

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

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POSTAL RATE AND FEE CHANGES  
PURSUANT TO PUBLIC LAW 108-18

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Docket No. R2005-1

DIRECT TESTIMONY  
OF  
NANCY R. KAY  
ON BEHALF OF THE  
UNITED STATES POSTAL SERVICE

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LIBRARY REFERENCES

- USPS-LR-K-70 Rural Carrier Analysis
- USPS-LR-K-71 Rural Mail Count Data
- USPS-LR-K-72 Supporting Materials Relating to Incremental Cost Model (USPS-T-18)

1  
2 DIRECT TESTIMONY  
3 OF  
4 NANCY R. KAY  
5

6 **AUTOBIOGRAPHICAL SKETCH**  
7

8 My name is Nancy R. Kay. I am a Vice President of Foster Associates, Inc., an  
9 economic consulting firm with offices in Bethesda, Maryland and Fort Myers, Florida. I  
10 have been with Foster Associates since 1993.  
11

12 My work at Foster Associates has involved analysis of Postal costing issues,  
13 specifically in the areas of incremental cost, mail processing, post office box costs, and  
14 city and rural carrier delivery. Most recently, for Docket No. R2001-1, I presented direct  
15 testimony for incremental cost and rural carrier costing. For Docket No. R2000-1, I  
16 presented direct and supplemental testimony on incremental cost, and rebuttal  
17 testimony on city and rural carrier costing. For Docket No. R97-1, I developed the  
18 model used to estimate incremental costs, and prepared associated workpapers and  
19 library references. I also assisted in the preparation of rebuttal testimony on rural  
20 carrier costing.  
21

22 Prior to joining Foster Associates, I was a senior engineer with Quyen Systems,  
23 where I was primarily involved in analysis for the U.S. Postal Service. I participated in  
24 studies analyzing mail transportation network flows. I also created a data warehouse  
25 that was to be used in various Postal analysis projects.  
26

27 I have a M.S. in Computer Science from Johns Hopkins University.

1 **PURPOSE AND SCOPE OF TESTIMONY**

2  
3 The purpose of this testimony is to present incremental cost estimates for base  
4 year 2004 and test year 2006. Incremental costs are developed for each subclass and  
5 special service, as well as for groups of subclasses. The procedures used to calculate  
6 incremental cost are the same as those used in Docket No. R2001-1 to calculate base  
7 year 2000 incremental costs.

8  
9 Incremental costs for postal products were first presented in Docket No. R97-1 in  
10 the testimony of witness Takis (USPS-T-41). In Docket No. R2000-1, I presented  
11 incremental costs estimated with a new method (USPS-T-23). Dr. Bradley (Docket No.  
12 R2000-1, USPS-T-22) described this new method and provided the analytic basis for  
13 the calculations. I used this new method in Docket No. R2001-1 for base year 2000 and  
14 test year 2003, and continue to use this method in my incremental cost estimates for  
15 base year 2004 and test year 2006.

16  
17 The incremental cost testimony is organized into four sections. The first section  
18 describes the procedures used to estimate incremental costs in base year 2004 and  
19 discusses any changes made from base year 2000. The second section describes the  
20 procedures used to estimate incremental costs in test year 2006 and discusses any  
21 changes made from test year 2003. The third section presents the results of the  
22 incremental costs analysis for base year 2004 and test year 2006, and discusses those  
23 results for individual subclasses and groups of subclasses. The fourth section  
24 compares incremental cost with PRC attributable cost.

25  
26 The last section of my testimony pertains to rural carrier costing, and briefly  
27 discusses two library references supporting the testimony of witness Meehan (USPS-T-  
28 11).

**MATERIALS ASSOCIATED WITH THIS TESTIMONY**

This incremental cost testimony is accompanied by supporting workpapers and library references. My workpapers include a detailed discussion of the procedures used to calculate incremental cost for each component. Printouts of the model used to estimate incremental costs for base year 2004 and test year 2006 are included in the workpapers.

The Library References associated with this testimony are:

USPS-LR-K-70	Rural Carrier Analysis
USPS-LR-K-71	Rural Mail Count Data
USPS-LR-K-72	Supporting Materials Relating to Incremental Cost Model (USPS-T-18)

I develop incremental cost estimates using inputs I obtain from the following witnesses in this case: Witness Meehan (USPS-T-9) provides base year costs (USPS-LR-K-4) and product specific cost inputs (USPS-LR-K-57); witness Waterbury (USPS-T-10) provides test year costs and roll forward model inputs (USPS-LR-K-6); witness Thress (USPS-T-7) provides test year volumes (USPS-LR-K-66); witness Van-Ty-Smith (USPS-T-11) provides mail processing cost pool inputs and administrative clerk product specific cost inputs (USPS-LR-K-55); witness Smith (USPS-T-13) provides PMPC product specific cost inputs (USPS-LR-K-52); and witness Moser (USPS-T-23) provides test year final adjustment detail (USPS-LR-K-50).

The rural carrier analysis in USPS-LR-K-70 uses rural carrier cost system inputs from USPS-LR-K-12, sponsored by witness Harahush (USPS-T-5).

I provide incremental cost estimates to rate witnesses Robinson (USPS-T-27) and Taufique (USPS-T-28). Rural carrier analysis outputs from USPS-LR-K-70 are

- 1 used in witness Meehan's workpapers, and in USPS-LR-K-50, which is sponsored by
- 2 witness Tayman (USPS-T-6).

1       **I                   ESTIMATING INCREMENTAL COST FOR BASE YEAR 2004**

2

3           This section of my testimony discusses how the general methodology for estimating  
4 incremental cost is put into practice in the estimation of base year 2004 incremental  
5 cost. The procedures used to estimate base year 2004 incremental cost are discussed  
6 in this section, while specific details on the incremental cost calculations for each cost  
7 component can be found in the workpapers to my testimony.

8

9           The procedures used to calculate incremental cost for base year 2004 are the same  
10 as the procedures used to calculate incremental cost in Docket No. R2001-1 for base  
11 year 2000. There are a few changes in actual implementation of these procedures for  
12 some cost components, due to changes in the way volume variable costs are  
13 calculated.

14

15           The five-step process used to implement the algorithm for calculating incremental  
16 cost has not changed from base year 2000:

17

18       **Step 1:**       Identify each cost component. If volume variable cost calculations are  
19 done at a more disaggregated level than the cost component, then the  
20 constituent cost pools are identified.

21

22       **Step 2:**       Identify independent and dependent components. An independent cost  
23 component has a volume variability analysis and distribution key. A  
24 dependent cost component borrows its volume variability and distribution  
25 key from another component or group of components.

26

27       **Step 3:**       Determine the correct incremental cost procedure to use in calculating  
28 incremental cost for independent components, and calculate the  
29 incremental cost. The incremental cost calculations are based on the type  
30 of cost component.

31

1 **Step 4:** Calculate volume related incremental cost for dependent components.

2  
3 **Step 5:** Identify product specific costs and add these to the volume related  
4 incremental cost.

### 5 6 **A. Identify Cost Components**

7  
8 The first step in calculating incremental cost identifies each cost component used in  
9 volume variable cost calculations. I start with the cost components identified in the base  
10 year 2000 incremental cost model. I then analyze the workpapers of witness Meehan  
11 (USPS-T-9, Workpaper B) and the testimony of other witnesses to determine if there  
12 are any changes in variability analysis for base year 2004. These changes may  
13 incorporate new cost pools<sup>1</sup>.

14  
15 The following witnesses provide information on changes in volume variability  
16 analysis for base year 2004: Witnesses Bradley (USPS-T-14) and Stevens (USPS-T-  
17 15) discuss a new analysis for city carrier letter routes; witness Smith (USPS-T-13)  
18 discusses a new facility space usage study and also discusses equipment-related costs;  
19 witnesses Bozzo (USPS-T-12) and Van-Ty-Smith (USPS-T-11) discuss the treatment  
20 for mail processing cost pools and any changes from base year 2000; and witness Nash  
21 (USPS-T-17) discusses air transportation costs.

### 22 23 **B. Find Independent and Dependent Components**

24  
25 This step examines each cost pool to determine if it has an independent variability  
26 analysis, or if it borrows its variability and distribution key from another cost pool or  
27 group of cost pools. Volume variable costs are determined in this way, so the  
28 incremental cost calculations follow that structure.

---

<sup>1</sup> Postal Service costs are divided into 20 cost segments, which are in turn divided into cost components. Cost components may be made up of costs associated with individual operations within the cost component, which are referred to as cost pools. For convenience, I will use the term cost pool to refer to both cost pools and cost components.

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In witness Meehan's workpaper A, the Cost and Revenue Analysis (CRA) model, the total cost for a dependent cost pool is distributed to mail products using a cost-weighted distribution key. This distribution key is the sum of the costs, by mail product, for each of the cost pools in the key. The dependent cost pool also receives the cost-weighted variability of the components in the distribution key. Likewise, in witness Meehan's workpaper B, a cost pool within an individual cost component is distributed to mail products using the cost-weighted distribution key. This key is the sum of the costs, by product, in each of the cost pools comprising the key. The cost pool receives the cost-weighted variability of the cost pools in the distribution key. If a cost pool is distributed in the CRA in this manner, then I classify the cost pool as dependent.

This step also identifies the cost pools that comprise the distribution key for a dependent cost pool. This information will be used in the incremental cost calculations.

Table 1 in my workpapers lists all of the independent cost pools used in the base year 2004 incremental cost model. New cost pools, and cost pools used in base year 2000 but not in base year 2004 are highlighted.

Table 2 and 3 in my workpapers lists the dependent cost pools in the base year 2004 incremental cost model. There are only a few changes in dependent cost pools from base year 2000. Examples of changes are a new dependent component in cost segment 6 for In-Office Support Other and the elimination of cost pools dependent on C/S 3.4 Expedited Delivery.

### C. Determine the Correct Incremental Cost Procedure

I evaluate each independent cost pool to determine the correct incremental cost method. I categorize each cost pool into the eight types defined below<sup>2</sup> to determine if there are any changes from base year 2000.

- Type 1. The costs in this pool are fixed and common. There are no incremental costs for this cost pool.
- Type 2. The costs in this pool are fixed, but some or all costs are specific to one or more products. Incremental cost equals the specific fixed costs.
- Type 3. The costs in this pool are variable, but all costs are distributed to one product. The variability for the cost pool is one hundred percent. Incremental cost equals accrued cost for this cost pool.
- Type 4. The costs in this pool are variable, and all costs are distributed to one product. The variability for this cost pool is less than one hundred percent. Incremental cost equals accrued cost.
- Type 5. The costs in this cost pool are variable, distributed to more than one product, and the variability equals one hundred percent. There are non-volume variable costs intrinsic to a product. The incremental cost for the product with intrinsic costs equals the volume variable cost plus the intrinsic costs. The incremental cost for the other products equals their volume variable cost.
- Type 6. The costs in this cost pool are variable, distributed to more than one product, and the variability is less than one hundred percent. There are non-volume variable costs intrinsic to a product. The incremental cost for the product

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<sup>2</sup>The eight types of cost components are described fully by Dr. Bradley in Docket No. R2000-1, USPS-T-22, Table 1.

1 with intrinsic costs equals the volume variable cost plus the intrinsic costs. The  
2 incremental cost for the other products containing volume-variable costs are  
3 determined with the constant elasticity method<sup>3</sup>. If there are no volume-variable  
4 costs in the cost pool (i.e. the volume variability for the component is zero) then  
5 the incremental cost will equal the intrinsic cost.

- 6
- 7     ▪ Type 7. The costs in this pool are variable and distributed to more than one  
8       product. The volume variability equals one hundred percent, and there are no  
9       intrinsic costs. Incremental cost for all products will equal volume variable cost.
  - 10
  - 11    ▪ Type 8. The costs in this pool are variable and distributed to more than one  
12      product. The volume variability is less than one hundred percent, and there are  
13      no intrinsic costs. The incremental cost for these components will be calculated  
14      with the constant elasticity method.

15

16       Change in type category from base year 2000 may require a change in the  
17      incremental cost methodology used. For example, the Rewrap cost pool in cost  
18      segment 3.1 mail processing has shifted from type 7 in base year 2000 to type 8 in base  
19      year 2004. Incremental cost for this cost pool is now calculated with the constant  
20      elasticity method, while in base year 2000 incremental cost was set equal to volume  
21      variable cost.

22

23       Table 1 in my workpapers lists the type assigned to each independent cost pool in  
24      the base year 2004 incremental cost model. Any changes in incremental cost treatment  
25      from base year 2000 are highlighted.

26

---

<sup>3</sup> See Docket No. R2000-1, USPS-T-22, for a complete discussion on use of the constant elasticity method in calculating incremental cost.

## D. Calculate Incremental Cost for Dependent Cost Pools

The incremental cost of dependent cost pools is calculated with a methodology that parallels the determination of the volume variable cost of these cost pools. Dependent cost pools borrow their variability and distribution keys from other cost pools. The incremental cost for a dependent cost pool will be directly proportional to the incremental cost for the related component(s), minus any product specific costs. The incremental cost for subclass (*i*) in dependent cost pool (*j*) that borrows its variability and distribution key (*DK*) from cost pool (*k*), is calculated with the following formula:

$$IC_{ij} = VVC_{ij} * \left[ \frac{IC_{ik} - PS_{ik}}{VVC_{ik}} \right] \quad (1)$$

The distribution key for a cost pool may be comprised of several cost pools. The distribution key is generated in witness Meehan's (USPS-T-9) workpapers by summing the costs by product across these cost pools. This distribution key is used both to distribute costs to products and to determine the variability of the dependent cost pools. In this case, the volume variable costs for the dependent cost pool are first divided among the various independent cost pools that are used to form the distribution key. The incremental to volume variable cost ratio for the independent cost pool will be applied to that portion of the dependent pool costs that are associated with the independent cost pool. The last step adds up the portions of the incremental cost for the dependent cost pool by product that are associated with each independent cost pool. This is represented mathematically as:

$$IC_{ik} = \sum_{j=1}^n \left[ VVC_{ik} * \left[ \frac{VVC_{ij}}{VVC_{iDK}} \right] * \left[ \frac{IC_{ij} - PS_{ij}}{VVC_{ij}} \right] \right] \quad (2)$$

## E. Identify Product Specific Costs

Product specific costs are non-volume variable costs caused by the provision of a product. Product specific costs for a mail product are incremental to that mail product.

1 Three of the cost pool types identified in section I.C include product specific costs -  
2 specific fixed costs in type 2 cost pools and intrinsic costs in type 6 and 7 cost pools.

3  
4 I use a variety of sources to identify product specific costs, including the statement of  
5 revenue and expenses (USPS-LR-K-57), witness Meehan's workpapers (USPS-T-9,  
6 Workpaper B), witness Smith's analysis of Priority Mail Processing Centers (USPS-LR-  
7 K-52), and special analysis (USPS-LR-K-72).

#### 8 9 **F. Changes from Base Year 2000**

10  
11 The procedures used to calculate base year incremental cost have not changed  
12 since base year 2000. However, the actual implementation of incremental cost may  
13 have changed if the methodology used to calculate volume variable costs have  
14 changed. A summary of the major changes follows. Greater detail on the incremental  
15 cost treatment for each cost pool can be found in Table 1 in my workpapers, which  
16 shows the incremental cost treatment given to each cost pool in both base year 2004  
17 and base year 2000.

- 18
- 19 ■ Witnesses Bozzo (USPS-T-12) and Van-Ty-Smith (USPS-T-11) discuss the  
20 current method for calculating the variability of mail processing cost pools. Cost  
21 pools that receive an econometric variability analysis in base year 2004 will be  
22 treated with the constant elasticity method. Some of these cost pools may not  
23 have had an econometric variability analysis in base year 2000 and incremental  
24 cost would have been set equal to volume variable cost.
  - 25  
26 ■ Witnesses Stevens (USPS-T-15) and Bradley (USPS-T-14) discuss a new study  
27 for city carrier letter route street time. The incremental cost analysis for city  
28 carrier letter routes is completely new and replaces the analysis used in base  
29 year 2000, including the single subclass analysis for access and load time.  
30 The multi-driver constant elasticity method for calculating incremental cost, first  
31 discussed in my testimony for Docket No. R2000-1 (USPS-T-23, p. 18, footnote)

1 is used in the implementation of base year 2004 incremental cost for City Carrier  
2 Delivery Activities.

- 3
- 4 ■ Witness Smith (USPS-T-13) discusses a new facility space study that increases  
5 the number of cost pools. The incremental cost analysis for the associated  
6 space support cost pools has changed to be consistent with the volume variable  
7 cost treatment.
  - 8
  - 9 ■ Witness Smith also discusses the treatment of equipment related costs. The  
10 variability for these cost pools will match the associated mail processing  
11 equipment variability in cost segment 3. The incremental cost analysis for the  
12 associated equipment related cost pools may have changed to be consistent with  
13 the volume variable cost treatment. Cost pools that have an econometric  
14 variability analysis in base year 2004 will be treated with the constant elasticity  
15 method. Some of these cost pools may not have had an econometric variability  
16 analysis in base year 2000 and incremental cost would have been set equal to  
17 volume variable cost.
  - 18
  - 19 ■ There is no incremental cost treatment for cost segment 3.4 Expedited Delivery,  
20 since there are no longer any volume variable costs.
  - 21
  - 22 ■ The incremental cost analysis for air transportation in cost segment 14 has been  
23 updated to match the new volume variabilities as discussed by witness Nash  
24 (USPS-T-17). Prior to the test year in the last case the Eagle and Western  
25 networks were eliminated, along with their associated premium costs that were  
26 product specific to Express Mail. They were replaced by the Fedex network, as  
27 discussed in the testimony of witness Hatfield in Docket No. R2001-1 (USPS-T-  
28 18).
  - 29
  - 30 ■ Witness Smith identifies non-volume variable costs associated with Priority Mail  
31 Processing Centers (PMPC) (USPS-LR-K-52). These costs are product specific  
32 to Priority Mail. Note that there are no Priority Mail product specific costs from

1 the PMPCs in the test year. This is consistent with the testimony of witness  
2 McCrery (USPS-T-29), which describes the changing nature of operations in the  
3 PMPCs.  
4

## II ESTIMATING INCREMENTAL COSTS FOR TEST YEAR 2006

In this case, I follow the same methodology I used in Docket No. R2001-1 for test year 2003 to calculate test year 2006 incremental costs. I use the roll forward procedure to calculate test year volume-related incremental costs, which incorporates the same factors that are used to forecast test year volume variable and product specific costs. This means that I calculate test year incremental cost at the same level of detail that is available for test year volume variable cost.

The roll forward model, described in the testimony of witness Waterbury (USPS-T-10), works on the component level and not the cost pool level. For example, mail processing costs for all cost pools are aggregated into one component. This aggregated component goes through the roll forward process as one unit. As a result, in the test year there is a lack of information on volumes and cost drivers for the constituent cost pools. Therefore, test year incremental cost calculations for mail processing will be done at the component level.

Test year volume-related incremental costs for subclass ( $i$ ) in cost component ( $j$ ) are calculated with the following formula to roll forward base year volume-related incremental cost (see Docket No. R2000-1, USPS-T-22, Section IV-C):

$$IC_{ijT} = [IC_{ij} - F_{ij}](1 + g_i)(1 + \pi_j)(1 + \eta_j)(1 + \phi_j) \quad (4)$$

where  $g_i$  represents volume growth,  $\pi_j$  represents cost level changes,  $\eta_j$  represents non-volume workload changes, and  $\phi_j$  represents the effect of special programs.

Non-volume variable costs do not get a volume effect in the roll forward. Test year product specific costs are calculated by applying the appropriate roll forward factors to base year product specific costs.

$$1 \quad F_{ijT} = F_{ij}(1 + \pi_j)(1 + \eta_j)(1 + \phi_j) \quad (5)$$

2

3 Test year product specific costs are added to the test year volume-related  
 4 incremental costs. Finally, total test year incremental cost for subclass (*i*) is calculated  
 5 by adding together the incremental cost in subclass (*i*) for all components (*j*):

$$6 \quad IC_{iT} = \sum_{j=1}^n [IC_{ij} - F_{ij}](1 + g_i)(1 + \pi_j)(1 + \eta_j)(1 + \phi_j) + F_{iT} \quad (6)$$

7

### 8 **Changes from Test Year 2003**

9

10 There are no changes in methodology from test year 2003 to test year 2006.

### III RESULTS OF INCREMENTAL COST ANALYSIS

This section presents the results of the incremental cost analysis. I present results for each major subclass, plus groups of subclasses, mail classes, and special services. I also present results for a set of two-subclass combinations. Incremental cost calculations are made for base year 2004, test year 2006 before rates, and test year 2006 after rates.

#### A. General Results

Tables 1A and 2A in Attachment A show, for each subclass, group of subclasses, and special service:

- Base year 2004 total volume variable cost
- Base year 2004 total incremental cost
- Test year 2006 before rates total volume variable cost
- Test year 2006 before rates total incremental cost
- Test year 2006 after rates total and average unit (per piece) volume variable cost
- Test year 2006 after rates total and average unit (per piece) incremental cost

The subclasses, groups of subclasses and mail classes in Table 1A correspond to the subclasses, groups of subclasses, and mail classes presented in the Cost and Revenue Analysis report (USPS-LR-K-2). Table 2A shows incremental costs for additional selected pairs of subclasses. Total incremental cost for a particular subclass, group of subclasses, or special service is the sum of the product's incremental costs for all cost components. The workpapers to my testimony present detailed incremental cost calculations for each cost component.

There is a close similarity between average incremental cost and average volume variable (marginal) cost for the majority of subclasses. Incremental cost will be very close to volume variable cost if:

- 1 1) the amount of the driver in a subclass is not too large,
- 2 2) the volume variability is relatively high, and
- 3 3) product specific costs are not too great.

4  
5 This point is illustrated in Table 2 of Docket No. R2000-1, USPS-T-22. This table  
6 shows the difference between volume variable cost and volume-related incremental  
7 cost with various proportions of the driver and percentages of variability.

## 8 9 **B. Subclass Results**

10  
11 This section examines the results of the incremental cost analysis for individual  
12 subclasses. Average incremental cost for most subclasses is close to average volume  
13 variable cost. Following the discussion in the previous section, in those subclasses  
14 where there is a large difference, it will be due to one of these three reasons:

- 15  
16 ▪ product specific costs associated with the particular subclass;
- 17  
18 ▪ marginal cost changes significantly as the driver changes (i.e. a low volume  
19 variability); or
- 20  
21 ▪ the proportion of the driver is large.

22 This section discusses each of the subclasses where incremental cost differs from  
23 volume variable cost, and highlights the reason for the difference. Incremental costs in  
24 this section are for test year 2006 after rates, unless the discussion requires costs for  
25 cost pools that are aggregated into components for test year incremental cost  
26 calculations. In this case, base year 2004 costs are provided.

### 27 **1. Priority Mail and Express Mail**

28  
29 Table 1A shows the difference between volume variable and incremental cost for  
30 Priority Mail and Express Mail. Total incremental cost for Priority Mail is 8.6% greater  
31 than volume variable cost, while the incremental cost for Express Mail is 22.6% greater  
32 than volume cost. This difference is primarily due to product specific costs. The

1 following table shows the product specific costs for Priority Mail and Express Mail, by  
2 cost component.

3  
4  
5 **TABLE 3.**  
6 **PRODUCT SPECIFIC COSTS FOR PRIORITY AND EXPRESS MAIL (TY2006 AR),**  
7 **IN MILLIONS (\$000,000)**  
8

Cost Component	Priority Mail	Express Mail
C/S 3 Mail Processing	\$ 107.4	\$ 58.8
Admin Clerks	0	7.2
C/S 7 City Carriers	0	10.0
C/S 16 Advertising	23.9	12.1
C/S 18 Supplies & Services	8.8	0
Misc. Support	4.6	0
TOTAL	\$ 144.7	\$ 88.0

9  
10  
11 Mail processing (CS 3) contributes significant product specific costs to both Priority  
12 Mail and Express Mail. The costs of providing dedicated manual Priority and Express  
13 Mail operations are considered incremental to that subclass, because these operations  
14 would be discontinued if Priority or Express Mail were eliminated

15  
16 There are also product specific advertising costs for both Priority Mail and Express  
17 Mail.

## 18 **2. First-Class Mail, Periodicals, Standard Mail, and Package Services**

19  
20  
21 These four mail classes are discussed together because they have a common  
22 feature – none of the individual subclasses have a material amount of product specific  
23 costs.<sup>4</sup> Yet, the relationship between volume variable and incremental cost differs for  
24 the subclasses within these mail classes. This section will compare the difference

---

<sup>4</sup> The total First-Class Mail has a small amount of product specific cost, but it is less than 0.1% of the difference between volume variable and incremental cost. There is also a small amount of product specific cost for advertising in total Standard Mail and Parcel Post, but it contributes little to the difference between incremental and volume variable cost.

1 between volume variable and incremental cost for the subclasses in First-Class,  
 2 Periodicals, Standard Mail and Package Services that have the greatest volume  
 3 variable cost. These are First-Class Single Piece, Periodicals Outside County,  
 4 Standard ECR and Parcel Post.

6 Incremental costs for First-Class Single Piece and Standard ECR mail are 5.8% and  
 7 3.5% higher than volume variable costs, respectively. However, incremental costs are  
 8 only 1.3% and 1.7% higher than volume variable costs for Periodicals Outside County  
 9 and for Parcel Post, respectively.

11 If all other conditions are equal<sup>5</sup>, mail subclasses with a larger share of the driver will  
 12 have a larger difference between volume variable cost and incremental cost. Table 4  
 13 compares the RPW volumes for selected mail subclasses with the percentage increase  
 14 of incremental cost over volume variable cost. The mail subclasses with a higher  
 15 percentage of RPW volumes have a larger percent difference between incremental and  
 16 volume variable costs.

18 TABLE 4  
 19 COMPARISON OF TY 2006 (AR) RPW VOLUMES WITH THE PERCENTAGE  
 20 INCREASE OF INCREMENTAL OVER VOLUME VARIABLE COST  
 21

Mail Subclass	RPW Volume, in Millions	Percent of Total RPW for All Domestic Subclasses	Percentage Increase of Incremental over Volume Variable
First-Class Single Piece	42,454	20.1%	5.8%
Periodicals Outside County	8,296	3.9%	1.3%
Standard ECR	35,316	16.7%	3.5%
Parcel Post	336	0.2%	1.7%

22  
<sup>5</sup> The assumption of 'all else being equal' is important here, because there are other factors that may contribute to the difference between volume variable and incremental cost. The presence of large amounts of product specific cost, as well as a low volume variability, will also contribute to this difference.

This discussion relating RPW volume to the percentage increase in incremental cost is for illustrative purposes. For some cost components, the driver is not only mail volume. For example, city delivery activity costs are driven by shape. Transportation highway costs are driven by the cubic feet of mail and transportation miles.

### 3. Special Services

This section will highlight the two special services that show a larger difference between volume variable and incremental cost – Certified and Money Orders. Incremental cost for Certified mail is 7.0% higher than volume variable cost, while incremental cost for Money Orders is 48.9% higher than volume variable cost.

Money Orders have product specific costs of \$3.8 million for Money Order Division in CS 18. This accounts for only 6.0% of the difference between incremental and volume variable cost. Nearly all of the remaining difference is due to the Money Orders cost pool in window service (CS 3.2). All of the volume variable cost in this cost pool is in the Money Orders special service. The incremental cost for this component will equal the accrued cost for the component (see page 9 of this testimony).

The incremental cost for Certified has very little product specific costs (other than \$146 thousand for advertising in CS 16); yet incremental cost is 7.0% higher than volume variable cost. Most of the \$28.6 million difference between incremental and volume variable cost in base year 2004 incremental cost comes from the accountables delivery cost pool in CS 7<sup>6</sup>.

Incremental cost for the accountable cost pool is calculated along with deviation parcel delivery using the multi-driver version of the constant elasticity formula. Over 50% of the driver for delivering accountables is in the Certified special service. The large proportion of the driver in the Certified special service causes the large increase of incremental over volume variable cost.

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<sup>6</sup> This cost pools is aggregated into the CS 7 Delivery Activities component for use in the roll forward model. There is not enough information to determine the test year 2006(AR) costs in the individual cost pools. Therefore this discussion uses base year 2004 costs.

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TABLE 6.  
INCREMENTAL AND VOLUME VARIABLE COSTS FOR CERTIFIED (BY 2004), IN  
MILLIONS (\$000,000)

Cost Component	Volume Variable Cost	Incremental Cost	Difference (%)
Accountable Delivery	\$ 63.7	\$ 81.3	27.7%
Deviation Delivery Travel	6.4	8.2	27.7%
Delivery Activities Support (Letter Routes only)	8.5	10.8	27.7%
TOTAL	\$ 78.6	\$ 100.3	27.7%

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**C. Product Groups**

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Table 1A contains incremental cost estimates for product groups. These product groups correspond to the groups listed in the Cost and Revenue Analysis report (USPS-LR-K-2). These include the combination of presort and non-presort First-Class letters, presort and non-presort First-Class Cards, total First-Class, total Periodicals, total Standard Mail, and total Package Services. In addition, Table 1A includes incremental cost estimates for each of the Postal Service business groups. These include Correspondence (all of First-Class Mail and Mailgrams), Advertising (Standard Mail plus Bound Printed Matter), Expedited and Package Services (Priority Mail, Express Mail, Parcel Post, and Media Mail), and Special Services.

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Note that incremental costs are not summed across subclasses. The incremental cost for a group of subclasses is found by removing the portion of the driver associated with the group of subclasses. For this reason, the incremental cost for a group of subclasses will be different than the sum of the incremental costs for the individual subclasses within the group.

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Table 2A displays the results of incremental cost calculations on 10 additional pairs of subclasses. These calculations demonstrate the ease with which incremental cost can be calculated for groups of subclasses.

1        Tables 1A and 2A present incremental costs for groups of subclasses for base year  
2        2004, test year 2006 before rates, and test year 2006 after rates. The same  
3        methodology described previously is used to calculate test year incremental costs. I  
4        use the volume variable cost for the group of subclasses as the basis for the ratios.

1 **IV COMPARISON OF INCREMENTAL COST WITH PRC ATTRIBUTABLE**  
2 **COST**  
3

4 This section compares incremental costs with PRC attributable cost. The  
5 differences between the USPS incremental costs relative to the PRC methodology in  
6 the last rate proceeding are best approximated by comparing incremental costs to PRC  
7 attributable cost.  
8

9 To the extent that, in response to Commission Rule 53, I discuss and compare  
10 PRC versions of costing materials in this testimony, I do not sponsor those materials, or  
11 in any way endorse the methodologies used to prepare them. In its Order No. 1380  
12 adopting the roadmap rule, the Commission included the following statements regarding  
13 the role played by Postal Service witnesses under these circumstances:  
14

15 The comparison required by this exercise cannot be equated with  
16 sponsoring the preexisting methodology. It merely identifies and  
17 gives context to the proposed change, serving as a benchmark so  
18 that the impact can be assessed. ... [W]itnesses submitting  
19 testimony under Rule 53(c) sponsor the proposed methodological  
20 changes, not the preexisting methodology. That they may be  
21 compelled to reference the preexisting methodology does not mean  
22 that they are sponsoring it.  
23

24 Order No. 1380 (August 7, 2003) at 7. Therefore, although I may be  
25 compelled to refer to the PRC methodologies and versions corresponding to the Postal  
26 Service proposals which are the subject of my testimony, my testimony does not  
27 sponsor those PRC materials.  
28

29 PRC attributable cost includes volume variable cost based on the PRC costing  
30 methodology, product specific cost, and an incremental cost analysis in city carriers for  
31 single subclass stops. USPS incremental cost includes volume variable cost based on  
32 the USPS costing methodology, product specific cost, and inframarginal incremental  
33 cost (the difference between incremental cost minus any product specific costs and  
34 volume variable cost).

1 PRC product specific costs are a subset of USPS product specific costs. The PRC  
2 does not include any PMPC product specific costs, nor does it include the product  
3 specific costs identified in cost segment 3 mail processing due to the difference in  
4 costing methodology. The PRC also does not include product specific costs identified in  
5 cost segment 7 associated with Express mail.

6  
7 Table 3A compares USPS base year incremental costs with PRC base year  
8 attributable cost, including a comparison of product specific costs. Table 4A compares  
9 USPS test year before rates incremental costs with PRC before rates test year  
10 attributable cost, including a comparison of product specific cost. Table 5A compares  
11 USPS test year before rates incremental costs with PRC before rates test year  
12 attributable cost, including a comparison of product specific cost. In reviewing these  
13 tables, recall, as noted earlier, that incremental costs cannot be added, in the sense that  
14 the incremental costs of a larger aggregation of products will differ from the sum of the  
15 incremental costs of the individual component products. In contrast, attributable costs  
16 can be added.

1           **V           RURAL CARRIER COSTING**

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3           I am sponsoring two library references on rural carrier costing in support of  
4 witness Meehan's (USPS-T-9) testimony.

5  
6                   USPS-LR-K-70 Rural Carrier Analysis

7                   USPS-LR-K-71 Rural Mail Count Data

8  
9           USPS-LR-K-70 uses the data in USPS-LR-K-71 as input, and contains the SAS  
10 program and outputs used calculate the variability of rural carrier evaluated and other  
11 routes, and the average weekly pieces on evaluated and other routes.

12  
13           USPS-LR-K-70 contains two new analyses. The first analysis estimates the  
14 number of Rural Mail Count (RMC) delivery confirmation scans.

15  
16           The above data items in USPS-LR-K-70 are used in witness Meehan's  
17 workpaper B, worksheets 10.0.1, 10.1.1, 10.1.1 PQ4, 10.2.1, and 10.2.1 PQ4.

18  
19           The second new analysis in USPS-LR-K-70 estimates the ratio of boxes time to  
20 miles time on the average rural route. This information is used by witness Tayman in  
21 USPS-LR-K-50, chapter Vd.

22  
23           USPS-LR-K-71 contains two files of rural mail count data used by the preceding  
24 SAS program. The first file contains the most recent evaluation for each rural route  
25 updated with the RMC from February through March 2003 and covers Postal Quarters 1  
26 through 3 of base year 2004. The second file contains the most recent evaluation for  
27 each route updated with the RMC from February through March 2004 and covers Postal  
28 Quarter 4 of base year 2004.

ATTACHMENT A

TABLE 1A. BY 2004 AND TY 2006 VOLUME VARIABLE AND INCREMENTAL COST FOR SUBCLASSES AND CLASSES

LINE NO.	CLASS, SUBCLASS, OR SPECIAL SERVICE	BY 2004 Volume Variable Cost	BY 2004 Incremental Cost	TY 2006 (BR) Volume Variable Cost	TY 2006 (BR) Incremental Cost	TY 2006 (AR) Volume Variable Cost	TY 2006 (AR) Incremental Cost
	COLUMN NUMBER	(1)	(2)	(3)	(4)	(5)	(6)
1	<b>FIRST-CLASS MAIL</b>						
2	SINGLE PIECE LETTERS	11,362,317	12,010,277	11,107,160	11,746,124	10,985,132	11,616,985
3	PRESORT LETTERS	4,509,071	4,679,533	4,720,889	4,902,202	4,635,003	4,813,701
4	TOTAL LETTERS	15,871,388	17,213,515	15,828,050	17,178,168	15,620,136	16,952,844
5	SINGLE PIECE CARDS	519,836	532,901	536,003	549,651	529,437	542,922
6	PRESORT CARDS	180,734	181,084	191,881	192,263	189,068	189,444
7	TOTAL CARDS	700,570	714,935	727,884	742,952	718,505	733,387
8	<b>TOTAL FIRST</b>	16,571,958	18,165,955	16,555,934	18,163,304	16,338,641	17,925,629
9	<b>PRIORITY MAIL</b>	2,816,222	3,071,098	2,947,777	3,191,361	2,805,046	3,043,584
10	<b>EXPRESS MAIL</b>	448,271	541,061	460,594	560,401	439,794	539,055
11	<b>MAILGRAMS</b>	300	301	262	263	263	263
12	<b>PERIODICALS:</b>						
13	WITHIN COUNTY	62,803	62,901	65,191	65,292	66,175	66,277
14	OUTSIDE COUNTY	2,174,189	2,202,226	2,054,221	2,081,239	2,046,363	2,073,270
15	<b>TOTAL PERIODICALS</b>	2,236,992	2,268,120	2,119,411	2,149,614	2,112,538	2,142,642
16	<b>STANDARD MAIL:</b>						
17	ENHANCED CARR RTE	2,187,027	2,264,547	2,560,555	2,650,916	2,481,440	2,568,970
18	REGULAR	8,216,025	8,516,962	9,189,021	9,528,261	9,119,123	9,455,676
19	<b>TOTAL STANDARD MAIL</b>	10,403,052	11,057,464	11,749,576	12,498,175	11,600,563	12,338,647
20	<b>PACKAGE SERVICES:</b>						
21	PARCEL POST	992,883	1,009,279	1,052,666	1,070,111	993,931	1,010,636
22	BOUND PRINTED MATTER	445,052	448,791	505,779	510,025	513,071	517,376
23	MEDIA MAIL	376,004	377,797	409,398	411,328	407,495	409,417
24	<b>TOTAL PACKAGE SERVICES</b>	1,813,939	1,869,941	1,967,842	2,028,758	1,914,497	1,974,294
25	<b>U.S. POSTAL SERVICE</b>	373,400	374,277	488,543		489,764	
26	<b>FREE MAIL</b>	39,628	39,655	43,751	43,779	43,829	43,858
27	<b>INTERNATIONAL MAIL</b>	1,306,160	1,371,035	1,440,530	1,509,079	1,416,017	1,484,535
28	<b>SPECIAL SERVICES:</b>						
29	REGISTRY	81,265	81,361	69,450	69,530	65,313	65,388
30	CERTIFIED	403,607	432,226	441,799	472,891	437,028	467,772
31	INSURANCE	93,994	94,484	69,284	69,787	68,315	68,815
32	COD	8,198	8,200	7,719	7,721	7,637	7,639
33	MONEY ORDERS	127,317	189,701	130,464	194,183	129,506	192,779
34	STAMPED CARDS	1,247	1,247	1,340	1,340	1,327	1,327
35	STAMPED ENVELOPES	11,619	11,619	12,778	12,778	12,789	12,789
36	SPECIAL HANDLING	2,454	2,454	2,526	2,526	2,507	2,507
37	POST OFFICE BOX	606,573	607,643	644,908	646,220	639,965	641,277
38	OTHER	211,294	217,289	175,343	181,196	175,519	181,258
39	<b>TOTAL SPECIAL SERVICES</b>	1,547,568	1,718,850	1,555,612	1,728,642	1,539,906	1,709,869
40	<b>CORRESPONDENCE</b>	16,572,258	18,166,359	22,846,162	24,906,619	22,523,342	24,555,817
41	<b>ADVERTISING</b>	10,848,104	11,547,084	11,142,973	11,902,611	11,035,950	11,786,643
42	<b>EXPEDITED</b>	4,633,380	5,074,074	18,029,217	18,697,254	17,697,149	18,353,164

TABLE 2A. BY 2004 AND TY 2006 VOLUME VARIABLE AND INCREMENTAL COST FOR SUBCLASS PAIRS

LINE NO.	CLASS, SUBCLASS, OR SPECIAL SERVICE	BY 2004 Volume Variable Cost	BY 2004 Incremental Cost	TY 2006 (BR) Volume Variable Cost	TY 2006 (BR) Incremental Cost	TY 2006 (AR) Volume Variable Cost	TY 2006 (AR) Incremental Cost
	COLUMN NUMBER	(1)	(2)	(3)	(4)	(5)	(6)
1	PRIORITY & EXPRESS	3,264,493	3,653,395	3,408,371	3,795,370	3,244,840	3,624,697
2	PRIORITY & PARCEL POST	3,809,105	4,136,440	4,000,443	4,320,860	3,798,977	4,110,454
3	PRIORITY & BOUND PRINTED MATTER	3,261,274	3,546,355	3,453,555	3,729,906	3,318,117	3,588,817
4	PRIORITY & MEDIA MAIL	3,192,226	3,468,010	3,357,175	3,622,727	3,212,541	3,472,419
5	EXPRESS & PARCEL POST	1,441,154	1,548,852	1,513,260	1,629,376	1,433,725	1,548,651
6	EXPRESS & BOUND PRINTED MATTER	893,323	989,325	966,373	1,070,141	952,865	1,056,289
7	EXPRESS & MEDIA MAIL	824,275	918,617	869,992	971,696	847,289	948,564
8	PARCEL POST & BOUND PRINTED MATTER	1,437,935	1,473,610	1,558,444	1,597,283	1,507,002	1,545,001
9	PARCEL POST & MEDIA MAIL	1,368,887	1,396,608	1,462,064	1,491,632	1,401,426	1,430,030
10	BOUND PRINTED MATTER & MEDIA MAIL	821,056	831,556	915,176	926,860	920,566	932,331

TABLE 3A. COMPARISON OF BY 2004 INCREMENTAL COST WITH PRC ATTRIBUTABLE COST

LINE NO.	CLASS, SUBCLASS, OR SPECIAL SERVICE	BY 2004 INCREMENTAL COST	BY 2004 PRC ATTRIBUTABLE COST	BY 2004 PRODUCT SPECIFIC COSTS IDENTIFIED IN INCREMENTAL COST	BY 2004 PRODUCT SPECIFIC COSTS IDENTIFIED BY PRC
	COLUMN NUMBER	(1)	(2)	(3)	(4)
1	<b>FIRST-CLASS MAIL</b>				
2	SINGLE PIECE LETTERS	12,010,277	11,953,724		9,322
3	PRESORT LETTERS	4,679,533	4,779,532		9,772
4	TOTAL LETTERS	17,213,515	16,733,256		19,094
5	SINGLE PIECE CARDS	532,901	536,940		521
6	PRESORT CARDS	181,084	188,566		600
7	TOTAL CARDS	714,935	725,507		1,121
8	<b>TOTAL FIRST</b>	18,165,955	17,458,762	20,215	20,215
9	<b>PRIORITY MAIL</b>	3,071,098	3,017,911	161,515	31,499
10	<b>EXPRESS MAIL</b>	541,061	503,044	81,474	17,374
11	<b>MAILGRAMS</b>	301	448		
12	<b>PERIODICALS:</b>				
13	WITHIN COUNTY	62,901	67,534		7
14	OUTSIDE COUNTY	2,202,226	2,323,322		77
15	<b>TOTAL PERIODICALS</b>	2,268,120	2,390,856	84	84
16	<b>STANDARD MAIL:</b>				
17	ENHANCED CARR RTE	2,264,547	2,363,255		3,784
18	REGULAR	8,516,962	8,619,612		7,176
19	<b>TOTAL STANDARD MAIL</b>	11,057,464	10,982,867	10,960	10,960
20	<b>PACKAGE SERVICES:</b>				
21	PARCEL POST	1,009,279	1,040,929	454	454
22	BOUND PRINTED MATTER	448,791	475,918		
23	MEDIA MAIL	377,797	410,318		
24	<b>TOTAL PACKAGE SERVICES</b>	1,869,941	1,927,165	454	454
25	<b>U.S. POSTAL SERVICE</b>	374,277	-		
26	<b>FREE MAIL</b>	39,655	42,357		
27	<b>INTERNATIONAL MAIL</b>	1,371,035	1,395,556	62,758	31,013
28	<b>SPECIAL SERVICES:</b>				
29	REGISTRY	81,361	53,007		
30	CERTIFIED	432,226	439,210	119	119
31	INSURANCE	94,484	102,190	287	287
32	COD	8,200	8,741		
33	MONEY ORDERS	189,701	155,039	3,579	3,579
34	STAMPED CARDS	1,247	1,249		
35	STAMPED ENVELOPES	11,619	12,529		
36	SPECIAL HANDLING	2,454	766		
37	POST OFFICE BOX	607,643	600,234	1,046	1,046
38	OTHER	217,289	348,083	1,808	1,808
39	<b>TOTAL SPECIAL SERVICES</b>	1,718,850	1,721,049	6,839	6,839

TABLE 4A. COMPARISON OF TY 2006 BEFORE RATES INCREMENTAL COST WITH PRC ATTRIBUTABLE COST

LINE NO.	CLASS, SUBCLASS, OR SPECIAL SERVICE	TY 2006 BR INCREMENTAL COST	TY 2006 BR PRC ATTRIBUTABLE COST	TY 2006 BR PRODUCT SPECIFIC COSTS IDENTIFIED IN INCREMENTAL COST	TY 2006 BR PRODUCT SPECIFIC COSTS IDENTIFIED BY PRC
	COLUMN NUMBER	(1)	(2)	(3)	(4)
1	<b>FIRST-CLASS MAIL</b>				
2	SINGLE PIECE LETTERS	11,746,124	11,661,548		9,696
3	PRESORT LETTERS	4,902,202	4,994,962		10,165
4	TOTAL LETTERS	17,178,168	16,656,510		19,861
5	SINGLE PIECE CARDS	549,651	552,239		541
6	PRESORT CARDS	192,263	199,321		625
7	TOTAL CARDS	742,952	751,559		1,166
8	<b>TOTAL FIRST</b>	18,163,304	17,408,069	21,027	21,027
9	<b>PRIORITY MAIL</b>	3,191,361	3,158,427	144,651	37,246
10	<b>EXPRESS MAIL</b>	560,401	519,445	88,001	20,148
11	<b>MAILGRAMS</b>	263	388		
12	<b>PERIODICALS:</b>				
13	WITHIN COUNTY	65,292	70,005		9
14	OUTSIDE COUNTY	2,081,239	2,205,993		95
15	<b>TOTAL PERIODICALS</b>	2,149,614	2,275,999	103	103
16	<b>STANDARD MAIL:</b>				
17	ENHANCED CARR RTE	2,650,916	2,757,681		4,648
18	REGULAR	9,528,261	9,595,031		8,815
19	<b>TOTAL STANDARD MAIL</b>	12,498,175	12,352,712	13,463	13,463
20	<b>PACKAGE SERVICES:</b>				
21	PARCEL POST	1,070,111	1,102,455	558	558
22	BOUND PRINTED MATTER	510,025	540,826		
23	MEDIA MAIL	411,328	446,220		
24	<b>TOTAL PACKAGE SERVICES</b>	2,028,758	2,089,501	558	558
25	<b>U.S. POSTAL SERVICE</b>		-		
26	<b>FREE MAIL</b>	43,779	46,671		
27	<b>INTERNATIONAL MAIL</b>	1,509,079	1,534,583	66,285	32,555
28	<b>SPECIAL SERVICES:</b>				
29	REGISTRY	69,530	44,865		
30	CERTIFIED	472,891	480,527	146	146
31	INSURANCE	69,787	75,444	353	353
32	COD	7,721	8,231		
33	MONEY ORDERS	194,183	158,945	3,822	3,822
34	STAMPED CARDS	1,340	1,340		
35	STAMPED ENVELOPES	12,778	13,738		
36	SPECIAL HANDLING	2,526	809		
37	POST OFFICE BOX	646,220	638,592	1,285	1,285
38	OTHER	181,196	285,084	2,221	2,221
39	<b>TOTAL SPECIAL SERVICES</b>	1,728,642	1,707,576	7,826	7,826

TABLE 5A. COMPARISON OF TY 2006 AFTER RATES INCREMENTAL COST WITH PRC ATTRIBUTABLE COST

LINE NO.	CLASS, SUBCLASS, OR SPECIAL SERVICE	TY 2006 AR INCREMENTAL COST	TY 2006 AR PRC ATTRIBUTABLE COST	TY 2006 AR PRODUCT SPECIFIC COSTS IDENTIFIED IN INCREMENTAL COST	TY 2006 AR PRODUCT SPECIFIC COSTS IDENTIFIED BY PRC
	COLUMN NUMBER	(1)	(2)	(3)	(4)
1	<b>FIRST-CLASS MAIL</b>				
2	SINGLE PIECE LETTERS	11,616,985	11,540,520		9,696
3	PRESORT LETTERS	4,813,701	4,911,464		10,165
4	TOTAL LETTERS	16,952,844	16,451,985		19,861
5	SINGLE PIECE CARDS	542,922	545,817		541
6	PRESORT CARDS	189,444	196,545		625
7	TOTAL CARDS	733,387	742,362		1,166
8	<b>TOTAL FIRST</b>	17,925,629	17,194,346	21,027	21,027
9	<b>PRIORITY MAIL</b>	3,043,584	3,007,891	144,651	37,246
10	<b>EXPRESS MAIL</b>	539,055	497,236	88,007	20,156
11	<b>MAILGRAMS</b>	263	392		
12	<b>PERIODICALS:</b>				
13	WITHIN COUNTY	66,277	71,107		9
14	OUTSIDE COUNTY	2,073,270	2,197,992		95
15	<b>TOTAL PERIODICALS</b>	2,142,642	2,269,099	103	103
16	<b>STANDARD MAIL:</b>				
17	ENHANCED CARR RTE	2,568,970	2,675,843		4,648
18	REGULAR	9,455,676	9,524,915		8,815
19	<b>TOTAL STANDARD MAIL</b>	12,338,647	12,200,758	13,463	13,463
20	<b>PACKAGE SERVICES:</b>				
21	PARCEL POST	1,010,636	1,042,597	558	558
22	BOUND PRINTED MATTER	517,376	549,370		
23	MEDIA MAIL	409,417	444,371		
24	<b>TOTAL PACKAGE SERVICES</b>	1,974,294	2,036,338	558	558
25	<b>U.S. POSTAL SERVICE</b>		-		
26	<b>FREE MAIL</b>	43,858	46,750		
27	<b>INTERNATIONAL MAIL</b>	1,484,535	1,509,235	66,292	32,558
28	<b>SPECIAL SERVICES:</b>				
29	REGISTRY	65,388	42,380		
30	CERTIFIED	467,772	475,407	146	146
31	INSURANCE	68,815	74,402	353	353
32	COD	7,639	8,145		
33	MONEY ORDERS	192,779	157,827	3,822	3,822
34	STAMPED CARDS	1,327	1,327		
35	STAMPED ENVELOPES	12,789	13,752		
36	SPECIAL HANDLING	2,507	801		
37	POST OFFICE BOX	641,277	633,668	1,285	1,285
38	OTHER	181,258	290,372	2,221	2,221
39	<b>TOTAL SPECIAL SERVICES</b>	1,709,869	1,698,080	7,826	7,826