

UNITED STATES OF AMERICA  
POSTAL RATE COMMISSION  
WASHINGTON, DC 20268-0001

Before Commissioners:

George Omas, Chairman;  
Dawn A. Tisdale, Vice Chairman;  
Ruth Y. Goldway; and  
Tony Hammond

Postal Rate and Fee Changes

Docket No. R2006-1

NOTICE OF INQUIRY NO. 1

(Issued June 5, 2006)

In Docket No. R2005-1, the Commission's method of determining the markup for the Periodicals Within County subclass differed from that of the Postal Service. In discussing this difference in its Opinion, the Commission observed that it agreed with witness Robinson's basic approach to achieving consistency with 39 U.S.C. § 3626(a)(3), but applied a different definition of revenue, a different definition of costs, and different attributable cost treatment rules. It explained:

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. ... When these alternatives are used in the markup exercise, they yield results that necessarily differ from the Postal Service's.

PRC Op. R2005-1, ¶ 6113.

This difference in methodology resulted in the Commission's recommendation of a 2.3 percent decrease for Within County Periodicals, rather than the 5.4 percent decrease the Service had proposed.<sup>1</sup>

The Governors approved the Within County Periodicals rates recommended by the Commission, but characterized the Commission's approach to estimating revenue for purposes of determining the markup as a change from the approach in previous cases and urged the Postal Service, in preparing the next omnibus rate case, to review how best to estimate revenue. Decision of the Governors of the United States Postal Service on the Opinion and Recommended Decision of the Postal Rate Commission on Changes in Postal Rates and Fees Pursuant to Public Law 108-18, Docket No. R2005-1 (November 14, 2005) at 19.

In the current docket, witness Tang uses a revenue figure in her markup calculation that does not reflect subtraction of the 5 percent discount that preferred rate mail receives under 39 U.S.C. § 3626(a)(3). USPS-T-35 at 3. See *also* USPS-T-18, Attachment A, Table 1A. This is consistent with the Service's approach in Docket No. R2005-1 and with witness O'Hara's testimony in this case noting that the Outside County markup is calculated before applying discounts. USPS-T-31 at 16, n.1. Tang also uses volume variable costs, rather than the incremental costs the Service used in the last rate case.

*Request for comments.* Given the Governors' clear directive to the Postal Service, it appears that the revenue figure witness Tang uses reflects the Service's preference in this matter. The Commission believes it would be useful if the record include some discussion of the rationale for using the before-discount revenue figure and for using other components that differ from those the Commission used in Docket No. R2005-1. Review of previous filings and Commission Opinions reveals little, if any, discussion that addresses this issue. Participants are invited to comment on the

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<sup>1</sup> In both the Postal Service's Docket No. R2005-1 Request and the Commission's Decision, the decrease for Within County Periodicals was a departure from a generally uniform across-the-board increase, and was attributed to the operation of section 3626(a)(3)'s limit on the markup.

Commission's Docket No. R2005-1 methodology, the methodology the Service proposes in this case, and any other methodology they believe warrants consideration. Responses are to be filed by June 16, 2006.

By the Commission

(S E A L)

Steven Williams  
Secretary