

Before The
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

RATE ADJUSTMENT DUE TO EXTRAORDINARY
OR EXCEPTIONAL CIRCUMSTANCES

Docket No. R2010-4R

INITIAL COMMENTS OF THE UNITED STATES POSTAL SERVICE
REGARDING COURT REMAND
(July 25, 2011)

On May 24, 2011, the Court of Appeals issued its decision remanding the Postal Service's request for exigent rate relief back to the Commission for further proceedings. U.S. Postal Serv. v. Postal Regulatory Comm'n, 640 F.3d 1263 (D.C. Cir. 2011). On July 11, 2011, the Commission issued Order No. 757, designating this stage of the exigent proceeding as Docket No. R2010-4R, establishing procedures on remand, and setting July 25 as the date for initial comments from interested parties. The Postal Service hereby responds with its initial comments.¹

The Postal Service first discusses the Court decision and the standard that should be used to determine whether an exigent increase is "due to" the identified "extraordinary or exceptional circumstances." Consistent with the statutory text, the policies underlying the statute, the Court's decision, and the representations made by the Commission in its briefs to the Court, the Commission should adopt a standard

¹ Although the term "exigent" does not appear in the statute, Subpart E of Part 3010 of the Commission's Rules uses "exigent" as essentially synonymous with "extraordinary or exceptional," or to generally describe an above-cap increase, and this document does likewise. See Order No. 43 at ¶ 2203 (recognizing that "exigent" has no legal meaning, but is simply a convenient "shorthand" for describing cases under Section 3622(d)(1)(E) of title 39).

requiring that the size of an exigent increase be generally proportionate to the impact on the Postal Service of the extraordinary or exceptional circumstances.

The Postal Service also discusses how, under any “due to” causality standard that might reasonably be promulgated by the Commission, the Postal Service is entitled to an exigent increase on the basis of the “extraordinary or exceptional circumstances” identified by the Commission in Order No. 547: the recession. In its Order, the Commission found that it was “[u]ndeniable” that the Postal Service suffered a “substantial volume decline, in part, because of the recession,” Order No. 547 at 58, but held that it would not grant the proposed increase because the Postal Service had failed to precisely quantify that impact, *id.* at 4, 65. As demonstrated herein, evidence already in the record, or otherwise available to the Commission and the public, demonstrates that the effect on the Postal Service of the recent volume losses, including those believed to be associated with the recession, varied from between \$2.3 billion and \$6.6 billion in lost contribution on an annual basis, depending on the specific manner in which the calculation is made. In order to simplify proceedings on remand, the Postal Service will not challenge a decision by the Commission to calculate the lost contribution resulting from the exigent circumstances as being at least \$2.3 billion for purposes of this case.² The Postal Service is prepared to provide a revised rate design for the Commission’s consideration that corresponds to this lower estimate of harm, which in this time of renewed economic uncertainty would likewise have the additional

² As discussed below, this figure is generated by taking the estimated First-Class Mail and Standard Mail recession-related volume losses in FY2008 and FY2009 (but not FY2010 or FY2011).

benefit of further shielding mailers from some of the effects of the higher level of price increases originally proposed last year.³

With the clear demonstration as to the impact on the Postal Service of total volume losses and recession-related volume losses set forth herein, no basis exists in the law to deny the Postal Service this request. At the very least, the Commission has found that exigent circumstances have occurred in the recession and the unprecedented declines in volume that resulted. Id. at 3, 50. It has also found that the Postal Service exercised “commendable” management in reducing those costs within its control. Id. at 80. The volumes—and related contribution—that were lost have not returned, meaning the impact on the Postal Service is ongoing. The Postal Service’s current financial situation demonstrates that this increase is critically “necessary” to “maintain and continue the development of postal services of the kind and quality adapted to the needs of the United States.” Finally, and consistent with the Court’s decision, the Commission cannot decline to implement an exigent request simply because the Postal Service’s financial crisis may not solely be the result of volume losses, but is also due to statutorily imposed costs.

I. SUMMARY OF COURT DECISION

The Court made three important determinations regarding the language of Section 3622(d)(1)(E). It first upheld the Commission’s view that “due to” requires that

³ As discussed below, the exigent relief should be measured against the rates that were in effect on July 6, 2010, and not the rates in effect on April 17, 2011. From the perspective of mailers, therefore, the burden of the new rates contemplated for January 2012 implementation will only be an incremental amount sufficient to allow the cumulative increase (April 2011 plus January 2012) to remedy the estimated exigent harm of \$2.3 billion.

there be a causal relationship between the size of a requested increase and the impact of the identified “extraordinary or exceptional circumstances” on the Postal Service. 640 F.3d at 1267. For its part, the Postal Service had not challenged the notion that the statute could reasonably be interpreted as requiring some measure of causality, though it believed that any causality requirement flowed from the “reasonable, equitable, and necessary” language, rather than “due to.” See, e.g., Oral Arg. Tr. at 5:7-16, 12:5-14, 13:8-15, 30:1-8. However, the Postal Service strongly contested the Commission’s view that the size of the increase had to precisely match the impact of the exigent circumstances. See 640 F.3d at 1267 (noting that the Postal Service “disagrees with the Commission’s interpretation that the amount of the adjustment is determined by the amount of revenue lost due to the exigent circumstance—at least to the extent the Commission imposed a ‘strict ‘nexus’ or offset test.’”).

In considering the question as to the degree of causality required, the Court rejected the Commission’s interpretation that the plain language of “due to” requires that “the Postal Service match the amount of the proposed adjustments *precisely* to the amount of revenue lost as a result of the exigent circumstances.” Id. at 1268 (emphasis in original). Rather, the Court noted that “due to” was ambiguous in terms of how close the match must be, meaning this issue could not properly be resolved at Chevron step 1. Id. Because the Commission erred in finding that the statute plainly required a strict offset, it did not perform any analysis that the Court could review under Chevron step 2. Id.⁴ Therefore, the Court remanded the decision to the Commission so that it could

⁴ The Court also did not find it necessary to address the Postal Service’s argument that the Commission’s Order was arbitrary and capricious because of the Commission’s failure, contrary to its own regulations, to seek further information from the Postal

“explain[] the extent of causation the Commission requires the Postal Service to demonstrate between the exigent circumstance’s impact on Postal Service finances and the proposed rate increase.” Id. at 1264. Because it was remanding the decision, the Court also noted that it did not have to consider whether the Postal Service’s requested increase failed the “due to” standard on its face by being “so disproportionate to the exigency’s impact on the Postal Service that it could not be considered ‘due to’ that exigency.” Id. at 1268 n.6.

Finally, the Court also rejected the notion that simply because the Postal Service’s financial crisis is due to many factors, including those costs that are outside of the Postal Service’s control, an exigent increase cannot be considered “due to” the identified exigent circumstance (the recession). The Commission had asserted that the Postal Service’s exigent increase was improper because the primary cause of the financial crisis is its structural costs—in particular, the retiree health benefits prefunding schedule—rather than the volume losses. Order No. 547 at 68. The Postal Service contested this interpretation of “due to.” See, e.g., Oral Arg. Tr. at 6:18-7:7 (Postal Service counsel requesting that the Court clarify that simply because the Postal Service “faces bigger problems that only Congress can solve [is not] a justification for the [C]ommission not to use the authority that Congress has plainly given it to address exigent circumstances”). The Court noted:

A financial crisis can often result from multiple contributing factors, of which only one may be “extraordinary or exceptional.” It would not be incorrect to say that the requested rate increase is “due to” the extraordinary factor simply because it is also ‘due to’ other factors as well.

Service to address concerns about the relatedness of the proposed increase to the harm from the exigent circumstances.

640 F.3d at 1268.

II. THE COMMISSION SHOULD ADOPT A STANDARD OF GENERAL PROPORTIONALITY IN APPLYING “DUE TO”

The Commission’s first task on remand is to enunciate the standard by which it will determine whether a requested increase is “due to” the identified extraordinary or exceptional circumstances. In doing so, the Commission must consider the entire statutory scheme, the policies underlying the statute, and administrative concerns. See, e.g., General Motors Corp. v. Nat’l Highway Traffic Safety Admin., 898 F.2d 165, 172 (D.C. Cir. 1990). Taking these considerations, as well as the Commission’s actions before the Court and the Court’s decision, into account, the Commission should interpret the “due to” requirement as setting forth a standard of general proportionality between the size of a requested increase and the impact of the exigent circumstances on the Postal Service. A general proportionality standard is most consistent with the statutory scheme, is flexible, and is the most administratively feasible approach.

A. A Strict Offset Approach is Inconsistent with the Commission’s Actions Before the Court, and with the Decision of the Court

As an initial matter, adhering to the “strict offset” approach utilized in Order No. 547 would be inconsistent with the representations made by the Commission to the Court. In its Brief to the Court, the Commission denied that it had required the Postal Service to satisfy a strict offset standard. In particular, the Commission claimed that the Postal Service’s characterization of the causation standard in its Order as being a “strict offset requirement” was a “caricature[].” Commission Brief at 39-40 (noting, “The Commission Did Not Impose a Strict Offset Requirement”). See also id. at 18 (“The [Postal] Service incorrectly characterizes the Commission’s order as requiring it to

calculate with absolute precision the amount of revenue that would be lost due to the recession and to design price increases to recapture precisely that amount of revenue.”). Rather, the Commission said that the Postal Service failed to meet the “due to” standard because it did not “make even a rudimentary attempt to relate the proposed price increase to the effects of the recession.” *Id.* at 18.

But, despite the Commission’s attempt to argue that its Order did not “opine on the level of precision required,” Commission Brief at 40, the Court found to the contrary, noting that the Postal Service’s characterization of the causation standard in Order No. 547 was accurate. 640 F.3d at 1267. By refusing to defend the strict offset approach set forth in its Order when its suitability was presented for direct review by the court, the Commission implicitly rejected its appropriateness, and it would be arbitrary to now require such an approach.⁵ It would also be inconsistent with the Court’s decision, which indicated that the relevant question is whether the requested increase is “so *disproportionate* to the exigency’s impact on the Postal Service that it could not be considered ‘due to’ that exigency.” *Id.* at 1268 n.6 (emphasis added). This language is consistent with a general proportionality standard, rather than a strict offset approach.

B. The Commission Must Interpret the Statute in a Balanced Fashion

In its Order, the Commission indicated that the exigency provision, including its “due to” clause, must be interpreted as restrictively as possible in order to vindicate congressional intent. See, e.g., Order No. 547 at 56. However, this position is fundamentally at odds with the statutory scheme, which clearly indicates that the

⁵ The Mailers who intervened in the court case also declined to defend a strict offset approach. Rather, they argued that, “The standard that the PRC actually applied was much more modest, prosaic and straightforward.” AMA et al. Brief at 27-28.

statutory “safety valve,” 640 F.3d at 1264, is equally as central to the pricing system as the price cap (as both are deemed to be “requirements” under section 3622(d)). The statutory scheme also indicates that the safety valve effectuates objectives of the law that are co-equal in importance to the objectives underlying the price cap. Therefore, while it is certainly true that an interpretation of the safety valve that is too permissive would undercut the purposes of the statute, so would an interpretation that is overly strict.

In Section 3622, Congress required the establishment of a pricing system that balances various goals. On the one hand, Congress sought to “maximize incentives to reduce costs and increase efficiency” and “create predictability and stability in rates.” 39 U.S.C. 3622(b)(1), (2). At the same time, Congress sought to ensure that the Postal Service has the financial resources required to carry out its mission of providing “high-quality” service throughout the Nation in a financially self-sufficient manner. Id. at 3622(b)(3), (5), (8). See also id. at 101(a).⁶ These objectives are co-equal, in that “each” of these objectives must be “applied in conjunction with the others.” Id. at 3622(b). Since the enactment of the PAEA (and for at least ten years thereafter), see id. at 3622(d)(3), this balance is struck primarily through the implementation of a price cap based on CPI-U, coupled with the “safety valve” mechanism of Section 3622(d)(1)(E).

In enacting an inflation cap but creating the safety valve, Congress made clear that, when abnormal situations arise that threaten the Postal Service’s ability to continue

⁶ The Commission has also recognized that one goal of the PAEA was to help ensure that the Postal Service remains self-financing. Order No. 547 at 6.

providing quality service, despite efforts under the “honest, efficient, and economical management” standard to limit costs and increase revenue, the Postal Service is entitled to additional increases above CPI-U. This directly advances the goals of ensuring quality service, id. at 3622(b)(3), and ensuring “adequate revenues...to maintain financial stability,” id. at 3622(b)(5).⁷ It also directly advances the goal of ensuring a “just and reasonable rate schedule.” Id. at 3622(b)(8). A rate schedule fails this standard if it is “less than compensatory,” Farmers Union Central Exchange v. FERC, 734 F.2d 1486, 1502 (D.C. Cir. 1984), a term that encompasses, in part, an inquiry regarding whether the rates are “sufficient to assure confidence in the financial integrity of the enterprise,” Illinois Bell v. FCC, 988 F.2d 1254, 1260 (D.C. Cir. 1993) (citations omitted).

It is therefore unreasonable for the Commission to interpret the statute in a way that fails to give adequate consideration and weight to the goals underlying the exigency clause by interpreting that clause in an unduly strict manner. See Nat’l Ass’n of Regulatory Util. Comm’rs v. ICC, 41 F.3d 721, 728 (D.C. Cir. 1994) (finding an agency interpretation of statute with conflicting policy goals to be unreasonable because it “favors the interests of one in a manner that wholly undermines those of the other”); Public Service Co. of Indiana, Inc. v. ICC, 749 F.2d 753, 765 (D.C. Cir. 1984) (noting that in a statute that sets forth various factors governing ratemaking, “[o]ne statutory factor cannot be...blindly exalted at the expense of others that are at least co-equal in importance.”). The Commission in its Order emphasized the importance of maintaining

⁷ While the Commission in its Order drew a distinction between ensuring the financial stability of the Postal Service and the provision by the Postal Service of quality service, see Order No. 547 at 17, the two ultimately go hand-in-hand.

the efficiency incentives of the price cap, which it notes would be undercut if the exigency clause was read too permissively. See, e.g., Order No. 547 at 3. While as a general matter this is true, it is equally true that the exigency clause is no less a “requirement” of the statute than the price cap,⁸ and serves objectives that Congress considered to be equally as important as the objectives underlying the price cap.

Thus, it cannot be said that the statute places adherence to the price cap as being more important than ensuring that the Postal Service is able to utilize the safety valve when “extraordinary or exceptional circumstances” are found to have occurred. Both provisions are integral parts of the statutory scheme, and there is no justification for placing a thumb on the scales to elevate the price cap and constrict the safety valve through a strict reading of the latter, simply because they are in tension. By definition, a safety valve provision runs counter to the general direction of the price cap, but this does not mean that the safety valve is undermining the broader purposes of the statute, or that it should be restrictively construed. Indeed, unduly narrowing the safety valve would itself frustrate the purposes of the statute that it is intended to effectuate. See Int’l Harvester Co. v. Ruckelshaus, 478 F.2d 615, 641 (D.C. Cir. 1973) (“To hold the safety valve too rigidly is to interfere with the relief that was contemplated as an integral part of the firmness of the overall, enduring program.”).

The legislative history does not justify a contrary reading. After extensively reviewing this history, Order No. 547 at 14-24, the Commission concluded that “the exigent rate provision in the PAEA is more restrictive than any provision in any previous bill because it combines independent requirements proposed separately by the House

⁸ This is in contrast to the “factor” requiring each class of mail to cover its costs. 39 U.S.C. 3622(c)(2).

and Senate,” *id.* at 20. It is simply incorrect, however, to assert that the PAEA limits the availability of exigent increases to a greater extent than the Senate bill, which would have allowed increases only in “unexpected and extraordinary circumstances.” By adopting a much broader triggering standard, the PAEA greatly expanded the availability of the safety valve. Nor was the inclusion of the House language an attempt to require a restrictive approach, considering that the “reasonable and equitable and necessary” standard simply requires a broad, functional inquiry that had been criticized by many stakeholders as allowing the cap to be pierced too easily.⁹ At most, the legislative history indicates that Congress’ purpose was to craft a compromise somewhere in-between the House and Senate approaches, and it is quite illogical to say that the product of that compromise is an exigency clause that is even more restrictive than the rejected Senate approach. Rather, the legislative history indicates that Congress was concerned that the Senate approach—by adopting a strictly limited exigency provision—was too restrictive, and did not make the exigency clause a sufficiently protective “safety valve.”

⁹ For instance, the Bush Administration made clear that it supported the “strict” exigency provision set forth in the Senate bill, as opposed to the House. See STATEMENT OF ADMINISTRATION POLICY: H.R. 22—THE POSTAL ACCOUNTABILITY AND ENHANCEMENT ACT (June 26, 2005). Both Senator Collins and AMA in their pleadings also discussed how the House standard was “rejected in favor of a more restrictive version.” Order No. 547 at 41.

The Commission suggests that the adoption of the “reasonable and equitable and necessary” clause by the House constituted a significant narrowing of the exigent clause, because earlier bills gave the Commission “leeway...when determining whether to grant or deny the proposed adjustment.” *Id.* at 22-23. But, any substantive differences that may exist are immaterial, because it is hard to imagine how the Commission can read the broad terms of this standard as constituting a narrow inquiry that does not give it considerable “leeway.”

Ultimately, the Commission did not in Order No. 547 engage in a reasoned balancing of the objectives called for by the PAEA. While the Commission extensively discussed the objectives served by the price cap, and the importance of the price cap in the statutory scheme, it failed to give consideration to the objectives served by the safety valve.¹⁰ The only discussion of the role of the exigency clause in the statutory scheme noted merely that it had to be a “firm” price cap that could apply only under “very limited circumstances,” because it was an exception to the price cap. *Id.* at 13-14, 56.¹¹

C. A Pragmatic, Flexible Approach is Most Consistent with the Policies Underlying the Statute and with the Commission’s Regulations

The balancing called for by Section 3622 indicates that a pragmatic, flexible, non-mechanistic approach be adopted for applying the “due to” standard. This will ensure that the exigency clause is able to be applied in a flexible manner that takes the characteristics of an individual case into account. *Cf.* Order No. 547 at 28 (noting that the Commission has “established procedures to permit review of exigent rate

¹⁰ Indeed, only one time did it mention the objective about “assuring adequate revenues,” and even then only in reference to the Postal Service’s inability to generate retained earnings prior to the recession. *Id.* at 70-71. The Commission failed to discuss any of the other objectives underlying the exigency clause.

¹¹ In support of this statement, the Commission cited three excerpts from pieces of testimony, which, even if relevant (but see *Public Citizen v. Farm Credit Admin.*, 938 F.2d 290, 292 (D.C. Cir. 1991)), do not support a strict reading of the language actually adopted in the PAEA. Two statements, by former Commission Chairman Omas and a Bush Administration official, were endorsements of the strict Senate approach, discarded by the PAEA. The other statement, by then-Postmaster General Potter, merely noted that the exigency provision should be the “exception” rather than the “rule,” an entirely unremarkable proposition befitting the fact that it is a “safety valve” and therefore should not be the normal practice. This statement does not constitute support for reading the exigency provision, including the “due to” clause, in a strict manner.

adjustments within a functional and flexible framework on an expedited basis.”) (citing Order No. 43). The language of the Commission’s current exigency rules also supports a flexible approach, as they simply require that the Postal Service demonstrate how the proposed increases “relate to” the exigent circumstances. 39 C.F.R. 3010.61(a)(3). “The phrase ‘relates to’ generally conveys a sense of breadth,” and is thus interpreted expansively rather than narrowly. Beiser v. Weyler, 284 F.3d 665, 669 (5th Cir. 2002) (citing Shaw v. Delta Air Lines, Inc., 463 U.S. 85, 97 (1983)).

In addition, the “reasonable and equitable and necessary” language in the exigency clause sets forth a broad, functional inquiry that is not consistent with a strict offset approach.¹² Rather, imposing a strict relationship between the size of an increase and the impact of the exigent circumstances harkens back to the “break-even” standard of former 3621, which required that price increases provide “sufficient revenues” for “total estimated income and appropriations” to “equal as nearly as practicable” the Postal Service’s “total estimated costs.” 39 U.S.C. 3621 (2000) (repealed). The exigency language, on the other hand, calls for a broader inquiry focused not on ensuring a precise match between “total estimated income” and “total estimated costs,” but on the “maint[enance] and continu[ation]...of postal services of the kind of quality adapted to the needs of the United States.” A strict proportionality standard therefore turns a functional inquiry into a mechanistic, inflexible one.

¹² While the Court recognized that “due to” imposes a causality standard independent of the “reasonable and equitable and necessary” standard, the proper interpretation of “due to” requires a consideration of the statutory context, and the Commission itself recognized the complementary relationship between these two clauses. Order No. 547 at 55-56.

D. A Strict Proportionality Standard is Unnecessary to Ensure Adherence to the Efficiency Incentives of the Price Cap

An overly inflexible causality standard is also not necessary to ensure that the efficiency incentives of the cap are preserved. Any deviation between the size of an exigent increase and the precise impact of an exigent circumstance that may result from a general proportionality standard would not affect the integrity of the cap, particularly when paired with the requirement that the Postal Service demonstrate that the increase is “reasonable and equitable and necessary” under “honest, efficient, and economical management.” If the Postal Service can show that it has engaged in “honest, efficient, and economical management,” yet still requires an exigent increase, it cannot be said that it is being unresponsive to the efficiency incentives of the cap. Indeed, as discussed below, the history of this case demonstrates that the Postal Service does not treat the exigency clause as a means of blithely circumventing the efficiency mandates of the cap, considering the modest nature of its original proposal and its extensive efforts to reduce costs and increase efficiency.

E. A General Proportionality Standard is More Administratively Feasible than a Strict Proportionality Standard

A general proportionality standard is also superior when one considers practicalities and the nature of an exigent case. As the Commission has recognized, these concerns must play a role in applying the exigency clause. See, e.g., Order No. 26 at ¶ 2106. On a practical level, the ability of the Postal Service to determine the precise effect of a particular exigent circumstance, and the ability of the Commission to review that issue in the expedited 90-day review period, will generally be constrained. In some circumstances, a precise match may be relatively easy to make, such as in the circumstance when the Postal Service is simply seeking an exigent increase to finance

the purchase of discrete equipment necessitated by the sending of anthrax, or to remediate environmental damage caused by the attack. Cf. Order No. 547 at 56. But, in the vast majority of circumstances that might prompt an exigent filing, requiring a strict level of precision is not practical.

This is particularly true when—as here—the exigent circumstance is macroeconomic in nature and has caused a massive decline in postal volumes. In such circumstances, untangling the interaction of multiple factors on the Postal Service's revenues will never reveal with absolute precision the exact portion of the volume decline that is attributable to the particular circumstance deemed to be exigent. Indeed, as demonstrated below, changes in assumptions can lead to a relatively wide range of figures as to the amount of contribution lost as a result of the recession. Even in circumstances where an exigent circumstance has led to an increase in costs rather than a decrease in volume, determining the precise costs caused by the exigent circumstance may be difficult, because the costs that affect the Postal Service generally are dependent on a wide variety of variables.

A strict offset approach would therefore impose an unreasonable and unnecessary evidentiary burden, especially in the most complex cases in which the need for an exigent increase is the greatest. Rather than engage in what would likely be a quixotic search for perfect proportionality, in addition to the other critical tasks that must be determined during the short 90-day review period (such as deciding whether “extraordinary or exceptional circumstances” have occurred, whether the rate design proposed by the Postal Service is “reasonable and equitable,” and whether the increase is “necessary, under honest and efficient management, to maintain and continue the

development of” quality postal services), the Commission should simply require that the Postal Service show that the proposed increase is generally proportional to the impact of the exigent circumstance in order to satisfy the “due to” standard.

III. THE COMMISSION CANNOT REJECT AN EXIGENT INCREASE SIMPLY BECAUSE THE POSTAL SERVICE’S FINANCIAL PROBLEMS MAY BE DUE TO MULTIPLE FACTORS, OR BECAUSE THE INCREASE WILL NOT SOLVE THE ENTIRE CRISIS

In addition to finding that the Postal Service had failed to demonstrate the precise correlation between the size of the requested increase and the impact of the exigent circumstance, the Commission also stated that the Postal Service’s increase failed the “due to” standard because the “principal cause” of the Postal Service’s financial crisis was not the volume losses, but the Postal Service’s cost structure, and in particular Congress’ “overly optimistic” retiree health benefits prefunding requirement. Id. at 68. See also Commission Brief at 32-33 (“But as the Postal Service’s own submissions make clear, the recession was not the sole, or even the primary, cause of its financial difficulties....It was largely these factors, and not the recession, that caused the Postal Service’s current financial predicament....”). The Commission found that because these structural costs are not “extraordinary or exceptional,” the Postal Service’s request was “not driven by” the volume losses but was instead an “expedient for piercing the price cap” to enable the Postal Service to “address its existing financial condition.” Order No. 547 at 61, 68.

According to the Commission, this meant that the increase was both too big *and* too small. It was too big because “without the prefunding schedule . . . the Postal Service would have had sufficient resources to weather the downturn in FY 2009

without any . . . need to adjust rates based on extraordinary or exceptional circumstances.” Id. at 72. It was too small because, even with the expedited rate increases, these structural costs would still leave the Postal Service in a financial crisis. Id. at 3. Thus, the increase would not “resolve the crisis at hand.” Id. at 4.¹³

This reasoning is both internally contradictory and inconsistent with the statute, and would preclude any exigent increase that is predicated on lost volume, despite the fact that—as the Commission found—circumstances that lead to volume declines can constitute “extraordinary or exceptional circumstances” under the plain meaning of those terms.¹⁴ It was also rejected by the Court, which noted that an increase can be considered “due to” an exigent circumstance even if the Postal Service’s financial situation is caused by multiple factors. Where the Postal Service has shown that its revenue declined due to extraordinary or exceptional circumstances and that it has practiced “honest, efficient, and economical management,” the existence of costs outside of the Postal Service’s control is not evidence that the proposed increase is unrelated to the exigent circumstances.

¹³ The Mailers Brief also defended the Order on these grounds, noting, “The mailers established—and the USPS essentially conceded—that (1) its most serious problems are long term and structural, not extraordinary or exceptional; (2) solving those problems would be necessary and sufficient to restore the USPS to financial solvency; (3) the problems have been created and maintained by legislation; and (4) the above-CPI rate increase sought by the USPS, without resolution of its structural and long-term problems, would not resolve the insolvency problem.” AMA et al Brief at 16. See also id. at 28-30.

¹⁴ It is also inconsistent with the Commission’s insistence that it “stands ready to review” a request that ties the size of the increase to the impact of those volume losses. Commission Brief at 45.

A. As the Commission Now Seems to Recognize, and the Court Found, Rejecting an Increase Based on the Fact that the Financial Crisis is Caused by Multiple Factors is Inconsistent with the Statute

As the Commission appropriately found, the plain meaning of “extraordinary or exceptional circumstances” encompasses events that cause volume losses. Id. at 52. However, the exigency clause’s inclusion of such events would be rendered meaningless if the Postal Service’s structural costs were used as a reason to reject an increase predicated on those volume losses. Financial losses are by definition caused by a divergence between revenues and costs. If volumes decline, revenues (and volume-variable costs) also decline, but fixed costs do not. It will therefore always be possible to identify those fixed costs as being “factors” underlying a financial crisis. Cf. Commission Brief at 36 (noting that the current financial crisis is caused by “several factors”).

The Commission’s reasoning therefore creates a situation in which the Postal Service could seemingly never implement an exigent adjustment on the basis of lost volume, because it will always be possible to say that decreased revenue due to the lost volume would not pose a problem if certain of the Postal Service’s fixed costs were lower. To claim that this fact means that the financial crisis is not also “due to” the volume losses is perverse, and is akin to telling a person who is demoted and suffers financial hardship that the diminution of their salary is not the problem, but that the problem is instead the need to pay the mortgage and buy food. No one can reasonably dispute that the recession caused a sharp decrease in volume—and thus in revenue—or that the decrease in revenue contributed significantly to the Postal Service’s financial crisis. Indeed, the Commission found that it was “[u]ndeniabl[e]” that the Postal Service

suffered a “substantial volume decline, in part, because of the recession,” Order No. 547 at 58, and found that the recession and associated volume decline constituted an “extraordinary or exceptional circumstance,” id. at 50.

The Court rejected the Commission’s supposition that it may deny an exigent request simply because the Postal Service’s financial crisis may be caused by numerous factors, some of which are not covered by the exigent clause. 640 F.3d at 1268. Thus, the Commission cannot refuse to authorize an exigent increase that seeks to compensate for the consequences of the exigent factor—and is thus “due to” that circumstance—simply because of the existence of other factors. The Commission, in its Brief to the Court, also seemed to recognize this, noting:

The presence of additional factors that contributed to the Postal Service’s financial situation does not necessarily preclude price increases based on the recession. It simply requires the Postal Service to establish that the requested price increases were designed to address the effects of the recession and associated volume declines, rather than to address other problems that did not stem from the recession.

Commission Brief at 34.

To the extent the Commission has moved away from its discussion in the Order of this issue, and in particular its decision to isolate one fixed cost—the retiree health benefits prefunding payments—as a basis for denying the exigent adjustment, Order No. 547 at 66, that reconsideration is clearly correct. The statute makes it clear that costs can form a basis for rejecting an exigent increase only if they are avoidable through “honest, efficient, and economical management,” under the statutory meaning of that term. If costs are the result of policy choices by Congress, then by definition the occurrence of those costs is outside of the Postal Service’s control and is not inconsistent with the “honest, efficient, and economical management” standard. See,

e.g., Public Service Co., 749 F.2d at 767 (noting that “factors beyond the control” of the regulated entity do not demonstrate inefficiency).

The specific cost identified by the Commission as being the “principal cause” of the financial crisis—the retiree health prefunding payments—is one such cost, and the Commission’s decision to isolate that single fixed cost and claim that safety valve relief is unavailable because only Congress can address that cost is an inappropriate reading of the statute. While the Commission is certainly correct that the retiree health benefits prefunding payments were “overly optimistic,” Order No. 547 at 68, and that Congressional action to address those payments is required, those payments—like other payments the Postal Service must make to the Federal Government—are still mandated by Congress. Thus, for purposes of the exigency clause, the Commission had no more occasion to isolate the retiree health benefits prefunding payments as being the primary cause of the financial crisis than other fixed cost, or combination of fixed costs, that are the result of policy choices made by Congress (e.g., six-day delivery or restrictions on closing Post Offices).

Furthermore, while it might be true that a financial imbalance between costs and revenues might be ameliorated if Congress relieved the Postal Service of certain costs, that fact is fundamentally irrelevant in determining whether to grant an exigent increase. The Commission’s assertion that the real problem facing the Postal Service was its unavoidable costs implies that the safety valve is not available to respond to a sudden, severe decrease in revenue due to volume losses until after Congress has addressed the problem by reforming the Postal Service’s fixed cost structure. But, the very purpose of the safety valve is to provide a mechanism for corrective action on an

expedited basis *without* the need for Congressional intervention (even if, as discussed below, that action may not be sufficient standing alone to solve the Postal Service's financial problems). Thus, while an exigent circumstance that manifests itself in a loss of volume—rather than merely an increase in costs, as the Commission's anthrax example discusses (Order No. 547 at 56)—could inevitably be mitigated by Congress acting to reduce costs that are outside of the Postal Service's control, that fact is completely beside the point.

The correlation between volume declines and cost levels in determining the Postal Service's financial success also demonstrates that the Commission was wrong to criticize the Postal Service for comprehensively discussing why the volume losses—caused by an exigent circumstance—had a pernicious effect on its financial stability. See id. at 61-62. As a matter of logic, it was relevant for the Postal Service to note that even as it lost volume and revenue, it continued to incur costs—including the costs of new delivery points and retiree health benefits prefunding—that could not be avoided through “honest, efficient, and economical management,” and that the occurrence of such costs at specific intervals (e.g, the payment of the retiree health benefits payment at the end of the fiscal year) would have specific effects on the Postal Service's financial situation. This simply reflects the reality that the financial crisis is a result of both lost revenues and an inability to cut costs sufficiently to compensate for that lost revenue, and at the very least was necessary to demonstrate why an exigent increase is “necessary,” as called for by the Commission's rules. 39 C.F.R. 3010.61(a)(4). Viewing these statements as evidence of an attempt to compensate for “long-term structural problems,” Order No. 547 at 3, is completely divorced from what the Postal Service

actually proposed: if the Postal Service had truly attempted to solve its “structural” problems through the exigency clause so as to return to “cost-of-service ratemaking,” id. at 65, it would have proposed an exigent increase much *larger* than it originally proposed, and would not have articulated a comprehensive Action Plan. Indeed, as discussed below, the increase originally proposed did not seek to compensate the Postal Service for non-exigent harm; in fact, the original proposal did not even seek to compensate the Postal Service for all of the harm that can be potentially attributed to the exigent circumstance.

B. An Increase is “Due to” an Exigent Circumstance Even if it is Not Large Enough to Resolve the Postal Service’s Entire Financial Crisis

The Commission also questioned whether it even had the power to grant an increase in light of the fact that the increase sought was too *low* to obviate the need for action by Congress. The Commission said that the Postal Service was required, but failed, to demonstrate “how the requested rates resolve the crisis at hand.” Id. at 4. Relatedly, the Commission also criticized the Postal Service for including an exigent increase as part of a multi-faceted Action Plan, which it said “belies the notion that there is, in fact, an exigency which requires exceptional rate relief.” Id. at 66.

This reasoning can only be understood in the context of the Commission’s mistaken view that an exigent increase is not available when a financial crisis is the result of multiple factors. Considering the Commission’s view that “due to” requires a correlation between the size of an increase and the impact of the exigent circumstances, and the fact that the financial crisis has multiple contributing factors, not all of which are exigent in nature, it is unclear how the Postal Service could have permissibly requested rates sufficient to “resolve the crisis at hand.” By claiming that

any increase must correlate only to the effects of the specific exigency, so that it does not serve as a “general revenue enhancement mechanism,” id. at 3, while simultaneously claiming that it must “resolve the crisis at hand,” id. at 4, the Commission sets forth an impossible standard that would prevent any exigent increase following an “extraordinary or exceptional circumstance” causing large drops in volume. But, it is in such circumstances, in which the Postal Service is facing insolvency through the interplay of a number of factors, that the safety valve becomes most important.

Requiring that an exigent increase “resolve the crisis at hand” is also inconsistent with the exigency clause in another way: the statute asks not whether an exigent increase is “sufficient,” but whether it is “necessary.”¹⁵ Once the Postal Service demonstrates that an exigent event has occurred, and that the size of the requested increase is proportional to that event, the Commission cannot refuse to exercise the authority that Congress gave it and instead put the burden back on Congress to take more comprehensive action, simply because the exercise of its authority, standing alone, would not resolve the Postal Service’s financial situation. While resolution of the Postal Service’s financial crisis undoubtedly requires Congressional action, that does not justify a failure by the Commission to apply the one safety valve that Congress has provided under existing law to ameliorate the crisis. When Congress tasked the Commission with the duty of implementing the statutory safety valve, Congress plainly intended that the Commission would take steps to improve the Postal Service’s financial situation and, if that is not enough by itself, to at least reduce the problem facing

¹⁵ As discussed below, this increase is “necessary.”

Congress, rather than have the Commission foist the entire problem back on Congress.¹⁶

IV. APPLICATION OF A REASONABLE INTERPRETATION OF THE “DUE TO” STANDARD IN THE INSTANT CIRCUMSTANCES SHOWS BILLIONS OF DOLLARS OF HARM RESULTING FROM EXIGENT VOLUME LOSSES

In denying the exigent request in Order No. 547, the Commission on page 4 cited the alleged failure of the Postal Service to quantify the impact of the claimed exigency, while on pages 78-79 it simultaneously criticized the quantification which the Postal Service did provide. The purpose of this section is to explore further the quantification

¹⁶ Furthermore, the fact that the Postal Service has exercised prudent management to establish a comprehensive and multi-faceted Action Plan that seeks to address the multiple causes of its financial crisis in their proper forum, whether it be at the Commission (through the exigency clause), or Congress, does not affect application of the exigency clause. The Commission points to the fact that this plan was put forward in March 2010, four months before the case was filed, and ten months before the proposed effective date of the new prices, claiming that this “delay in pursuing its exigent rate relief raises additional questions about whether the Postal Service views its financial situation as an emergency.” *Id.* at 66. But, there is no requirement—in either the statute or the Commission’s rules—that the Postal Service immediately resort to the exigency clause upon the occurrence of an “extraordinary or exceptional circumstance,” analogous to a person dialing 911 when dealing with an emergency. The Commission’s statement that an exigent case involves an “emergency” confuses the “shorthand” employed for these cases, Order No. 43 at ¶ 2203, with the actual legal standard. See also Order No. 547 at 28 n.30. Nothing in the exigency provision requires that an “emergency” exists or that the Postal Service act as if an “emergency” exists. Indeed, for obvious reasons the Postal Service might seek to avoid the filing of an exigent increase at first, and seek to absorb the impact of the exigent circumstances through other actions. If a negative implication is drawn by the Commission from that decision, then the Postal Service would be compelled to immediately file for an increase simply to protect its rights. Nor should the Postal Service be penalized for setting the implementation date based on market conditions, such as to avoid implementation of new prices during the holiday mailing season. In other words, once a decision is made to file a case, the question becomes not whether the Postal Service is acting in a way one would expect if an “emergency” exists, by filing a case within a set time period or setting the implementation date as quickly as possible after the end of the 90-day period, but whether the legal standards of Section 3622(d)(1)(E) are met. Because the Commission did not raise this issue in its Brief to the Court, perhaps it now shares that view.

of the harm to postal finances from recent volume losses, including estimated volume losses specifically relating to the recession. Moreover, because harm from volume losses can best be measured in terms of lost contribution (to the recovery of institutional costs), such quantification of impact directly establishes the relationship between the harm and the contemplated rate increases, to the extent that the effects of such increases can be and have been expressed as changes in contribution to the Postal Service's bottom-line finances. We discuss several ways to attempt to estimate this harm. Fundamentally, this section thus provides a clear pathway to demonstrate how the need for rate increases of a certain magnitude relates to (i.e., is "due to") the volume losses which constitute the exigent circumstances intended to be addressed in this proceeding, using a variety of methods to quantify the harm based on materials either submitted with the filing, or already available to the Commission and to the public, or which, upon request, could have been made available by decomposition of materials that were submitted with the filing, if the Commission had merely asked.

A. Background

When initiating this proceeding, the Postal Service clearly identified the "extraordinary or exceptional circumstances" that it considered the necessary foundation for a request to implement exigent rate increases exceeding the otherwise applicable price cap ceiling:

The circumstances affecting the Postal Service are "extraordinary" and "exceptional." What fundamentally distinguishes present conditions from any circumstances that were imagined when the Postal Accountability and Enhancement Act of 2006 (PAEA) was enacted just a few short years ago is the dramatic, rapid and unprecedented decline in mail volume.
(Request at 1)

Neither the Postal Service nor those responsible for the PAEA foresaw the dramatic and rapid decline in mail volume between FY 2006 and FY 2009, during which period volume plunged a total of nearly 17 percent. While the long-term impact of electronic diversion has been widely acknowledged over the last 10 years, neither electronic diversion nor any other single factor caused the sudden, precipitous drop in mail volume. Even just a few years ago, the depth and severity of the current recession—and its impact on mail volume—were unforeseeable. . . . The unprecedented drop in mail volume constitutes the “extraordinary or exceptional circumstances” that trigger the need for an exigent increase. (Request at 6)

The crushing and continuing decline in mail volume, both extraordinary and exceptional, is what causes the Postal Service to seek the proposed exigent rate increases. (Request at 7)

While the effect of electronic diversion has been widely acknowledged over the last decade, the sudden and dramatic shift in the totality of factors affecting mail volume beginning in 2007 were unforeseen and unforeseeable. The bottom line effects on the Postal Service’s finances of these volume declines clearly constitute “extraordinary or exceptional circumstances” as those terms are used in the statute. (Corbett Statement at 16)

The circumstances that cause the Postal Service to invoke the provision of the Postal Act of 2006 regarding price increases beyond the cap are certainly extraordinary and exceptional. As described above, the severe and abrupt volume loss is anything but ordinary when compared to the long history of the U.S. Postal Service and, before that, the Post Office Department. (Corbett Statement at 20)

When the recession came in 2008 and 2009, the drop was unprecedented. It was six times what any prior calamity has caused in terms of drop in mail volumes. Actually the drop in the mail volume, which is the extraordinary event, there are a number of things driving that, the recession in large part, and electronic migration are two. Migration, we believe, has been accelerated by the recession given people are looking at their checkbooks a little bit more closely and businesses are looking at their bottom line more closely than they ever have before; in some cases just to stay in business. And one thing they can quickly identify is that the faster they can move customers, they can move themselves to electronic communications the faster they can save money and improve their bottom lines. So it's really the drop in overall volumes which we believe is the exigent driver. (Corbett Hearing, Tr. 1/29-30)

These statements clearly identified the “extraordinary or exceptional circumstances” as the *overall* drop in mail volume between FY 2006 and FY 2009.

In Order No. 547, however, the Commission attributed to the Postal Service a narrower version of “extraordinary or exceptional circumstances,” alleging the circumstances identified by the Postal Service were limited to recession-related volume declines, rather than total volume declines:

The Postal Service asks the Commission to find that volume declines resulting from the recent recession are an extraordinary or exceptional circumstance. It characterizes both the recession, and its recession-related volume declines, as far more extreme than any experienced since the Great Depression. (Order No. 547 at 2)

[Mr. Corbett] states that the recent recession and its impact on mail volume “clearly constitutes ‘extraordinary or exceptional circumstances’ as those terms are used in the statute.” [Corbett Statement] at 16. (Order No. 547 at 43)

To be invoked, the rate adjustment must be due to extraordinary or exceptional circumstances. In this case, the circumstances cited by the Postal Service are a severe recession, and a large recession-related decline in volumes. (Order No. 547 at 62)

Whether in response to a misapprehension of the Postal Service’s views regarding the nature of the “extraordinary or exceptional circumstances,” or merely because its own conclusions regarding the scope of the qualifying circumstances ultimately differed from those expressed by the Postal Service, the Commission adopted the more limited view:

A majority of the Commission finds that the recent recession, and the decline in mail volume experienced during the recession, do qualify as an extraordinary or exceptional circumstance. (Order No. 547 at 3)

Given these facts, the Commission concludes that the recent recession and its impact on postal volumes is an “extraordinary or exceptional” circumstance. (Order No. 547 at 50)

Therefore, while the Postal Service in its submission was focusing on the larger set of volume losses from all sources, the Commission in Order No. 547 was suggesting an exclusive focus on the smaller subset of volume losses flowing explicitly from the recession.

This sequence of events has significant consequences for any discussion of the need for better quantification of the harm imposed on the Postal Service by the exigent circumstances. If the target was better quantification of the effects of the exigent circumstances, the Commission, by expressing for the first time in Order No. 547 a change in its understanding of the scope of those circumstances, shifted the target—a shift that was shared with the parties only at the time of the Order. Nonetheless, there is ample record evidence to quantify the effects of the exigent circumstances even under the Commission’s redefinition of that phrase. In addition, as part of the interactive proceeding that the statute and the Commission’s rules contemplate, the record evidence could have been buttressed by additional information that was either available to the Commission, or which could have been made available, had the Commission asked in one of its numerous information requests, by decomposition of materials that were submitted with the filing.

In the context of its July 6, 2010 exigent filing, the Postal Service took the view that the totality of the lost volume constitutes the “extraordinary or exceptional circumstances” triggering the need for an exigent rate increase. (Alternatively, some might prefer, under this view, to identify the totality of factors or events *leading to* the overall volume loss as the exigent “circumstances,” rather than the resulting volume losses themselves, but such a distinction would be entirely semantic.) In Order No.

547, however, the Commission took a different view. The Commission suggests that, by focusing on the entire loss of volume over the 2006-2009 period, the impact would be overstated, because some of that volume loss would not be due to the recession, but to more long-term structural factors such as electronic diversion. E.g., Order No. 547 at 79.

Although not challenging the scope of the exigency as identified by the majority of the Commission in Order No. 547, the Postal Service does not agree that, when confronted with a massive volume loss that is many orders of magnitude larger than any observed in recent history, it is essential to attempt to parse out the exact cause of each piece of volume lost. In the context of volume losses on this scale, the inherent weakness of a pure price cap regime is that its design makes no allowance whatsoever for volume losses. When a piece of volume is lost, the contribution intended to be recovered from that piece is lost as well, regardless of why the piece was lost.¹⁷ For that reason, the Postal Service identified all of the volume loss since FY2006 as the manifestation of the “exceptional or extraordinary circumstances” triggering the exigent provision intended to be the statutory safety valve under such circumstances. The need for price adjustments above the cap level is “due to” the cumulative effect of all recent

¹⁷ That presumably is the reason why, in their joint letter to Chairman Blair posted on the Commission’s Daily Listings for April 6, 2007, Chairman Carper and Ranking Member Collins explicitly stated that “exceptional or extraordinary circumstances,” in their view, “may include ... other events that may cause significant and substantial declines in mail volume ... that the Postal Service cannot reasonably be expected to adjust to in the normal course of business.” Such a view of the safety valve provided by the PAEA is not only reasonable, but also necessary, because a price cap regime in the context of a network industry simply lacks any other mechanism to deal with substantial mail volume declines.

volume losses, including (but not limited to) volume losses relating to the recession.¹⁸ Nevertheless, for purposes of this discussion, the Postal Service will address all of the alleged shortcomings identified by the Commission in Order No. 547, including the purported need to isolate recession-related volume losses from other volume losses. Improved quantification can be accomplished primarily using data already available to the Commission, but in some instances also supplemented by information that could have been extracted from the extensive documentation and models submitted with the filing, had the redefined exigent circumstances been identified and additional breakouts been requested.

The next sections present five different methods of quantification. A summary that follows these sections will explain why Method Five is the absolute lower bound of the quantification of “harm” due to the exigent circumstances. While the Postal Service

¹⁸ For example, suppose hypothetically that there had been absolutely no recession in the larger economy, yet a sudden and widespread surge in electronic diversion had nonetheless caused the Postal Service to experience the same pattern of monumental volume losses in FY2007-FY2009 as those shown in the chart on page 13 of the Corbett Statement. Obviously, such a radical increase in the size and scope of electronic diversion would be a sharp break from the more gradual long-term trend in electronic diversion that existed previously. It would, moreover, create the same financial pressures on the Postal Service as those generated by volume losses of that magnitude due to any other factor or set of factors. Under such a scenario, though, it would be ludicrous to assert that such an explosion in diversion should simply be expected as part of the normal life cycle of a product, and on that basis deny the Postal Service the exigent rate relief intended to be available under “exceptional or extraordinary circumstances.” In reality, of course, the actual volume loss was created instead by a combination of electronic diversion and the recession, and the interaction of the two. But it is the overall size of the cumulative volume loss which is “exceptional or extraordinary,” whatever its exact origins. When large amounts of volume are lost for any reason, with that volume goes the net revenue used to cover institutional costs that it previously contributed, and a price cap regime pegged to a broad index of inflation needs to have a safety valve to address those circumstances. The PAEA does, and the Postal Service is entitled to employ that safety valve when confronted with historic volume declines from any combination of factors.

believes higher amounts are more consistent with the law, it nonetheless is willing not to challenge this lower amount in order to facilitate resolution of this proceeding.

B. Mr. Corbett's Previous Quantification (Method One)

In the Statement of Joseph Corbett (page 16), the Postal Service provided an intentionally simplistic calculation indicating the approximate magnitude of the effect of the recent volume losses (i.e., the “exceptional or extraordinary circumstances”) on the Postal Service’s bottom line *in just one year, FY 2009*. The effect in FY2009 can be estimated as the loss of contribution associated with the pieces of mail previously in the system but no longer being mailed that year. Based on the overall volume decline from FY2006 to FY2009, Mr. Corbett presented the figure of \$5 billion. The Commission criticized this estimate, claiming that it “likely overstates the contribution loss due to the exceptional or extraordinary circumstances for two reasons.” Order No. 547 at 78. First, the Commission noted that the \$5 billion estimate did not differentiate between the effects of volume losses from high-contribution products versus those from lower-contribution products. Id.¹⁹ Second, the Commission noted that this estimate did not

¹⁹ While this observation regarding the Corbett analysis is correct, it certainly is not the case that Mr. Corbett made any secret of the assumptions behind his calculation:

Applying the FY 2009 per-piece contribution of 14.1 cents to the 35.6 billion pieces of mail lost between 2006 and 2009 suggests that, **if the pieces lost would on average have yielded that amount of unit contribution**, the net impact would have been \$5 billion.

Corbett Statement at 16, footnote 8 (emphasis added). Neither Mr. Corbett nor the Postal Service was ever asked what the net impact would have been if this assumption had been altered, notwithstanding the fact that section 3010.62 of the Commission’s rules contemplates an iterative exchange of information when the Commission perceives that clarification or supplemental information would be helpful. In this case, in seven information requests, the Commission actually

attempt to decompose the volume losses into those relating to the recession and those due to other factors, such as electronic diversion. Id. at 79.²⁰

C. Quantification Method Two

To address the question of product-specific volume and contribution losses, the Postal Service first proposes a very straightforward exercise using data and models that were all fully available to the Commission. That exercise is to take the Product Cost and Contribution Estimation Model (PCCEM) filed with the case, and, in place of the forecasted FY2011 volumes, substitute actual FY2007 volumes.²¹ This exercise, in

posed 106 questions to the Postal Service on *other* matters, but never addressed the matter upon which the determination was based to deny the exigent request.

²⁰ One feature of the Corbett analysis upon which the Commission did not comment is the basic assumption that, when a unit of volume is lost, the resulting financial harm to the Postal Service can be estimated as the lost contribution, defined as unit revenue minus unit cost. A limitation inherent in this approach is the implicit assumption that, as each unit of volume disappears, the Postal Service can automatically reduce expenses by the amount of the volume-variable costs customarily associated with units of that product (as estimated in the CRA). In reality, when the pace of volume declines outstripped anything even remotely experienced in the past, which certainly was the case during portions of the periods under discussion, the Postal Service was not able to reduce even volume-variable costs at anywhere near the rate that volume and revenue were disappearing. Consequently, although eventually volume-variable cost reductions can approximately catch up with volume reductions, the temporal revenue/cost mismatch inherent in the lag means that all of the estimates of cumulative harm included in this discussion are undoubtedly understated, as they make no allowance for this phenomenon.

²¹ On page 79 of Order No. 547, the Commission indicated that, since the recession did not begin until roughly the start of FY2008, volume changes prior to that time -- e.g., from FY2006 to FY2007 -- should not be included. Although the Postal Service does not necessarily agree with this reasoning, volumes were more or less stagnant from FY 2006 to FY 2007, so in response to the Commission's concern, the starting focus for this exercise shifts from the FY 2006 volumes used in the Corbett Statement to FY 2007 volume levels. But, on page 79, the Commission also goes so far as to cite the National Bureau of Economic Research's (NBER) determination that the recession "officially" ended in June 2009, and even indicates that including volume losses after that date in an impact assessment would be "problematic." That portion of the Commission's Order,

other words, addresses the question of how the Postal Service's bottom line would have changed in FY2011 if mail volumes had stayed at FY2007 levels, instead of dropping to lower levels as they did in FY2008 and FY2009, and were forecasted to do in FY2010 and FY2011. The result of this exercise is a product-by-product analysis of the effect of the different assumed volumes on revenues, attributable costs, and contribution, using the exact same model that was used to obtain those estimates for the original FY2011 before-rates financials presented in Attachment 10 to the statement of Stephen J. Masse. This exercise is also more comprehensive than the straightforward, simple calculation presented by Mr. Corbett, because, rather than being limited to harm suffered in FY 2009 from volume losses up to that point, it also accounts for actual and (at that time) projected continuing volume losses in FY 2010 and FY 2011. Moreover, this approach is consistent with the framework used for all of the extensively-documented financial models provided in this case by the Postal Service, which were focused directly on FY2011. No objection during the entire course of the proceeding was ever voiced regarding the choice of FY2011 as the focus of financial analysis.

As shown in Table One, this exercise indicates that, assuming total FY2011 volumes at the actual FY2007 level of 212.2 billion pieces instead of the projected

however, neglects to mention that NBER did not even make its determination until September 20, 2010, two and a half months *after* the Postal Service submitted its request and filed Mr. Corbett's statement, and a mere 10 days before Order No. 547 was issued. More to the point, it is absurd to suggest that the recession's devastating impact on mail volumes suddenly ended on that date, or that the ongoing harm to the Postal Service from contribution that is lost from pieces of mail that disappeared after June 30, 2009 is any different from the harm caused by the pieces that disappeared before June 30, 2009. The Postal Service made this point in footnote 3 on page 17 of its January 28, 2011 Reply Brief to the Court of Appeals, and at oral argument, at least one judge wasted no time rejecting the Commission's contention on this matter. Oral Arg. Tr. at 17:14-20:14.

TABLE ONE: FY2011 BR FINANCIALS ASSUMING FY2007 VOLUME LEVELS (METHOD TWO)

	Baseline FY11 BR Exigent Volumes	FY11BR FY2007 Volumes	Volume Change	Baseline FY11 BR Exigent Contribution	FY11BR FY2007 Contribution	Contribution Change
	(000) (1)	(000) (2)	(000) (3)=(2)-(1)	(\$000) (4)	(\$000) (5)	(\$000) (6)=(5)-(4)
First-Class Mail	75,622,550	95,894,653	20,272,103	\$ 17,024,193	\$ 22,282,199	\$ 5,258,006
Standard Mail	88,582,975	103,516,112	14,933,137	\$ 6,452,026	\$ 7,602,233	\$ 1,150,207
Periodicals	7,046,936	8,795,831	1,748,895	\$ (444,955)	\$ (530,273)	\$ (85,318)
Package Services	696,289	914,494	218,205	\$ 37,524	\$ 72,968	\$ 35,444
Special Services				\$ 602,342	\$ 894,938	\$ 292,596
Total Domestic MD	172,501,496	210,201,483	37,699,987	\$ 23,619,163	\$ 30,261,887	\$ 6,642,724
Total / Net Income	174,322,817	212,232,792	37,909,975	\$ (7,148,988)	\$ 91,784	\$ 7,240,772

Source: Attachments One and Two to this document

FY2011 BR volumes of 174.3 billion pieces, the Postal Service would have expected a net *income* of \$92 million, as opposed to a net *loss* of \$7.149 billion. In other words, total contribution would have increased by \$7.241 billion, and of that amount, \$6.643 billion would be increased contribution specifically from domestic Market Dominant products. Therefore, instead of the rough \$5 billion approximation stated by Mr. Corbett in the Postal Service's filing, this exercise indicates that the dramatic volume declines in Market Dominant products experienced since 2007 and expected to continue into FY2011 hit the bottom line with an impact of over \$6.6 billion in FY2011 alone. This comprehensive analysis is done at the product level, thereby fully addressing the Commission's first criticism.

D. Quantification Method Three

To further evaluate the Postal Service's original \$5 billion estimate, if the Commission was not satisfied with Mr. Corbett's simple calculation, it could have done this or a similar analysis with the comprehensive set of financial materials and models filed with the case. Alternatively, the Commission could have stayed closer to the Corbett approach, but still taken volume losses by product into account, along the lines sketched out at the bottom of page 78 and the top of page 79 of Order No. 547. Specifically, one can take the FY2008 and FY2009 RPW reports on file with the Commission, examine SPLY volume losses by product, add the FY2008 and FY2009 SPLY volume losses to obtain the cumulative lost volume by product from FY2007 through FY2009, and then multiply the lost volume by the FY2009 unit contribution by product (from the FY2009 ACD) to obtain aggregate lost contribution *in FY2009 alone*

from the volume losses over those two years. The results of that exercise are shown in Table Two.²²

As predicted in Order No. 547, using this product-by-product approach yields a lower estimate of harm associated with this set of volume losses. As shown in Table Two, the FY2009 lost contribution estimate for these categories of First-Class Mail and Standard Mail is \$3.72 billion, as compared with Mr. Corbett's \$5 billion. (To make the comparison a little fairer, however, it should be noted that the set of lost volume analyzed in Table Two, limited to First-Class Mail and Standard Mail losses in FY2008 and FY2009, is 34.1 billion pieces, and if 34.1 billion is multiplied by the average FY2009 unit contribution of 14.1 cents rather than the full 35.6 billion pieces used by Mr. Corbett, that alone would drop the \$5 billion estimate to \$4.8 billion.) Order No. 547 is thus correct in the observation that product-by-product analysis, of the type utilized in both Tables One and Two, yields a lower estimate of lost contribution than an analysis which uses total lost volume and average lost unit contribution. Specifically, if the exigent circumstances are defined as the total volume lost over the period FY2008-FY2009, and harm from those circumstances is defined as the lost contribution in

²² The results for Table Two are documented in the first three tabs of the attached Excel spreadsheet. The exercise is limited to products within First-Class Mail and Standard Mail. Not only are those the products specified at the top of page 79 of Order No. 547, but an examination of the more comprehensive analysis in Table One shows that, relative to First-Class Mail and Standard Mail, including the products in the other Market Dominant classes is not going to have that much of an impact on the overall result.

TABLE TWO: FY09 LOST CONTRIBUTION BY PRODUCT FROM VOLUME LOST IN FY08 AND FY09 (METHOD THREE)

Service Category =====	FY08-FY09 RPW Volume Change (000) (1)	FY09 Unit Contribution (2)	FY09 Lost Contribution (\$000) (3)=(1)*(2)
First-Class Mail:			
Single-Piece Letters	(6,408,004)		
Single-Piece Cards	(524,733)		
Total Single-Piece Letters and Cards	(6,932,737)	\$ 0.173	\$ (1,199,363)
Presort Letters	(4,241,263)		
Presort Cards	(530,275)		
Total Presort Letters and Cards	(4,771,538)	\$ 0.224	\$ (1,068,824)
Flats	(1,207,898)	\$ 0.485	\$ (585,831)
Parcels	29,777	\$ 0.034	\$ 1,012
Total First-Class Mail	(12,882,395)		\$ (2,853,006)
Standard Mail:			
High Density and Saturation Letters	(434,783)	\$ 0.073	\$ (31,739)
High Density and Saturation Flats & Parcels	(1,303,961)	\$ 0.093	\$ (121,268)
Carrier Route	(5,809,469)	\$ 0.071	\$ (412,472)
Letters	(8,573,897)	\$ 0.081	\$ (694,486)
Flats	(5,078,686)	\$ (0.079)	\$ 401,216
Not Flat-Machinables and Parcels	15,292	\$ (0.302)	\$ (4,618)
Total Standard Mail	(21,185,505)		\$ (863,367)
TOTAL FCM & STANDARD	(34,067,900)		\$ (3,716,373)

SOURCES:

FY08 & FY09 RPW

FY09 ACD (March 29, 2010), Pages 29-30, Table IV-5

For full documentation, see tabs 1-3 of the Excel file (Direct.Quant.Exgnt.Harm.xls) attached to this document

FY2009 alone from those volume losses, as shown in Table Two, a reasonable estimate of the harm based on product-by-product analysis is \$3.72 billion.²³

E. Quantification Method Four

Having thus addressed the product-by-product concern, the Postal Service next turns to the much more contentious topic of whether the only relevant volume losses are those caused by the recession, rather than volume losses from any source. While, as discussed above, the Postal Service disagrees that such a restricted definition of the exigent circumstances is appropriate, that disagreement does not preclude the Postal Service from addressing the correct way to quantify the conceptual approach favored by the Commission. Order No. 547 asserts that, to restrict the measure of harm to the effects of volume losses caused by the recession, the aggregate contribution loss (obtained from the product-by-product analysis) should be multiplied by two-thirds (i.e., reduced by one-third). Order No. 547 at 79. The Commission bases its assertion that two-thirds of the volume decline is due to recession and one-third is due to electronic diversion on statements made by Mr. Corbett during his hearing. Id. As Mr. Corbett noted, however, his “rough” estimates were based on the analysis of the Postal Service’s extensive econometric demand models. Tr. 1/23-24. In fact, as the Commission is well aware, the Postal Service’s econometric and volume forecasting models allow historical and projected volume changes by product to be decomposed into the effects of the various factors which are modeled to explain those volume

²³ The primary reason for the difference of between the \$6.6 billion estimate presented in Table One and the \$3.7 billion estimate in Table Two is the fact that Table One includes the effects of the further volume losses in FY2010 and FY2011, while Table Two is limited to FY2008 and FY2009. Additionally, though, Table One is also more comprehensive, covering all Market Dominant products.

changes. Such presentations were routinely made in prior omnibus rate case forecasting testimonies, including in Docket No. R2006-1, and, much more recently, in materials filed shortly before the July exigent case submission, in the 5-day service change case. See Responses of the United States Postal Service to GCA Interrogatories GCA/USPS-T2-1 – 2, Redirected from Witness Corbett, Docket No. N2011-1 (May 17, 2010). In fact, it was those materials filed in the 5-day case which were the basis for Mr. Corbett’s statements. Again, despite the plethora of other questions asked, the Commission posed no questions to Mr. Corbett regarding his rough estimate of the split between recession and non-recession factors, and never requested any refinement in his estimate.

Thus, it is necessary to examine the materials filed on May 17, 2010, in the 5-day case in some detail. The Postal Service in that instance was responding to a request by GCA to “provide your estimate of the relative contribution of the ‘ongoing effects of the economic recession’ to ... the FY 2009 decline in mail volume.” GCA/USPS-T2-1 (filed May 3, 2010). In response, the Postal Service filed an Excel spreadsheet (GCA.1.Sources-of-Change.xls) and a written response. The relevant portions of the written response read:

While it is a relatively straightforward process to compare one historical year’s volume with the next and calculate the observed volume increase or decline with a high degree of confidence, it is a much more daunting proposition to attempt to decompose the observed absolute difference into constituent parts and determine, for example, a precise and unique reason why individual pieces were *not* mailed. The nature of an econometric time-series demand analysis facilitates attempts to conduct a decomposition exercise, but it is nonetheless important to keep firmly in mind that the resulting outputs are still only estimates, particularly if one is looking at outputs from a single year in isolation.

With that caveat, the Postal Service estimates that macro-economic factors caused mail volume to decline in FY 2009 by about 21.7 billion

pieces, or approximately 85 percent of the 25.6 billion piece total decline in that year. (Within the econometric demand equations, the “ongoing effects of the economic recession” are reflected in the variable for macro-economic factors.) Note also, however, that because there were offsetting factors (such as adult population) pushing volume up, if one examines only factors which pushed volume down (e.g., macro-economic variables, the Internet, postal prices, etc.), the cumulative volume loss estimated to be associated with those factors (31.2 billion pieces) exceeds the 25.6 billion piece *net* loss referenced above. In other words, while the macro-economic factors may have lead to a piece decline that constitutes approximately 85 percent of the observed 25.6 billion net decline, those factors contributed a smaller percentage of the total pieces (31.2 billion) estimated to be lost by virtue of all of the effects of exclusively negative factors. Specifically, macro-economic effects account for approximately 69 percent of all of the exclusively downward effects on volume (total market dominant and competitive products) in FY 2009. Obviously, of course, macro-economic factors are thus still explaining a substantial majority of the observed decline, but not as much as the 85 percent figure might suggest on its own. **Broadly speaking, it seems fair to say that the effects of the recession appear to account for something in the general neighborhood of two-thirds of the volume decline experienced in FY 2009.** ... The figures cited in [this] response ... come from the Excel spreadsheet (GCA.1.Sources.Change.xls) that is attached to this response electronically. Specifically, see rows 303 and 307 of the spreadsheet.

Postal Service Response to GCA/USPS-T2-1, Redirected from Witness Corbett

(emphasis added).

Two points emerge clearly from this response. First, the highlighted portion leaves no doubt that these materials were the genesis of the similar statement made by Mr. Corbett at the hearing. Second, as that response goes to some length to explain, the applicable portion of a volume change resulting from the effects of one factor (in this instance, the recession) varies depending on whether one is examining the total *net* volume change, or merely the *gross* volume decline (i.e., the volume decline caused by the totality of negative factors, before any of the effects of positive factors are “netted” out). GCA had sought an estimate of the portion of the volume “decline” due to the

recession. For that purpose, it was necessary to limit the denominator of the requested percentage exclusively to factors with negative effects on volume in FY2009.

Otherwise, if one had attributed a portion of the volume declines to each negative factor, while using the net volume change caused by both positive and negative factors in the denominator, the sum of the portions attributed to each negative factor would have been greater than 100 percent, which cannot be correct.

In Order No. 547, the Commission is proposing to apply a recession-related factor to the difference between the actual mail volume at the start of the period versus the actual mail volume at the end of the period. Because those actual mail volumes reflect the offsetting influence of both positive and negative factors, the difference the Commission proposes to use represent the *net* volume decline over the recession period. As carefully explained in the Postal Service's response to GCA/USPS-T2-1, the appropriate "recession-related" factor to apply in this instance for FY2009 would be the 85 percent, rather than the two-thirds. (The actual calculations from the Excel spreadsheet are 84.6 percent versus 69.4 percent.) Therefore, to the extent that one wishes to restrict the estimate of harm caused by the exigent circumstances to the harm associated only with volume lost due to the recession, by applying a percentage factor to contribution losses associated with total volume losses, the correct factor to use for FY2009 would be approximately 85 percent. A factor of that amount is clearly more appropriate than the two-thirds proportion mentioned by Mr. Corbett, which would only be applicable in circumstances quite distinct from those presented by the exercise outlined on pages 78-79 of Order No. 547.

There is, moreover, another wrinkle. The 85 percent factor is, in fact, specific to FY2009 (i.e., volume changes from FY2008 to FY2009, the period specified in the GCA question). Based on the same source-of-change spreadsheet filed in the 5-day case (GCA.1.Sources. Change.xls), which produces the FY2009 factor of 85 percent, one can replicate the analysis to calculate a comparable factor to identify the recession-related portion of the net volume change from both FY2008 specifically, and from FY2008 and FY2009 combined. The FY2008 figure is 130 percent, because the estimated FY2008 recession-related volume losses exceeded the actual FY2008 net volume change. This occurred because the effects of factors pushing volume *up* exceeded the effects of non-recession-related factors pushing volume *down*. So, on balance, volume in FY2008 compared with volume in FY2007 declined, but by less than the number of pieces estimated to be lost specifically from the recession. The situation in FY2008 demonstrates why, when decomposing the volume loss into constituent portions as requested by GCA in the 5-day case, it is necessary to focus on (i.e., use as the denominator) gross volume declines, rather than net volume changes. More relevant to the instant discussion, however, for the cumulative FY2008-FY2009 period, the factor relating recession-related losses to actual net volume changes is 0.969, or approximately 97 percent. This follows from the sources-of-change spreadsheet, which shows that, compared with a total net volume change over the FY2008-FY2009 period of 35.2 billion pieces, recession-related lost volume is estimated at 34.1 billion pieces.

Therefore, if one wishes to follow the logic of Order No. 547 by applying a “recession-related” factor to an aggregate lost contribution estimate, a range of factors are available for that purpose. The Commission proposed a factor of two-thirds, based

on its interpretation of remarks by Mr. Corbett, and that would constitute the low end of the range. Based directly on the interrogatory response that was the source of the two-thirds figure, a much more appropriate factor would be 85 percent, because the Commission is proposing to apply the factor to contribution losses resulting from net volume changes, not gross volume declines. As further discussed above, however, both the two-thirds and the 85 percent figures apply specifically to volume changes from FY2008 to FY2009, and since the underlying volume loss under consideration here covers the entire period from FY2007 to FY2009, the most appropriate factor is actually 97 percent. Table Three displays the results of taking the \$3.72 billion lost contribution estimate from the product-by-product analysis in Table Two and applying each of these three potential factors (two-thirds, 85 percent, and 97 percent) to derive a corresponding range of estimates of the “recession-related” harm, measured as lost contribution *in FY2009 alone* associated with the recession-related volume losses experienced over the two-year period of FY2008 and FY2009. As shown in Table Three, the “recession-related” harm estimates range from \$2.48 billion to \$3.60 billion.²⁴

²⁴ To facilitate consideration of this discussion, the source-of-change spreadsheet filed in the 5-day case is included as the fourth tab on the attached Excel spreadsheet. The derivations of the various factors (2/3, 85 percent, and 97 percent) are shown at the bottom of that tab.

TABLE THREE: FY09 RECESSION-RELATED LOST CONTRIBUTION
(BASED ON RECESSION-FACTORS APPROACH)
(\$000)

FY09 Total Lost Contribution	(\$3,716,373)
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<u>Recession Factors:</u>	<u>FY09 Recession-Related Lost Contribution:</u>
---------------------------	--

Two-Thirds	(\$2,477,582)
------------	---------------

85 Percent	(\$3,158,917)
------------	---------------

97 Percent	(\$3,604,882)
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F. Quantification Method Five

The results shown in Table Three address both of the “two reasons” identified by the Commission regarding why Mr. Corbett’s \$5 billion estimate might be overstated, literally following the steps laid out on pages 78-79 of Order No. 547 to their logical conclusion. Stepping back a moment, however, and reviewing the above analyses, it becomes apparent that an alternative method of estimating the same concept of recession-related lost contribution was and is readily available. That is, rather than use the source-of-changes Excel spreadsheet filed in the 5-day case merely to derive “recession-related” factors to apply to total lost contribution estimated across products, one can use the exact same information to directly determine “recession-related” volume losses by product, and then multiply the lost volume for each product by that product’s unit contribution.²⁵ Analytically speaking, this methodology seems more

²⁵ To those previously unfamiliar with the source-of-change material, as explained in the response to the GCA interrogatory in the 5-day case, within the econometric demand equations, the “ongoing effects of the economic recession” are reflected in the variable for macro-economic factors. Examining the spreadsheet (which is included as the fifth tab in the attached Excel file), the relevant column for this exercise is thus the

attractive than a methodology which applies one aggregate “recession-related” factor to a sum of lost contributions across products.²⁶

Table Four presents the results obtained by using the sources-of-change spreadsheet from the 5-day case to identify “recession-related” volume losses by product in FY2008 and FY2009, multiplying the aggregate loss over both years by FY2009 product unit contribution, and then summing for an aggregate “recession-related” measure of lost contribution.²⁷ For the core First-Class Mail and Standard Mail products, this approach yields an aggregate harm estimate for FY2009 of \$2.34 billion. Once again, however, it is important to stress what is not encompassed within this measure of harm. None of the volume lost in years after FY2009, specifically FY2010 and FY2011, is addressed by this analysis.²⁸ Moreover, even during the two years of

one labeled as “Macro-Economic Factors.” The other columns in the spreadsheet present the effects of other (non-recession) factors.

²⁶ In fact, the sources-of-change material filed in the 5-day case is thus directly responsive to the statement by Commissioner Langley in her concurring opinion to Order No. 547 that:

Documentation of how the recession specifically impacted each class of mail for these and subsequent years would have been invaluable to the Commission’s deliberations.

²⁷ Documentation for Table Four is presented in the fifth tab of the attached Excel spreadsheet.

²⁸ The substantial effects of excluding FY2010 and FY2011 from the analysis can be quantified in a very straightforward manner that is directly comparable to the types of analyses already described herein. Using the FY2011 Before-Rates forecast submitted with the Exigent Request and fully documented in USPS-R2010-4/8 and USPS-R2010-4/NP3, the Postal Service has now generated a “sources of change” analysis comparable to the one submitted in the 5-day case in response to the GCA interrogatory. This updated source-of-change analysis allows estimation of how much of the volume loss for each product (for each year between FY2007 and the FY2011 BR forecast) can be attributed to the effects of the macro-economic variables (i.e., the

TABLE FOUR: FY09 RECESSION-RELATED LOST CONTRIBUTION (METHOD FIVE)
 (BASED ON SOURCE-OF-CHANGE APPROACH)

	FY08-FY09 Recession-Related Volume Losses =====	FY09 Unit Cont =====	FY09 Recession-Related Contribution Loss =====
	(000) (1)	(2)	(\$000) (3)=(1)*(2)
First-Class Mail:			
Single-Piece Letters and Cards	(1,590,665)	\$ 0.173	\$ (275,185)
Flats	(277,143)	\$ 0.485	\$ (134,414)
Parcels	0		\$ -
Presort Letters and Cards	(4,595,244)	\$ 0.224	\$ (1,029,335)
Total First-Class Mail	(6,463,052)		\$ (1,438,934)
Standard Mail:			
High Density and Saturation Letters	(342,942)	\$ 0.073	\$ (25,035)
High Density and Saturation Flats & Parcels	(1,028,520)	\$ 0.093	\$ (95,652)
Carrier Route	(4,582,310)	\$ 0.071	\$ (325,344)
Letters	(13,245,549)	\$ 0.081	\$ (1,072,889)
Flats	(7,845,907)	\$ (0.079)	\$ 619,827
Not Flat-Machinables and Parcels	0	\$ (0.302)	\$ -
Total Standard Mail	(27,045,228)		\$ (899,094)
TOTAL	(33,508,280)		\$ (2,338,028)

For documentation, see tabs 4 & 5 of the Excel file (Direct.Quant.Exgnt.Harm.xls) attached to this document

FY2008 and FY2009, volume losses estimated to be caused by any factor other than the recession are likewise excluded. Of course, even if one limits consideration exclusively to recession-related volume losses, it is important to recognize that only when (if ever) the volumes lost due to the economic meltdown are offset by volumes gained due to economic recovery will the Postal Service stop suffering the detrimental financial effects of the recession. That point will not come anytime within the next several years, if at all, and thus the Postal Service will clearly continue to experience more cumulative losses for at least the short-term future.

recession). With those estimated volume losses in hand, it is once again a relatively simple exercise to estimate the associated financial harm caused by those losses. This can be achieved by taking the FY2011 Before-Rates volume levels originally estimated for this case, “adding back” to them the lost volumes (by product) in order to thus estimate what FY2011 volumes would have been without the recession, and running the resulting volumes through the PCCEM to obtain FY2011 revenues, attributable costs, and contribution by product. Comparing the results of the original Before-Rates baseline financial forecast (shown in Attachment 10 to the Masse Statement) to the results from this new “recession-reversed” analysis shows the Postal Service’s best estimate of what the FY2011 Before-Rates financial forecast would have looked like had there been no recession. The results of this exercise are summarized in Table Five. Compared with the original estimate of FY2011 volume of 174.3 billion pieces, the estimate of what volume in FY2011 would be if there had been no recession is 220.5 billion pieces. (Note that this is higher than the FY2007 total volume level used in the initial exercise described above because it reflects, for example, the effects of growth in population over the period between 2007 and 2011.) With the recession volume “added back,” instead of a net loss of \$7.1 billion, the net loss estimate for FY2011 Before-Rates would have been reduced to \$1.2 billion. As shown in Table Five, of this \$5.9 billion improvement in the bottom line, \$5.6 billion would be increases in contribution specifically from domestic Market Dominant products. This analysis is more comprehensive than that reflected in Table Four (because it is not limited to First-Class Mail and Standard Mail), but comparing the Table Four FY2008-FY2009 “recession-related” contribution losses of \$2.34 billion in FY2009 to the Table Five FY2008-FY2011 “recession-related” contribution losses of \$5.57 billion in FY2011 clearly shows that excluding FY2010 and FY2011 from the analysis omits over half of the harm from the recession, which is the part that relates to volume losses that occurred during those subsequent two years.

TABLE FIVE: FY2011 BR FINANCIALS ADDING BACK RECESSION VOLUMES

	Baseline FY11 BR Exigent Volumes	FY11BR w/ Recession Volume Added Back	Volume Change (Recession Volume)	Baseline FY11 BR Exigent Contribution	FY11BR Add Recession Contribution	Contribution Change
	(000) (1)	(000) (2)	(000) (3)=(2)-(1)	(\$000) (4)	(\$000) (5)	(\$000) (6)=(5)-(4)
First-Class Mail	75,622,550	86,823,612	11,201,062	\$ 17,024,193	\$ 19,832,509	\$ 2,808,315
Standard Mail	88,582,975	122,246,369	33,663,394	\$ 6,452,026	\$ 9,115,105	\$ 2,663,080
Periodicals	7,046,936	8,338,980	1,292,044	\$ (444,955)	\$ (488,791)	\$ (43,836)
Package Services	696,289	729,438	33,150	\$ 37,524	\$ 68,391	\$ 30,868
Special Services				\$ 602,342	\$ 718,180	\$ 115,838
Total Domestic MD	172,501,496	218,700,626	46,199,130	\$23,671,129	\$ 29,186,473	\$ 5,515,343
Total / Net Income	174,322,817	220,536,692	46,213,875	\$ (7,148,988)	\$ (1,232,881)	\$ 5,916,106

Sources: Attachments One and Three to this document

G. Qualification Regarding All Quantification Methods

An equally fundamental limitation of the analysis presented in Table Four arises from the fact that, as noted earlier, the staggering amounts of volume lost in FY2008 and FY2009 made it impossible for the Postal Service to shed costs as fast as it was losing volume and revenue, although the Postal Service did shed its volume variable costs as quickly as it could. That analysis, and indeed any analysis generated in accordance with the discussion on pages 78-79 of Order No. 547, simply presumes that harm can be measured as the difference between unit revenue and what are estimated as unit costs based on conventional CRA methodologies (as reported in the ACD), a difference customarily referred to as unit contribution. For FY2008 and FY2009, however, accrued costs did not fall at anywhere near the rate suggested by the product of lost volumes and unit cost estimates, and harm measures based simply on presumed unit contributions are likely to be materially underestimated for those years in particular. And even to the extent the Postal Service was subsequently able to adjust to the new, lower level of volume, the additional contribution lost during periods such as FY2008 and FY2009 (when cost reductions lagged revenue declines) are never regained.

To approximately quantify the effect of the overstatement, one can use the same volume loss figures used to quantify expected lost contribution. Thus, when the FY2008 and FY2009 First-Class Mail and Standard Mail volume loss figures presented in Table Two generate an FY2009 aggregate lost contribution estimate of \$3.7 billion, that estimate presumes that the attributable cost savings associated with the same volume losses would be captured to the same extent as the revenue losses are incurred (since contribution is merely the difference between revenue and cost). Using the unit

attributable costs by product from the FY2009 ACD that correspond to the unit contribution figures by product from the same source, for the aggregate lost contribution estimate of \$3.7 billion to be realized, the same volume losses (over 34 billion pieces of First-Class Mail and Standard Mail combined) would need to have led to \$7.5 billion in reduced attributable costs. This result is shown in Table Six.²⁹

Since the Postal Service is in this analysis contemplating volume losses that occurred over the FY2008-FY2009 time period, the cost comparison starts in FY2007. Using Table IV-A-1 on page 24 of the FY2007 ACD, attributable costs in the aggregate for First-Class Mail and Standard Mail products were \$32.3 billion. Therefore, the salient question becomes, was the Postal Service in FY2009 able to reduce attributable costs for the same products by \$7.5 billion below the FY2007 level, in response to the unprecedented volume losses? Examining Table IV-5 on pages 29-30 of the FY2009 ACD, the answer is a resounding “No.” Aggregate attributable costs for the corresponding products in FY2009 were \$29.4 billion. The reduction from \$32.3 billion in FY2007 to \$29.4 billion in FY2009 is only \$2.9 billion, well under one-half of the “expected” \$7.5 billion.

There are, of course, a variety of reasons why the one might not expect an exact match between “expected” attributable costs savings and “actual” attributable cost savings. Particularly comparing costs across years, a non-trivial amount of variation might be common. Moreover, as volumes change, one would anticipate that marginal costs might change. Nevertheless, the mismatch in this instance is huge (\$7.5 billion minus \$2.9 billion, or \$4.6 billion). This difference of almost \$5 billion actually exceeds

²⁹ Documentation for Table Six can be found on the right side of the fourth tab of the attached Excel spreadsheet.

TABLE SIX: EXPECTED COST REDUCTIONS (FY07-FY09) VS. ACTUAL COST REDUCTIONS

Service Category =====	FY07-FY09 Vol Change From RPW	FY09 Unit Att Cost	FY07-09 Att Cost Reduction Expected From Volume Change	FY09 Att Costs From FY09 ACD	FY07 Att Costs From FY07 ACD	Actual FY07-09 Att Cost Difference
	(000) (1)	(2)	(\$000) (3)=(1)*(2)	(\$000) (4)	(\$000) (5)	(\$000) (6)=(4)-(5)
First-Class Mail:						
Single-Piece Letters	(6,408,004)					
Single-Piece Cards	(524,733)					
Total Single-Piece Letters and Cards	(6,932,737)	\$ 0.264	\$ (1,830,243)	\$ 8,342,019		
Presort Letters	(4,241,263)				FC Letters \$ 18,324,235	
Presort Cards	(530,275)				FC Cards \$ 791,920	
Total Presort Letters and Cards	(4,771,538)	\$ 0.117	\$ (558,270)	\$ 5,645,481		
Flats	(1,207,898)	\$ 0.753	\$ (909,547)	\$ 2,157,510		
Parcels	29,777	\$ 1.886	\$ 56,160	\$ 1,095,175		
Total First-Class Mail	(12,882,395)		\$ (3,241,900)	\$ 17,240,185	\$ 19,116,155	\$ (1,875,970)
Standard Mail:						
High Density and Saturation Letters	(434,783)	\$ 0.063	\$ (27,391)	\$ 318,152		
High Density and Saturation Flats & Parcels	(1,303,961)	\$ 0.067	\$ (87,365)	\$ 825,642		
Carrier Route	(5,809,469)	\$ 0.160	\$ (929,515)	\$ 1,585,576	ECR+NECR \$ 3,188,202	
Letters	(8,573,897)	\$ 0.109	\$ (934,555)	\$ 5,105,483		
Flats	(5,078,686)	\$ 0.448	\$ (2,275,252)	\$ 3,497,110		
Not Flat-Machinables and Parcels	15,292	\$ 1.237	\$ 18,916	\$ 840,001	StdReg+NP \$ 9,964,963	
Total Standard Mail	(21,185,505)		\$ (4,235,162)	\$ 12,171,964	\$ 13,153,165	\$ (981,201)
TOTAL FCM & STANDARD	(34,067,900)		\$ (7,477,062)	\$ 29,412,149	\$ 32,269,320	\$ (2,857,171)

COST REDUCTION SHORTFALL \$(000): \$ (4,619,891)
(Expected Minus Actual)

SOURCES:

FY08 and FY09 RPW

FY09 ACD (March 29, 2010), Pages 29-30, Table IV-5

FY07 ACD (March 27, 2008), Page 24, Table IV-A-1

See also tab three of Excel file (Direct.Quant.Exgnt.Harm.xls) attached to this document

almost all of the FY2008-FY2009 lost contribution estimates under discussion. No matter what other factors might have been at play, two ineluctable conclusions follow from this analysis. First, the Postal Service during FY2008 and FY2009 was clearly not able to respond to volume (and revenue) plunges with anything near commensurate cost reductions, despite the significant savings that were achieved consistent with its exercise of “honest, efficient, and economical management.”³⁰ Second, and more critical to this discussion, any methodology which simplistically measures the financial harm from any set of estimated lost volumes as the lost volume for each mail product multiplied by the “expected” contribution by mail product would, under the catastrophic circumstances of FY2008 and FY2009, necessarily and materially understate the financial harm. Stated more directly, the reasonable characterization of the estimates of harm presented by the Postal Service herein in Tables Three and Four as absolute lower bound estimates cannot be subject to serious challenge. Attempting to include even a relatively small portion of the apparent overstatement of assumed unit cost reductions implicit in the ACD unit contribution estimates would necessarily increase the total estimated harm substantially.

³⁰ Acknowledgment of the Postal Service’s inability to match volume declines with corresponding attributable cost declines in FY2008 and FY2009 cannot be considered news, however, since, within Order No. 547, the Commission itself was drawing the same conclusions. Order No. 547 at 81-86. The Commission presented Figure 1 on page 83 as evidence that drops in volume in every quarter throughout FY2008 and FY2009 substantially outpaced drops in workhours. On page 86, the Commission further noted that Total Factor Productivity (TFP) declined in FY2008 and FY2009 “due to volume losses.” All of this analysis is consistent with the simple reality that, once volume losses reach a certain velocity, the implicit assumption that the Postal Service can directly capture cost savings from each additional lost piece of mail equivalent to the conventionally-estimated unit attributable cost for that piece of mail no longer holds. The figures presented on pages 81-86 of Order No. 547 confirm that, under the extreme circumstances manifested in FY2008 and FY2009, such an assumption will substantially overstate the effect of actual volume losses on actual cost reductions.

H. Summary of Quantification

To summarize, Tables Three and Four present two alternative approaches to responding to the “two reasons” identified by the Commission to question the estimate of the financial impact presented by Mr. Corbett. Each of those two tables is based on a product-by-product analysis, and each isolates “recession-related” effects from any others. Table Three shows a range of estimates from **\$2.48 billion to \$3.60 billion**. Table Four shows a single estimate of **\$2.34 billion**. Across both alternatives, therefore, the lowest estimate is **\$2.34 billion**, generated by taking the estimated First-Class Mail and Standard Mail recession-related volume losses in FY2008 and FY2009 by product (from materials previously submitted in the 5-day case), multiplying those lost volumes by estimated FY2009 unit contributions, and summing across products. Tables One, Five, and Six demonstrate why, taking more factors into account, the **\$2.34 billion** estimate must be considered an absolute lower bound estimate of the harm caused by the exigent circumstances. Most specifically, by truncating consideration of the harm to that experienced from volume losses during the period of FY2008 and FY2009, none of the subsequent harm from the same source (recession-related volume losses) in later years has been taken into account.

The link between these effects of the “extraordinary or exceptional circumstances” cited by the Postal Service as the basis for its exigent request and corresponding price adjustments is straightforward. The calculation of the effects identified and quantified above are fundamentally unrelated to the Postal Service’s retiree health benefits funding obligations, its workers’ compensation expenses, its March 2, 2010 Action Plan, or any other aspect of the Postal Service’s financial

structure. The above calculations of harm from lost volume are entirely independent of the Postal Service's cash flow position, such that if, for example, the statutory limit on Postal Service's borrowing authority were hypothetically removed and the Postal Service could immediately borrow as much money as it needed to resolve all of its liquidity concerns, the above calculation of contribution losses due to the disappearance of mail volume would be completely unaffected. Instead, the annual effects of the overall volume losses, or just the volume losses associated with the recession, calculated as the estimated lost contribution from those volume losses (i.e., assuming that all expected volume-variable cost savings have actually been achieved) would remain in the \$5-7 billion range for FY2011, and in the \$2.3-\$3.7 billion range for FY2009. Plainly stated, these estimates constitute the financial harm to the Postal Service directly "due to" the occurrence of the exceptional and extraordinary circumstances (unprecedented volume losses, either in total, or merely those caused by the recession).

In order to recoup some of that impact, the Postal Service proposed rates that, had they been in effect for all of FY2011, would have improved the bottom line by approximately \$3 billion. Masse Statement at 11 (Rev. 8/6/10). If one focuses on the *lower* end of the above range of estimates of harm in one year (FY2009), then one could argue that rates generating \$3 billion on an annual basis would exceed the estimates at that lower end of the range.³¹ Conversely, as shown by the above

³¹ On the other hand, given the uncertainties inherent in these calculations, even taking the \$2.34 billion result as the operative estimate, the Postal Service submits that the Postal Service's original proposal seeking \$3 billion in additional contribution would not have been, in the words of the Court, "so disproportionate to the exigency's impact on the Postal Service that it could not be considered 'due to' that exigency."

analyses, it should be beyond cavil that new rates annually generating something of the approximate magnitude of \$2.34 billion would be within the scope of any plausible measure of harm caused by the exigent circumstances previously identified by the Commission in Order No. 547. As explained in detail in this document, the Postal Service remains firmly convinced that the Postal Service's harm from the sudden loss of 20 percent of mail volume is, on an annual basis, well above \$2.34 billion. But for purposes of allowing this proceeding to advance more expeditiously, with the understanding that the only harm for which relief would have been extended is the recession-related volume losses through the end of FY2009, the Postal Service commits not to challenge the lower-bound harm estimate of \$2.34 billion.

I. Other Matters

Note that, when the goal is to offset losses in contribution to *institutional* cost recovery, such as those estimated above, there is no basis in logic or sound ratemaking principles simply to attempt to match the price increases with the products that have lost volume. The pieces that remain of a product that has lost volume are no more responsible for the contribution previously obtained from the lost pieces than are the pieces of other products which have not lost volume (or have not lost as much volume). Instead, what is required is to consider the remaining volume of all products, and determine what is the most "reasonable and equitable" basis to adjust all prices to recoup the lost contribution. The ultimate goal is to end up with an appropriate allocation of the institutional cost burden (or at least that portion of the institutional cost burden which the exigent proceeding is attempting to address), given the new realities of what amounts to a substantially smaller mail volume base. In selecting the 4-6 percent base

range for its initial proposed price adjustments in this proceeding (see Tr. 3/363, 367-69) when seeking to regain approximately \$3.0 billion of lost contribution, the Postal Service was attempting to do that. Of course, if the target amount of lost contribution to be regained is lower, such as \$2.34 billion, than a corresponding reduction in the base range percentages would be expected.

Lastly, looking forward, in response to the question of how long exigent rate increases should remain in effect, the following observations are in order. First, as discussed above, the harm inflicted by exigent circumstances in this instance has its roots in the fact that, as volume and revenues decline, costs cannot and do not decline in direct proportion. To some limited extent, this may be a temporary phenomenon, as what are expected to be volume-variable cost savings lag behind volume declines simply because a steep and rapid volume decline precludes immediately compensating workhour reductions. But since the Postal Service has a large portion of institutional costs that are generally not volume-related, even given sufficient time to adjust operations to fully capture all expected attributable cost savings, there will be a negative impact on the bottom line associated with what, before the volume was lost, had been the contribution to institutional costs provided by that volume. By its very nature, that harm (i.e., lost contribution) is fundamentally much more permanent.

As a practical matter, contribution losses of the type estimated in Tables Three and Four can be expected to continue to accumulate each subsequent year in which volumes remain below previous levels (or, at the very least, until the cumulative negative effects of macroeconomic factors over recent years are exceeded by cumulative positive effects of macroeconomic factors in future years). Therefore, until

that point is reached, it is not possible to determine the full magnitude of the cumulative harm that will be caused by the extraordinary and exceptional volume losses recognized by Order No. 547 as exigent circumstances. What is clear, however, is that the volume losses experienced in FY2008 and FY2009 did not stop when those years ended, and that any substantial progress in reversing those volume losses looks as distant as the Postal Service approaches the end of FY2011 as it did at the end of FY2009. The Postal Service can estimate at this point that, through FY2011, the cumulative effects so far (just from the recession) appear to be well in excess of \$10 billion.³² Therefore, adjustments which boost contribution by something in the range of only \$2 billion to \$3 billion per year would likely not “overcompensate” even if they were in effect for a period of five years, and even if there were no further cumulative effects (i.e., if volume in FY2012 magically returned to pre-FY2008 levels).³³

What all of this suggests, ultimately, is that the issue of whether any future rescission of the exigent increases might be warranted is probably too contingent on future events to be addressed and resolved now. As noted on page 66 of Order No. 547, there is no requirement in the statute or in the rules that the future status of exigent adjustments be determined at the time they are proposed or approved. As a practical matter, moreover, given current volume trends, the prospects are remote for future

³² As presented above, the effect in FY2009 was at least \$2.3 billion, and the effect in FY2011 was around \$5.5 billion. The effect in FY2008 was smaller than the FY2009 effect, but the FY2010 effect was much closer to the FY2011 level than the FY2009 level. These conclusions can be drawn from the extended exigent case forecast source-of-change analysis discussed in footnote 28 above, the results of which are displayed in Table Five.

³³ It bears noting in this regard that five years from now is 2016, the year specified in 39 U.S.C. 36622(d)(3) as the date when the Commission will be conducting its overview of the entire ratemaking process, and potentially making modifications in that process.

increases in mail volume of any magnitude substantial enough to even begin to seriously offset the recent volume losses (and consequent contribution losses) under consideration in this proceeding.

To further clarify the tables and figures presented in this document, three attachments are provided. The first essentially replicates Attachment 10 to the Statement of Stephen J. Masse, which presents the baseline FY2011 Before-Rates scenario. The second presents information in a similar format, but for the scenario in which FY2011 volumes are assumed to remain at FY2007 levels. The information in Table One above was extracted from Mr. Masse's Attachment 10 and this second attachment. The third attachment presents information in a similar format, but for the scenario in which FY2011 volumes are based on a combination of those originally relied upon in Mr. Masse's attachment, plus all of the volumes estimated to be lost due to the recession through FY2011 added back in. The information from Table Five above was extracted from Mr. Masse's Attachment 10 and this third attachment. Of course, if the Commission has any questions about any of the materials provided in this document, the Postal Service would hope that the Commission does not hesitate to seek clarification or supplemental information to obtain a better understanding, in accordance with section 3010.62 of its rules.

V. THE PROPOSED INCREASE IS "NECESSARY"

Having clearly satisfied the "due to" standard, an exigent increase amounting to additional contribution of at least \$2.3 billion is also clearly consistent with the "necessary" prong of the exigent provision. As discussed above, the contribution lost as a result of the massive volume declines, including volumes lost because of the

recession, has not returned, and, based on volume projections, is unlikely to return. The injection of additional revenue from this increase is also critically important to ensuring the continuation of mail service. The Postal Service lost \$15.1 billion over the FY2008-FY2010 period, will lose approximately \$9 billion this year, and will soon exhaust its statutory borrowing authority. The Postal Service currently expects to run out of money to pay its employees and suppliers sometime next year, thereby risking a shutdown in mail service. The additional revenue from this increase would help to delay that date, and is therefore clearly “necessary” to “enable the Postal Service...to maintain and continue the development of postal services of the kind and quality adapted to the needs of the United States.”³⁴

Furthermore, there is no basis to reject this increase on the grounds that it is necessitated by the Postal Service’s failure to avoid costs that could have been avoided through “honest, efficient, and economical management.” Rather, the Commission in its Order recognized that the Postal Service has done a “commendable job” in reducing costs, Order No. 547 at 61 n.48, 80, and identified as the primary cause of the crisis a cost that is imposed by statute and thus outside of the Postal Service’s control, *id.* at 68. No party to the proceedings before the Commission appealed from this conclusion, and thus it may not be revisited by the Commission on remand. It is hard to see how the Postal Service could be doing a “commendable” job reducing costs while at the same time failing to practice “honest, efficient, and economical management,” even if the Commission technically did not reach the latter question in the prior proceeding.

³⁴ This is certainly not to suggest that this “maintain and continue” standard is only met when the alternative to an exigent increase is a quicker date for the actual shutdown of mail service, only that the standard is clearly met in such circumstances.

In the proceedings prior to the issuance of Order No. 547, various parties—the Affordable Mail Alliance (AMA) in particular—argued that the Postal Service’s cost structure, and financial performance during the recession, were inconsistent with the principles of “honest, efficient, and economical management.” But, as the Postal Service pointed out in prior pleadings in this docket, superficial comparisons between the performance of the Postal Service and the private sector as a whole, or between the Postal Service and FedEx and UPS, fail to provide any useful indication of whether the “honest, efficient, and economical” standard has been violated because they do not consider the unique constraints under which the Postal Service operates. See Reply Comments of the United States Postal Service at 57-76 (Sept. 2, 2010); Response of the United States Postal Service to Motion of the Affordable Mail Alliance to Dismiss Request at 25-56 (Aug. 2, 2010). See also Public Service Co., 749 F.2d at 767-69. Similarly, pointing to costs—such as network costs or labor costs—whose incidence reflects policy choices made by Congress does not demonstrate improper management. See, e.g., Postal Service Response to AMA Motion to Dismiss at 26-27.

The decision in Public Service Co. further demonstrates the inadequacy of the AMA’s position on this issue. In that decision, the Court reviewed a state regulatory commission decision, which had been overturned by the Interstate Commerce Commission (ICC), limiting the rate that a railroad could charge for certain intrastate traffic. The state commission had rejected the rate proposed by the railroad in part because it found that the railroad had failed to practice “honest, efficient, and economical management.” Public Service Co., 749 F.2d at 757-58. In reaching this decision, the state commission relied in part on evidence showing that the railroad was

not as profitable as its parent corporation and its closest competitor railroad, and was not as efficient as that competitor railroad in its management practices. Id. at 767.

The Court reversed, holding that this evidence was insufficient to demonstrate improper management. Id. at 767-69.³⁵ Regarding the comparisons to the competitor railroad, the Court noted, “It is absurd to determine the ‘efficiency’ of a railroad by comparing it to another railroad without considering the differences, if any, between the two railroads’ operating characteristics.” Id. at 768. Thus, a proper inquiry into the efficiency of the subject railroad required the state commission to compare that railroad to other railroads “having similar operating characteristics and profit potential,” and to take into account “factors beyond the control of the railroad but potentially pertinent to its relative efficiency,” id. at 767-68, which the state commission had failed to do. See also id. at 768 (noting that “[d]ifferences in operating characteristics...could well cause a difference in profits.”). In addition, the Court found the commission’s reliance on the profit margin of the parent corporation to be “complete folly” because the parent was not a railroad, but a holding company that had subsidiaries in a wide variety of industries, and was thus “not comparable” to the subject railroad. Id. at 768-69.

The evidence submitted by the AMA is similarly deficient. First, it makes comparisons to UPS and FedEx, competitors of the Postal Service, but does not consider the different operating characteristics that give UPS and FedEx substantially more flexibility to reduce their labor and network costs, as well as raise prices. In addition, superficial comparisons to the private sector at large are irrelevant, because

³⁵ The Court also faulted the state commission for failing to quantify the amount of the money caused by the alleged inefficiencies, in order to tailor its decline in the allowable rate accordingly. Id. at 766-67.

the characteristics of the private sector are not comparable to the characteristics of the Postal Service. Thus, there is nothing in the record to cause the Commission to deviate from its prior finding that the Postal Service has exercised “commendable management” during the recession.³⁶

VI. SUMMARY

In response to the Court’s opinion, the Commission should adopt a general proportionality standard for application of the “due to” language of the statute’s exigency provision. Such an approach constitutes a pragmatic and flexible standard for applying the exigency clause, including in response to the severe financial consequences of the unprecedented loss of up to 20 percent of the Postal Service’s mail volume in the years corresponding to the recession and its aftermath. The mere fact that other unrelated factors over the same time period have contributed to the Postal Service’s dire fiscal situation cannot act as impediment to relief in the form of above-cap rate adjustments

³⁶ In its Order, the Commission indicated that the use of the term “best practices” in Section 3622(d)(1)(E) requires the Postal Service “not only to manage well, but also to meet ‘a standard of excellence that consistently rivals the private sector in both productivity and quality of service.’” Order No. 547 at 24 (citing REPORT OF THE PRESIDENT’S COMMISSION ON THE UNITED STATES POSTAL SERVICE: EMBRACING THE FUTURE: MAKING THE TOUGH CHOICES TO PRESERVE UNIVERSAL MAIL SERVICE xii (2003)). As a general matter, the Postal Service has adhered to this standard: it has cut a unprecedented amount of costs within its control since passage of the PAEA, has achieved productivity gains that compare favorably with that of the private sector (with the exception of a brief period where workload at the Postal Service dropped dramatically, while workload in the private sector increased slightly), see Postal Service Response to AMA Motion to Dismiss at 51-53, and it has maintained high-quality service. But, it should also be clear that the “best practices” language does not incorporate a requirement that the Postal Service be as profitable as the private sector, or undertake the same management approaches as the private sector; to interpret the language in such a way would ignore the unique constraints under which the Postal Service operates. It is also noteworthy that while the Commission cites the President’s Commission Report, that Report proposed a number of statutory changes that would have given the Postal Service much greater management flexibility over its network and labor costs, changes that were not adopted by Congress in the PAEA.

commensurate with the harm created by the lost volume. Accordingly, the mere fact that appropriate above-cap rate adjustments will not entirely resolve the Postal Service's dire fiscal situation likewise cannot act as an impediment to exigent rate relief. Higher rates appropriately designed to generate at least some of the institutional cost contribution that otherwise would have been covered by revenues from the lost volume are also necessary to "maintain and continue" adequate postal services.

Specifically regarding the amount of financial harm that is directly related to the relevant "extraordinary or exceptional circumstances," the above discussion highlights a variety of methods to quantify that harm based on materials either submitted with the filing, or already available to the Commission, or which, upon request, could have been made available by decomposition of materials that were submitted with the filing. None of the methodologies, including those that directly track the two reasons cited by the Commission to question the quantification submitted by the Postal Service with its filing, yield an estimate of harm (in terms of estimated lost contribution) of less than \$2.34 billion. Therefore, the Postal Service considers the amount of \$2.34 billion to be lowest point estimate one could plausibly consider to be the amount of harm relating to the exigent circumstances (and even that figure is only reached by omitting at least two relevant years from the analysis).

Since, however, the price adjustments proposed by the Postal Service on July 6, 2010, would have yielded approximately \$3 billion of additional contribution on an annual basis, adoption by the Commission of the lower \$2.34 billion harm estimate suggests that consideration of a new rate design other than that accompanying the

Postal Service's July 6, 2010 Request may be warranted.³⁷ As noted above, the Postal Service submits that it would be appropriate for the Commission to approve exigent rate adjustments intended to remedy approximately \$2.34 billion of harm, which the Postal Service would intend to implement in January of 2012.³⁸

Commission rule 3010.63(c) requires that an exigent increase exhaust all unused rate authority for each class of mail before authorization of *supra*-cap increases for any class. Consistent with that provision, which in essence resets the CPI-U clock with the filing of a request for an exigent increase, additional rate authority for each class must begin to accumulate with increases in CPI-U starting the month after the last month of the previously-existing CPI-U authority that was consumed ("exhausted") by the exigent filing. As stated clearly on page 12 of the Postal Service's July 6, 2010 filing, that month was May of 2010. Therefore, after an exigent price adjustment (which, given the vagaries of the litigation of this proceeding, now would apparently be implemented in January of 2012, as indicated above), the Postal Service would still have available to it inflation-based price cap authority reflecting all increases in CPI-U since June of 2010.

While the Postal Service recognizes that it did implement price adjustments in April of 2011 based on its price cap authority, the Postal Service considers those

³⁷ Moreover, since Commission Rule 3010.61(a)(5) appears to contemplate evaluation of the "reasonable and equitable" standard among types of users directly in the context of a specific proposed rate design, further input from interested parties following submission of any further rate design proposals may be useful.

³⁸ As discussed with the Court at oral argument (Oral Arg. Tr. at 5:24-6:5), the Commission would be acting within its authority were it to conclude, upon an appropriate review of the record, that a smaller increase than that originally requested by the Postal Service on July 6, 2010 would in this case be consistent with the relevant statutory criteria.

increases subsumed in the instant exigent rate adjustments.³⁹ The conclusion follows because, had the original exigent request been appropriately implemented in January of 2011, the Postal Service would not have implemented increases in April of 2011, and would have continued instead to accumulate price cap authority, based on inflation, starting in June 2010. Since, as detailed at length in this document, the Postal Service suffered financial harm directly associated with extraordinary and exceptional volume losses that the price cap mechanism is incapable of addressing, any inclination to reduce otherwise available CPI-U authority as an offset to any portion of the exigent increase would, in effect, deny the Postal Service the benefit of the exigent increases to which it is entitled. To allow the exigent increase to remedy the harm which it is intended to alleviate (lost contribution associated with lost volume), the Postal Service cannot simultaneously be deprived of price adjustment authority available from the only other source of such authority – the steady accumulation of the inflation-based price cap. Otherwise, the characterization of the nature of the increase as “exigent” would be merely illusory.

Therefore, in response to the court’s remand, the Postal Service respectfully requests that the Commission recognize \$2.34 billion as a plausible lower-bound estimate of the Postal Service’s financial harm “due to” recession-related volume losses in FY2008 and FY2009, and approve exigent increases (for January 2012 implementation) on that basis. As indicated above, the Postal Service is prepared to

³⁹ In other words, the exigent relief should be measured against the rates that were in effect on July 6, 2010, and not the rates in effect on April 17, 2011. From the perspective of mailers, therefore, the burden of the new rates contemplated for January 2012 implementation will only be an incremental amount sufficient to allow the cumulative increase (April 2011 plus January 2012) to remedy the estimated exigent harm of \$2.34 billion.

provide proposed prices designed to achieve that lower (relative to the July 2010 filing) contribution target. In accordance with Commission Rule 3010.62, if the Commission determines that any further information or clarification from the Postal Service would be useful, with respect to materials submitted with this pleading or regarding any other aspect of the remand proceeding, the Postal Service likewise urges the Commission to pursue such inquiries directly with the Postal Service.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

R. Andrew German
Managing Counsel, Legal Strategy

Kevin A. Calamoneri
Managing Counsel, Corporate
& Postal Business Law

Daniel J. Foucheaux, Jr.
Chief Counsel, Pricing & Product
Support

Eric P. Koetting
Keith E. Weidner

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
(202) 268-2992, FAX: -5402
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ATTACHMENT ONE TO REMAND COMMENTS

US Postal Service
Contribution by Class of Mail - FY2011 Before Rates

Attachment 10

		Revenue (in millions)	Volume (in millions)	Attributable Cost (in millions)	Volume Variable Cost (in millions)	Product Specific Cost (in millions)	Revenue \$ (per piece)	Attributable Cost \$ (per piece)	Contribution \$ (per piece)	Cost Coverage	
DOMESTIC MARKET DOMINANT PRODUCTS											
First-Class Mail											
Single Piece Letters	3	\$11,910	26,148	\$6,738	\$6,727	\$12	\$0.455	\$0.258	\$0.198	176.8%	\$5,172
Single Piece Postcards	4	\$380	1,320	\$353	\$352	\$1	\$0.288	\$0.267	\$0.020	107.6%	\$27
Total Single Piece Letters and Cards	5	\$12,290	27,468	\$7,091	\$7,079	\$12	\$0.447	\$0.258	\$0.189	173.3%	\$5,199
Presort Letters	8	\$14,816	41,939	\$4,952	\$4,935	\$18	\$0.353	\$0.118	\$0.235	299.2%	\$9,863
Presort Postcards	9	\$697	3,227	\$246	\$245	\$1	\$0.216	\$0.076	\$0.140	283.6%	\$451
Total Presort Letters and Cards	10	\$15,513	45,166	\$5,198	\$5,179	\$19	\$0.343	\$0.115	\$0.228	298.4%	\$10,315
Flats	14	\$3,117	2,468	\$1,807	\$1,806	\$1	\$1.263	\$0.732	\$0.531	172.5%	\$1,310
Parcels	15	\$1,017	520	\$962	\$962	\$1	\$1.957	\$1.852	\$0.105	105.6%	\$54
Fees	18	\$147	0	\$0	\$0	\$0					\$147
Total First-Class	100	\$32,084	75,623	\$15,059	\$15,026	\$33	\$0.424	\$0.199	\$0.225	213.0%	\$17,024
Standard Mail											
High Density and Saturation Letters	21	\$784	5,757	\$360	\$360	\$0	\$0.136	\$0.063	\$0.074	217.7%	\$424
High Density and Saturation Flats and Parcels	22	\$2,166	13,375	\$913	\$912	\$1	\$0.162	\$0.068	\$0.094	237.2%	\$1,253
Carrier Route	23	\$2,359	9,913	\$1,553	\$1,552	\$1	\$0.238	\$0.157	\$0.081	151.9%	\$806
Letters	25	\$9,932	51,020	\$5,441	\$5,437	\$4	\$0.195	\$0.107	\$0.088	182.6%	\$4,492
Flats	26	\$2,901	7,804	\$3,321	\$3,320	\$1	\$0.372	\$0.425	-\$0.054	87.4%	-\$419
Not Flat-Machinables and Parcels	27	\$673	714	\$866	\$866	\$0	\$0.943	\$1.214	-\$0.270	77.7%	-\$193
Fees	29	\$90	0	\$0	\$0	\$0					\$90
Total Standard Mail	105	\$18,906	88,583	\$12,454	\$12,447	\$7	\$0.213	\$0.141	\$0.073	151.8%	\$6,452
Periodicals											
In County	31	\$82	764	\$89	\$89	\$0	\$0.107	\$0.116	-\$0.009	92.1%	-\$7
Outside County	32	\$1,751	6,283	\$2,203	\$2,203	\$0	\$0.279	\$0.351	-\$0.072	79.5%	-\$452
Fees	39	\$14	0	\$0	\$0	\$0					\$14
Total Periodicals	110	\$1,846	7,047	\$2,291	\$2,291	\$0	\$0.262	\$0.325	-\$0.063	80.6%	-\$445
Package Services											
Single Piece Parcel Post	41	\$551	60	\$565	\$565	\$0	\$9.169	\$9.408	-\$0.239	97.5%	-\$14
Bound Printed Matter Flats	42	\$210	247	\$119	\$119	\$0	\$0.850	\$0.482	\$0.369	176.5%	\$91
Bound Printed Matter Parcels	43	\$362	268	\$363	\$363	\$0	\$1.349	\$1.352	-\$0.003	99.8%	-\$1
Media and Library Mail	44	\$361	121	\$403	\$403	\$0	\$2.982	\$3.328	-\$0.346	89.6%	-\$42
Fees	49	\$4	0	\$0	\$0	\$0					\$4
Total Package Services	115	\$1,488	696	\$1,450	\$1,450	\$0	\$2.137	\$2.083	\$0.054	102.6%	\$38
U.S. Postal Service	125	\$0	492	\$0	\$0	\$0	\$0.000	\$0.000	\$0.000		\$0
Free Mail	130	\$0	61	\$52	\$52	\$0	\$0.000	\$0.858	-\$0.858		-\$52
Total Domestic Market Dominant Mail	135	\$54,323	172,501	\$31,307	\$31,267	\$40	\$0.315	\$0.181	\$0.133	173.5%	\$23,017
Special Services											
Ancillary Services											
Certified	51	\$752	0	\$665	\$665	\$0	\$2.799				\$88
COD	52	\$6	0	\$5	\$5	\$0	\$7.750				\$1
Insurance	54	\$113	0	\$96	\$96	\$0	\$3.087				\$17
Registered Mail	55	\$44	0	\$37	\$37	\$0	\$16.301				\$6
Stamped Envelopes	56	\$16	0	\$5	\$5	\$0	\$0.000				\$11
Stamped Cards	57	\$0	0	\$1	\$1	\$0	\$0.000				-\$1
Other Ancillary Services	58	\$823	0	\$638	\$637	\$0	\$0.523				\$185
Caller Service	62	\$96	0	\$34	\$34	\$0	\$0.000				\$62
Money Orders	73	\$178	0	\$127	\$124	\$3	\$1.461				\$51
Post Office Box Service	74	\$824	0	\$642	\$640	\$1	\$0.000				\$182
Other Special Services	76	\$0	0	\$0	\$0	\$0	\$0.000				\$0
Total Domestic Market Dominant Services	140	\$2,851	0	\$2,253	\$2,249	\$5	\$1.423				\$598
Total Domestic Market Dominant Attributable Costs	143	\$57,175	172,501	\$33,560	\$33,515	\$45	\$0.328	\$0.192	\$0.135	170.4%	\$23,615
Total Domestic Competitive Mail	175	\$7,068	1,083	\$4,969	\$4,886	\$82	\$6.526	\$4.587	\$1.939	142.3%	\$2,100
INTERNATIONAL MAIL AND SERVICES	185	\$2,573	738	\$1,922	\$1,838	\$85	\$3.486	\$2.604	\$0.881	133.8%	\$650
TOTAL ATTRIBUTABLE COSTS	198	\$66,816	174,323	\$40,451	\$40,239	\$212	\$0.383	\$0.232	\$0.151	165.2%	\$26,365
OTHER COSTS	199	\$840	0	\$34,354	\$34,566	-\$212					-\$33,514
TOTAL COSTS	200	\$67,656	174,323	\$74,805	\$74,805	\$0					-\$7,149

**Contribution by Class of Mail - FY2011
(BR '07 Volume vs BR Exigent filing)**

		Baseline Revenue (in millions)	Proposed Revenue (in millions)	Baseline Volume (in millions)	Proposed Volume (in millions)	Baseline Attributable Cost (in millions)	Proposed Attributable Cost (in millions)	CONTRIBUTION				
								Baseline Contribution	Proposed Contribution	Delta	Current Contribution \$ (per piece)	New Contribution \$ (per piece)
DOMESTIC MARKET DOMINANT PRODUCTS												
First-Class Mail												
Single Piece Letters	3	\$11,910	\$16,591	26,148	36,424	\$6,738	\$9,193	\$5172	\$7397	\$2226	\$0.198	\$0.203
Single Piece Postcards	4	\$380	\$616	1,320	2,141	\$353	\$561	\$27	\$55	\$28	\$0.020	\$0.026
Total Single Piece Letters and Cards	5	\$12,290	\$17,207	27,468	38,566	\$7,091	\$9,755	\$5199	\$7452	\$2254	\$0.189	\$0.193
Presort Letters	8	\$14,816	\$17,446	41,939	49,048	\$4,952	\$5,683	\$9863	\$11763	\$1899	\$0.235	\$0.240
Presort Postcards	9	\$697	\$785	3,227	3,656	\$246	\$273	\$451	\$512	\$61	\$0.140	\$0.140
Total Presort Letters and Cards	10	\$15,513	\$18,232	45,166	52,705	\$5,198	\$5,957	\$10315	\$12275	\$1960	\$0.228	\$0.233
Flats	14	\$3,117	\$5,220	2,468	4,073	\$1,807	\$2,898	\$1310	\$2322	\$1013	\$0.531	\$0.570
Parcels	15	\$1,017	\$1,082	520	551	\$962	\$997	\$54	\$85	\$31	\$0.105	\$0.155
Fees	18	\$147	\$147	0	0	\$0	\$0	\$147	\$147	\$0		
Total First-Class	100	\$32,084	\$41,888	75,623	95,895	\$15,059	\$19,606	\$17024	\$22282	\$5258	\$0.225	\$0.232
Standard Mail												
High Density and Saturation Letters	21	\$784	\$741	5,757	5,520	\$360	\$339	\$424	\$402	-\$22	\$0.074	\$0.073
High Density and Saturation Flats and Parcels	22	\$2,166	\$2,218	13,375	13,661	\$913	\$911	\$1253	\$1307	\$54	\$0.094	\$0.096
Carrier Route	23	\$2,359	\$3,682	9,913	15,666	\$1,553	\$2,421	\$806	\$1261	\$456	\$0.081	\$0.081
Letters	25	\$9,932	\$10,950	51,020	55,133	\$5,441	\$5,769	\$4492	\$5181	\$690	\$0.088	\$0.094
Flats	26	\$2,901	\$4,823	7,804	12,872	\$3,321	\$5,346	-\$419	-\$523	-\$104	-\$0.054	-\$0.041
Not Flat-Machinables and Parcels	27	\$673	\$669	714	664	\$866	\$785	-\$193	-\$116	\$77	-\$0.270	-\$0.174
Fees	29	\$90	\$90	0	0	\$0	\$0	\$90	\$90	\$0		
Total Standard Mail	105	\$18,906	\$23,173	88,583	103,516	\$12,454	\$15,571	\$6452	\$7602	\$1150	\$0.073	\$0.073
Periodicals												
In County	31	\$82	\$79	764	736	\$89	\$85	(\$7)	(\$6)	\$1	-\$0.009	-\$0.009
Outside County	32	\$1,751	\$2,230	6,283	8,059	\$2,203	\$2,768	(\$452)	(\$538)	(\$86)	-\$0.072	-\$0.067
Fees	39	\$14	\$14	0	0	\$0	\$0	\$14	\$14	\$0		
Total Periodicals	110	\$1,846	\$2,323	7,047	8,796	\$2,291	\$2,853	(\$445)	(\$530)	(\$85)	-\$0.063	-\$0.060
Package Services												
Single Piece Parcel Post	41	\$551	\$907	60	100	\$565	\$923	(\$14)	(\$15)	(\$1)	-\$0.239	-\$0.153
Bound Printed Matter Flats	42	\$210	\$273	247	321	\$119	\$150	\$91	\$122	\$31	\$0.369	\$0.381
Bound Printed Matter Parcels	43	\$362	\$427	268	317	\$363	\$417	(\$1)	\$9	\$10	-\$0.003	\$0.030
Media and Library Mail	44	\$361	\$526	121	177	\$403	\$573	(\$42)	(\$47)	(\$5)	-\$0.346	-\$0.266
Fees	49	\$4	\$4	0	0	\$0	\$0	\$4	\$4	\$0		
Total Package Services	115	\$1,488	\$2,136	696	914	\$1,450	\$2,063	\$38	\$73	\$35	\$0.054	\$0.080
U.S. Postal Service	125	\$0	\$0	492	1,008	\$0	\$0					
Free Mail	130	\$0	\$0	61	72	\$52	\$60				-\$0.858	-\$0.836
Total Domestic Market Dominant Mail	135	\$54,323	\$69,520	172,501	210,201	\$31,307	\$40,153	\$23,017	\$29,367	\$6,350	\$0.133	\$0.140
Special Services												
Ancillary Services												
Certified	51	\$752	\$784	0	0	\$665	\$681	\$88	\$103	\$16		
COD	52	\$6	\$11	0	0	\$5	\$9	\$1	\$2	\$1		
Insurance	54	\$113	\$176	0	0	\$96	\$147	\$17	\$29	\$12		
Registered Mail	55	\$44	\$71	0	0	\$37	\$57	\$6	\$14	\$7		
Stamped Envelopes	56	\$16	\$18	0	0	\$5	\$5	\$11	\$13	\$2		
Stamped Cards	57	\$0	\$3	0	0	\$1	\$1	(\$1)	\$2	\$3		
Other Ancillary Services	58	\$823	\$782	0	0	\$638	\$413	\$185	\$369	\$184		
Caller Service	62	\$96	\$98	0	0	\$34	\$33	\$62	\$65	\$4		
Money Orders	73	\$178	\$236	0	0	\$127	\$166	\$51	\$70	\$19		
Post Office Box Service	74	\$824	\$846	0	0	\$642	\$619	\$182	\$227	\$45		
Other Special Services	76	\$0	\$0	0	0	\$0	\$0	\$0	\$0	\$0		
Total Domestic Market Dominant Services	140	\$2,851	\$3,025	0	0	\$2,249	\$2,130	\$602	\$895	\$293		
Total Domestic Market Dominant Attributable Costs	143	\$57,175	\$72,545	172,501	210,201	\$33,556	\$42,284	\$23,619	\$30,262	\$6,643	\$0.137	\$0.144
Total Domestic Competitive Mail	175	\$7,068	\$8,432	1,083	1,199	\$4,969	\$5,634	\$2,100	\$2,798	\$698	\$1.939	\$2.334
INTERNATIONAL MAIL AND SERVICES												
	185	\$2,573	\$2,970	738	833	\$1,922	\$2,136	\$650	\$834	\$184	\$0.881	\$1.002
TOTAL ATTRIBUTABLE COSTS	198	\$66,816	\$83,948	174,323	212,233	\$40,447	\$50,053				\$0.151	\$0.160
OTHER COSTS	199	\$840	\$840	0	0	\$34,359	\$34,643					
TOTAL COSTS	200	\$67,656	\$84,788	174,323	212,233	\$74,805	\$84,696	(\$7,149)	\$92	\$7,241	-\$0.041	\$0.000

**Contribution by Class of Mail - FY2011
(BR With Recession Volume Added Back vs BR Exigent filing)**

								CONTRIBUTION				
		Baseline Revenue (in millions)	Proposed Revenue (in millions)	Baseline Volume (in millions)	Proposed Volume (in millions)	Baseline Attributable Cost (in millions)	Proposed Attributable Cost (in millions)	Baseline Contribution	Proposed Contribution	Delta	Current Contribution \$ (per piece)	New Contribution \$ (per piece)
DOMESTIC MARKET DOMINANT PRODUCTS												
First-Class Mail												
Single Piece Letters	3	\$11,910	\$14,145	26,148	31,055	\$6,738	\$7,869	\$5172	\$6276	\$1104	\$0.198	\$0.202
Single Piece Postcards	4	\$380	\$397	1,320	1,379	\$353	\$363	\$27	\$34	\$7	\$0.020	\$0.024
Total Single Piece Letters and Cards	5	\$12,290	\$14,542	27,468	32,435	\$7,091	\$8,232	\$5199	\$6310	\$1111	\$0.189	\$0.195
Presort Letters	8	\$14,816	\$16,670	41,939	47,177	\$4,952	\$5,480	\$9863	\$11189	\$1326	\$0.235	\$0.237
Presort Postcards	9	\$697	\$799	3,227	3,704	\$246	\$277	\$451	\$522	\$71	\$0.140	\$0.141
Total Presort Letters and Cards	10	\$15,513	\$17,469	45,166	50,881	\$5,198	\$5,758	\$10315	\$11711	\$1396	\$0.228	\$0.230
Flats	14	\$3,117	\$3,654	2,468	2,892	\$1,807	\$2,073	\$1310	\$1580	\$271	\$0.531	\$0.547
Parcels	15	\$1,017	\$1,206	520	616	\$962	\$1,121	\$54	\$84	\$30	\$0.105	\$0.137
Fees	18	\$147	\$147	0	0	\$0	\$0	\$147	\$147	\$0		
Total First-Class	100	\$32,084	\$37,017	75,623	86,824	\$15,059	\$17,185	\$17024	\$19833	\$2808	\$0.225	\$0.228
Standard Mail												
High Density and Saturation Letters	21	\$784	\$1,014	5,757	7,445	\$360	\$459	\$424	\$556	\$132	\$0.074	\$0.075
High Density and Saturation Flats and Parcels	22	\$2,166	\$2,807	13,375	17,327	\$913	\$1,163	\$1253	\$1644	\$391	\$0.094	\$0.095
Carrier Route	23	\$2,359	\$3,054	9,913	12,836	\$1,553	\$1,988	\$806	\$1067	\$261	\$0.081	\$0.083
Letters	25	\$9,932	\$14,114	51,020	72,477	\$5,441	\$7,594	\$4492	\$6520	\$2029	\$0.088	\$0.090
Flats	26	\$2,901	\$4,135	7,804	11,123	\$3,321	\$4,643	-\$419	-\$509	-\$89	-\$0.054	-\$0.046
Not Flat-Machinables and Parcels	27	\$673	\$979	714	1,038	\$866	\$1,232	-\$193	-\$253	-\$60	-\$0.270	-\$0.244
Fees	29	\$90	\$90	0	0	\$0	\$0	\$90	\$90	\$0		
Total Standard Mail	105	\$18,906	\$26,194	88,583	122,246	\$12,454	\$17,079	\$6452	\$9115	\$2663	\$0.073	\$0.075
Periodicals												
In County	31	\$82	\$93	764	870	\$89	\$100	(\$7)	(\$7)	(\$0)	-\$0.009	-\$0.009
Outside County	32	\$1,751	\$2,081	6,283	7,469	\$2,203	\$2,576	(\$452)	(\$495)	(\$43)	-\$0.072	-\$0.066
Fees	39	\$14	\$14	0	0	\$0	\$0	\$14	\$14	\$0		
Total Periodicals	110	\$1,846	\$2,188	7,047	8,339	\$2,291	\$2,677	(\$445)	(\$489)	(\$44)	-\$0.063	-\$0.059
Package Services												
Single Piece Parcel Post	41	\$551	\$577	60	63	\$565	\$583	(\$14)	(\$6)	\$8	-\$0.239	-\$0.096
Bound Printed Matter Flats	42	\$210	\$222	247	261	\$119	\$123	\$91	\$99	\$8	\$0.369	\$0.379
Bound Printed Matter Parcels	43	\$362	\$382	268	283	\$363	\$375	(\$1)	\$7	\$8	-\$0.003	\$0.024
Media and Library Mail	44	\$361	\$366	121	123	\$403	\$401	(\$42)	(\$35)	\$7	-\$0.346	-\$0.284
Fees	49	\$4	\$4	0	0	\$0	\$0	\$4	\$4	\$0		
Total Package Services	115	\$1,488	\$1,550	696	729	\$1,450	\$1,482	\$38	\$68	\$31	\$0.054	\$0.094
U.S. Postal Service												
Free Mail	130	\$0	\$0	492	492	\$0	\$0					
Free Mail	130	\$0	\$0	61	70	\$52	\$59				-\$0.858	-\$0.841
Total Domestic Market Dominant Mail	135	\$54,323	\$66,949	172,501	218,701	\$31,307	\$38,481	\$23,017	\$28,468	\$5,451	\$0.133	\$0.130
Special Services												
Ancillary Services												
Certified	51	\$752	\$782	0	0	\$665	\$682	\$88	\$100	\$12		
COD	52	\$6	\$6	0	0	\$5	\$5	\$1	\$1	\$0		
Insurance	54	\$113	\$114	0	0	\$96	\$95	\$17	\$18	\$1		
Registered Mail	55	\$44	\$49	0	0	\$37	\$42	\$6	\$7	\$1		
Stamped Envelopes	56	\$16	\$17	0	0	\$5	\$5	\$11	\$12	\$1		
Stamped Cards	57	\$0	\$0	0	0	\$1	\$1	(\$1)	(\$1)	\$0		
Other Ancillary Services	58	\$823	\$835	0	0	\$638	\$634	\$185	\$201	\$15		
Caller Service	62	\$96	\$102	0	0	\$34	\$33	\$62	\$69	\$7		
Money Orders	73	\$178	\$189	0	0	\$127	\$133	\$51	\$56	\$5		
Post Office Box Service	74	\$824	\$877	0	0	\$642	\$622	\$182	\$255	\$73		
Other Special Services	76	\$0	\$0	0	0	\$0	\$0	\$0	\$0	\$0		
Total Domestic Market Dominant Services	140	\$2,851	\$2,971	0	0	\$2,249	\$2,253	\$602	\$718	\$116		
Total Domestic Market Dominant Attributable Costs	143	\$57,175	\$69,921	172,501	218,701	\$33,556	\$40,734	\$23,619	\$29,186	\$5,567	\$0.137	\$0.133
Total Domestic Competitive Mail	175	\$7,068	\$7,069	1,083	1,083	\$4,969	\$4,910	\$2,100	\$2,159	\$59	\$1.939	\$1.993
INTERNATIONAL MAIL AND SERVICES												
	185	\$2,573	\$2,607	738	753	\$1,922	\$1,947	\$650	\$660	\$10	\$0.881	\$0.877
TOTAL ATTRIBUTABLE COSTS												
	198	\$66,816	\$79,597	174,323	220,537	\$40,447	\$47,591				\$0.151	\$0.145
OTHER COSTS												
	199	\$840	\$840	0	0	\$34,359	\$34,079					
TOTAL COSTS	200	\$67,656	\$80,437	174,323	220,537	\$74,805	\$81,670	(\$7,149)	(\$1,233)	\$5,916	-\$0.041	-\$0.006

CERTIFICATE OF SERVICE

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

Eric P. Koetting

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
(202) 268-2992, FAX: -5402
July 25, 2011