUMES

	Unit	Rate ($)	TYAR Volume (000)		Revenue (000)	
Standard Mail Nonprofit Subclass (con.)						
Automation Category						
Letters						
Mixed AADC	per piece	0.148	862,746		127,686	
AADC	per piece	0.140	833,872		116,742	
3-Digit	per piece	0.133	4,068,500		541,110	
5-Digit	per piece	0.118	3,081,861		363,660	
subtotal				8,846,979		1,149,199
Letters, Pound-Rated						
MAADC	per piece	0.024	521		13	
AADC	per piece	0.016	494		8	
3-Digit	per piece	0.009	4,623		42	
5-Digit	per piece	(0.006)	199		(1)	
subtotal				5,837		61
Letters, Pound-Rated						
MAADC	per pound	0.602	111		67	
AADC	per pound	0.602	105		63	
3-Digit	per pound	0.602	976		587	
5-Digit	per pound	0.602	42		25	
subtotal				1,234		743
Flats, Piece-Rated						
Basic	per piece	0.195	58,577		11,423	
3/5-Digit	per piece	0.171	1,189,001		203,319	
subtotal				1,247,578		214,742
Flats, Pound-Related						
Basic	per piece	0.071	35,931		2,551	
3/5-Digit	per piece	0.047	507,192		23,838	
subtotal				543,123		26,389
Basic	per pound	0.602	13,409		8,072	
3/5-Digit	per pound	0.602	164,823		99,223	
subtotal				178,232		107,295
			pieces >	10,643,517		1,498,428
Dropship Discounts						
Piece-Rated						
BMC	per piece	(0.022)	2,835,333		(62,377)	
SCF	per piece	(0.027)	2,163,748		(58,421)	
				4,999,081		(120,799)
Pound-Rated						
BMC	per pound	(0.105)	36,117		(3,792)	
SCF		(0.132)	33,548		(4,428)	
				69,665		(8,221)
Revenue from Rates			pieces >	**10,643,517**		**$1,369,409**
Fees						
Address Correction					3,154.1	
Bulk Permit					12,374.9	
Certificate of mailing					1.1	
BPRS Permit					4.8	
						$15,535
Total Revenue -- Automation Category						**$1,384,944**
Nonprofit Subclass Total						
Total Postage/Pieces (excluding fees)				12,317,890		$1,649,475
Pieces Paid at First-Class Rates						-
Pieces Paid at Priority Rates						-
Plus Residual Shape Revenue						3,928
Barcode Discount						(29)
Nonmachinable Letter Surcharge						1,592
Revenue from postage, surcharges, discounts,& FCM/Priority						$1,654,966
Time Revenue Adjustment Factor						1.00014602
Adjusted Revenue						1,655,207
Plus Fees						$17,979
Total Revenue						**1,673,186**
Revenue per Piece						0.13583383

COMMISSION RECOMMENDED RATES
APPLIED TO TEST YEAR VOLUMES

Standard Mail
Nonprofit Enhanced Carrier Route Subclass

	Unit	Rate ($)	TYAR Volume (000)		Revenue (000)	
Letters - Piece Rated						
Basic	per piece	0.140	346,571		$ 48,520	
Automated	per piece	0.117	208,869		24,438	
High Density	per piece	0.113	72,299		8,170	
Saturation	per piece	0.105	659,463		69,244	
subtotal				1,287,201		$ 150,371
Letters - Pound Rated						
Basic	per piece	0.032	1,184		38	
High Density	per piece	0.028	21		1	
Saturation	per piece	0.020	7,176		144	
subtotal				8,381		182
Nonletter - Piece Rated						
Basic	per piece	0.140	1,085,112		151,916	
High Density	per piece	0.122	50,090		6,111	
Saturation	per piece	0.116	405,079		46,989	
subtotal				1,540,282		205,016
Nonletter - Pound Rated						
Basic	per piece	0.055	199,855		10,992	
High Density	per piece	0.037	6,443		238	
Saturation	per piece	0.031	68,147		2,113	
subtotal				274,445		13,343
Basic	per pound	0.411	61,791		25,396	
High Density	per pound	0.411	2,485		1,021	
Saturation	per pound	0.411	21,786		8,954	
subtotal				86,061		35,371
			pieces >	3,110,308		404,283
Dropship Discounts						
Piece-Rated						
BMC	per piece	(0.022)	341,430		(7,511)	
SCF	per piece	(0.027)	1,541,695		(41,626)	
DDU	per piece	(0.033)	542,264		(17,895)	
subtotal				2,425,389		(67,032)
Pound-Rated						
BMC	per pound	(0.105)	8,703		(914)	
SCF	per pound	(0.132)	58,949		(7,781)	
DDU	per pound	(0.166)	7,428		(1,233)	
subtotal				75,080		(9,928)
Revenue from rates			pieces >	**3,110,308**		**$ 327,323**
Fees						
Address Correction					$ 922	
Bulk Permit					3,616	
Certificate of Mailing					0	
BPRS Permit					1	
Subtotal						$ 4,540
Nonprofit ECR Subclass Total						
Total Postage/Pieces (excluding fees)				3,110,308		$ 327,323
Times Revenue Adjustment Factor						1.000128181
Adjusted Revenue						327,365
Plus Fees						4,540
Plus residual Shape Revenue		0.211	425			90
Total Revenue - Nonprofit ECR						**$ 331,994**
Revenue per Piece						0.1067

COMMISSION RECOMMENDED RATES
APPLIED TO TEST YEAR VOLUMES

Package Service - Parcel Post

Inter-BMC		Pieces	Revenues	
Zone	1&2	3,153,893	16,449,044	
	3	6,029,190	33,749,021	
	4	18,580,997	120,292,787	
	5	21,334,093	151,137,619	
	6	10,774,768	84,479,067	
	7	7,872,319	65,702,496	
	8	13,006,462	120,472,713	
	Subtotal	80,751,722	592,282,747	
Times Revenue Adjustment			575,721,748	588,547,391.75
				-

Intra-BMC		Pieces	Revenues
Zone	Local	2,106,172	7,594,948
	1&2	25,298,083	109,051,523
	3	4,292,099	21,202,588
	4	998,134	5,034,201
	5	58,382	344,345
	Subtotal	32,752,870	143,227,604
Times Revenue Adjustment			142,438,619

Parcel Select		Pieces	Revenues	
DBMC Zone	1&2	55,256,182	168,723,429	
	3	12,335,521	52,797,272	
	4	2,430,494	11,893,392	
	5	-	-	
	DSCF	2,447,927	5,366,022	
	DDU	145,461,438	219,464,867	
	Subtotal	217,931,562	458,244,982	
Times Revenue Adjustment			464,937,520	471,227,666
				-

Other Postage Revenue	
Pickup Fees	558,079
Alaska Bypass	16,080,166
Parcel Enclosures	1,241,202
PRS	11,219,443
Subtotal	29,098,891
Total Postage Revenue	**1,212,196,777**

Fees			
Address Correction	367,138		
Bulk Permit	23,402		
Certificate of Mailing	13,970		
Special Handling	292,594		
Parcel Air Lift	18,070		
Merchandise Return	90,906		
Total Fees	806,080	0	806,080
Adjustments to Revenue			
Barcode Discount	(1,918,822)		
BMC Presort Discount	(431,494)		
OBMC Entry Discount	(16,612,972)		
Nonmachinable Surcharges	45,322,237		
Total Adjustments to Revenue	26,358,949		26,358,949

TOTAL PARCEL POST	**1,239,361,806**

COMMISSION RECOMMENDED RATES
APPLIED TO TEST YEAR VOLUMES

Package Service - Bound Printed Matter

Single Piece Rate

Zoned Rates

Pieces and Pounds Revenue

Zone	Pieces		Revenue
1 & 2	12,131,653	$	25,527,461
3	3,189,755		7,214,133
4	4,979,530		11,521,669
5	5,342,916		13,158,238
6	2,766,145		7,264,722
7	1,606,381		4,384,814
8	2,546,735		7,612,401
Subtotal	32,563,116	$	76,683,438

Bulk Rate Nondropshipped Revenue

Piece Rate 1.22

Piece Rate Revenue

Zone	Pieces		Revenue
1 & 2	22,012,368	$	26,844,294
3	14,221,050		17,342,708
4	21,004,563		25,615,267
5	21,018,268		25,631,980
6	11,240,268		13,707,615
7	7,476,575		9,117,756
8	14,620,487		17,829,825
Subtotal	111,593,579	$	136,089,446

Pound Rate Revenue

Zone	Pounds	Rate		Revenue
1 & 2	47,161,019	0.10	$	4,489,536
3	30,123,929	0.12		3,561,954
4	43,772,311	0.16		6,886,424
5	41,410,339	0.21		8,672,608
6	21,291,080	0.26		5,568,431
7	14,722,247	0.33		4,794,597
8	25,894,814	0.44		11,469,110
Subtotal	224,375,739		$	45,442,661

Bulk Rate Dropshipped Revenue

DBMC	0.94
DSCF	0.72
DDU	0.64

Piece Rate Revenue

Zone	Pieces		Revenue
1 & 2	192,020,761	$	181,448,983
3	42,524,005		40,182,829
4	8,857,503		8,369,850
5	286,165		270,410
DSCF	183,438,887		131,796,908
DDU	55,588,745		35,761,568
Subtotal	482,716,065	$	397,830,547

Pound Rate Revenue

Zone	Pounds	Rate		Revenue
1 & 2	556,049,292	0.08	$	42,904,088
3	113,706,552	0.11		12,305,632
4	23,809,840	0.15		3,507,264
5	1,052,946	0.20		207,858
DSCF	360,490,470	0.06		22,757,733
DDU	136,470,572	0.03		4,376,064
Subtotal	1,191,579,673		$	86,058,639

Volume		626,872,760
Revenue from Rates	$	742,104,730

Revenue from Fees		
Address Correction	$	1,139,127
Bulk Permit		66,221
Certificate of Mailing		26,029
Special Handling		267
Merchandise Return		169,376
Total Revenue from Fees	$	1,401,019

Adjustments to Revenue		
Flat Differential	$	(22,149,393)
Carrier Route		(16,528,077)
Prebarcoding		(6,867,748)
Total Adjustments	$	(45,545,218)

TOTAL BOUND PRINTED MATTER REVENUE $ 697,960,531

COMMISSION RECOMMENDED RATES
APPLIED TO TEST YEAR VOLUMES

Package Services - Media and Library Rate

Revenue from Rates		**Media Mail**	**Library Rate**	**Combined**
Single Piece				
First Pound				
Barcoded	$	21,275,161	$ 1,771,272	$ 23,046,433
Non-Barcoded		206,880,275	22,063,258	228,943,534
Pounds 2-7		72,675,595	7,603,413	80,279,008
Pounds 8-70		8,904,540	684,544	9,589,084
Total Non-Presorted	$	309,735,571	$ 32,122,488	$ 341,858,059
Times revenue adjustment	$	316,272,401	$ 32,994,335	$ 349,266,736
Presorted				
First Pound - Presort Level A (5-Digit)	$	2,475,662	$ 42,230	$ 2,517,892
First Pound - Presort Level B (BMC)				
Barcoded		38,202,292	91,487	38,293,780
Non-Barcoded		7,579,890	369,326	7,949,216
Pounds 2-7		19,478,441	162,017	19,640,458
Pounds 8-70		972,992	6,185	979,177
Total Presorted	$	68,709,277	$ 671,245	$ 69,380,522
Times revenue adjustment	$	71,052,636	$ 758,567	$ 71,811,204
Total Revenue from Postage	$	387,325,037	$ 33,752,902	$ 421,077,939
Revenue from Fees				
Address Correction	$	204,185	$ 81,797	$ 285,982
Bulk Permit		152,947		152,947
Certificate of Mailing		7,622	674	8,296
Special Handling		129,504		129,504
Merchandise Return		49,601	4,389	53,990
Total Revenue from Fees	$	543,859	$ 86,860	$ 630,719
Total Media and Library Rate Revenue	**$**	**387,868,896**	**$ 33,839,762**	**$ 421,708,658**

COMMISSION RECOMMENDED FEES
APPLIED TO TEST YEAR TRANSACTIONS

SPECIAL SERVICES

A. Address Correction Fees

		Automated Transactions (000)	Fee	Manual Transactions (000)	Fee	Revenues (000)
	First Class					
Regular:	Single-piece Letters	47,166	$ 0.21	23,724	$ 0.75	$ 27,698
	Presort Letters	1,248	0.21	628	0.75	733
	Single-piece Cards	2,758	0.21	1,387	0.75	1,619
	Presort Cards	328	0.21	165	0.75	192
Auto:	Automation Letters	51,948	0.21	26,129	0.75	30,506
	Automation Cards	2,984	0.21	1,501	0.75	1,752
	Total First-Class	106,432		53,533		62,500
	Priority	0	0.21	121	0.75	91
	Periodicals					
	In County	5,267	0.21	753	0.75	1,671
	Regular Rate	45,197	0.21	6,460	0.75	14,337
	Non-profit	12,784	0.21	1,827	0.75	4,055
	Classroom	455	0.21	65	0.75	144
	Total Periodicals	63,703		9,106		20,207
	Standard Mail					
	Presort	6,372	0.21	15	0.75	1,349
	Automation	89,896	0.21	214	0.75	19,039
	ECR	49,417	0.21	118	0.75	10,466
	Total Bulk Std.	145,685		347		30,854
	Package Services					
	Parcel Post	1,731	0.21	5	0.75	367
	BPM	5,414	0.21	3	0.75	1,139
	Media Mail	967	0.21	1	0.75	204
	Library Rate	384	0.21	1	0.75	82
	Total Pkg Services	8,497		11		1,792
Grand Total Address Correction		324,316		63,117		**$ 115,444**
Grand Total Trans. (Auto & Manual)				**387,433**		

COMMISSION RECOMMENDED FEES
APPLIED TO TEST YEAR TRANSACTIONS

B. Bulk/Presort Mailing Fees

		Transactions	Fee	Revenues
	First Class			
Regular:	letter presort	949	$ 160	$ 151,825
	post card presort	249	160	39,867
Auto:	auto letter	39,507	160	6,321,187
	auto post card	2,270	160	363,134
	Total First Class	**42,975**		**6,876,014**
	Standard			
Regular:	Presort	10,769	160	1,723,086
	Automation	200,475	160	32,076,042
	ECR	120,454	160	19,272,607
	Total Reg. Bulk	331,698		53,071,735
Nonprofit:	NP Presort	12,167	160	1,946,749
	NP Automation	77,343	160	12,374,933
	NP ECR	22,602	160	3,616,272
	Total NP Bulk	112,112		17,937,954
	Total Standard	**443,811**		**71,009,690**
	Package Services			
	Media Mail	956	160	152,947
	Destination Entry			
	Parcel Select	146	160	23,402
	Bound Printed Matter	414	160	66,221
	Total Destination Entry	560		89,623
	Total Package Services	**1,516**		**242,570**
	Merchandise Return			
	1st class	362	160	57,961
	Priority	198	160	31,616
	Standard	-	160	-
	Package Services	631	160	100,896
	Total Merchandise Return	**1,190**		**190,473**
	Bulk Parcel Return Service	149	160	23,852
Total Bulk/Presort Mailing Fees		**489,641**		**$ 78,342,598**

COMMISSION RECOMMENDED FEES
APPLIED TO TEST YEAR TRANSACTIONS

C. Business Reply Fees

	Volume (000)	Fee	Revenues (000)
Advance Deposit			
QBRM with quarterly fee	156,331	$ 0.008	$ 1,251
QBRM without quarterly fee	217,195	0.06	$ 13,032
Total QBRM	373,526		$ 14,282
Non-QBRM Advance Deposit	336,215	0.11	$ 36,984
Nonletter-Size	5,735	0.01	$ 57
Priority	2,673	0.11	$ 294
Subtotal - Per Piece	718,150		$ 51,617
Accounting Fee	75	500	$ 37,722
Nonletter-Size Monthly Fee	0.03	790	$ 309
QBRM Quarterly Fee	1	1,900	$ 7,851
Permit Fee	141	160	$ 22,629
Subtotal - Fees	218		$ 68,510
Advance Total	718,368		$ 120,128
Nonadvance Deposit			
1st Class	155,065	0.65	$ 100,792
Priority	1,218	0.65	$ 792
Nonadvance Total	156,283		$ 101,584
Grand Total	**874,650**		**$ 221,711**

COMMISSION RECOMMENDED FEES
APPLIED TO TEST YEAR TRANSACTIONS

D. Certificate of Mailing Fees

TRANSACTIONS		Basic	Firm book	First 1000	Additional 1000	Subclass Total	Class Total
First-Class Regular:	letter	2,603,186	289,364	-	-	2,892,550	
	letter presort	-	-	540	311	851	
	post card	152,204	16,919	-	-	169,123	
	post card presort	-	-	142	82	224	
First-Class Auto:	auto letter	-	-	22,492	12,955	35,447	
	auto post card	-	-	1,292	744	2,036	3,100,231
Priority		40,015	1,952	784	954	43,705	43,705
Standard Regular:	Presort	175	20	26	-	221	
	Automation	3,263	377	482	-	4,122	
	ECR	1,960	226	290	-	2,477	
Standard Nonprofit:	Presort	102	12	15	-	129	
	Automation	648	75	96	-	819	
	ECR	189	22	28	-	239	8,007
Package Services:	Parcels	14,638	213	-	-	14,851	
	BPM	27,273	398	-	-	27,671	
	Media Mail	7,987	116	-	-	8,103	
	Library Rate	707	10	-	-	717	51,342
	Totals	2,852,347	309,705	26,187	15,046	3,203,285	**3,203,285**

REVENUES		Basic	Firm book	First 1000	Additional 1000	Subclass Total	Class Total
	Fee >>	$0.95	$0.30	$4.75	$0.55		
First-Class Regular:	letter	$2,473,027	$86,809	$0	$0	$2,559,836	
	letter presort	-	-	2,566	171	2,737	
	post card	144,594	5,076	-	-	149,670	
	post card presort	-	-	674	45	719	
First-Class Auto:	auto letter	-	-	106,838	7,125	113,964	
	auto post card	-	-	6,138	409	6,547	$2,833,472
Priority		38,015	- 585	3,722	525	42,847	42,847
Standard Regular:	Standard Presort	167	- 6	123	-	296	
	Automation	3,100	113	2,291	-	5,504	
	ECR	1,862	68	1,377	-	3,307	
Standard Nonprofit:	Standard Presort	97	4	72	-	172	
	Automation	615	22	455	-	1,093	
	ECR	180	7	133	-	319	10,691
Package Services:	Parcel Post	13,906	64	-	-	13,970	
	BPM	25,909	119	-	-	26,029	
	Media Mail	7,587	35	-	-	7,622	
	Library Rate	671	3	-	-	674	48,295
	Totals	$2,709,730	$92,911		$8,275	$2,935,305	**$2,935,305**

COMMISSION RECOMMENDED FEES
APPLIED TO TEST YEAR TRANSACTIONS

E. Certified Mail Fees	Transactions (000)	Fee	Revenues (000)
Basic Fee	278,811	$ 2.40	$ 669,147

COMMISSION RECOMMENDED FEES
APPLIED TO TEST YEAR TRANSACTIONS

F. Collect on Delivery Fees

	Value	Transactions (000)	Fee	Revenues (000)
Fee charge for Collectable amount or Insurance coverage up to	$ 50	559	$ 4.75	$ 2,657
	100	364	5.80	$ 2,109
	200	501	6.85	$ 3,430
	300	149	7.90	$ 1,178
	400	47	8.95	$ 419
	500	16	10.00	$ 157
	600	11	11.05	$ 121
	700	7	12.10	$ 85
	800	6	13.15	$ 73
	900	4	14.20	$ 54
	1,000	7	15.25	$ 106
Total before Additional Services		1,670		$ 10,388
Additional Services -- only Restricted Delivery from other subservices				
Registered COD		4	4.20	$ 16
Notice of Non-Delivery		0	3.15	$ -
Alteration of COD		0	3.15	$ -
Restricted Delivery		0	3.70	$ -
Total Collect on Delivery		**1,673**		**$ 10,404**

COMMISSION RECOMMENDED FEES
APPLIED TO TEST YEAR TRANSACTIONS

G. Insurance

	Value	Transactions	Fee	Revenues
Domestic Liability up to	$ 50	17,203,464	$ 1.35	$ 23,224,676
	100	9,830,997	2.30	22,611,294
	200	4,391,318	3.35	14,710,917
	300	1,661,485	4.40	7,310,532
	400	661,043	5.45	3,602,687
	500	642,310	6.50	4,175,017
	600	229,424	7.55	1,732,151
	700	150,752	8.60	1,296,465
	800	104,278	9.65	1,006,284
	900	81,336	10.70	870,298
	1,000	180,345	11.75	2,119,056
	1,100	35,900	12.80	459,521
	1,200	22,175	13.85	307,121
	1,300	10,566	14.90	157,432
	1,400	5,799	15.95	92,492
	1,500	31,427	17.00	534,252
	1,600	6,719	18.05	121,277
	1,700	5,336	19.10	101,917
	1,800	4,764	20.15	95,999
	1,900	2,791	21.20	59,160
	2,000	29,372	22.25	653,530
	2,100	10,463	23.30	243,796
	2,200	3,506	24.35	85,361
	2,300	858	25.40	21,801
	2,400	1,110	26.45	29,353
	2,500	18,932	27.50	520,629
	2,600	176	28.55	5,013
	2,700	491	29.60	14,533
	2,800	981	30.65	30,053
	2,900	338	31.70	10,710
	3,000	9,033	32.75	295,841
	3,100	659	33.80	22,269
	3,200	280	34.85	9,742
	3,300	1,575	35.90	56,533
	3,400	232	36.95	8,590
	3,500	3,961	38.00	150,534
	3,600	200	39.05	7,817
	3,700	0	40.10	-
	3,800	746	41.15	30,695
	3,900	1,410	42.20	59,488
	4,000	11,374	43.25	491,910
	4,100	234	44.30	10,361
	4,200	103	45.35	4,682
	4,300	0	46.40	-
	4,400	0	47.45	-
	4,500	447	48.50	21,700
	4,600	223	49.55	11,067
	4,700	176	50.60	8,885
	4,800	0	51.65	-
	4,900	77	52.70	4,072
	5,000	7,159	53.75	384,816
Total Insurance		**35,366,345**		**$ 87,782,328**

COMMISSION RECOMMENDED FEES
APPLIED TO TEST YEAR TRANSACTIONS

H. Merchandise Return	Transactions	Fee	Revenues
Accounting Fee	806	$ 500	$ 402,814
Transactions			
1st class	4,476,986	-	-
Priority	2,442,111	-	-
Standard	0	-	-
Package Services	7,793,370	-	-
Total Transactions	14,712,467		-
Total Merchandise Return			**$ 402,814**

COMMISSION RECOMMENDED FEES
APPLIED TO TEST YEAR TRANSACTIONS

I. Money Orders	Transactions (000)	Fee	Revenues (000)
APO-FPO	362	$ 0.25	$ 91
Domestic (up to $500)	158,908	0.95	$ 150,963
Domestic ($500 to $1000)	20,669	1.30	$ 26,870
Inquiry fees	663	3.15	$ 2,090
Subtotal	179,939		$ 180,013
Money Order Float Interest			$ 8,021
Outstanding MO taken into revenue			$ 52,540
Total Money Orders	**179,939**		**$ 240,573**

APPLIED TO TEST YEAR TRANSACTIONS

J. On-Site Meter Service	Transactions (000)	Fee	Revenues (000)
Meter service (per employee)	1	$ 37.00	$ 47
Meter reset and/or examined	32	5.25	$ 166
Check In/Out Service (per meter)	83	4.25	$ 352
Total On-Site Meter Settings	**116**		**$ 565**

COMMISSION RECOMMENDED FEES
APPLIED TO TEST YEAR TRANSACTIONS

K. Parcel Air Lift

	Transactions (000)	Fee	Revenues (000)
Fees in addition to parcel postage			
Up to 2 pounds	2.8	$ 0.45	$ 1.2
Over 2 up to 3 pounds	3.2	0.90	$ 2.9
Over 3 up to 4 pounds	0.0	1.30	$ -
Over 4 pounds	7.8	1.80	$ 14.0
Total Parcel Air Lift	**13.7**		**$ 18.1**

COMMISSION RECOMMENDED FEES
APPLIED TO TEST YEAR TRANSACTIONS

L. Permit Imprint

Transactions	Fee	Revenue
41,758	$ 160	$ 6,681,294

COMMISSION RECOMMENDED FEES
APPLIED TO TEST YEAR TRANSACTIONS

M. Post Office Boxes and Caller Service

		Volume	Annual Fee	Revenues
Group 1				
Box Size:	1	414,810	$ 74	$ 30,695,911
	2	183,544	106	19,455,665
	3	44,497	210	9,344,427
	4	6,699	432	2,894,113
	5	2,002	696	1,393,537
		651,552		**63,783,653**
Group 2				
Box Size:	1	505,721	62	31,354,724
	2	150,734	94	14,169,008
	3	54,370	168	9,134,170
	4	9,117	358	3,263,875
	5	1,398	664	928,145
		721,340		**58,849,923**
Group 3				
Box Size:	1	1,659,809	50	82,990,446
	2	596,588	80	47,727,006
	3	201,616	144	29,032,731
	4	39,978	248	9,914,444
	5	10,606	440	4,666,726
		2,508,596		**174,331,353**
Group 4				
Box Size:	1	2,456,259	40	98,250,377
	2	1,036,062	72	74,596,466
	3	356,603	132	47,071,610
	4	76,000	232	17,632,057
	5	21,918	368	8,065,923
		3,946,843		**245,616,433**
Group 5				
Box Size:	1	990,944	28	27,746,423
	2	417,603	46	19,209,754
	3	128,079	72	9,221,711
	4	19,842	138	2,738,154
	5	3,575	264	943,760
		1,560,043		**59,859,803**
Group 6				
Box Size:	1	2,820,663	26	73,337,236
	2	1,163,923	38	44,229,077
	3	314,908	70	22,043,525
	4	28,102	126	3,540,795
	5	19,783	204	4,035,673
	-	4,347,378		**147,186,307**
Group 7				
Box Size:	1	328,421	18	5,911,573
	2	149,590	28	4,188,531
	3	39,484	48	1,895,225
	4	4,087	84	343,309
	5	2,173	148	321,540
		523,755		**12,660,179**
Group E				
Box Size:	1-5	1,149,077		-
Unadjusted Revenue		**15,408,584**		**762,287,651**
Revenue Adjustment Factor				1.0000
Box Revenue		**15,408,584**		**$ 762,287,651**
Caller Service (except Group E)		99,246	868	86,145,868
Reserved Number		65,170	34	2,215,763
Grand Total		**15,573,000**		**$ 850,649,282**

COMMISSION RECOMMENDED FEES
APPLIED TO TEST YEAR TRANSACTIONS

N. Registered Mail

Domestic Value up to	------ Covered by USPS Insurance ------ Fees	Transactions (000)	Revenues (000)	- not Covered by USPS Insurance -- Fees	Transactions (000)	Revenues (000)
$0	N/A	-	$ -	$ 7.90	1,298	$ 10,258
100	$ 8.45	312	2,633	N/A		
500	9.35	396	3,705	N/A		
1,000	10.25	323	3,310	N/A		
2,000	11.15	412	4,599	N/A		
3,000	12.05	229	2,760	N/A		
4,000	12.95	132	1,709	N/A		
5,000	13.85	204	2,827	N/A		
6,000	14.75	99	1,467	N/A		
7,000	15.65	39	603	N/A		
8,000	16.55	39	652	N/A		
9,000	17.45	42	741	N/A		
10,000	18.35	49	899	N/A		
11,000	19.25	23	448	N/A		
12,000	20.15	25	504	N/A		
13,000	21.05	15	325	N/A		
14,000	21.95	9	195	N/A		
15,000	22.85	28	632	N/A		
16,000	23.75	8	180	N/A		
17,000	24.65	7	166	N/A		
18,000	25.55	15	395	N/A		
19,000	26.45	6	153	N/A		
20,000	27.35	48	1,315	N/A		
21,000	28.25	3	77	N/A		
22,000	29.15	7	190	N/A		
23,000	30.05	2	74	N/A		
24,000	30.95	8	240	N/A		
25,000	31.85	81	2,574	N/A		
		---	---		---	---
Subtotals		2,561	33,373		1,298	10,258
Combined Total before Handling Charges					3,860	43,631
Handling Charges	$0.90	59	$53			
Combined Total for Registered Mail					**3,919**	**$43,684**

COMMISSION RECOMMENDED FEES
APPLIED TO TEST YEAR TRANSACTIONS

O. Restricted Delivery Fees

	Transactions	Fee	Revenues
Registry	-	3.70	-
Collect on Delivery	-	3.70	-
Insurance	-	3.70	-
Certified Mail	2,197,009	3.70	8,128,934
Total Restricted Delivery Fees	**2,197,009**		**$ 8,128,934**

COMMISSION RECOMMENDED FEES
APPLIED TO TEST YEAR TRANSACTIONS

P. Return Receipt Fees

	Transactions (000)	Fee	Revenues (000)
Requested at time of mailing			
Electronic	-	$ 1.35	$ -
Registry	-	1.85	-
Certified Mail	224,222	1.85	414,811
Insured mail	-	1.85	-
Merchandise	2,084	3.15	6,565
Requested after mailing			
Registry	464	3.45	1,599
Certified Mail	19,098	3.45	65,889
Insured mail	102	3.45	353
Total Return Receipt Fees			
Electronic	-		-
Registry	464		1,599
Certified Mail	243,320		480,699
Insured mail	102		353
Merchandise	2,084		6,565
Total Return Receipt	**245,970**		**489,216**

COMMISSION RECOMMENDED FEES
APPLIED TO TEST YEAR TRANSACTIONS

Q. Periodicals Application Fees

	Transactions	Fee	Revenues
Within County			
Original Entry	44	$ 395	$ 17,308
Reentry	293	45	13,203
Additional Entry	78	65	5,073
News Agents	23	40	929
Total Within County	439		$ 36,513
Regular Rate Publications			
Original Entry	376	395	148,533
Reentry	2,518	45	113,310
Additional Entry	670	65	43,535
News Agents	199	40	7,975
Total Regular Rate	3,763		$ 313,353
Nonprofit Publications			
Original Entry	106	395	42,014
Reentry	712	45	32,051
Additional Entry	189	65	12,314
News Agents	56	40	2,256
Total Nonprofit	1,064		$ 88,634
Classroom			
Original Entry	4	395	1,495
Reentry	25	45	1,141
Additional Entry	7	65	438
News Agents	2	40	80
Total Classroom	38		$ 3,155
Summary			
Original Entry	530	395	209,350
Reentry	3,549	45	159,705
Additional Entry	944	65	61,360
News Agents	281	40	11,240
Total Periodicals Application Fees	**5,304**		**$ 441,655**

COMMISSION RECOMMENDED FEES
APPLIED TO TEST YEAR TRANSACTIONS

R. Special Handling Fees

		Transactions	Fee	Revenues
First-Class		971,804	$ 6.25	6,073,777
Priority				
up to 10 lbs		56,132	6.25	350,827
> 10 lbs		2,226	8.70	19,364
Total Priority		58,358		370,190
Package Services				
Parcel Post	up to 10 lbs	39,597	6.25	247,482
	> 10 lbs	5,185	8.70	45,112
Total Parcel Post		44,782		292,594
Media Mail	up to 10 lbs	19,727	6.25	123,295
	> 10 lbs	714	8.70	6,209
Total Special rate		20,441		129,504
Bound Printed Matter	up to 10 lbs	43	6.25	267
	> 10 lbs	-	8.70	-
Total BPM		43		267
Total Special Handling Fees		**1,095,428**		**$ 6,866,332**

COMMISSION RECOMMENDED FEES
APPLIED TO TEST YEAR TRANSACTIONS

S. Stamped Envelopes

	Size 6-3/4		Size 10		
	Transactions	Fee	Transactions	Fee	Revenues
Plain Envelopes:					
Single	5,025,325	$ 0.08	39,317,790	$ 0.08	$ 3,547,449
Note: Below are boxes of 500, except household					
Regular, Window, Precancelled	36,154	13.00	287,358	15.00	4,780,380
Regular, Precancelled Window					
Total Plain Envelope transactions (in 500's)			412,199		
Total Plain Envelope revenues					8,327,829
Printed Envelopes:					
Regular, Window, Precancelled	17,241	18.00	366,457	21.00	8,005,946
Regular, Precancelled Window					
Household Regular	-	3.75	41,027	3.75	153,850
Household Window (Box of 50)					
Total Printed Envelope transactions (in 500's)			387,801		
Total Printed Envelope Revenues					8,159,796
Total Stamped Envelope transactions (in 500's)			800,000		
Total Stamped Envelope sales			**400,000,001**		
Total Envelope Revenues					**$ 16,487,625**

COMMISSION RECOMMENDED FEES
APPLIED TO TEST YEAR TRANSACTIONS

	Transactions (000)	Fee ($)	Revenues (000)
T. Zip Coding of Mail Lists (per 1000 addresses)	0.078	$ 105	$ 8.146
U. Correction of Mailing Lists (per change of address)	333	0.30	100.00
V. Address Changes for Election Boards, etc. (per change of address)	533	0.28	149
W. Carrier Sequencing of Address Cards	N/A	0.30	N/A

COMMISSION RECOMMENDED FEES
APPLIED TO TEST YEAR TRANSACTIONS

X. Delivery Confirmation

	Volume (000)	Fee	Revenues (000)
First-Class Manual	17,407	$ 0.60	$ 10,444
First-Class Electronic	28,282	0.14	$ 3,959
Total First-Class	**45,689**		**$ 14,404**
Priority Manual	79,446	0.50	$ 39,723
Priority Electronic	134,729	-	$ -
Total Priority	**214,175**		**$ 39,723**
Standard Electronic	**45,009**	0.14	**$ 6,301**
Parcel Select Electronic	261,401	-	$ -
Other Package Services Manual	17,968	0.60	$ 10,781
Other Package Services Electronic	102,417	0.14	$ 14,338
Total Package Services	**381,785**		**$ 25,119**
Total Delivery Confirmation	**686,659**		**$ 85,547**

COMMISSION RECOMMENDED FEES
APPLIED TO TEST YEAR TRANSACTIONS

Y. Stamped Cards

Transactions	Fee	Revenues
89,428,937	$ 0.02	$ 1,788,579

Z. Bulk Parcel Return Service

	Transactions	Fee	Revenues
Per Piece	2,533,334	$ 1.90	$ 4,813,335
Accounting Fee	47	500	23,408
Total Bulk Parcel Return Service			**$ 4,836,743**

COMMISSION RECOMMENDED FEES
APPLIED TO TEST YEAR TRANSACTIONS

AA. Signature Confirmation

	Volume TYAR (000)	Fee	Revenues (000)
First-Class Manual	843	$ 1.90	$ 1,602
First-Class Electronic	852	1.35	1,150
Total First-Class	1,695		2,752
Priority Manual	3,585	1.90	6,812
Priority Electronic	2,388	1.35	3,224
Total Priority	5,973		10,036
Package Services Manual	701	1.90	1,331
Package Services Electronic	1,062	1.35	1,434
Total Package Services	1,763		2,765
Total Signature Confirmation	**9,431**		**$ 15,553**

Comparison of Markups

	R2005-1 PRC Recommended Rates	R2001-1	R2000-1 Modified	R2001-1	R97-1	R94-1	R90-1	R87-1	R84-1	R80-1	R77-1	R76-1	R74-1	R71-1
All Mail & Special Services	**77.0**	**64.8**	**58.5**	**58.7**	**55.3**	**56.8**	**50.0**	**48.0**	**52.0**	**27.0**	**24.0**	**52.0**	**69.0**	**85.0**
First-Class Mail:														
Letters	111.3	92.0	78.1	78.8	72.4	74.5	61.7	58.0	59.0	25.0	24.0	63.0	87.0	96.0
Cards	53.0	42.6	36.8	33.0	50.5	36.7	45.9	64.0	93.0	33.0	49.0	104.0	129.0	173.0
Priority Mail	40.1	59.5	61.4	61.9	66.1	97.2	85.4	76.0	104.0	58.0	66.0	121.0	132.0	213.0
Express Mail	71.8	84.0	51.3	51.3	13.6	18.9	28.6	69.0	139.0	123.0	422.0	--	--	--
Mailgrams	148.8	42.4	29.4	33.3	725.5	1.6	2.8	11.0	81.0	193.0	137.0	--	--	--
Periodicals:														
Within County	1.4	0.2	0.4	0.3	0.5	2.7	1.5	5.0	1.0	--	--	--	1.0	--
Regular Rate	--	--	1.0	0.9	1.0	16.3	23.2	25.0	24.0	21.0	0.0	19.0	17.0	29.0
Nonprofit 1/	--	--	(3.5)	(3.9)	0.7	4.1	1.1	5.0	3.0	--	--	--	--	--
Classroom	--	--	2.5	1.7	(16.3)	6.8	--	5.0	--	--	--	--	--	--
Outside County	**2.9**	**1.3**	**0.3**	**0.1**	**0.8**	**13.8**	--	--	--	--	--	--	--	--
Controlled Circulation	--	--	--		--	--	--	--	--	--	33.0	49.0	82.0	162.0
Standard Mail:														
Single Piece	--	--	--		--	**4.5**	**20.1**	**26.0**	**15.0**	--	**4.0**	**4.0**	**4.0**	**75.0**
Regular	--	--	37.0	37.4	34.6	23.4	47.0	41.0	46.0	34.0	20.0	55.0	82.0	104.0
Nonprofit	--	--	8.2	7.4	13.7	1.7	0.9	8.0	(1.0)	--	--	--	--	--
Regular and Nonprofit	**51.5**	**35.1**	**31.9**	**32.1**	**31.2**	**19.0**	--	--	--	--	--	--	--	--
Enhanced Carrier Route (ECR)	--	--	99.0	99.4	103.0	109.4	--	--	--	--	--	--	--	--
Nonprofit ECR (NECR)	--	--	36.6	36.1	43.0	53.8	--	--	--	--	--	--	--	--
ECR and NECR	**137.8**	**101.0**	**94.6**	**94.9**	**99.4**	**105.2**	--	--	--	--	--	--	--	--
Package Services:														
Parcel Post	15.8	14.1	15.5	14.9	8.0	7.4	11.5	12.0	16.0	6.0	3.0	21.0	41.0	56.0
Bound Printed Matter	21.8	24.1	13.1	13.9	35.6	36.6	44.5	49.0	74.0	39.0	25.0	63.0	90.0	169.0
Media Mail	--	--	2.4	1.9	5.6	4.6	4.8	6.0	12.0	6.0	2.0	35.0	38.0	54.0
Library Rate	--	--	(4.1)	(4.5)	(17.9)	0.8	0.0	1.0	2.0	--	--	--	1.0	--
Media and Library	0.2	9.6	**1.5**	**1.0**	**1.8**	**4.1**	--	--	--	--	--	--	--	--
Government Mail 2/	--	--	--		--	--	--	120.0	136.0	132.0	116.0	206.0	229.0	212.0
Free-for-the-Blind Mail	--	--	--		--	--	--	--	--	--	--	--	--	--
International Mail	21.9	12.2	4.9	6.3	25.3	21.8	48.1	23.0	48.0	16.0	29.0	57.0	62.0	103.0
Special Services	63.3	66.0	68.5	63.1	43.5	34.7	28.2	9.0	30.0	21.0	18.0	2.0	8.0	75.0

1/ Nonprofit and Classroom were combined in R90-1
2/ Since R90-1, Government Mail has been distributed to all classes

Appendix G
Schedule 3

Comparison of Markup Indices

	R2005-1 PRC Recommended Rates	R2001-1	R2000-1 Modified	R2001-1	R97-1	R94-1	R90-1	R87-1	R84-1	R80-1	R77-1	R76-1	R74-1	R71-1
All Mail & Special Services	**1.000**	**1.000**	**1.000**	**1.000**	**1.000**	**1.000**	**1.000**	**1.000**	**1.000**	**1.000**	**1.000**	**1.000**	**1.000**	**1.000**
First-Class Mail:														
Letters	1.446	1.420	1.334	1.342	1.308	1.311	1.235	1.200	1.135	0.926	1.000	1.210	1.260	1.130
Cards	0.688	0.658	0.629	0.561	0.913	0.645	0.919	1.330	1.788	1.222	2.040	2.000	1.870	2.040
Priority Mail	0.521	0.919	1.050	1.053	1.195	1.710	1.708	1.580	2.000	2.148	2.750	2.330	1.910	2.510
Express Mail	0.933	1.296	0.878	0.873	0.245	0.332	0.572	1.420	2.673	4.556	17.580	--	--	--
Mailgrams	1.934	0.654	0.502	0.568	13.114	0.028	0.056	0.230	1.558	10.852	5.710	--	--	--
Periodicals:														
Within County	0.018	0.004	0.006	0.005	0.010	0.048	0.031	0.110	0.019	--	--	--	0.010	--
Regular Rate	--	--	0.017	0.015	0.017	0.286	0.465	0.510	0.462	0.778	0.000	0.370	0.250	0.340
Nonprofit 1/	--	--	(0.060)	(0.066)	0.012	0.071	0.022	0.100	0.058	--	--	--	--	--
Classroom	--	--	0.042	0.029	(0.294)	0.119	--	0.100	--	--	--	--	--	--
Outside County	**0.037**	**0.021**	**0.005**	**0.002**	**0.015**	**0.242**	--	--	--	--	--	--	--	--
Controlled Circulation	--	--	--		--	--	--	--	--	--	1.380	0.940	1.190	1.480
Standard Mail:														
Single Piece	--	--	--		--	**0.079**	**0.402**	**0.540**	**0.288**	--	**0.170**	**0.080**	**0.060**	**0.880**
Regular	--	--	0.633	0.637	0.626	0.412	0.941	0.840	0.885	1.259	0.830	1.060	1.190	1.220
Nonprofit	--	--	0.140	0.126	0.248	0.030	0.018	0.170	(0.019)	--	--	--	--	--
Regular and Nonprofit	**0.670**	**0.542**	**0.546**	**0.547**	**0.563**	**0.335**	--	--	--	--	--	--	--	--
Enhanced Carrier Route (ECR)	--	--	1.693	1.692	1.862	1.926	--	--	--	--	--	--	--	--
Nonprofit ECR	--	--	0.626	0.615	0.778	0.948	--	--	--	--	--	--	--	--
ECR and NECR	**1.790**	**1.560**	**1.617**	**1.616**	**1.797**	**1.851**	--	--	--	--	--	--	--	--
Package Services:														
Parcel Post	0.206	0.218	0.264	0.253	0.144	0.131	0.230	0.240	0.308	0.222	0.130	0.400	0.590	0.660
Bound Printed Matter	0.283	0.373	0.224	0.237	0.643	0.644	0.890	1.020	1.423	1.444	1.040	1.210	1.300	1.990
Media Mail	--	--	0.040	0.032	0.101	0.080	0.097	0.110	0.231	0.222	0.080	0.670	0.550	0.640
Library Rate	--	--	(0.070)	(0.076)	(0.324)	0.013	0.001	0.030	0.038	--	--	--	0.010	--
Media and Library	**0.002**	**0.148**	**0.025**	**0.017**	**0.033**	**0.073**	--	--	--	--	--	--	--	--
Government Mail 2/	--	--	--		--	--	--	2.480	2.615	4.889	4.830	3.960	3.320	2.490
Free-for-the-Blind Mail	--	--	--		--	--	--	--	--	--	--	--	--	--
International Mail	0.285	0.188	0.084	0.106	0.457	0.383	0.962	0.480	0.923	0.593	1.210	1.100	0.900	1.210
Special Services	0.823	1.019	1.171	1.074	0.787	0.611	0.564	0.200	0.577	0.778	0.750	0.040	0.120	0.880

1/ Nonprofit and Classroom were combined in R90-1
2/ Since R90-1, Government Mail has been distributed to all classes

Comparison of Estimated Test Year Volumes 1/ (Pieces in Thousands)

	USPS Est. TYAR Volume	PRC Est. TYAR Volume
First-Class Mail:		
Single-Piece Letters	42,459,296	42,459,296
Presort Letters	1,123,189	1,123,189
Automation Letters	46,763,529	46,763,529
Workshared Letters	**47,886,718**	**47,886,718**
Total Letters	**90,346,014**	**90,346,014**
Single-Piece Cards	**2,482,529**	2,482,529
Presort Cards	294,933	294,933
Automation Cards	2,686,433	2,686,433
Workshared Cards	**2,981,366**	**2,981,366**
Total Cards	**5,463,895**	**5,463,895**
Total First Class	**95,809,909**	**95,809,909**
Priority Mail	799,324	799,324
Express Mail	50,388	50,387
Mailgrams	1,359	1,359
Periodicals:		
Within County	753,578	747,701
Regular Rate	6,416,651	6,416,651
Nonprofit	1,814,995	1,814,995
Classroom	64,598	64,598
Total Periodicals	**9,049,822**	**9,043,945**
Standard Mail:		
Regular Presort	2,876,525	2,879,440
Regular Automation	53,602,113	53,602,113
Total Regular	**56,478,638**	**56,481,554**
Nonprofit Presort	1,661,942	1,674,373
Nonprofit Automation	10,627,527	10,643,517
Total Nonprofit	**12,289,469**	**12,317,890**
Total Regular and Nonprofit	**68,768,107**	**68,799,443**
ECR Presort	30,178,961	30,198,218
ECR Automation	2,008,138	2,008,138
Total ECR	**32,187,100**	**32,206,356**
Nonprofit ECR Presort	2,901,440	2,901,440
Nonprofit ECR Automation	208,869	208,869
Total Nonprofit ECR (NECR)	**3,110,308**	**3,110,308**
Total ECR and NECR	**35,297,408**	**35,316,665**
Total Standard Mail	**104,065,515**	**104,116,108**
Package Services:		
Parcel Post	336,448	336,448
Bound Printed Matter	605,996	626,873
Media Mail	191,440	183,577
Library Rate	16,908	16,243
Total Media and Library	**208,348**	**199,820**
Total Package Services	**1,150,792**	**1,163,140**
USPS Penalty Mail	666,538	666,538
Free-for-the-Blind Mail	75,317	75,317
TOTAL DOMESTIC MAIL	**211,668,964**	**211,726,028**
International Mail	846,345	846,345
TOTAL ALL MAIL	**212,515,308**	**212,572,373**
Special Services:		
Registered Mail	3,739	3,919
Insured Mail	35,366	35,366
Certified Mail	278,811	278,811
Collect-On-Delivery	1,673	1,673
Money Orders	179,939	179,939
Stamped Cards	89,429	89,429
Post Office Boxes	15,573	15,573
Return Receipts	245,970	245,970
Delivery Confirmation	686,017	686,659
Signature Confirmation	9,422	9,431
Total Special Services	**1,545,940**	**1,546,771**

1/ The volumes in this appendix have not been adjusted for the effect of negotiated service agreements.

DATA QUALITY AND ECONOMETRIC MODELING

1. Introduction and Summary of the Commission's Observations

This Appendix identifies properties of the data sets and related econometrics used in witness Bradley's model of city carrier street time and witness Bozzo's model of mail processing labor time that warrant further research and review. The observations are intended to stimulate the development of improved cost treatment methods.

a. Data Issues

[1] An important part of the concerns stem from apparent, errors, omissions, and anomalies (highly unusual observations that may or may not be errors) in the City Carrier Street Time Survey (CCSTS) data used by witness Bradley and in the Management Operating Data System (MODS) data used by witness Bozzo. The concerns with respect to the data sets employed by the two Postal Service econometricians are similar:

- The underlying data from both CCSTS and MODS contain a wide variety of errors and anomalies that are often a significant percentage of total observations.
- Low-cost data collection methods that emphasize quantity over quality are utilized. The data are ineffectively screened for gross errors and omissions as they are collected and recorded.
- The collected data are typically aggregated without first attempting to remove gross errors or to distinguish missing observations from zero-valued observations. Incorrect or missing observations are combined with correct observations in the aggregated data sets used by both witnesses.
- The errors left in the aggregated data sets can result in biased and inconsistent variability estimates given the econometric methods used by Postal Service witnesses.
- The large size of the CCSTS and MODS data sets may not compensate in the econometrics for the low quality of the data.

b. Witness Bradley's Econometric Models and Practice

[2] In addition, the Commission has concerns with respect to the effect of data problems on the soundness of the econometric models of witness Bradley.

- Witness Bradley's models do not appear to yield robust results. Reasonable changes in the equations and rearrangements of the sample could result in large changes in the variabilities and marginal delivery times when the equations are refitted.
- Witness Bradley's models do not distinguish between route-level and ZIP Code-level effects of volume on delivery time. Nor does he examine how route restructuring simultaneously influences both the dependant variable (delivery time) and the explanatory variables (mail volumes and delivery points).
- Witness Bradley seems to adopt an unnecessarily radical solution to the problem posed by multicollinearity to fit his proposed carrier street time model. The solution reduces the goodness-of-fit of his equation and risks biasing his coefficients.
- By aggregating incomplete and erroneous city carrier route data to the ZIP CodeZIP Code-level, witness Bradley weakens his claim that his models more accurately reflect the effects of volume changes on the entire delivery system than the accepted model.
- Witness Bradley does not fully explore the possibilities for fitting alternative, more acceptable, models to the CCSTS data set.

[3] Despite the flaws in witness Bradley's data set, models and econometric practice, the new Postal Service city carrier street time models enjoy a number of important advantages over the Commission's accepted model.

- The CCSTS sampling plan has been found superior in most respects to the sampling plans for the old 1985-89 era surveys that it is intended to replace. The CCSTS sampling plan produced a larger and more representative sample than the old surveys. Even though it is burdened with numerous errors, it should better represent current delivery methods and conditions.
- The CCSTS sampling plan allows for detailed measurements of carrier times, mail deliveries, parcels/accountables transactions, delivery points, and other information by ZIP/Route/Day that, if properly implemented, should be sufficient for econometric modeling of city carrier street time activities.
- The CCSTS sampling plan produces a very large panel sample. Nevertheless, the CCSTS survey was conducted over a period of only two weeks and has several other flaws that may bias estimates derived from it.

- The CCSTS data set is internally consistent, whereas the earlier surveys were fragmented and suffered from inconsistencies in measuring relevant variables.
- Witness Bradley's models avoid several unnecessary and artificial distinctions in run time made by the accepted model. These distinctions have led in the past to misunderstandings of the models, difficulties in measurement and estimation, and confusion over the correct calculation of volume variabilities.
- Although witness Bradley's proposed model is not the best model that could be fit with the CCSTS data set, it produces estimates of mail shape variability that are fairly compatible with the results of prior research.

c. Witness Bozzo's Econometric Models and Practice

[4] Witness Bozzo's new mail processing model incorporates a few important improvements over the model submitted in Docket No. R2000-1 and rejected by the Commission. Nevertheless, the Commission's prior identification of disqualifying defects and unresolved issues with respect to the MODS data sets remains largely unaffected by the changes.

[5] Witness Bozzo's screens of the MODS data are virtually identical to the screens he used in Docket Nos. R2000-1 and R2001-1. The Commission found that these screens cause the deletion of large percentages of the sample and are likely to cause unknown, but possibly large, selection biases. The screens used by witness Bozzo to remove gross errors from the MODS data used to fit his models in this docket, differ not-at-all from the screens that the Commission criticized in Docket No. R2000-1. These screens are applied after the MODS observations are aggregated by quarter, which obscures erroneous observations. The aggregations make no distinction between missing and zero-valued observations. It is unlikely that the screens remove more than a fraction of the erroneous observations in any case. So witness Bozzo's current estimates are still likely to be biased in the ways the Commission noted in the past PRC Op R2000-1 para. 3028.

[6] An examination of witness Bozzo's testimony indicates that several technical issues regarding the soundness of his models and econometric practice have not been adequately addressed on the record.

- Witness Bozzo's econometric methods do not appear to resolve the issue of simultaneity bias that is arguably present in his equations.
- Witness Bozzo may not have appropriately corrected for attenuation bias due to measurement error for the automated/mechanical cost pools.
- Witness Bozzo does not evaluate which instrumental variables most appropriately correct for measurement error for all cost pools.

[7] Witness Bozzo's testimony in this docket does not adequately respond to several findings made by the Commission with respect to his econometric practice and mail processing labor models in Docket No. R2000-1. These findings are:

- Capital and equipment can vary over a rate cycle, so witness Bozzo's model continues to be excessively short-run. The model limits the lagged effects of volume changes on processing labor.
- The capital elasticities estimated by witness Bozzo turned out to be small, mostly insignificant, and to have mixed signs, despite the use of more operation-specific capital variables. This continues to be troubling, since the estimates should show that mail processing capital and labor are substitute inputs. Witness Bozzo's effort to explain away this problem is unconvincing.
- The fitted equations continue to include a set of fixed effects as controls which magnify the impact of measurement error. He still treats them as not volume variable, even though they are related to volume changes at the plant level.

PRC Op. R2000-1, Appendix F.

[8] Witness Bozzo's estimates of volume variabilities remain well below 100 percent and continue to defy expectations derived from the past testimony of Postal Service operations witnesses and witnesses sponsored by other parties. The analysis of the testimony of these witnesses presented in PRC Op R2000-1, and the conflict between the testimony in the instant docket and the Docket No. R2000-1 testimony of Postal Service witness Degen, continues to apply.

[9] In Docket No. R2000-1, the Postal Service argued that errors in the MODS data did not significantly bias witness Bozzo's estimates. The Commission was skeptical of these claims. By fitting his equations for manual processing using an instrumental variable (IV) technique intended to eliminate attenuation bias, witness Bozzo has now tacitly recognized the errors-in-variables problem that concerned the Commission in Docket No. R2000-1. The result of the IV estimation is several markedly higher

estimates of volume variabilities for the manual operations. This experiment with IV estimation tends to validate the Commission's concern that his volume variability estimates for the remaining MODS pools suffer from attenuation bias.

d. Organization of this Appendix

[10] Section 2 describes the design, collection, and assembly of the CCSTS data set and raises concerns that the data set may contain a substantial amount of erroneous and anomalous data due to the limited inspection of the data as they were collected. Also, Postal Service survey methods appear to have missed much of the data that should have been collected. Section 3 identifies the nature and extent of the CCSTS data errors, anomalies and omissions. Sections 4 and 5 correspond to Sections 2 and 3, but apply to an examination of the MODS data set used to fit witness Bozzo's proposed mail processing model. Section 6 discusses the econometric problems that are presented due to the data errors identified in previous sections. Section 7 identifies areas where the Postal Service's city carrier variability study could be improved with respect to data quality, and, also, with regard to specifications that account for simultaneity, route restructuring, and both route and ZIP Code-level effects on variability. Finally, Section 8 identifies areas where the Postal Service's mail processing variability study could be improved by including specifications that account for simultaneous feedback between labor hours and volume, correcting for attenuation bias due to measurement error for the automated and mechanical cost pools, and evaluating which instrumental variables might appropriately correct for measurement error for the cost pools.

[11] The descriptions of errors, anomalies and missing data in Sections 3 and 5 are based upon an examination of several CCSTS and MODS data sets contained in PRC-LR-14. A tabulation of the frequencies of various kinds of anomalies, gross errors, mismatched and/or missing observations is shown in four tables (Tables I-I through I-V) at the end of the Appendix. The tables also present examples from the data sets of each kind of error. A fifth table (Table I-V) summarizes the frequencies by fiscal year of the

errors found in the MODS data set. Data and computer programs involved in the production of these tables and other Appendix tables are contained in the PRC Library reference PRC-LR-14.

2. Design, Collection and Assembly of the CCSTS Data Sets

a. Introduction

[12] The data sets used by witness Bradley largely duplicate a set of poorly documented files supplied to the Commission in July 2004. Although it was evident at that time that witness Bradley had aggregated ZIP/Route/Day data to produce the ZIP/Day data set found in the files, the Commission's Office of the Consumer Advocate (OCA) was unsuccessful in an attempt in December 2004 to obtain the CCSTS data set in disaggregated form. The disaggregated ZIP/Route/Day data was ultimately withheld by Postal Service until the filing of the present case on April 8, 2005.

b. Description Of The CCSTS Sample Design

[13] The Commission concludes that the CCSTS sample design may produce biased estimates, but it is unable to determine the extent of the bias. Witness Kelley described the sampling design for the CCSTS in his direct testimony, USPS-T-16. He determined that a stratified random sample with three strata; each with a different range of routes in a ZIP Code, would yield the most precise sample estimates. USPS-T-16 at 9. All city carrier routes in the chosen ZIP-Codes were to be sampled. The sample design called for sampling ZIP-Codes according to three strata:

- stratum 1 with 1 to 10 regular city delivery routes;
- stratum 2 with 11 to 60 regular city delivery routes; and
- stratum 3 with 61 or more regular city delivery routes.

[14] The sample design initially called for collecting data from 221 ZIP-Codes, but was eventually reduced to 167 ZIP-Codes to remain within budget confines. No party

challenged the sample design. However, two aspects of the sample design are of concern. First, witness Kelley's decision to perform his second sample reduction conditional on allowing only one ZIP Code to be sampled from any Finance Unit involved sub-sampling that resulted in unequal sample inclusion probabilities within the strata. Second, the desired boundary between the two lowest strata should be based on the square root of the cumulative frequency nearest to, and not necessarily below, the optimal frequency of 115 that witness Kelley reports. Tr. 7/2825. Doing so would have improved the efficiency gained from stratification.

c. Collection, Matching and Assembly

[15] The CCSTS data were collected at the carrier route level using a self-reporting scheme. The majority of the observations were collected over 11 contiguous days during the last week of May and the first week of June, 2002. USPS-T-14 at 31. It is a much larger sample than any of the datasets used in the 1985-1989 surveys that are described in Chapter IV, Section C of this Opinion. The CCSTS sample is designed to record data for every day on every city carrier route within the sampled ZIP-Codes. USPS-T-16 at 8-11. The sampling frame is described and explained in the testimony of Postal Service witnesses Stevens and Lewis. USPS-T-15 and USPS-T-30. The data set produced by the sampling plan is technically a panel although the time dimension is limited to only two weeks in May-June of 2002. OCA identifies numerous problems that may flow from this restricted data set. OCA Brief at 65-86.

[16] The data collection scheme depended upon city carriers to implement a complex scanning system using the scanners that they normally use to record accountables transactions and the start and completion of street activities. These scanners were specifically reprogrammed for the CCSTS to record up to 36 bar codes corresponding to the start and finish of various street activities. Although witnesses Stevens and Lewis mention that carriers are generally familiar with the scanners, the scanning of so many activities is not common practice. USPS-T-15 at 9, USPS-T-30 at 5. Carriers were asked to track all of the time that they spent on the street throughout the

day with the use of the scanners. USPS-T-15 at 20. They were asked to identify when they were engaged in regular delivery activities on specific route sections defined by the dominant delivery mode and when those activities were interrupted by special forms of delivery or support activities. They were also asked to identify when they were traveling and for what purpose. In addition, they were asked to track their time spent organizing mail in the truck, and time not related to delivery. *Id.* at 13.

[17] The participation of the city carriers at the surveyed ZIP offices was voluntary but strongly encouraged by the managers of the survey. Training of the carriers in the use of the scanners for the CCSTS was performed by a group of 167 individuals most of whom received several days of special training. A beta test of the collection scheme in October 2001 apparently did not disclose that city carriers might have difficulty applying the scanning procedures. The beta test also did not reveal that many city carriers might be reluctant to participate over the full 11-day sample period. The occasional assignment of more than one carrier to a route was not noted in the daily reports.

[18] The survey required collection of carrier times, delivery volumes, and collected mail, with subsequent matching of times and mail volumes at Postal Service headquarters. The CCSTS collected volume data by route according to handling characteristics. These included Delivery Point Sequenced (DPS) Letters, Non-DPS Automation Letters, Non-DPS Other Letters, Cased Flats, and Sequenced Mail (mailer-sequenced saturation mail taken to the street). Mail volumes were obtained daily from the Delivery Operations Information System (DOIS) volume reporting system, its precursor, or from manual piece counts made by the carriers. Delivered volumes of Large Parcels (parcels too large to fit in the mailbox), Small Parcels (SPRs) (parcels small enough to fit in the mailbox), and Accountables (mailpieces requiring customer contact), were counted by hand, as were the collected volumes of Express Mail, Priority Mail, and other packages. Collected volumes of letters and flats were measured in feet or inches. *Id.* at 21-22. Volume data were reported by the city carriers themselves or by their immediate supervisors. The components of a single CCSTS observation that must be successfully matched from different primary data sources are:

- street activity times for the city carriers;
- mail volumes for various categories of delivered mail;
- volumes for collected mail;
- possible deliveries;
- a categorization of the route by principal mode of delivery; and
- geographic data for the route's ZIP.

[19] Some of the matching that is necessary to produce the data sets used by witness Bradley is done after the data are aggregated. Tr. 6/2172. However, the essential matching of labor time and pieces that is basic to the assembly of the data set was performed before any aggregation of the observations.

[20] The assembly of the CCSTS data sets offers many opportunities for mismatching data from different sources. The difficulties of matching data to compile the CCSTS data set are discussed at length by witness Bradley in response to POIR No. 8, Question 2. Tr. 6/2231-32. He also discusses "miscoded dates." *Id.* at 2166-67. Witness Stevens mentions a matching problem with respect to the principal mode of delivery, *Id.* at 1938, and with respect to possible deliveries. *Id.* at 1928-29. He also describes a problem with "missing or obviously erroneous route numbers." *Id.* at 1884.

[21] In his response to POIR 8, Question 2, witness Bradley identifies the causes of most of the mismatches that were encountered in assembling the CCSTS data set. "Analysis of the mismatches shows that relatively few mismatches occurred because a route number occurred in one data set but not another. More common was the outcome that routes did not provide complete data for all days for either the scan data or the parcel/accountable data." *Id.* at 2231. Bradley's analysis of the causes of "attrition in route days in constructing the analysis data set" breaks down the mismatches as follows: missing time data 60 percent, missing parcels/accountables - 24 percent, both missing - 16 percent. Apparently, the mismatches in Bradley's data set are almost entirely the result of failures by city carriers to self-report time and parcel/accountable data. *Id.* at 2232.

d. Defects in the Survey Scheme

[22] After the CCSTS data were collected it became evident that the bar code scans may have confused many of the carriers. The source of some of the confusion could be that two scans, rather than just one, were required for many transitions from one activity to another. It may also be that carriers chose not to participate in the CCSTS simply by mis-scanning, not submitting their scanners to be downloaded, or not reporting their mail counts. It is also possible that there were some equipment failures.

[23] In response to POIR 8, Question 2a, witness Stevens identified several sources of collection error, including, among others: no way for study supervisors to verify scans made by the carriers; the carrier probably did not understand the procedures; problems with scanners; problems with downloading the data; route inspections occurred; carriers refused to participate in the study; carriers were on leave; carriers were given improper bar code scans or the bar code scans they were given did not work; and carriers were not in compliance.[1] *Id.* at 1972-73.

[24] The carriers were instructed not to try to correct scans when a mistake was made, but to choose the correct scan as soon as he/she became aware of a mistake. No debriefing to fix or change recorded invalid sequences, and no field corrections of known errors was attempted in conducting the time scans. USPS-T-15 at 10. Rather, the Postal Service reinterpreted the scans to account for many unexpected sequences. By using computer algorithms to evaluate unexpected scan sequences, many hard to interpret scan sequences were rehabilitated. The decision rules for reinterpreting the scans, and the proportions of the scan times determined by these rules, were described briefly by witness Stevens: "[t]he time pool assignments for 18.7 percent of scan pairs were determined using decision rules." Tr. 6/1979-81. For the CCSTS, this approach resulted in an overall error rate for scan pairs of 9.7 percent of utilized scan time, and 6.9

[1] Although witness Stevens lists several numbers associated with these and other problems, he makes clear that these numbers were based on several post-study calls, and that the actual frequency of these non-sample errors is unknown.

percent of total scan time. This scan time is shown as “not applicable error time” (NAT) in the CCSTS data sets.

[25] The Service argues that the effect of invalid scan pairs on variability model results is *de minimis*. Invalid scans should only invalidate adjacent scans, leaving a large amount of valid scan time available for input into the volume variability model. USPS-T-15 at 10. Rather than discard the time that invalid scans represent, the Postal Service distributes not-applicable time to the cost pools in the same proportion as the valid scans. In doing so, the Postal Service assumes that the time represented by invalid scans mirrors the activity proportions observed in the valid scans.

[26] Witness Bradley alluded to difficulties procuring the cooperation of carriers over the sample period in his response to an oral question from Commissioner Tisdale. [A] period of two weeks was judged to be the maximum period for which to get continuing compliance by carriers. In fact, based upon attrition rates, two weeks may have been pushing the limit of cooperation, but in general carriers cooperated for the full period.” Response of Witness Bradley To Oral Question From The Bench, July 15, 2005 at 6.

e. Quality of the CCSTS Data

[27] The self-reporting scheme employed by the Postal Service to create the CCSTS data set is a low-cost method that generates large numbers of observations at the level at which the data are first collected and reported. The obvious downside to such a scheme is that the data set may be quite inaccurate, since the quality controls exercised at the source are minimal by design. Self-reported data are also highly susceptible to censorship and manipulation by the self-reporters. The Postal Service was aware of the problems associated with self-reporting of data when the CCSTS sampling system was designed and took steps that it believed would effectively ensure that the time and volume data self-reported by city carriers would be of acceptable quality. USPS-T-15 at 11.

[28] Postal Service witness Kelley is confident that the CCSTS systematic stratified sample design is more efficient and more representative of the delivery network than

those used in the old Street-Time-Survey (STS). He emphasizes that it records the entire street time for each Route/Day without sub-sampling. The STS tally-based data, in contrast, consisted of excerpts of street time activity on the routes observed. Witness Kelley notes that this added a second stage of sample error to that which arose from sampling of routes. He argues that because there were only three tallies per route day, data collection errors were magnified because each tally was so heavily weighted. USPS-T-16 at 14-15.

[29] He claims that the CCSTS has a wide-ranging advantage over the STS because of its sheer size. For example, he asserts that the CCSTS data are less vulnerable to non-sampling error, since "an incorrect scan sequence by a carrier would only consist of a few minutes of time, which presumably would be lessened by a large amount of time scanned accurately." *Id.* at 15. Where the STS sample consisted of 91 post offices, the CCSTS sample frame had 167 ZIP Codes. Witness Kelley asserts that this decreased first-stage sample error by 26 percent relative to the STS sample. He emphasizes that because the CCSTS sample is larger and records the entire street portion of the Route/Day, it was expected to capture 15 times as much sampled street time as the STS. *Id.* at 15-16.

f. Aggregation of the CCSTS Data

[30] The self-reporting scheme of the CCSTS produced very large numbers of observations over fairly brief periods of time. According to witness Stevens, the survey collected data from 3,668 routes in 161 ZIP offices over approximately 11 days. USPS-T-15 at 3. This effort yielded 40,668 individual ZIP/Route/Day observations in the letter-flat volume data set – a gigantic data set by any standard. Data were also collected and assembled into parcel-accountable volume and time-scan files. Table I-1, below, summarizes the number of ZIP-Codes and routes present in the three main data files utilized by witness Bradley: scan-time, letter-flat, and parcel-accountable (P/A), and compares them to witness Kelley's sample design.

[31] The time and volume data sets were subsequently aggregated by witness Bradley to the ZIP/Day level. Witness Bradley's proposed models were fit to a parcel-accountable data set with 1,535 observations, and a regular delivery data set with 1,545 observations. USPS-T-14 at 38 and 42. Therefore, witness Bradley's aggregation greatly reduced the size of the data set that was used in his econometrics.

Table I-1

	P/A Volume Data		Letter Flat Volume Data		Time-Scan Data		Sample Design
Strata*	Routes	ZIP Codes	Routes	ZIP Codes	Routes	ZIP Codes	ZIP Codes
1	146	29	102	24	108	28	29
2	2,936	124	3,098	130	3,358	132	128
3	418	6	467	7	627	9	10
Total Routes & ZIP Codes	3,500	159	3,667	161	4,093	160	167
Total Observations	47,531		40,668		36,656		

Source: USPS-T-16 at 13; and "If rt ct.xls," "pa rt ct.xls," and "time rt ct.xls," in PRC-LR-14.* Routes and ZIP Codes per strata calculated based on number of routes per ZIP Code in each data set.

[32] It may be that this aggregation of the route-level observations to obtain ZIP-level totals was not anticipated by the designers of the CCSTS survey. Aside from the original recruitment of city carriers for the survey, almost no effort was made to secure a complete set of reports for the entire set of city carrier routes served from each ZIP office. Nor was any effort made to ensure that all of the carriers at the surveyed ZIP-Codes were trained in the use of the scanners programmed for the survey, or to obtain inclusive time reports as the survey was conducted. The survey managers apparently were tolerant of collection failures and simply omitted the reports for routes on which the carrier was untrained in the use of the scanners, had failed to perform the scans, or had not submitted the scanner to be downloaded.

[33] Witness Bradley's aggregations can create several problems in his ZIP/Day data set and in his econometrics. If there are missing observations, then the sums that

are the result of the aggregation will not correctly represent scale effects in the aggregated data set. It falsely implies that a large ZIP Code behaves like a medium-sized ZIP when half of the routes are unreported. Witness Bradley attempts to fit a nonlinear model, so correct measurement of the totals for ZIP-Codes is important.

[34] If there are gross errors in the disaggregated observations, then aggregation smears these errors over all the routes within the ZIP Code. This typically means that a larger fraction of the aggregated samples have errors in variables than the disaggregated samples. It also makes it more difficult to screen out observations with gross errors. Moreover, witness Bradley's data set was aggregated over very dissimilar numbers of routes creating sums that differed greatly in magnitude. When these sums are used as dependent variables in his econometric models, they are likely to leave heteroskedastic errors in his fitted equations. OCA Brief at 2.

3. Evidence Of Errors In the CCSTS Data

a. Introduction

[35] The results of the various screens and tests applied by the Commission to both CCSTS and MODS data are summarized in Tables I-V at the end of this Appendix. The tables are organized as collections of statistics and examples revealing errors, omissions, and anomalies that are likely to have similar general causes. The categorization of the errors underlying the organization of these tables is only approximate, since many of the errors and anomalies may be symptomatic of several general causes. The various errors, omissions and anomalies are tabulated in the tables. The sample frequencies show that the Postal Service's efforts to collect data that are relatively error-free are ineffective both with respect to CCSTS and MODS.

b. Errors At The Source

[36] Errors at the source refer to errors made at the point of data collection, and include scanning errors and errors recording mail volumes. The best evidence of scanning errors are the high numbers shown in Table I-I of ZIP/Route/Days for which more than 5 percent (14,601 instances) and more than 25 percent (3,565 instances) of the total street time reported by a carrier was erroneous, or not-applicable. Remarkably, there are 56 instances in the data set when the scan sequences were so scrambled that none of the carrier's reported time could be attributed to any specific street activity.

[37] Additional evidence that carriers either had difficulty with the scanning system or may have been somewhat unwilling participants in the survey is shown in Tables I-6, I-8 and I-9. Table I-I shows there are 119 ZIP/Route/Days with less than 10 minutes of total reported time. Table I-III shows that there were many occasions when no time was reported, even though parcels/accountables and regular mail were delivered and the route had a non-zero number of possible deliveries. Table I-III indicates that city carriers failed to report any of their time for about 15 percent of the ZIP/Route/Days for which parcels/accountables data were collected and for around 6 percent of the days for which regular mail data were collected. From Table I-IV, it is evident that there are many routes for which sample data are completely missing, and many others for which the sequence of sampled days is incomplete. This pattern implies fairly large-scale reporting failures of various kinds as the CCSTS time data were collected.

[38] A tabulation of frequencies for the ten most common invalid scan sequences was provided by witness Stevens. Tr. 6/1878-80. However, the invalid scan pairs may be the smallest part of the problem disclosed by the Commission's examination. The invalid scan sequences reveal that there are likely to be many other valid sequences that are nevertheless incorrect. The presence of ZIP/Route/Days with very little time may attest to more widespread, but less severe under-reporting of total time, since the presence of gross errors indicates the presence of errors that may be impossible to detect, but which are present nevertheless. The missing observations shown in Table I-II may be missing because the data were considered too unreliable to

report. And the omissions of whole routes and days from the data set may mean that city carriers were reluctant and unreliable participants in the self-reporting.

c. Apparently Ineffective Data Quality Controls

[39] The statistics shown in Table I-II provide a direct and simple test of the effectiveness of the Postal Service data quality controls. The statistics count the occurrences and frequencies of gross errors that would not be present in the CCSTS data set if Postal Service data quality controls had been effective. The errors counted in Table I-II are extreme reporting errors that are easily detected. They are most likely produced by simple mistakes in the reporting processes and, with a few exceptions, they are not particularly frequent. It is the fact that they are present at all that raises concerns. Their presence seems inexplicable except as evidence that the Postal Service simply does not monitor the data as they are collected, reported and assembled.

[40] It is difficult to take Postal Service claims for the effectiveness of its data quality controls at face value given the evidence in the Tables. The examples of errors in the CCSTS data documented in Table I-II include negative piece counts of letters, flats, and sequenced mail delivered, collections measured in inches that convert to nearly a mile, and reported delivery volumes that would fill a tractor trailer. A question that should be addressed by the Postal Service in future surveys is how a data collection effort might be conducted with field controls that are sufficient to eliminate errors in the data used by its econometricians for research that supports rate-making.

d. Unmatched and Mismatched Data

[41] So far we have described the statistics and examples in Table I-III as evidence that data are simply missing. Data that are missing from one source cannot be matched to corresponding data that are reported from another source. However, unmatched observations would not normally be difficult to detect and remove from a data set before it is aggregated, since they are almost always betrayed by the presence of a zero value

for one or more variables. However, it is puzzling how the CCSTS could have left so many incongruities between the piece counts and reported times as documented in Table I-III.

[42] Table I-III shows that unmatched and/or mismatched observations occur with surprisingly high frequency in the unaggregated ZIP/Route/Day observations from CCSTS. Around 15 percent of the CCSTS ZIP/Route/Day observations have positive values for parcels/accountables or possible delivery points that are unmatched to a positive value for parcels/accountables delivery time. Around 6 percent of the CCSTS ZIP/Route Day observations have positive values for letter mail pieces or possible delivery points that are unmatched to a positive value for regular mail delivery time.

[43] There is a more ominous possibility for the incongruities tabulated in Table I-III than missing carrier reports. The errors may be the result of mismatched data from two different sources. This possibility is more ominous because a mismatch leaves behind more than one bad observation. For example, suppose that there are two correct matches of mail volume and delivery time: 1) mail volume of 3,000 pieces and delivery time of 8,000 seconds; and 2) mail volume 5,000 and delivery time of 10,000 seconds. A matching error occurs where the 5,000 pieces of mail (from the second case) is incorrectly paired with 8,000 seconds of delivery time (from the first case). That would leave the 3,000 pieces of mail from the first case matched with no delivery time, and the 10,000 seconds of delivery time from the second case matched with no mail volume. In this example, the observations paired with either zero time or zero volume would be obvious errors, and would be readily rejected by a screen for zero-valued observations. But the incorrect pair of 5,000 pieces and 8,000 seconds of delivery time would escape being identified as an obvious error, even though that would be the case.

e. Missing Observations

[44] Much of the data that should have been collected at the source under the CCSTS sampling plan is simply missing. Witness Bradley produced an Excel worksheet showing the “daily percent of the maximum routes used” for the ZIP-Codes in his

aggregated ZIP/Day data set. The percentages of potential route observations actually reported in the worksheet are averages taken over the days sampled at each ZIP. The percentages range from 43.6 percent to 100.0 percent and average 87.1 percent over 145 ZIP-Codes. Tr 6/2225-30. Therefore, witness Bradley's data set shows a substantial variation in the percentages of routes at a ZIP office for which there are complete reports over the 11-day sample period.

[45] These statistics are confirmed by the counts which are shown in Table I-IV. The CCSTS ZIP/Route/Day data set has 4,441 missing ZIP/Route/Day observations. This represents 12.52 percent of the total number of ZIP/Route/Days for which there should have been observations. In witness Bradley's aggregated ZIP/Day data set there are 1,506 ZIP/Day observations with missing routes. This translates into 45.16 percent of his ZIP-level data set having one or more days missing a route-level observation. There are also 2,148 Zip/Day observations from ZIP offices with omissions in the sequential numbering of routes. If these missing routes are city carrier routes, then 39.18 percent of the ZIP/Day data set includes city carrier routes for which there are no recorded observations during the entire 11-day sampling period.

f. Aggregation of Errors and Omissions

[46] Errors that are detectable as extreme or inconsistent values indicate the presence of additional errors that cannot be readily detected. Normally one would expect the undetectable errors to be more frequent than the detectable ones because errors have a probability distribution, and the errors from the tails of the distribution are the ones that are most likely to be detected. Since the frequencies of detectable errors in the samples given to Bradley are large, one can conclude that the remaining sample contains many errors.

[47] Table I-IV shows how some of these problems affect the aggregated data sets used by witness Bradley. The percentages of ZIP/Route/Day observations with detectable errors are all converted into higher percentages of ZIP/Day observations with errors when witness Bradley aggregates the data. For example, 1.29 percent of the

ZIP/Route/Day observations have gross errors in sign or magnitude in one or more of the measured variables. After aggregation these errors are embedded in 6.72 percent of the ZIP/Day data set. This inflation pattern recurs in Table I-IV with every kind of error, anomaly and omission in the CCSTS data.

4. Mail Processing Labor Cost Attribution Data

[48] The Postal Service in this docket provides an econometric analysis of mail processing data that is very similar to those proposed by witness Bradley in Docket Nos. R97-1, R2000-1 and R2001-1. All of these analyses are based on data from the Service's Management Operations Data System (MODS).[2] In each of these dockets, similar data problems have been documented.

a. Previous Documentation of MODS Data Issues and Associated Econometric Problems

[49] In Docket No. R97-1, the Commission found four general defects that it regarded as "disqualifying". Three of these defects concerned witness Bradley's MODS data set and his econometrics:

- The equations of the model were capable of capturing the effects of changes in volume on mail processing labor only over a very short period of time – at most eight weeks. This period should have conformed better to the length of a rate case cycle – 3 to 4 years.
- The MODS and PIRS panels were "error-ridden." The Commission found that witness Bradley's methods for screening the samples for bad observations, called "scrubs" in his testimony, was "both excessive and ineffective". Approximately 22 percent of the data were deleted by the screening. It seemed likely to the Commission that the screening had introduced selection biases and/or that the remaining errors were sufficient to produce attenuation biases in his estimates.

[2] In Docket No. R97-1, witness Bradley also analyzed mail processing operations for Bulk Mail Centers (BMCs) that utilized the Productivity Information Reporting System (PIRS) database as a source of data.

- The fitted equations included control variables for effects that witness Bradley considered to be non-volume variable. However, two of these controls, a “manual ratio” and a set of “fixed effects” were plainly related to volume at the plant level. PRC Op R97-1 para. 3007.

[50] In addition to these disqualifying defects, there were many other issues with regard to the data set and witness Bradley’s econometric practice that the Commission noted but did not regard as necessarily disqualifying.

- Witness Bradley’s screening were not well-designed for their intended purpose. They were found to simultaneously delete observations that were correct and leave observations with errors in the sample.

- His estimates of volume variability were not robust. Reasonable changes in the equations and rearrangements of the sample resulted in large changes in the variabilities when the equations were refitted.

- The relationship of the cost equations to the structural functions prescribed by micro-economic theory was unclear. If the equations were interpreted as short run derived demand functions, they plainly lacked all of the variables prescribed by theory, notably a relative wage and measures of capital.

- The equations were specified with a set of fixed effects as controls. The Commission suspected that the fixed effects served as proxies for volume differences at the plant level. If so, it seemed unlikely that variabilities calculated from the fitted equations could fully reflect variabilities for the mail processing system as a whole.

- The estimated values for the parameters of a system of lagged explanatory variables in the equations made little sense as a reflection of economic behavior. *Ibid.*

[51] In Docket No. R2000-1 the Postal Service tried again to replace the Commission’s accepted model with statistical estimates from an econometric study fit to data from MODS. This time the principal investigator was Postal Service witness Bozzo. Witness Bozzo’s testimony (Docket No. R2000-1, USPS-T-15) addressed many of the defects and issues raised by the Commission in Docket No. R97-1; however, witness Bozzo’s model remained a recognizable descendent of witness Bradley’s Docket No. R97-1 model. Moreover, the source of the data used to fit the equations of the model continued to be MODS.

[52] In Docket No. R2000-1, the UPS witness Neels and OCA witness Smith both pointed out that MODS reports are not field-checked for errors as the data are assembled. See PRC Op R2000-1, para. 3032-33 . The Commission also noted that "observations with impossible negative values and/or impossible magnitudes for work hours and piece handlings are surprisingly common." The MODS data also frequently matched zero-valued observations for work hours with positive piece handlings and vice versa. There were many gaps in the time coverage of the observations suggesting that MODS reports were often missing during the sample period. Data quality control for witness Bozzo's data set consisted of a series of screens similar in purpose but better designed than those employed by witness Bradley. However, these screens had all been applied after the MODS data had been aggregated by postal quarter. In Docket No. R2000-1, the Commission offered its opinion of this form of quality control

> "Postal Service econometricians have no direct and convincing way to demonstrate that their scrubs and screens are effective. More and more we find ourselves in agreement with an observation made by OCA witness Smith 'Scrubbing is not an adequate substitute for on-site verification.' This is an observation that we hope the Postal Service will remember in the future as it assembles data from MODS and other postal data systems for use by its econometricians."

PRC Op. R2000-1, Appendix F at 44.

[53] Witness Bozzo's additions and improvements to witness Bradley's cost equations made it possible for the Commission and other witnesses to relate his fitted equations to their structural counterparts in microeconomic theory. Witness Bozzo's equations were short-term derived demand functions for mail processing labor, with mail processing capital regarded as fixed. Witness Bozzo's use of quarterly aggregates partially ameliorated the excessive short-run character of witness Bradley's model. Witness Bozzo's equations included several new variables: a network proxy, a relative wage and a plant-level measure of capital. The latter two variables should be present in some form in a derived demand function for labor. Witness Bozzo also limited the

application of his estimated variabilities to the appropriate mail processing labor cost pools.

[54] But several defects and potential problems remained.

- Capital and equipment can vary over a rate cycle so witness Bozzo's model was still excessively short-run.
- All but one of the capital elasticities estimated by witness Bozzo turned out to have an incorrect sign. The incorrect signs implied that capital productivities were negative. The Commission viewed this nonsensical result as "compelling" evidence that the model was mis-specified.
- The fitted equations continued to include as controls a manual ratio and a set of fixed effects. Witness Bozzo perpetuated witness Bradley's incorrect treatment of these controls as not volume variable.
- Witness Bozzo's screens of the MODS data were not likely to be much more effective than witness Bradley's. They also deleted large percentages of the sample and were equally likely to cause selection biases. Because they cannot reliably remove more than a fraction of the erroneous observations, the estimates will also be subject to attenuation biases.

b. Collection and Assembly of the MODS Data Set

[55] MODS is a real-time data collection system involving a number of collection processes on the hours worked and volumes processed by operational activity. Data are collected by individual machines or manual activities involved in mail processing by shift. The key data elements are:

- First Handling Pieces (FHP): For each sorting activity in a mail processing facility, an estimate of the volume of pieces that are receiving at that activity for the initial sort at the facility. The sum of FHP across all sorting activities equals the volume sorted at the facility.
- Total Pieces Fed (TPF): A count or estimate of the number of pieces presented to an activity for sorting, including repeats.
- Total Pieces Handled (TPH): A count of pieces sorted by an activity, including repeats (excludes pieces fed but not successfully sorted, such as a rejected piece).
- Hours (HRS): the labor hours worked on an activity from the time clock records of mail processing clerks or mail handlers clocking in and out of various activities.

[56] The collection processes include:

- Data reported by machine meter.
- Data reported through machine printouts.
- Data reported through actual piece counts, weight, containers, or linear measurement.
- Data transmitted “automatically” on a daily (Mainframe MODS) or weekly (PCMODS) basis.
- Daily data regularly “rolled up” into weekly data.
- Weekly data regularly “rolled up” into accounting period data.

In general, constant monitoring is needed because MODS is a self-reporting system in which the plants report their daily performance to higher levels of management.

[57] Like most self-reporting systems, MODS generates a mountain of observations at the level at which the data are first collected and reported. The obvious downside to such a scheme is that the data set may be quite inaccurate since the quality controls exercised at the source are likely to be minimal. The MODS reports are also particularly susceptible to censorship and manipulation because the basic purpose of MODS is to enable management to evaluate the performance of the Service’s mail processing plants.

c. MODS Data Quality Controls

[58] Handbook M-32 describes the responsibilities of the MODS coordinator. USPS-LR-J-165 at 4-5. However, an inspection of the entire handbook reveals no monitoring over and above “training,” the provision of “detailed direction,” and some “default mechanisms” to ensure accurate data collecting and reporting.

[59] There appears to be no redundancy or verification system with check sums/points, within the MODS data collection system, beyond initial training, direction, and defaults. The system seems to be designed without any tests for the accuracy of individual daily or weekly observations as they are reported from the plants. Nor does MODS seem to have any kind of system for recovering reports that are omitted or are evidently in error. In a real-time management reporting system such as MODS there is

little purpose in correcting past errors and omissions. The emphasis of the quality controls is focused on improving the reporting in the future.

d. Missing Observations in MODS

[60] Missing observations appear to continue to be an unresolved issue. No distinction is made in the assembly of the MODS data sets between observations that are missing and observations that are correctly reported with zero hours and piece handlings. In response to POIR No. 6, in Docket No. R2001-1, Questions 11(p) and 11(q), witness Bozzo testified that "[i]t is not possible to specifically distinguish missing values from other values in the LR-J-179 data set." Docket No. R2001-1, Tr. 11A/3906. And, "it is my understanding that missing MODS data (i.e., data that have not been reported to the Postal Service's Corporate Database for some reason) appear as zeros in the results of Corporate Database queries." These responses confirmed the Commission's suspicions that MODS failed to distinguish between missing values and zeros, and that witness Bozzo had simply ignored the problem when he aggregated the observations by quarters.

[61] In Docket No. R2000-1, in an effort to shed some light on the possible magnitude of the problem, the Commission asked witness Bozzo to identify plants that were not continuously engaged in mail processing activities over the period of time covered by his data set. Docket No. R2001-1, POIR No. 6, Questions 11(f), 11(g), 11(h) and 11(i). Tr. 11A/3904. Although it seemed that the Postal Service ought to know independently of MODS when its processing plants had been shut down, witness Bozzo's responses provided no useful additional information.

e. Matching of MODS Components

[62] MODS observations that must be matched from different primary data sources are:

- mail processing labor hours;

- TPF for non-manual MODS codes and TPH for all MODS codes;
- FHP;
- possible delivery points of various kinds in the “facility service territory”;
- the numbers of offices, stations and branches in the territory;
- hours and dollars for several wage indexes;
- several general indexes of plant capital;
- destinating letters, flats and parcels; and
- capital equipment indexes for the non-manual MODS codes.

[63] Evidence of mismatched data in the MODS data set was placed on the record in Docket No. R2000-1 by UPS witness Neels. In its Opinion the Commission wrote:

> Witness Neels suspects that some of the anomalies in the MODS data are work hours or piece handlings that were recorded under the wrong activity code. Such errors would never occur alone. They would always be accompanied by offsetting errors during the same quarter at the same site but in a different activity. According to witness Neels ‘a careful look at the TPH series for Manual Parcels and SPBS reveals that the data for the two are sometimes commingled.’ This explains a ‘significant fraction’ of the gross errors in Manual Parcels.

PRC Op. R2000-1, Appendix F at 42.

f. Aggregation of MODS Data

[64] Postal Service witness Bozzo created the 351-plant, four-quarter, six-year “balanced” panel data set that was used in the regressions estimating mail processing variabilities, using several different databases. The data were first aggregated by the 13 accounting periods (APs) of the Postal Service’s fiscal year, resulting in a sample size that may have had as many as 27,376 observations. Since each AP is an average of 4 weeks long, the initial Plant/MODS Code/Week data set must have contained around 109,564 potential observations. The AP data was then further aggregated by postal

quarter to obtain a sample of 8,424 Plant/Quarter observations. The databases, the extraction of data, and the “roll up” aggregation process are described in Postal Service Library Reference K-56. USPS LR-K-56 at 10-33.

[65] These aggregations can create several problems. If there are missing observations, then the sums that are the result of the aggregation will not correctly represent scale effects in the aggregated data set. For MODS, the economies of scale at a large processing plant do not change when hours or TPH are underreported. Witness Bozzo attempts to fit nonlinear models, so correct measurement of the totals for plants-level variables is important. If there are gross errors in the disaggregated observations, then aggregation smears these errors over a number of time periods. This typically means that a larger fraction of the aggregated samples have errors in variables than in the disaggregated samples. Gross errors are more difficult to detect and remove from the aggregated data with screens such as those used by witness Bozzo.

g. Witness Bozzo’s Screens of MODS Data

[66] After construction of the data set, witness Bozzo constructed a useable sample of the data set for his analysis. During this sample construction process, a number of sample selection rules were applied to the 8,424 observations in the Plant/Quarter data set. These sample selection rules included a threshold screen, productivity check, data omissions, negative values, and mismatched hours and piece handlings.

[67] Witness Bozzo’s Table 3 of his testimony in this docket, summarizes the history of his screens. USPS-T-12 at 45. It understates the percentage of errors screened out of the 8,424 possible observations in his dataset. Witness Bozzo’s Table 3 is reproduced in Table I-2, columns (c) through (f). During witness Bozzo’s sample construction process, a number of sample selection rules were applied to the observations. These sample selection rules included a screening of observations for unrealistically low productivity and unrealistically high productivity and a threshold cutoff of 40 times the high productivity value, as shown in Table I-2, columns (d) through (e). What witness Bozzo’s Table 3 neglects to show is that he also screened the data for negative values,

and for observations that had zero values for hours paired with non-zero TPH/TPF values or zero values for TPH/TPF paired with non-zero hours, which are summed in column (b) of Table I-2. The data screening for the erroneous negative values and mismatched pairings is apparent in the Time Series Processor (TSP) coding within the programs that estimate the Postal Service's recommended mail processing variabilities provided with LR-K-56, and at page 4 of the documentation. Column (b) was derived by subtracting columns (a) and (c) from the original 8,424 observation dataset.

Table I-2

Sample Selection Rules Applied To The 8,424 Observation Data Set

Postal Service R2005-LR-K-56 and T-12 (p. 45)

	(a)	(b)	(c)	(d)	(e)	(f)
MODS POOLS	Missing[a]	Errors[b]	Nonmissing (8,424)-((a)+(b))	After Threshold Screening[c]	After Productivity Screening[c]	Observations Used in the Analysis[c]
01 BCS	1680	561	6183	5869 (95%)	5576 (90%)	5449 (88%)
02 BCS/DBCS	760	284	7380	7356 (99%)	7293 (99%)	7275 (99%)
04 OCR	1681	133	6610	6581 (99%)	6459 (98%)	6427 (97%)
05 FSM	3959	850	3615	3564 (99%)	3497 (97%)	3420 (95%)
06 FSM1000	3169	294	4961	4953 (99%)	4750 (96%)	4622 (93%)
39 AFSM100	5128	120	3176	3168 (99%)	3125 (98%)	3093 (97%)
34 SPBS	3379	242	4803	4787 (99%)	4765 (99%)	4761 (99%)
11 Man Flat	820	289	7315	6412 (88%)	6157 (84%)	6141 (84%)
12 Man Let	758	286	7380	7352 (99%)	7253 (98%)	7252 (98%)
13 Man Parc	1489	1309	5626	5423 (96%)	4233 (75%)	4176 (74%)
14 Man Prior	1656	1076	5692	5407 (95%)	4765 (84%)	4718 (83%)
18 Cancel	1009	205	7210	7152 (99%)	7023 (97%)	7022 (97%)

[a] Zero values for all three variables, HRS, TPH, and TPF, taken from reg9904.xls (8424 observations) provided in LR-K-56

[b] Negative and mismatched observations errors detected in the screening process

[c] Note that the percentages in Table I-2 are what remain, after the threshold and productivity screenings, from witness Bozzo's non-missing column (c). The "productivity" checks screen out high and low productivities, while the "Threshold" check is set at 40 times the high productivity cutoff value.

Source: USPS-T-12 at 45.

[68] Table I-3, columns (a) and (b), show the discrepancy between the percentage of errors screened out of what witness Bozzo calls the non-missing group [Table I-2: column (c), which has already been screened for the negative and mismatched errors, and the percentage of errors screened out of the actual non-missing group [Table I-2: (8,424)-(a)]. The percentages in column (a) point to a dirtier MODS data set than the percentages in column (b) that were reported by witness Bozzo.

Table I-3

Quarterly Errors/Missing Detected/Reported During Data screening			
(in percentages)	(a)	(b)	(c)
MODS POOLS	Actual Error Rate	Error Rate Reported by Witness Bozzo	Missing Data from the Total Dataset
01 BCS	19%	12%	20%
02 BCS/DBCS	5%	1%	9%
04 OCR	5%	3%	20%
05 FSM	23%	5%	47%
06 FSM1000	12%	7%	38%
39 AFSM100	6%	3%	61%
34 SPBS	6%	1%	40%
11 Man Flat	19%	16%	10%
12 Man Let	5%	2%	9%
13 Man Parc	40%	26%	18%
14 Man Prior	30%	17%	20%
18 Cancel	5%	3%	12%
Source: USPS-T-12 at 45.			

5. Evidence of Errors in the MODS Data

a. Introduction

[69] The Postal Service provided MODS data at the Plant/MODS Code/AP level for the postal fiscal years FY1999-2004 in library reference with, USPS-LR-K-147. Weekly piece handlings and hours for FY 2004 for the MODS Codes used by witness Bozzo in his econometrics were included in the files accompanying USPS-LR-K-147.

b. Errors at the Source

[70] The MODS data has been examined to see if the MODS data submitted in this docket is of a higher quality than that submitted in Docket Nos. R97-1 and R2000-1. Tables I-6, I-8 and I-9 show that data sets derived from MODS continue to contain numerous errors, omissions, and anomalies that are likely to have been present at the source, i.e., when the MODS data were produced at the plants.

[71] Table I-I tabulates three kinds of errors and anomalies that occur fairly frequently within the Plant/MODS Code/AP data set. The first two of these are TPH greater than TPF, and TPH less than 80 percent of TPF for a non-manual MODS operation. These are considered reliable indications that TPF or TPH has been misreported. In the first case, a machine cannot successfully process more pieces than it is fed, and in the second case, none of the machines in question should have reject rates as high as 20 percent.

[72] All of the MODS AP data were scanned to determine the occasions when productivities for an operation (TPF/Hour or TPH/Hour) changed by more than 50 percent. These occasions proved to be surprisingly frequent for all of the MODS codes. For example, Multi-Position Bar Code Sorters (MPBCS) experienced 690 changes of more than 50 percent in their productivity from one accounting period to the next. It is hard to account for so many sudden changes in the productivity of the MPBCS machines operating under fairly constant work loads at a single plant, except errors in the data. In any case, the Postal Service does not provide an operational witness to explain such

variations. The same point can be made with respect to Manual Parcels. There are 1,206 times in the data set when the productivities from one AP to the next change by more than 50 percent. The explanation for these anomalies may more often be gross recording errors in the source data rather than frequent large changes in the numbers of parcels sorted manually at the plants.

[73] Table I-III shows that omissions in the MODS data are even more frequent than the errors and anomalies shown in Table I-I. The Plant/MODS code/AP data set was scanned for two kinds of incongruities. These are, first, a positive TPF or TPH paired with zero hours, and, second, positive hours paired with a zero TPF (for machines) or a zero TPH (for a manual MODS code). Because some positive amount of labor time is needed to sort any positive quantity of mail, the first incongruity must be the result of a reporting error. Positive hours might occur without any mail being processed in a plant that was very poorly managed. Nevertheless, the high frequency of both incongruities for most MODS codes is most plausibly explained as evidence of time gaps in the reporting of either hours or piece-handlings. If such a gap spans an AP then the reported hours or piece handlings will be zero. Gaps that are shorter in length than an AP will create reporting errors that are not exposed by a recorded zero for either hours, TPF, or TPH. So, the frequent matching errors shown in Table I-III may be an indication of many more reporting omissions whose presence cannot be detected simply by scanning for zero values.

c. Ineffective Data Quality Control

[74] Table I-II shows that the Postal Service continues to depend upon witness Bozzo's screens to eliminate errors that should be detected, investigated and corrected "on-site," that is, at the source. All errors tabulated in Table I-II are gross enough to be easily identified at the AP and weekly level by witness Bozzo's screens. In fact two of the three tests are identical to the productivity screens used by witness Bozzo. These are, first, the screen for TPF per hour in excess of the maximum capacity of the processing machines for the non-manual MODS codes, or TPH per hour in excess of the

best possible human performance for the manual MODS codes; and second, the screen for TPF (or TPH) per hour below the minimum established by Postal Service staffing practices for the MODS processing activities. The screen for exceptionally low values will also remove an observation with negative hours or pieces (a gross error) from the data set. The statistics compiled in Table I-II use witness Bozzo's maximum and minimum productivities to screen the Plant/MODS Code/AP observations. The results show that gross errors continue to be present at high frequencies in the MODS data set that the Postal Service supplied witness Bozzo. This is no surprise, since witness Bozzo applies the same screens to his aggregated Plant/MODS Code/Quarter data set with similar results. USPS-T-12 at 45.

[75] Table I-V presents further evidence that the quality of the data from MODS has not changed materially since Docket No. R2000-1. Table I-V shows the overall frequency of errors and anomalies found by screening witness Bozzo's aggregated Plant/MODS Code/Quarter data set. The observations for FYs 1999, 2000, and part of 2001, precede the Commission's Opinion which was issued on November 13, 2000. If the Postal Service had responded to the Commission's concerns and recommendations with respect to data quality control, we should observe some improvement in the error rates in Table I-V for the years following FY 2001. There is none discernable.

d. Missing Observations

[76] Most of the observable mismatches in the MODS data are likely to have been caused by missing reports of hours or piece handlings. Therefore, the MODS anomalies that the Commission has tabulated in Table I-III mostly result when either hours or TPF (or TPH for manual codes) are unreported. The number of anomalies in the Plant/MODS Code/AP data set, expressed as a percentage of the total number of observations with non-zero hours or piece handlings, is usually not a particularly high number. But there are two conspicuous exceptions: manual parcels and priority mail. From Table I-III it appears that 10.16 percent of the manual parcel observations and 9.75 percent of the priority mail observations may incorporate a missing value for hours or TPH as a zero.

e. Mismatched Observations

[77] Mismatched observations are a more serious problem than missing values because three bad observations result from the mismatch and one of these bad observations is likely to be undetectable. Consider, how a mismatch could have produced the first example shown in Table I-III for MPBCS (ID equal to 8, Date/AP equal to 200413). For this example, hours are zero but TPF is 688,000. This bad observation could have resulted from a mismatch of the correct hours data to another observation. One or more bad observation may result from the mismatch. In the case of three bad observations we might have, first, the example observation from Table I-III of 688,000 TPF with the zero hours; second, the mismatched TPF observation that is paired with the hours that should truly be matched with 688,000; and, third, somewhere in the data set there must also be an observation of positive hours with zero TPF. The first and third bad observations are unmatched observations that would not be difficult to detect and remove with screens like witness Bozzo's. However, there is no reliable way to screen out the mismatched second observation, since neither hours nor TPF are zero.

[78] It is impossible to tell if the statistics tabulated for the MODS codes in Table I-III are the result of missing observations or the residue of mismatches that occurred as the MODS data was assembled.

f. Aggregation of Errors and Omission

[79] The Plant/MODS Code/Week data set supplied by witness Bozzo has been used in Table I-IV to show how witness Bozzo's screens lose some of their effectiveness when they are applied after aggregation. First, the Plant/MODS Code/Week data set was screened for errors, omissions, and anomalies using the same tests shown in Tables I-7 and I-8. Second, the same screens were applied to a set of corresponding observations in which the weekly values were replaced by sums taken over the postal quarter that included the week. Finally, weeks with errors, omissions and anomalies were examined to identify those that were aggregated into an unscreened quarter.

These were also subjected to witness Bozzo's threshold tests. For example, there are 1,164 errors, omissions, and anomalies in the Plant/MODS Code/Week observations for FSM1000s. After performing the second and third steps there are still 203 unscreened weekly errors, omissions, and anomalies included in unscreened quarters. The percentages shown in Table I-IV for the weekly and quarterly screens can be directly compared to see how witness Bozzo's aggregations diminish the power of his screens. In the above example, 10.06 percent of the weekly data have errors omissions and anomalies that can be identified by his productivity screens when they are applied before the data are aggregated. When the screens are applied after aggregation, 1.95 percent of the weeks with errors, ommissions and anomalies remain unscreened. All of these errors can be removed by applying the screens before the data are aggregated.

[80] All of the statistics in Table I-IV for the various MODS operations show the same pattern as the FSM1000. In every instance witness Bozzo's screens are less effective after aggregation than before.

6. Econometric Problems Caused by Data Issues

a. Econometric Best Practice

[81] In empirical economic analysis involving the estimation of an economic theory or relationship, such as variability factors within production operations, accurate and reliable data are essential. The formulation of an economic model is usually the starting point in an empirical analysis followed by the specification of a testable econometric model, and the acquisition of appropriate data. The problem for the econometrician is to formulate an econometric model that best fits a description of the data from the operation, such as mail processing or delivery, under investigation. Most modern plant facilities report operations data in a computerized manner using bar coding and optical scanners in the reporting process. However, major problems with data accuracy are still very much a part of these modern and computerized facilities which in turn creates

problems for econometricians attempting to use the flawed data in empirical work estimating the relationships of their models.

[82] Econometric best practices do not provide much in the way of guidelines for screening datasets for errors. However, it would be highly unusual for an econometrician to feel comfortable using a dataset containing errors that accounted for between 5-40 percent of non-missing observations. Furthermore, if econometricians continue to move forward with empirical analyses using data with frequent errors, the empirical estimates of the analyses will also be flawed and biased.

[83] Data collected for empirical analyses may be *experimental* or *non-experimental* in its composition. Data collected in an experimental setting allows the investigator to control for various factors, such as time or location. This is what the investigators attempted to do with the CCSTS. Non-experimental data, on the other hand, are typically collected with another purpose in mind, so the goals of an investigator using the data are secondary to and after-the-fact in the actual data collection process. This is the case with the mail processing volume variability analysis and the MODS data used in the analysis which were gathered for the purposes of operations management.

[84] It is sometimes possible, and is considered an econometric best practice, to attempt to find external evidence that suspected bad observations are truly good or bad when confronted with a seemingly poorly controlled data set like MODS. However, the enormous size of the Postal Service samples (8,424 for mailing processing and 30,000 for the carrier study) make it difficult if not impossible for witnesses Bradley and Bozzo to independently verify that most of the anomalies found in either data set were in fact good or bad observations. It is partly for this reason that data from the Service's self-reporting survey systems are best checked for accuracy at the source.

b. Sample Selection Biases

[85] Selection biases occur when a sample is not representative of the population from which it originates. There are two major sources for possible selection biases in the samples used by witnesses Bradley and Bozzo. These are the high proportion of

omitted observations in Bradley's carrier study sample and the high proportions of observations eliminated by witness Bozzo's data screening in the mail processing analysis. Neither of these sample selection mechanisms is likely to eliminate observations randomly.

[86] Random sampling and other accepted sampling plans are partly designed to prevent selection biases. Witnesses Bradley and Bozzo require samples that are reasonably representative of city carrier street time activities and mail processing activities in order to do their econometrics. In this regard the requirements for econometric studies are less stringent than for the direct estimation of population parameters from sample statistics. Nonetheless, a selection bias in a sample can impart a bias to econometric estimates.

c. Errors In The Dependent Variable

[87] The assumption that is always made when fitting a regression to a large sample by any of the standard econometric techniques is that the errors in the dependent variable come from a distribution with a zero mean and a finite, constant variance. This assumption is violated when the errors for some of the observations are generated from a distribution whose characteristics are the result of gross malfunctions in data collection and recording. It seems unlikely that data entry errors would come from the same probability distribution as the other, random, errors in the observations of carrier street time or mail processing labor time. Errors in the dependent variable will not typically bias regression estimates derived from a large sample if these errors are not correlated with the explanatory variables. However, even in the absence of such correlation, observations with outlying residuals can disproportionately affect the estimates. When there are many bad observations present, the regression can present a description that mixes measurement of how the dependent variable is related to the explanatory variables in the correctly observed portion of the sample and how the bad observations were generated in the erroneous portion of the sample.[3]

[88] If the dependent variable measurement error has a zero mean with a constant variance, is additive, and uncorrelated with the right-hand-side explanatory variable, then the error is likely to be incorporated into the regression disturbance term, resulting in an unbiased and consistent least-squares estimate of the explanatory variable coefficient as long as the measurement error and the regression disturbance term are uncorrelated.[4]

[89] On the other hand, if measurement error in the dependent variable is systematically related to the explanatory variable, then least-squares estimation can cause bias in the estimate of the coefficient.[5] A systematic relationship between measurement error in the dependent variable and the explanatory variable might occur, for example, if work hours are underreported, by workers whose productivity is evaluated on the basis of the work hour data, pushing productivities upward. Also, when measurement error is present in the dependent variable and if the measurement error and the regression disturbance term are uncorrelated with each other, then larger disturbance term variances, say from outlying residuals, can emerge, resulting in larger variances for least-squares estimates of the explanatory variable coefficient, and a lower rejection of the null hypothesis that the coefficient is equal to one.[6] More generally, when there are many bad observations in the dependant variable, there can be an increased probability of finding observations with outlying residuals, which is likely to disproportionately affect the estimates.

d. Errors In The Explanatory Variables

[90] In the single-variable case, errors in the explanatory variable are known to cause an attenuation bias in the estimates. That is, a least-squares estimated coefficient

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[3] *See* the following sources for discussions of the effects dependent variable measurement error: William H. Greene, *Econometric Analysis*, 3rd Edition, Prentice Hall, 1997, *Greene* at 83-90; Robert S. Pindyck and Daniel L. Rubinfeld, *Econometric Models and Econometric Forecasts*, 2nd Edition, McGraw-Hill, 1981 *Pindyck and Rubinfeld* at 177; Jeffrey M. Wooldridge, *Introductory Econometrics: A Modern Approach*, South-Western College Publishing, 2000, *Woolridge* at 293).

[4] *Pindyck and Rubinfeld*, at 177.

[5] *Woolridge* at 293.

[6] *Ibid*.

of the explanatory variable is biased towards zero under the same assumptions about the measurement error as in the previous case (zero mean, constant variance, additive, and uncorrelated with the dependent variable). In the multi-variable case there is also a bias, but the direction may not be able to be determined for any single coefficient. Nevertheless there is a general tendency for the estimated coefficients to be collectively biased towards zero.[7] It is also the case that the greater the variability in the measurement error, the worse the downward bias. For example, unexpectedly high productivity values — productivity values beyond the capacity of the machines — were screened by Postal Service witness Bozzo in his mail processing analysis, which can be extracted from Table I-2 columns (c) through (e). These extreme productivities account for one to 25 percent of the errors in the non-missing MODS data [column (c)] used in the analysis. If these productivities vary greatly, there will be added downward bias on the coefficient estimates.

[91] Several of the errors and anomalies shown in Table I-I indicate that the volume counts of parcels, accountables and letter mail initially reported for the CCSTS may also contain reporting errors, even though this data are drawn mostly from two ongoing postal information systems, DOIS and DSIS. The statistics in Table I-I show that this collection process resulted in a small number of very large day-to-day changes in the reported volumes. Table I-I contains a tabulation of the occasions in the CCSTS data when the largest or smallest number of parcels/accountables/letters differed from the mode for the route by an order of magnitude (i.e. either greater or less than a factor of 10). Although such fluctuations in volumes are possible, the probability of an order of magnitude change in volumes actually occurring on a city carrier route with many possible delivery points is vanishingly small. Anomalies like this should be checked carefully at the source because they are very likely to be reporting errors.

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[7] *Pindyck and Rubinfeld* at 177.

e. Properties of the Errors

[92] The general properties of the errors in the observations in the aggregated data sets used by witnesses Bradley and Bozzo cannot be definitely determined because, with the exception of the errors that are revealed by anomalies and omissions, these errors remain unknown. However, the general properties of the errors have to be assumed by econometricians in order to specify their models and to choose an appropriate technique for fitting these models. It appears that both the CCSTS and MODS collection systems are likely to leave witnesses Bradley and Bozzo with data sets with errors that have few of the redeeming properties assumed by their models and methods.

[93] Econometricians commonly rely on various kinds of assumptions when they specify and fit the equations of their models. For example,

- measurement errors are generated by processes that leave additive disturbances with zero means and constant variances,
- variances of the observation errors in explanatory variables are small relative to the variances of the quantities being measured, and,
- errors in the observations of dependent variables are uncorrelated with the observations of the explanatory variables.

[94] The general causes of anomalies, omissions, and mismatches in the unaggregated CCSTS and MODS data sets do not suggest that the observation errors have many properties that would be helpful to an econometrician. The gross errors left by the Postal Service in the data sets given to its econometricians are not likely to be simple additive disturbances with zero means and constant variances. Many of the errors may be caused by missing observations or mismatches that the Postal Service does not distinguish from true zero-valued observations in its recording practices. Errors caused in this way are not additive because the true value of the observed variable has been replaced by the error. Typically, the missing observation has a positive value.

[95] When witnesses Bradley and Bozzo include these incorrectly zero-valued observations in their aggregations they will always get variables in their respective ZIP/Day and Plant/MODS Code data sets that have errors with positive (rather than zero)

means. Many of the gross errors tabulated in Table I-II are quite large, indicating that the error processes cause errors with large variances. Most of the mechanisms that can be hypothesized for the error sources, such as the difficulties that the city carriers may have experienced with the CCSTS scanning system, suggest correlations between the errors and the measured values of variables other than the variable exhibiting the error.

7. The Postal Service's City Carrier Street Time Econometric Analysis

a. Summary

[96] Witness Bradley uses a quadratic functional form, which is one of several "flexible functional forms" to estimate two delivery equations.

- Regular delivery time (defined as the time to deliver letters, cased flats, sequenced mail, small parcels, and mail collected at the stop) as a function of sustained changes in the delivered volume of these mail shapes; and
- Parcel/accountable delivery time (defined as the time to deliver parcels, accountables, and the time to deviate from regular delivery to deliver parcels and accountables) as a function of sustained changes in the delivered volume of parcels and accountables.

[97] The quadratic flexible form regresses regular delivery time and parcel/accountable delivery time on each explanatory variable, its square, and its cross product or interaction with the remaining explanatory variables. Witness Bradley refers to this as a "full quadratic model." In addition to including mail shapes in each of his two equations, he also includes the number of possible delivery points in a ZIP Code, in order to capture both the effect of additional stops on delivery time and coverage per stop on delivery time. Tr. 6/2104-5. For his regular delivery equation, he also includes density, in order to measure expected changes in delivery time as the geographical dispersion of delivery points changes. Density was not included as an explanatory variable in the parcel/accountable equation because carriers were deemed to already be near parcel/accountable delivery points, and so the geographic dispersion of delivery

points would not be a relevant factor explaining changes in parcel/accountable delivery time.

[98] The explanatory variables in witness Bradley's regular delivery equation exhibited strong multicollinearity, which inflated the standard errors of individual coefficients and made it less likely that his estimates would be significantly different than zero. He dealt with this issue by dropping all 21 interaction variables from his regular delivery equation. This left only mail shape, the square of mail shape, delivery points, the square of delivery points, density, and its square. This is his proposed model, which he refers to as a "restricted quadratic model." USPS-T-14 at 38.

[99] Witness Bradley recommends his restricted quadratic model by arguing that it yields variability and marginal delivery time estimates that are as reasonable as several alternative specifications. USPS-T-14 at 44-55 Tr. 6/2220-24. Table I-4 below reproduces variabilities and marginal delivery times estimated for mail shapes by the different models tested by witness Bradley. The table also presents a specification requested by the Commission, *viz* a full quadratic model that removes only small parcel interaction terms. Tr. 6/2264. Marginal delivery times were calculated by mail shape for that specification and are presented in Table I-4.

b. Not-applicable Error Time (NAT) Raises a Risk of Bias

[100] Errors in the dependent variable will not bias regression estimates derived from a large sample unless the errors are correlated with the independent variables.[8] Unfortunately, the measurement error of NAT is significantly correlated with all explanatory variables except density, as shown in Table I-5 below. It should be noted that the presence of a significant amount of NAT that is correlated with the explanatory

[8] *Woolridge*, at 319; "Of much more importance (that measurement error in a dependant variable only biases the estimate of the intercept) is our assumption about the relationship between the measurement error, e_o, and the explanatory variables…" The usual assumption is that the measurement error in *y* is statistically independent of each explanatory variable."

Table I-4

Comparison Of Variability And Marginal Cost By Model: Regular Delivery												
	Letters		Flats		Sequenced Mail		Collection Mail		Small Parcels		DPS Mail	
Model	Variability	Marginal Seconds	Variability	Marginal Seconds	Variability	Marginal Seconds	Variability	Marginal Seconds	Variability	Marginal Seconds	Variability	Marginal Seconds
Full Quadratic*	23.60% [a]	1.53	11.38% [a]	2.26	0.69%	0.46	4.70% [a]	2.22	-1.96%	-12.29		
Proposed	22.28% [a]	1.39	7.12%	1.36	1.29%	0.82	8.82% [a]	4.00	1.58%	9.56		
Full Quadratic Dropping Only Small Parcel Crossproducts *	23.25%	1.48	11.09%	2.15	0.76%	0.49	5.05%	2.33	0.48%	2.94		
Fixed Effects	5.39% [a]	0.27	4.32% [a]	0.65	1.46% [a]	0.74	1.97% [a]	0.71	0.76%	3.66		
Route-level	2.93% [a]	0.19	-3.47% [a]	-0.68	1.63% [a]	1.07	0.23% [a]	0.11	3.30% [a]	20.47		
Alternate Volume	6.89% [a]	1.26	6.60%	1.25	1.21%	0.76	8.55% [a]	3.84	0.34%	2.01	20.69% [a]	1.94
Day of Week (Wednesday)	23.87% [a]	1.47	6.80%	1.27	1.02%	0.64	8.82% [a]	3.93	1.78%	10.52		
Cross Section	32.32%	2.04	3.27%	0.63	-0.28%	-0.018	9.29% [a]	4.26	4.26%	26		
Weighted by # of Routes	25.09% [a]	1.61	6.22%	1.22	0.76%	0.5	9.99% [a]	4.65	1.75%	10.84		
Weighted by Inverse of # of Routes	20.03% [a]	1.20	10.65% [a]	1.95	1.09%	0.66	7.00% [a]	3.05	1.10%	6.39		
Keeping Problem Zip Codes	23.23% [a]	[a] 1.44	7.91%	1.51	1.23%	0.79	8.53% [a]	3.90	1.89%	11.34		
Translog Aggregate	34.00%	1.23										

* Marginal delivery times calculated by Commission staff.
[a] indicates a coefficient significantly different from zero at a 95 percent level of confidence.
Sources: USPS-T-14 at 44-55, Response Of United States Postal Service to Presiding Officer's Information Request No.6; Question 6, Tr. 6/2220-24; Response Of United States Postal Service to POIR No 9, Question 11, *Id.* at 2264; "Dropping interactions with small parcels.sas.; OCA/USPS-T-14-11 Attachment, *Id.* at 2120-54; "Addtl Marginal Times.xls," PRC-LR-14.

variables would undermine the accuracy of any model specification using this data set, not just those of witness Bradley.

Table I-5

Correlation of Error Scans and CCSTS Independent Variables	
Independent Variable	Correlation Coefficient
Letters	0.7*
Flats	0.62*
Sequenced Mail	0.22*
Small Parcels	0.53*
Collection Mail	0.27*
Large Parcels	0.49*
Accountables	0.56*
Delivery Points	0.68*
Density	-0.01

* Correlated at a 99 percent level of significance.
Source: PRC-LR-14, "NAT CORREL TEST.sas."

c. Missing Observations May Be Another Source Of Bias

[101] As noted in Section 6.B above, selection bias can occur when a sample data set is reduced in a non-random way. That is probably the case with the dataset witness Bradley used to estimate his delivery models. This Appendix has documented the high proportion of routes and days omitted by witness Bradley. The high proportion of omitted observations in his data set makes (it very likely that the data set reduction process was not random), and that some form of selection bias was introduced into the resulting estimates. This means that the aggregation of times and piece counts by shape from the route to the ZIP Code-level does not accurately reflect actual times and volumes of mail delivered at the ZIP Code-level. The result is that the ZIP Code-level data do not correspond in definition to the variables in the nonlinear models being fit by witness Bradley. Rather, ZIP Code-level times and volumes are varying in large part due to the extent to which the route-day-level data are omitted. That is, the estimated parameters

are biased. The direction of the bias of estimated parameters will depend on the pattern of omitted data across the time-volume cost function. In addition, the large share of missing values will also affect the value of time at the mean delivery time. Since the estimated value of delivery time, as well as the estimated mail shape parameters, were used to estimate mail shape variabilities, these variabilities are also biased in an unknown manner.

d. Other Econometrics Issues

[102] One issue of concern for any econometric study is whether it produces stable and common-sense results. Examination of Table I-4 suggests a lack of robust or stable results across specifications and sample sizes. The estimated marginal times for one mail shape can vary substantially across models or reasonable rearrangements of the sample. For example, the marginal time to deliver small parcels varies from over 20 seconds when the model is fit to data organized at the route-level, to 2 seconds for the alternate volume specification when that model is fit to data aggregated to the ZIP Code-level, to negative 12 seconds for the ZIP Code-level full quadratic specification. And while marginal delivery time for small parcels is generally higher when the models are fit to data organized at the route rather than ZIP Code-level, the opposite is the case for letters and flats. Relative delivery time for letters and flats, those mail shapes with the highest relative volumes, also differ substantially across most of the models presented by witness Bradley, in contrast to their near equality in the proposed model and the "Alternate Volume," "Keeping Problem Zip Codes," and perhaps, "Day of Week," models.

[103] Examination of the marginal times in Table I-4 reveals other anomalous results. The marginal time for small parcels is negative in the full quadratic. This is an anomaly that witness Bradley corrects by eliminating the interaction terms. In addition, the marginal time for letters (1.39 seconds) is larger than the marginal time for flats (1.36 seconds). Flats ought to take somewhat longer to deliver, because of their larger size and less convenient shape, than letters. Although the difference is not statistically

significant, it is an important difference because of the high volumes of these two shapes.

[104] Another concern for any econometrician is the proper specification of the model. This may arise in the CCSTS study since an explanatory variable, delivery points, may not be exogenous to the model, but is determined simultaneously with the dependent variable, in this case delivery time. When this happens, the explanatory variable would generally be correlated with the error term and would yield biased estimates. Witness Bradley describes just such a simultaneity problem as a result of route restructuring. As he explains, managers periodically decide how to optimize route delivery time within a ZIP Code by minimizing the variation in day-to-day route time delivery. USPS-T-14 at 25. This in turn affects the number of delivery points allocated to each route. This practice has the effect of inter-relating all of the daily activities on a single route. For example, a route that characteristically requires a high amount of preparatory office time will characteristically require a smaller amount of street time than other routes and vice versa. Any route-level model would have to consider the simultaneity caused by the time constraint of maintaining daily work hours to a relatively narrow band. A pure ZIP Code-level model might avoid the problem if there were no missing route days in the aggregated data set, but this is not the case in the present study.

[105] Another specification issue is whether the model is specified at the proper level of aggregation. Witness Bradley does not distinguish between ZIP-level and route-level effects in any of his models. He argues that the analysis should be performed at the ZIP Code-level because as mail volume and delivery time increase at the route-level, managers will optimize route structures and schedules at the ZIP Code-level, resulting in minimal variation in delivery time to explain at the route-level. USPS-T-14 at 25. A model fit to his ZIP/Day data set combines the route-level and ZIP-level effect of volume changes on delivery time. However, the CCSTS data set is a set of ZIP/Route/Day observations with notable variation of time at the route-level. Analysis of street time by route in the data set used by witness Bradley to estimate his regular

delivery model shows that 26 percent of routes differed 1.5 hours or more per day from their mean street time.[9] A simple comparison of the ratio of the standard deviation of delivery time to the standard deviation of mail volume also suggests that proper specification of route-level effects could produce meaningful results. When the ratio at the ZIP Code and route-levels is calculated, the route-level ratio of 3.6 to 1 is approximately the same as the ZIP Code-level ration of 4.2 to 1.[10] In addition, the coefficient of variation for the combination of regular and parcel-accountable delivery time is high (47 percent) at the route level.[11] Both calculations suggest there may be enough variation for a properly specified route-level model to show meaningful results.

[106] There would be several advantages, both conceptual and practical, to employing a model that separates the route-level and ZIP-level effects of volume on delivery time. The most important of the conceptual advantages is that marginal times would be clearly separated into components for the additional time taken by individual carriers to deliver more mail in the short run over a fixed system of routes, and the longer run restructuring and addition of routes and increasing scale at the ZIP level in response to sustained changes in volumes. The practical advantages include using disaggregated data with far more observations, avoiding a ZIP-level aggregation over dissimilar numbers of routes that is bound to leave the fitted equations exhibiting heteroskedastic disturbances, and minimizing the mis-measurement of variables that contain route-level errors but are aggregated to the ZIP Code-level.

[107] A final econometric issue is whether the omission of explanatory variables has produced biased estimates. This would be the case if the omitted variables provided significant explanatory power to the model.[12] This appears to be the case in the CCSTS due to witness Bradley's treatment of multicollinearity. The estimates from witness Bradley's full quadratic regular delivery model displayed a serious problem that would

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9 "STDs Street Time Pct GT 1.5 Rt Level.sas," PRC-LR-14.

10 "STD RT ZIP.sas," PRC-LR-14.

11 "cv alldel rt.sas," PRC-LR-14.

12 *Greene* at 149.

prevent using his elasticity estimates to attribute street time costs to individual mail shapes. Specifically, his results indicate that the marginal time for small parcels was negative, although the negative coefficient estimate for small parcels was not significantly different from zero.

[108] Witness Bradley states that his full quadratic model exhibited a high degree of multicollinearity, both because many of the coefficients of the model were not significantly different from zero, a good indication that multicollinearity may be present, and by means of statistical tests. USPS-T-14 at 36. His solution to this problem involved taking the drastic step of dropping all the interaction terms, rather than attempting to limit the number of omitted variables by eliminating those interaction terms most correlated with other variables. The risk of omitting variables is that they may be correlated with the remaining variables, in which case the estimated parameters of the remaining variables would be biased, as discussed above.

[109] Witness Bradley provides evidence that his restricted quadratic estimates are indeed biased for this reason. Tr. 6/2258-62. He also provides evidence that the omitted interaction terms provided significant explanatory power as a group. *Id.* at 2263. Similarly, the R-squares for the fitted equations show that the restricted model is notably less effective in explaining regular delivery time than the full quadratic model. With the interaction terms gone, the restricted equation no longer approximates all other functional forms. Although the coefficient of small parcels becomes positive when all interaction terms are omitted, its coefficient still remains insignificantly different from zero at a 95 percent level of confidence.

[110] Obtaining a positive coefficient and elasticity estimate for small parcels was achieved by introducing bias and reducing explanatory power. It would have been possible to achieve a positive sign for the coefficient estimated for small parcels by removing fewer variables. In response to a Commission request, witness Bradley performed an estimation that involved removing only the small parcel interaction terms from the Full Quadratic specification. *Id.* at 2264. The results of this request are presented in Table I-4, and have been titled “Full Quadratic Dropping Only Small Parcel

Crossproducts." As witness Bradley points out, dropping all the interaction terms "raises the possibility of inducing bias," if the omitted variables are correlated with the remaining regressors, which witness Bradley shows is the case. *Id.* at 2258. Besides removing the negative coefficient on small parcels, the marginal time estimates for this equation avoids the previously discussed anomalies. In addition, as shown in Table I-4, the model yields marginal times and variabilities for collection mail that are 42 percent and 43 percent less, respectively, than those for witness Bradley's proposed model. Since nearly all of the costs of collection mail are recovered from single-piece First Class Mail, the cost of single-piece First Class Mail would have been reduced had this alternate model been proposed.

8. The Postal Service Mail Processing Analysis

a. Summary of the Mail Processing Analysis

[111] Postal Service witness Bozzo's mail processing labor time model is a direct descendant of models proposed by witness Bradley in Docket No. R97-1 and by witness Bozzo himself in Docket Nos. R2000-1 and R2001-1. These models were rejected by the Commission in the past for reasons that still largely apply to witness Bozzo's current model. The revisions in the current model, except as they apply to the manual labor pools, appear to be minor. Witness Bozzo's direct testimony mostly reargues the Commission's critique of the model he presented in Docket No. R2000-1.

[112] Witness Bozzo states that

> The principle features of the updated analysis (R2005-1, T-12) are the incorporation of a more recent data set from MODS and other sources through FY 2004, and the implementation of econometric methods to address errors-in-variables/simultaneity issues raised by the Commission in past Opinions and by Prof. Mark Roberts in an OCA-sponsored paper from 2002. USPS-T-12 at 1.

b. Instrumental Variables Estimation

[113] Instrumental variables (IV) is a widely used econometric solution to explanatory variable measurement error problems and simultaneity bias. However, appropriate instruments appear to be very difficult to find in the presence of measurement error.[13]

[114] Witness Bozzo agrees that

> "Prof. Roberts offers a solution for what has arguably been the central econometric controversy: the potential inconsistency of variability estimates from least squares regression due to measurement error and simultaneity in MODS output measures. … Prof. Roberts introduced an 'instrumental variables' estimation approach that can, under suitable conditions, yield consistent parameter estimates in the presence of measurement error (Roberts, op.cit. at 51-57)." USPS-T-12 at 6-7.

[115] Professor Roberts' solution is to change the analytical framework from the mail sorting operations level, where simultaneity bias is introduced via the simultaneous decisions made by plant managers at the plant level, to a plant-level framework. Professor Roberts then uses an instrumental variables approach to take care of the remaining measurement error downward bias (attenuation).

c. The Treatment of Measurement Error

[116] While witness Bozzo accepts the need for instrumental variables to address measurement error in the MODS data for manual operations, he appears to dismiss Professor Roberts' simultaneity bias concerns at the mail sorting operations level in two ways:

1. By viewing measurement error and simultaneity bias as mathematically equivalent, presumably requiring only one "catch-all" instrumental variables estimation solution, and
2. By viewing managers' decisions at the plant level as deter-

[13] *Pindyck and Rubinfeld* at 180.

> mined by policy and the machinability of mail and not as managers' attempts to optimally allocate the mail volume across alternative sorting processes.

[117] It is unlikely that the same instrumental variables, for all intents and purposes, would be appropriate for both measurement error and simultaneity bias in this situation, or at least witness Bozzo has not eliminated the possibility. Different instruments appear to be needed to correct for data error and the simultaneity problems. There are also likely to be a number of instrumental variables within the MODS data set itself that could be tested for possible use in instrumental variables estimations. The requirement that instrumental variables be highly correlated with the explanatory variable introducing the bias is a requirement that can be tested.[14] Witness Bozzo supplies no evidence of instrumental variables testing. He curiously chooses First Handling Pieces (FHP) as his instrumental variable after extensively discussing the unsuitability of FHP as an explanatory variable. USPS-T-12 at 12-16. He specifically chooses the sum of FHP for manual flats, total Flat Sorting Machine (FSM) (Groups 5-6), and the Automated Flat Sorting Machine 100 (AFSM100) operations as an instrument for manual letters, Optical Character Reader (OCR), Bar Code Sorter (BCS), and Delivery Bar Code Sorter (DBCS). It is not clear how witness Bozzo determined that that single instrument would be the most highly correlated instrument for all four cost pools.

d. Simultaneity

[118] Witness Bozzo treats the differences between his and Professor Roberts' models as a disagreement over whether TPF is superior to FHP as a measure of output. However, the important difference between these models appears to be that Roberts regards manual and mechanized (or automated) sorting operations on similar pieces (such as letters) to be short run alternatives. In Professor Roberts' model, the allocation of pieces to manual or mechanized processes is an economic decision that is determined partly by the relative labor costs in the alternative operations. Witness Bozzo

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[14] *Wooldridge* at 463.

views the choice of alternatives as non-economic, i.e., driven entirely by the available technology.[15]

[119] Witness Bozzo contends that "to whatever extent capital and labor are "endogenous" over lengthy time horizons, they are not determined simultaneously." USPS-T-12 at 11. In standard econometric practice, that endogeneity is synonymous with simultaneity. Simultaneity, can mean, but is not restricted to mean, "at exactly the same time." The more specific econometric meaning is that there is feedback that brings about a dependency between two variables. Employment contracts can make it very costly for the Postal Service to adjust labor in the short-run, so labor adjustments can also precede capital. A feedback system seems evident. Underutilized mail processing machines appear more likely to be shipped to other plants than is underutilized labor.

[120] Professor Roberts' argument that there is simultaneity bias at the individual cost pool level is plausible. He chose to use the FHP variable to correct for the simultaneity bias problem in an attempt to create a plant-level model, but this method seems unlikely to be the only method to correct simultaneous bias. For example, simultaneity bias at the individual cost pool level can be viewed as a missing variables problem.

[121] When hours and volume are chosen simultaneously at a higher level (plant-level) than the level of analysis (cost pool or machine-level), and the estimation procedure does not account for the simultaneity, then it is possible that there will be a simultaneity bias in ordinary least squares (OLS) estimates. The limited-information maximum likelihood (LIML) estimation procedure used by witness Bozzo on the manual processing pools was actually invented for the purpose of estimating the parameters of a linear equation when the equation is a member of a simultaneous set of equations. LIML

[15] Witness Bozzo also indicates that his use of an instrumental variables procedure for his manual operations estimations is partly intended to deal with this simultaneity issue raised by Prof. Roberts. If so, then an instrumental variables approach should have also been used on the automated/mechanized operations and witness Bozzo's choices of variables and instruments should have been somewhat different. Different problems (measurement error and simultaneity bias) require different solutions or instruments. Instruments should not be randomly chosen. Instead, they should be tested and compared with other instruments.

is mathematically equivalent to instrumental variables (IV) when a specific set of rules are applied to derive the instruments, one for each co-determined variable.

[122] The effects of both measurement error and simultaneity bias on least squares estimates are typically described as *correlation* between the estimated coefficient on the explanatory variable (measured with error and/or receiving feedback from the dependent variable) and the regression disturbance term. LIML and IV estimates would not be equivalent for treating simultaneity and measurement error, as presented by witness Bozzo, because of the very different rules for choosing instruments when the errors have different causes. USPS-T-12 at 6-7. For dealing with simultaneity, the instruments are derived by performing a first-stage regression of the co-determined variables on the exogeneous variables of the entire simultaneous system of equations. For measurement error, the instruments are selected by finding variables that are highly correlated with the variables having the measurement error but are uncorrelated with the errors themselves.

e. Sample Selection Bias

[123] For the MODS sample used by witness Bozzo in the regressions, both missing and detected erroneous observations were eliminated in the screening process. In Table I-2 columns (a) and (b) present the actual number of observations out of the 8,424 original potential observation dataset and Table I-3 column (a) gives the percentages of errors only, that were ultimately detected and eliminated by witness Bozzo. These percentages range from 5 to 40 percent of the sample for the various MODS pools.

f. Other Econometrics Issues

[124] Witness Bozzo's mail processing variabilities for mechanized and automated mail processing operations are still typically too low to conform to what the Commission has been told in the past about these operations. Specifically, the low variability

estimates make sense only if mail processing equipment is manned but not in full operation much of the time. Postal Service witnesses have asserted that setup and takedown times are large enough to account for the low variabilities. Witness Bozzo references, for example, Postal Service witness Kingsley's "setup/takedown time" theory from past cases as an explanation for why volume variabilities may be significantly less than one. Docket No. R2001-1, USPS-T-39. With this "setup/takedown time" theory, two possible scenarios are:

1. The setup/takedown time is always a part of each mail processing run, so many runs would require many setup/takedown times.
2. The setup/takedown time is only present at the beginning (setup time) and the end (takedown time) of a long series of continuous nonstop mail processing runs, so many runs would require only one setup/takedown time.

[125] In Scenario 1, if the setup/takedown time would always be present with each run, then it would be a part of the costs for each run. Thus, if volume were to double and require a second run, associated costs would double: variability is equal to one. In Scenario 2, if the setup/takedown time costs would only be present at the beginning and end of a long series of continuous nonstop mail processing runs, then these costs would appear to be very small. Thus, if volume were to double, the costs associated with its processing would not appear to be significantly different: variability is not significantly different from one.

[126] It seems quite possible that the low estimates are due to an attenuation bias resulting from the error in MODS data sample used in the analysis. This view is only reinforced by the fact that the manual operations variabilities are closer to one after witness Bozzo attempts to estimate the variabilities using an instrumental variables procedure (LIML). Also, the fact that two of the analyzed operations have variabilities greater than one appears to generate a counter example to witness Bozzo's own assertions on the effect of setup/takedown time.

[127] Most of the elasticities for the capital variable from witness Bozzo's equations continue to contradict expectations. One would expect these elasticities to be negative

in order to plausibly capture the tradeoffs between labor and capital at the plant level. It is also troubling that the coefficients are not generally significant. This may suggest that the capital measure is not a particularly good one. Witness Bozzo's discussion of how the capital elasticities can be positive is potentially distracting from the important issue that there should be a tradeoff between labor and capital captured in a correctly specified model.

[128] Based on witness Bozzo's own descriptions of his model, it appears that the inclusion of the wage rate variable in his equations is a misspecification. Witness Bozzo's model applies to single operations, and he regards the capital input for these operations as "quasi-fixed" in the short run. He also treats TPF as exogenous. Labor appears to be the only input that is variable in the short run. This would mean that the fitted functions are just single-input productivity curves solved for the labor input required to produce the TPF. Any substitution of labor and capital appears to be assumed away in witness Bozzo's specification, thus leaving no place for the wage rate in his regressions. Relative input prices would have no role in a one-variable-input production model. In witness Bozzo's model, mail processing labor time in any single operation would be determined solely by the productivity curve for the operation, given TPF, the capital variable, and the other exogenous plant descriptors. The OCA has also expressed concern regarding the overly restrictive model of production used by witness Bozzo. OCA Brief at 41-44.

[129] Witness Bozzo appears to also treat the mail that arrives to be processed at the plants as exogenous, but his sample shows that the number of ZIP Codes assigned to each plant frequently changes fairly rapidly over time. The Postal Service may be actively reallocating mail to plants to reduce labor costs. Witness Bozzo's variabilities are apparently calculated in a way that corresponds to the implicit assumption that changes in system volumes are allocated proportionately to the plants.

Table I-I: Evidence of Errors in Data Collection and Reporting with examples

Source	Data Set	Description of the Error, Omission or Anomaly	Number	Percent	Example ID	Date/AP	1st Variable	Value	2nd Variable
CCSTS	Routes	Not Applicable Time > .05 X Total Street Time	14601	47.04%	1352856.03	05/30/02	n/a time	18414	total time
		Not Applicable Time > .25 X Total Street Time	3565	11.48%			(seconds)		(seconds)
		Not Applicable Time = Total Street Time	56	0.18%					
CCSTS	Routes	Total Street Time < 10 minutes	119	0.38%	823126.44	05/18/02	total time (seconds)	8	
CCSTS	Routes	Number of Large Parcels > 10 X Median No.	14	0.42%	1495397.09	all dates	max pcls	168	median pcls
		or No. of Large Parcels < .10 X Median No.			6915709.12	all dates	min pcls	3	median pcls
		(and No. of Large Parcels > 0)							
CCSTS	Routes	Number of Small Parcels > 10 X Median No.	29	0.87%	5161981.04	all dates	max spcls	115	median spcls
		or No. of Small Parcels < .10 X Median No.			3023743.26	all dates	min spcls	5	median spcls
		(and No. of Small Parcels > 0)							
CCSTS	Routes	Number of Accountables > 10 X Median No.	11	0.33%	9272079.40	all dates	max acts	89	median acts
		or No. of Accountables < .10 X Median No.							
		(and No. of Accountables > 0)							
CCSTS	Routes	Stamped Letters Collected > 10 X Median Pcs.	151	4.53%	264816.09	all dates	max sl	2755	median sl
		or Stamped Letters Collected < .10 X Median Pcs.			502885.08	all dates	min sl	19	median sl
		(and Stamped Letters Collected > 0)							
CCSTS	Routes	Metered Letters Collected > 10 X Median Pcs.	152	4.56%	1376260.40	all dates	max ml	1368	median ml
		or Metered Letters Collected < .10 X Median Pcs.			264816.05	all dates	min ml	19	median ml
		(and Metered Letters Collected > 0)							
CCSTS	Routes	DPS Letters Delivered > 10 X Median Pcs.	6	0.18%	2958650.12	all dates	max dpsl	15448	median dpsl
		or DPS Letters Delivered < .10 X Median Pcs.							
		(and DPS Letters Delivered > 0)							
CCSTS	Routes	Cased Letters Delivered > 10 X Median Pcs.	30	0.90%	2071680.21	all dates	max cl	2066	median cl
		or Cased Letters Delivered < .10 X Median Pcs.			2330822.09	all dates	min cl	31	median cl
		(and Cased Letters Delivered > 0)							

Table I-I (Continued): Evidence of Errors in Data Collection and Reporting

Source	Data Set	Description of the Error, Omission or Anomaly	Number	Percent	Example ID	Date/AP	1st Variable	Value	2nd Vari
MODS	Acct Period	MPBCS Total Pieces Handled > Total Pieces Fed	35	0.16%	2	200003	TPH	20422	TPF
		Total Pieces Handled < .80 X Total Pieces Fed	677	3.17%	11	200204	TPH	3477	TPF
		Change in TPF/Hour > 50 Percent of TPF/Hour	690	3.24%	22	200010	TPF/Hour	19051	Previous T
MODS	Acct Period	DBCS Total Pieces Handled > Total Pieces Fed	52	0.21%	198	199905	TPH	188215	TPF
		Total Pieces Handled < .80 X Total Pieces Fed	25	0.10%	276	200110	TPH	180494	TPF
		Change in TPF/Hour > 50 Percent of TPF/Hour	120	0.48%	31	199905	TPF/Hour	11138	Previous T
MODS	Acct Period	OCR Total Pieces Handled > Total Pieces Fed	9	0.04%	282	199902	TPH	41328	TPF
		Total Pieces Handled < .80 X Total Pieces Fed	66	0.30%	173	199903	TPH	1662	TPF
		Change in TPF/Hour > 50 Percent of TPF/Hour	319	1.46%	1	200204	TPF/Hour	3988	Previous T
MODS	Acct Period	FSM 881 Total Pieces Handled > Total Pieces Fed	40	0.30%	135	199902	TPH	25634	TPF
		Total Pieces Handled < .80 X Total Pieces Fed	138	1.04%	24	200007	TPH	5767	TPF
		Change in TPF/Hour > 50 Percent of TPF/Hour	256	1.93%	47	200001	TPF/Hour	1413	Previous T
MODS	Acct Period	FSM 1000 Total Pieces Handled > Total Pieces Fed	88	0.52%	135	199902	TPH	10703	TPF
		Total Pieces Handled < .80 X Total Pieces Fed	41	0.24%	200	200111	TPH	2050	TPF
		Change in TPF/Hour > 50 Percent of TPF/Hour	160	0.95%	100	200301	TPF/Hour	860	Previous T
MODS	Acct Period	Man Flats Change in TPH/Hour > 50 Percent of TPH/Hour	819	3.34%	5	200105	TPH/Hour	941	Previous T
		Man Letters Change in TPH/Hour > 50 Percent of TPH/Hour	306	1.23%	51	200206	TPH/Hour	899	Previous T
		Man Parcels Change in TPH/Hour > 50 Percent of TPH/Hour	1206	5.55%	13	200310	TPH/Hour	168	Previous T
		Priority Change in TPH/Hour > 50 Percent of TPH/Hour	1322	6.30%	3	199910	TPH/Hour	546	Previous T
		Cancellations Change in TPH/Hour > 50 Percent of TPH/Hour	471	1.96%	29	200104	TPH/Hour	9333	TPH/Ho
MODS	Acct Period	SPBS Total Pieces Handled > Total Pieces Fed	227	1.40%	2	200003	TPH	3339	TPF
		Total Pieces Handled < .80 X Total Pieces Fed	13	0.08%	23	200011	TPH	2374	TPF
		Change in TPF/Hour > 50 Percent of TPF/Hour	186	1.15%	13	200309	TPF/Hour	107	Previous T
MODS	Acct Period	AFSM 100 Total Pieces Handled > Total Pieces Fed	41	0.39%	83	200108	TPH	12388	TPF
		Total Pieces Handled < .80 X Total Pieces Fed	5	0.05%	206	200101	TPH	919	TPF
		Change in TPF/Hour > 50 Percent of TPF/Hour	39	0.37%	271	200112	TPF/Hour	1505	Previous T

See PRC-LR-14.

Table I-II: Evidence of Failures in Data Quality Control

Source	Data Set	Description of the Error, Omission or Anomaly	Number	Percent	Example ID	Date/AP	1st Variable	Value	2nd Variable	Va
CCSTS	Routes	Number of Large Parcels > 200	58	0.19%	8131706.04	05/20/02	pcl	1880		
		Number of Small Parcels > 200			3117064.20	05/20/02	sprs	258		
		Number of Accountables > 100			8885626.07	05/28/02	act	208		
		Number of Bulk Deliveries > 100			3341404.18	05/21/02	blk	1044		
CCSTS	Routes	Letters and Flats Pieces Collected > 2400	161	0.52%	2523329.04	05/24/02	lc+fc	61572		
		Letters Pieces Collected not evenly divisable by 19	977	3.15%	1495397.08	06/07/02	lc	18.05		
		Flats Pieces Collected not evenly divisable by 10	570	1.84%	275455.48	05/29/02	fc	122.5		
CCSTS	Routes	Priority, Express & Parcels Collected > 25	100	0.32%	3023743.47	06/11/02	prc+exc+pclc	78207		
CCSTS	Routes	DPSL Pieces Delivered > 5000	19	0.06%	2958650.12	05/30/02	dpsl	15448		
		or DPSL No. of Pieces not an Integer			8755088.04	05/29/02	dpsl	705.5		
CCSTS	Routes	Cased Letters Pieces Delivered > 5000,	38	0.12%	1830982.01	05/20/02	cl	17086		
		Negative Cased Letters Pieces Delivered			6260501.66	05/29/02	cl	-409		
		or No. of Pieces not an Integer								
CCSTS	Routes	Cased Flats Pieces Delivered > 3000,	34	0.11%	5079251.21	05/29/02	fl	4026		
		Negative Cased Flats Pieces Delivered			680989.22	06/01/02	fl	-374		
		or No. of Pieces not an Integer								
CCSTS	Routes	Sequenced Mail Pieces Delivered > 4000,	26	0.08%	3275234.42	06/05/02	seq	6677		
		Negative Sequenced Mail Pieces Delivered			6566657.61	05/18/02	seq	-730		
		or No. of Pieces not an Integer								

Table I-II (Continued): Evidence of Failures in Data Quality Control

Source	Data Set	Description of the Error, Omission or Anomaly	Number	Percent	Example ID	Date/AP	1st Variable	Value	2nd Variat
MODS	Acct Period	MPBCS Total Pieces Fed per Hour > 22,500 (Bozzo)	1045	4.90%	9	199903	Hours	2714	TPF (1000
		MPBCS Total Pieces Fed per Hour < 500 (Bozzo)	66	0.31%	45	199909	Hours	92352	TPF (1000
		Negative Hours, Total Pieces Fed or Total Pieces Handled	19	0.09%	25	200011	Hours	-2761	TPF (1000
					274	200008	Hours	141	TPH (1000
MODS	Acct Period	DBCS Total Pieces Fed per Hour > 22,500 (Bozzo)	174	0.70%	42	200206	Hours	740	TPF (1000
		DBCS Total Pieces Fed per Hour < 500 (Bozzo)	35	0.14%	33	199909	Hours	1275265	TPF (1000
		Negative Hours, Total Pieces Fed or Total Pieces Handled	4	0.02%	250	200002	Hours	-7869	TPF (1000
					222	200013	Hours	1319	TPH (1000
MODS	Acct Period	OCR Total Pieces Fed per Hour > 15,000 (Bozzo)	491	2.25%	35	200412	Hours	3	TPF (1000
		OCR Total Pieces Fed per Hour < 500 (Bozzo)	42	0.19%	76	200304	Hours	3220	TPF (1000
		Negative Hours, Total Pieces Fed or Total Pieces Handled	10	0.05%	288	200002	Hours	-1826	TPF (1000
					214	200011	Hours	7890	TPF (1000
MODS	Acct Period	FSM 881 Total Pieces Fed per Hour > 1,500 (Bozzo)	99	0.75%	160	200005	Hours	34	TPF (1000
		FSM 881 Total Pieces Fed per Hour < 150 (Bozzo)	170	1.28%	73	200204	Hours	22816	TPF (1000
		Negative Hours, Total Pieces Fed or Total Pieces Handled	9	0.07%	293	200106	Hours	-17	TPF (1000
					206	200103	Hours	17	TPH (1000
MODS	Acct Period	FSM 881 Total Pieces Fed per Hour > 1,500 (Bozzo)	686	4.08%	43	200303	Hours	186	TPF (1000
		FSM 881 Total Pieces Fed per Hour < 150 (Bozzo)	68	0.40%	316	200002	Hours	964	TPF (1000
		Negative Hours, Total Pieces Fed or Total Pieces Handled	1	0.01%	256	200103	Hours	-5	TPF (1000
MODS	Acct Period	Man Flats Total Pieces Handled per Hour > 1,000 (Bozzo)	1012	4.13%	31	199903	Hours	9	TPH (1000
		Man Flats Total Pieces Handled per Hour < 100 (Bozzo)	443	1.81%	58	199910	Hours	6655	TPH (1000
		Negative Hours or Total Pieces Handled	25	0.10%	339	200106	Hours	-3946	TPH (1000
					331	200202	Hours	13	TPH (1000
MODS	Acct Period	Man Letters Total Pieces Handled per Hour > 1,400 (Bozzo)	389	1.57%	87	199901	Hours	2070	TPH (1000
		Man Letters Total Pieces Handled per Hour < 100 (Bozzo)	57	0.23%	217	200112	Hours	36468	TPH (1000
		Negative Hours or Total Pieces Handled	1	0.00%	76	199908	Hours	27001	TPH (1000
MODS	Acct Period	Man Parcels Total Pieces Handled per Hour > 800 (Bozzo)	3517	16.19%	6	200112	Hours	38	TPH (1000
		Man Parcels Total Pieces Handled per Hour < 25 (Bozzo)	376	1.73%	59	200112	Hours	715	TPH (1000
		Negative Hours or Total Pieces Handled	16	0.07%	85	199902	Hours	-184	TPH (1000
					11	199902	Hours	1438	TPH (1000
MODS	Acct Period	Priority Mail Total Pieces Handled per Hour > 700 (Bozzo)	2043	9.73%	2	200404	Hours	89	TPH (1000
		Priority Mail Total Pieces Handled per Hour < 25 (Bozzo)	260	1.24%	25	200303	Hours	112	TPH (1000
		Negative Hours or Total Pieces Handled	74	0.35%	66	199909	Hours	1679	TPH (1000
MODS	Acct Period	Cancellations Total Pieces Handled per Hour > 12,000	432	1.80%	28	200411	Hours	629	TPH (1000
		Cancellations Total Pieces Handled per Hour < 1,000	116	0.48%	35	200403	Hours	864	TPH (1000
		Negative Hours or Total Pieces Handled	8	0.03%	351	200012	Hours	-7	TPH (1000
					121	199903	Hours	451	TPH (1000
MODS	Acct Period	SPBS Total Pieces Fed per Hour > 725 (Bozzo)	63	0.39%	196	200111	Hours	5271	TPF (1000
		SPBS Total Pieces Fed per Hour < 50 (Bozzo)	31	0.19%	100	199907	Hours	2117	TPF (1000
		Negative Hours, Total Pieces Fed or Total Pieces Handled	4	0.02%	210	200012	Hours	7258	TPF (1000
MODS	Acct Period	AFSM 100 Total Pieces Fed per Hour > 3000 (Bozzo)	184	1.76%	69	200105	Hours	83	TPF (1000
		AFSM 100 Total Pieces Fed per Hour < 750 (Bozzo)	7	0.07%	349	200311	Hours	500	TPF (1000
		Negative Hours, Total Pieces Fed or Total Pieces Handled	0	0.00%					

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Table I-III: Evidence of Problems Matching Observations from Different Sources

Source	Data Set	Description of the Error, Omission or Anomaly	Number	Percent	Example ID	Date/AP	1st Variable	Value	2nd Varia
CCSTS	Routes	Parcels and Accountables Time > 0, Possible Deliveries = 0	213	0.69%	264816.00	05/20/02	pcl+act seconds	1065	deliverie
		Parcels and Accountables Time = 0, Possible Deliveries > 0	4679	15.07%	2634763.01	06/01/02	pcl+act seconds	0	deliverie
		Parcels and Accountables Time > 0, Pcl and Act Pieces = 0	568	1.83%	275455.07	05/28/02	pcl+act seconds	1550	pcl+act pie
		Parcels and Accountables Time = 0, Pcl and Act Pieces > 0	4487	14.46%	1352856.01	05/18/02	pcl+act seconds	0	pcl+act pie
		Parcels and Accountables Pieces > 0, Possible Deliveries = 0	275	0.89%	8131706.04	05/20/02	pcl+act pieces	2390	deliverie
		Parcels and Accountables Pieces = 0, Possible Deliveries > 0	822	2.65%	4228438.01	05/20/02	pcl+act pieces	0	deliverie
CCSTS	Routes	Letter Mail Time > 0, Possible Deliveries = 0	261	0.84%	5917898.44	05/18/02	letters seconds	10182	deliverie
		Letter Mail Time = 0, Possible Deliveries > 0	1817	5.85%	8586719.01	05/18/02	letters seconds	0	deliverie
		Letter Mail Time > 0, Letter Mail Pieces + inches Collected = 0	62	0.20%	1432093.81	05/23/02	letters seconds	16457	letters pie
		Letter Mail Time = 0, Letter Mail Pieces + inches Collected > 0	1850	5.96%	2432303.01	05/13/02	letters seconds	0	letters pie
		Letter and Flats + inches Collected > 0, Possible Deliveries = 0	293	0.94%	9797599.26	05/18/02	letters+flats	1626	deliverie
		Letters and Flats + inches Collected = 0, Possible Deliveries > 0	177	0.57%	5656871.01	05/18/02	letters+flats	0	deliverie

Table I-III (Continued): Evidence of Problems Matching Observations from Different Sources

Source	Data Set	Description of the Error, Omission or Anomaly	Number	Percent	Example ID	Date/AP	1st Variable	Value	2nd Variab
MODS	Acct Period	MPBCS Total Pieces Fed > 0, Hours = 0	450	2.11%	8	200413	Hours	0	TPF (1000's
		MPBCS Total Pieces Fed = 0, Hours > 0	848	3.98%	38	200102	Hours	3396	TPF (1000's
MODS	Acct Period	DBCS Total Pieces Fed > 0, Hours = 0	53	0.21%	319	199903	Hours	0	TPF (1000's
		DBCS Total Pieces Fed = 0, Hours > 0	99	0.40%	159	199910	Hours	4036	TPF (1000's
MODS	Acct Period	OCR Total Pieces Fed > 0, Hours = 0	48	0.22%	182	199901	Hours	0	TPF (1000's
		OCR Total Pieces Fed = 0, Hours > 0	199	0.91%	13	200312	Hours	480	TPF (1000's
MODS	Acct Period	FSM 881 Total Pieces Fed > 0, Hours = 0	55	0.41%	160	200004	Hours	0	TPF (1000's
		FSM 881 Total Pieces Fed = 0, Hours > 0	1694	12.77%	2	200106	Hours	139	TPF (1000's
MODS	Acct Period	FSM 1000 Total Pieces Fed > 0, Hours = 0	77	0.46%	178	200007	Hours	0	TPF (1000's
		FSM 1000 Total Pieces Fed = 0, Hours > 0	270	1.61%	20	200205	Hours	2149	TPF (1000's
MODS	Acct Period	Man Flats Total Pieces Handled > 0, Hours = 0	59	0.24%	40	200206	Hours	0	TPH (1000's
		Man Flats Total Pieces Handled = 0, Hours > 0	179	0.73%	58	200009	Hours	3052	TPH (1000's
MODS	Acct Period	Man Letters Total Pieces Handled > 0, Hours = 0	29	0.12%	345	200404	Hours	0	TPH (1000's
		Man Letters Total Pieces Handled = 0, Hours > 0	109	0.44%	144	199907	Hours	42973	TPH (1000's
MODS	Acct Period	Man Parcels Total Pieces Handled > 0, Hours = 0	1432	6.59%	6	200103	Hours	0	TPH (1000's
		Man Parcels Total Pieces Handled = 0, Hours > 0	2207	10.16%	2	199905	Hours	4834	TPH (1000's
MODS	Acct Period	Priority Mail Total Pieces Handled > 0, Hours = 0	641	3.05%	8	200105	Hours	0	TPH (1000's
		Priority Mail Total Pieces Handled = 0, Hours > 0	2047	9.75%	3	200305	Hours	555	TPH (1000's
MODS	Acct Period	Cancellations Total Pieces Handled > 0, Hours = 0	252	1.05%	35	200408	Hours	0	TPH (1000's
		Cancellations Total Pieces Handled = 0, Hours > 0	221	0.92%	76	200308	Hours	3304	TPH (1000's
MODS	Acct Period	SPBS Total Pieces Fed > 0, Hours = 0	59	0.36%	166	200013	Hours	0	TPF (1000's
		SPBS Total Pieces Fed = 0, Hours > 0	255	1.57%	20	200203	Hours	4169	TPF (1000's
MODS	Acct Period	AFSM 100 Total Pieces Fed > 0, Hours = 0	26	0.25%	136	200013	Hours	0	TPF (1000's
		AFSM 100 Total Pieces Fed = 0, Hours > 0	119	1.14%	64	200001	Hours	79	TPF (1000's

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Table I-IV: Evidence of Errors Included and Omissions Treated as Zeros in Aggregate Variables

Source	Data Set	Description of the Error, Omission or Anomaly	Number	Percent	Example ID	Date/AP	1st Variable	Value	2nd Varia
CCSTS	ZIPs	ZIPs w ith Omissions in the Sequential Numbering of Routes	2148	39.18%	2432303.01	all days			
					2432303.03	all days	missing routes	2	
					2432303.06	all days	missing routes	4-5	
					2432303.07	all days			
					2432303.10	all days	missing routes	6-9	
					2432303.16	all days	missing routes	11-15	
					2432303.17	all days			
					2432303.37	all days	missing routes	18-36	
					2432303.38	all days			
					2432303.41	all days	missing routes	39-40	
					2432303.50	all days	missing routes	42-49	
					2432303.53	all days	missing routes	51-52	
					2432303.59	all days	missing routes	54-58	
CCSTS	Routes	Routes w ith Omissions in the Sequence of Daily Observations	4441	12.52%	264816.07	05/18/02	264816.08	05/18/02	missing
	and ZIPs	ZIPs w ith Routes w ith omissions in daily observations	1506	45.16%	264816.07	05/20/02	264816.08	05/20/02	264816.1
					264816.07	05/21/02	264816.08	05/21/02	264816.1
					264816.07	05/22/02	264816.08	05/22/02	missing
					264816.07	05/23/02	missing	05/23/02	missing
					264816.07	05/24/02	missing	05/24/02	missing
					264816.07	05/25/02	missing	05/25/02	264816.1
					264816.07	05/28/02	missing	05/28/02	264816.1
					264816.07	05/29/02	missing	05/29/02	264816.1
					264816.07	05/30/02	missing	05/30/02	264816.1
					264816.07	05/31/02	missing	05/31/02	264816.1
CCSTS	Routes	Routes w ith Not Applicable Time > .25 * Total Street Time	3565	11.48%	See Table 1				
	and ZIPs	ZIPs w ith Routes w ith N/A Time > .25 * Total Street Time	1774	53.19%					
CCSTS	Routes	Routes w ith Total Street Time < 10 Minutes	119	0.38%	See Table 1				
	and ZIPs	ZIPs w ith Routes w ith Total Street Time < 10 Minutes	108	3.24%					
CCSTS	Routes	Routes w ith Large Changes in Pieces Collected or Delivered	511	1.65%	See Table 1				
	and ZIPs	ZIPs w ith Routes w ith Large Changes	226	6.78%					
CCSTS	Routes	Routes w ith Apparent Errors in Sign or Magnitude	400	1.29%	See Table 2				
	and ZIPs	ZIPs w ith Routes w ith Apparent Errors in Sign or Magnitude	224	6.72%					
CCSTS	Routes	Routes w ith Possible Mismatched or Missing Data	7129	22.97%	See Table 3				
	and ZIPs	ZIPs w ith Routes w ith Possible Mismatched or Missing Data	2181	65.40%					

*Note: MODS weekly data is for 2004

Table I-IV (Continued): Evidence of Errors, Omissions, and Anomolies w ith examples

Source	Data Set*	Description of the Error, Omission or Anomaly	Number	Percent	Example ID	Date/AP	1st Variable	Value	2nd Variab
MODS	Weekly	MPBCS Weeks w ith Errors, Omissions and Anomalies	864	6.85%	9620043	Week 25	Hours	2	TPF (1000's
	Weekly	MPBCS Weeks Unscreened after USPS Aggregation	329	2.75%		Quarter 3	Hours	137	TPF (1000's
MODS	Weekly	DBCS Weeks w ith Errors, Omissions and Anomalies	67	0.41%	7620042	Week 13	Hours	6147	TPF (1000's
	Weekly	DBCS Weeks Unscreened after USPS Aggregation	4	0.02%		Quarter 2	Hours	72765	TPF (1000's
MODS	Weekly	OCR Weeks w ith Errors, Omissions and Anomalies	268	1.87%	10420044	Week 47	Hours	20	TPF (1000's
	Weekly	OCR Weeks Unscreened after USPS Aggregation	142	1.00%		Quarter 4	Hours	380	TPF (1000's
MODS	Weekly	FSM881 Weeks w ith Errors, Omissions and Anomalies	85	13.04%	3120042	Week 21	Hours	57	TPF (1000's
	Weekly	FSM881 Weeks Unscreened after USPS Aggregation	67	10.95%		Quarter 2	Hours	2097	TPF (1000's
MODS	Weekly	FSM1000 Weeks w ith Errors, Omissions and Anomalies	1164	10.06%	28420042	Week 21	Hours	316	TPF (1000's
	Weekly	FSM1000 Weeks Unscreened after USPS Aggregation	203	1.95%		Quarter 2	Hours	5803	TPF (1000's
MODS	Weekly	Man Flats Weeks w ith Errors, Omissions and Anomalies	970	6.05%	13820043	Week 34	Hours	582	TPH (1000's
	Weekly	Man Flats Weeks Unscreened after USPS Aggregation	434	2.83%		Quarter 3	Hours	7431	TPH (1000's
MODS	Weekly	Man Letters Weeks w ith Errors, Omissions and Anomalies	571	3.48%	25220041	Week 11	Hours	587	TPH (1000's
	Weekly	Man Letters Weeks Unscreened after USPS Aggregation	191	1.20%		Quarter 1	Hours	5610	TPH (1000's
MODS	Weekly	Man Parcels Weeks w ith Errors, Omissions and Anomalies	3676	28.57%	10520044	Week 48	Hours	41	TPH (1000's
	Weekly	Man Parcels Weeks Unscreened after USPS Aggregation	548	5.86%		Quarter 4	Hours	688	TPH (1000's
MODS	Weekly	Priority Mail Weeks w ith Errors, Omissions and Anomalies	1886	11.44%	11820042	Week 20	Hours	0	TPH (1000's
	Weekly	Priority Mail Weeks Unscreened after USPS Aggregation	526	4.71%		Quarter 2	Hours	20	TPH (1000's
MODS	Weekly	Cancellations Weeks w ith Errors, Omissions and Anomalies	170	0.93%	34520044	Week 45	Hours	52	TPH (1000's
	Weekly	Cancellations Weeks Unscreened after USPS Aggregation	170	1.13%		Quarter 4	Hours	723	TPH (1000's
MODS	Weekly	SPBS Weeks w ith Errors, Omissions and Anomalies	92	0.84%	33120043	Week 26	Hours	0	TPF (1000's
	Weekly	SPBS Weeks Unscreened after USPS Aggregation	22	0.20%		Quarter 3	Hours	71	TPF (1000's
MODS	Weekly	AFSM100 Weeks w ith Errors, Omissions and Anomalies	90	0.76%	10620041	Week 3	Hours	264	TPF (1000's
	Weekly	AFSM100 Weeks Unscreened after USPS Aggregation	68	0.58%		Quarter 1	Hours	4002	TPF (1000's

*Note: MODS weekly data is for 2004

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Table I-V: Errors and Anomalies in Quarterly MODS Data by Year

	1999		2000		2001		2002		2003		2004		Total	
Priority	347	31%	318	29%	270	24%	248	22%	215	19%	242	22%	1,640	24%
Cancellation	63	5%	53	4%	51	4%	47	4%	49	4%	55	5%	318	4%
AFSM 100	NA	NA	18	23%	26	5%	14	2%	4	0%	16	2%	78	2%
Parcels	433	36%	438	38%	375	33%	429	37%	382	33%	412	36%	2,469	36%
SPBS	43	6%	19	2%	21	2%	29	3%	17	2%	23	3%	152	3%
Letters	29	2%	22	2%	11	1%	30	2%	36	3%	48	4%	176	2%
Flats	118	9%	89	7%	78	6%	100	8%	66	5%	71	6%	522	7%
OCR	41	4%	44	4%	29	3%	29	3%	25	2%	25	2%	193	3%
FSM 1000	57	7%	44	5%	25	3%	33	4%	96	10%	125	13%	380	7%
BCS	190	17%	165	14%	148	13%	138	12%	113	10%	109	10%	863	13%
FSM	13	1%	15	1%	98	9%	312	43%	252	62%	180	78%	870	20%
DBCS	49	4%	15	1%	7	1%	17	1%	11	1%	18	1%	117	2%

Source: reg9904.xls in USPS-LR-L-56.