

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

SPECIAL SERVICES REFORM, 1996

Docket No. MC96-3

REQUEST OF THE UNITED STATES POSTAL SERVICE  
FOR A RECOMMENDED DECISION ON SPECIAL SERVICE CHANGES

Pursuant to chapter 36 of title 39, United States Code, the United States Postal Service has determined that several changes related to special service offerings would be in the public interest and in accordance with the policies and applicable criteria of that title. Accordingly, the Postal Service requests the Postal Rate Commission to submit to the Governors of the Postal Service a recommended decision which supports the implementation of the changes herein requested.

The goals of this Request are to reform several special services, using new data and analysis obtained since the last rate case, to better meet customer needs and reflect costs and customer demand. This Request does not encompass any changes to the rates for the classes and subclasses of mail, nor the fees for other special services not specifically addressed by the proposals. These areas have either already been addressed by the Classification Reform I and II Requests, are planned to be addressed in later Requests, or do not, at present, require significant reform.

First, the post office box proposal includes the elimination of the basic box fees in offices that do not provide carrier delivery. This proposal reflects the public service nature of these boxes. Second, we propose adjusting our city delivery office

box fees to bring them more into line with those of alternative providers. Third, the current low fees in non-city delivery offices would be increased almost as much as the city delivery office fees (and more on a percentage basis), to move toward cost recovery for non-city delivery offices, and to reflect our recognition that the current disparity between the fees for city delivery and non-city delivery offices is too large. Lastly, we propose a non-resident surcharge for individuals and businesses which reside or are located in one ZIP Code area and use a post office box in another.

We propose raising the current certified mail fee from \$1.10 to \$1.50, to reflect the high value of service for this service. In addition, the two types of return receipt service would be merged into an intermediate service offering. A similar change is proposed for return receipt for merchandise service, which would also be limited to Priority Mail and Standard Mail.

We propose increasing the maximum indemnity available for insured mail from \$600 to \$5,000, and the maximum indemnity for merchandise sent by Express Mail from \$500 to \$5,000. As indicated by market surveys, this would enable the Postal Service to compete more effectively in the parcel market for higher value items, such as electronic and computer equipment. Finally, the indemnity for Express Mail document reconstruction would be reduced from \$50,000 to \$500 per piece.

We propose a new special service fee of 2-cents for postal cards, to recover the manufacturing costs for these cards, and reflect their service value. Unlike stamped envelopes, which are sold for a fee exceeding the face value of the postage, postal cards are currently sold at no additional charge above the postage.

We propose to simplify the registered mail fee schedule, by combining the insured and uninsured schedules, and eliminating many fee cells that are used infrequently, and which have proven confusing and hard to administer. Finally, we

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propose to eliminate special delivery service, since the demand for this service has virtually disappeared.

This filing is unusual in that it would have the effect of increasing net revenue for the Postal Service, outside of an omnibus rate proceeding. The Postal Service is providing revenue and cost information projected for FY 1996, using FY 1995 as the base year. If all the proposed changes had been implemented at the beginning of FY 1996, the Postal Service estimates that its revenues for that year would be \$57.3 billion, and its expenses would be \$56.0 billion. While these estimates are by their nature hypothetical, any net revenue resulting from these proposals will be helpful in meeting the Postal Service's goals for recovery of Prior Years' Loss amounts.

The Postal Service does not intend to open up for consideration any rates or fees other than those directly affected by its proposal. Instead, the Postal Service believes that its proposed classification changes and fee proposals are consistent with the rates and fees resulting from the last omnibus rate proceeding, Docket No. R94-1. While the Postal Service recognizes that there may be other mail classes or special services for which reforms might be advisable, and is actively considering other reforms, these special service changes are the only reforms which it is presenting at this time. The Postal Service does not wish to maintain products which can currently be improved, while it waits until an omnibus proceeding, or even until other reforms are pursued.

The requested amendments to the DMCS and its attendant Schedules will further the general policies of efficient postal operations and reasonable rates and fees enunciated in the Postal Reorganization Act.<sup>1</sup> See 39 U.S.C. §§ 101(a), 403(a),

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<sup>1</sup> Some minor changes are proposed to remove gender references, or eliminate the word "rent" in connection with post office box service.

and 403(b). The requested changes also conform with the criteria of 39 U.S.C. §§ 3622(b) and 3623(c).

In accordance with the Commission's Rules of Practice and Procedure (39 CFR §§ 3001.54 and 3001.64), the Postal Service files with this Request the prepared direct evidence on which it proposes to rely, which consists of 8 pieces of testimony, including exhibits. The page following this Request is an index of Attachments. The testimony and any workpapers of each witness have been marked for identification as shown in Attachment E. Attachment E also lists the name and phone number of the principal attorney assigned to each witness. Further data submitted for informational purposes or in response to specific sections of the Rules of Practice are included in the other Attachments. The Postal Service is also filing under separate cover associated library references that are too voluminous, or inappropriate, for inclusion in the testimony, as well as the workpapers of the witnesses noted in Attachment E. The Postal Service may schedule technical conferences as appropriate for specific witnesses. Requests for technical conferences (or any other informal discovery) should be addressed to the attorney assigned to the respective witness listed in Attachment E.

WHEREFORE, the United States Postal Service, pursuant to 39 U.S.C. §§ 3622(a) and 3623(b), hereby requests the Postal Rate Commission to make and submit a recommended decision to the Governors supporting the Request of the Postal Service and recommending the proposed revisions to the Domestic Mail

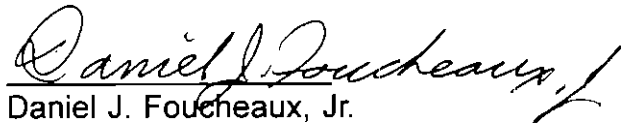
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Classification Schedule and its attendant Schedules set forth in Attachments A and B  
to this Request.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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LIST OF ATTACHMENTS

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Attachment A	Requested Changes in the Domestic Mail Classification Schedule
Attachment B	Requested Changes in the Special Service Schedules
Attachment C	Certification
Attachment D	FY 1995 Audited Financial Statements
Attachment E	Index of Testimonies
Attachment F	Compliance Statement

## Special Services Reform

## Attachment A

## REQUESTED CHANGES IN THE DOMESTIC MAIL CLASSIFICATION SCHEDULE

In this Request, the Postal Service asks the Commission to recommend certain changes in the Domestic Mail Classification Schedule (DMCS). The changes requested herein alter the DMCS recommended by the Commission on November 29, 1978, adopted by decision of the Governors and implemented by resolution of the Board of Governors on April 3, 1979, effective April 15, 1979, and as amended from time-to-time, most recently by the decisions of the Governors approving the Recommended Decision of the Commission on Experimental First-Class and Priority Mail Small Parcel Automation Rate Category, Docket No. MC96-1, as implemented by resolution of the Board of Governors adopted on April 1, 1996, effective April 28, 1996, and the Decision of the Governors approving in part the Recommended Decision of the Commission on Classification Reform I, Docket No. MC95-1, as implemented by resolution of the Board of Governors adopted on March 4, 1996, effective July 1, 1996. The current DMCS (which is published in part at 39 CFR Part 3001, subpart C, appendix A, in part as attachment A to the Decision of the Governors of the United States Postal Service on the Recommended Decision of the Postal Rate Commission on Classification Reform I, Docket No. MC95-1 (61 Fed. Reg. 10,220), and in part as attachment A to the Decision of the Governors of the United States Postal Service on the Recommended Decision of the Postal Rate Commission on the Experimental First-Class and Priority Mail Small Parcel Automation Rate Category, Docket No. MC96-1 (61 Fed. Reg. 17,210)), is incorporated by reference in this Request.

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Proposed additions to text of the classification schedule are underlined; proposed deletions are stricken. The changes in the DMCS requested by the Postal Service are as follows:



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Attachment A  
Page 3**EXPEDITED MAIL  
CLASSIFICATION SCHEDULE**

\* \* \* \* \*

**160 ANCILLARY SERVICES**

The following services may be obtained in conjunction with mail sent under this classification schedule upon payment of applicable fees:

Service	Schedule
a. Address correction	SS-1
b. Return receipts	SS-16
c. COD	SS-6
d. <u>Express Mail Insurance</u>	<u>SS-9a</u>

\* \* \* \* \*

**~~180 INSURANCE AND INDEMNITY~~****~~181 Insurance Coverage~~**

~~Express Mail is insured against loss, damage or rifling at no additional charge.~~

**~~182 Indemnity Coverage~~**

~~182.1 Payment of Indemnity. Indemnity will be paid by the Postal Service as follows:~~

- ~~a. For document reconstruction the maximum liability is \$50,000 per piece, up to \$500,000 per occurrence regardless of the number of claimants, to be paid under terms and conditions prescribed by the Postal Service.~~
- ~~b. For merchandise the maximum liability is \$500 to be paid under terms and conditions prescribed by the Postal Service.~~
- ~~c. For mailings valued at \$15 or less, for negotiable items, or currency or bullion, the indemnity is \$15 to be paid under terms and conditions prescribed by the Postal Service.~~

~~182.2 Indemnity Not Available. Indemnity will not be paid by the Postal Service for loss, damage or rifling.~~

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- a. ~~Of nonmailable matter;~~
- b. ~~Due to improper packaging;~~
- c. ~~Seizure by any agency of government; or,~~
- d. ~~Due to war, insurrection or civil disturbances.~~

~~183 Insurance Claims And Procedures~~

180 Refunds

181 Procedure

Claims for refunds of postage ~~or insurance~~ must be filed within the period of time and under terms and conditions prescribed by the Postal Service.

~~184 Refunds~~

182 Availability

~~184.1~~ 182.1 **Same Day Airport.** The Postal Service will refund the postage for Same Day Airport Express Mail not available for claim by the time specified, unless the delay is caused by:

- a. Strikes or work stoppage;
- b. Delay or cancellation of flights; or
- c. Governmental action beyond the control of Postal Service or air carriers.

~~184.2~~ 182.2 **Custom Designed.** Except where a service agreement provides for claim, or delivery, of Custom Designed Express Mail more than 24 hours after scheduled tender at point of origin, the Postal Service will refund postage for such mail not available for claim, or not delivered, within 24 hours of mailing, unless the item was delayed by strike or work stoppage.

~~184.3~~ 182.3 **Next Day.** Unless the item was delayed by strike or work stoppage, the Postal Service will refund postage for Next Day Express Mail not available for claim or not delivered:

- a. By 10:00 a.m., or earlier time(s) prescribed by the Postal Service, of the next delivery day in the case of Post Office-to-Post Office service;

- b. By 3:00 p.m., or earlier time(s) prescribed by the Postal Service, of the next delivery day in the case of Post Office-to-Addressee service.

~~184.4~~ 182.4 **Second Day.** Unless the item was delayed by strike or work stoppage, the Postal Service will refund postage for Second Day Express Mail not available for claim or not delivered:

- a. By 10:00 a.m., or earlier time(s) prescribed by the Postal Service, of the second delivery day in the case of Post Office-to-Post Office service;
- b. By 3:00 p.m., or earlier time(s) prescribed by the Postal Service, of the second delivery day in the case of Post Office-to-Addressee service.

### FIRST-CLASS MAIL CLASSIFICATION SCHEDULE

\* \* \* \* \*

#### **222 ~~Postal and~~ Stamped and Post Cards Subclass**

##### **222.1 Definition**

**222.11 ~~Postal~~ Stamped Card.** A ~~postal~~ stamped card is a card with postage imprinted or impressed on it and supplied by the Postal Service for the transmission of messages.

**222.12 Post Card.** A post card is a privately printed mailing card for the transmission of messages. To be eligible to be mailed as a First-Class post card, a card must be of uniform thickness and must not exceed any of the following dimensions:

- a. 6 inches in length;
- b. 4 1/4 inches in width;
- c. 0.016 inch in thickness.

**222.13 Double Cards.** Double ~~postal~~ stamped or post cards may be mailed as ~~postal~~ stamped or post cards. A double ~~postal~~ stamped or post card consists of two attached cards, one of which may be detached by the receiver and returned by mail as a single postal or post card.

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**222.2 Restriction.** A mailpiece with any of the following characteristics is not mailable as a ~~postal~~ stamped or post card unless it is prepared as prescribed by the Postal Service:

- a. Numbers or letters unrelated to postal purposes appearing in the address portion of the card;
- b. Punched holes;
- c. Vertical tearing guide;
- d. An address portion which is smaller than the remainder of the card.

**222.3 Regular Rate Categories.**

**222.31 Single Piece Rate Category.** The single piece rate category applies to regular rate ~~Postal~~ Stamped and Post Cards subclass mail not mailed under section 222.32.

**222.32 Presort Rate Category.** The presort rate category applies to ~~Postal~~ Stamped and Post Cards subclass mail that:

- a. Is prepared in a mailing of at least 500 pieces;
- b. Is presorted, marked, and presented as prescribed by the Postal Service; and
- c. Meets the addressing and other preparation requirements prescribed by the Postal Service.

**222.4 Automation Rate Categories**

**222.41 General.** The automation rate categories consist of ~~Postal~~ Stamped and Post Cards subclass mail that:

- a. Is prepared in a mailing of at least 500 pieces;
- b. Is presorted, marked, and presented as specified by the Postal Service;
- c. Bears a barcode representing not more than 11 digits (not including "correction" digits) as prescribed by the Postal Service; and
- d. Meets the machinability, addressing, barcoding, and other preparation

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requirements prescribed by the Postal Service.

\* \* \* \* \*

**260 ANCILLARY SERVICES**

First-Class Mail, except as otherwise noted, will receive the following additional services upon payment of the fees prescribed in the corresponding schedule:

Service		Schedule
a.	Address correction	SS-1
b.	Business reply mail	SS-2
c.	Certificates of mailing	SS-4
d.	Certified mail	SS-5
e.	COD	SS-6
f.	Insured mail	SS-9
g.	Registered mail	SS-14
h.	<del>Special delivery</del>	<del>SS-17</del>
i. h.	Return receipt (merchandise <u>sent</u> <u>by Priority Mail</u> only)	SS-16
j. i.	Merchandise return	SS-20

**270 RATES AND FEES**

The rates and fees for First-Class Mail are set forth in the following rate schedules:

		Schedule
a.	Letters and Sealed Parcels	221
b.	<del>Postal</del> <u>Stamped</u> and Post Cards	222
c.	Priority Mail	223
d.	Fees	1000

\* \* \* \* \*

**STANDARD MAIL  
CLASSIFICATION SCHEDULE**

\* \* \* \* \*

**360 ANCILLARY SERVICES**

\* \* \* \* \*

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**362 Single Piece, Parcel Post, Bound Printed Matter, Special, and Library Subclasses**

Single Piece, Parcel Post, Bound Printed Matter, Special, and Library subclass mail will receive the following additional services upon payment of the appropriate fees:

Service	Schedule
a. Certificates of mailing	SS-4
b. COD	SS-6
c. Insured mail	SS-9
d. <del>Special delivery</del>	<del>SS-17</del>
e. <u>d.</u> Special handling	SS-18
f. <u>e.</u> Return receipt (merchandise only)	SS-16
g. <u>f.</u> Merchandise return	SS-20

Insurance, ~~special delivery~~, special handling, and COD services may not be used selectively for individual pieces in a multi-piece Parcel Post subclass mailing unless specific methods approved by the Postal Service for ascertaining and verifying postage are followed.

\* \* \* \* \*

**PERIODICALS  
CLASSIFICATION SCHEDULE**

\* \* \* \* \*

**~~460 ANCILLARY SERVICES~~**

~~Periodicals class mail will receive the following additional service upon payment of the appropriate fee:~~

<del>Service</del>	<del>Schedule</del>
<del>Special delivery</del>	<del>SS-17</del>

\* \* \* \* \*

**GENERAL DEFINITIONS, TERMS AND CONDITIONS**

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\* \* \* \* \*

## 3000 POSTAGE AND PREPARATION

\* \* \* \* \*

## 3080 Refund of Postage

When postage and special service fees have been paid on mail for which no service is rendered for the postage or fees paid, or collected in excess of the lawful rate, a refund may be made. There shall be no refund for registered, COD, ~~and insured~~, and Express Mail Insurance fees when the article is later withdrawn by the mailer. In cases involving returned articles improperly accepted because of excess size or weight, a refund may be made.

\* \* \* \* \*

## CLASSIFICATION SCHEDULE SS-3--CALLER SERVICE

## 3.01 Definition

3.010 Caller service is a service which permits a customer to obtain ~~his~~ mail addressed to a the customer's box number through a call window or loading dock.

## 3.02 Description of Service

\* \* \* \* \*

3.022 Caller service is provided to customers on the basis of mail volume received, and number of post office boxes ~~rented~~ used at any one facility.

\* \* \* \* \*

## CLASSIFICATION SCHEDULE SS-4--CERTIFICATE OF MAILING

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## 4.03 Other Services

4.030 The following services, if applicable to the class of mail, may be obtained in conjunction with mail sent under this classification schedule upon

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payment of the applicable fees:

	Classification schedule
a. Parcel airlift .....	SS-13
<del>b. Special delivery .....</del>	<del>SS-17</del>
<del>c. b. Special handling .....</del>	<del>SS-18</del>

\* \* \* \* \*

CLASSIFICATION SCHEDULE SS-5--CERTIFIED MAIL

\* \* \* \* \*

5.04 Other Services

5.040 The following services may be obtained in conjunction with mail sent under this classification schedule upon payment of the applicable fees:

	Classification schedule
a. Restricted delivery .....	SS-15
b. Return receipt .....	SS-16
<del>c. Special delivery .....</del>	<del>SS-17</del>

CLASSIFICATION SCHEDULE SS-6--COLLECT ON DELIVERY SERVICE

\* \* \* \* \*

6.06 Other Services

6.060 The following services, if applicable to the class of mail, may be obtained in conjunction with mail sent under this classification schedule upon payment of the applicable fee:

**Classification Schedule**

a. Registered mail, if sent as First-Class	SS-14
b. Restricted delivery	SS-15
<del>c. Special delivery</del>	<del>SS-17</del>
<del>d. c. Special handling</del>	<del>SS-18</del>



\* \* \* \* \*

## CLASSIFICATION SCHEDULE SS-9--INSURED MAIL

\* \* \* \* \*

## 9.02 Description of Service

9.020 The maximum liability of the Postal Service under this schedule is ~~\$600~~ \$5000.

\* \* \* \* \*

## 9.05 Other Services

9.050 The following services, if applicable to the class of mail, may be obtained in conjunction with mail sent under this classification schedule upon payment of the applicable fees:

	Classification schedule
a. Parcel Airlift .....	SS-13
b. Restricted delivery (for items insured for more than \$50) .....	SS-15
c. Return receipt (for items insured for more than \$50).....	SS-16
d. <del>Special delivery</del> .....	<del>SS-17</del>
e. <u>d.</u> Special handling .....	SS-18
f. <u>e.</u> Merchandise return (shippers only) .....	SS-20

\* \* \* \* \*

CLASSIFICATION SCHEDULE SS-9a--EXPRESS MAIL INSURANCE9a.01 Definition

9a.010 Express Mail Insurance is a service that provides the mailer with indemnity

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for loss of, rifling of, or damage to items sent by Express Mail.

9a.02 Description of Service

9a.020 Express Mail Insurance is available only for Express Mail.

9a.021 Insurance coverage is provided, for no additional charge, up to \$500 per piece for document reconstruction, up to \$5,000 per occurrence regardless of the number of claimants. Insurance coverage is also provided, for no additional charge, up to \$500 per piece for merchandise. Insurance coverage for merchandise valued at more than \$500 is available for an additional fee, as set forth in Rate Schedule SS-9a. The maximum liability for merchandise is \$5,000 per piece. For negotiable items, currency, or bullion, the maximum liability is \$15.

9a.022 Indemnity claims for Express Mail must be filed within a specified period of time from the date the article was mailed.

9a.023 Indemnity will be paid under terms and conditions prescribed by the Postal Service.

9a.024 Among other limitations prescribed by the Postal Service, indemnity will not be paid by the Postal Service for loss, damage or rifling:

- a. Of nonmailable matter;
- b. Due to improper packaging;
- c. Due to seizure by any agency of government; or,
- d. Due to war, insurrection or civil disturbances.

9a.03 Fees

9a.030 The fees for Express Mail Insurance service are set forth in Rate Schedule SS-9a.

CLASSIFICATION SCHEDULE SS-10--POST OFFICE BOX SERVICE

10.01 Definition

10.010 Post office box service is a service which provides the customer with a private, locked receptacle for the receipt of his mail during the hours when the lobby of a postal facility is open.

10.02 Description of Service

\* \* \* \* \*

10.021 A post office box holder may ~~request~~ ask the Postal Service to deliver to the post office box all mail properly addressed to the holder. ~~him through the post office box.~~ If the post office box is located at the post office indicated on the piece, it will be transferred without additional charge, in accordance with existing regulations.

\* \* \* \* \*

### 10.03 Fees

\* \* \* \* \*

10.031 In postal facilities primarily serving academic institutions or the students of such institutions, ~~periods of rental and fees~~ for post office boxes are administered as follows:

<u>Period for of box rentals-use</u>	<u>Fee</u>
95 days or less .....	1/2 semi-annual fee.
96 to 140 days .....	3/4 semi-annual fee.
141 to 190 days .....	Full semi-annual fee.
191 to 230 days .....	1 1/4 semi-annual fee.
231 to 270 days .....	1 1/2 semi-annual fee.
271 days to full year .....	Full annual fee.

10.032 No refunds will be made for ~~boxes rented~~ post office box fees paid under section 10.031. For purposes of this classification schedule SS-10, the full annual fee is twice the amount of the semi-annual fee.

## CLASSIFICATION SCHEDULE SS-11--MAILING LIST SERVICES

### 11.01 Definition

\* \* \* \* \*

### 11.02 Description of Service

\* \* \* \* \*

11.0221 Gummed labels, wrappers, envelopes or ~~postal~~ stamped or post cards

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indicative of one-time use will not be accepted as mailing lists.

\* \* \* \* \*

## CLASSIFICATION SCHEDULE SS-13--PARCEL AIRLIFT (PAL)

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## 13.07 Other Services

13.070 The following services, if applicable to the class of mail, may be obtained in conjunction with mail sent under this classification schedule upon payment of the applicable fees:

	Classification schedule
a. Certificate of mailing .....	SS-4
b. Insured mail .....	SS-9
c. Restricted delivery (if insured for more than <del>\$25</del> \$50).....	SS-15
d. Return receipt (if insured for more than <del>\$25</del> \$50).....	SS-16
<del>e. Special delivery (if mailed for delivery within the 48 contiguous states)</del>	<del>SS-17</del>
<del>f. e.</del> Special handling .....	SS-18

\* \* \* \* \*

## CLASSIFICATION SCHEDULE SS-14--REGISTERED MAIL

\* \* \* \* \*

## 14.02 Description of Service

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14.021 Registered mail service provides ~~optional~~ insurance up to a maximum of \$25,000. depending upon the actual value at the time of mailing, except that insurance is optional for articles valued \$100 or less.

\* \* \* \* \*

14.026 Indemnity claims for registered mail on which insurance is provided, or for

articles valued \$100 or less on which optional insurance has been elected, must be filed within a specified period of time from the date the article was mailed.

\* \* \* \* \*

14.06 Other Services

14.060 The following services may be obtained in conjunction with mail sent under this classification schedule upon payment of applicable fees:

	Classification schedule
a. Collect on delivery .....	SS-6
b. Restricted delivery .....	SS-15
c. Return receipt .....	SS-16
<del>d. Special delivery .....</del>	<del>SS-17</del>
e. <u>d.</u> Merchandise return (shippers only).	SS-20

14.07 Fees

14.070 The fees for registered mail ~~and related optional indemnity purchase~~ are set forth in Rate Schedule SS-14.

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CLASSIFICATION SCHEDULE SS-16--RETURN RECEIPTS

\* \* \* \* \*

16.02 Description of Service

16.020 Return receipt service is available for mail sent under the following classification schedules:

	Classification Schedule
a. Certified mail	SS-5
b. COD mail	SS-6
c. Insured mail (if insured for more than \$50)	SS-9
d. Registered mail	SS-14
e. Express Mail	
f. <del>First-Class</del> <u>Priority Mail</u> (merchandise only)	

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- g. Standard Mail (merchandise only sent by Single Piece, Parcel Post, Bound Printed Matter, Special, and Library Subclasses )

16.021 Return receipt service is available at the time of mailing or, when purchased in conjunction with certified, COD, insured (if for more than \$50), registered, or Express Mail, after mailing.

16.0211 Mailers requesting return receipt service at the time of mailing will be provided, as appropriate:

- a. ~~The the signature of the addressee or his addressee's agent, and the date delivered, or~~  
b. ~~The signature of the addressee or his agent, the date delivered and the address of delivery, if different from the address on the mailpiece.~~

\* \* \* \* \*

~~CLASSIFICATION SCHEDULE SS 17 SPECIAL DELIVERY~~~~17.01 Definition~~

~~17.01 Special delivery service is a service that provides for preferential handling in dispatch and transportation, and delivery of mail as soon as practicable after arrival at the addressee's post office.~~

~~17.02 Description of Service~~

~~17.020 Special delivery service is available for mail sent under the following classification schedules:~~

- ~~a. First Class Mail~~  
~~b. Periodicals~~  
~~c. Single Piece, Parcel Post, Bound Printed Matter, Special, and Library Standard Mail~~

~~17.021 Special delivery is made only to addresses where it is known that such delivery can be made.~~

~~17.022 Special delivery mail is delivered during prescribed hours in addition to regular~~

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~~carrier delivery hours.~~~~17.023 If delivery cannot be made a notice of arrival is left at the address.~~~~17.03 Requirements of the Mailer~~~~17.030 Mail sent under this classification schedule must be identified as prescribed by regulation.~~~~17.04 Deposit of Mail~~~~17.040 Special delivery mail must be deposited in a manner prescribed by the Postal Service.~~~~17.05 Forwarding and Return~~~~17.050 Special delivery mail which is forwarded or returned does not receive special delivery service unless the special delivery fee has been guaranteed, or if a forwarding order had been given by the addressee at the office of original address in advance of the arrival of the mail.~~~~17.06 Other Services~~~~17.060 The following services, if applicable to the class of mail, may be obtained in conjunction with mail sent under this classification schedule upon payment of the applicable fees:~~~~Classification  
— schedule~~

- ~~a. Certificate of mailing ..... SS 4~~
- ~~b. Certified mail ..... SS 5~~
- ~~c. COD mail ..... SS 6~~
- ~~d. Insured mail ..... SS 9~~
- ~~e. Parcel airlift ..... SS 13~~
- ~~f. Registered mail ..... SS 14~~

~~17.07 Fees~~~~17.070 The fees for special delivery service are set forth in Rate Schedule SS 17.~~

CLASSIFICATION SCHEDULE SS-18--SPECIAL HANDLING

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## 18.02 Description of Service

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18.021 Special handling ~~(or special delivery)~~ service is mandatory for matter which requires special attention in handling, transportation and delivery.

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## CLASSIFICATION SCHEDULE SS-19--STAMPED CARDS AND ENVELOPES

### 19.01 Definitions

19.010 Plain stamped envelopes and printed stamped envelopes are envelopes with postage thereon offered for sale by the Postal Service.

19.011 Stamped cards and double stamped cards are defined in classification schedule 222.11 and 222.13, respectively.

### 19.02 Description of Service

19.020 Stamped envelopes are available for:

- a. First-Class Mail within the first rate increment.
- b. Standard Mail mailed at a minimum per-piece rate as prescribed by the Postal Service.

19.021 Printed stamped envelopes may be obtained by special request.

19.022 Stamped cards are available for First-Class Mail.

### 19.03 Fees

19.030 The fees for stamped cards and envelopes are set forth in Rate Schedule SS-19.

\* \* \* \* \*



## REQUESTED CHANGES IN THE SPECIAL SERVICE SCHEDULES

In conjunction with the requested changes in the Domestic Mail Classification Schedule (DMCS) set forth in Attachment A, the Postal Service also is requesting that the Commission recommend corresponding changes in the attendant special service schedules and the title of Rate Schedule 222.

The special service schedules were last amended in part by the Decision of the Governors Approving in part the Recommended Decision of the Postal Rate Commission on Classification Reform I. Rate Schedules amended in connection with that decision, along with fee schedules for all special services, which were published for informational purposes in the Federal Register on March 12, 1996 (61 Fed. Reg. 10,220), are incorporated by reference in this Request.

Proposed additions to the text of the schedules are underlined; proposed deletions are stricken. The requested changes in the schedules are as follows:

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\* \* \* \* \*

**FIRST-CLASS MAIL  
RATE SCHEDULE 222  
Postal Stamped and Post Cards**

\* \* \* \* \*

**SCHEDULE SS-5  
Certified Mail**

Fee  
(in addition to postage)

Per piece

~~\$1.10~~ \$1.50

\* \* \* \* \*

**SCHEDULE SS-9  
Insured Mail**

Liability

Fee  
(in addition to postage)

\$ 0.01	to \$ 50	\$0.75
50.01	to 100	1.60
<del>100.01</del>	<del>to 200</del>	<del>2.50</del>
<del>200.01</del>	<del>to 300</del>	<del>3.40</del>
<del>300.01</del>	<del>to 400</del>	<del>4.30</del>
<del>400.01</del>	<del>to 500</del>	<del>5.20</del>
<del>500.01</del>	<del>to 600</del>	<del>6.10</del>
<u>100.01</u>	<u>to 5000</u>	<u>\$1.60 plus \$0.90</u>
		<u>for each \$100</u>
		<u>or fraction thereof</u>
		<u>over the first \$100 in value</u>

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**SCHEDULE SS-9A**  
**Express Mail Insurance**

Document Reconstruction

Coverage

Fee  
(in addition to postage)

\$ 0.01      to \$ 500

no charge

Merchandise

Value Level

Fee  
(in addition to postage)

\$ 0.01      to \$ 500  
500.01      to 5000

no charge  
\$0.90 for each \$100  
or fraction thereof  
over \$500 in value

**SCHEDULE SS-10**  
**Post Office Boxes and Caller Service****A. Post Office Box Semi-Annual Rental Rate**  
**Group I — offices with city carrier service**

		Semi-annual Fees (\$)		
Box size	Box Capacity	IA	IB	IC
	(cu. in.)			
1	under 296	\$24.00	\$22.00	\$20.00
2	296-499	37.00	33.00	29.00
3	500-999	64.00	56.00	52.00
4	1000-1999	105.00	95.00	86.00
5	2000 & over	174.00	155.00	144.00

**Group II — offices without**  
**city carrier service**

1	annual	8.00
2	annual	13.00
3	semi-annual	12.00
4	semi-annual	17.50
5	semi-annual	27.50

**Group III — offices without**  
**rural carrier service**

Box sizes	
1-5 annual	2.00

**B. Caller Service**

For Caller Service	
semi-annual	250.00 240.00 225.00

For Each Reserved Call Number	
annual	30.00

A. Semi-Annual Fees at Offices That Offer Any Carrier Service 1/

<u>Box size</u>	<u>Box Capacity (cu. in.)</u>	<u>Fee Group</u>			
		<u>A</u>	<u>B</u>	<u>C</u>	<u>D</u>
<u>1</u>	<u>under 296</u>	<u>\$30.00</u>	<u>\$28.00</u>	<u>\$25.00</u>	<u>\$8.00</u>
<u>2</u>	<u>296-499</u>	<u>\$46.00</u>	<u>\$41.00</u>	<u>\$36.00</u>	<u>\$13.00</u>
<u>3</u>	<u>500-999</u>	<u>\$80.00</u>	<u>\$70.00</u>	<u>\$65.00</u>	<u>\$24.00</u>
<u>4</u>	<u>1000-1999</u>	<u>\$121.00</u>	<u>\$109.00</u>	<u>\$95.00</u>	<u>\$35.00</u>
<u>5</u>	<u>2000 &amp; over</u>	<u>\$209.00</u>	<u>\$186.00</u>	<u>\$150.00</u>	<u>\$55.00</u>

B. Semi-Annual Fees at Offices That Do Not Offer Any Carrier Service 1/

<u>Box size</u>	<u>Fee</u>
<u>1-5</u>	<u>\$0.00 2/</u>

C. Caller Service Fees

	<u>Fee Group</u>			
	<u>A</u>	<u>B</u>	<u>C</u>	<u>D</u>
<u>Caller Service (semi-annual)</u>	<u>\$250.00</u>	<u>\$250.00</u>	<u>\$250.00</u>	<u>\$250.00</u>
<u>Each Reserved Call Number (annual)</u>	<u>\$30.00</u>	<u>\$30.00</u>	<u>\$30.00</u>	<u>\$30.00</u>

NOTES:

1/ In addition to the fees specified, all customers will be subject to an additional

## Special Services Reform

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semi-annual \$18.00 nonresident fee per box, regardless of box size, unless they receive, pursuant to postal regulations, an exemption based upon proof of local residency.

2/ Post office box customers who are eligible to receive carrier service at their delivery addresses are ineligible for these fees and are subject instead to Group D fees.

\* \* \* \* \*

**SCHEDULE SS-14 Registered Mail**

Fees (in addition to postage)

VALUE	For Articles Covered by Insurance	For Articles Not Covered by Insurance
\$0.00 to \$100	\$4.85 (without insurance)	\$4.85
<u>\$0.00 to \$100</u>	<u>\$4.95 (with insurance)</u>	
100.01 to 500	5.40	<del>5.20</del>
500.01 to 1,000	5.85	<del>5.55</del>
1,000.01 to 2,000	6.30	<del>5.90</del>
2,000.01 to 3,000	6.75	<del>6.25</del>
3,000.01 to 4,000	7.20	<del>6.60</del>
4,000.01 to 5,000	7.65	<del>6.95</del>
5,000.01 to 6,000	8.10	<del>7.30</del>
6,000.01 to 7,000	8.55	<del>7.65</del>
7,000.01 to 8,000	9.00	<del>8.00</del>
8,000.01 to 9,000	9.45	<del>8.35</del>
9,000.01 to 10,000	9.90	<del>8.70</del>
10,000.01 to 11,000	10.35	<del>9.05</del>
11,000.01 to 12,000	10.80	<del>9.40</del>
12,000.01 to 13,000	11.25	<del>9.75</del>
13,000.01 to 14,000	11.70	<del>10.10</del>
14,000.01 to 15,000	12.15	<del>10.45</del>
15,000.01 to 16,000	12.60	<del>10.80</del>
16,000.01 to 17,000	13.05	<del>11.15</del>
17,000.01 to 18,000	13.50	<del>11.50</del>
18,000.01 to 19,000	13.95	<del>11.85</del>
19,000.01 to 20,000	14.40	<del>12.20</del>
20,000.01 to 21,000	14.85	<del>12.55</del>
21,000.01 to 22,000	15.30	<del>12.90</del>
22,000.01 to 23,000	15.75	<del>13.25</del>
23,000.01 to 24,000	16.20	<del>13.60</del>
24,000.01 to 25,000	16.65	<del>13.95</del>
\$25,000.01 to \$1,000,000	16.65	<del>13.95</del>
Plus handling charge per \$1,000 or fraction over first \$25,000	0.45	<del>0.35</del>
\$1,000,000 to \$15,000,000	455.40	<del>355.20</del>
Plus handling charge per \$1,000 or fraction over first \$1,000,000.	0.45	<del>0.35</del>

Over \$15,000,000: additional charges may be based on consideration of weight, space and value.

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\* \* \* \* \*

**SCHEDULE SS-16  
Return Receipts**

----- Description -----	Fee (in addition to postage)
Requested at time of mailing:	
<del>Showing to whom (signature) and date delivered</del>	<del>\$1.10</del>
<del>Merchandise only without another special service</del>	<del>1.20</del>
Showing to whom (signature), and date, and address <u>(if different)</u> where delivered	1.50
Merchandise only - without another special service	1.65
Requested after mailing:	
Showing to whom and date delivered	6.60



**SCHEDULE SS-17**  
**Special Delivery**

	Fee _____ (in addition to postage)
<del>First Class and Priority Mail</del>	
<del>Not more than 2 pounds</del>	<del>9.95</del>
<del>Over 2 pounds but not over 10 pounds</del>	<del>10.35</del>
<del>Over 10 pounds</del>	<del>11.15</del>
<del>All Other Classes</del>	
<del>Not more than 2 pounds</del>	<del>10.45</del>
<del>Over 2 pounds but not over 10 pounds</del>	<del>11.25</del>
<del>Over 10 pounds</del>	<del>12.10</del>

\* \* \* \* \*

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**SCHEDULE SS-19**  
**Stamped Cards and Envelopes**

Fee (in addition to postage)

CARDS:

<u>Stamped Card</u>	<u>\$0.02</u>
<u>Double Stamped Card</u>	<u>0.04</u>

ENVELOPES:

Single Sale	\$0.06
BULK (500) #6-3/4 size:	
Regular	8.20
Window	9.00
BULK (500) size > #6-3/4 through #10 1/	
Regular	12.00
Window	13.00
Multi-Color Printing (500)	
#6-3/4 size	10.50
#10 size 1/	15.00
Printing Charge per 500 Envelopes (for each type of printed envelope)	
Minimum Order (500 envelopes)	4.40
Order for 1,000 or more envelopes	4.40
Double Window (500) - size > #6-3/4 through #10 1/	15.00
Household (50):	
size # 6-3/4	
Regular	3.00
Window	3.10
size > #6-3/4 through #10	
Regular	3.20
Window	3.30

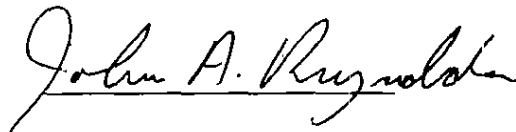
1/ Fee for precancelled envelopes is the same.

\* \* \* \* \*

## CERTIFICATION

I, John A. Reynolds, Acting Manager, Product Finance, Finance, United States Postal Service, am familiar with the attached Request of the United States Postal Service for a Recommended Decision on Special Services Reform, together with the accompanying direct testimony and exhibits.

Pursuant to Rule 54(p) of the Postal Rate Commission's Rules of Practice and Procedure, 39 C.F.R. § 3001.54(p) (1993), I hereby certify that I have read the Request, that the cost statements and supporting data submitted as part of the Request, as well as the accompanying workpapers, which purport to reflect the books of the Postal Service, accurately set forth the results shown by such books, and that, to the best of my knowledge, information, and belief, every statement contained in the Request is proper.



John A. Reynolds

## United States Postal Service

## Financial Statements

Years ended September 30, 1995 and 1994

## Contents

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## Report of Independent Auditors

Board of Governors  
United States Postal Service

We have audited the accompanying balance sheets of the United States Postal Service as of September 30, 1995 and 1994, and the related statements of operations and changes in net capital deficiency and cash flows for the years then ended. These financial statements are the responsibility of the United States Postal Service's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the United States Postal Service at September 30, 1995 and 1994, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 13, 1995, on our consideration of the United States Postal Service's internal control structure and a report dated November 13, 1995, on its compliance with applicable laws and regulations.

*Ernst & Young LLP*

November 13, 1995

## United States Postal Service

## Balance Sheets

	September 30,	
	1995	1994
	<i>(dollars in millions)</i>	
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,516.8	\$ 1,420.5
Receivables:		
Foreign countries	684.2	635.0
U.S. Government	88.1	96.6
Consignment	38.1	31.1
Other	147.0	204.4
	957.4	967.1
Less allowances	79.0	86.0
Total receivables, net	878.4	881.1
Supplies, advances and prepayments	399.9	381.4
Total current assets	2,795.1	2,683.0
Other assets, principally revenue forgone appropriations receivable <i>(Note 5)</i>	317.5	266.0
Property and equipment, at cost:		
Buildings	11,917.2	11,279.5
Equipment	8,798.1	8,217.3
Land	1,997.1	1,900.5
	22,712.4	21,397.3
Less allowances for depreciation	7,782.4	6,865.9
	14,930.0	14,531.4
Construction in progress	1,595.7	1,425.6
Leasehold improvements, net of amortization	323.2	262.9
Total property and equipment, net	16,848.9	16,219.9
Deferred retirement costs <i>(Note 4)</i>	28,959.7	27,246.7
	\$48,921.2	\$46,415.6

See accompanying notes.

	September 30,	
	1995	1994
	(dollars in millions)	
<b>Liabilities and net capital deficiency</b>		
Current liabilities:		
Compensation and benefits	\$ 5,198.9	\$ 4,433.5
Estimated prepaid postage	1,697.4	1,567.4
Payables and accrued expenses:		
Foreign countries	958.9	832.9
U.S. Government	314.5	329.7
Other	771.3	1,119.7
Total payables and accrued expenses	2,044.7	2,282.3
Prepaid permit mail and box rentals	1,400.1	1,289.6
Outstanding postal money orders	697.3	831.5
Current portion of long-term debt	260.9	1,260.9
Total current liabilities	11,299.3	11,665.2
Long-term debt, less current portion (current value of \$7,327.7 million in 1995 and \$7,825.9 million in 1994) (Note 6)	7,018.6	7,726.7
Other liabilities:		
Amounts payable for retirement benefits (Note 4)	27,612.9	26,013.6
Workers' compensation costs	4,685.3	4,326.2
Retroactive assessments payable to the U.S. Government (Note 2)	598.2	899.9
Employees' accumulated leave	1,555.1	1,513.6
Other	342.8	231.9
	34,794.3	32,985.2
Commitments and contingencies (Notes 7 and 8)		
Net capital deficiency		
Capital contributions of the U.S. Government	3,034.1	3,033.9
Deficit since reorganization	(7,225.1)	(8,995.4)
Total net capital deficiency	(4,191.0)	(5,961.5)
	\$48,921.2	\$46,415.6

See accompanying notes.

## United States Postal Service

## Statements of Operations

	Years ended September 30,	
	1995	1994
	<i>(dollars in millions)</i>	
Operating revenue <i>(Note 5)</i>	\$54,293.5	\$49,383.4
Operating expenses:		
Compensation and benefits <i>(Notes 1, 3, and 4)</i>	41,931.3	39,608.8
Other	8,798.9	8,846.4
	<u>50,730.2</u>	<u>48,455.2</u>
Income from operations	3,563.3	928.2
Interest and investment income	215.9	193.4
Interest expense on deferred retirement liabilities <i>(Note 4)</i>	(1,363.5)	(1,336.4)
Interest expense on borrowings	(566.4)	(601.5)
Imputed interest on OBRA 1990 and OBRA 1993 retroactive assessments for employee benefits <i>(Note 2)</i>	<u>(79.0)</u>	<u>(97.3)</u>
Net income (loss)	<u>\$ 1,770.3</u>	<u>\$ (913.6)</u>

*See accompanying notes.*



## United States Postal Service

## Statements of Changes in Net Capital Deficiency

Years Ended September 30, 1995 and 1994

	Capital Contributions of U.S. Government	Deficit Since Reorganization	Total Net Capital Deficiency
	<i>(dollars in millions)</i>		
Balance, July 1, 1971	\$1,723.7	\$ —	\$1,723.7
Cumulative Net Loss, FY 1972 - FY 1993	—	(8,081.8)	(8,081.8)
Cumulative Capital Contributions of U.S. Government, FY 1972 - FY 1993	1,310.4	—	1,310.4
Balance, September 30, 1993	3,034.1	(8,081.8)	(5,047.7)
Net Loss	—	(913.6)	(913.6)
Capital Equipment Transfers to the U.S. Government	(0.2)	—	(0.2)
Balance, September 30, 1994	3,033.9	(8,995.4)	(5,961.5)
Net Income	—	1,770.3	1,770.3
Capital Equipment Transfers from the U.S. Government	0.2	—	0.2
Balance, September 30, 1995	<u>\$3,034.1</u>	<u>\$(7,225.1)</u>	<u>\$(4,191.0)</u>

*See accompanying notes.*

## United States Postal Service

## Statements of Cash Flows

	Years ended September 30,	
	1995	1994
	<i>(dollars in millions)</i>	
Cash flows from operating activities:		
Net income (loss)	\$ 1,770.3	\$ (913.6)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	1,141.4	991.9
(Gain) loss on sales of investments, net	(2.0)	0.1
Loss on disposals of property and equipment, net	8.3	23.6
Increase in other assets, principally revenue forgone appropriations receivable	(51.5)	(63.5)
Decrease in accrued restructuring costs	(26.2)	(92.4)
Increase (decrease) in workers' compensation costs	359.1	(173.8)
Decrease in retroactive assessments payable to the U.S. Government	(626.1)	(374.7)
Increase in employees' accumulated leave	41.5	115.5
Increase in other liabilities	110.9	70.9
Changes in current assets and liabilities:		
Decrease (increase) in receivables, net	2.7	(15.7)
(Increase) decrease in supplies, advances and prepayments	(18.5)	8.9
Increase in compensation and benefits	976.1	163.6
Increase in estimated prepaid postage	130.0	38.0
(Decrease) increase in payables and accrued expenses	(211.4)	633.4
Increase in prepaid permit mail and box rentals	110.5	114.5
(Decrease) increase in outstanding postal money orders	(134.2)	133.3
Net cash provided by operating activities	3,580.9	660.0
Cash flows from investing activities:		
Purchase of U.S. Government securities, available-for-sale	(6,349.7)	(10,450.0)
Proceeds from sale of U.S. Government securities, available-for-sale	6,368.1	12,219.2
Purchase of property and equipment	(1,807.7)	(1,726.5)
Proceeds from sale of property and equipment	12.7	4.9
Net cash (used in) provided by investing activities	(1,776.6)	47.6
Cash flows from financing activities:		
Issuance of long-term debt	1,300.4	300.0
Payments on long-term debt	(3,008.4)	(1,060.7)
Net cash used in financing activities	(1,708.0)	(760.7)
Net increase (decrease) in cash and cash equivalents	96.3	(53.1)
Cash and cash equivalents at beginning of year	1,420.5	1,473.6
Cash and cash equivalents at end of year	\$ 1,516.8	\$ 1,420.5

See accompanying notes

United States Postal Service  
Notes to Financial Statements  
September 30, 1995 and 1994

**1. Postal Reorganization and Accounting Policies**

**Postal Reorganization**

The United States Postal Service (Postal Service) commenced operations on July 1, 1971, in accordance with the provisions of the Postal Reorganization Act. Its initial capital consisted of the equity of the Government of the United States in the former Post Office Department, with assets carried at original cost less depreciation. All liabilities attributable to operations of the former Post Office Department remained liabilities of the U.S. Government, except that the unexpended balances of appropriations made to, held or used by, or available to the former Post Office Department and all liabilities chargeable thereto became assets and liabilities, respectively, of the Postal Service.

**Cash Equivalents**

Cash equivalents include securities with maturities at date of purchase of 90 days or less.

**Property and Equipment**

Property and equipment are recorded at cost, including interest on funds borrowed to finance the construction of major capital additions. Such interest amounted to \$47.2 million in fiscal year 1995 and \$77.7 million in fiscal year 1994. Buildings and equipment are depreciated over their estimated useful lives using the straight-line method. Leasehold improvements are amortized over the lesser of the lease period or their useful lives.

**Estimated Prepaid Postage**

Estimated prepaid postage represents the estimated amount of revenue collected prior to the end of the year for which services will be performed in the following year.

**Compensation and Benefits**

Amounts payable for compensation and benefits consist of current liabilities for costs related to current employees and postal annuitants. Such liabilities include those arising from current salaries and benefits earned but not yet paid, currently payable workers' compensation costs, unemployment costs, annuitants' health benefits payable and current portions of retirement liabilities.

## United States Postal Service

### Notes to Financial Statements (continued)

#### 1. Postal Reorganization and Accounting Policies (continued)

##### Retirement Benefits

Amounts payable for retirement benefits reflect the net present value of the Postal Service's legal obligation to the Civil Service Retirement and Disability Fund (the CSRS Fund) arising from increases in basic pay granted by postal management to its employees and cost-of-living adjustments (COLAs) to postal annuitants based on postal service. These liabilities are payable in equal amounts over a thirty-year period, with the exception of COLAs, which are payable over fifteen years. Amounts due and payable in future years are capitalized as deferred retirement costs and are subsequently amortized over periods of thirty and fifteen years. The Postal Service's participation in the retirement plans is accounted for as participation in multi-employer plan arrangements. Accordingly, retiree benefits costs are expensed as incurred.

##### Post-retirement Health Benefits

Retiree health benefits costs represent the Postal Service's obligation to pay a portion of the health insurance premiums of retirees (and their survivors) participating in the Federal Employees Health Benefits Program (FEHBP). The Postal Service's participation in the FEHBP is accounted for as participation in a multi-employer plan arrangement. Accordingly, retiree health benefits costs are expensed as incurred.

##### Workers' Compensation Costs

Workers' compensation costs are self-insured by the Postal Service and administered by the Department of Labor (DOL). Such costs, which include both medical and wage continuation costs, are recorded as an operating expense in the year of injury at the present value of the total estimated costs of claims. Estimates of the total costs of claims are based upon severity of injury, age, assumed mortality, experience trends and other factors.

At fiscal year 1995 year-end, the total estimated liability for future workers' compensation cash outlays was \$5,218.6 million. At fiscal 1994 year-end, this liability was \$4,860.0 million. In fiscal year 1995, the Postal Service recognized \$877.3 million in workers' compensation expense. This compares to the \$326.8 million recorded in fiscal year 1994.

## United States Postal Service

## Notes to Financial Statements (continued)

## 1. Postal Reorganization and Accounting Policies (continued)

## Research and Developments Costs

Research and development costs, which relate primarily to new equipment design, are expensed as incurred. Such costs amounted to \$51.9 million in fiscal year 1995 and \$50.4 million in fiscal year 1994.

## Current Values of Financial Instruments

Current values of investments in nonmarketable U.S. Government securities are based on the current values of equivalent marketable U.S. Government securities. Current values of Postal Service debt obligations are based on the estimated cost to retire the debt utilizing current yields on equivalent U.S. Treasury obligations.

## Supplies, Advances and Prepayments

Supplies, advances and prepayments are comprised primarily of supplies inventory, motor vehicles inventory, repairable parts inventory for mail processing equipment and annual leave advances. Inventories are stated at the lower of average cost or market and amounted to \$214.8 million and \$176.2 million in 1995 and 1994, respectively.

## Reclassifications

Certain reclassifications have been made to previously reported amounts in order to conform to the current year presentation.

## 2. Retroactive Assessments for Employee Benefits

## Omnibus Budget Reconciliation Act of 1990

The Omnibus Budget Reconciliation Act (OBRA) of 1990, enacted in October 1990, extended the Postal Service's obligation to pay the employer's portion of annuitant COLAs (Note 4) and health benefits (Note 3). The OBRA of 1990 also assessed the Postal Service for retroactive amounts to be paid in five annual installments, beginning in fiscal year 1991, totaling \$2.14 billion. The assessment represents the employer's portion of annuitant COLAs and health benefits, previously paid by the U.S. Government, that the Postal Service would have paid had the provisions of the OBRA of 1990 been in effect from July 1, 1971 through September 30, 1986.

## United States Postal Service

## Notes to Financial Statements (continued)

## 2. Retroactive Assessments for Employee Benefits (continued)

## Omnibus Budget Reconciliation Act of 1990 (continued)

The retroactive assessments payable under the OBRA of 1990, on a present value basis, are as follows (dollars in millions):

Fiscal Year	Health Benefits	COLAs	Total
1991	\$ 56.0	\$216.0	\$ 272.0
1992	47.0	266.0	313.0
1993	62.0	316.0	378.0
1994	56.0	416.0	472.0
1995	234.0	471.0	705.0
			<hr/> 2,140.0
Less amount representing imputed interest at 5% (\$33.7 million expensed in FY 1995)			<hr/> 329.9
Retroactive assessment for employee benefits expensed in 1991			<hr/> <hr/> \$1,810.1

The last installment for the OBRA of 1990 was made in fiscal year 1995.

## Omnibus Budget Reconciliation Act of 1993

The OBRA of 1993, enacted in August 1993, obligated the Postal Service to pay interest on the retroactive assessments due under the OBRA of 1990. The interest assessment will be paid in three annual installments, beginning in fiscal year 1996, totaling \$1.041 billion. The assessment represents interest, at 5%, on the employer's portion of annuitant COLAs and health benefits, previously paid by the U.S. Government, that the Postal Service would have paid had the provisions of the OBRA of 1990 been in effect from July 1, 1971 through September 30, 1986.

## United States Postal Service

## Notes to Financial Statements (continued)

## 2. Retroactive Assessments for Employee Benefits (continued)

## Omnibus Budget Reconciliation Act of 1993 (continued)

The amounts payable under the OBRA of 1993, on a present value basis, are as follows (dollars in millions):

Fiscal Year	Health Benefits	COLAs	Total
1996	\$116.0	\$231.0	\$ 347.0
1997	116.0	231.0	347.0
1998	116.0	231.0	347.0
			<hr/> 1,041.0
Less amount representing imputed interest at 5%			184.0
Retroactive interest assessment expensed in 1993			<hr/> 857.0
Less portion to be paid in FY 1996 classified as a current liability			347.0
Add amount of imputed interest expensed through 1995 (\$45.3 million expensed in FY 1995)			<hr/> 88.2
Retroactive interest assessment classified as a noncurrent liability			<hr/> <hr/> \$ 598.2

## 3. Post-retirement Health Benefit Programs

Career employees of the Postal Service are eligible to participate in the FEHBP, which is administered by the Office of Personnel Management (OPM), during their employment and also after retirement. Under the FEHBP, the Postal Service pays a portion of the health insurance premiums of participating employees, retirees and their survivors.

The OBRA of 1990 requires the Postal Service to pay the employer's share of health insurance premiums incurred through participation in the FEHBP for all employees retiring on or after July 1, 1971 and their survivors, with the exclusion of costs attributable to federal civilian service prior to that date. Such costs amounted to \$513.3 million in fiscal year 1995 and \$519.0 million in fiscal year 1994 and are included in compensation and benefits expense.

## United States Postal Service

## Notes to Financial Statements (continued)

## 4. Retirement Programs

## Description of Plans

The Postal Reorganization Act provided that officers and career employees of the Postal Service were to be covered by the CSRS, which provides a basic annuity and Medicare coverage. Substantially all employees hired prior to January 1, 1984, are covered by the CSRS. The Postal Service and each participating employee contribute an amount equal to 7% of the employee's basic pay to the Civil Service Retirement and Disability Fund (CSRS Fund) and also make Medicare contributions at the statutorily prescribed rate. The Postal Service makes no matching contributions to the Thrift Savings Plan for CSRS employees.

Employees hired between January 1, 1984 and January 1, 1987, were covered by the provisions of the Dual CSRS/Social Security System until January 1, 1987. Certain employees with prior government service continue to be covered by such provisions. The Postal Service contributes an amount equal to 7% of each employee's basic pay to the CSRS Fund. The employee contribution rate is 0.8% of basic pay. Both the Postal Service and the employee make contributions for Social Security and Medicare at the statutorily prescribed rates. The Postal Service makes no matching contributions to the Thrift Savings Plan for Dual CSRS/Social Security System employees.

Effective January 1, 1987, employees hired since January 1, 1984, except as noted above, are subject to the provisions of the Federal Employees Retirement System (FERS) Act of 1986. In addition, employees hired prior to January 1, 1984 were able to elect participation in FERS during certain periods in fiscal years 1987 and 1988. FERS is a three-tier retirement system consisting of Social Security, a basic annuity plan and a thrift savings plan.

The Postal Service made contributions to the FERS basic annuity plan in an amount equal to 11.4% of each employee's basic pay in fiscal year 1995 and 12.9% in 1994. The employee contribution rate was 0.8% of basic pay in both years. Both the Postal Service and each employee contribute to Social Security and Medicare at the statutorily prescribed rates. In addition, the Postal Service is required to contribute a minimum of 1% per annum of the basic pay of FERS employees to the Thrift Savings Plan. Contributions by FERS employees to the Thrift Savings Plan are voluntary and are fully matched by the Postal Service up to 3% of basic pay and at a 50% rate between 3% and 5% of basic pay.



## United States Postal Service

## Notes to Financial Statements (continued)

## 4. Retirement Programs (continued)

## Description of Plans (continued)

The number of employees enrolled in each of the retirement plans at the end of fiscal years 1995 and 1994 are as follows:

	1995	1994
CSRS	340,309	350,811
Dual CSRS/Social Security	14,634	14,658
FERS	398,048	362,339

## Deferred Retirement Costs

Deferred retirement costs consist of the following deferred liabilities (dollars in millions):

	1995	1994
CSRS basic pay increases	\$24,097.0	\$22,884.9
CSRS annuitants' COLAs	4,862.7	4,361.8
	<u>\$28,959.7</u>	<u>\$27,246.7</u>

## Deferred Retirement Liability – CSRS

Under the CSRS, the Postal Service is liable for that portion of any estimated increase in the deferred liability of the CSRS Fund attributable to Postal Service employee-management agreements that authorize increases in employees' basic pay on which benefits payable from the CSRS Fund are computed. The estimated increase in the deferred liability as determined by OPM is paid by the Postal Service in thirty equal annual installments with interest computed at 5% per annum. The first payment thereof is due at the end of the fiscal year in which an increase in the basic pay becomes effective.

The increases in the deferred liability for retirement benefits pursuant to employee-management agreements under the CSRS in fiscal years 1995 and 1994 were \$2,200.4 million and \$930.6 million, respectively.

## United States Postal Service

## Notes to Financial Statements (continued)

## 4. Retirement Programs (continued)

## Deferred Liability – Annuitants' COLAs

The OBRA of 1990 made the Postal Service liable, on a prospective basis, for the cost of COLAs granted to postal annuitants (and their survivors) retiring on or after July 1, 1971, with the exclusion of costs attributable to federal civilian service prior to that date. The annual liability created by this law is determined by OPM and funded in equal annual installments over fifteen years, with interest at 5% per annum. The increase in the deferred liability for annuitants' COLAs was \$971.5 million in fiscal year 1995 and \$868.7 million in fiscal year 1994.

## Deferred Retirement Liability – FERS

The deferred liability of the FERS basic annuity plan was created in fiscal year 1989 and was related to costs associated with those employees who elected to transfer from the CSRS. During 1994, OPM determined that net assets available for benefits attributable to the Postal Service exceeded the accrued liability attributable to postal employees. Accordingly, OPM determined that no payment was due on September 30, 1994, and that the liability was considered to be fully amortized as of that date.

## Future Minimum Payments

The estimated future minimum payments required to fund amounts payable for CSRS retirement benefits and Annuitants' COLAs on September 30, 1995 are as follows (dollars in millions):

<u>Fiscal Year</u>	<u>Amount</u>
1996	\$ 2,794.8
1997	2,766.7
1998	2,736.1
1999	2,730.4
2000	2,711.0
Thereafter	31,320.9
	<u>45,059.9</u>
Less the portion classified as a current liability	1,346.8
Less amount representing interest	16,100.2
	<u><u>\$27,612.9</u></u>

## United States Postal Service

## Notes to Financial Statements (continued)

## 4. Retirement Programs (continued)

## Expense Components

Components of aggregate retirement expenses included in compensation and benefits expense for fiscal years 1995 and 1994 are shown below (dollars in millions):

	1995	1994
CSRS – regular	\$ 842.9	\$ 830.4
FERS – regular	1,270.0	1,230.0
FERS – Thrift Savings Plan	400.1	339.8
Dual CSRS/Social Security	34.4	33.5
Social Security	1,008.2	949.7
Amortization of deferred liabilities:		
CSRS	988.3	855.5
Annuitant COLAs	470.6	424.2
	<u>\$5,014.5</u>	<u>\$4,663.1</u>

## 5. Revenue Forgone

Operating revenue includes reimbursements and accruals for revenue forgone. Revenue forgone results from charging lower rates for those mail categories which Congress has determined should be subsidized through tax dollars. Revenue forgone appropriations included in operating revenue in fiscal years 1995 and 1994 amounted to \$117 million and \$131 million, respectively.

On October 28, 1993 the Revenue Forgone Reform Act (Act) was enacted. The Act authorizes Congress to appropriate \$29 million annually through 2035, which will reimburse the Postal Service for earned but unpaid revenue forgone appropriations for 1991, 1992 and 1993, as well as for the cost of phasing out certain aspects of the revenue forgone program in fiscal years 1994 through 1998. Should Congress fail to appropriate an amount authorized, the Act authorizes the Postal Service to recoup the failure of appropriations by adjusting rates on all mailers through the postal ratemaking process.

## United States Postal Service

## Notes to Financial Statements (continued)

## 5. Revenue Forgone (continued)

The transitional appropriations authorized under the Act total \$1.218 billion. The present value of these future appropriations, calculated at 7%, is approximately \$390 million. Management has determined that the present value of the portion of the future appropriations related to unpaid amounts in fiscal years 1991 through 1995 is approximately \$317.5 million, including \$54.0 million recognized in income in 1995. This amount is recorded as a receivable at September 30, 1995. The receivable recorded at September 30, 1994 related to unpaid amounts at that date was \$265.3 million.

## 6. Long-Term Debt and Interest Costs

The Postal Reorganization Act, as amended by Public Law 101-227, authorizes the Postal Service to issue and sell obligations not to exceed \$15 billion outstanding at any one time. Net annual increases in outstanding obligations are limited to \$2 billion for the purpose of capital improvements and \$1 billion for operating expenses.

Annual maturities of outstanding debt for each of the next five years are (dollars in millions):

<u>Fiscal Year</u>	<u>Amount</u>
1996	\$ 260.9
1997	513.3
1998	2,182.7
1999	84.7
2000	85.3
Thereafter	4,152.6

Cash paid for interest was \$576.1 million in 1995 and \$684.6 million in 1994.

## United States Postal Service

## Notes to Financial Statements (continued)

## 6. Long-Term Debt and Interest Costs (continued)

Long-term debt consists of the following (dollars in millions):

Interest Rate %	Terms	September 30,	
		1995	1994
Notes payable to the Federal Financing Bank (FFB):			
8.075	Payable \$32 million each year to May 31, 2000	\$ 160.0	\$ 192.0
7.800	Payable \$15 million each year to May 31, 2001	90.0	105.0
7.591	Payable \$50 million each year to June 1, 1997 and \$22.5 million due on June 1, 1998	122.5	172.5
8.474	Payable \$30 million each year to June 1, 1998	90.0	120.0
8.908	Payable \$35.4 million each year to June 1, 1998	106.2	141.6
9.074	Payable \$60 million each year to June 1, 1998	180.0	240.0
9.081	Payable \$36 million each year to May 31, 1996; \$12 million due June 2, 1997	48.0	84.0
8.768*	Payable \$24 million on June 2, 1997; payments of \$36 million each year on June 1, 1998-1999; and payments of \$36 million each year thereafter through May 31, 2001	168.0	168.0
8.488**	Payable on October 2, 1995	-	800.0
7.786	Payable on September 30, 1998	450.0	450.0
7.230***	Payable on September 30, 1997 (retired \$950 million in fiscal year 1995; original maturity was \$800 million payable on October 2, 1995 and \$400 million on September 30, 1997)	250.0	1,200.0
4.676	Payable on October 31, 1994	-	1,000.0
6.307	Payable on October 31, 1997; callable November 30, 1995	1,500.0	1,500.0
7.367	Payable on August 15, 2002; callable November 30, 1997	1,500.0	1,500.0
7.615	Payable on November 30, 2007; callable November 30, 1997	1,000.0	1,000.0
Variable ****	Payable on November 15, 2024; callable November 15, 1995	1,100.0	300.0
6.274	Payable May 16, 2005	500.0	0.0
Mortgage notes payable:			
4.83 to	Maturing from fiscal years 1996 through 2005, secured by land, buildings and		
9.75	equipment with a carrying amount of \$75.3 million (aggregate annual installments approximate \$2.5 million)	14.8	14.5
		7,279.5	8,987.6
Less current portion		260.9	1,260.9
		\$7,018.6	\$7,726.7

\* Weighted average interest rate

\*\* Retired September 27, 1995

\*\*\* Weighted interest rate in prior year was 6.618%.

\*\*\*\* Variable rate of 5.722% as of September 30, 1995

## United States Postal Service

## Notes to Financial Statements (continued)

## 7. Commitments

At September 30, 1995, the estimated cost to complete approved Postal Service capital projects in progress was approximately \$1.95 billion.

Total rental expense for the years ended September 30, 1995 and 1994 is summarized as follows (dollars in millions):

	<u>1995</u>	<u>1994</u>
Noncancelable real estate leases including related taxes	\$580.5	\$555.0
Facilities leased from General Services Administration subject to 120-day notice of cancellation	34.6	38.0
Equipment and other short-term rentals	150.0	148.2
	<u>\$765.1</u>	<u>\$741.2</u>

At September 30, 1995, the future minimum rentals for all noncancelable leases are as follows (dollars in millions):

<u>Year</u>	<u>Total</u>
1996	\$ 465.2
1997	383.0
1998	310.4
1999	240.2
2000	161.5
Thereafter	577.2
	<u>\$2,137.5</u>

Most of these leases contain renewal options for periods ranging from three to twenty years. Certain noncancelable real estate leases have options to purchase the facilities at prices specified in the leases.

## United States Postal Service

## Notes to Financial Statements (continued)

**8. Contingencies**

Several equal employment opportunity, employee compensation, environmental and other lawsuits are pending against the Postal Service. In addition, there are certain pending suits and claims resulting from traffic accidents involving postal vehicles and injuries on postal properties, suits involving personal claims and property damages, and suits and claims arising out of postal contracts.

In July 1993, the Merit Systems Protection Board (MSPB) ruled that the restructuring initiated in fiscal year 1992 constituted a reduction-in-force (RIF) as defined by the Code of Federal Regulations. In fiscal year 1993, the Office of Personnel Management (OPM) intervened on behalf of the Postal Service by requesting the full MSPB Board to reconsider its decision. In June 1994, the Board reaffirmed its decision that the restructuring was a RIF. In August 1994, Postal Service appeals before the U.S. Court of Appeals were withdrawn by the Department of Justice at the request of OPM.

Management recorded a liability in fiscal year 1994 for estimated losses resulting from the impact of the Board's decisions, including the resolution of appeals. During fiscal year 1995, management revised its estimates concerning the liability for compliance costs and the resolution of appeals based upon actual experience. Throughout the fiscal year, General Counsel actively litigated or resolved the majority of the outstanding appeals. The number of open appeals at year-end, either before the MSPB or pending before the U.S. Court of Appeals for the Federal Circuit was the basis for the estimated liability as of September 30, 1995. Differences between the assumptions and evaluations made by management and settlements occurring in 1995 have been recorded, and are reflected in fiscal year 1995 earnings. Differences between revised estimates and final settlements will be recorded in future years.

As a part of management's continuing evaluation of estimates required in the preparation of its financial statements, reductions in liabilities approximating \$360 million were recorded in fiscal year 1995 earnings. This was to recognize settlement of claims and lawsuits, and to revise other estimates.

In the opinion of management and General Counsel, adequate provision has been made for amounts which may become due under the suits, claims, and proceedings discussed in the preceding paragraphs.

Attachment E

INDEX OF TESTIMONIES/DOCKET NO. MC96-3

WITNESS	TESTIMONY	EXHIBITS			WORKPAPERS	ATTORNEY
		TITLE	NUMBER			
Mr. Lyons	USPS-T-1	Hypothetical Annual Impact of Special Services Rate Initiatives on FY 1996 Estimated Net Income (Loss)	USPS-T-1A		Workpapers A-F	David Rubin (202) 268-2986
		US Postal Service Summary of Net Income (Loss)	USPS-T-1B			
		Selected Special Service Cost Coverages	USPS-T-1C			
Dr. Steidtmann	USPS-T-2					Anthony Alverno (202) 268-2997
Mr. Landwehr	USPS-T-3					Kenneth Hollies (202) 268-3083
Dr. Lion	USPS-T-4					Kenneth Hollies (202) 268-3083
Mr. Patelunas	USPS-T-5	Cost Segments and Components, Base Year 1995	USPS-T-5A		Workpapers A-G	Susan Duchek (202) 268-2990

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		EXHIBITS			
WITNESS	TESTIMONY	TITLE	NUMBER	WORKPAPERS	ATTORNEY
		Final Adjustments, Base Year 1995	USPS-T-5B		
		Cost and Revenue Analysis Base Year 1995	USPS-T-5C		
		Rollforward Factors	USPS-T-5D		
		Cost Segments and Components, TY 1996 at Current Rates	USPS-T-5E		
		Final Adjustments, TY 1996 at Current Rates	USPS-T-5F		
		Cost and Revenue Analysis, TY 1996 at Current Rates	USPS-T-5G		
		Cost Segments and Components, TY 1996 at Proposed Rates	USPS-T-5H		
		Final Adjustments, TY 1996 at Proposed Rates	USPS-T-5I		
		Cost and Revenue Analysis, TY 1996 at Proposed Rates	USPS-T-5J		

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WITNESS	TESTIMONY	EXHIBITS		WORKPAPERS	ATTORNEY
		TITLE	NUMBER		
Mr. Ellard	USPS-T-6				Kenneth Hollies (202) 268-3083
Ms. Needham	USPS-T-7				David Rubin (202) 268-2986
Ms. Needham	USPS-T-8				Anthony Alverno (202) 268-2997

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Docket No. MC96-3

Attachment F

### COMPLIANCE STATEMENT

This Attachment contains a statement of the manner in which the Postal Service has supplied the information requested in sections 54 and 64 of the Commission's Rules of Practice and Procedure (39 CFR §§ 3001.54 and 3001.64). Where requested information is not included in direct testimony or exhibits of the Postal Service's witnesses, it is contained in the Request or in this or other attachments to the Request, or has been incorporated by reference in the testimony, exhibits, Request, or attachments, and made available to the Commission.

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

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

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

1. Present and Proposed Fee and Classification Schedule Provisions.

Attachment A includes the affected present and proposed provisions of the Domestic Mail Classification Schedule, as approved by the Governors on March 4, 1996, with the proposed provisions underlined. Attachment B includes the effective present and proposed special service fees, with the proposed fees underlined.

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

The Postal Service's current rules and regulations that specifically govern the

provision of the special services at issue in this proceeding are contained in the following portions of the Domestic Mail Manual (Issue 49, September 1, 1995):

- § D910 (Post Office Box Service)
- § D920 (Caller Service)
- § S010 (Indemnity Claims)
- § S500.1.5 (Express Mail Indemnity)
- § S911 (Registered Mail)
- § S912 (Certified Mail)
- § S913 (Insured Mail)
- § S915 (Return Receipts)
- § S917 (Return Receipt for Merchandise)
- § S930.1 (Special Delivery)

The Postal Service will promulgate rules and regulations consistent with the proposed classification schedule changes pursuant to its statutory authority. See 39 U.S.C. § 401(2).

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

The degree of economic substitutability was addressed and discussed in the testimonies of witnesses Tolley and Musgrave in Docket No. R94-1. The nature of substitutability is also discussed in the testimonies of witnesses Lyons and Needham in this docket.

No nonpostal services pertain to the proposed special service changes. Nonpostal services include: alien registration, sale of philatelic products, sale of food stamps, sale of passports, sale of migratory-bird hunting and conservation stamps, sale of miscellaneous products, Mailgram,<sup>1</sup> photocopy service, vending stands and vending machines, postmasters in Alaska serving as notaries public, and post office

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<sup>1</sup> Although not a service, Mailgram is included here in recognition of its nonpostal nature.

assistance to the Office of Personnel Management and the Selective Service System.

From time to time, the Postal Service may offer other nonpostal services. Some of these nonpostal services may be provided on a limited or trial basis.

RULE: 54(c)

INFORMATION REQUESTED: This rule requires that each request identify the characteristics of the mailer and the recipient, and describe the contents of items mailed within each class and subclass.

Information responsive to this rule was provided in the testimonies of witnesses Tolley and Musgrave in Docket No. R94-1, and is also provided in the testimonies of witnesses Lyons, Landwehr, and Needham in this docket.

RULE: 54(d)

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

Please refer to the two tables from the Origin-Destination Information System presenting 1995 originating and destinating average daily volumes (pieces) by class and type of mail included with the response to Rule 54(d) in Docket No. MC96-2. Data pertaining to weight and distance are summarized in the testimony, exhibits, and workpapers of witness Patelunas in this docket. Further information describing the special services which are the subject of this docket is contained in the testimonies of witnesses Lyons and Needham.



RULE: 54(e)

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

The requirements for the special services for which changes are proposed in this docket are described in the testimonies of witnesses Landwehr and Needham, and in the DMM sections identified in response to Rule 54(b)(2).

RULE: 54(f)(1)

INFORMATION REQUESTED: This rule requires that the Postal Service provide in each request "the total actual accrued costs during the most recent fiscal year for which they are reasonably available."

Information responsive to this rule is provided in the testimony of witness Patelunas.

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

INFORMATION REQUESTED:

This rule requests:

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

Witness Patelunas's testimony presents FY 1996, estimated total actual accrued costs assuming prefiling ("Test Year Before Rates") and proposed ("Test Year After Rates") rates and fees.

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

INFORMATION REQUESTED:

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

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

For the changes proposed in this docket, materials related to this rule are provided in USPS LR-SSR-101, witness Lyons's workpapers and associated spreadsheets. Further background material on volumes was presented in Docket No. R94-1. Witness Patelunas's testimony addresses the effect of projected volume levels on estimated costs. USPS LR-SSR-11 specifies the cost savings resulting from cost reduction programs and productivity, which are incorporated in witness Patelunas's rollforward projections. USPS LR-SSR-11 addresses the presence or absence of abnormal costs.

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

INFORMATION REQUESTED:

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

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

These financial data are presented in USPS LR-SSR-11.

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

INFORMATION REQUESTED:

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

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

For the development of base year cost estimates, witness Patelunas's testimony and exhibits provide the itemization, allocation, and distribution of costs for all cost segments, and by function. Data pertaining to "related mail volumes" associated with subfunctions are not produced by the Postal Service data systems.

RULE: 54(g)

INFORMATION REQUESTED: This rule requires that each request for changes in rates and fees provide, in a form consistent with the filing required by Rule 54(f), "the total actual accrued costs for each fiscal year since the last filing pursuant to this section."

Actual accrued costs for FY 1995 are presented in the testimony and exhibits of witness Patelunas.

RULE: 54(h)(1)

INFORMATION REQUESTED:

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

International mail costs are separated in witness Patelunas's exhibits. Costs and revenues for several services which could be considered nonpostal<sup>2</sup> -- such as C.O.D. and money orders -- are contained in witness Patelunas's exhibits. Identifiable costs reported for some nonpostal services were \$28.2 million in FY 1995. Reimbursements associated with provision of these and other nonpostal services totalled \$26.0 million in FY 1995. The difference of \$2.2 million increased the institutional costs borne by other postal services by that amount in FY 1995.

The \$28.2 million of costs includes labor costs for handling food stamps and passport applications, and selling migratory bird stamps. It also includes \$93 thousand for paper stock for migratory bird stamps. Costs of providing any other of the remaining nonpostal services are not available. Experience with measurement of expenses for nonpostal services currently identified in cost sampling suggests that, for most other nonpostal services, costs may be so low as to be insignificant.

Costs for the nonpostal services for which reported costs are not currently

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<sup>2</sup> The word "nonpostal" is used here in a generic rather than jurisdictional sense. Some special services (such as money orders) have nonpostal aspects.



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available are believed to be small.

The following table identifies some services which could be termed nonpostal and their cost elements:

IDENTIFICATION OF NONPOSTAL SERVICES  
AND THEIR COST ELEMENTS:

<u>SERVICE</u>	<u>COST ELEMENTS</u>
C.O.D.	See witness Patelunas's exhibits.
Money Orders	See witness Patelunas's exhibits.
Sale of Philatelic Products	Window service clerk costs; possibly Postal Service penalty mail costs and certain supply costs.
Sale of Food Stamps	Window service clerk costs.
Sale of Passports	Window service clerk and city carrier costs; possibly some Postal Service penalty mail costs.
Sale of Migratory Bird, Hunting and Conservation Stamps	Window service clerk costs; costs of printing stamps.
Sale of Miscellaneous Products (e.g., jiffy bags)	Window service clerk costs; possibly some Postal Service penalty mail costs.
Photo Copy Service	None.
Vending Stands and Vending Machines	None.
Post Office Assistance to Civil Service Commission	Window service clerk costs.
Draft Registration	Window service clerk costs.

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

INFORMATION REQUESTED:

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

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

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

Witness Patelunas's testimony, exhibits, and workpapers provide this information for FY 1995 and FY 1996.

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

INFORMATION REQUESTED:

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

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

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

The methodologies employed by the Postal Service to develop direct and indirect attributable costs are detailed in the testimony and exhibits of witness Patelunas. The effect of volume on costs is indicated by this testimony.

In addition to volume, factors identified in this rule which influence cost incurrence and which are recognized in cost attributions and assignments by the methods of cost analysis employed by the Postal Service include the following:

- peaking patterns;

- priority of handling;
- mailer preparations;
- quality of service;
- the physical nature of the item mailed;
- cost reduction programs.

These factors are associated with Postal Service cost attributions in the following ways:

1. The cost consequences of peaking patterns in mail processing and other relevant cost segments are reflected in witness Patelunas's testimony and exhibits.
2. Mail entitled to priority handling often requires manual culling or other selection methods to separate it from the general mailstream. Such selection methods consume time, and the associated labor costs are charged to expedited mails. Also, to the extent priority handling involves a commitment to supply premium cost transportation, such costs are attributed to the mail so transported.
3. Mailer preparation enables the Postal Service to avoid the incurrence of certain costs in the mail processing and transportation functions. The results obtained by the In-Office Cost System (IOCS) and the Transportation Cost System (TRACS), by sampling the types of mail handled at various stages in these functions, reflect differences in costs resulting from mailer preparation.

4. The cost consequences of quality of service are not isolated and quantified separately. They are, nevertheless, included to some extent in the level of cost attribution. For example, the higher costs of air transportation are attributed to the classes and subclasses that benefit from that mode of transportation. Certain other features associated with quality of service, such as freedom from inspection, have no effect on the attribution of costs.
5. The physical nature of the item mailed affects the time consumed in processing mail, the space occupied in transportation, and the facility with which carriers can sort and deliver pieces of mail. The cost consequences of physical characteristics are not isolated and quantified separately in the attribution process, except insofar as particular characteristics are largely associated with particular categories of mail. These cost consequences are, however, reflected in cost attributions. For instance, incidence of time is affected by weight-density factors, and transportation costs are influenced by weight and cube.
6. The testimony of witness Patelunas and USPS LR-SSR-11 indicate the role of cost reduction programs, including programs designed to improve productive relationships, in development of the Postal Service's overall revenue requirement. The results of these programs are carried forward in estimates of costs for the test year and attributed to the classes and subclasses of mail in a manner indicated in the testimony of witness

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Patelunas.

RULE: 54(h)(5) - (h)(10) ("Roll-Forward" model)

INFORMATION REQUESTED:

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

The items requested by this rule are found in the testimony, exhibits, and workpapers of witness Patelunas.



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

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

Nonattributed costs are identified as institutional, or residual costs. These costs are not attributed because they do not vary in response to small changes in volumes of any particular class or subclass of mail or type of service, and are not the fixed costs of providing a specific class, subclass, or type of service.

The following table identifies institutional costs which benefit more than one, but not all, classes or types of service, in accordance with the following standard: given the permissible shape, weight, method of postage payment, and other characteristics of a type of mail, would pieces of that type of mail likely appear in the operations encompassed by the cost element? If yes, the mail is "benefitted."

As a practical matter, nearly all classes and services benefit to some degree from the various institutional costs. For example, (Periodicals) second-class and (Standard Regular and Enhanced Carrier Route) bulk third-class mail are not listed as benefitting from clerk window service activities. Yet these classes are handled by window service clerks at smaller offices. At larger offices, window service clerks may be responsible for accepting fees and trust fund payments relating to (Periodicals) second-class and (Standard Regular and Enhanced Carrier Route) third-class bulk mail. Window service activities also include the sale of precanceled stamps, setting of

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postage meters for use on (Standard Regular and Enhanced Carrier Route) bulk third-class, and general delivery service for all types of mail. Consequently, the fact that a class is not listed as benefitting from a particular cost does not mean that the class is not handled at all in activities for which the particular cost is incurred.

Conversely, the fact that a class is listed as benefitting from a particular cost activity does not mean that a substantial portion of the class benefits, but only that given the characteristics of that class, some pieces of that class will of necessity require handlings contained within that cost component.

INSTITUTIONAL COSTS THAT BENEFIT MORE THAN  
ONE TYPE OF MAIL BUT NOT ALL TYPES

<u>Type of Cost</u>	<u>Types Primarily Benefitted</u>
Segments 2 and 3: Clerks-Window Service plus related supervision, primarily the institutional portion of stamps, cards and meters.	First-Class Mail, Priority Mail, (Standard Single Piece) third-class single piece, (Standard Parcel Post) zone-rated parcels, (Standard Special Single Piece) non-presorted special-rate fourth-class, (Standard Library) library rate fourth-class, and (Expedited Mail) Express Mail.
Segments 6 and 7: City carriers-institutional portion of collection plus related supervision.	First-Class Mail, Priority Mail, (Standard Single Piece) third-class single piece, (Standard Parcel Post) zone-rated parcels, (Standard Special Single Piece) non-presorted special rate fourth class, (Standard Library) library rate fourth-class, and (Expedited Mail) Express Mail.
City carriers-institutional portion of parcel delivery plus related supervision	(Standard) Fourth-class, free mail for the blind and handicapped, Priority Mail and (Expedited Mail) Express Mail.

RULE: 54(i)

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

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

Witnesses Lyons's and Needham's testimonies, exhibits, and workpapers respond to this rule.

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

REQUIREMENT: These rules require specification of revenues for certain fiscal years, including the test year. Revenues must be submitted for

- FY 1995, assuming prefiling (existing) rates and fees;
- test year (FY 1996), assuming prefiling (existing) rates and fees;
- test year (FY 1996), assuming proposed rates and fees.

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

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

Revenues for FY 1995 are provided by witness Patelunas. Revenues for the test year (FY 1996) are provided by witness Patelunas and can be found in witnesses Lyons's and Needham's exhibits and workpapers for FY 1996.

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

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

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

Volumes at the existing rates are presented in USPS LR-SSR-102, including the FY 1996 volume estimates associated with the President's Budget. Volumes for FY 1996 at the proposed rates are shown in USPS LR-SSR-101 and witness Lyons's workpapers.

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

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

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

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

by the assumed date of implementation and the start of the test year,

- o alternative forecasts of the economic determinants of postal volumes, other than postal rates and fees, and
- o alternative values of any parameters with assigned values that are based upon unverifiable judgments.

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

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

For the changes proposed in this docket, materials related to this rule are provided in USPS LR-SSR-101, witness Lyons's workpapers, and the associated spreadsheets. Further background material on forecasting was presented in Docket No. R94-1.



RULE: 54(k)

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

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

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

Financial information for FY 1994 and FY 1995 is included in Attachment D to this request.

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Other data for revenue, pieces, weight, and distance are shown in exhibits to witness Patelunas's testimony. Information concerning postal workyears, (number, total personnel costs, productivity) is included in USPS LR-SSR-11.

Witnesses Lyons's and Needham's testimony, exhibits and workpapers furnish other "statistical data" referred to by this rule.

RULE: 54(l)(i)

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

The information required by this rule for certain of the affected special services (insured, return receipt, and registry) is found generally in USPS LR-SSR-114. Billing determinants for other classes and subclasses of mail and special services are on file with the Postal Rate Commission.

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RULE: 54(l)(ii)

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

This Rule is not applicable to this Request since there are no changes proposed to third-class bulk mail.

RULE: 54(m)

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

This Rule is not applicable to this Request since there are no changes proposed to any preferred classes or subclasses of mail.

RULE: 54(n)

REQUIREMENT: This rule requires identification of any performance goals which have been established for the classes and subclasses of mail. The Request must identify the achieved levels of service for those classes and subclasses of mail and mail services for which performance goals have been set.

Information responsive to this rule was provided in Docket No. R94-1.

RULE: 54(o)

REQUIREMENT: This rule requires seven sets of workpapers to be filed with the Request.

The required workpapers are supplied with the testimonies of the Postal Service's witnesses.

RULE: 54(p)

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

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



RULE: 54(q)

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

An opinion from the independent accounting firm of Ernst & Young covering Fiscal Year 1995 is contained in Attachment D.

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

INFORMATION REQUESTED: These subsections request, for every classification change proposed:

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

Information responsive to this rule is provided in response to Rule 54(b).

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

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

(1) an identification of the characteristics of the mailer and the recipient, and a description the contents of items mailed within each class and subclass;

(2) identification of the physical attributes of the items mailed by class and subclass, including shape, weight and distance; and

(3) to the extent it is not provided under paragraph (b)(2), a summary statement that describes special service arrangements provided to, or requested or required of, mailers by the Postal Service that affect the cost of service or its value to the mailer or recipient.

1. Characteristics of the mailer, recipient, and the content of items mailed.

Information responsive to this rule is provided in response to Rule 54(c).

2. Physical attributes of the items mailed by class and subclass.

Information responsive to this rule is provided in response to Rule 54(d).

3. Summary statement of special service arrangements.

Information responsive to this rule is provided in response to Rule 54(e).

RULE: 64(d)

INFORMATION REQUESTED: This rule requests that the effects of the change on cost assignments, total costs, and total revenues be provided, both before and after the change.

Information responsive to this Rule is provided in response to Rule 54.

RULE: 64(e)

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

Information responsive to this Rule is provided in response to Rule 54.

RULE: 64(f)

INFORMATION REQUESTED: This rule requires that the Postal Service provide a complete statement of the reasons and bases for the proposed changes.

The testimonies of witnesses Lyons, Steidtmann, Landwehr, and Needham provide the reasons and bases for the proposed changes.

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RULE: 64(g)

INFORMATION REQUESTED: This rule sets forth the requested format and filing requisites for workpapers.

Information responsive to this Rule is provided in response to Rule 54(o).

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RULE: 64(h)

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

The Compliance Statement provisions addressing Rule 54 are set forth above.