UNITED STATES OF AMERICA
POSTAL RATE COMMISSION

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OFFICE OF THE SECRETARY

Before:

Chairman Gleiman, Vice Chairman Quick,
Commissioners Haley and LeBlanc

Special Services Fees and Classifications | Docket No. MC96-3

OPINION

AND

RECOMMENDED DECISION

Washington, DC 20268-0001
April 2, 1997

POSTAL RATE COMMISSION
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I. SUMMARY

This opinion addresses the third in a series of Postal Service requests to reform its array of services. Previous decisions recommended changes in First Class, Periodicals, and Standard (formerly third- and fourth-class) Mail. This decision deals with the Service's proposals to adjust some of its Special Services.

There are two distinct aspects to the Postal Service Request. Unlike previous cases in this reclassification series, this proposal is neither comprehensive nor revenue neutral. It requests classification changes for only seven of the 19 existing Special Services. Additionally, it requests significant fee increases for three of these services which would generate additional annual net revenues of almost $340 million.

Classification Changes. The Commission approves all but one of the modifications proposed by the Postal Service. As requested by the Postal Service, the Commission recommends:

- Eliminating special delivery, a service which has been in existence since 1885, but which has been made obsolete by changes in delivery procedures and new services such as Express Mail;
- Restructuring the classification of post office boxes;
- Adopting a policy of providing free delivery, either by carrier or by post office box, to almost all customers. The Postal Service is still considering whether to apply this policy to addresses within one-quarter mile of post offices not providing city delivery service.
- Allowing a cost-based fee to be charged in addition to postage for "Stamped Cards" (post cards sold by the Postal Service with postage affixed). No new fee is recommended in this case because the relevant costs are not yet segregated;
- Increasing maximum insurance from $600 to $5,000; and

- Simplifying certified mail, return receipts, and registered mail service options.

The Commission rejects the Postal Service's proposal to impose a $36 annual fee on any "non-resident" renting a post office box as ill-conceived and unsupported by substantial record evidence. The Postal Service was unable to define with any degree of specificity who might be considered a non-resident for purposes of imposing this fee.

Rate changes. This is the first case in which the Postal Service has sought to increase fees for a few select services outside of a general rate case. Normally, when the Service wants to increase net revenues, it suggests simultaneous adjustments to virtually all rates. Here, the Service seeks additional income from significantly higher fees only from post office boxes, certified mail, and return receipt, in addition to the adjustments necessitated by its proposed classification changes. It attempts to justify these fee increases as consistent with "demand pricing."

The Commission finds that under current law, circumstances may justify fee changes for individual services. Of particular concern, given the unique nature of this case, are Postal Service proposals to adjust fees which currently fail to generate sufficient revenues to cover costs. The Commission has evaluated each Postal Service proposal in light of the applicable legal standards to ascertain whether substantial evidence supports proposed increases.

These efforts were hindered by the unfinished nature of several of the Postal Service proposals. The Postal Service changed the definitions of post office box fee categories and substantially revised the eligibility criteria for its proposed "non-resident" box fee as the case was being litigated. For example, the Postal Service initially estimated 2.7 million current boxholders would become eligible for free box service. It subsequently corrected that figure to 0.3 million; however, it then suggested extending free boxes to an additional 0.6 million boxholders. As a result, estimates of costs and revenues from the Postal Service proposals were constantly evolving, calling into question the validity of the initial net revenue projection of $340 million and causing participants to legitimately complain that some fee proposals had become moving targets. Despite these shortcomings, the Commission recommends certain fee increases over and above those associated with its recommended classification changes.

- Boxes at post offices providing only rural delivery are currently offered below cost. The Commission recommends 50-percent increases for all these "rural" boxes rather than the 100-percent increases requested by the Service. The Commission does not recommend increases in fees for the majority of urban area post office boxes, since these boxes are currently self-sustaining. The recommended fees will increase post office box net revenues by $33 million annually.

- The current $1.10 fee paid by most certified mail users was based on incorrectly reported data. A $1.35 fee is recommended, rather than the $1.50 proposed by the Postal Service. The recommended fees will increase certified mail net revenues by $68 million annually.

- The Commission recommends no increase in the fee paid by most return receipt users.

In total, the classification and fee changes recommended by the Commission will increase Postal Service annual net revenues by $107 million.

II. LEGAL AND PROCEDURAL ISSUES

A. Introduction

The Request of the United States Postal Service for a Recommended Decision on Special Service Changes (Postal Service Request), was filed on June 7, 1996. It seeks changes in provisions of the Domestic Mail Classification Schedule (DMCS) and fees for selected special services. It proposes changes to the terms of service or fees for post office boxes (including caller service), certified mail, return receipt, insurance, and registered mail service. It proposes to treat the production of postal cards as a new special service distinct from the postage that such cards require, and to rename postal cards "Stamped Cards." It also proposes to eliminate special delivery service. The Postal Service's 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 its proposals. The principal changes are listed below:

Post Office Boxes

- Increase Group I fees by an average of 24 percent
(Group I fees apply at city delivery offices)
- Increase Group II fees by 100 percent
(Group II fees apply at non-city delivery offices)
- Eliminate fees for boxholders ineligible for carrier delivery
- Institute an annual $36 non-resident fee
- Refine definitions of the fee categories

Certified Mail

- Increase certified mail fee by 40 cents

Return Receipts

- Replace the two basic return receipt options with one option
- Increase the lowest return receipt fee by 40 cents
- Clarify the categories of mail eligible to use return receipt for merchandise service

Insurance

- Raise the indemnity limit from $600 to $5000
- Raise the indemnity limit for Express Mail merchandise from $500 to $5000
- Reduce the limits for Express Mail document reconstruction

Registered Mail

- Simplify fee schedule by eliminating uninsured registry service over $100

Postal Cards

- Rename "Postal Cards," which are sold to customers by the Postal Service, "Stamped Cards"
- Institute a 2-cent fee (above postage) for Stamped Cards

Special Delivery

- Eliminate special delivery service

B. Previous Approaches to Reclassification Between General Rate Cases

This docket is the third in a series of classification reform dockets filed since the most recently completed general rate case (Docket No. R94-1). It is, however, the first such docket to propose rates that would significantly alter the relative shares of institutional costs for the various mail classes and services recommended by the Commission in R94-1. Prior to this docket the Postal Service generally avoided proposing rate or classification changes between general rate cases that would substantially alter the revenue burdens borne by existing subclasses. *See* Direct Testimony of Ashley Lyons on Behalf of the United States Postal Service (USPS-T-1) at 5-7.

Historically, when the Postal Service proposed new classifications or limited rate adjustments between general rate cases,[1] its analysis normally reflected the same base year and test year that were used in the most recent general rate case. This provided a consistent basis for comparing the cost and revenue effects of proposed changes with the cost and revenue effects of the general rate and classification schedules in place. *See* USPS-T-1 at 6. The impact of such proposals on the net revenue of the overall system has typically been minor. For this reason such proposals rarely upset the balance of institutional cost burdens recommended by the Commission in the most recent general rate case.

The extensive classification changes proposed since R94-1 have required extensive conforming changes in rates. Until this docket, however, the Postal Service proposed rates that it characterized as "contribution neutral," meaning that they were

[1] Where classification initiatives propose new rates as well as new classification features, they are hybrid cases under chapter 36 of the Postal Reorganization Act. The rate setting criteria set out in 39 U.S.C. § 3622(b) are applied to the rate-change elements of the Postal Service's Request, and the classification criteria set out in 39 U.S.C. § 3623(c) are applied to the classification-change elements of the Postal Service's Request.

set at levels that were intended to preserve the balance of institutional cost contributions recommended by the Commission in R94-1. Tr. 5/1416-17. The relative institutional cost contributions produced by its proposed rates could be readily compared with those recommended by the Commission in R94-1 because those contributions were calculated using the R94-1 test year financial data. *See* USPS-T-1 at 6. This eliminated any need to reevaluate the balance of relative institutional cost contributions established in R94-1.

C. Approaches to Reclassification Proposed in This Docket

1. Postal Service View

Unlike past requests filed between general rate cases, the Postal Service in this docket does not provide a consistent basis for comparing the cost coverages resulting from its proposed rates with those that the Commission recommended in the most recent general rate case. Tr. 2/62, 66. It uses projected FY 1996 cost and revenue data to estimate the cost coverages resulting from its proposed rates, rather than using the projected FY 1995 data upon which the R94-1 test year was based. It also attributes costs to postal services solely by the methods that the Postal Service uses in its own Cost and Revenue Analysis Report (CRA). It does not follow the Commission's approved costing methods as far as practical, as Postal Service filings did in Docket No. MC93-1, nor does it itemize and explain its departures from them, as Postal Service filings did in Docket Nos. R94-1 and MC95-1. Direct Testimony of Richard Patelunas on Behalf of the United States Postal Service (USPS-T-5) at 5-7.

In the past, when the Postal Service filed reclassification proposals between general rate cases, it proposed associated rates that would not disturb existing cost coverage relationships, thereby avoiding the need to relitigate the appropriateness of those relationships. Postal Service Request at 3. In this docket the Postal Service proposes minor structural reforms, with the possible exception of eliminating special delivery service and establishing a non-resident fee for post office boxes. Accompanying these minor structural reforms are proposals to increase dramatically the fees and cost coverages of the major special services — post office boxes, certified mail, and return receipts. The rationale that it offers in support of these fee increases is mainly one of pricing reform, rather than classification reform. USPS-T-1 at 2, 13.

The Postal Service estimates that its proposed fees would increase its net revenues by $339 million. Id. at 8-9. It calculates this additional revenue would increase the net income of the Postal Service in the test year from $934 million to $1,274 million.[2] At times the Postal Service describes its proposed increases in post office box, certified mail, and return receipt fees as integral with, and secondary to, its proposed structural reforms. Tr. 2/74. At other times it describes these proposed fee increases as independently justified pricing reform initiatives that implement a general management policy to place greater emphasis on market demand in pricing postal products. USPS-T-1 at 1-3, 8, 13-14.

Justifications for increasing net revenue between general rate cases. The Postal Service argues that the increase that it proposes in test year net income is merely a by-product of independently justified price reform. It projects test year before rates cost coverages for post office boxes (100 percent), certified mail (102 percent), and return receipts (127 percent), and argues that it would be unfair and unbusinesslike to allow cost coverages for these high value of service products to remain so far below the system average (162 percent). Postal Service Brief at 6-8.

According to the Postal Service, its proposed fees are part of a broad strategy to seek infusions of net revenue by proposing new classifications and new products between general rate cases. USPS-T-1 at 6-7. Although at times it characterizes the

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[2] Actual FY 1996 net income figures have become available since the Postal Service's Request was filed. They show that the Postal Service had a net income of $1,567 million. December 4, 1996 Board of Governors meeting.

added revenue resulting from its proposed fees as a secondary concern, the Postal Service justifies proposing them before the next general rate case on the grounds that the revenues they would raise are needed to achieve its financial goals. It argues that increasing net revenue now serves a variety of financial goals, including rebuilding its negative equity, extending the period between omnibus rate increases, and moderating future rate increases for other postal services. Id. at 6, 9-11. Although the Service minimizes any "revenue imbalance" resulting from its proposed fees as likely to be short-lived, since these fees would be implemented toward the end of the current rate cycle (Postal Service Brief at 13), it also warns the Commission that deferring these pricing reforms to the next general rate case would be "inconsistent" with its financial goals. USPS-RT-1 at 4, Postal Service Brief at 8.

Whether fee changes that would increase the projected test year surplus from $934 million to $1,274 million violate the "break even" requirement of 39 U.S.C. § 3621[3] is something that the Postal Service does not specifically analyze. It merely argues that seeking substantial infusions of net revenue in times of surplus is sound policy, because any enhancement of the Postal Service's ability to recover prior years' losses (PYL) now will reduce the need to recover PYL in future dockets, which will benefit all postal customers. Postal Service Brief at 12.

According to the Postal Service, the Commission has previously accepted this rationale. It notes that in Docket No. R78-1, the Commission recommended a surcharge for nonstandard First-Class Mail outside of a general rate case that was expected to add $80 million to net postal revenue. According to the Postal Service, the Commission saw no need to offset this addition to net revenue by reducing other rates

[3] Section § 3621 requires that:

> [p]ostal rates and fees shall provide sufficient revenues so that the total estimated income . . . will equal as nearly as practicable total estimated costs . . . and a reasonable provision for contingencies.

in order to satisfy § 3621 because the surplus would offset prior years' losses and would last only until the next general rate case. The Postal Service contends that $80 million as a percentage of the R77-1 revenue requirement is comparable to $339 million as a percentage of the R94-1 revenue requirement. Ibid.

Justification for selective price reform. The Postal Service argues that implementing price reform selectively outside of general rate cases is sound policy. It argues that selective reform "allows for greater analysis of those products that would most benefit from adjustment." USPS-T-2 at 1, Postal Service Brief at 14. It dismisses as insignificant the difficulties that are encountered in relating selective changes made to cost coverages outside of general rate cases to the set of cost coverages recommended in the most recent general rate case. It argues that there is little need to relate cost coverages for special services to those of the various classes of mail. Tr. 7/2444-45, Postal Service Brief at 15. When applying the pricing criteria of § 3622(b) to special services, the Postal Service contends that it is enough to relate special service cost coverages to a relevant systemwide average cost coverage. Postal Service Brief at 15. It argues that the systemwide average cost coverage that it has calculated for the test year in this docket (162 percent) is a satisfactory reference point, because it is "consistent with" the one that the Commission calculated for the test year in R94-1 (157 percent). Tr. 2/82; Postal Service Brief at 14.

If it were necessary to compare cost coverages for special services proposed in this docket with those recommended for the various mail classes in the most recent general rate case, the Postal Service argues, it has provided the necessary data in the form of a complete set of cost coverages for FY 1995, the test year used in R94-1. Postal Service Brief at 15. The Postal Service contends that no party has argued that the cost coverages that it has proposed in this docket are out of line with any of those that the Commission recommended in R94-1. Id. at 16.

2. Intervenors' Views

Justifications for increasing net revenue between general rate cases. The Office of the Consumer Advocate (OCA) argues that the primary purpose of the Postal Service's request to change fees in this docket is the same as that of a general rate case — to increase its overall net revenue to further its general financial goals. Because its fee proposals have the same objectives as a general rate case, the OCA argues, the Postal Service should satisfy the statutory standards that general rate filings must satisfy. These include the requirement that the Postal Service specify the amount of and the reasons for the increase in its revenue needs [§ 3621], and the requirement that the increase be apportioned fairly among all of the subclasses of service [§§ 101(d) and 3622(b)(1)]. OCA Brief at 23-39.

The OCA contends that the Postal Service request to change fees does not meet these standards. Unlike a general rate case, it argues, the Postal Service in this docket offers no rationale to support the specific amount of increased net revenue requested, id. at 31-32, and offers no legitimate reason for seeking to raise it only from these few special services. Id. at 23-24, 35-37, 39-43. Arbitrarily picking a few services to provide an infusion of net revenue to meet unspecified needs, according to the OCA, is "divide and conquer" ratemaking. The OCA contends that the Postal Service seeks to ensure that the proposed addition to system net revenues will come from the targeted services by excluding rates for all other subclasses and services from consideration, thereby limiting the Commission's ability to consider whether other subclasses and services should share in the added burden, and to apportion it accordingly. Tr. 5/1367, 1385-86 (Thompson); OCA Brief at 26-27, 39-40.

OCA witness Thompson notes that this novel attempt to increase overall net revenue through isolated fee increases is motivated, in part, by a new policy of the Board of Governors to restore equity. She argues that it is unfair to restore system equity by selectively burdening a few special services without demonstrating that these services contributed disproportionately to the Postal Service's negative equity. Tr. 5/1358. This is all the more unfair, she contends, because the equity restoration goals set by the Board of Governors will be exceeded without the increase in net revenue proposed in this docket.[4]

Witness Thompson contends that it is likewise unfair to promote overall rate stability through FY 1997 by increasing fees for these few special services, since these special services obviously will not share the benefits of that rate stability. She sees similar irony in treating these few special services as sources of moderation of future general rate increases. She notes that raising an additional $340 million in net income requires very large increases in fees for those services. She contends that if this amount of additional net income were obtained from a general rate increase, it would add only a trivial amount to the average unit rate for postal services generally. Id. at 1364-65.

Justification for selective price reform. According to the OCA, if the primary purpose of the Postal Service's proposed changes in fees is to place more emphasis on demand in pricing, that purpose cannot be legitimately pursued selectively outside a general rate case. The Postal Service contends that fees for certified mail, return receipt, and post office box rentals are relatively insensitive to price increases because current fees are much lower than privately offered alternatives. According to the OCA, the Postal Service proposes to raise fees because it believes that exploiting demand

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[4] Board of Governors Resolution No. 95-9 calls for cumulative net income in the interim period between general rate cases to equal or exceed the cumulative PYL recovery target for the same period. Witness Thompson points out that in R94-1 the Governors adopted an annual PYL recovery target of $936 million, and observes that the Postal Service's net income in FY 1995 was $1.8 billion, and is estimated to be as high as $1.5 billion in FY 1996. She concludes that this flow of net income is sufficient to fund the annual PYL recovery target into FY 1998 without the infusion of net income proposed in this docket. Tr. 5/1360-61.

that is insensitive to price is the kind of profit maximizing behavior that would prevail in private business. OCA Brief at 31-32.

OCA witness Sherman observes that price insensitivity is a measure of monopoly power. He contends that the expectation that a private business will exploit whatever monopoly power it has is irrelevant to pricing postal services. Economically rational postal prices, he argues, would reflect demand according to pricing principles that optimize social welfare. He emphasizes that such principles identify optimal price-cost relationships for the system as a whole. He says that it is difficult to establish optimal relationships across the system when price changes are proposed piecemeal. Tr. 7/2274-78. To be guided by optimal relationships when adjusting only a subset of services, witness Sherman considers it necessary to identify effects on other related services and to have a plan for future proposals that would indicate the intended pattern of price-cost relationships over time. Otherwise, he argues, one cannot identify or evaluate the overall benefits to and burdens on various customer groups that would result from selective price changes. Id. at 2279-80.

The Postal Service offers no such plan, according to witness Sherman. By its own admission, he notes, it did not attempt to identify how its new emphasis on demand in pricing would apply to postal services other than those represented in this docket. Tr. 2/67. Nor, in preparing its proposal, did the Postal Service systematically review prices to see which might be out of line with those recommended in R94-1. As evidence, he points to the Postal Service's failure to recommend higher fees for COD or money orders, neither of which would cover its attributable costs in the test year, according to the estimates initially submitted by the Postal Service. Witness Sherman concludes that the Postal Service has not shown that its proposed fee increases are economically rational, or that they apportion institutional costs fairly among all users of the mail, as the Act requires. Ibid.

OCA witness Thompson rejects the Postal Service's argument that large fee increases for these few special services are warranted now because the Postal Service deferred requesting demand-oriented prices for them in the past. She emphasizes that it was the Postal Service's conscious choice to defer such price adjustments during the most recent general rate case, when their appropriateness could have been evaluated against similar adjustments to prices for other services. Tr. 5/1366. According to witness Thompson, if the primary purpose of the Postal Service's pricing proposals in this docket were to identify subclasses and services with inappropriate cost coverages and bring them back into line, it has come up with an arbitrary list. She notes that the Postal Service's Request ignores many services whose test year cost coverages at current rates are expected to be far below, or far above, the cost coverages judged to be reasonable when current rates were adopted in R94-1. Id. at 1406-07.

Witness Thompson concludes that selective rate increases between general rate cases are not warranted where their main purpose is merely to shift the emphasis on one or more of the statutory rate setting criteria from that applied in the most recent general rate case. She argues that it is difficult to reweigh the importance of particular pricing criteria in a coordinated, systematic way when prices for only a few services are under consideration. Therefore, she recommends that prices for postal services not be selectively increased between general rate cases unless it appears that revenues from those services have dropped below their attributable costs. Id. at 1367-68.

Direct Marketing Association (DMA) and the OCA criticize the Postal Service's attempt to have cost coverages for these selected special services evaluated in isolation. In DMA's view, the requirement that proposed rates reflect a fair and equitable institutional cost burden relative to those borne by other classes is fundamental and ongoing and cannot be dispensed with simply because the Postal Service has chosen to seek changes to a few, rather than all, rates. As a practical matter, it contends, general rate cases where all rates are under review provide the

Commission's only opportunity to determine whether institutional costs have been equitably apportioned among all postal services. DMA Brief at 2, 4.

DMA and the OCA note that in the past, Postal Service filings between general rate cases have calculated proposed cost coverages using cost, volume, and revenue data from the same base year and test year that was used to calculate cost coverages in the most recent general rate case. This, they say, provided a consistent basis for comparing proposed cost coverages with those used to arrive at current rates.

In this docket, they point out, the Postal Service uses a base year (FY 1995) and a test year (FY 1996) that were not used to evaluate the system in place. DMA Brief at 4-5, OCA Brief at 9. DMA asserts that cost coverages calculated for a more recent test year cannot be reliably compared to those calculated in the R94-1 test year. It points out that relative subclass shares of total attributable costs, and of total revenues, can shift from year to year, altering relative institutional cost burdens even though rates have not changed. Because cost coverages calculated for different test years have so much potential to mislead, DMA concludes, the Postal Service has a duty to estimate the costs and revenues that would result from its proposed rates if they were implemented in the test year that was used in the most recent general rate case. Otherwise, it argues, the Postal Service's proposed cost coverages cannot be meaningfully compared with those upon which current rates are predicated. DMA Brief at 5-6.

The OCA notes that the Postal Service's proposed cost coverages in this docket and those used by the Commission in R94-1 are not comparable for another reason. It points out that the Postal Service attributes costs to the various postal services according to the methods used in its CRA rather than those that the Commission used in R94-1. Major Mailers Association (MMA) witness Bentley testifies that by not using the Commission's methods, the Postal Service is likely to have significantly altered the test year cost attributions and coverages for the various subclasses of mail. He argues that this makes it difficult to compare the cost coverages in the Postal Service's filing with those recommended by the Commission in R94-1. Tr. 6/1895.

3. Commission Analysis

The Act clearly authorizes the Postal Service to propose selective changes in rates or fees whenever it believes that such changes would be consistent with the policies of the Act. Section 3622(a) states:

> [f]rom time to time the Postal Service shall request the Postal Rate Commission to submit a recommended decision on changes in **a rate** or rates of postage or **a fee** or fees for postal services if the Postal Service determines that such changes . . . would be in accordance with the policies of this title. (Emphasis added)

This authority is granted within the constraints of the other policies of the Act, among them the policies that rates be designed to achieve a breakeven result [§ 3621] and that rates fairly apportion the costs of postal operations to all classes and services [§101(d)]. The Act, in the Commission's view, authorizes selective fee increases if they promote specific objectives of the Act and do not seriously conflict with the Act's other basic policies.

Justifications for increasing net revenue between general rate cases. Two participants have argued that rate proposals whose primary purpose is to increase system net revenue should be confined to general rate cases. OCA Brief at 23-30; Tr. 5/1367 (Thompson); Carlson Brief at 1-2. The OCA takes the position that classification changes that satisfy the classification standards of the Act may be approved between general rate cases, even though they have an incidental effect on system net revenue. It offers creation of a new service, or a new surcharge, as examples. OCA Brief at 30, 34. It also contends that price increases that incidentally increase system net revenue could be justified between general rate cases, if they were needed to reflect such things as newly available cost data or major technological changes, or to correct for the effects of mistakes in previous costing methods. Id. at 43.

The OCA, however, contends that the primary purpose of the Postal Service's proposal to apply demand pricing to selected special services is to maximize system net revenue or "profit." It contends that attempting to maximize system net revenue between general rate cases, where the appropriate net revenue burdens of all subclasses and services cannot be evaluated in a coordinated way, risks violating the fair apportionment requirement of § 101(d). Id. at 30-33, 38-48.

The Commission agrees that there are circumstances where rates and net revenues can be selectively raised between general rate cases without presenting a serious conflict with other policies of the Act, including the policy that the Postal Service's rates yield a breakeven result, and the policy that revenue burdens be fairly apportioned to all subclasses and services. Where a proposal to change the net revenue contributed by a subclass is necessary to achieve other statutorily-sanctioned objectives, and the effect of the proposal on the cost/revenue balance of the system as a whole and on the relative revenue burdens of the various subclasses is modest and incidental, the statutory policies favoring those other objectives should be given effect.

There are a number of statutorily-sanctioned objectives that could be frustrated if an incidental change in subclass and system net revenues were not allowed between general rate cases. For example, § 3622(b)(3) requires that revenues for each subclass cover its attributable costs. Unexpected shifts in costs or revenues since the most recent general rate case, however, could leave a subclass with little or no margin of revenue above attributable cost, risking violation of § 3622(b)(3). To bring such a subclass back into compliance with § 3622(b)(3) without delay, it would be necessary to increase its rates and net revenues prior to the next general rate case.

This consideration underlies the Commission's recommendation in this docket of increases in fees and net revenues for post office boxes.

A significant category of post office boxes, those at facilities that do not provide city delivery service, currently are priced significantly below attributable costs. At current rates, post office box rentals would have an overall test year cost coverage of below 100 percent. *See* Appendix D, Schedule 2, *compare* Table 2 with Table 3. Section 3622(b)(3) requires that revenues from each subclass of service cover its attributable costs. For purposes of that section, post office box rentals as a whole are treated as a subclass. The risk that revenue for post office box service as a whole will not cover its attributable costs in the test year is substantial, given the uncertainties surrounding projected post office box costs, volumes, and revenues. Remedial steps to reduce this risk are justified.

Remedial steps also are justified to reduce inequities among the fee categories within the post office box subclass. Current fees for rural categories are so far below their allocated test year attributable costs that even the 100 percent average increase that the Postal Service proposes would not allow them to cover costs. Because the Commission is concerned about the impact of abrupt fee increases on post office box customers, the Commission is recommending that fee increases for the rural categories be limited to an average of 50 percent in this docket. The Commission is also recommending modest fee increases for a few urban box categories to bring them closer to their test year attributable costs, while avoiding unacceptably large fee increases for customers of these categories. The increases in post office box rental fees that the Commission recommends will increase test year net revenues by approximately $33 million. Ibid. The resulting overall test year cost coverage for post office boxes will be 105 percent. The Commission's recommended fee increases are an appropriate step toward a higher, and more equitable, share of institutional costs.

Another circumstance that could warrant an increase in subclass net revenue between general rate cases occurs where a subclass's actual cost coverage differs greatly from the cost coverage intended when current rates were adopted, due to a mistake in the method used to calculate subclass costs or revenues. To move its cost coverage back toward the levels intended without delay, an increase in its rates and net revenues prior to the next general rate case would be required. This consideration underlies the Commission's recommendation in this docket of increases in fees and net revenues for certified mail.[5]

The Commission is recommending an increase in the fee for certified mail that would increase test year net revenues by approximately $68 million. Ibid. The test year cost coverage for certified mail at the current fee is 101 percent, far below the cost coverage of 170 percent intended when it was recommended by the Commission in R94-1.

This is the result of an error in calculating the cost coverage for certified mail in R94-1. In R94-1 the Postal Service included revenues from return receipts and restricted delivery with certified mail revenues in its cost coverage calculation.

The effects of this error need to be corrected. To begin restoring the cost coverage for certified mail to an appropriate level, the Commission recommends

[5] Although they are not relevant to the fee increases that the Commission recommends in this docket, there are other circumstances that might justify selectively increasing rates and net revenue contributions between general rate cases. Business conditions could change rapidly in postal markets if, for example, competitors introduce new terms of service or abruptly change prices. The Postal Service might need to respond by adjusting prices of the affected services between general rate cases. Such price adjustments would likely be warranted despite modest, incidental effects on system net revenue and on relative subclass revenue burdens. Similarly, if the Postal Service were to propose a new category of service, or a new cost-based surcharge or discount between general rate cases, such proposals would likely justify modest, incidental effects on system net revenue and on relative subclass revenue burdens. Because such proposals are often based on changes in operating conditions and technologies, their development and implementation cannot be expected to coincide with the general rate cycle.

increasing the certified mail fee from $1.10 to $1.35. This would increase its cost coverage to 124 percent. While the Postal Service's proposed fee of $1.50 may be reasonable as an ultimate goal, it would increase the current fee by 36 percent. Such an abrupt increase is more than the Commission prefers to impose on mailers if it is not necessary to raise a subclass's revenues above its attributable cost floor. The $1.35 fee that the Commission recommends would increase the current fee by a more manageable 23 percent, thereby allowing a more gradual return to an appropriate cost coverage.

The Commission is not recommending increases in the various fees for return receipt service. There are two levels of return receipt service currently offered in conjunction with certified mail. For non-merchandise, the current fee for return receipt service that includes only a signature and date is $1.10, while the current fee for service that includes a signature, date, and address of delivery is $1.50, reflecting the higher level of costs and value associated with this service.

The Commission is recommending adoption of the Postal Service's proposal to consolidate these categories into a single category of service that provides a signature and date, but provides an address of delivery only if it differs from the original address on the certified mail piece. The attributable costs for the consolidated return receipt category would be only one percent higher than those of the current basic option. Unlike current fees for post office boxes and certified mail, current fees for return receipts generate revenues that are well above costs, and are not otherwise infirm. Because the consolidated return receipt category recommended differs from the current basic option in only minor ways, the Commission recommends that the fee for the consolidated option remain at the level of $1.10 currently charged for the basic option. This would result in a cost coverage for return receipts of 125 percent. This recommended cost coverage is almost the same as the current cost coverage and almost identical to that recommended for certified mail, to which it is closely related.

Justification for selective fee increases to reflect demand characteristics. As discussed above, the Postal Service has proposed fee increases that range from 36 percent for most customers of certified mail and return receipts to 100 percent for some post office box customers. The Commission is not recommending adoption of the full fee increases that the Postal Service proposes, in part, to moderate the impact that such large fee increases would have on the customers of these special services. *See* § 3622(b)(4).

The Commission is also reluctant to recommend the full increases proposed by the Postal Service for post office boxes, certified mail and return receipts because of the selective context in which they are proposed. If these isolated price adjustments were the result of a systematic effort by the Postal Service to identify and correct cost coverages that had fallen the furthest "out of line" from those recommended in the most recent general rate case, the Postal Service's selective approach to price reform would not necessarily conflict with basic policies of the Act, such as the policy that all postal costs be fairly apportioned to all mail services. 39 U.S.C. § 101(d). The Postal Service, however, concedes that these proposed price adjustments are not the result of a systematic review of the appropriateness of test year cost coverages. Motion of USPS for Reconsideration of Order No. 1120, and Partial Response, June 28, 1996, at 6; Tr. 2/62, 64, 66-67, 105-113 (Lyons). There are fourteen services, half of them special services, whose expected test year cost coverages at current rates are further "out of line" with the cost coverages recommended in R94-1 than post office boxes. Tr. 5/1406-07.

The Postal Service characterizes its proposed price adjustments as a first step toward a general policy of demand-based pricing. USPS-T-1 (Lyons) at 3. However, the Postal Service proposes to apply its new "demand-pricing" policy to only a few special services without considering the effects of applying the same policy to the rest of the subclasses and services in the system. It also asks the Commission to substantially increase the revenue burden on these few services without considering: 1) how the system's overall revenue burden currently is distributed among subclasses and services, 2) the extent to which its overall revenue needs have grown, and 3) whether other subclasses and services should shoulder part of any added burden. Because it has not addressed these considerations, the record in this docket does not justify increases of the magnitude sought by the Postal Service.

Under the previous heading the Commission described its reasons for concluding that the fee increases that it recommends do not present a serious conflict with the policy stated in § 101(b), that costs be fairly apportioned to all classes of mail, or the policy stated in § 3621, that the Postal Service propose rates that bring overall system revenues in line with its revenue needs. The Commission concluded that the effects of these fee increases on the relative revenue burdens of the various subclasses and services, as well as on overall system net revenue, were necessary to achieve other statutorily-approved objectives. The effects of the Postal Service's proposed demand-pricing reforms, on the other hand, would have substantial effects on the relative revenue burdens of the affected services and on overall system net revenue. USPS-T-1 at 2-3, 6, 9, 11. The Postal Service proposes to apply its new pricing policy to a few services in isolation (and in a context where its revenue needs are not specifically identified) without providing sufficient evidence to allow the Commission to determine whether these fees would satisfy the fair apportionment requirement of the Act.

In the past adjustments to special service fees have typically occurred in general rate cases, where the focus has been on the pricing of the traditional classes of mail, rather than on special services. Proposed changes in fees for special services were usually presented as routine, periodic realignments of fees with underlying attributable costs.

In this docket the Postal Service proposes to base fee increases for post office boxes, certified mail, and return receipts, primarily on their demand characteristics, rather than their attributable costs.[6] It contends that each of these special services has a high value of service in the sense that the demand for each is insensitive to price. USPS-T-7 at 17. Primarily to reflect the insensitive demand that it believes these special services uniformly exhibit, the Postal Service proposes a cost coverage that is above the system-wide average for return receipts, somewhat below the system-wide average for certified mail, and well below the system-wide average for post office boxes.

Because the Postal Service is proposing for the first time to base fees for these special services primarily on their demand characteristics, there is a greater need in this docket than in the past to compare their demand and other non-cost characteristics with those of other services and subclasses. The Commission, however, finds itself handicapped in making the comparative evaluations that are required when applying the non-cost factors of § 3622(b).

The Postal Service arrives at what it regards as appropriate demand-based fees for each of these three special services after evaluating the demand for each separately. It considers its own market research and the prices of what it regards as competing private services. It then concludes that the value of service of post office boxes, certified mail, and return receipts is "high." USPS-T-8 at 72-73, 91.

More is required, however, if fees are to be set in a non-arbitrary manner. Just as a rate can be evaluated as fair or unfair only in relation to other rates, value of

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[6] USPS-T-1 at 6, 8; USPS-RT-4 at 9. The Postal Service proposes to increase revenues from certified mail and return receipts by $175 million, while its attributable costs have declined by $25 million, and to increase post office box rental revenues by $135 million, while its attributable costs have declined by $13 million. USPS-T-1 at 8.

service can be evaluated as high, medium, or low only in relation to the value of service of other subclasses in the system.

Quantifying "value of service" is an inherently comparative exercise. The Postal Service, however, does not identify its standard of comparison. It has not attempted to compare the value of service of post office boxes, certified mail, and return receipts to each other, to special services as a whole, or to any of the traditional subclasses of mail. Nor has the Postal Service provided quantitative or qualitative evidence for the record of the demand characteristics of other services and subclasses that would allow other parties to make such comparisons. Rather than determine relative demand, it purports to determine demand for each of the three special services in the abstract and asserts that its proposed fees somehow correspond to its abstract value of service determination for each of these services.

The Act requires that institutional cost burdens for all subclasses and special services reflect not only value of service differences, but differences in all of the non-cost pricing factors listed in § 3622(b). Those factors cannot be meaningfully applied in the abstract. They must be evaluated in relation to other services and to the system as a whole. Section 101(d) of the Act requires that rates "apportion the costs of all postal operations to all users of the mail on a fair and equitable basis." The same principle is incorporated into the specific ratemaking machinery of the Act. *See* §§ 3622(b)(1) and (b)(3). Because the principle extends to all subclasses and services, it implicitly requires a concurrent, coordinated determination of relative demand if that factor is to be used to justify demand-based rate adjustments.

The Postal Service's approach to pricing in this docket makes it difficult to make a concurrent, coordinated determination of equitable institutional cost shares based on demand or any of the other non-cost factors of § 3622(b). Its proposed fees for each service are determined by an *a priori* judgment about how much net revenue that service should provide. The increase in total net revenue is the result of the individual pricing decisions. It is not the result of a determination that the Postal Service's overall revenue needs have changed by any specific amount, or for any specific reason, since they were last analyzed in R94-1, USPS-RT-1 at 4-5, Postal Service Reply Brief at 7, and that an identified subclass or service can be considered responsible for a specific portion of that revenue need.

Comparative judgments and conscious trade-offs are the mechanism envisioned by the Act for ensuring that institutional costs are fairly apportioned to all subclasses and services. The smaller the set of rates that the Postal Service proposes to change at any given time, the fewer opportunities there are to give effect to comparative judgments about § 3622(b) cost coverage characteristics, and the fewer opportunities there are to implement appropriate trade-offs. Under these circumstances, ratemaking tends to become arbitrary and standardless, and the fair apportionment policy of § 101(d), and §§ 3622(b)(1) and (b)(3), becomes difficult to apply.

Giving new or increased emphasis to any of the § 3622(b) ratesetting criteria potentially conflicts with the fair apportionment policy of § 101(d) if the new emphasis is applied to a few services without regard to how it might apply to others. Moreover, applying demand-oriented pricing to these few special services without systematically considering how it might apply to other postal services appears to disregard § 3622(b)(2) itself, which requires consideration of "the value of the mail service actually provided **each class or type of service** . . . " (emphasis added).

The Postal Service repeatedly asserts that the demand-pricing policy that it seeks to introduce in this docket is "businesslike" and "economically rational." USPS-T-1 at 2; Postal Service Brief at 8; Postal Service Reply Brief at 2. As OCA witness Sherman points out, what is economically rational for a private business is not necessarily economically rational for a public utility with a broad statutory monopoly. For a public utility to apply demand pricing principles in an economically rational way, i.e., for it to optimize social welfare as such principles intend, those principles must be applied consistently and systematically to all of the public utilities' services. Tr. 7/2278-79. It is clear that the Postal Service has not attempted to systematically reevaluate relative demand, even within the special services group. Tr. 7/2276; Tr. 2/57; Tr. 9/3405-07.

Postal Service witness Lyons acknowledges that in preparing its proposals in this docket, the Postal Service did not consider applying the same demand pricing policy to subclasses or special services not represented in this docket. Tr. 2/67, 105-113. Witness Lyons acknowledges that the Postal Service does not know whether the fees that it proposes even move in the direction that an optimal pricing theory based on relative demand would imply. Id. at 86. Therefore, even if the primary objective of the Postal Service's proposed fees were to price these special services in an "economically rational, businesslike" way, its haphazard, piecemeal approach would not be consistent with that intent.

It is important to bear in mind that under the Act, value of service concerns are multidimensional. They extend to the value of service to the recipient, as well as the sender [*see* § 3622(b)(2)], a factor that may be particularly pertinent when comparing the value of service of certified mail and return receipt to, for example, that of unsolicited advertising mail. The Act tempers its concern for reflecting value of service in rates with its concern for the effect of doing so on the captive customer, who may not have reasonably priced alternatives. *See* § 3622(b)(5). [7]

[7] Although the Postal Service mentions § 3622(b)(5) at several points, it misunderstands the concern that it embodies. The Postal Service contends that its proposed fees take the availability of reasonably priced alternatives into account, as § 3622(b)(5) requires, because they remain far below the closest private alternatives. USPS-T-1 at 14. The Postal Service does not seem to recognize that § 3622(b)(5) focuses on the availability of reasonably priced alternatives to particular postal services. If there are not, customers of those postal services should have their cost coverages moderated in relation to the cost

The Postal Service's evidence that the private alternatives to post office box rental, certified mail, and return receipts are generally much more expensive is central to its contention that demand for these services is not sensitive to price. USPS-T-1 at 12, Appendix at A2; USPS-T-8 at 72. Therefore, § 3622(b)(5) might be a particularly pertinent factor when comparing the value of service of certified mail and return receipt with the value of service of, for example, Priority Mail, whose value of service is high, but whose alternatives are more comparably priced. Price relationships between these special services and the rest of the system should appropriately reflect all of these dimensions of demand, a further reason not to implement a policy of increased emphasis on demand pricing through isolated, uncoordinated price increases.

DMA agrees that the proposed fees for any subclass of service, including these special services, may not be evaluated in isolation. It contends that the policies of the Act require that proposed rates for any subclass or special service be evaluated for fairness by comparing the resulting institutional cost burdens with those of all other subclasses and special services. Since R94-1 was the last opportunity that the Commission had to review and adjust relative institutional cost burdens throughout the system, it argues, rates proposed since R94-1 must be evaluated with reference to the set of cost coverages recommended by the Commission in that docket. DMA Brief at 5-6.

DMA is correct in warning that individual or system-wide average cost coverages can differ from year to year, even though rates are unchanged. Where the difference is due to shifts in relative shares of subclass attributable costs and revenues, restoring comparability would require indexing the cost coverages for those

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coverages imposed on customers of other postal services for which there are reasonably priced alternatives available. The Postal Service did not engage in such comparative analysis.

years. Indexing cost coverages calculated for different test years, however, still might not restore comparability if attributable costs are defined differently. Providing an appropriate index should be part of the Postal Service's presentation when it proposes new rates which alter cost coverages based on a test year not used in the most recent general rate case.

D. Procedural Issues

1. Scope of Proceeding

Since the completion of R94-1, the most recent general rate case, the Postal Service has embarked on a program of broad-based classification reform. In MC95-1 the Postal Service proposed a systematic restructuring of First-Class letter mail, second-class, and bulk business mail to facilitate its automation programs and better reflect differences in demand. In MC96-2 it extended these reforms to the nonprofit subclasses. The Postal Service recently filed proposals for extensive reform of parcel mail. The Postal Service contends that there is no current need for similar broad reform of special services. Postal Service Request at 1. Instead, it proposes a limited set of price and classification reforms that further its financial and business objectives, and it indicates that subsequent requests may be submitted after it reviews other special services.

The Postal Service's Request did not propose to change fees for COD and money orders, even though revenues are near or below attributable costs for those special services. Tr. 2/57, Tr. 9/3405. Business Reply Mail (BRM) is another special service that the Postal Service chose not to address in this docket. Because the Postal Service's Request did not indicate any intention to reform BRM in the future, Nashua Photo Inc. and Mystic Color Labs (Nashua/Mystic) filed a motion to enlarge the scope of this docket to consider reform of the BRM rate structure. They argued that it was unfair to offer deep discounts to automated BRM mail for the accounting costs that it avoids, but offer no discount for bulk non-automatable BRM mail that, through mailer worksharing, avoids as much or more of the same costs. Nashua/Mystic Motion to Enlarge Scope of Proceeding for Consideration of Classification Modification with Respect to Business Reply Mail, July 15, 1996. The Postal Service argued that the scope of this docket should be left to the Board of Governors to decide and urged the Commission not to enlarge it to consider reform of any other special service. Postal Service Opposition at 1.

Nashua/Mystic had plausibly alleged that the BRM rate structure was discriminatory. Because the Postal Service indicated no firm plans to address BRM reform in a future filing, the Commission enlarged the docket to include consideration of Nashua/Mystic's proposed reform of the BRM rate structure. Order No. 1129, August 8, 1996. On December 13, 1996, shortly before the Postal Service's rebuttal witnesses on BRM reform were scheduled to be cross-examined, the Postal Service filed Docket No. MC97-1. In MC97-1 the Postal Service proposed a two-year BRM experiment similar enough to the Nashua/Mystic proposals to win their support and cause them to withdraw their proposals in this docket. Nashua/Mystic/Seattle Motion for Leave to Withdraw Proposal for Non-Automatable Bulk Business Reply Mail and Joint Motion Filed with USPS to Cancel Hearings on Certain Rebuttal Testimony, December 17, 1996.

The Commission urges the Service to continue to review its array of services and to propose substantive adjustments as needed to complete a thorough reform of mail classification. In particular the Commission suggests that attention be given to those other services currently operating near or below attributable cost levels.

2. Unresolved Scope of Non-resident Box Fee Proposal

The Postal Service initially proposed imposing a surcharge on post office box renters who are not residents of the ZIP Code served by the post office in which the box is located. USPS-T-7 at 23-24. During the course of the proceeding, Postal Service witness Needham had difficulty answering detailed questions about how the surcharge would be applied in practice, stressing that implementation rules had not yet been drafted. Tr. 3/736, 790-92.

On October 23, 1996, the Postal Service filed a status report on implementation of its special services reform proposals. Its report indicated that customers of a post office serving multiple ZIP Codes would be allowed to rent a box at any facility within any of the ZIP Codes served by that post office without paying a non-resident fee. Toward the end of the hearing schedule, the Postal Service made witness Raymond available for cross-examination on the intended definition of non-resident. He indicated that the definition could change again, either before or after the Commission issued its recommended decision. Tr. 8/3226. The OCA then filed a motion to require the Postal Service to provide draft implementation rules for its proposed non-resident fee. OCA Motion to Require the Postal Service to Provide Draft Implementation Rules for Proposed Nonresident Box Fee and A Witness to Stand Cross-Examination on such Draft Rules, November 26, 1996. The Presiding Officer denied the motion on the ground that it would have significantly delayed conclusion of the proceeding. He noted that the OCA would have the opportunity to argue on brief that the non-resident fee could not be properly evaluated without information about how it would be applied. P.O. Ruling MC96-3/32 at 2. In its brief, at 20, the OCA argued that the proposed non-resident fee cannot be evaluated, since its scope is still unresolved. David Popkin echoed this OCA concern. Popkin Brief at 2.

Since the potential unfairness of the proposed non-resident box fee depends to a degree on the manner in which it is applied, the lack of draft implementation rules has increased the Commission's concerns about the potential unfairness of such a fee, and contributed to the Commission's decision not to recommend its adoption.

3. Proposed DMCS Provisions

The Postal Service proposes to implement its reclassification proposals for special services in this docket with amendments to the Domestic Mail Classification Schedule (DMCS) that do not follow the organizational principles applied in other recent reclassification cases. The Commission therefore issued Notice of Inquiry No. 1 Regarding Potential Improvements in the Organization and Structure of DMCS Provisions Related to Various Special Services on November 14, 1996. The Notice asked for comments on proposed organizational and editorial changes to the special services sections of the DMCS that were designed to bring it into conformity with recent changes to other sections of the DMCS. As recommended in those comments, the Commission will institute a separate rulemaking proceeding that will be able to focus exclusively on comprehensive reform of the special services sections of the DMCS.

4. Disregard of Established Cost Attribution Principles

The cost attribution principles applied by the Commission in Docket No. R94-1 are the basis of the rates recommended by the Commission and adopted by the Governors in that docket. They remain the basis of current rate relationships. In this docket the Postal Service calculates the attributable costs and cost coverages resulting from its proposals by principles that differ from those used by the Commission to develop the rates adopted in R94-1.

In Order No. 1120 the Commission observed that attribution principles influence cost coverage calculations. It ordered the Postal Service to estimate the cost coverages that would result from its proposals if the established attribution principles were used so that the parties could evaluate the impact of the Postal Service's proposed fees on cost coverages separately from the impact of its proposed changes in attribution principles on cost coverages.

The Postal Service filed a motion for reconsideration of Order No. 1120. It argued that the Commission's Rules of Practice allow it to choose the principles by which it attributes costs to classes of mail. Motion of USPS for Reconsideration of Order No. 1120, and Partial Response, June 28, 1996 ("Motion") at 9-10. It argued that its proposed fee increases could be evaluated without considering their relationship to, or their impact on, the cost coverages of other services or subclasses. Motion at 6-8. It argued that attributing costs according to established principles rather than its proposed principles would probably have an immaterial effect on the cost coverages of most of the special services addressed in its Request. Id. at 4. It also argued that the Commission could do the calculations and provide the notice that it believes is needed. Id. at 11.

In Order No. 1126 the Commission denied the Postal Service's motion for reconsideration. It concluded that there was a need to be able to compare cost coverages of the special services addressed by the Postal Service's Request with those of other special services and subclasses. It observed that the Postal Service was proposing to increase dramatically the net revenue burdens of a few special services, and that accurate estimates of the effect of the Postal Service's proposals on relative cost coverages were necessary to determine whether such increases would be consistent with the ratesetting standards of the Act. Order No. 1126 at 6-7.

The Commission noted that the Postal Service has to carry the burden of supporting its proposals to change fees. It observed that under Rule 54 of the Commission's Rules of Practice, part of that burden is to "fully . . . inform the Commission and the parties of the . . . impact of the proposed changes or adjustments in rates or fees." It concluded that the Postal Service's Request does not fully inform the parties of the impact of its proposed fees on cost coverages if it gives notice of only the combined impact of its proposed changes in fees and its proposed changes in attribution principles on cost coverages, thereby leaving it to the Commission or the parties to disentangle the two. Id. at 9-12.

The Postal Service responded by refusing to comply with Order Nos. 1120 and 1126. Statement of USPS Concerning Order No. 1126, August 2, 1996 ("Statement"), at 5. It explained that it disagrees with the Commission's use of single subclass stops as a criterion for tracing causation of city delivery carrier access costs to subclasses. It asserted that

> the crux of the disagreement concerns whether the Postal Service should be directed to create the evidence establishing this methodology on the record, or whether, as the courts have made clear, due process requires that the proponent of a disputed approach must present, explain, and justify it on the record.

Statement at 2. This fundamentally mischaracterizes the purpose and effect of Order Nos. 1120 and 1126.

The Postal Service advances the false premise that each rate request that it files begins in an evidentiary vacuum with respect to attribution principles and procedures. As the parties in this docket have pointed out, the merits of using single subclass stops as a criterion for attributing access costs have been addressed on the record repeatedly, and at length, by witnesses in favor and witnesses opposed. *See* citations at PRC Op. R94-1, Opinion and Further Recommended Decision, paras. 224-25; Comments of the American Bankers Association (ABA) and the Newspaper Association of America (NAA) on "Statement of USPS Concerning Order No. 1126," August 13, 1996 at 3-6; OCA Motion Under 39 USC §3624(c)(2) for Day-to-Day Extensions in the Procedural Schedule and the Ten-Month Decisional Deadline, August 12, 1996 at 3; NAA Reply Brief at 1-5. The Commission's method for applying that criterion has also been presented on the record [Docket No. R94-1, UPS-T-1 (Kolbe), Workpapers 2 and 11], and re-examined in depth in its R94-1 Opinion and

Further Recommended Decision, paras. 238-45. The opportunity to challenge judicially the Commission's reaffirmation of that criterion and method in R94-1 has long since expired.

Because the single subclass stop concept and the method by which it is applied were fully litigated in R94-1, there is no procedural obstacle to the Commission applying that concept and that method to fresh record data in subsequent dockets. *See Gilbert v. NLRB,* 56 F.3d 1438, 1445-46 (D.C. Cir. 1995); *Cross-Sound Ferry Services v. ICC*, 934 F.2d 327, 329-30 (D.C. Cir. 1991); *Boston Edison v. FERC,* 885 F.2d 962, 964 (D.C. Cir. 1989); cf. *ANR Pipeline v. FERC*, 71 F.3d 897, 901 (D.C. Cir. 1995). The Commission, therefore, had no need to "create" evidence establishing the single subclass stop method on the record and did not direct the Postal Service to do so. Order Nos. 1120 and 1126 did not ask the Postal Service to advocate, or to supply the evidentiary basis for, using the single subclass stop concept or method. The sole purpose of Order Nos. 1120 and 1126 was to require the Postal Service to give others notice of what the impact of its proposed fees on cost coverages would be if the principles by which the Commission attributes costs remain unchanged. Order No. 1120 at 2-3, Order No. 1126 at 12-13.

Following the refusal of the Postal Service to comply with Order Nos. 1120 and 1126, the OCA filed a motion asking the Commission to invoke § 3624(c)(2) of the Act. That section authorizes the Commission to extend the ten-month statutory deadline for processing a rate request where it finds that the Postal Service has unreasonably delayed consideration of its request by failing to comply with a lawful Commission order. ABA, NAA, and MMA submitted comments supporting the invocation of sanctions. Comments of American Bankers Association and the Newspaper Association of America on "Statement of the United States Postal Service Concerning Order No. 1126," filed August 13, 1996; Major Mailers Association's Response to the Postal Service Motion for Reconsideration, filed July 13, 1996.

The Postal Service's refusal to separate the cost coverage effects of its proposed fees from the effects of its proposed attribution principles left a void that the Commission could not promptly fill because the Postal Service did not provide complete carrier street time cost data until more than six weeks after the Postal Service had filed its Request. Notice of USPS of Filing of Library References SSR-25A, 31A, and 36A, July 24, 1996. *See* Order No. 1134 at 11-12. The Commission, however, did not find that the Postal Service's non-compliance was so critically disabling at that stage of the proceeding as to require the proceeding to be shut down. Order No. 1134 at 16.

In order to minimize the delay resulting from the Postal Service's non-compliance, the Commission decided to provide the parties with its estimate of the cost coverage impact of the Postal Service's proposals under established cost attribution principles. It provided Library References PRC LR-1 and PRC LR-2 which calculate test year costs and revenues at the Postal Service's proposed rates using established Commission cost attribution principles. Ibid.[8] The completion of this case within the 10-month deadline shows that an order invoking 3624(c)(2) sanctions was not needed, however there is no doubt that the Service's refusal to comply with Commission orders inconvenienced participants, and significantly impeded the expeditious completion of this case.

Estimating test year attributable costs depends almost entirely on how attribution principles are selected and applied to base year accrued costs. It also involves a further, essentially mechanical step. Base year costs are projected, or "rolled forward," to a future test year by taking into account such things as inflation, productivity, and volume growth trends. The principles by which cost components are

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[8] Subsequently, on December 17, 1996, the Commission instituted a rulemaking proposing to amend its Rules of Practice to explicitly require the Postal Service to show separately the effects of its proposed changes in rates and any proposed changes in cost attribution principles. *See* Docket No. RM97-1, 61 FR 67760-63, December 24, 1996.

causally associated with particular subclasses in the base year may have a bearing on the choice of techniques for rolling the costs forward to a future year. Choosing one set of plausible roll-forward techniques over another, however, typically has a trivial effect (far less than one percent) on the relative share of attributable costs of any given subclass. For this reason, choice of roll-forward techniques are matters that are rarely discussed or debated on the record.

The vast majority of roll-forward procedures employed by the Commission replicate those applied by the Postal Service and do not change from one docket to another. A few minor evolutionary changes, however, are introduced by the Postal Service from docket to docket. This presents the Commission with the option of either accepting the evolutionary change proposed or adhering to the roll-forward techniques applied by the Commission in previous dockets.

Despite their trivial impact on subclass attributable costs, the Postal Service in R94-1 complained that the differences between its roll-forward process and the Commission's roll-forward process had not been discussed on the record. The Postal Service examined the Commission's documented roll-forward procedure in detail. The few, exceedingly minor, errors noted by the Postal Service were corrected, and the few differences from the Postal Service's procedure were thoroughly explained in the Commission's Opinion and Further Recommended Decision (see paras. 260-74). They were not challenged on appeal. The Postal Service has not commented on the merits of the Commission's R94-1 roll-forward procedure in any subsequent docket. Accordingly, it has the weight of precedent in this docket. The Commission adheres to those roll-forward procedures in this docket, with the one exception discussed in Chapter III.

5. Quality of Major Statistical Systems.

In 1992, the Postal Service drastically reduced the size of the statistical samples from which its basic cost, volume, and revenue data are obtained. Since then, the quality of the Postal Service's major statistical data systems has come under increased scrutiny. In this docket, the OCA made the first concerted attempt to obtain comprehensive documentation of the sample design and statistical properties of most of these systems. The Postal Service eventually provided much of the documentation sought by the OCA, but it resisted the OCA's efforts to obtain even basic documentation. As a result, second stage universe and sample sizes for the In Office Cost System (IOCS); universe and sample sizes, sampling rates, weighting factors and formulas, and correct sampling error estimates for the Carrier Cost System (CCS); and universe and sample sizes for the Transportation Cost System (TRACS), were not provided until two, and in several instances, three months into the proceeding. OCA Brief at 63, 71-73, 80.

Much of the Service's resistance appeared to stem from an unreasonably narrow interpretation of Rules of Practice 31(k)(2)(i) and (iv). These rules require clear descriptions of sample designs and sampling methods (including universes, sampling frames and units) and formulas used for statistical estimates. The Postal Service takes the position that these rules do not explicitly require any quantitative descriptions, no matter how basic. Postal Service Reply Brief at 22, 23, 25, 26.

Sample structure, sample size, sample rates, weighting factors, and estimation formulas are aspects of "descriptions" of sample studies that are basic to an analyst's ability to verify statistical estimates and perform statistical analysis. It should not require several months of discovery and motion practice to obtain such basic documentation of the Postal Service's major statistical systems. If Rules of Practice 31(k)(2)(i) and (iv) do not clearly imply that such documentation is required of statistical evidence at the outset of the Postal Service's filing, the Commission will consider amending these rules to make such requirements explicit.

III. STANDARDS FOR THE ATTRIBUTION OF COSTS

Attribution principles are the underlying reasons used to trace responsibility for the Postal Service's accrued costs to particular subclasses and services. Attribution principles encompass theories of cost causation (e.g. volume variability, exclusivity), models of cost causation (e.g., econometric models of volume variability), the identity and role of cost drivers (e.g., shape, coverage), and the identity and role of distribution keys. It is helpful to analyze basic questions as to how subclasses cause costs separately from questions as to how those costs might need to be adjusted for such things as inflation or volume trends when projecting them to a future year. For this reason, attribution principles are generally applied to historical, base year costs (in this docket, FY 1995).

The attribution principles applied by the Commission in Docket No. R94-1, the most recently completed general rate case, have the force of precedent in this docket, since they were fully litigated in R94-1, and all participants had an opportunity to challenge them on appeal.[9] The attribution principles applied by the Postal Service in this docket are, for the most part, consistent with the R94-1 precedent. They differ from precedent primarily in that they do not use the single subclass stop criterion to attribute city delivery carrier access costs. This difference has only a small effect on the cost

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[9] As stated in PRC Op. MC86-1, para. 319,

> Cost evidence in rate and classification proceedings occurring between omnibus rate cases should use as the proper point of departure, cost data reflecting attribution methodologies adopted in the most recent omnibus proceeding. Until attribution methodologies are subject to review by the Commission in an appropriate proceeding, the findings of the last case stand. Parties wishing to propose adjustments must prove why their suggestions are improvements.

coverages of most of the special services addressed in this docket, although it has a noticeable effect on the cost coverages of other subclasses.

In addition, the Postal Service does not attribute purchased transportation nonpreferential Alaskan or Hawaiian air costs, or non-volume variable special delivery messenger costs to subclasses and services according to the principles applied by the Commission in R94-1. These differences have inconsequential effects on the cost coverages of the special services addressed in this docket, with the exception of special delivery, which the Postal Service and the Commission recommend be discontinued. Because there is no evidence offered by the Postal Service in this docket supporting departures from the attribution principles applied by the Commission in R94-1, the Commission is adhering to those principles in this docket.

After attributable costs have been identified and distributed to subclasses and services in the base year, they are "rolled forward" to a test year (in this docket, FY 1996) by taking into account such things as expected trends in inflation, productivity, and volume growth. The vast majority of the Postal Service's "roll-forward" techniques used in this docket are consistent with those applied by the Commission in R94-1. There are, however, several implementation details in the Postal Service's roll-forward analysis in this docket that differ from those applied by the Commission in R94-1. For an itemization of these differences, see Appendix E. These differences are far too minor to have a noticeable effect on the attributable cost shares of any subclass or service and are far too minor to influence recommended rates or fees. The Postal Service apparently regards these differences as too insignificant to justify acknowledging them in its initial filing, or explaining or supporting them on the record in this docket. Their advantage over the techniques applied by the Commission in R94-1 is not apparent. For that reason, the Commission is adhering to the corresponding techniques that it applied in R94-1.

There is one roll-forward technique applied by the Postal Service for the first time in this docket that the Commission has decided to adopt. The Postal Service's treatment of Other Supervisors and Technicians has evolved in recent cases. In R90-1, the Postal Service began disaggregating these long-run variable costs into short-run variable subcomponents, which were assumed to reflect the volume variability of underlying direct costs, and therefore could be "piggybacked" on those direct costs. For example, rural carrier supervisor costs were distributed to subclasses in the same proportions as rural carrier personnel costs. Docket No. R90-1, USPS-T-13 (Barker) at 7.

Prior to the current docket, however, these piggyback effects were reflected only in the base year. In this docket, the Postal Service includes these piggyback effects when rolling forward the underlying direct costs to the test year. *See* USPS-T-5 (Patelunas), WP F, Part 1 at 3, 187-88. *See also* USPS-LR-SSR-5 at 459-62 and 672-75. Since there is no logical ground for assuming that piggyback cost relationships that exist in the base year do not also exist in subsequent years, the Commission's roll-forward method includes this refinement proposed by the Postal Service. Its impact on the attributable cost shares of the various subclasses and services is negligible.

IV. PROPOSALS TO CHANGE SPECIFIC SPECIAL SERVICES

A. Post Office Boxes (SS-10) and Caller Service (SS-3)

The Postal Service has proposed restructuring post office box categories, raising fees, instituting a new nonresident fee, and extending caller service to rural offices. These proposals are discussed separately below.

The Postal Service estimates after rates revenue generated by these proposals is $663.0 million, an increase of $134.5 million over before rates revenue. The Postal Service's after rates attributable costs are estimated at $516.6 million. It estimates after rates contribution to institutional costs of $146.4 million. Cost coverage for post office box service under the Postal Service's proposal is 128 percent. USPS-T-1, Exhibit C. According to the Postal Service's proposal, delivery costs will increase $86.2 million as a result of an estimated decline of 2.1 million post office boxes in use. USPS-T-5, Workpaper B and USPS-T-4, Workpaper E. There is an offsetting decline in the cost of clerks sorting mail to post office boxes of $55.9 million. Ibid.

1. Characteristics of Post Office Box Service

a. Description of Service

Post office box service offers, for a fee, an alternative to carrier delivery for those addressees for whom free postal carrier or general delivery is inadequate. Post office boxes are private, locked, mail receptacles located in postal facilities.

Boxes are available in five sizes, although not all facilities offer every size. Box size ranges from up to 296 cubic inches of capacity for a size 1 box to more than 2,000 cubic inches for a size 5 box. Sizes 1 and 2 are used primarily by individuals while the larger sizes are used most often by commercial customers. USPS-T-7 at 8.

Post office boxes are currently separated into three delivery groups. Delivery Group I designates boxes in postal facilities that have city delivery carrier routes. Group I contains three subgroups. Group IA consists of ZIP Codes in Manhattan. Group IB consists of high cost areas in eight large cities,[10] including some suburban areas. Group IC consists of the remaining ZIP Codes offering city delivery carrier service. Group II designates noncity delivery facilities. Group III consists of contract facilities that are administered by Group II offices. Group III facilities ordinarily provide no form of carrier delivery; customers either rent a post office box or receive mail via general delivery. Separate fee schedules exist for post office boxes in each of these delivery groups.

b. Reasons for Choosing Box Service

According to the Postal Service, individuals choose box service for many reasons. Some customers seek the ability to pick up mail early in the day via a box close to their place of employment. Others appreciate the privacy or security a post office box provides. Desire for a prestigious address may be another incentive for choosing box service. Ibid.

Businesses also choose box service for a variety of reasons. Some use it as a means of separating different aspects of their business, such as orders and bill paying. Others wish to receive their mail early in the day to facilitate check cashing, order filling, or account resolution. As with individuals, businesses that do not have a street address in a prestigious area may rent a box in that area instead. Ibid.

[10] New York, NY (other than Manhattan); Boston, MA; Philadelphia, PA; Washington, DC; Chicago, IL; Los Angeles, CA; San Francisco, CA; and Honolulu, HI.

c. Post Office Box Survey

In order to determine the number of post office boxes currently in use the Service conducted a post office box study. The Postal Service mailed 32,436 surveys to post offices in Groups I and II. Of these, 29,062 surveys were returned, a response rate of 90 percent. Of the 29,062 responses only 25,591, or 88 percent, were usable. USPS-T-4 at 3.[11] The survey asked the postmaster of each facility to record the number of boxes installed, available, and rented, by size. Data received on the number of boxes not rented yet unavailable were deemed unreliable and consequently discarded. Table 1 summarizes the remaining data.

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[11] It is somewhat surprising the Service was unable to obtain usable information from almost 7,000 of its own facilities.

Table 1

POST OFFICE BOX STUDY RESULTS

Size		Group				Total
		IA	IB	IC	II	
1	Installed	35,535	55,529	4,071,571	4,684,112	8,846,747
	In Use	26,350	47,319	3,392,582	3,825,985	7,292,236
	% In Use	74%	85%	83%	82%	82%
2	Installed	1,987	15,428	1,964,539	1,968,724	3,950,678
	In Use	1,644	10,965	1,435,218	1,536,741	2,984,568
	% In Use	83%	71%	73%	78%	76%
3	Installed	1,162	5,531	700,489	518,609	1,225,791
	In Use	922	4,007	477,591	397,954	880,474
	% In Use	79%	72%	68%	77%	72%
4	Installed	118	1,064	167,433	46,305	214,920
	In Use	96	627	102,634	33,178	136,535
	% In Use	81%	59%	61%	72%	64%
5	Installed	51	739	40,228	11,144	52,162
	In Use	28	678	21,717	3,700	26,123
	% In Use	55%	92%	54%	33%	50%
All	Installed	38,853	78,291	6,944,260	7,228,894	14,290,298
	In Use	29,040	63,596	5,429,742	5,797,558	11,319,936
	% In Use	75%	81%	78%	80%	79%

Source: USPS-T-4 at 6-7.

d. Attribution of Costs

Attributable costs for post office boxes are reported in the Service's Cost and Revenue Analysis report. The Service allocates these attributable costs by box type for Groups I and II. Using the results from the Post Office Box Survey, attributable costs from the FY 1994 Cost Segments and Components Report are allocated to each category. Id. at 2. Costs for Group III are included in contract facility costs, and thus, are not attributed. Id. at 39.

The Postal Service disaggregates total post office box attributable costs into three functional groupings for the purpose of allocating attributable costs by box size and delivery group.

Space support costs include custodial and maintenance expenses, fuels and utilities, and protection activities. These costs are allocated to boxes based on the relative capacity of each box size. Space support cost per box varies with box size but not delivery group. Ibid.

Space provision costs include rent, interest expense, and depreciation costs. Space provision costs are allocated to boxes on the basis of box capacity and rental cost per square foot. Rental cost per square foot varies by delivery group. Thus, space provision cost varies by box size and delivery group. Id. at 36.

All other costs are costs related to window service clerk and supervisor post office box activities. The Service allocates these costs based on total number of boxes. These costs do not vary by box size or location. Id. at 35. The cost allocation methods utilized by the Service yield the unit costs in Table 2 below.

Table 2

FY 1994 UNIT ATTRIBUTABLE COST BY SIZE AND DELIVERY GROUP

	Box Size				
Delivery Group	**1**	**2**	**3**	**4**	**5**
IA	$40.66	$57.40	$107.63	$208.09	$409.00
IB	$36.39	$51.00	$94.82	$182.47	$357.75
IC	$25.96	$35.35	$63.52	$119.87	$232.57
II	$23.85	$32.19	$57.20	$107.22	$207.25

Source: USPS-T-4 at 44.

2. Restructuring Post Office Box Classification

The Postal Service's presentation has evolved from what was initially presented. This evolution surfaced in cross examination, Presiding Officer Information

Request responses, and Implementation Status Reports. The Service did not revise its testimony. Modifications to the initial proposal affect which customers will be eligible for free box service and how boxes in nondelivery offices will be classified. The Postal Service has provided estimates of the revenue implications of these changes but the Service's initial revenue projections have not been revised.

The following section describes the Service's initial proposal and the modifications that were submitted on the record. Cost and revenue data that incorporate these modifications are presented in Appendix D and PRC Library Reference 3.

a. The Postal Service's Proposal as Originally Presented

(1) New Pricing Approach

The Service has determined that pricing post office boxes commensurate with cost and consumer demand necessitates a "new pricing approach." This pricing approach considers several factors: the relatively low cost coverage recommended in Docket No. R94-1 (115%); the intent to seek higher fees prior to R94-1; the need to raise money to expand service; new data indicating that some boxes are below cost; recognition that fee differences between Group I and Group II are no longer justified; the policy that customers are entitled to one free method of delivery; and the need to mitigate the effect of increases on consumers. USPS-T-7 at 1.

(2) Classification Changes

The Service proposes to merge delivery Groups I and II and replace them with four new fee groups. Group A will replace Group IA, Group B will replace Group IB, Group C will replace Group IC, and Group D will replace Group II.

According to the Service, the merger is intended to highlight the similarities between the two former groups and facilitate closing the gap between urban and rural box fees. This gap, which originated from cost differences, is no longer justified given that salary levels for clerks putting up the mail are identical nationwide.[12] Furthermore, customers at facilities in both these groups are eligible for delivery, and usage rates for both groups are comparable. USPS-T-7 at 18.

Under the Service's proposal as originally presented Group III is renamed Group E. Customers ineligible for carrier delivery at these facilities will be offered box service free-of-charge consistent with the Postal Service's determination that all customers are entitled to one free mode of delivery. Customers at these facilities that are eligible for carrier delivery will be charged the proposed Group D fees. Id. at 21.

(3) Rate Changes

The Postal Service proposes to increase the fees for post office boxes an average of 24 percent in Groups A, B, and C, for box sizes 1, 2 and 3. The percentage increase in fees for box sizes 4 and 5 are 15 percent and 20 percent, respectively. In Group D the Service proposes an increase of 100 percent for boxes of all sizes.

[12] While this may be true, the cost of clerks putting up the mail is not attributable to post office boxes. Tr. 8/3033. However, salaries for window service clerks, which are attributable to post office boxes, are also uniform nationwide.

Table 3

COMPARISON OF CURRENT AND PROPOSED BOX FEES

Box Size	Current		Proposed		Percent
	Group	Annual Fee	Group	Annual Fee	Change
1	IA	48	A	60	25%
2		74		92	24%
3		128		160	25%
4		210		242	15%
5		348		418	20%
1	IB	44	B	56	27%
2		66		82	24%
3		112		140	25%
4		190		218	15%
5		310		372	20%
1	IC	40	C	50	25%
2		58		72	24%
3		104		130	25%
4		172		190	10%
5		288		300	4%
1	II	8	D	16	100%
2		13		26	100%
3		24		48	100%
4		35		70	100%
5		55		110	100%
All Sizes	III	2	E	0	-100%

Source: USPS-T-7 at 3.

(a) Groups A, B and C

The Service indicates that the fee increases for Groups A, B, and C were developed to "place the services and products on a more economically rational, businesslike basis.. . . Specific pricing reform objectives include more market-based prices.. . ." USPS-T-1 at 2.

The Service has identified Commercial Mail Receiving Agents (CMRA) as a private sector service in competition with post office boxes. CMRAs are private mail receiving agents that provide boxes under contract. Typically, call-in mail checking, package receiving, and use of the CMRA address are included in the box fee. Other services, such as 24 hour access, mail forwarding, fax and copy machines, packaging, and occasionally notary service, are available for an additional fee. To determine current pricing practices and services offered by CMRAs a telephone survey was conducted for the Postal Service by Foster Associates.

The survey results indicate that the average annual CMRA fee for a small box in proposed Group A locations is $267, which is 345 percent higher than the Service's proposed fee for a size 1 box in the same area. In proposed Group B locations the average CMRA fee is $150. This is 168 percent higher than the Service's proposed fee for a size 1 box in the same area. In proposed Group C areas the average CMRA fee is $113, 126 percent higher than the Service's proposed size 1 fee. USPS-T-4 at 22.

The Postal Service uses the results of this survey to justify raising urban box fees. Witness Needham states, "even the Postal Service's proposed fees are significantly lower than the average CMRA fee for the smallest size box . . ., moreover, the smallest CMRA boxes are significantly smaller than the Postal Service's size 1 boxes." USPS-T-7 at 12 (footnote omitted).

For urban box sizes 4 and 5, witness Needham states the proposed fee increase is more modest in an effort to discourage the use of inadequate box sizes by making larger boxes more attractive. Also, many large box holders have less expensive alternatives, and the vacancy rate for large boxes is higher than for other size boxes. Id. at 20.

(b) Group D

Increases in the proposed fees for Group D boxes are based on the allocated attributable cost data which indicate that rural box service is priced significantly below cost. The Service's allocation of costs to Group II by box size yields unit costs per box ranging from $23.85 to $207.25. USPS-T-4 at 44. Current annual fees for Group II range from $8 to $55. Needham asserts the Postal Service's proposal is intended to more closely align fees with costs. In addition, the proposed 100 percent fee increase will lessen the disparity in fees between proposed Groups A, B, and C and proposed Group D. The increase is capped at 100 percent to mitigate the impact on box holders in proposed Group D. USPS-T-7 at 36.

(4) Acceptance Survey

To measure the response to the proposed fee increases a telephone survey was conducted for the Postal Service by Opinion Research Corporation. Results were sought for Groups I and II, and box sizes 1 through 3. Group III was omitted. Box sizes 4 and 5 were not sampled due to the relative infrequency of these box sizes. USPS-T-6 at 1.

The population of households was used as the basis for the sample design as box population data had not yet been collected. Probabilistic samples of box customers within ZIP Codes found in Group I and II were drawn in proportion to household population. A questionnaire was sent to each postmaster at the sample facilities which asked how many size 1, 2 and 3 boxes were available and how many were rented. Then, following a simple rule, the postmaster was requested to select 25 boxes of each size, and leave a business reply card soliciting participation in the telephone survey. Id. at 2.

Participants were polled on their reaction to three prices; mid, low and high. Respondents who indicated they would accept the mid price were asked if they would also accept the high price. Respondents who said they would not accept the mid price were queried on their acceptance of the low price. Those expressing interest in alternatives to accepting the proposed prices were questioned about the nature of acceptable alternatives. Id. at 5.

Data were weighted by the number of boxes of each size in use at each facility, and the number of boxes by size in each group. Data were then tabulated by group and size.

The proposed fees for each group correspond to the lowest prices tested. Postal Service witness Lyons considers the survey results a "worst case scenario." He therefore averages the percent who indicated acceptance with 100 percent[13] to calculate an acceptance rate for box sizes 1, 2 and 3 in each group. USPS-T-1, Workpaper C. This averaging is done to reflect the difficulty box holders would have in actually finding and implementing an alternative means of receiving mail. According to the Postal Service, it also reflects the historical inelasticity of post office box service. Postal Service Brief at 53. The resulting adjusted acceptance rate is used to estimate test year post office box volume at proposed rates. The calculated elasticity for box size 3 is used to estimate volume for box sizes 4 and 5. USPS-T-1, Workpaper C.

(5) Financial Implications of Fee Increases

The Postal Service's fee increase proposal, without the nonresident fee discussed later, would result in an estimated decrease in box volume of 1.8 million boxes. It initially estimates revenues would increase by $95 million.[14]

[13] 100 percent is the "best case scenario" where raising the fee results in no volume loss.

[14] Calculated from USPS-T-1, Workpaper C (LR-SSR-121).

b. Implementation Status Reports

The Postal Service's proposal as originally presented includes the elimination of the basic box fee for customers ineligible for delivery. Postal Service Request at 1. Witness Needham's testimony proposes that "Group III would become Group E with a new fee of $0.00. This group would encompass all postal and contract facilities where customers are not eligible for any kind of carrier delivery." USPS-T-7 at 21. Witness Lyons' revenue projection workpapers show existing Group III boxes migrating to Group E and paying $0.00 fees. USPS-T-1, Workpaper C. While the Postal Service witnesses seem to use Group III and nondelivery offices interchangeably, Group III does not encompass all nondelivery offices. It consists of contract facilities only. Domestic Mail Manual D910.4.5.

In response to a Presiding Officer's Information Request, the Service acknowledged that there are some Postal Service-operated nondelivery offices which are currently included in Group II. Tr. 8/ 3030. Concerned that the Service's revenue projections did not accurately reflect the Service's proposal, a subsequent Information Request asked the Postal Service to revise its revenue estimates. The Service responded that revisions were not necessary because the majority of box holders in these offices were, in fact, eligible for delivery and therefore would not be entitled to free box service. Id. at 2994.

Two subsequent Information Requests were issued in an attempt to discern which customers would be eligible for free box service. In response, the Postal Service provided the "First Status Report: Implementation of New Box Fee Schedule" (Implementation Status Report 1), concurrent with responses to P.O. Information Request No. 4. The Information Request responses reiterate the Postal Service's commitment to offering free box service to customers ineligible for delivery and provide estimates of affected box volumes. Id. at 3007. Implementation Status Report 1 establishes that this commitment results in free boxes at offices in most delivery groups. Id. at 3220.

While Implementation Status Report 1 alleviates some of the Commission's equity concerns, it raised the issue of the quarter-mile rule. Through application of the quarter-mile rule, the Postal Service exempts itself from providing carrier delivery service to customers in non-city delivery offices who reside within a quarter-mile of a postal facility. According to the Implementation Status Report these customers also would not be eligible for free box service. Id. at 3219. The inequity created by this rule is obvious. Customers ineligible for delivery simply because of their proximity to a postal facility are not entitled to free box service while customers ineligible for delivery for other reasons are. This inequity is exacerbated by the Postal Service's expectation that general delivery in Group II offices will be eliminated. Id. at 3220. If general delivery is eliminated customers subject to the quarter-mile rule will be the only postal patrons who will have no option other than to pay for mail delivery.

David Popkin addresses the issue in his initial brief. "The changes to the quarter-mile rule [which is a half-mile for the smallest offices] needs revision to meet the Postal Service's claim that all residents of the United States will be provided one free method of obtaining delivery." Popkin Brief at 4.

The Postal Service has stated it is considering eliminating the quarter-mile rule, Tr. 8/3219, and the Commission urges the Service to do so. Without the elimination of this rule, future rate increases will compound the inequity and will make it more difficult to conclude that proposed fee increases for the affected categories of boxes are fair and equitable.

c. Intervenors

(1) Opposition To Group I Fee Increases

The OCA, ABA, Douglas Carlson and David Popkin oppose the Postal Service's proposed increase in Group I fees. No party opposes the Group II[15] increases or the free box proposal.

(a) The OCA's Fee Proposal

OCA witness Callow offers an alternate fee proposal for Group I boxes. His proposal is designed to reduce the disparity in cost coverages between delivery groups and box sizes, and, in keeping with OCA witness Thompson's testimony, is revenue neutral. Tr. 5/1521 and 1537. Under his proposal, most box fees in Group I decrease or remain unchanged, Group II fees increase 100 percent, and Group III fees decrease 100 percent. Using Postal Service cost attribution methodology, he estimates his proposal results in an overall cost coverage for post office boxes of 101 percent. Id. at 1542.

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[15] In its brief, the OCA opposes any increase in fees without the realignment of post office box categories. However, OCA witness Sherman testifies that increasing fees in Group II to cover costs is a "compelling goal," Tr. 7/2300, and OCA witness Callow accepts the Service's Group II fees in his alternate fee proposal.

Table 4

COMPARISON OF CURRENT AND OCA PROPOSED FEES

Box Size		Current Fee	OCA Proposal	Percent Change
Group IA	1	$ 48	$ 48	0%
	2	$ 74	$ 66	-11%
	3	$128	$122	-5%
	4	$210	$210	0%
	5	$348	$410	18%
Group IB	1	$ 44	$ 44	0%
	2	$ 66	$ 60	-9%
	3	$112	$110	-2%
	4	$190	$190	0%
	5	$310	$358	15%
Group IC	1	$ 40	$ 32	-20%
	2	$ 58	$ 43	-26%
	3	$104	$ 76	-27%
	4	$172	$142	-17%
	5	$288	$272	-6%
Group II	1	$ 8	$ 16	100%
	2	$ 13	$ 26	100%
	3	$ 24	$ 48	100%
	4	$ 35	$ 70	100%
	5	$ 55	$110	100%
Group III		$ 2	$ 0	-100%

Source: Tr. 5/1539.

The Postal Service claims that witness Callow's proposed cost coverage for post office boxes is deficient. According to the Postal Service, witness Callow used an inappropriate elasticity to calculate after rates volumes. Tr. 9/3540. In addition, the cost of expanding box service is understated in the CRA and Callow's cost coverage does not provide enough incentive for postmasters to expand box sections. Id. at 3544.

Witness Callow uses the implicit elasticities from the Postal Service's acceptance survey to measure the response of new customers to fee decreases. Id. at 3539. The Service contends that this application is inappropriate because the acceptance survey was designed to measure the response of existing box holders to an increase in fees. The Service maintains that existing box holders and potential box holders are distinct with respect to their tendency to use box service. Applying an elasticity developed for the former group to the latter group results, at best, in an "upper bound" for volume estimates. Id. at 3540. Averaging the cost coverage produced by this "upper bound" (101) with the cost coverage of a "lower bound" representing no new boxes (95) results in a cost coverage of 98 percent. Id. at 3543.

In its initial brief the OCA counters that witness Callow used the acceptance survey results because that was the only available information. The OCA maintains that use of these implicit elasticities is reasonable. It charges that the Postal Service's lower bound of no new boxes is unreasonable given the historic response of box holders to fee increases, and the Postal Service's advertising campaign aimed at attracting new box holders. OCA Brief at 163-64.

The OCA argues that "[w]itness Lion's characterization of the 101 percent cost coverage under OCA's proposal as an optimistic upper limit is not correct." Id. at 165. It contends that if the lower bound is set at zero elasticity, i.e., no new boxes, then the upper bound must also be set at zero elasticity, i.e., no volume loss. Under this scenario the lower bound coverage is 95 percent and the upper bound coverage is 104 percent. This translates into a midpoint coverage that approaches 100 percent. Id. at 167.

On reply the Postal Service accuses the OCA of appearing to not "understand the concept or purpose of an upper bound . . .. The idea . . . is to determine the **least upper bound** to get the estimate as tightly bound as possible." Postal Service Reply Brief at 59-60 (emphasis in original). The Service maintains that the OCA's calculated cost coverage of 101 percent, not the theoretical coverage of 104 percent, is the proper figure to use as a "least upper bound." Id. at 60

The Service also claims that the actual cost of expanding box service is greater than witness Patelunas' testimony reflects because under established attribution procedures space provision costs cannot exceed book costs. Tr. 9/3544. According to the Postal Service, if space provision costs reflected actual market rents they would be $47 million higher. Id. at 3545. Under this scenario the cost coverage for the OCA's proposal is 93 percent.[16]

(b) The OCA's Criticism of Space Provision Cost Allocation

In its initial brief the OCA criticizes the Postal Service's allocation of space provision costs claiming that the data are incorrectly weighted. According to the OCA the cost per square foot figures the Postal Service calculates are derived by averaging rental cost per square foot for each facility in each delivery group. The averages are not weighted by size of facility and, therefore, are suspect. The OCA contends that the correct basis for allocating space provision costs is to sum the cost per square foot for all facilities in a delivery group and divide by the total square feet in that delivery group. OCA Brief at 103. It charges that relying on the figures used by the Postal Service results in misleading unit costs. Id. at 105. The OCA also claims that attempts to correct the problem were stymied by lack of data. Id. at 106.

The Postal Service acknowledges that it used the average of the rental costs per square foot for each facility but claims that this is the correct figure. Using average rental cost per square foot for all square feet in a delivery group, as the OCA suggests, would result in a few large facilities which may not even have box sections, dominating the calculation. The Postal Service chides the OCA for waiting until initial briefs to

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[16] It is based on the ratio $535,303 in revenue ÷ $576,366 in cost.

raise the issue and claims that had the OCA requested additional data they would have been provided. It also points out that the OCA used the Postal Service's method in witness Callow's fee proposal. Postal Service Reply Brief at 73.

(c) Opposition of The American Bankers Association

ABA alleges that the Postal Service's Group I proposal unjustly burdens First-Class mail users because the majority of mail delivered to post office boxes is First-Class mail. ABA Brief at 3. The Postal Service claims that this argument has no value because it is the box holder, not the mailer, that will be paying the higher fees. According to the Postal Service, First-Class mailers will benefit from the fee increase because of the higher contribution to institutional costs boxes will be making. Postal Service Reply Brief at 74.

(d) Opposition of Douglas Carlson and David Popkin

Douglas Carlson and David Popkin oppose the proposed fee increases in Group I box rents. They argue that the Postal Service is merely trying to "make money off of box holders." Carlson Brief at 31. Carlson suggests that the box fee increase is an unjustified attempt to exploit recent media attention that post office boxes have received. Ibid.

Both Carlson and Popkin dispute the Service's claim that post office boxes are competitive with CMRAs. Popkin states, "[i]f the CMRAs are able to charge the rates they are in areas where there is no shortage of post office boxes, it should be obvious that they are not providing the same service as the Postal Service." Popkin Brief at 4.

Carlson expands upon this argument claiming that CMRAs are able to charge substantially higher fees than post office boxes because they offer more services. He finds the Postal Service's justification for charging higher fees for post office boxes based on the fees charged for CMRAs invalid. He argues that, "[t]he issue in this case is whether Postal Service post-office-box service has a high value, not box service in general." Carlson Brief at 33 (emphasis in original).

Carlson also disputes the Service's claim that revenue from boxes is necessary to finance box expansion. He cites OCA witness Callow's testimony indicating that there is no evidence of a nationwide box shortage. Id. at 35. He states that "[t]he Postal Service has the burden of proving that a box shortage exists" and claims that the Service has failed to provide enough evidence to support this conclusion. Id. at 36

In addition, both Carlson and Popkin caution the Commission against raising post office box fees to finance expansion unless there are some assurances that funds will actually be used for this purpose. Carlson Brief at 37 and Popkin Brief at 4.

(2) OCA Suggestion For Grouping Post Office Boxes by CAG

The merging of Groups I and II and the renaming of delivery groups has not been opposed on the record, although the OCA has suggested there may be a better way to structure post office box fee groups. In its initial brief, the OCA asserts that post office boxes should be grouped by cost ascertainment group (CAG) rather than by delivery group. OCA Brief at 92.

CAGs classify post offices based on the amount of revenue generated. The OCA contends that CAGs provide a more realistic profile of cost differences because "[w]hen average rental costs per square foot are examined for post offices classified by . . . CAG, there is an almost uniform decline in the average rental cost as the size of the CAG declines." Id. at 90 (footnote omitted). The OCA suggests that "type of delivery" groupings are not homogenous because each delivery group contains different CAG offices and the same CAG offices are found in different delivery groups. Id. at 91. On brief, the OCA suggests the Commission make no post office box fee adjustments until the post office box classification structure is changed. Id. at 95.

In its Initial Brief, the Postal Service states that "the Postal Service's proposal prepares the way for possible future reforms, such as that presented by Postal Service witness Taufique . . . or using CAG level to group offices.. . ." Postal Service Brief at 56. The Service characterizes its proposal as "an important first step" and claims that it "should not be penalized for trying to correct a fee structure one step at a time so as to minimize the impact on its customers." Postal Service Reply Brief at 53.

The Postal Service explains that grouping post office boxes by CAG level has serious drawbacks. Witness Lyons testifies that CAG level is revenue based, not cost based. Therefore, costs may fluctuate independent of CAG level. Moreover, CAG groupings would not reflect customer demand. Id. at 56-57.

The Postal Service accuses the OCA of introducing a late proposal and attempting to contrive "a default to escape the OCA's original defective proposal." Id. at 55. The Service protests that the OCA "made no mention of maintaining the status quo" in its testimony or trial brief, and that witness Callow uses the Service's proposed delivery groups in his proposal. Ibid.

d. Commission Analysis

(1) Classification Changes

(a) Groups I and II

The Commission recommends the adoption of the post office box restructuring. Group I will be merged with Group II and the categories renamed A, B, C and D. The Commission agrees with the Service that the cost distinction between city delivery offices and non-city delivery offices appears to have diminished and will likely continue to decrease. Merging these two groups will facilitate closing the gap between the fee groups.

(b) Group III

Group III will be eliminated. A separate group, Group E, will be added. Consistent with the most recent Postal Service statement, offices in Group E will be Postal Service operated nondelivery offices. Contract facilities currently found in Group III will shift to Group D. Including contract facilities in the same category as their administering offices will make the groupings more rational and less confusing.

(c) Customers Ineligible For Delivery

The Commission believes it is equitable to offer one post office box at no charge to any customer ineligible for carrier delivery. The Postal Service still has not committed to providing carrier delivery or a free box to customers within a quarter-mile of noncity delivery offices, but it will extend this service to everyone else. It estimates that 942,307 boxes will be offered free of charge as a result of this policy. Tr. 8/3007-10.[17] Using these estimates the Commission calculates total revenue loss from offering free box service will be $7.3 million in the test year. *See* Appendix C. The Postal Service is urged to re-evaluate the quarter-mile rule in an expedient manner and rectify any inequities caused by this rule. This record is devoid of any reason or justification for why customers should be charged for box service when that service is

[17] The Postal Service's original proposal envisioned extending free box service to 2,707,964 customers in Group III offices who were ineligible for carrier delivery. In response to P.O. Information Request No. 4, question 6, witness Lyons conceded that the actual number of Group III box holders was 338,510. He also estimated that an additional 603,797 box holders in Groups I and II will be eligible for free box service. *See* Appendix C, Part 1 for further discussion on this point.

their only means of receiving mail. The Commission endorses the Postal Service's stated goal of offering one free method of delivery to all customers.

(d) The OCA's Suggestion For Grouping Boxes by CAG

The OCA presents an interesting argument that post office boxes may be better grouped by CAG level rather than delivery group. This option should be considered. However, the Postal Service has presented plausible difficulties involved in implementing such a change. Postal Service Reply Brief at 56.

Data provided on this record are insufficient to analyze the impact of such a grouping. Regardless of how post office boxes are grouped, by CAG or delivery method, Group D fees are still below allocated attributable cost. Id. at 58. Therefore, the OCA's suggestion that the Commission "do nothing" is unsound. Ibid.

While it is not appropriate to act on the OCA's suggestion at this time, the Commission encourages the Postal Service to explore alternative post office box groupings in the future.

(2) Rate Changes

The Commission finds justification in some instances for selectively increasing rates apart from omnibus rate cases. Increases may be justified, for example, if the service is not recovering its attributable costs, if an error is found, if circumstances surrounding the class or subclass change, or if new or enhanced services are offered. (*See* Chapter II.) At current rates, the test year cost coverage of post office boxes as a whole is below 100 percent. In particular, rural post office boxes are currently priced significantly below allocated attributable costs.

(a) Group A, B, and C Fees

The Postal Service testifies that rate increases for Groups A, B and C are warranted because higher fees would have been proposed in R94-1 if the 10.3 percent across-the-board increase had not been proposed. The Commission finds this reasoning flawed. The Service decided to submit that "across-the-board" request, which was largely approved. Had the Service believed that post office boxes were not making a large enough contribution to institutional costs when it filed R94-1, it should have requested higher fees in that docket, not attempted to raise fees later under the guise of reclassification.

On this record the Commission also finds unconvincing the Postal Service's arguments for giving increased weight to demand when pricing post office boxes. The Service has not provided sufficient evidence of demand for box service. While CMRAs may be in competition with post office boxes, both Carlson and Popkin raise pertinent questions about the comparability of their services.

In addition, there is some concern that the true acceptance rate for post office boxes differs from that used by the Service in this docket.[18] By using the results of the acceptance survey as a "lower bound," witness Lyons effectively improves the acceptance rate for post office box fee increases.

It is noteworthy that the Postal Service itself argues against bounding of this nature.

> Upper and lower bounds are useful in estimating the value of a scalar quantity that is impossible to calculate directly. . . .

Postal Service Reply Brief at 60.

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[18] *See* Appendix B for a discussion of potential problems associated with the Postal Service's Acceptance Survey.

> Discussion of potential upper and lower bounds of customer reaction to proposed fee increases is unnecessary since witness Ellard's study developed direct measures of customer reactions to them.

Id. at 60, n. 43 (emphasis omitted).

Had the Service not bound the results of the Acceptance Survey, after rates volume and revenue estimates would have been markedly different. Using the Postal Service's approach with its proposed fees results in a loss of 1.2 million urban box customers. Under this scenario, revenue from urban boxes would increase by $60.5 million. USPS-T-1, Workpaper C. Substituting the actual results of the market survey for the adjusted acceptance rate used by witness Lyons would result in a loss of 2.4 million urban box customers. This volume loss would mean total after rate revenue from urban box fees would be $33.7 million less than before rate revenue.[19] *See also* the discussion of other troublesome aspects of the market research described in Appendix B. Thus it is not certain to what extent the proposed fee increases for urban boxes would actually generate additional revenues.

While the overall coverage for box service is below the level recommended by the Commission in R94-1, most of the fees in Groups A, B, and C are above allocated attributable cost. No errors have been identified, and no service improvements have been made. Circumstances surrounding box service have not changed. The Commission, therefore, recommends increases only where fees are insufficient to cover allocated attributable costs.

The Postal Service's method of allocating attributable costs to post office boxes indicates that size 5 boxes in Groups A and B are currently below cost. The Postal Service utilizes FY 1994 costs in its analysis. USPS-T-4 at 34. Updating the

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[19] USPS-T-1, Workpaper C (LR-SSR-121) using actual market research acceptance rates.

analysis for FY 1996 indicates that box size 4 in Group A and B may also be priced below attributable cost. *See* Appendix F. While the allocation method used by the Postal Service may indicate the general cost level per post office box, it is not a precise gauge of attributable costs. For this reason the Commission recommends increasing the fees for these boxes only to the level proposed by the Postal Service. For Group A box size 4 the Commission recommends an annual fee of $242. For Group A box size 5 the Commission recommends an annual fee of $418. In Group B the recommended annual fees are $218 for a size 4 box and $372 for a size 5 box.

(b) Group D Fees

Group D post office boxes are currently priced below cost. The Commission approves the Postal Service's plan to correct this infirmity in stages. However, the impact of the proposed 100 percent increase must be considered. Criterion 4 of § 3622(b) states that consideration must be given to "the effect of rate increases upon the general public . . . ." A 100 percent fee increase could have a negative impact on rural box holders.[20]

The Postal Service's proposal results in a loss of 0.8 million rural box rentals. USPS-T-1, Workpaper C. As stated earlier there is some concern that the Service's acceptance rate for box service may be overstated in this docket. While it is true that historically customer response to box service increases has been slight, increases of the magnitude proposed in this docket have not been proposed in the past. Tr. 2/162. If volume is estimated using the Postal Service rates and the acceptance percentages taken directly from the market research rather than using witness Lyons' modified acceptance rate, the volume loss in rural boxes is 1.9 million. A loss in volume of this

[20] Some box holders at contract facilities administered by rural post offices could face increases of a much higher magnitude.

size could have a severe impact on both the Postal Service and the rural communities it serves.

The OCA, on the other hand, considers the acceptance rate used by witness Lyons in this docket understated. It contends that "[u]nder more optimistic (and more realistic) assumptions, both revenues and cost coverage would be much higher." OCA Brief at 167. On this record it is not clear which of these conflicting assumptions is more accurate.

Another source of uncertainty involves the allocated attributable costs of post office boxes. As demonstrated by the OCA, the Service's use of the unweighted average of facility cost per square foot by delivery group in allocating space provision costs may produce unreliable results. However, the OCA's preferred method of weighting by total facility space may also produce misleading results. As the Service points out, the OCA's method does not focus on space devoted to post office boxes. An appropriate weighting scheme would be limited to square feet dedicated to post office boxes. Data to perform this weighting are not available on this record. The Commission urges the Postal Service to develop a more reliable weighting scheme for allocating space provision costs to post office boxes in future cases.

The Commission finds it inappropriate to recommend 100 percent fee increases amidst such uncertainty about both costs and mailer reactions. However, some increase in Group D box fees is obviously necessary. The Service may not indefinitely continue to offer Group D boxes below attributable costs. In balancing its concerns about the impact on box holders and its concerns about the need for these boxes to cover their allocated attributable costs, the Commission recommends a 50 percent increase in fees for all box sizes in Group D.

The Postal Service is expected to submit an omnibus rate case in the near future, which will provide another opportunity to increase these fees. Prior to that Request, the Service can review its method of allocating costs attributed to post office boxes and its post office box market research. Such a review will resolve outstanding questions and concerns about the reliability of the results of the current method.

Table 5

COMPARISON OF CURRENT, USPS PROPOSED AND COMMISSION RECOMMENDED ANNUAL FEES

Box Size	Current Fee	USPS Proposed Fee	Commission Recommended Fee	USPS Proposed Increase Over Current Fee	Commission Recommended Increase Over Current Fee
1	$ 8	$ 16	$12	100%	50%
2	$13	$ 26	$20	100%	54%
3	$24	$ 48	$36	100%	50%
4	$35	$ 70	$53	100%	51%
5	$55	$110	$83	100%	51%

3. Nonresident Fee Proposal

a. The Proposal

The Postal Service proposes to levy an $18 semi-annual fee on customers who obtain box service at a postal facility outside the five-digit ZIP Code of their residence. The Service chose $18 because it seemed like a reasonable amount, it is easy to remember and is divisible by six. Tr. 3/674-5.

(1) Value of Service Justification

This fee is designed to reflect the added "value of service" nonresidents receive. Witness Needham claims the primary reasons for renting a nonresident post office box are convenience and prestige. Id. at 796. To bolster her claim, the Postal Service filed Library Reference SSR-105 containing articles related to post office box rental at various facilities nationwide. These articles name five post offices viewed as prestige addresses: Beverly Hills, California; Rancho Santa Fe, California; Palm Beach, Florida; Middleburg, Virginia; and Winnetka, Illinois. SSR 105 at 7. One article also discusses San Luis, Arizona, a border town with a large population of box holders that reside outside the service area, many of them residents of Mexico. For these box holders, better mail service, convenience, or necessity justify the use of box service at the San Luis office. Id. at 8.

(2) Costs Related to Nonresidents

The Postal Service has also presented anecdotal information suggesting that nonresident box holders increase the cost of box service. Witness Landwehr describes post office box operations at four postal facilities, three of which face challenges associated with a large population of nonresident box holders.

The Middleburg, Virginia office, located outside Washington, D.C., contains 1,856 post office boxes, all of which are rented. In addition, it has a waiting list of 15 to 20 prospective box holders. Witness Landwehr estimates that a third of the box holders in Middleburg reside outside the service area of the office. He says the office faces mail volumes that exceed box capacity, and higher than average rates of mail forwarding and hold requests. USPS-T-3 at 4.

The San Luis, Arizona post office contains 6,170 post office boxes, all of which are rented. The town, located near the Mexican border, has a relatively transitory population base. Many of the box holders at the San Luis post office do not reside within the service area of the office. Id. at 5. According to witness Landwehr, the profusion of nonresident customers results in greater administrative costs, infrequent mail pickup resulting in overflow, and difficulty communicating with box holders. Id. at 7.

Blaine, Washington is a resort community close to the Canadian border. The Blaine post office contains 4,724 post office boxes, all of which are rented. In addition, it has a waiting list of 150 prospective box holders. Many box holders do not reside in the service area of the Blaine post office. Challenges associated with the nonresident customer base include infrequent mail pickup leading to mail overflows, greater administrative costs, unsightly lobby clutter, and difficulty communicating with box holders. Id. at 9.

(3) Capacity Constraints

Based on the results of the Post Office Box Survey, Postal Service witness Lion concludes that "38 percent of post offices in Groups I and II have a capacity constraint in at least one box size.. . ." USPS-T-4 at 9. The Postal Service claims resident box holders who are unable to obtain service due to capacity constraints may benefit from the nonresident fee if nonresidents relinquish their boxes as a result of the higher fees. Revenues generated from the nonresident fee could also provide funds for expansion of box service in some facilities. USPS-T-7 at 25.

(4) Other Nonresident Fees

In support of the nonresident fee, witness Needham gives marketplace examples of comparable fees. She mentions holiday camps in Arlington County, Virginia that charge higher fees for nonresidents than for residents. She also mentions golf courses, movie theaters and movie rental stores. Tr. 9/3454.

b. Evolutionary Nature of Proposal

A major difficulty for the Commission and intervening parties has been ascertaining the population to which the nonresident fee would apply. In her initial testimony witness Needham gave two definitions of a nonresident:

> For purposes of the non-resident fee, nonresidents would be defined as those individual or business boxholders whose residence or place of business is not located within the 5-digit ZIP Code area of the office where box service is obtained.

USPS-T-7 at 23-24.

> Box customers are considered non-residents when they obtain box service in post offices that are not responsible for delivery to the customer's street address.

Id. at 33.

While the Postal Service claims that these statements are consistent with one another, Tr. 8/3105, there are situations where customers may receive delivery from a post office with a 5-digit ZIP Code different from the 5-digit ZIP Code of their residence. During oral cross examination, David Popkin provided several examples:

> the building you live in has its unique five-digit zip code and therefore would not match any box section available,

Tr. 3/804;

> a multi-zipped office such as Silver Spring,

Id. at 807;

> there is no box section utilized in the postal facility corresponding to my ZIP code,

Id. at 809.

> a firm has its own unique five-digit or even three-digit ZIP code and therefore will not match any post office box section,

Ibid.;

> if the box section has a different ZIP code than the delivery area,

Id. at 811;

> if I reside within the corporate limits of a municipality which is served by delivery from another office,

Id. at 813.

As a result of Presiding Officer Information Requests and oral cross examination, the Postal Service filed an Implementation Status Report on October 23, 1996, which enhances the definition of a nonresident. This document specifies that customers at multi-ZIP Code post offices will be considered residents at any facility assigned to that post office. Customers who receive carrier delivery from one postal facility but must obtain box service from another facility will be considered residents of either facility if both facilities are administered by the same post office. In overlapping service areas each customer would be assigned to one carrier route and thus to one post office. Residents of Mexico and Canada are not considered residents of any U.S. postal facility. Tr. 8/3218-19.

On December 13, 1996, the Postal Service filed a second status report which provided additional information on the definition of a resident:

> . . . a person or business which "resides" within a community with more than one postal facility (post office, station or branch, contract postal unit, etc.) sharing the same finance number and who receives delivery from any of these facilities is considered a "resident."

> All customers of a proposed Group E office will be considered a "resident" of that office.
>
> Snowbirds, seasonal residents, students or others who own property or reside for a proposed period of more than 30 consecutive days will be eligible as "residents".

Tr. 9/3336. In this document the Postal Service also introduces a proposed "proximity rule" whereby customers or businesses that reside closer to a post office than the office that provides their carrier delivery will be considered "residents" of both offices.

The evolutionary nature of the Postal Service's post office box proposal has impeded efforts by parties and the Commission to evaluate the merits of the nonresident fee. While the Postal Service has attempted to clarify various aspects of the proposal through implementation status reports, it has not revised any of its testimony containing financial impact analysis of the proposed fee to reflect these clarifications. Clear, concise definitions of "resident" and "nonresident" are not apparent. Consequently, there is an unacceptably high level of uncertainty concerning the impact of the nonresident fee.

c. Intervenor Testimony

The OCA, Carlson, and Popkin oppose the nonresident fee. Carlson's testimony disputes the Postal Service's "value of service" argument and denounces the lack of quantitative data. The OCA decries the lack of quantitative data, rebuts the Postal Service's contentions regarding capacity constraints, and suggests the proposal violates fairness and equity constraints. Popkin also offers several criticisms of the nonresident fee.

(1) Carlson

Witness Carlson testifies he purchases box service in an office outside his resident ZIP Code, one that is inconvenient to him, because the delivery service is better at that office. He contends that a nonresident fee would unfairly penalize him for seeking to remedy an existing inequity. Tr. 8/2515. He provides examples of two other "nonresident" box holders who obtain service for reasons other than convenience or prestige. One seeks better service, and the other chose his post office box location for safety reasons. Id. at 2520.

Witness Carlson claims that because the Postal Service conducted no survey to determine why people obtain nonresident boxes, the nonresident fee proposal is "based on an assumption." Id. at 2523. He calls the Postal Service assertion that nonresidents value their boxes more than residents "naive and unrealistic." Id. at 2519.

(2) The Office of the Consumer Advocate

OCA witness Callow testifies that cost attribution is central to postal rate setting and contends the Postal Service has not presented adequate cost data to support the proposed nonresident fee. He points out that "no studies were conducted on the frequency of cost-causing behaviors by resident and nonresident box holders." Tr. 5/1525. He also claims that although Postal Service witness Landwehr describes greater administrative burdens caused by nonresidents, the Postal Service fails to quantify any extra costs.

Witness Callow also disputes the Postal Service claim that a nationwide shortage of boxes exists. Using the Service's Post Office Box Study he calculates that only 5.25 percent of offices had no boxes of any size available, and that only 5.47 percent had no size 1, 2 or 3 boxes available. Id. at 1531. He states that the Survey presents no evidence that any shortages that may exist are caused by nonresident box holders.

In response, Postal Service witness Lion presents rebuttal testimony that stresses the importance of distinguishing "available capacity" from "installed capacity" and suggests that post office box sections may be at "full capacity" at a utilization rate of less than 100 percent. Tr. 9/3531. He claims that "[f]or individual post offices, the number of available boxes is normally less than the number of boxes installed." Id. at 3533 (emphasis in original). This is due to the fact that some boxes may be broken, in the process of being closed out, have missing keys, or are unavailable for some other reason. Although the Postal Service has no measure of a utilization percent that represents "full capacity," witness Lion testifies that 98 percent rental is a reasonable assumption. Using this assumption he calculates that 13.8 percent of all post office boxes are found in offices that are at "full capacity." Id. at 3536.

The OCA counters that "[t]hese measures are purely speculative and cannot be applied in this proceeding. . . ." OCA Brief at 122. The OCA claims that since the Postal Service has no direct measure of the appropriate capacity utilization rate, the data are irrelevant.

In addition, the OCA maintains that Postal Service witness Needham's examples of other businesses that charge nonresident fees are unsupported and irrelevant. Id. at 115. The OCA charges that the Postal Service's proposal violates § 3622 (b) (1), and § 403 (c) of the Postal Reorganization Act because it is inequitable and unduly discriminatory. Id. at 125.

The Postal Service concedes that its proposal is discriminatory yet insists that it is not unreasonably so. Postal Service Reply Brief at 67.

(3) Popkin

Popkin characterizes the Postal Service's nonresident fee proposal as "arbitrary" and "discriminatory." He wonders why, if nonresidents are a source of problems, the Postal Service is encouraging their business through advertising campaigns. He claims that witness Needham has failed to demonstrate the relevancy of her examples of other nonresident fees. He condemns the lack of quantitative cost data. He finds the "ever changing" nature of the proposal particularly disturbing and claims that the Implementation Status reports have further confused the issues. Popkin Brief at 2-3.

d. Commission Analysis

The Commission finds the Postal Service's nonresident fee proposal ill-conceived, and not supported by substantial record evidence. Consequently, the Commission does not recommend it. The Postal Service has not adequately explained why it is appropriate for a national postal system to charge some customers more than other customers for the same service. The Service has failed to justify implementing a nationwide fee to resolve what appear to be isolated problems. Its evidence supporting the proposal is sparse and in some cases irrelevant.

(1) The Postal Service's Proposal is Unclear

The Postal Service's proposal lacks precision. The Service's own witness Landwehr admits "there is no real clear definition of a resident-nonresident, not an official definition." Tr. 3/467. Witness Needham characterizes the definition of a nonresident given in her testimony as "a guideline . . . and should not be taken as the end-all or what will be implemented if this is recommended and approved, but merely a suggested guideline." Id. at 736. Throughout oral cross-examination, witness Needham testifies that various issues will be worked out during implementation. Id. at 736, 789, 791, 807, 809, 813, 855, and 886. However, when asked "how will the final implementation be conducted, determined, agreed upon, issued?" she responds, "I am not sure of that." Id. at 802.

Without a definition of "nonresident" it is impossible to assess the impact of the nonresident fee.

(2) Absence of Cost and Revenue Data

The dearth of quantitative data supporting the nonresident proposal is particularly troublesome. No cost studies were done, no "value of service" interviews were conducted, and no impact analysis was performed. Of course, without a definition of a nonresident, collecting quantitative data is virtually impossible.

The anecdotal data provided are also inadequate. Library Reference SSR-105 contained a total of 11 examples of post offices facing capacity constraints. These data were later supplemented with information on 25 additional post offices facing similar problems. Tr. 3/715-17. The 1995 financial statements show 28,392 post offices in operation. The Postal Service appears to have based its proposal on a small proportion of total postal facilities. Witness Needham proclaims, "I do not believe fairness and equity, and the public interest, can be determined on an individual-by-individual basis." Id. at 650. However, the sparse information provided is not sufficient to sustain a fee that would be imposed on users nationwide. The Service is asking the Commission to recommend a national fee that is based on data from a few individual post offices. It has provided no evidence that these facilities are representative of postal facilities nationwide.

The anecdotal information provided does not demonstrate that nonresidents are the source of extra costs. In a colloquy between witness Landwehr and Douglas Carlson it becomes apparent that a direct correlation between cost causing behavior and resident status has not been established:

> Carlson: . . . do you have any evidence that nonresident box holders are more likely to commit the acts described earlier than resident box holders?

Landwehr: No.

Id. at 488.

> Carlson: . . . if those nonresidents obtain box service at another post office of which they were a resident, the Freedom of Information Act request would still be served?
>
> Landwehr: Right . . .

Id. at 490-91.

> Carlson: . . . [d]o you know how [the postmaster of Blaine, WA] determined that the waste he saw in the lobby came from the nonresident box holders?
>
> Landwehr: That's just based on his knowledge of the office.
>
> Carlson: So we have no evidence that he --
>
> Landwehr: He's done no study, if that's what your saying, or interviewed . . .

Id. at 492.

Similarly, there is no evidence that capacity constraints, as manifested by waiting lists, are due to nonresident box holders. Witness Needham admits, "it is impossible, with the information currently available, to demonstrate any correlation between the number of non-resident boxholders and the number of applicants on waiting lists for post office boxes at facilities.. . ." Id. at 683.

There is also no evidence, beyond speculation, that nonresidents value box service more than residents do. Witness Needham cites the articles submitted in LR-SSR-105 as evidence that nonresidents rent boxes as a means of obtaining prestige. However, none of the articles contain interviews with nonresident box holders elucidating their reasons for box rental. One article specifically states that "getting residents of other towns to talk about why they rent a Middleburg box isn't easy "

SSR-105 at 5. In fact, the one comment from a nonresident box holder the reporter was able to elicit was "[prestige] doesn't matter a damn bit to me. I don't know anything about social status or anything of that nature." Ibid. Furthermore, the Postal Service has made no attempt to compare the value received by nonresident box holders with the value received by resident box holders.

(3) Other Nonresident Fees

During oral cross examination, witness Needham describes other nonresident fees that she is aware of, and suggests that these fees are comparable to the Postal Service's proposal. Two such fees are for the Arlington County Vacation Camps and Fairfax County golf courses which charge more for out-of-county patrons than for county residents. Tr. 9/3454. Under cross-examination, witness Needham was unable to state with certainty whether all administrative costs for these programs are paid for with revenue generated from the fees. Id. at 3467-72. She conceded that capital expenses related to these services were probably paid by county residents. Id. at 3473.

It is difficult to see the link between these fees and the Postal Service's proposed nonresident fee. Capital expenses related to the construction of postal facilities are financed by system-wide revenues, not revenues generated from the residents of the area where the facility is built. In addition, as David Popkin observes, "it is the object of county governments to provide services to residents of their county. The United States Postal Service is established to serve all of the residents of the United States." Popkin Brief at 2.

The other examples witness Needham cites are movie theaters and Erol's, a video rental chain that charged a fee for returning a movie to a branch other than the one from which it was rented. During oral cross-examination, witness Needham allowed that this fee may have been based on the cost of transporting the movie back to the originating branch. Tr. 9/3478.

Again, it is difficult to discern the connection between these fees and the Postal Service's proposal. The Postal Service has not provided any evidence that nonresident box holders, on the whole, are more costly to serve than residents. Also, the service fee at Erol's was not based on residency, as the proposed Postal Service nonresident fee is, but rather on a service option.

Perhaps the closest example to the proposed nonresident fee is a movie theater that charges more for evening shows. This appears to be strictly a demand-based fee difference. However, demand for evening shows can be directly measured from ticket sales, while for the proposed nonresident fee, the Postal Service does not know what a nonresident is, let alone how many boxes are currently rented by nonresidents.

(4) Requirements Under Title 39

Section 3622(b)(1) of Title 39 of the United States Code requires that fees be set in accordance with "the establishment and maintenance of a fair and equitable schedule." Section 3623(c)(1) requires that classification changes be made in accordance with "the establishment and maintenance of a fair and equitable classification system for all mail." The Postal Service's nonresident fee proposal fails to meet either of these requirements. Witness Needham claims that the nonresident fee is fair and equitable because it recognizes that nonresidents have chosen to rent a box outside of their local post office. USPS-T-7 at 34. This does not justify charging an extra fee.

Sections 3622(b)(2) and 3623(c)(2) direct that rate and classification changes be made in accordance with the "relative value" to the users. The Postal Service has provided no quantitative data establishing that the value of service for nonresident box holders is greater than that received by resident box holders. Unless the Postal Service can establish that nonresident box holders are receiving enhanced service or perceive greater value than residents, there is no basis for charging them more. The Service has not established any difference in service or demand.

A third criterion for setting rates is the requirement that each type of mail or mail service bear the direct and indirect costs attributable to that class or service. No quantitative cost data regarding nonresident box holders were provided by the Postal Service. Therefore, it is impossible to know if this requirement is met.

Finally, a fourth criterion states that the effect on the general public must be considered. The Postal Service does not know which box holders will be considered nonresidents, nor does it know how many box holders will be considered nonresidents. Therefore, it cannot know the impact of the fee. For all of these reasons, the Commission does not recommend an added fee for nonresidents renting post office boxes.

4. Caller Service

a. Description of Service

Caller Service is a premium service, provided for a fee, that allows customers to pick up their mail at the post office call window or loading dock during normal operating hours. All caller service customers, including those using a post office box, are assigned a caller service number. Currently, caller service is available only in Group I offices, although customers in Group II offices may receive a similar service when no boxes of the appropriate size are available. Customers in Group II offices who receive equivalent service pay the fee for the largest box offered at the facility.

b. The Postal Service's Proposal

The Postal Service proposes to extend regular caller service to Group D offices and to charge a uniform caller service fee of $500 annually at all offices. Witness Needham testifies that a uniform fee would simplify the fee schedule. She states that 90 percent of caller service costs are labor related, which are uniform nationwide. Consequently, differences in caller service fees are not justified. USPS-T-7 at 23.

The proposal would result in a 0 percent increase in the Group A fee, a 4 percent increase in the Group B fee, and an 11 percent increase in the Group C fee. Customers in Group D offices who cannot currently obtain caller service would also be charged the annual $500 fee if they choose to purchase regular caller service. USPS-T-4, Workpaper C.

c. Intervenor Positions

The OCA and the ABA oppose the Postal Service's caller service proposal.

The OCA argues that while fee increases may be warranted, no cost data to support the proposal has been presented. Tr. 7/2304.

The ABA claims that the caller service proposal unjustly burdens First-Class Mail users because the majority of mail delivered via caller service is First-Class Mail. ABA Brief at 3. The Postal Service responds that this argument has no value, because it is the users of caller service, not the mailers, that will be paying the higher fees. Postal Service Reply Brief at 74.

d. Commission Analysis

The Commission recommends extending caller service to Group D offices, while retaining the existing practice of allowing customers to receive mail at the window if no appropriate size boxes are available.

There is no evidence that caller service is priced below cost. No errors have been identified, and no improvements have been made to the service. The Commission therefore recommends no change in fees for Groups A, B and C. The Commission recommends setting the Group D caller service fee at the current Group IC annual rate of $450.

5. Financial Impact of Commission Recommendation

Using the implicit price elasticity calculated at Postal Service prices, the Commission recommendation for Group A, B and D fee increases and the extension of caller service to rural offices results in a volume loss of 410 thousand box rentals. After rates revenue is estimated at $551.3 million, an increase over before rates revenue of $30.6 million. After rates attributable costs are estimated at $523.2 million. *See* Appendix D. Delivery costs increase by $20.9 million as a result of box holders converting to carrier delivery. The cost of clerks sorting mail to post office boxes decreases by $12.5 million. [*See* Appendix C.] After rates contribution to institutional costs is $28.1 million. Under the Commission's recommendation the cost coverage for post office box service, including caller service, is 105 percent.

B. Certified Mail (SS-5)

1. Introduction

Certified mail service provides the sender with a mailing receipt and a means for confirming that the mail is delivered. Although the Postal Service dispatches and handles certified mail as ordinary mail, a carrier or clerk must return a signed delivery notice to the accountable section, thus providing a record of delivery at the post office of delivery. DMM § S912.1.1 and USPS-T-8 at 60 (Needham). "Certified mail provides accountability for mailing documents with no monetary value" and has proven to be a useful alternative to higher-priced registry service. USPS-T-8 at 60.

Eligibility for certified mail service is restricted to First-Class Mail and Priority Mail. DMM § S912.1.2. Mailers may also purchase return receipt service or restricted delivery service in conjunction with certified mail. USPS-T-8 at 60. Mailers using certified mail include individuals, corporations, and government agencies. According to the market survey conducted for this case,[21] 92 percent of certified mail users select it because of the return receipt feature, 87 percent cite the accountability feature, 45 percent cite the audit trail and record, and 29 percent choose it because of a legal requirement. USPS-T-8 at 66. *See also* ABA Brief at 3-6.

The volume of certified mail has almost quintupled since the Postal Reorganization, increasing from 55.7 million transactions in 1970 to 267.6 million in 1995. USPS-T-8 at 61-62. Revenue has increased from $24.6 million in 1970 to $527.2 million in 1995.[22] Id. at 63-64.

The Postal Service proposes to increase the fee 36 percent from $1.10 to $1.50. The OCA, ABA, and David Popkin oppose the increase. As discussed below, the Commission is recommending an increase of 25 cents, raising the fee to $1.35.

2. Postal Service Proposal

The proposed $1.50 fee is expected to generate $110.1 million in additional net revenue, or 32 percent of the additional net revenue from the MC96-3 proposal ($339.4 million). USPS-T-1, Exhibit A. In its Request, the Postal Service proposed

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[21] USPS-LR-SSR-110.

[22] These revenue figures include return receipt and restricted delivery.

increasing the cost coverage from 107 percent to 146 percent.[23] USPS-T-8 at 71. The Service's cost coverage calculation does not reflect the cost attributions approved in Docket No. R94-1.

Witness Lyons testifies that the proposed increase does "not violate principles of fairness and equity" (Criterion 1) and is reasonable when viewed in perspective because the average cost increase for households will be only $2.40 a year for using certified mail and return receipt jointly. USPS-T-1 at 17 and 19.

Witness Needham states that certified mail has a high value of service to both sender and recipient (Criterion 2) because: (1) certified mail has a prestige factor; (2) it is more likely to receive the attention of the recipient; (3) the recipient is more likely to open, read, and respond; (4) a desire for proof of delivery indicates a high value of service to the sender, especially in combination with return receipt; and, (5) certified mail's own-price elasticity is between -0.2 and -0.3. USPS-T-8 at 69-70.

Witness Needham asserts that at current rates certified mail covers its attributable cost and makes only a small contribution to institutional cost (Criterion 3). She testifies that the current cost coverage is only 102 percent. She explains that the proposed cost coverage (139 percent) is below the system average and is low for a highly valued product. Witness Needham points out that the Postal Service has changed its "practice of including return receipt revenue but not return receipt costs in the certified mail cost coverage calculation." Id. at 71. Accordingly, she presents current and proposed cost coverages that reflect only certified mail costs and revenues. Ibid.

Witness Needham expects no severe hardship from the proposed increase (Criterion 4). She claims that since alternatives to certified mail are very expensive,

[23] On rebuttal, Needham testifies that the Postal Service adjusted the cost coverages in response to Presiding Officer Information Request No. 5. The revised TYBR cost coverage is 102.1 percent and the revised TYAR cost coverage is 139.2 percent. Tr. 9/3452.

certified mail provides an inexpensive way to obtain proof of delivery even with the proposed increase. She also believes that certified mail fees are likely to be only a small part of a firm's total cost. Id. at 72.

Based on a marketing survey, witness Needham states that available alternatives are more expensive (Criterion 5). She emphasizes that even with the increase, alternatives will cost on average $10 more than certified mail. Ibid. Witness Steidtmann contends that the increase "comports with industry practices" because comparable services exist at higher prices. USPS-T-2 at 5-6. The Postal Service asserts that its market research supports the fee increase and that the proposed fee is better aligned with market conditions, since substitutes for certified mail are priced much higher. Postal Service Brief at 77.

Witness Needham testifies that the fee is simple (Criterion 7) and that the proposed combined fee of $3.00 for certified mail and return receipt is easy to remember. USPS-T-8 at 73.

Witness Needham contends that the Postal Service would have considered increasing the fee more than 10 percent in Docket No. R94-1, if not for the Service's across-the-board proposal for increasing rates. Quoting Postal Service witness Foster from that case, witness Needham suggests that a higher fee is now warranted, not only because this service is valuable, but also because certified mail has received relatively low increases during recent years. Id. at 68. For these reasons, witness Needham believes that the proposed fee is fair and equitable (Criterion 1). Id. at 73.

The Postal Service adds that operational improvements also justify the fee increase. Postal Service Brief at 81. Witness Needham testifies that the Service has added a "print name" block to all accountable forms, fluorescent tags to certified mail labels, and deployed certified mail detector equipment for use with automated mail processing equipment. Tr. 4/1063-64 and 1079. The Postal Service explains that the print name blocks help to decipher illegible signatures and that the addition of fluorescent tags enhances its ability to identify certified mail in the automated mail stream since visual identification has become difficult with the growth in automation processing. Postal Service Brief at 81-82.

3. Participant Views

The OCA, ABA and David Popkin raise essentially five areas of concern: (1) the reliability of the underlying data; (2) the justification for an increase; (3) the potential abuse of monopoly power; (4) the impact on mailers; and, (5) linking the fees for certified mail and return receipt.

The reliability of the underlying data. OCA witness Collins contends that Postal Service witnesses present inconsistent costs and revenues. She observes that in response to interrogatories from the OCA, the Postal Service has revised cost coverages several times. She notes that the Postal Service has calculated the Docket No. R90-1 cost coverage for certified mail as 65 percent, 131 percent, 127 percent, and again as 65 percent. Tr. 5/1697. According to witness Collins, witness Lyons testifies that the Postal Service has made structural changes to the costing of certified mail; but witness Needham testifies that the structural change applies to cost coverage, not costing. Witness Collins reports that witness Needham also states that the Postal Service has incorrectly calculated the cost for certified mail in past cases. Id. at 1757-59. The OCA also accuses the Postal Service of stubbornly resisting to supply corrected data. OCA Brief at 135.

Witness Sherman adds that the costs and revenues are unclear, because witness Patelunas shows current and test year after rates cost coverages of 202 percent and 271 percent, respectively, while witness Needham shows 107 percent and 146 percent, respectively. Tr. 7/2289.

Witness Collins further charges that the Postal Service only adds to the confusion by changing the calculation of certified mail volumes in the CRA between FY 1994 and FY 1995 to include volumes for merchandise return receipt, while at the same time apparently excluding these volumes from the test year volumes in this case. Witness Collins concludes that there should be no increase in the fee until the Postal Service completely explains the methodology for developing certified mail costs. Tr. 5/1699 and 1757-59, and OCA Brief at 141.

In sum, OCA claims that the proposed fee increase is not supported by substantial evidence, and should not be adopted. OCA Brief at 145-46.

The justification for a fee increase. Witness Collins criticizes the fee increase as an unjustified attempt to raise revenues unrelated to any classification change. Tr. 5/1694. She also opposes the increase because unit attributable costs decreased 17.6 percent between FY 1994 and FY 1995, and she points out that the current fee of $1.10 is expected to cover attributable costs in the test year. Id. at 1699-1700.

The OCA argues that the Commission cannot recommend an increase in the fee on the grounds that past shortfalls must be recovered, because the Postal Service has not introduced evidence showing that certified costs have exceeded revenues. Moreover, the OCA claims that even if shortfalls have occurred, the Service has not offered any proof that past errors have caused the alleged revenue shortfalls in certified mail. OCA Brief at 143.

OCA contends that the two operational improvements the Service uses to justify raising the fee are too insignificant to warrant any increase. The OCA states that the utility of the added "print block" is marginal because most mailers know the name of the recipient and so are likely able to read the signature. The OCA also observes that Needham has provided no evidence showing that mailers have a problem reading the signature. OCA Reply Brief at 28. Further, the OCA asserts that the addition of fluorescent tags primarily benefits the Postal Service, not the mailers. For these reasons, the OCA concludes the operational improvements do not support a fee increase. Id. at 29.

David Popkin also argues that mailers will not receive the service they are paying for because the Postal Service has "installed Certified Mail detectors at only 52 [percent] of the barcode sorters and have not even established an implementation schedule for installing them at the remaining units." Popkin Brief at 6.

The proposed increase is an abuse of monopoly power. The OCA charges that witness Needham justifies the proposed increase in part on the basis of the price insensitivity of certified mail, given the few, higher-priced alternatives. The OCA alleges that this is only an exercise in monopoly power and that the fee increase "must be rejected as inconsistent with the Postal Service's public service obligations." OCA Brief at 148. ABA agrees that the Postal Service is exercising monopoly power. ABA Reply Brief at 1. Witness Sherman testifies that the proposed increase is an exercise in market or monopoly power, which he characterizes as the power to influence price. He asserts that this power comes from being insulated from competition, as evidenced by the higher priced alternatives to certified mail. Tr. 7/2277, 2290, and 2323. For this reason, witness Sherman also opposes the fee increase.

ABA also alleges that there is a lack of available alternatives at a reasonable cost and that the Commission should rely on criterion 5, among others, to deny the request. ABA Brief at 8.

David Popkin alleges that the only alternatives to certified mail are expedited services. Based on these observations, he concludes that the Service's proposed fee increase only takes advantage of mailers who have no other practical choice. Popkin Brief at 6.

Impact on mailers. Witness Collins contends that a 40 cent increase is unwarranted because it will have a negative impact on users. Tr. 5/1700.

ABA claims that the proposal is neither fair nor equitable, because First-Class mailers will bear the entire increase, since all certified mail is First-Class Mail and because there are many legal statutes requiring the use of certified mail. ABA Brief at 3-6. However, whereas the OCA believes small mailers are the target of the increase, ABA asserts that large mailers as well as small are required to use certified mail and are also unfairly burdened by this proposal. ABA Reply Brief 1-2.

Linking certified mail and return receipt. The OCA argues that there is no reason to link the fees for certified mail and return receipt by equating them and that this Postal Service justification should be disregarded. OCA Brief at 148-49.

David Popkin argues that the Postal Service's claim that setting the fees for certified mail and return receipt at $1.50 make the fees easy to remember is not well-supported on the record. Popkin Brief at 6.

4. The Postal Service's Response

The reliability of the underlying data. Witness Needham explains that historically the CRA has included ancillary revenues for return receipt and restricted delivery with the revenue for certified mail. However, she contends that as the pricing witness, she must subtract the ancillary revenues from the certified mail revenues so that the cost coverage will not be inflated. She claims that past recommended fees, based on cost coverages inflated by incorporating revenue from other services, "will likely be too low." Tr. 9/3449.

Witness Needham testifies that the Postal Service made mistakes in Docket Nos. R90-1 and R94-1.[24] In Docket No. R94-1, the Service failed to exclude the ancillary revenue in its presentation, and therefore the Commission's expectation that its recommended fee would produce a cost coverage of 170 percent was in error. Tr. 9/3450. Witness Needham states that when the correct revenues are used, the test year cost coverage reduces to 94.8 percent. In Docket No. R90-1, witness Needham

[24] During cross-examination, witness Needham also testified that the Postal Service made mistakes in calculating cost coverage for certified mail in Docket Nos. R84-1 and R87-1. Tr. 9/3512.

asserts that the Service correctly calculated the revenue, but it mistakenly subtracted ancillary service costs from the attributable cost for certified mail. She observes that the Commission did not remove the ancillary service costs from the cost of certified mail, but it did include ancillary revenue. Although the Commission's estimates showed its recommended fee would produce a cost coverage of 124 percent, witness Needham contends that using the correct revenues reduces the test year cost coverage to 65 percent. Id. at 3450-51.

In this docket the Postal Service has attempted to present certified revenues without the ancillary service revenues. Witness Needham states that the Postal Service mistakenly included revenues associated with merchandise return receipt volumes; however, the Service corrected the record in response to P.O. Information Request No. 5. After correction, the Service's TYBR cost coverage is 102 percent and the TYAR cost coverage is 139 percent. Id. at 3451-52.

The Postal Service posits three additional reasons why the OCA's criticism fails. First, the OCA's claim that the Postal Service has "stubbornly resisted" providing answers is unfounded because after the discovery period, the Service offered to answer any further questions the OCA might have. The OCA never provided any further requests. Postal Service Reply Brief at 77. Second, since witness Needham testifies that the past errors reflect a systems problem, the past errors of pricing witnesses should not be surprising. Postal Service Reply Brief at 78 and Tr. 9/3449. Third, given the ample explanation witness Needham has provided, the Service questions whether any amount of documentation would ever satisfy the OCA. Postal Service Reply Brief at 78.

The justification for a fee increase. witness Needham asserts that certified mail users have been paying fees below cost or lower than they should have been. She believes that now is the time to remedy these past errors, because certified mail users have been paying exceptionally low fees for an extended period of time.

Tr. 9/3453, Postal Service Brief at 78. The Postal Service observes that OCA witness Sherman agrees that the Commission should take steps to repair past faulty decisions.[25] Postal Service Brief at 80.

The potential abuse of monopoly power. In response to the OCA's argument, the Postal Service cites the testimony of witness Taufique that the fee increases are aimed at the modest objectives "to cover their attributable costs or provide a reasonable contribution to institutional costs, or both." Postal Service Reply Brief at 79 and Tr. 10/3640. Thus, the Postal Service argues that this is not an exercise in monopoly power but rather an exercise in bringing cost coverages into conformance with § 3622(b)(3). Postal Service Reply Brief at 79.

In response to ABA, the Postal Service states that the proposed fee is only a fraction of the price of alternative services, thus the proposed fee is not unreasonable. Since certified mail users have been enjoying low rates because of past errors, the Postal Service concludes that it would be unfair to allow these mailers to continue to benefit. Id. at 80.

Impact on mailers. In response to ABA, the Service marshals three arguments. First, the Service argues that ABA has introduced no evidence supporting its contention that cost coverage for certified mail must be held artificially low because some mailers are required to use it. Postal Service Reply Brief at 79-80. Second, the Service claims that some mailers are now required to use First-Class Mail, but its cost coverage is much higher than the proposed cost coverage for certified mail. Thus there is no reason for preserving the status quo. Id. at 80. Third, the Postal Service observes that laws requiring the use of certified mail have been relaxed, and this trend will likely continue. Id. at 81.

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[25] OCA claims that the Service mischaracterizes Sherman's testimony concerning remedial action for past shortfalls. The OCA explains that Sherman believes "making up for such shortfalls with certified mail fee increases should only occur (if at all) at a very, slow pace over a series of rate proceedings." OCA Reply Brief at 27-28.

5. Commission Analysis

The reliability of the Service's data. The OCA argues that the Postal Service has not adequately explained the history of its cost and revenue calculations from omnibus rate case to omnibus rate case beginning with Docket No. R84-1, especially in light of the errors the Postal Service admits making. As a result, the OCA believes the Commission should recommend no increase in the fee until the Service provides full documentation. The Postal Service, to the contrary, claims it has provided the documentation. The Commission agrees. Indeed, in its responses to the OCA and to Presiding Officer's Information Requests, the Postal Service has been quite forthcoming in admitting and explaining past calculation errors. The Commission expects the Service to incorporate corrections in future CRA presentations. These mistakes are not fatal to the Postal Service case in this proceeding. While the Commission must have reliable base year and test year data to support a recommended decision, the Commission finds that the flaws in the calculation of certified mail cost coverage have been identified and corrected.

The preamble to Question No. 1 of Presiding Officer's Information Request No. 5 states that "[e]valuation of cost coverages requires reliable cost, revenue, and volume estimates." The purpose of Presiding Officer's Information Request No. 5 was to clarify the record concerning certified mail revenue, cost, and volume data. To that end, the Commission presented cost and volume data to the Postal Service for it to confirm. Crucial to that presentation was a volume adjustment for the test year before and after rates. The adjustment reflects the use of actual billing determinants for certified mail, excluding ancillary service volumes, in the base year and as a basis for projecting the volumes before and after rates.[26] The Postal Service confirmed that the

[26] The Postal Service uses a forecasted base year, not actual billing determinants, as the basis for estimating test year volumes. Tr. 8/3019-20.

attributable costs for certified mail reflect only certified mail and not any ancillary service costs. The Postal Service also validated the test year volume adjustment as appropriate. Tr. 8/3019-23 and 3076. No party has raised a question concerning this adjustment. The Service's responses to questions provide satisfactory explanations enabling the Commission to understand the Postal Service methodology. *See* Tr. 8/3047, 3054, 3062-64, 3076, and 3100. The attributable costs and revenues for certified mail are not tainted with data from ancillary services, and the Commission can rely on these data for the purpose of recommending a fee.

The justification for a fee increase. The OCA is correct that there is no meaningful classification change proposed for certified mail; however, it is apparent that current fees for certified mail were premised on flawed data reporting systems. As a result, both the Docket No. R90-1 and Docket No. R94-1 recommended fees resulted in cost coverages below 100 percent in the test year. Tr. 9/3450-51 (Needham). This is unfair to other mailers who may have to shoulder an additional institutional cost burden (Criterion 1). The Commission agrees with the Postal Service that certified mail users have been paying unjustifiably low fees for an extended period of time, and that the opportunity to use the correct revenue data is a sufficient basis for recommending changes in fees. However, there remains the question of how much of an increase to recommend.

Absent extenuating circumstances, the cost coverage for certified mail should be similar to the cost coverage for First-Class and Priority Mail since certified mail provides high value to both senders and recipients over and above the inherently high value of First-Class service. DMM § S912.1.2 and USPS-T-8 at 69-70. In Docket No. R94-1 the Commission recommended cost coverages for First-Class and Priority Mail above the system average cost coverage (Criterion 2). PRC Op. R94-1, Further Recommended Decision, Appendix G, Schedule 1. In the past the Commission has recommended fees which it believed would produce a cost coverage for certified mail above the system average. PRC Op. R94-1, Further Recommended Decision, Appendix G, Schedule 1; PRC Op. R84-1, paras. 5710-11 and PRC Op. R87-1, paras. 6093-94. However, raising the cost coverage to even the system average would require a very large percentage increase in the current fee. The Service proposes a 40-cent increase in the fee, which is a 36 percent increase. An increase of this magnitude might have a negative impact on mailers and § 3626(b)(4) directs the Commission to take into account the impact of fee changes on mailers. This is particularly pertinent for mailers that must use certified mail because of a legal requirement. Tr. 7/2289.

The Commission does not often recommend increases of this magnitude, except when required to raise subclasses above the attributable cost floor. The Postal Service has presented no pressing revenue need or other consideration that offsets Commission responsibilities under § 3622(b)(4) and (5).[27] In light of the fact that there will shortly be another opportunity to further increase the certified mail fee in the next omnibus rate proceeding, the Commission can best meet its obligation to avoid unnecessarily severe impact on users, especially users who have no practical alternatives, by moderating the fee increase for certified mail. Consequently, the Commission recommends a fee of $1.35, a 23 percent increase. This will produce a cost coverage of 124 percent.

Abuse of market power. Both the OCA and ABA claim the Postal Service is exercising monopoly power with its certified mail fee proposal. The OCA contends that this behavior is inconsistent with the Service's public service obligation.

The recommended fee is not an abuse of market power. The cost coverage for certified mail should be similar to the cost coverage for First-Class and Priority Mail. The recommended cost coverage is expected to be substantially less. Moreover, the

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[27] As noted earlier, recent actual financial results are more favorable than the projections included in the Service's Request.

fee change is intended as a first step toward correcting for past errors in revenue data, not for exploiting monopoly power. In this regard, the strategy mirrors OCA witness Sherman's suggested approach of a slow transition to the appropriate rate. Tr. 7/2481.

Impact on mailers. Although the increase will fall on First-Class mailers, it is fair and equitable. Due to data reporting errors, the current fee does not cause users of certified mail to make a reasonable contribution to institutional costs, and this is unfair to other mailers. Because of past errors in calculating cost coverages for certified mail, other mailers have shouldered a heavier burden of institutional cost. Thus, remedial action is necessary; however, the Commission is tempering the amount of increase, meeting the concerns OCA and ABA raise about impact on mailers (Criterion 4).

Equating the fee for certified mail and return receipt. The Postal Service proposes to continue to equate the fees for certified mail and non-merchandise return receipt to simplify rates (Criterion 7). However, the Commission agrees with Popkin that the Service's contention that its proposed rates are easier to remember than other rates is not well supported on the record. The Commission also agrees with OCA that there is no persuasive reason to link the fees for these two services. The current cost coverage for certified mail is unreasonably low as a result of past errors and requires remedial action. Return receipt does not suffer from any deficiency and requires no remedial action. Under existing conditions, the Commission can not reasonably equate their fees.

Test year volumes and revenues. To project test year volumes, the Commission accepts the Postal Service's methodology contained in USPS-LR-SSR-135. However, consistent with Postal Service testimony, the Commission replaces the Postal Service forecast of base year volume with actual base year volume from the billing determinants, reflecting only certified mail, to project test year before and after rates volumes, costs, and revenues. The Commission's calculations are contained in LR-PRC-3. The recommended fee is expected to produce $68 million in additional certified mail net revenue.

C. Return Receipts (SS-16)

1. Introduction

Return receipt service provides the mailer with proof of delivery. There are currently three levels of service: (1) return receipt requested at the time of mailing that provides the mailer with the signature of the recipient and the date of delivery; (2) return receipt requested at the time of the mailing that provides the mailer with the signature of the recipient, the delivery date, and the recipient's address; and, (3) return receipt requested after the mailing which provides the mailer with the name of the signing recipient and the delivery date. USPS-T-8 at 75.

Return receipt service has separate fees for non-merchandise and merchandise. The fees for merchandise are slightly higher than the fees for non-merchandise. Mail eligible for non-merchandise service is limited to COD, Express Mail, insured mail over $50 in value, registered mail, and certified mail. Merchandise service is available for First-Class Mail, Priority Mail, and Standard Mail. Only non-merchandise is eligible for return receipt service after the mailing. USPS-T-8 at 75. In 1995, non-merchandise signature and date service accounted for 89 percent of total return receipt transaction volumes. Since 1984, the percentage has varied from 89 percent to 97 percent. Ibid.

Since 1970, return receipt transactions have quadrupled from 60.2 million to 240.7 million in 1995. Historically, return receipt service and certified mail have a complementary relationship. In 1995, 88 percent of return receipt volume was attached to certified mail, while 79 percent of certified mail volume also had return receipt attached. USPS-T-8 at 81-82.

The Postal Service proposes to modify return receipt service and to limit eligibility for merchandise service to Priority Mail and specified subclasses of Standard Mail. Id. at 74. It proposes that the lowest fee for return receipt rise from $1.10 to $1.50 The OCA, Douglas Carlson, and David Popkin oppose the proposed fees. The Commission recommends the Postal Service's proposed classification changes, but it finds the current minimum fees of $1.10 for non-merchandise service and $1.20 for merchandise service sufficient. The Commission recommends the Service's proposal to retain the current fee ($6.60) for return receipt service requested after the mailing.

2. The Postal Service Proposal

Witness Needham presents the details of, and rationale for, the Postal Service proposal. This section follows her organization beginning with a description of the proposal, the rationale for the proposal, how the proposal satisfies the classification criteria, and how the proposal satisfies the pricing criteria. Witness Steidtmann also provides some support for the proposal.

Description of the proposal. The Postal Service proposes to eliminate the two options available at the time of mailing and to create instead a new category that provides the mailer with a signature, a delivery date, and the delivery address, if different from the address on the mail piece. The table below shows the proposed changes in the fee structure.

Table 6

COMPARISON OF RETURN RECEIPT FEE STRUCTURE, CURRENT AND PROPOSED

Return Receipt Service	Current	Proposed
Non-Merchandise		
To Whom & Delivery Date	$1.10	Eliminate
To Whom, Delivery Date, & Address	$1.50	Eliminate
To Whom, Delivery Date, & Address, if different	N/A	$1.50
Merchandise		
To Whom & Delivery Date	$1.20	Eliminate
To Whom, Delivery Date, & Address	$1.65	Eliminate
To Whom, Delivery Date, & Address, if different	N/A	$1.65
Requested after Mailing (Non-merchandise only)	$6.60	$6.60

N/A = Not applicable because the service level does not currently exist

Source: USPS-T-8 at 74.

Currently, First-Class and Priority Mail are eligible for merchandise return receipt service. Id. at 75. However, the Postal Service has a difficult time ensuring that lightweight mail pieces using merchandise return receipt service actually contain merchandise, primarily because First-Class Mail is sealed against inspection. Tr. 4/1124. To mitigate this policing problem, the Postal Service proposes to limit eligibility to Priority Mail, i.e., mail pieces weighing more than 11 ounces. The Postal Service contends that lightweight mail likely contains documents or correspondence, while heavier mail, weighing more than 11 ounces, is more likely to contain merchandise. Tr. 4/1124 and Postal Service Brief at 87. Those sending lightweight First-Class pieces can still qualify for return receipt service by purchasing certified mail service. Tr. 12/1299.

The Postal Service also proposes to remedy an internal inconsistency within the DMCS concerning which Standard Mail subclasses are eligible for merchandise return receipt service.[28]

The Service's presentation shows current fees will produce a test year cost coverage of 127 percent. USPS-T-8 at 92. In calculating cost coverage, the Postal Service uses a special study to estimate the attributable costs for return receipt service. USPS-LR-SSR-104 at 7-9. On this basis, the Postal Service expects its proposed return receipt fees to generate additional net revenues of $89.9 million, USPS-T-1, Exhibit A, and produce a cost coverage of 171 percent. USPS-T-8 at 92.

Rationale. Witness Needham explains that there are four considerations underpinning this proposal. First, she believes that by providing the delivery address when it is different from that used by the mailer, the Postal Service furnishes better service to customers who currently do not request the delivery address She asserts that customers who now request only signature and delivery date will pay a higher fee for this enhanced service, while other customers, who currently request address delivery information, will experience no fee increase. USPS-T-8 at 86.

Second, witness Needham believes the combined proposed fees for certified mail with return receipt, $3.00, is easy to remember for both Postal Service employees and customers. This proposal also continues to equate the fees for certified mail and return receipt. Ibid.

Third, witness Needham states that the proposal simplifies and streamlines the fee structure because the number of fee categories is reduced from five to three, a

[28] DMCS § 362 currently excludes regular subclass, enhanced carrier route subclass, nonprofit subclass, and nonprofit enhanced carrier route subclass from eligibility for merchandise return receipt. For consistency with DMCS § 362, the Service proposes to exclude the same Standard subclasses from eligibility for merchandise return receipt in DMCS § 16.020. *Compare* Postal Service Request, Attachment A at 8 to Attachment A at 16. *See also* USPS-T-1 at 5 and USPS-T-8 at 89, n. 34; Postal Service Brief at 86.

40 percent reduction. Id. at 87. Witness Steidtmann adds that "it is sound retail practice to simplify a product offering." USPS-T-2 at 5. He states that simplifying a product line generally decreases costs in terms of transaction time for both the customer and the service provider. To support this contention, he testifies that the auto industry, rather than continuing to offer many options which proved to be costly, has packaged the most popular options together. He testifies that this approach allows the industry to satisfy the needs of the majority of its customers and to reduce costs because fewer options translates to less complexity. Ibid.

Fourth, witness Needham explains that the proposal to limit eligibility for merchandise return receipt service to Priority Mail and specified subclasses of Standard Mail is intended to recapture the original intent of this service to meet the needs of parcel mailers. She states that the term merchandise has created uncertainty, because it does not clearly exclude documents, and that the Postal Service cannot always verify the contents of letter and flat mail. USPS-T-8 at 87. The Postal Service contends that the proposal would simplify the administration of return receipts and protect against its misuse. Postal Service Brief at 86.

Classification criteria. Witness Needham believes the proposal simplifies the product making it easier for clerks to explain and for customers to understand. She asserts that clerks and carriers delivering the mail will no longer have to determine which option the customer chose, thus saving time. Witness Needham also argues that limiting return receipt for merchandise to parcels creates a simpler and easier to administer system for ensuring eligibility. Accordingly, she believes these features further the interest of a fair and equitable classification system (Criterion 1). USPS-T-8 at 88-89, Postal Service Brief at 88.

Witness Needham contends that basic return receipt service has a high value, and is a desirable classification for both customers and the Postal Service (Criteria 2 and 5). She asserts that adding the address correction feature to the current basic service should increase the value. USPS-T-8 at 89. Witness Needham further states that the proposed address correction feature will promote good address hygiene, thereby enhancing the reliability of subsequent correspondence (Criterion 3). Id. at 90. The Postal Service adds that the restructuring offers improved service to customers and promotes administrative efficiency. Postal Service Brief at 89-90.

Pricing criteria. According to witness Needham, return receipt has a high value of service (Criterion 2) because it "provides an important function in providing the mailer with delivery confirmation." USPS-T-8 at 91. The certified mail survey shows that 92 percent of users cited the return receipt feature as the reason for using certified mail. The Postal Service adds that the addition of a print block on the returned card increases the value of return receipt service. Postal Service Brief at 91. The Service claims that the record shows its "sincere desire to improve return receipt service." Id. at 92. This is supported by a Headquarters memorandum to the field, insisting that delivery managers review their return receipt operation to provide quality service to customers. Ibid. The Postal Service believes that this also increases the value of return receipt service.

As in the case of certified mail, witness Needham testifies that the cost coverage for return receipts reflects only the cost and revenues of return receipts, a departure from past treatment when return receipt revenues were included with certified mail (Criterion 3). Witness Needham asserts that the proposed coverage of 171 percent is closer to the systemwide cost coverage recommended in Docket No. R94-1 than the current cost of 127 percent. Id. at 92. The Postal Service also argues that the proposed cost coverage better reflects the high value of return receipt service (Criterion 2). Postal Service Brief at 92-93.

Witness Needham explains that the Postal Service has considered the impact of the fee increase (Criterion 4) and concludes that it is worthwhile to customers who learn the recipient's new address. Further, witness Needham believes that mailers will want the additional service, assuming the fees are going to be increased. USPS-T-8 at 92-93.

Witness Needham contends that the proposed $1.50 fee for non-merchandise simplifies the current structure and establishes an identifiable relationship between certified mail and return receipts (Criterion 7). Id. at 93. By streamlining the fee structure, witness Needham believes that window clerks will no longer need to explain the different options and associated fees. She notes that the proposal for merchandise return receipts has the same advantages. Ibid.

Based on the criteria described above, witness Needham concludes that the proposal is fair and equitable (Criterion 1). Id. at 94.

3. Participant Views

The OCA and Douglas Carlson largely support the classification changes, but not the proposed fees. David Popkin also opposes the fee increase.

OCA witness Sherman states that eliminating the lower price option forces users to the higher price service level; therefore, the proposal is in effect a price increase. Further, because 90 percent of current users choose the lower price option, witness Sherman characterizes the price increase as substantial. Tr. 7/2291. Popkin alleges that because the majority of users choose the current regular return receipt service, the Postal Service's "proposal is nothing more than forcing a 36 percent price increase on the great majority who are not interested in knowing the address where delivered." Further, he claims that the service has introduced no cost data justifying a 36 percent fee increase. Popkin Brief at 6.

In response to Postal Service witness Steidtmann's comparison of the Service's proposal to the auto industry's bundling of options into pricing packages, witness Sherman testifies that the auto industry's pricing strategy reduced production cost and benefited customers. Witness Sherman contends that the Postal Service proposal provides no such benefit, and therefore cannot justify eliminating consumer choice. He further argues that since providing corrected delivery addresses benefits the Postal Service, the price should be lower, not higher. Tr. 7/2291-92.

Witness Sherman argues that although the current price differential between the two basic options is cost justified, nine-tenths of current customers choose the no address option, indicating that the majority of customers "do not value the additional information as much as they would be charged." He characterizes this as compelling evidence against forcing customers to the higher-priced option. Further, even though simplification of rates is a consideration, Sherman contends that it cannot justify forcing customers to a more expensive service. Id. at 2292-93. Douglas Carlson adds that the proposed service enhancement is not worth 40 cents to customers, because they currently reject this option exercising their free choice. Carlson Brief at 39.

OCA witness Collins recommends the Postal Service's classification change without the fee increase from $1.10 to $1.50. Tr. 5/1702. Her proposal applies only to non-merchandise return receipts. Id. at 1802. In support, she offers three arguments.

First, witness Collins characterizes the classification change as a slight service enhancement. Tr. 5/1704. She agrees with the Postal Service that the classification change will improve address hygiene and that the simplified fee schedule provides an administrative benefit. Id. at 1709. However, she asserts that the additional cost of the enhancement does not justify the proposed 40-cent fee increase. Id. at 1706. Using proxy data[29] from Postal Service witness Needham showing that on average 1.13 percent of return receipts are forwarded, witness Collins calculates that the average unit cost of return receipts will increase by 0.27 cents. Comparing her cost estimate to witness Needham's, witness Collins concludes that the potential cost increase for the classification change ranges from 0.27 cents per piece to one cent.

[29] Witness Needham used data for First-Class, third-class, fourth-class, Priority Mail and Express Mail showing the total RPW volume, the percentage of undeliverable-as-addressed (UAA) mail, and the percentage of UAA mail forwarded. Using these data, witness Needham developed a proxy for the percentage of return receipts forwarded. Tr. 4/1098.

She claims that this is the effect of moving 90 percent of current customers into the new classification. Id. at 1707-8. Carlson agrees, arguing that the fee increase is not supported because the incremental cost "will not be more than one cent." Carlson Brief at 40.

Second, witness Collins claims that the Postal Service's insistence that the fees for return receipts and certified mail be identical is arbitrary. Tr. 5/1704.

Third, witness Collins contends that 98 percent of non-merchandise return receipt users do not choose the address option. She argues that the benefits of the proposal should be balanced against the public's lack of interest in purchasing the address option. Id. at 1705. In response to witness Needham's claim that customers may not be aware of the current address option, witness Collins testifies that the option is listed at the top of the form, the message is unambiguous, and that her experience has been that window clerks draw the customer's attention to the option. Id. at 1706. Carlson dismisses Needham's argument because she introduced no supporting evidence. Carlson Brief at 39-40.

For all these reasons, witness Collins believes the small increase in cost that might evolve from the classification change does not warrant a fee increase. Tr. 5/1709.

The OCA adds that although witness Collins did not address merchandise return receipts, the proposal might be a disservice to these users because they "might value the ability to choose to receive the delivery address for all deliveries more than would non-merchandise return receipt customers." OCA Brief at 153.

The OCA also characterizes as extraordinary the Postal Service's assertion that its desire to improve service warrants a fee increase. OCA notes the Postal Service's acknowledgment that return receipt service has been deficient, and contends that no fee increase can be justified until the Postal Service proves it has corrected the deficiencies. OCA Reply Brief at 30.

Witness Carlson observes that under the Postal Service proposal, the lack of a written address on the return receipt form may mean that the delivery employee failed to write it down. To avoid this problem, Carlson agrees with Popkin that the Postal Service should add an "address unchanged" box to the form. Carlson adds that although Popkin suggested this change to the Postal Service in an interrogatory, the Service does not consider it a legitimate concern. He claims that the fee increase is not warranted, given the Service's rejection of a good suggestion. Carlson Brief at 41-42. Further, Carlson explains that this service generates many customer complaints, and that the Postal Service has current arrangements concerning large volume shipments of return receipt mail which do not comply with regulations governing the independent confirmation of delivery. Id. at 42. He concludes that the Commission should not recommend the Postal Service's proposal until it revises the return receipt form to include a box for "address unchanged." Id. at 43.

Popkin observes that although the Commission suggested in R90-1 that the Postal Service should evaluate the quality of return receipt service, the Postal Service has conducted no study. Moreover, he claims that the Service allows delivery managers "to retain arrangements which allow delivery of accountable mail with the completion of the return receipt being made later, at a more convenient time." Accordingly, he concludes that this reduces the value of return receipt service and amounts to another example of the Postal Service "getting revenue without providing the service." Popkin Brief at 6-7.

Popkin states that the Postal Service ignored his suggestion to add a box to the return receipt form indicating "article delivered to original address." He therefore believes the Service "is more interested in getting the 36 [percent] increase in the fee without improving the reliability of the service." Moreover, he claims that the Service's frequent failure to use the red validating stamp reduces the reliability of the delivery date and the level of validation concerning authenticity. Id. at 7.

4. The Postal Service's Response

The Postal Service observes there is no opposition to combining the basic and enhanced options for non-merchandise, although the OCA opposes extending that change to merchandise. Postal Service Reply Brief at 81. The Postal Service believes that since the majority of merchandise return receipt users choose the enhanced option now, "they should welcome the combined service because it offers them service that is essentially equivalent to the enhanced option." Id. at 82 (footnotes omitted).

The Postal Service claims that OCA witness Collins "recognizes the logic in giving parallel treatment to merchandise and non-merchandise return receipts from customers' and the Postal Service's perspectives." Id. at 83. The Service asserts that she also acknowledges that the change would improve address hygiene and simplify the rate schedule.

The Postal Service also states that adopting the OCA's approach would make return receipt more difficult to administer, particularly for delivery employees who would have to know three different delivery procedures, i.e., non-merchandise, merchandise basic option, and merchandise enhanced option. Id. at 84.

Criticisms of the proposed fee. According to the Postal Service, both Carlson and the OCA claim that the incremental cost of providing the enhanced option under reclassification would increase only slightly, and therefore the proposed fee is not cost justified. The Postal Service asserts, however, that the proposed fee reflects consideration of all relevant pricing factors, not cost alone. The Service claims that the proposed fee is consistent with the pricing criteria. Id. at 85.

Both the OCA and Carlson recommend that the Commission approve the classification change, but set the fee at the current fee for the basic option rather than the current fee for the enhanced option. The Postal Service charges that neither party has introduced evidence showing the impact of this proposal on volume and revenue; nor have they shown how the proposal complies with the pricing criteria. Moreover, the

Service contends that their approach would produce an unjustified fee decrease for customers who now use the enhanced option. Id. at 86.

Popkin's and Carlson's comments on the quality of improvements. The Postal Service states that both Carlson and Popkin argue that the proposed fees "should not be recommended because the Postal Service is allegedly committing 'misdeeds' in connection with the provision of the Service." Ibid. According to the Postal Service, they both believe an August 1, 1996, memorandum to district managers allows unauthorized delivery agreements to continue. The Service claims that the memorandum tells managers to void procedures if a review indicates unauthorized arrangements exists. Id. at 87. The Service also claims that a recent Postal Bulletin "stresses that return receipts must be completed in the presence of a delivery employee." Id. at 88 (emphasis omitted). Thus, the Service asserts it takes "its responsibility to improve return receipt service seriously. . . ." Ibid.

Popkin's address check-off proposal. The Postal Service acknowledges that it has not yet considered the proposal. Id. at 89-90. The Service claims there is no proposal for a check-off box on the record, because no party designated the relevant interrogatory response for inclusion in the record. Id. at 89. It asserts that Popkin's and Carlson's opportunity for filing testimony on the proposal has expired. Id. at 90. However, the Service states that the proposal to alter the return receipt form could be considered "when the Postal Service publishes its proposed rules to implement the classification changes for return receipts." Id. at 91.

5. Commission Analysis

The Postal Service proposes three classification changes and a fee increase for some mailers. The Commission first addresses the classification changes and then the fees.

Classification changes. Currently the DMCS contains an internal inconsistency concerning which subclasses are eligible for merchandise return receipt service. The Postal Service proposes to change § 16.020 to conform to § 362. This would eliminate references to Standard Mail subclasses formerly known as third-class bulk regular and third-class bulk nonprofit. No party opposes the change and the Commission agrees that it clarifies eligibility. For this reason the Commission recommends the DMCS change.

The Postal Service also proposes to eliminate the eligibility of First-Class Mail for merchandise return receipt service to ease administration. No party opposes this proposal. The change is necessary as the Postal Service now has difficulty evaluating letters and flats that are sealed against inspection to determine whether they contain merchandise or documents. For this reason the Commission recommends the change.

The Commission also recommends the Postal Service proposal simplifying return receipt . OCA claims that the proposal may be a disservice to senders of merchandise because they may value having options more than non-merchandise. users. OCA Brief at 153. However, there is no evidence supporting this conclusion, only the OCA's speculation. The proposal simplifies the structure, reducing the number of rate categories from five to three. This in turn eases administration. Thus, the change should produce cost savings. The address correction feature also adds to the value of the service and promotes address hygiene for subsequent mailings, enhancing reliability (Criteria 2 and 3). The improved address information benefits the Postal Service (Criterion 5). For these reasons, the Commission believes the recommended restructuring is fair and equitable (Criterion 1).

The proposed fee. Under the recommended classification change, users of non-merchandise service would be merged from two categories into one, and users of merchandise service would likewise be merged into one rate category. Thus, the Commission must recommend one rate to replace two former rates for both non-merchandise and merchandise service. As a result, some or all mailers' fees must change. The OCA and Carlson propose to use the current fee for the basic option as the replacement rate for the new classification, while the Postal Service proposes using the higher current fee for the enhanced option as the replacement rate.

The current cost coverage is 127 percent. Under the OCA's and Carlson's proposal, the cost coverage would be 125 percent.[30] The Service's proposed fees would produce a cost coverage of 171 percent. There are several reasons that militate against recommending the higher fees.

Ninety-eight percent of non-merchandise users and 90 percent of all users do not currently choose the enhanced option. Tr. 5/1705 and Tr. 7/2291. This implies that the additional information is not worth 40 cents to current users. Carlson Brief at 39. This also suggests that current mailers are not likely to find the enhanced option more worthwhile in the future. For this reason, as witness Sherman warns, the Postal Service's proposal amounts to a substantial, unjustified price increase for most users of the service (Criterion 1).

The average unit cost resulting from the reclassification likely will increase by no more than one cent. Tr. 5/1707-08. Thus, the current basic rate closely reflects the contribution that will be generated after current categories are combined and will cover attributable cost (Criterion 3).

The Postal Service proposes to continue equating the fees for non-merchandise return receipt service and certified mail. Unlike the case of certified mail, there have been no past errors which have held return receipt fees artificially low. The Commission agrees with witness Collins that no valid justification supports this practice. Mailers must pay postage in addition to special service fees, so no mailer would actually pay a "round" total of $3.00 to obtain delivery with certified and return receipt services (Criterion 7).

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[30] Cost coverage decreases because mailers who pay $1.50 for the current enhanced service will pay $1.10 for non-merchandise service under the OCA's and Carlson's approach. For calculating this cost coverage, the Commission also assumes that users of the merchandise service will pay the fee for current basic option ($1.20).

The Postal Service believes that return receipt service has a high value. The Commission agrees. However, that fact alone does not indicate that the current coverage of return receipt is too low. Other classes and services have high value, and the Postal Service has presented no evidence comparing the current relationship between value and contribution of its various products.

The Commission is reluctant to recommend changes in the contribution to institutional costs for individual mail categories unless there is evidence of a need for interim remedial action, as in the case of lock boxes and certified mail (Criterion 1). Return receipt suffers no such malady.

For these reasons the Commission recommends a fee of $1.10 for non-merchandise return receipt service and $1.20 for merchandise return receipt service. Because mailers who currently use the enhanced service will receive a rate reduction, test year after rates cost coverage will decline from 127 percent to 125 percent. Appendix D, Schedule 1, Table 2. However, this minor decrease is justified and consistent with the pricing factors.[31] Although this produces a $6 million net revenue loss for return receipt service, ibid., this service is priced well above attributable cost, and the overall net revenue gain from other special services at issue in this docket more than offsets this reduction. Moreover, to the extent that the Postal Service accrues the expected administrative savings from the recommended classification change, the cost coverage will improve.

Finally, the Commission suggests that the Postal Service seriously consider adopting David Popkin's proposal to add a check-off box to the return receipt form. If the mailer can be sure that the mail piece has been delivered to the original address,

[31] The last time the Postal Service addressed the coverage of return receipt, a coverage of 121 percent was proposed. *See* the Direct Testimony of Ashley Lyons in Docket No. R90-1, USPS-T-18 at 66-67. In Docket No. R94-1, witness Foster, the pricing witness, did not discuss return receipt in terms of cost coverage. *See* Docket No. R94-1, USPS-T-11 at 236-39.

the value of service should increase (Criterion 2). This might further justify a future increase in the level of cost coverage for return receipt.

D. Insured Mail (SS-9) and Express Mail Insurance

1. Characteristics

Postal insurance provides indemnity coverage for mailed articles that are lost, damaged or rifled in the course of handling by the Service. Insurance is available for items sent as First-Class Mail, if they contain matter that may be mailed as Standard Mail; or items sent as single piece, parcel post, bound printed matter, special and library Standard Mail. Currently, the indemnity limit for insured mail is $600. DMCS Classification Schedule SS-9. Express Mail automatically provides insurance for merchandise up to $500 and, for the reconstruction of documents, up to $50,000 per piece and $500,000 per occurrence. Id. § 181-82.

Mailed articles insured for more than $50 are called "numbered insured." A pre-printed number appears on two separable portions of Postal Service Form 3812-P, which is used to record information about the mailing, including addressee and insurance coverage. One portion of the form is attached to the article, and the other portion provides a receipt that the mailer receives for personal retention and subsequent claims. To confirm delivery, the signature of a recipient at the delivery address is obtained for all numbered articles. The signed receipt is kept on file at the delivery unit to aid in the verification of indemnity claims. PRC Op. R94-1, para. 5489.

Accountability practices are not as stringent for insured mail as for other accountables. Currently, carriers sign a receipt when accepting for delivery Express Mail, registered mail, certified mail, COD, and return receipt for merchandise, but no such carrier accountability procedures exist for insured mail. If an insured mail piece is lost or stolen while the carrier is on the street, or if the carrier neglects to secure a signature upon delivery, there is no record of accountability. USPS-T-8 at 28-29.

Fees for postal insurance vary with the declared value and type of mail. Insured mail fees are: $0.75 for a declared value up to $50; $1.60 for a declared value over $50 up to $100; and $1.60 plus $0.90 for each additional $100 or fraction thereof. Postal insurance is in addition to the postage fees. No fee is added for Express Mail as insurance up to $500 is provided as part of the service. DMCS Schedule SS-9, and DMCS § 180.

The cost coverage recommended for insured mail in R94-1 was 139.8. PRC Op. R94-1, para. 5492. According to the Postal Service, revenues from current rates for the test year FY 1996 are forecast to be $49.2 million with attributable costs of $34.4 million. This would result in a contribution to institutional costs of $14.8 million with a cost coverage of 143 percent. USPS-T-1, Exhibit C..

Insured mail volume has experienced a downward trend for the last twenty-five years from a peak of 114.1 million in FY 1971 to a low of 28.9 million in FY 1995. Since 1978, the Postal Service has increased indemnity levels for insurance by $100 in every omnibus rate case through Docket No. R90-1, when the current $600 limit was recommended. Witness Needham states that, following R90-1, several customers asked that the $600 indemnity limit be raised further and claimed that the present limit is a disincentive to use the Postal Service for items with value. USPS-T-1 at 31.

2. Postal Service Proposal

a. Proposed Changes and Projected Effects

The Postal Service proposes to modify the limits of indemnity offered, set fees for the new indemnity levels, and, for insured mail, consider a modification of carrier accountability procedures.

- For Insured Mail:
  - Increase the indemnity limit from $600 to $5,000;

- Maintain the current incremental fee structure up to the new indemnity limits; i.e., $1.60 plus $0.90 for each $100 or fraction thereof over the first $100 of declared value; and
- Consider the introduction of requirements for clerks at delivery offices to identify and make a record of insured pieces prior to carriers leaving for their routes, and have carriers sign for the numbered insured items when accepting them for delivery. USPS-T-8 at 27-28.

- For domestic Express Mail:
  - Increase the indemnity limit for merchandise sent by Express Mail from $500 to $5,000;
  - Continue to provide insurance at no extra charge for merchandise with a declared value up to $500; and beginning at $500, charge the same incremental rate as currently used, and proposed, for insured mail; i.e., $0.90 for each $100 or fraction thereof;
  - Reduce the document reconstruction indemnity limit, on a per piece basis, from $50,000 to $500 and, on a per occurrence basis, from $500,000 to $5,000. Ibid.
  - Reduce payments for articles with contents valued at less than or equal to $15 from a current $15 minimum to actual value. Tr. 8/3103.
  - Reduce payments for negotiable items, currency, or bullion with a value of less than or equal to $15 from a current $15 flat payment to actual value. Ibid.

The proposal to modify carrier accountability to require signatures when accepting articles for delivery is only a proposal to explore the operational change. According to witness Needham, "[n]o final procedures have been finalized." Tr. 4/1161.

b. Rationale for the Proposal

The proposed increases in indemnity limits are in response to perceived market conditions. Following Docket No. R90-1, customers complained about the indemnity limit being too low and requested increases. Also, competitors offer higher limits. These developments contributed to the Postal Service decision to conduct market research on the indemnity limits. USPS-T-8 at 32.

In FY 1993 a survey was conducted among "specific parcel mailer groups with members that shipped merchandise with the Postal Service or alternative carriers, or both, on a regular basis, and are frequent non-collect-on-delivery postal insurance claims filers." Id. at 33. The survey results indicate that 53 percent of the volume shipped with competitors had values between $700 and $2,000. The maximum values insured through competitors was found to be "well over $15,000." Id. at 33-34.

A second survey in January 1996 focused on shipments in the $2,000 to $5,000 range. According to witness Needham, the survey used a top value of $5,000, since it was a "logical value cut-off point in terms of whole dollar multiples of $1,000" and "$5,000 is easily memorable." Higher limits were not considered because the Postal Service wants to "develop experience with the more moderate increase in the indemnity limit proposed in the request." Tr. 4/1102-03. Thirty-nine survey participants were selected from those surveyed in FY 1993 and from shippers of high value electronics and computer equipment. The survey results confirmed the potential for new Postal Service business if indemnity limits are raised. On average, respondents reported that approximately one fourth of their parcels are shipped with the Postal Service and three quarters with other carriers. The average volume per respondent of insured parcels shipped annually with an insured value between $2,000 and $5,000 is 5,691. Fourteen of the respondents, 36 percent, reported they would mail on average 1,727 parcels per year with the Postal Service if the indemnity limit were raised as proposed. USPS-T-8 at 37.

The Postal Service asserts that the survey findings, in combination with customer comments received over the last few years, indicate that there is sufficient interest among mailers for higher insurance limits to justify a classification change. Using data from the surveys, the Postal Service forecast that increasing indemnity limits as proposed will generate an additional 1,029,317 of insured mail pieces with a revenue increase of $13.5 million. Appendix D, Schedule 3, Table 2. This would result in an additional contribution to institutional costs of $5.5 million. Id., Schedule 1, Table 2. The development of these estimates are shown in Appendix D and PRC-LR-3, and include both Express Mail and non-Express Mail insurance transactions.

The fee of 90 cents per $100 value was selected since it is a continuation of the current incremental rate. According to witness Needham, "[n]o indemnity analyses were performed to arrive at this fee" and "[n]o other fees were considered." Tr. 4/1107. Although the proposed fees for insured mail and Express Mail are higher than the comparable registered mail fee, and rates for some services provided by competitors, witness Needham does not expect this to be a problem.

> Despite this fee relationship, customers still make relatively substantial use of insured mail as compared to insured registry . . . despite the availability [of] insured registry at a lower fee, presumably because they perceive the service offered by insured mail to be superior to registry for their needs.

Tr. 4/1108.

> Considering the abundant alternatives for merchandise delivery, coupled with the fact that all present Postal Service insurance fees are higher than the competitors' fees listed in LR—SSR-109, current Postal Service insurance customers still choose to use the Postal Service, and the Postal Service expects that some of its customers will continue to choose postal insurance for higher value articles.

Id. at 1121.

Witness Steidtmann supports the insurance proposal by noting that it will bring the Postal Service closer to meeting the competition. Indemnity insurance adds value to the transportation and delivery of packages, and insurance is a complementary part of that business. Since the other major package service firms offer levels of insurance coverage well above what the Postal Service currently offers, witness Steidtmann argues it is appropriate to raise the levels of postal coverage to meet customer needs and compete for business. USPS-T-2 at 6.

The Postal Service argues for the reduction of the document reconstruction indemnity limits by a factor of one hundred based on experience with claims and changes in document reconstruction technology. USPS-T-8 at 55-56. In particular, witness Needham points out that the average claim in FY 1995 was less than $100. Tr. 4/1270. Furthermore, a review of claims for FY 1995 revealed that 99 percent of the claims paid were below $500. Also, for the test year, FY 1996, only four out of 732 Express Mail document reconstruction claims paid by the Postal Service exceeded $500; the maximum claim was $1,350. Tr. 8/3178.

By reducing the indemnity limits for document reconstruction, witness Needham projects that greater customer satisfaction will result, and the Postal Service will avoid unreasonable and frivolous claims that can lead to customer dissatisfaction with actual claim payments. USPS-T-8 at 56-57. In this regard, witness Lyons asserts that the Postal Service "seeks to provide its customers with a more realistic understanding of what document reconstruction entails and to clarify expectations in the event of conflicts involving loss or damage." USPS-T-1 at 15-16.

The Postal Service characterizes the changes regarding the $15 minimum insurance claim payment for articles and the $15 flat payment for negotiable items as minor. Under the proposal, actual value would be paid instead of the current $15. Witness Needham submits that the changes are fair and equitable on two grounds. First, the customer is offered "reasonable compensation in the event of loss for articles valued at $15.00 or less through reimbursement of Express Mail postage." Second, the proposal promotes equal treatment among claims, since it would not favor mailers of low-value articles or negotiable items by offering reimbursement in excess of the actual loss. Tr. 8/3103-04.

The Postal Service asserts that the insurance proposal satisfies both the classification and pricing criteria of the Act. The Service claims that fairness and equity are promoted under 39 U.S.C. § 3623(c)(1) by dramatically "broadening the mail base that will be eligible for insured mail services." USPS-T-8 at 50. The need to consider reliability and speed of delivery under 39 U.S.C. § 3623(c)(3) and (4) is satisfied by providing an intermediate mail service between overnight Express Mail and Registered Mail, which has higher security but less rapid delivery. Tr. 4/1109. Similarly, the need for classifications that do not require speed of delivery under 39 U.S.C. § 3623(c)(4) is satisfied, since the extension of indemnity also applies to the various Standard Mail subclasses.

The Postal Service claims that the proposed incremental fee is fair and equitable under 39 U.S.C. § 3622(b), since it reflects the maintenance of the fee schedule recommended by the Commission in Docket No. R94-1. USPS-T-8 at 51 and Tr. 4/1107. Additionally, witness Needham states that both senders and recipients place a high value on insured mail due to the high value of contents insured. USPS-T-8 at 52. Thus, the proposed fee is commensurate with the value of service provided by insured mail. The estimated cost coverage of 147.9 percent is near systemwide average and satisfies the criteria that the service cover attributable costs and make reasonable contributions to institutional costs. Postal Service Brief at 99. In particular, according to witness Lyon's analysis, the estimated revenues of $13.5 million well exceed the estimated claims costs of $6.7 million for the new insurance increments. USPS-T-1, Workpaper A at 4-5.

The Postal Service contends that the presence of lower-priced insurance alternatives ensures that the proposed fees will not be unduly burdensome as required by 39 U.S.C. § 3622(b)(5). Postal Service Brief at 99. Also, the Service points out that the effect on competition appears to be minimal, since market research reveals only a modest shift on the order of one million parcels in new Postal Service business. USPS-T-1, Workpaper A at 2.

3. Intervenor Issues

Three participants raised questions through interrogatories concerning the Service's insurance proposals: OCA, David Popkin, and United Parcel Service. No party recommends rejection of the proposed modification of indemnity limits and associated fees. The principal recommendation from participants is that the Postal Service be required to collect data to support future adjustments in fees and indemnity limits.

a. Proposed Fee Not Supported by Analysis and Not Competitive

OCA witnesses endorse the increase of indemnity limits, but suggest that data be collected to justify or adjust the proposed $0.90 per $100 value fee. OCA witness Sherman states "[i]nsured mail is the only service for which a genuine improvement is proposed" but, "[o]ne drawback of the proposal is that it is difficult to identify costs for the new levels of insurance service." He suggests that "provision should be made to gather cost information as a basis for later adjustment of these fees, should that be appropriate." Tr. 7/2284-85. Witness Collins makes similar observations regarding market demand and likewise recommends that data be collected for future rate setting that will "hopefully lower the fee levels." Tr. 4/1716 and 1720.

Witness Collins raises the concern that the new insurance fees are higher than those charged by competitors. Consequently, the Postal Service product may not provide a competitive service. Tr. 5/1718. Popkin also makes this point by noting that parcels sent by registered Priority Mail will "virtually always" be less expensive, and have better service standards, than when sent insured Standard Mail. When pressed for reasons why the customer might choose insured mail over less expensive alternatives, witness Needham cited convenience of using the mail and the speed of service when compared with registered mail service. Tr. 4/1719.

On brief, David Popkin, states that "[w]hile no one can object to the Postal Service raising the limits for insurance . . . they have failed to provide any cost data to justify such a high rate as 90 cents per $100." Popkin Brief at 8.

b. Proposed Documentation Reconstruction Limits Questioned

Witness Collins acknowledges that recent claims have been substantially below the present maximums for document reconstruction. However, she points out that the Postal Service only has data on the sum of claims paid. OCA-T-400 at 32. Data were not available on the maximum claim paid in the last year at the time of preparation of written testimony, and witness Needham claimed under cross-examination that the Postal Service does not know if the proposed per incident limit would cover the maximum claim of the most recent fiscal year. Tr. 4/1270-71. Popkin also raised the issue of setting the new indemnity limit for document reconstruction without knowing if it would cover the maximum claim during 1995. Id. at 1272.

Given this situation, witness Collins states that the Commission, to be conservative, may wish to consider a lesser reduction than that proposed by the Postal Service. OCA-T-400 at 32. In contrast, another OCA witness, Sherman, is more positive on the new limit, stating that "[a]though it is a very substantial reduction in what has been offered, the $50,000 limit per piece is probably inappropriate at the present time, and the new offering seems adequate." Tr. 7/2285.

On Reply Brief, the OCA concludes that the proposed reduction in document reconstruction indemnity limits is reasonable. However, again, the importance of developing appropriate indemnity levels in the future is noted. OCA Reply Brief at 33.

4. Commission Analysis

The Postal Service cited the comments received after R90-1 as motivation to conduct the surveys that confirmed the appropriateness of the proposed increases. Customer requests for further increases have already started to develop as part of the commentor's file for this docket. While such materials are not part of the record for this Docket and are not used to support the Commission's recommendation, they provide the Service a starting point for further market assessments, and the Commission recommends that the Postal Service review such materials prior to future filings regarding special services.

The record provides ample evidence to support the increase in indemnity limits. The increase will help the Postal Service meet market demand that has been documented and can reasonably be expected to generate the new business and revenue forecasted. The Postal Service also has reasonably bound the risk by setting a top indemnity limit of $5,000. Experience with the new indemnity ranges, plus additional market surveys, may identify further opportunities which the Service could pursue through subsequent increases in the indemnity limits and adjustments in fees.

While it is likely that the Postal Service will incur a greater number of claims with higher values, the method used by the Postal Service to project expected claims has not been challenged on the record.[32] It is reasonable to conclude that the projected costs for the test year have been appropriately estimated and the risks of the

[32] The Service does not track losses by class or subclass of mail. Data for losses by $100 increments up to $600 are collected by the Postal Service and reported for FY 1995 in this docket. The Postal Service extrapolates the recent claim experience at the current highest value interval to the proposed value intervals. USPS-T-1, Workpaper A at 5.

increased indemnity reasonably limited. However, the Commission recommends that the Postal Service attempt to accurately document all costs that change as a direct result of the increase in indemnity limits.

OCA and Popkin have highlighted the lack of data to support the continuation of the current incremental fee of 90 cents per $100 of value into the new indemnity range. The Commission agrees that this is a concern, but recognizes that data on loss rates at higher indemnity levels are not available from Postal Service records. While an indemnity analysis might be designed to support recommended fees, the lack of such a special study is not deemed a barrier to continuing the existing 90 cents per $100 rate.

In the presentation of test year revenues and costs, the Postal Service has combined Express Mail with other insured mail, despite separating them in the proposed DMCS under schedules 9 and 9A, respectively. Since the testimony of Postal Service witnesses, including the presentation of costs, combine Express Mail insurance and other Insurance as a single special service, the Commission has adopted this approach in its recommended classification. It is presumed that cost and revenue data will be presented in this manner in the future. However, the Commission recommends that the Postal Service study whether Express Mail insurance has different costs and revenues than the other insured mail and use the study results to develop the appropriate costs and revenue distributions. Also, a fair and equitable means should be developed for attributing the Express Mail costs and revenues for insurance of $500 or less, which is included in the Express Mail fee, as distinct from revenues and costs for the optional purchased insurance for Express Mail.

The Commission finds no opposition to the Service's proposal to pay actual value for losses of up to $15, and agrees that it will eliminate the potential inequity of favoring small claims by paying more than the actual value of a loss.

E. Registered Mail (SS-14)

1. Characteristics

Registered Mail is a high security service available for the processing and delivery of First-Class Mail. The sender must declare the full value for the mailed items and clerks have the right to refuse to accept an article as registered mail if a satisfactory declaration of value is not provided. Currently, the sender has the option of insuring or not insuring the items. The maximum indemnity is $25,000. Domestic Mail Manual (DMM) § S911 at S-18.

In order to provide high security, each postal employee handling registered mail accounts for it by receipt as part of the acceptance, processing and delivery procedures. Id. at 17. Additionally, registered mail is processed and kept in more secure sections than other accountable mail, such as insured mail, and is transported in sealed containers. In some cases, armed guards accompany registered mail with items of very high declared value. USPS-T-8 at 5. Due to the security requirement, registered mail is not available for delivery to all locations and liability may be limited in some locations. DMCS § 14.023.

Standard fees and procedures are published for registered mail with declared value up to $15 million. Special arrangements must be made on an individual basis for items with more than $15 million in declared value, and charges are determined on the basis of weight, space and value of the article. The registered mail fees are in addition to the First-Class Mail postage. Ibid.

The existence of the insurance option currently results in two distinct schedules in the DMCS. For declared values up to $100, the fee is $4.85 without insurance and $4.95 with insurance; over $100 to $500 of declared value the fee is $5.20 and $5.40 respectively; over $500 to $1,000 the fee is $5.55 and $5.85; and beyond $1,000 the fee continues to increase at the rate of $0.35 without insurance and

$0.45 with insurance per $1,000 of value up to $15,000,000 of declared value. DMCS Schedule SS-14. The Postal Service points out that the fees listed in the DMCS for registered mail with a declared value over $100 constitute "almost 20 percent of the fees for all of the special services." USPS-T-8 at 3-5.

Registered mail volume has declined from a high of 55.46 million pieces in FY 1974 to 20.34 million pieces in FY 1995. Although there have been regular increases in registry fees, some of which have been sizable, revenue has still declined during the last seven years. Prior to 1981, registered mail fees included insurance for mail valued up to $1,000, with a lower fee available for registered mail with commercial insurance for articles valued over $1,000. Separate fee schedules for insured and uninsured mail were introduced in Docket No. R80-1. Id. at 10-14.

During the last five years, more than 96 percent of registered mail has either been insured or had a value of less than $100. Uninsured mail with a value over $100, as a percent of total registered mail volume, has varied from 2.9 percent to 3.6 percent during this period. As a percent of uninsured mail, the uninsured volume over $100 has ranged from 10 percent to 13 percent. Id. at 20-21.

2. Postal Service Proposal

a. Specific Changes and Projected Effects

The Postal Service proposes to simplify the fee schedule for registered mail and reduce administrative costs by eliminating the option of uninsured mail with declared values over $100. Thus, customers will have the option of sending items by registered mail without insurance only if they declare a value of $100 or less. For declared values of $100 or less, the option of uninsured or insured remains unchanged with current fees retained. Also, the fee for insured registered mail will remain unchanged at all value levels.

The Postal Service asserts that eliminating the uninsured option for items with more than $100 of value will have minimal impact. The estimated volume of registered mail for the test year before the proposed reclassification is 19.2 million pieces. For the purpose of forecasting the effect of the proposal, the Postal Service assumes that "the new aggregate volume will be spread over the constituent rate elements in the same proportions as the old volume." Tr. 8/3002. Thus, all uninsured registered mail with more than $100 in value is subject to the insured registered mail fees. Consequently the uninsured and insured volumes are combined in calculating the after rates fixed weight index price. A slightly higher, after classification, fixed weight index price is applied to the Service's demand curves, resulting in a small decrease of volume.[33] *See* PRC-LR-3. The result is an estimated, after rates volume of 19.1 million pieces. Appendix D, Schedule 2, Table 1 and USPS-T-1, Workpaper E at 2.

The estimated loss of 67 thousand pieces will reduce revenue by $0.4 million. The small impact on revenues and volumes is due to the fact that so few of the uninsured, registered mail pieces have a declared value of greater than $100. In particular, the Postal Service projects that only 2.9 percent of the registry volume will be affected by the proposed classification change. USPS-T-8 at 20-21.

b. Rationale for the Proposal

Witness Needham argues that the proposed elimination of uninsured fees for registered mail valued over $100 will simplify the fee schedule and improve customer satisfaction. The simplification will occur because nearly half of DMCS Schedule SS-14 will be eliminated; i.e., all entries for uninsured registry with declared values over $100. Witness Needham asserts that the current dual fee structure for registered

[33] Witness Lyons also notes that he would not be surprised "if the volume of domestic uninsured registered mail valued up to $100 decreases somewhat because of lost business from customers who used to send registered articles valued up to $100 along with other articles valued above $100." Tr. 8/3003.

mail is confusing to administer, which can result in acceptance errors, which in turn produce customer complaints and dissatisfaction. For example, occasionally, customers assume that registered mail is automatically insured even when the insurance option is not purchased. USPS-T-8 at 19.

The Postal Service does not expect the simplification to cause problems for the majority of customers. A survey was conducted in November 1993 among the top 75 Postal Service non-collect-on-delivery claim filers in FY 1992 and among the 500-member Industry Council for Tangible Assets (ICTA). The purpose of the survey was to determine customer reaction to eliminating the no-insurance option for declared values above $100 and to gather overall comments and suggestions pertaining to registered mail. Id. at 6-7.

Among the questions in the survey was a request to rate, on a scale of 1 to 10, the perceived inconvenience of eliminating uninsured registered mail over $100 in value. The "1" end on the scale was designated "Not at All" and the "10" end designated "Very," with the middle being designated "Somewhat." Seventy-eight percent of the respondents selected the "Not at All" half of the scale, with 67 percent circling the "1" level. The group selecting a 9 or a 10 on the scale constituted 15 percent of the respondents. Id. at 8.

Witness Needham points out that of the 15 percent responding that the proposed elimination of the uninsured options would be very inconvenient, 71 percent currently insure their registered mail more than 90 percent of the time and 57 percent insure their registered items 100 percent. That is, while inconvenience is claimed, in fact these respondents already insure the majority of their registered mail with value over $100. Ibid.

Given the survey results and the noted anomaly, the Service concluded that the "large increase in fee . . . outweighs the inconvenience of customers forgoing the little-used option of uninsured registered mail valued above $100." Id. at 10.

The Postal Service characterizes the proposal for registered mail as a classification change and asserts that it meets the criteria listed in 39 U.S.C. § 3623(c). Witness Needham claims that the first factor is satisfied since the "proposed changes promote fairness and equity by eliminating lower value-added, low volume service options while maintaining the high security service and service option that customers have been using for low value registered articles.. . ." Id. at 23. Criterion 2 is satisfied since the proposed change in registered mail will not alter the fact that the "relative value to the people of the kinds of mail matter entered into the postal system via registered mail is high." Id. at 24. Similarly, registered mail will retain an extremely high degree of reliability, as required by criterion 3, although at the expense of speed of delivery. Witness Needham draws on the tradeoff between reliability and speed of delivery to demonstrate that the proposed classification also meets criterion 4. Ibid.

Regarding criterion 5, the requirement for consideration of the proposal from the point of view of desirability for both the user and the Postal Service, witness Needham asserts that this is the foundation of the registered mail service and, with the proposed modification, it becomes even more desirable. Witness Needham claims that the proposal better aligns registered mail with customer needs. As evidence of this better alignment, she points out that 88 percent of the uninsured registry customers would experience no fee change and at most three percent of the total registered volume will be affected. Id. at 25. From the Postal Service point of view, the proposal serves the desire for simplicity in fee schedules and is expected to reduce administrative and transactions costs. USPS-T-2 at 23-26.

Postal Service witness Steidtmann notes that "[e]liminating options with relatively little demand allows retailers to reduce costs by focusing resources on higher volume products." He points out that many retailers, such as auto companies, have had success in streamlining their product offerings. In witness Steidtmann's view, this Postal Service proposal is sound retailing practice. Id. at 7.

3. Intervenor Issues

OCA witness Sherman contests the Postal Service's assertion that service is being improved by the reduction of mailer options, but concludes that the proposed change "may be a step that should have been taken long ago." OCA-T-100 at 11. He states that although the proposal is appealing, no basis is provided for evaluating it. Witness Sherman believes it would be useful to know if simply declaring higher values for articles mailed without insurance affects costs and provides any justification for increases in fees for increases in declared value. Id. at 16.

As noted above, the Postal Service projects an increase in revenue per transaction. This is due to the assumption that many of the customers currently declaring a value over $100, but not taking insurance, will continue to use registered mail. Witness Sherman raises the possibility that they still may choose to decline insurance and reduce the declared value to $100. In that situation, the projected per transaction revenue would not be realized. However, as witness Sherman observes, the effect will not be enormous since only a small percent of the registry business is affected by the proposal. Id. at 17.

On Reply Brief, the OCA states that the record before the Commission concerning registry is uncontroverted and that the proposed change is beneficial. OCA Reply Brief at 33.

Popkin states that the Service's registry proposal is another case of a rate increase under the guise of simplification and argues for "a flat fee for handling a registered article without postal insurance." Popkin Brief at 9. He asserts that the cost of handling a secure article is the same, whether the article has a value of one cent or $25,000. Popkin claims that witness Needham could not indicate any added handling costs that are associated with value. Ibid.

Popkin also notes that the Postal Service has no means of verifying the value of an article submitted as registered mail. If uninsured, no claim will be filed, and, since it is First-Class Mail, it is not subject to postal inspection. He points out that the Service proposes to eliminate the First-Class Merchandise Return Receipt option partly on the grounds it is not possible to enforce the requirement that the article is merchandise. Popkin concludes that the Service "can't have it both ways to serve their desire to get greater revenue." Ibid.

The Postal Service opposes Popkin's proposal for a uniform fee for uninsured registry without regard to value. The Postal Service focuses on record support for its contention that, as declared value increases, handling procedures become more secure and costly. Postal Service Reply Brief at 93. Examples of procedures that increase the costs as the declared value increases are: use of hand-to-hand transfers; storage in safes, vaults, separate cages, or locked containers; and restriction of transport for high value items to more secure methods. Tr. 8/3148 and 3151-52; *see also* DMM-901 § 432, 537, and 732.

The Postal Service also claims that witness Popkin uses his Initial Brief to present a proposal that was not introduced by testimony and has no support on the record. Postal Service Reply Brief at 94.

4. Commission Analysis

The record in this docket demonstrates that the potential negative impact of the Postal Service proposal to eliminate certain fee options is quite limited. The survey taken by the Postal Service demonstrates that most users will not be inconvenienced and that, among those claiming to be inconvenienced, a majority already purchase insurance when the declared value exceeds $100.

The Commission agrees with the Postal Service that a service satisfaction problem exists if some customers mistakenly assume they have insurance automatically when they register items with declared valued over $100. Elimination of the no-insurance option is a reasonable way to solve the problem and increase the certainty of the value of the service. It will be in the best interests of the Postal Service and the customers to avoid such misconceptions and subsequent monetary problems.

Additionally, the fee schedule will be greatly simplified by limiting the option of registered mail without insurance. This in turn should ease the administration of the service and the sales activity of postal clerks. In this regard, it will be to the benefit of the Postal Service and the customers.

Witnesses Popkin and Sherman raise the question whether simply declaring higher values results in proportionally higher costs. If at some point security does increase significantly, such as through the addition of armed guards, it is reasonable to expect that costs would increase. Unfortunately, the Postal Service has failed to indicate when additional precautions may occur or what the costs of these steps might be.

There is no basis on the record for recommending a single fee for registered mail of any value as proposed by David Popkin. This was also the situation in Docket No. R94-1, when the Commission could not adopt a comparable proposal due to a similar lack of record material on the issue. PRC Op. R94-1, para. 5524.

Finally, the Commission urges the Postal Service to forestall any misconceptions that users of registered mail may develop regarding the amount of insurance provided. While the fee for registered mail with insurance continues to increase for each $1,000 of declared value over $25,000, the indemnity is limited to $25,000. Since some customers think that insurance is automatic with registered mail, it is likely that such customers may also think that the amount of insurance being provided is related to the declared value. The Commission urges the Postal Service to follow-up on previous recommendations that data be obtained on the relationship between costs and declared value, and an analysis be presented to support the incremental increases in fees based on declared values over $25,000.

F. Stamped "Postal" Cards

Postal cards are blank post cards sold by the Postal Service with preprinted or pre-affixed postage at the First-Class card rate, currently 20 cents, on which mailers may use the blank side to write a message and the stamped side to write an address.

Postal cards are sold as single cards, double cards — which include one card for a message and one for a reply — and in sheets of 40 cards. Business uses include answering customer requests, sending out notifications, advertising, and billing customers. Individual uses include sending messages to friends, entering contests, and requesting information from companies. USPS-T-8 at 96-97.

1. The Postal Service's Proposal

The Postal Service proposes renaming postal cards "stamped cards" and amending the Domestic Mail Classification Schedule to create a separate service including both stamped envelopes and stamped cards. The Service suggests those purchasing stamped cards should be assessed a fee of two cents per single card and four cents per double card in addition to postage. Like the fee structure now in place for stamped envelopes, the fee structure for stamped cards would reflect the cost of postage, plus a special service fee for the card with postage affixed. Id. at 95.

Using examples from postal and computer publications, witness Needham argues that postal cards provide a high value of service to their users and that value is reflected in the proposed fee. She contends that since postal card users are being charged only for postage, they have been receiving free stationery and should now be required to pay for it. She acknowledges an earlier Commission decision that rejected a one-cent increase for postal cards because manufacturing costs were less than one cent, but she argues that per-unit manufacturing costs have been greater than one cent since FY 1989. Finally, witness Needham proposes a cost coverage of 170 percent.

She argues this is the lowest cost coverage possible that recovers manufacturing costs and reflects postal cards' high value of service. Id. at 107.

Name change. Witness Needham argues that the proposed name change from postal cards to stamped cards would "eliminate confusion with postcards, better differentiate the product in the eyes of the consumer, and better reflect the similarity between postal cards and stamped envelopes." Id. at 94. In her testimony, she describes "significant similarities" between postal cards and stamped envelopes: "Both stamped envelopes and postal cards can be purchased as single units or in bulk, and both also include mailing stationery and pre-affixed postage." Id. at 114. Because of these similarities, witness Needham questions the fairness of a special service classification for stamped envelopes and not for postal cards:

> Fundamentally, there is no difference between purchasing either an envelope or a card with pre-affixed postage. In fact, postal cards, unlike stamped envelopes, provide the stationery for the correspondence. . . . The time has come to end the discrepancy between charging a fee for envelopes and not charging a fee for cards.

Id. at 115.

Manufacturing costs. The Postal Service argues that the proposed fee would allow it to recover postal card manufacturing costs from postal card users, who currently do not pay for the cost of manufacturing cards. According to the Postal Service, the record before the Commission indicates that "postal cards have not, to date, directly borne their cost of manufacture; rather, the manufacturing costs of postal cards have been borne by all users of the Postal and Postcard Subclass, including users of private postcards." Postal Service Brief at 116. Because the Commission factors all attributable costs of post cards and postal cards, including postal card manufacturing costs, into establishing rates for the Post and Postal Cards Subclass, the Postal Service concludes that "the rates for postage for private post cards can vary with the postal card manufacturing costs." Ibid. The Postal Service argues that its proposal would

> [e]nd attribution of manufacturing costs to the Postal and Postcard Subclass by treating the manufacturing costs of postal cards separately and as the basis for the proposed stamped fee. In this manner, users of the mails that receive the additional benefits of postal cards, including the stationery and preprinted postage indicia, would directly bear the manufacturing costs, which are unique to postal cards. In addition, private postcard users, who do not receive free stationery and affixation of postage, would no longer support the manufacturing costs of postal cards.

Id. at 117 (citations omitted).

In her testimony, witness Needham refers to Docket No. R76-1, in which the Commission rejected a proposed one-cent rate increase because postal card per-unit manufacturing costs, which were 0.4 cents at the time, were not high enough to warrant a one-cent increase. She notes the Commission also found that a new rate would complicate the Postal and Postcard Subclass rate structure. USPS-T-8 at 102-103.

Using Government Printing Office manufacturing costs and the yearly number of units shipped, as provided in Postal Service Library Reference SSR-106, witness Needham shows that the manufacturing cost per unit has exceeded one cent since FY 1989. According to calculations presented in her testimony, the per-unit manufacturing cost is now 1.175 cents, which witness Needham rounds up to 1.2 cents, "0.8 cents higher than the cost presented in Docket No. R76-1." Id. at 106.

On brief, the Postal Service argues that the proposed fee also addresses the Commission's earlier concern about complicating the subclass rate structure. This is because, unlike the Postal Service's proposal in Docket No. R76-1, no new rate category would be created within the Post and Postal Cards subclass, and the same rate of postage would continue to apply to postal and private post cards. Postal

Service Brief at 121. The Postal Service also observes that its proposal follows the Commission's suggestion of 20 years ago, in R76-1, that the Postal Service "consider for future proceedings the possibility of treating the sale of postal cards as a special service much as it treats the sale of stamped envelopes as a special service." Postal Service Brief at 121, citing PRC Op. R76-1 at 174, n. 2.

Value of service. The Postal Service's proposed fee includes a markup intended to reflect the high value of service postal cards provide to their users. USPS-T-8 at 95. Witness Needham presents examples of this value. In her testimony, she cites an article in the November 6, 1995, issue of *Postal World*[34] which observes that, in contrast to bulk Standard Mail, preprinted postal cards may be entered into the mailstream without presorting or preparing a mailing statement. The same article notes that postal cards receive First-Class service, so they can also provide their users with free forwarding. Id. at 104-105. The second article to which witness Needham refers, in the October, 1995, issue of *WordPerfect, the Magazine,*[35] says that postal cards are a "great bargain" because of their low cost and free stationery. Id. at 105.

To this list, witness Needham adds the time-saving value of pre-affixed postage. She observes that users may complete their correspondence with one visit to the post office by purchasing a postal card, writing a message, addressing the card, and placing it in the mailstream. Id. at 109. She adds that postal cards are less likely to be read by someone else other than the addressee because the postal card's address and postage are on one side while the message is on the reverse side. Id. at 110.

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[34] "Two-for-one: Free mail piece for the cost of postage," *Postal World,* November 6, 1995, at 1, 3.

[35] Elden Nelson, "Promote Your Business with Custom Post Cards, " *WordPerfect, the Magazine,* Oct. 1995, at 16-20.

Additionally, witness Needham urges the Commission to consider the "affixation value" of postal cards. She believes affixation value "goes one step further" than the benefits described in her discussion of "value of service," and

> [d]eserves separate consideration. Pre-affixation of postage on stationery at the time of purchase saves time, and therefore money, for postal card users. Although all postal card customers derive benefit from the pre-affixation, it is perhaps of most value to large volume mailers, in terms of eliminating a labor-intensive operations procedure.

Id. at 113.

On brief, the Postal Service argues that the advantages of postal cards to business mailers are "well documented in the record." Postal Service Brief at 118. The Postal Service cites the testimony of witness Steidtmann, which discusses a survey of prices charged by stationery and business product retailers for plain, private post cards, which the Postal Service describes as substitutes for stamped cards. "Per-piece prices quoted in the survey for private postcards range from a high of 45 [cents] to a low of 7.18 [cents], which is more than three times the proposed [two-cent] fee for stamped cards." Id. at 118, citing USPS-T-2 at 7.

According to the Postal Service, the same survey demonstrates that postal cards have an advantage over private, plain post cards because mailers may buy postal cards individually or in bulk. "As is evident from the survey, the least expensive plain post cards are sold in bulk, usually in quantities of 100 or 1,000. Postal cards do not restrict customer choice in this manner: customers may purchase the exact quantity of cards they desire for the same low rate." Id. at 118-119 (citation omitted). The Postal Service adds that the survey shows "an inverse relationship between price and minimum quantity sold," so "[i]t is therefore reasonable to conclude that single, plain postcards would cost an amount greater than or equal to the highest per-piece fee quoted in the survey for bulk quantities of postal cards." Id. at 119.

Witness Needham further testifies that there are a number of alternatives to postal cards available to mailers. These include First-Class letters for billing purposes, and First-Class letters, post cards, telephone calls and electronic mail for personal correspondence. Witness Needham concludes that in the context of these alternatives postal cards will remain a bargain at 22 cents. Id. at 112.

Financial Implications. Using the revenue calculation projection in Postal Service witness Lyons' Workpaper D, witness Needham divides the projected fee revenue from stamped cards, $8.4 million, by the expected $4.95 million in manufacturing costs to arrive at a cost coverage of 170 percent. In addition to reflecting the high value of postal cards to their users, she says this proposed cost coverage would "cover the directly-attributable manufacturing cost per card, realize the affixation value . . ., and provide a contribution to other costs." Id. at 110.

2. Participant Responses

All participants who address the Postal Service's postal card proposal oppose it. The OCA and Douglas F. Carlson characterize the proposal as an unjustified fee increase. David B. Popkin opposes the proposal on the grounds that it violates federal law.

OCA sponsors the testimony of witness Sherman, who argues the Postal Service's proposal "ignores the remarkable difference in processing cost between postal cards and private cards, postal cards costing at least $0.08 per piece less to process than private cards." Tr. 7/2294. Witness Sherman accepts Postal Service witness Patelunas' response to OCA/USPS-T5-11, in which witness Patelunas lists postal cards' superior automation compatibility and cleaner addresses as "plausible sources of this cost difference." Ibid. Although he notes that the Postal Service provides no data "to show the effects of these possible influences," witness Sherman argues:

> It surely is uneconomic to raise the effective price of the postal card and thereby discourage the use of a Postal Service offering that costs so little to process, while at the same time encouraging the use of a service that costs more to process. And these effects may be stronger than is currently being assumed.

Id. at 2295.

In addition, witness Sherman believes the Postal Service has incorrectly estimated the potential volume decline that would occur in response to the additional fee, and he asserts the Postal Service's assumed demand elasticity of -0.17 is "extremely low." Ibid. Using witness Lyons' projected volume of 421,302,000 and revenue of $92,686,4440, he calculates the net revenue gain to be $6,963,000, not $8,426,000, "which is obtained by merely multiplying the $0.02 increase times the forecast volume at the new rate," as shown in witness Lyons' Exhibit A and Workpaper E. Witness Sherman warns that not only does Lyons overestimate net revenue gain, but even if the revenue loss is accounted for, "the revenue forecast may be far too optimistic because of the elasticity assumptions that lie behind the volume forecast." Id. at 2294.

Witness Sherman warns that a larger portion of postal card volume could move to "the very close — and now lower-priced — substitute, private cards." He describes the results of this possible movement as "unfortunate," since private cards' "reported" contribution above attributable cost is less than $0.04 per private card, or roughly one-third the unit contribution of postal cards. He warns that this potential outcome could compromise the efficiency of the mailstream. Id. at 2294-95.

Douglas Carlson agrees with Sherman's argument that a fee increase would drive consumers to less efficient, private post cards. On brief, he presents examples of how private post cards can pose difficulties for automated processing:

> Glossy post cards create processing problems because the slick paper retards the ink for the black Postnet bar codes that are sprayed on the front of the post cards and the orange RBCS ID

> bar codes that are sprayed on the back side. Often a sticker must be placed on the front and/or back side of the card to allow a bar code to be sprayed — an extra step in processing. Index cards may be more flimsy than postal cards, thus interfering with automated processing.

Carlson Brief at 45.

Carlson counsels the Commission that, if anything, the Postal Service should charge less for postal cards to encourage their use. Ibid. In his reply brief, he suggests that if postal card users are to be the sole bearers of manufacturing costs, the postal card rate should be reduced to 10 cents. Carlson Reply Brief at 11. He concludes that a 10-cent rate for postal cards would "provide a reasonable 115 percent cost coverage" and reward postal card users for using an automation-compatible product. He adds that the lower fee would relieve postal card users of the higher price they must pay to "subsidize users of more-expensive-to-process private post cards." Id. at 12.

In addition, Carlson argues that "automation-ignorant" customers who seek alternatives to postal cards as the result of a fee increase would "unwittingly receive poorer service and give the Postal Service mail that is more expense to process." Carlson Brief at 46. He urges the Commission to consider this possibility in light of its potential effect on consumers, as required by § 3622(b)(4) of the Act. Ibid.

The Postal Service rejects the contention that an added fee would result in customers moving from postal cards to costlier substitutes. In its reply brief, it cites witness Needham's discussion during oral cross examination, in which she states that postal cards remain "a relative bargain," even with the additional two-cent fee, and that purchasing a postal card allows the customer to avoid all costs associated with separately obtaining a card and postage, and with affixing postage to a card. Postal Service Reply Brief at 106, citing Tr. 4/1144. In addition, the Postal Service notes OCA witness Sherman's testimony that the low-cost characteristics of postal cards "could also be exhibited by privately printed post cards used by today's customers of postal cards." Ibid., citing Tr. 7/2337.

OCA also argues against the necessity of stamped cards achieving consistency with stamped envelopes. Witness Sherman maintains that other services provide mailing materials to their customers free of charge. Tr. 7/2293 and 96. As examples, Sherman cites envelopes and cartons which the Postal Service provides free to Priority and Express Mail customers. Id. at 2293.

In its reply brief, the Postal Service cites its oral cross-examination of witness Sherman, during which he agreed that there is a stronger analogy between postal cards and stamped envelopes than between postal cards and Express Mail and Priority Mail envelopes, which require postage affixation. Postal Service Reply Brief at 105, citing Tr. 7/2479. Further, the Postal Service reminds the Commission that all Express and Priority Mail users may use Express and Priority Mail envelopes and containers free of charge, whereas all Postal and Postcard Subclass users are not entitled to postal cards' free stationery, even though they help pay for the cards' manufacturing costs. Ibid., citing Tr. 4/1138; USPS-T-8 at 110.

OCA witness Collins argues that under the existing price structure, manufacturing costs are already included in attributable costs for postal cards. She cites the fact that manufacturing costs are included as a line item in the Postal Service's Cost Segments and Components Report. Further, she cites witness Patelunas' response to interrogatory OCA/USPS-T5-10, in which he states no manufacturing costs were treated as institutional. Tr. 2/251. Witness Carlson concurs with witness Collins' assessment.

Witness Collins further argues that, with an average revenue per piece of 19.7 cents, postal cards' implicit cost coverage is already at 263 percent and would surpass 289 percent if the proposed fee increase is enacted. Tr. 5/1712. She characterizes postal cards' implicit cost coverage as "an astronomical" 303 percent if manufacturing costs are removed. Id. at 1713. According to witness Collins, witness Needham's cost coverage calculations, which are "based on year-to-date manufacturing costs and her proposed fee," ignore these facts. Witness Collins warns the Commission that it would be "unconscionable" to approve a rate increase, "in the guise of a 'new special service,' for a rate category which is already making one of the largest contributions to institutional costs of any category of mail." Id. at 1713-14.

The Postal Service dismisses as "trivial" OCA's claim that inserting the two-cent fee would result in a "double-counting" of postal card manufacturing costs. Postal Service Reply Brief at 107. It observes that the proposed shift of postal cards' manufacturing costs from the Postal and Post Cards subclass to a separate, special services classification usually means a corresponding modification to the attributable costs and associated rates of the subclass. It asserts that this adjustment will not be necessary for purposes of this case, because postal card manufacturing costs comprise a very small portion of total subclass attributable costs. Ibid., citing Tr. 5/1740-41. The Postal Service asserts that both OCA witnesses Sherman and Collins acknowledge the small amount manufacturing costs compose. During oral cross-examination, witness Collins acknowledges that manufacturing costs amount to about 0.6 - 0.8 percent of total subclass costs. Id. at 108, citing Tr. 5/1867.

Carlson urges the Commission to reject the Postal Service's proposal to require only postal card users to pay manufacturing costs. He argues that, contrary to the Postal Service's statements, postal card users are in fact subsidizing private postcard users, and the current practice of having all postcard users pay manufacturing costs "at least somewhat reduces the unfairness that exists in the current rate structure, which collapses two types of mail, whose processing costs differ by 8.7 cents, into one 20-cent rate." Carlson Reply Brief at 13.

David B. Popkin argues that the "bottom line" with respect to the Postal Service's proposal is "plain and simple: selling postal or stamped cards at other than the price of the stamp imprinted on them is in violation of § 1721 of Title 18 of the United States Code." Popkin Brief at 5. Popkin restates the arguments made in his August 9, 1996, Motion to Dismiss, and argues that the legislative history indicates the law was clearly intended to keep postal cards from being sold at a price other than the postage they bear. Popkin also asserts that philatelic card products must be sold at their face value. Popkin Brief at 5 and 6. Carlson supports his view. Carlson Brief at 47.

In his reply brief, Popkin challenges the Op. Solicitor of the Post Office Department 652 (1918) that the Postal Service relied on in its August 16, 1996, answer to his motion to dismiss. "This opinion of the Post Office Department's own Solicitor is not legislative history of the law. It is nothing more than the Post Office Department's own interpretation of the law and has no weight outside the agency." Popkin Reply Brief at 2.

The Postal Service rejects Popkin's claims. The Postal Service describes the proposed fee as being "entirely consistent with the policies" of its management, and cites Congress' creation of "an elaborate scheme for the implementation of and changes to the Domestic Mail Classification Schedule" as evidence that lawmakers did not intend the restrictions of this law to apply to "pricing policies recommended by the Commission, approved by the Governors, and implemented by postal management." The Postal Service also reiterates the argument, used in its answer to Popkin's August 9 Motion to Dismiss, that the legislative history of § 1721 indicates its intent is to prevent postal employees from overcharging customers. Postal Service Reply Brief at 111.

3. Commission Analysis

The Commission recommends adoption of the name "Stamped Cards." The Commission accepts the Postal Service's assertion that the new name will help customers recognize the differences between postal cards and private post cards. No party opposes the name change.

The Commission also agrees with the Postal Service's position that, like users of stamped envelopes, Stamped Card users should pay separately for the card as well as the postage. The Commission commented in Docket No. R76-1 that the Postal Service should approach the sale of stamped cards in the same manner it does stamped envelopes. However, as discussed in Chapter V, the Commission finds that incorporating stamped envelopes and cards into a single special service is contrary to the evidence provided by the Postal Service in support of this proposal. Accordingly, the Commission recommends creation of a separate special service for Stamped Cards.

The Commission will not recommend an additional separate fee for stamped cards in this case. The Commission finds merit in the arguments of witnesses Collins and Carlson that manufacturing costs are already included in the current rate applicable to stamped cards. The FY 1995 manufacturing costs that witness Needham uses in her testimony — $4,352,568 — are assigned to postal cards in Cost Segment 16 of the FY 1995 Cost Revenue Analysis. USPS-T-5, W/P B, W/S 16.1.2 at 1 of 1 and USPS-T-5, Exhibit A at 49. Witness Patelunas shows manufacturing costs continuing to be attributed to the First-Class Cards subclass, even if the Postal Service's proposal is implemented. His calculations show a manufacturing cost of $3,760,000 for First-Class cards in FY 1996 (after rates). USPS-T-5, Exhibit H at 49.

In its reply brief, the Postal Service dismisses this situation as "trivial," and claims it will be rectified in a later case:

> Assuming adoption of the stamped card fee, in future rate proceedings, the Postal Service will propose rates for the Postal and Post Cards Subclass based on attributable costs excluding the manufacturing costs of postal cards. With respect to the instant proceeding, rates in the Postal and Post Card Subclass need not be adjusted to reflect the shift of manufacturing costs of

> postal cards to a special service fee because the manufacturing costs constitute a tiny fraction of total subclass attributable costs.

Postal Service Reply Brief at 107, citing Tr. 5/1740-41 (footnote omitted).

The Commission disagrees. Regardless of the relatively small amount manufacturing stamped cards contributes to total attributable costs, the Commission finds it inappropriate for the Postal Service to include stamped card manufacturing costs in both the attributable costs of the Stamped Cards and Post Cards subclass and in a special service classification. Further, there is no pressing need to establish a stamped card fee at this time. As has been pointed out, both the Postal and Post Cards Subclass and postal cards themselves are making a substantial contribution to institutional costs, and the current rate has not been set on inaccurate data.

The Commission also notes that it is often disruptive to change a rate commonly used by household mailers outside the context of an omnibus rate proceeding. Such a proceeding, with the attendant publicity surrounding changes for rate categories used by households, provides wide notification of price increases to the general public. Consequently, the Commission recommends no Stamped Card fee be imposed in addition to the 20-cent nonpresort rate for cards.

Because the Commission is recommending no Stamped Card fee in this case, there is no separate cost coverage for Stamped Cards. Under the Commission's recommended rates, the Postal Service will receive approximately $86 million in revenue from Stamped Cards. This figure represents approximately $7 million less than the Postal Service projected it would receive under implementation of the proposed two-cent fee. However, the Commission notes that its recommendation eliminates a potential loss of Stamped Card volume due to an overall price increase, and it has adjusted revenue projections accordingly. Under the Commission's recommendation, Stamped Card volume will approach 429 million, instead of the 421 million projected assuming the implementation of the proposed fee.

The Postal Service includes only the manufacturing costs of Stamped Cards in developing the attributable costs for this service. The Commission urges the Postal Service to consider the inclusion of window service clerk sales costs as a part of the attributable costs of this service. In addition, the Postal Service should consider the same treatment for the stamped envelopes service. While some of this cost is attributed to stamped envelopes, most is not.

There is a discrepancy between the testimony of Postal Service witnesses and the proposed changes to the Domestic Mail Classification Schedule. The Postal Service's primary witness for this proposal, witness Needham, and other witnesses who discuss Stamped Cards treat the cost data for Stamped Cards as a distinct category. In fact, in her testimony, witness Needham says that "the Postal Service proposes to amend the Domestic Mail Classification Schedule to create a separate classification and fees for these stamped cards, consistent with the existing classification and fees for stamped envelopes." USPS-T-8 at 95. In response to an interrogatory from OCA, witness Patelunas implies that costs will continue to be kept separate when he describes the process of inserting stamped cards as a special service as a "cosmetic change." Tr. 2/258. The proposed changes to the Domestic Mail Classification Schedule indicate otherwise. The Postal Service's proposed changes to the DMCS indicate costs and revenues for Stamped Cards might be combined with costs and revenues of stamped envelopes, as Stamped Cards would be included with stamped envelopes in a single special service.

The Commission concludes that the prepared testimony of Postal Service witnesses reflects the Postal Service's intent that Stamped Cards remain a distinct entity under the Postal Service's proposal. The Commission notes that its recommendation eliminates the situation created by the Postal Service's ambiguous presentation. As a new case to evaluate the Domestic Mail Classification Schedule treatment of Special Services will begin soon, the Postal Service will have the opportunity to reevaluate the appropriate classification of Stamped Cards and to request alternative treatment should it feel such a request is warranted.

G. Special Delivery (SS-17)

1. Characteristics of Special Delivery Service

Special delivery service "provides for preferential handling in dispatch and transportation, and delivery of mail as soon as practicable after arrival at the addressee's post office." DMCS § 17.010. The service is available for First-Class Mail, Periodicals, and single piece, parcel post, bound printed matter, special and library Standard Mail. Ibid.

The special delivery service fee is added to the postage for the subclass by which the mail piece is sent. For First-Class and Priority Mail weighing up to two pounds the special delivery fee is $9.95, for pieces up to ten pounds the fee is $10.35, and for pieces more than ten pounds the fee is $11.15. For all other classes of mail the fees are $10.45, $11.25 and $12.10 for the respective weight intervals. DMCS Schedule SS-17. The volume for FY 1995 was 299,000 non-government pieces with revenue of $2.8 million. USPS-T-5B at 16. Using established cost attribution methods, attributable costs exceed revenues for the test year with a cost coverage of 94.3 percent. *See* PRC-LR-3. However, using the cost methods proposed by the Postal Service in this docket, revenues exceed attributable costs with a cost coverage of 119 percent. USPS-T-1, Exhibit C.

According to witness Needham, when special delivery service was introduced, mail was delivered to post offices throughout the day. USPS-T-8 at 121. Consequently, mail would often arrive after carriers had departed for routine deliveries and would be held overnight for delivery the next day. Special delivery service remedied this problem by offering deliveries throughout the day, independent of when mail arrived at the delivery unit, and thereby expedited delivery. Ibid.

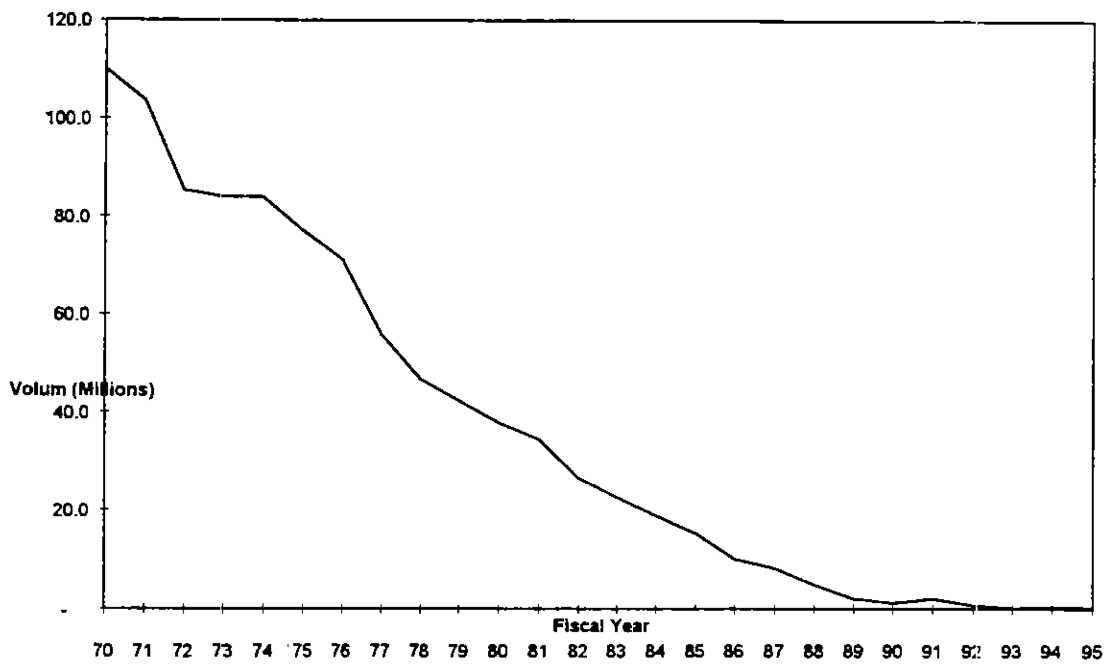
To assure preferential processing, special delivery mail has special designators and travels in specially marked *Speedy Bags* to facilitate recognition at transfer points. Upon arrival at the destination post office, the special delivery mail is immediately taken to the distribution area for prompt handling. Special delivery messengers, regular carriers, or other postal employees can deliver special delivery mail pieces. Witness Needham asserts that "[t]oday, special delivery is often delivered by carriers during the normal course of their routes." Id. at 122. The Postal Service has various requirements for special delivery mail that mandate immediate delivery for some locations, such as within a mile of a post office, and that limit the number of trips to four per day. Special delivery mail is eligible for delivery on Sundays and holidays. Id. at 118-19.

2. Postal Service Proposal

The Postal Service proposes to eliminate special delivery as a service option. The Service asserts that special delivery has lost its usefulness, as evidenced by its declining volume. Witness Needham claims that special delivery service can not compete with more technologically advanced communication offerings that are available to current mailers wanting expedited service. Id. at 136.

The drop in usage has been steady since Postal Reorganization. As exhibited in Figure 1, volume has fallen from a peak of more than 110 million pieces in FY 1970 to less than one million pieces in FY 1995, of which less than one third was non-government transactions. Witness Needham claims that this decline demonstrates a lack of usefulness and value to postal customers. Id. at 125-26.

Figure 1: Special Delivery Volume Decline



Data Source: USPS-T-8 at 126.

Witness Needham points out that the decline has coincided with the introduction of new services, such as Express Mail, that provide alternatives of greater value to the postal customers. Also, the improvement in First-Class and Priority Mail service has lessened the gap in performance between such mail with and without special delivery. Ibid. Witness Needham projects that the decline will continue with the passing of generations that previously depended on special delivery to achieve expedited delivery. Id. at 128.

Witness Needham notes that in 1975 the Postal Service prepared a market and strategy study for special delivery mail. The study documented the decline in usage but concluded special delivery was still a viable service. The study predicted that special delivery would become obsolete in the future as new competing products became available and that the only justification for its retention would "be as a psychological hedge for customers in small towns and rural areas where these new services probably will not be available." Id. at 132-33 (footnote omitted).

Witness Steidtmann reinforces the theme that special delivery is a product that is no longer useful. He draws an analogy with the consumer electronics field where new, faster, cheaper products come onto the market and older versions are phased out and discontinued. Witness Steidtmann specifically cites the history of long-playing records, introduced in the 1940s, achieving commercial acceptance in the 1950s and subsequently being replaced by cassette tapes which in turn are being replaced by compact discs. In his view, "the Postal Service, like other retailers, is making an intelligent decision by eliminating a product in the late stages of its life cycle." USPS-T-2 at 7.

As one of the reasons for the demise of special delivery, witness Steidtmann cites the availability of other postal products that provide superior forms of expedited service for about the same price. Express Mail is given as an example of a service that has comparable prices, yet provides expedited service from pickup through delivery. By reducing the number of marginal services, witness Steidtmann asserts that the product pool is simplified in the mind of the consumer while reducing costs. Ibid. Witness Lyons asserts that terminating the underutilized special delivery service directly supports the objectives of the Postal Service proposal. USPS-T-1 at 2-4.

The Postal Service predicts that eliminating special delivery will not result in a total loss of business, but rather a transfer of special delivery customers to other postal services. When challenged on this point in cross-examination, witness Lyons stated his belief that a person who has already made a decision to use the Postal Service would accept Express Mail or Priority Mail as an alternative, even if it were slightly more expensive. Witness Lyons argues that it would be difficult for some customers to leave the Postal Service and seek out an alternative. He further asserts that the higher cost of superior alternative Postal Service products is slight and would not justify changing carriers for most customers. Tr. 2/151-53.

The Postal Service projects that for the test year, FY 1996, the revenue from special delivery service would be $2.1 million from a volume of 208 thousand transactions. Appendix D, Schedule 2, Tables 1-2. That is, the downward trend in special delivery usage is forecast to continue into the test year.

The Postal Service asserts that ending special delivery will not cause a loss of revenue and institutional contribution currently projected for the test year. The change is forecast to generate new business for Express Mail, which currently makes a much larger per piece contribution to institutional costs. In particular, if special delivery service is eliminated, the Postal Service forecasts that half of the special delivery volume will migrate to Express Mail from the various classifications that would have been used with special delivery. The Service predicts that 104,000 pieces will migrate: 90,000 from First-Class Mail, 7,000 from Priority Mail, 6,000 from third-class mail, and 1,000 from parcels. *See* Table D1, Schedule 3, Appendix G. The Postal Service estimates that these migrations will produce a net increase in contributions to institutional cost of $6,000. Tr. 2/98.

The elimination of special delivery with the subsequent migrations to Express Mail result in a much larger increase in institutional contributions when established cost attribution methods are applied. The following table presents the cost implications of the Postal Service proposal using the established cost attribution method with Postal Service assumptions regarding volume migration.

Table 7

TEST YEAR FY 1996 IMPACTS FROM ELIMINATING SPECIAL DELIVERY

	Volume (1,000s)	Revenue ($1,000s)	Attributable ($1,000s)	Contribution ($1,000s)
Special Delivery	(208.0)	(2,091.2)	(2,217.0)	125.8
Express Mail	104.0	1,335.4	1,058.7	276.7
First Class	(90.0)	(35.1)	(24.0)	(11.1)
Priority	(7.0)	(23.7)	(11.1)	(12.6)
Third Class	(6.0)	(6.1)	(12.0)	5.9
Parcels	(1.0)	(2.5)	(2.2)	(0.3)
NET CHANGE		(823.2)	(1,207.6)	384.4

The elimination of special delivery is estimated to reduce Postal Service revenues by $0.8 million, while attributable costs decline by $1.2 million. The net effect is an increase in contribution to institutional costs of almost $0.4 million. *See* PRC-LR- 3 and Appendix D, Schedule 2, Tables 1-3.

Witness Needham claims that the proposed classification change is in accordance with the six factors contained in § 3623(c) of the Act. She asserts that the elimination of special delivery is fair and equitable (Criterion 1), since special delivery entails almost as much cost to the customer as Express Mail, but with a much lower level of service. Similarly, special delivery service is often similar to First-Class Mail in terms of service but at a much higher price. USPS-T-8 at 129-30.

Witness Needham asserts that the declining usage demonstrates the relatively low value of special delivery to postal customers. Consequently, continuation of the service cannot be justified by its value to the people (Criterion 2). Also, improved First-Class Mail standards of delivery and the introduction of Express Mail eliminate the importance of special delivery service as the means of providing an extremely high degree of reliability and speed of service as required by Criterion 3. Since alternative services dominate the market for expedited delivery, elimination of this product is not inconsistent with the needs of either users or the Postal Service (Criterion 5). Id. at 131-32.

3. Intervenor Positions

The American Postal Workers Union AFL-CIO (APWU), OCA, and David B. Popkin address this issue. OCA is not opposed to the elimination of special delivery; APWU and Popkin are opposed.

OCA witness Sherman concludes that "[b]ased on declining usage of special delivery and its inability to contribute above its attributable costs, [elimination of special delivery] might be a wise course." Tr. 7/2283. He notes that Express Mail now dominates the market where demand for special delivery once existed, since Express Mail offers expedited transportation to the destination post office, plus expedited delivery. Witness Sherman observes that it "might be desirable to separate these two features of speed in movement to destination post office and speed in delivery, so users could choose only the latter . . .." Ibid. Faster delivery within the same city was cited as a potential use for special delivery. However, witness Sherman concludes that "apparently because of competition from courier services, the Postal Service is unable to offer that service at a price much above attributable costs." Ibid.

APWU, on brief, challenges the basic assumption of the Postal Service and the OCA that alternative expedited delivery services exist. In particular, APWU states that while there may be expedited transportation or processing alternatives, "there are no alternatives for routine expedited delivery service." APWU Brief at 1 (Emphasis in original). In challenging the claimed existence of alternative expedited delivery services, the APWU points out the following restrictions on Express Mail.

> Delivery regulations specifically direct that delivery of Express Mail should be effected in the normal course of delivering other mail. These regulations also specifically prohibit the creation of

> another overlay of delivery service, or the creation of specialized routes for the delivery of Express Mail.

Id. at 6.

Conversely, the classification schedule for special delivery defines it as "a service that provides for preferential handling in dispatch and transportation, and delivery of mail . .". Id. at 13 (Emphasis omitted). Thus, the APWU asserts that if "special delivery service is eliminated there is no established USPS alternative that would provide expedited delivery." Ibid.

APWU also notes that other service options would disappear if the special delivery option is dropped. For example, special delivery is the only means by which customers can obtain certified or registered service with expedited delivery. Also, APWU points out that witness Needham "admits that for any mail piece that weighs over one pound it is always cheaper to send it Special Delivery/Priority Mail than to send it by Express Mail". Id. at 11 (emphasis omitted). Thus, elimination of special delivery would impair the ability of customers to be cost efficient in their use of expedited mail.

APWU identifies speed of delivery as one of the factors that the Commission is required to consider under the Postal Reorganization Act; in particular 39 U.S.C. § 3623(c)(3) and 39 U.S.C. § 3622(b)(2). Given the lack of alternatives to expedited delivery, APWU asserts that the proposal to eliminate special delivery service "does not pass the muster of the provisions, powers, and factors established by the Postal Reorganization Act. . . ." Id. at 1.

APWU also challenges the Postal Service special delivery proposal on several other grounds.

- Legislative history supports Congressional intent to retain special delivery. Id. 3-4.
- No current marketing study exists: the only marketing study cited was performed in 1975. Id. at 4-5.
- Decline in volume and revenue is not relevant: the decline only documents a drop in usage, not in demand for expedited delivery service. Id. at 5.
- Postal Service has shifted consumer attention through the use of advertising from special delivery to Express Mail. Id. at 6.
- Goals identified by witness Lyons are not supported: (1) not economically rational to eliminate a service and projected revenue for which there are no Postal Service alternatives; (2) no current review was conducted to see if service could be improved and made more useful to the customer; and (3) not only is revenue not added but some is forgone by eliminating special services. Id. at 7-8.
- Witness Steidtmann's analogy to the record industry is critically flawed and he does not have first-hand knowledge of Postal Service processes. Id. at 8-9.
- Witness Needham failed to explain why special delivery volume actually increased between some years over the last 25 and did not identify the quantity of Sunday and holiday deliveries which can be obtained only by purchasing special delivery. Id. at 12.

In summary, the APWU states that the "USPS has provided an unpersuasive rationale and an insufficient factual basis to support its request to eliminate special delivery service and rates." Id. at 13-14.

Popkin opposes the elimination of special delivery service on the grounds that it is still required for those that desire the same day delivery and for delivery of International Express [Special Delivery] mail. Popkin Brief at 9.

4. Postal Service Response

On brief, the Postal Service asserts that special delivery is an anachronism that should be eliminated. Postal Service Brief at 107. Information is presented on the fees and levels of service for special delivery, registered and certified mail to demonstrate that more economical services, with service superior to special delivery, exist. Id. at 109. Special delivery and Express Mail have comparable costs for the weights at which most special delivery services are provided, yet Express Mail receives much better service when both processing and delivery times are considered. Id. at 110.

On reply brief, the Postal Service disputes the arguments contained in the briefs of APWU and Popkin. The Service contends that the legislative history shows the Postal Reorganization Act does not support the extension of special delivery into perpetuity, and that it intended that emphasis should be given to overnight mail services. Postal Service Reply Brief at 96.

Regarding the criticism that the Postal Service relies on a 1975 marketing study, the Service points out that witnesses Lyons, Needham, Steidtmann, Patelunas, and Sherman provide abundant market information, including the fee, volume, and revenue history of special delivery, usage patterns and economic market analysis. Id. at 97.

The Postal Service challenges APWU's assertion that Express Mail does not supersede special delivery by citing various Postal Service regulations that ensure Express Mail will have better transportation and equally good or better delivery. In particular, the Postal Service points out that APWU's contention that much Express Mail is delivered by regular carriers is wrong, as this only occurs when delivery can be accomplished by 3:00 p.m. Tr. 8/3196. The Service argues that Express Mail is unquestionably preferred in delivery, because, unlike special delivery, it is guaranteed to be delivered by a specific time of day. Id. at 3184. In response to the APWU charge that special delivery is the only service eligible for Sunday and holiday delivery, the Service points out that DMM Quick Service Guide § 500 provides for Express Mail delivery 365 days a year. Postal Service Reply Brief at 101. The Service also argues that special delivery usage has not declined as a result of lack of emphasis, as asserted by APWU, and cites publications that continue to market the service in both English and Spanish. Id. at 98-99.

The Service counters the APWU claim that the proposal causes the Postal Service to lose revenue and contributions to institutional costs by noting that the net effect of eliminating special delivery is to generate additional contributions to institutional costs as a result of the migration of special delivery volume to Express Mail, which has a higher cost coverage. Tr. 2/98 and Postal Service Reply Brief at 96.

The Service dismisses Popkin's assertion that special delivery is needed for same day service by noting that a special delivery piece would achieve same day delivery only to the extent that all other mail of the same class would receive such service. Thus, special delivery is not needed to achieve same day service in those rare instances when it might occur by a piece being marked for local delivery and deposited at the delivery unit before the carrier leaves. Postal Service Reply Brief at 103. Regarding Popkin's assertion that special delivery is needed for certain international mail, witness Needham claims that inbound International Express Mail is independent of special delivery. Tr. 4/1023 and 1025. Thus, the elimination of special delivery will not preclude the Postal Service from offering reciprocal service for International Express Mail. Postal Service Reply Brief at 104.

5. Commission Analysis

In previous Dockets, the Commission has noted the problems with special delivery and recommended that the Postal Service either fix or eliminate this special service. PRC Op. R87-1, para. 6091, PRC Op. R94-1, para. 5547. The Postal Service has selected the elimination option and the record in this docket supports such a course of action. In particular, the dramatic drop in usage over the last 25 years is definitive evidence of a decline in the relative value of the service to the people. Thus, under 39 U.S.C. § 3623(c)(2) and (5), the change is appropriate.

Also, a comparison of service and costs leads one to conclude that problems of fairness and equity will be mitigated by eliminating special delivery service. In particular, the narrow gap between First-Class Mail and special delivery service is not commensurate with the significant price difference. Conversely, Express Mail provides significantly more value than special delivery at comparable prices. The public has a right to expect that Postal Service products will fairly reflect a correlation between price and service. Currently such a correlation does not appear to exist and elimination is warranted per 39 U.S.C. § 3623(c)(1).

The availability of postal services with extremely high degrees of reliability and speed of service, as required by 39 U.S.C. § 3623(c)(3), is not diminished by eliminating special delivery. The alternative of Express Mail satisfies the requirements for a postal service with a high degree of reliability and speed of service. The Commission urges the Postal Service to update its regulations to clarify that Express Mail will be delivered on Sundays and holidays, if the mailer requests it.

The cost and revenue estimates associated with the proposed elimination provide solid support for recommending the change. Currently, special delivery is losing money, with a cost coverage of 94.3 percent, for the test year of FY 1996. The outcome of recommending a rate increase to reverse the current loss position is highly uncertain due to the lack of demand evidenced by the rapidly declining usage. Further rate increases may well accelerate the drop in usage and result in even greater losses.

Eliminating special delivery not only ends a source of financial loss, but the migration of some special delivery customers to Express Mail will generate increased net revenue. Thus, discontinuing special delivery is fair, equitable and serves the needs of the Postal Service and the public. Consequently, on the basis of 39 U.S.C. § 3623(c)(1) and (5), the elimination of special delivery is justified. Furthermore, it is consistent with the 39 U.S.C. § 3622(b)(3) requirement that attributable costs for each service be covered by its fees. Elimination of special delivery is justified given its dramatic drop in usage and its current 94 percent cost coverage.

V. APPROPRIATE DOMESTIC MAIL CLASSIFICATION SCHEDULE (DMCS) TREATMENT

A. Assessment of the Postal Service's Proposal

As part of its Request in Docket No. MC95-1, the Postal Service proposed amendments to the Domestic Mail Classification Schedule (DMCS) reflecting not only the substance of the Service's major reclassification changes, but also significantly improving the underlying organization and editorial presentation of the DMCS. The Commission, to the extent consistent with its recommendations to the Governors, endorsed these comprehensive changes. Similar DMCS improvements were also a feature of Docket No. MC96-2, the Service's second reclassification filing.

Given the Postal Service approach to the DMCS in the first two reclassification cases, the Commission had anticipated that the instant filing, which the Service also characterizes as classification reform, would include fundamental improvements in the DMCS, at least with respect to the Special Services included in its Request. Instead, the Service proposed only minimal adjustments addressing substantive aspects of its proposal and left the underlying text and format essentially intact. Accordingly, the Commission issued a Notice of Inquiry raising the possibility that this case might provide a forum for consideration of improvements in the Special Services section of the DMCS along the broader lines pursued in the earlier reclassification cases. *See generally* Notice of Inquiry No.1 Regarding Potential Improvements in the Organization and Structure of DMCS Provisions Related to Various Special Services ("NOI No. 1" or "Notice") (issued November 14, 1996). The Notice posed a number of alternatives to the existing DMCS, such as a new numbering system, revised internal headings (along with consistency as to the content and level of detail thereunder), and changes in the presentation of the post office box fee schedules. The Notice also addressed consideration of minor editorial changes affecting stylistic conventions, punctuation, grammar, and uniformity in various fee payment schedules. Id. at 3 (citing Attachment B).

In comments filed in response to NOI No. 1, the Postal Service and the OCA generally agreed that comprehensive improvements would be desirable, but suggested that wholesale changes not be pursued in this proceeding. OCA Comments in Response to NOI No. 1 at 1 and 5 and Postal Service Comments in Response to Commission NOI No. 1 at 5 (both filed December 3, 1996). In support of its position, the OCA noted, among other things, that section-wide improvements might pose a concern about adequate notice and that even minor editorial changes might present complications capable of delaying resolution of the merits of the Service's underlying proposals. Id. at 2-3. The Postal Service indicated that its interest in postponement was based mainly on an interest in an opportunity to study potential changes without the constraints of the procedural deadlines already established for this case. In addition, the Service noted that a recent editorial review of the Special Services module in the Domestic Mail Manual (DMM) might have some bearing on anticipated DMCS changes. Id. at 6. The Service noted its interest in initiating a separate proceeding that would address the Commission's concerns, suggesting that this would insure input from the Board of Governors, but stated that it "would be more than willing to assist in enabling a productive outcome of any such docket." Id. at 6 -7.

The Commission, acceding to the commenters' preference for postponement, has decided to recommend only limited changes in the underlying DMCS in this case. These generally include, as applicable, language reflecting either the Postal Service's substantive proposals or the Commission's recommended alternatives, as well as limited, nonsubstantive changes in editorial presentation or format. However, the Commission continues to believe that the clarity and organization of the Special Services section of the DMCS can and should be improved, and it anticipates establishing a separate proceeding in the near future to consider comprehensive improvements for all Special Services.

B. DMCS Treatment of Special Services Pending in this Case

Insurance services generally (affecting the existing treatment accorded Insured Mail (SS-9) and the Service's proposed DMCS treatment for Express Mail Insurance (SS-9a in its Request)). As a substantive matter, the Commission is recommending the Postal Service's proposed increase from $600 to $5000 in the maximum compensation for insured mail, as well as its proposal to alter the traditional terms on which insurance has been provided for matter sent as Express Mail. However, the Commission finds that the Service's proposed DMCS treatment does not appear to be consistent with the testimony and related workpapers of its supporting witnesses. For example, witness Lyons combines mail with both types of insurance into a single category when developing after-rates volume, revenue and cost estimates for Special Services insurance, and specifically identifies Express Mail Insurance as part of Insured Mail calculations. USPS-T-1, Workpaper A at 4-5 and Workpaper D at 6. Similarly, witness Needham combines Insured Mail and Express Mail Insurance in her analysis to demonstrate the consistency of the insurance proposal with the pricing and classification criteria of the Act. USPS-T-8 at 49-55. Finally, witness Steidtmann does not distinguish between the types of mail when discussing the insurance proposal. USPS-T-2 at 6.

To better reflect the substance of the Postal Service proposal, the Commission recommends a DMCS presentation establishing Express Mail Insurance as one part (Part a) of a two-part DMCS Special Service schedule defining the service offering. The second part of this schedule (Part b) reflects wholesale retention of the text previously contained in Insured Mail (SS-9). This part carries the designation "General Insurance" to distinguish it from Express Mail Insurance. The schedule containing both parts carries the title "Insured Mail."

In a related DMCS matter, the Commission also finds that inclusion of insurance up to $500 as a fundamental component of Express Mail service is significant enough to warrant acknowledgment in the main text of the host class. The Commission achieves this by amending the definition of Expedited Mail in DMCS §110 to include the following sentence: "Insurance is either included in Express Mail postage or available for an additional charge, depending on the value and nature of the item sent by Express Mail."

Post Office Box Service (SS–10). The Commission's recommended DMCS treatment for SS-10 differs in two major respects from that requested by the Postal Service. One is the basic presentation and organization of the fee schedule; the other is the inclusion of additional information in a footnote to reflect the Service's testimony altering the original request regarding eligibility for a free post office box. The Commission's footnote is as follows: "Customers ineligible for carrier delivery may obtain a post office box at no charge, subject to administrative decisions regarding proximity to post office." In addition, the Commission accepts several minor editorial changes the Postal Service has proposed in this classification schedule. These include deleting the gender-specific pronouns "his" and "him" in sections 10.010 and 10.021, respectively, with appropriate rephrasing of section 10.021, and eliminating use of the words "rented" or "rental" in connection with post office box service in favor of the word "use."

While the issue may be moot, given rejection of the Service's proposed nonresident box fee, the Commission notes that in the Postal Service's proposal, the nonresident fee appears only in the fee schedule. Appropriate DMCS treatment of such a significant fee would have called for a corresponding reference to the nonresident fee in the main text of Classification Schedule SS–10.

Registered Mail (SS–14). The Commission is accepting the Postal Service proposal to include insurance in the fee charged for items with a declared value greater than $100, and to provide mailers with optional insurance for items valued at $100 or less. In general, the Commission also accepts the Postal Service proposed DMCS treatment (including corresponding technical changes), but recommends two editorial changes. One corrects a minor oversight in the Service's proposal by substituting, in section 14.010, the phrase "and indemnity in case of loss or damage" for the phrase "optional indemnity in case of loss or damage." The other change is in the nature of a clarification, and entails the inclusion of two footnotes in the related fee schedule informing the reader about the treatment of insurance under the revised schedule.

Return Receipts (SS–16). The Commission modifies the Service's proposed fee schedule in minor respects to improve clarity and presentation; in other respects, the proposed DMCS treatment reflects the Service's classification proposal to provide delivery address information to the purchaser of Return Receipt service only if that address is different from the address on the mailpiece.

Special Delivery (SS–17). The Commission agrees that the Service's proposed elimination of Special Delivery service calls for striking the Special Delivery classification schedule and rate schedule from the DMCS. The Commission further notes that it appears the Postal Service has accurately identified all instances where corresponding technical changes are needed elsewhere in the DMCS to reflect the termination of Special Delivery.

Stationery services: the Service's proposed combination of Stamped Cards and Stamped Envelopes (in SS–19). The Commission is recommending a shell classification in response to the Postal Service request to institute a fee for Stamped Cards. Consistent with the nature of this recommendation, a fee of $0.00 is shown in the rate schedule. However, the Commission finds that the Service's proposed DMCS treatment is not consistent with its formal presentation. The testimony of both Postal

Service witnesses Lyons and Needham treat Stamped Cards as a special service category distinct from Stamped Envelopes. Witness Needham explicitly states that the Postal Service "proposes to amend the Domestic Mail Classification Schedule (DMCS) to create a separate classification and fees for these cards." USPS-T-8 at 95. She also states that the "proposed fee would cover the manufacturing costs for postal cards, and add a markup to reflect, *inter alia,* the value of service for purchasers of these cards." Ibid.

The weight of the testimony addressing costing and cost coverages also reveals the distinct nature of the Service's treatment. For example, witness Needham does not include any costs for Stamped Envelopes with Stamped Cards, and she considers only costs and revenues directly associated with the manufacturing and sale of Stamped Cards in developing estimated cost coverages for the proposed classification. Id. at 107. Witness Lyons, likewise, calculates cost coverages using only data relating to Stamped Cards. USPS-T-1, Workpaper D at 10. Thus, as with insurance services discussed above, the Commission recommends an adjustment to more appropriately reflect the Postal Service's apparent intentions. This adjustment takes the form of separate schedules for Stamped Cards and for Stamped Envelopes. In addition, the Commission believes there should be a reference to the proposed fee for Stamped Cards in the First-Class Mail Classification Schedule under section 270, "Rates and Fees." The Commission's recommended DMCS treatment, therefore, includes such reference. The Commission agrees with the Postal Service proposed nomenclature change, which entails substituting "Stamped Cards" for "postal cards," as appropriate.

Parcel Airlift (SS-13). The Commission's recommendation of the Service's proposal to increase from $25 to $50 the minimum insurance amount for certain related services in this classification schedule entails acceptance of the Service's corresponding DMCS treatment, which simply replaces the lower figure with the higher one.

UNITED STATES OF AMERICA
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

Before Commissioners: Edward J. Gleiman, Chairman;
H. Edward Quick, Jr., Vice Chairman
George W. Haley, W.H. "Trey" LeBlanc III

Special Services Fees and Classifications | Docket No. MC96-3

RECOMMENDED DECISION

(Issued April 2, 1997)

A public hearing having been held in the above-entitled proceeding, and the Commission, upon consideration of the record, having issued its Opinion, which is attached hereto and made a part hereof,

IT IS ORDERED:

That the Commission's Opinion be transmitted to the Governors of the Postal Service and that the Governors thereby be advised that:

1. The rates of postage set forth in Appendix One hereof are in accordance with the policies of title 39, United States Code and the factors set forth in § 3622(b) thereof; and they are hereby recommended to the Governors for approval.

2. The amendments to the Domestic Mail Classification Schedule set forth in Appendix Two are in accordance with the policies of title 39 of the United States Code and the factors set forth in § 3623(c) thereof; and they are hereby recommended to the Governors for approval.

3. Except to the extent granted or otherwise disposed of herein, all motions and other requests filed in Docket No. MC96-3 hereby are denied.

By the Commission.

(S E A L)

Margaret P. Crenshaw

Margaret P. Crenshaw
Secretary

Amend Rate Schedule 222 by deleting the text that is stricken and inserting the text that is underlined.

FIRST-CLASS MAIL
RATE SCHEDULE 222
~~Postal~~ <u>STAMPED CARDS</u> and POST CARDS

* * * * *

Delete Schedule SS–5, Certified Mail, in its entirety and replace it with the following:

Schedule SS-5 — Certified Mail

Description	***Fee (in addition to postage)***
Service (per mailpiece)	$1.35

Delete Schedule SS–9, Insured Mail, in its entirety and replace it with the following:

Schedule SS-9 — Insured Mail

Part a — Express Mail Insurance

Document Reconstruction

Coverage	*Fee (in addition to postage)*
$0.01 to $500	no charge

Merchandise

Declared Value	*Fee (in addition to postage)*
$ 0.01 to $ 500	no charge
500.01 to 5000	$0.90 for each $100 (or fraction thereof) over $500 in value

Part b - General Insurance

Declared Value	*Fee (in addition to postage)*	
$ 0.01 to $50	$0.75	
50.01 to $100	1.60	
100.01 to $5000	1.60	***plus*** $0.90 for each $100 (or fraction thereof) over $100 in declared value

Delete Schedule SS-10, Post Office Boxes and Caller Service, in its entirety and replace it with the following:

Schedule SS-10 — Post Office Boxes and Caller Service

I. Semi-annual Box Fees[1]

	Fee Group			
Box Size[2]	**A**	**B**	**C**	**D and E**[3]
1	$ 24	22	$ 20	$ 6.00
2	37	33	29	10.00
3	64	56	52	18.00
4	121	109	86	26.50
5	209	186	144	41.50

[1] A customer ineligible for carrier delivery may obtain a post office box at no charge, subject to administrative decisions regarding customer's proximity to post office.

[2] Box Size 1 = under 296 cubic inches; 2 = 296-499 cubic inches; 3 = 500-999 cubic inches; 4 = 1000-1999 cubic inches; 5 = 2000 cubic inches and over.

[3] Group E post office box customers subject to these fees are those eligible for carrier delivery.

II. Semi-annual Caller Service Fees

Fee Group	*Fee*
A	$250
B	$240
C	$225
D	$225

III. Annual Call Number Reservation Fee

(all applicable Fee Groups) .... $ 30

Delete Schedule SS–14, Registered Mail, in its entirety and replace it with the following:

Schedule SS-14 — Registered Mail

Declared Value of Article[1]		*Fees*[2] *(in addition to postage)*	*Handling Charge*
$0.00 to	$100	$4.85 *(without insurance)*	None
0.00 to	100	4.95 *(with insurance)*	
100.01 to	500	5.40	
500.01 to	1,000	5.85	
1,000.01 to	2,000	6.30	
2,000.01 to	3,000	6.75	
3,000.01 to	4,000	7.20	
4,000.01 to	5,000	7.65	
5,000.01 to	6,000	8.10	
6,000.01 to	7,000	8.55	
7,000.01 to	8,000	9.00	
8,000.01 to	9,000	9.45	
9,000.01 to	10,000	9.90	
10,000.01 to	11,000	10.35	
11,000.01 to	12,000	10.80	
12,000.01 to	13,000	11.25	
13,000.01 to	14,000	11.70	
14,000.01 to	15,000	12.15	
15,000.01 to	16,000	12.60	
16,000.01 to	17,000	13.05	
17,000.01 to	18,000	13.50	
18,000.01 to	19,000	13.95	
19,000.01 to	20,000	14.40	
20,000.01 to	21,000	14.85	
21,000.01 to	22,000	15.30	
22,000.01 to	23,000	15.75	
23,000.01 to	24,000	16.20	
24,000.01 to	25,000	16.65	

Schedule SS– 14 — Registered Mail
(continued)

25,000.01 to $1 million	16.65	*plus*	45 cents for each $1,000 (or fraction thereof) over $25,000
Over $1 million to $15 million	455.40	*plus*	45 cents for each $1,000 (or fraction thereof) over $1 million
Over $15 million	6,755.40	*plus*	Amount determined by the Postal Service based on weight, space and value

[1] Articles with a declared value of more than $25,000 can be registered, but compensation for loss or damage is limited to $25,000.

[2] Fees for articles with declared values of more than $100 include insurance.

Delete Schedule SS–16, Return Receipts, in its entirety and replace it with the following:

Schedule SS-16 — Return Receipts

Description	*Fee (in addition to postage)*
Receipt Issued at Time of Mailing[1]	
Items other than Merchandise	$1.10
Merchandise (without another special service)	$1.20
Receipt Issued after Mailing[2]	$6.60

[1] This receipt shows the signature of the person to whom the mailpiece was delivered, the date of delivery and the delivery address, if such address is different from the address on the mailpiece.

[2] This receipt shows to whom the mailpiece was delivered and the date of delivery.

Delete Schedule SS–17, Special Delivery, in its entirety:

~~SCHEDULE SS-17~~
~~Special Delivery~~

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

Amend Schedule SS-19, Stamped Envelopes, by inserting the underlined text:

Schedule SS-19 — Stamped Envelopes

Description	***Fee (in addition to postage)***
Single Sale	$0.06

* * * * *

Amend the Domestic Mail Classification Schedule by inserting the following:

Schedule SS-19A — Stamped Cards

Description	***Fee (in addition to postage)***
Stamped Card	$0.00
Double Stamped Card	0.00

RECOMMENDED CHANGES IN THE DOMESTIC MAIL CLASSIFICATION SCHEDULE

The following material represents changes in the Domestic Mail Classification Schedule (DMCS) recommended by the Postal Rate Commission in response to the Service's Request in this case. Changes are generally identified by underlining additions to the DMCS, striking deletions, or substituting new text for old. Certain editorial revisions that do not affect the substance of the recommendations are included without special notation.

Amend the Expedited Mail Classification Schedule by deleting the text that is stricken and inserting the text that is underlined:

EXPEDITED MAIL CLASSIFICATION SCHEDULE

110 DEFINITION

Expedited Mail is mail matter entered as Express Mail in accordance with the provisions of this Schedule. Any matter eligible for mailing may, at the option of the mailer, be mailed as Express Mail. Insurance is either included in Express Mail postage or is available for an additional charge, depending on the value and nature of the item sent by Express Mail.

* * * * *

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.	Express Mail Insurance	SS-9

* * * * *

~~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:~~

- ~~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.

Amend the First-Class Mail Classification Schedule by deleting the text that is stricken and inserting the text that is underlined:

FIRST-CLASS MAIL CLASSIFICATION SCHEDULE

* * * * *

222 ~~Postal and~~ Stamped Cards 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. 4¼ inches in width;

c. 0.016 inch in thickness.

222.13 **Double Cards.** Double ~~postal~~ Stamped Cards or post cards may be mailed as ~~postal~~ Stamped Cards or post cards. A double ~~postal~~ Stamped Card 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~~ Stamped Card or post card.

222.2 **Restriction.** A mailpiece with any of the following characteristics is not mailable as a ~~postal~~ Stamped Card 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 Cards and Post Cards subclass mail not mailed under section 222.32.

222.32 **Presort Rate Category.** The presort rate category applies to ~~Postal~~ Stamped Cards 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 Cards 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 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.~~	~~Special delivery~~	~~SS-17~~
~~i.~~ h.	Return receipt (limited to merchandise sent by Priority Mail ~~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.	~~Postal~~ Stamped Cards and Post Cards	222
c.	Priority Mail	223
d.	Fees	SS-19A and 1000

* * * * *

Amend the Standard Mail Classification Schedule by deleting the text that is stricken and inserting the text that is underlined:

STANDARD MAIL
CLASSIFICATION SCHEDULE

* * * * *

360 ANCILLARY SERVICES

* * * * *

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.~~	~~Special delivery~~	~~SS-17~~
~~e.~~ d.	Special handling	SS-18
~~f.~~ e.	Return receipt (merchandise only)	SS-16
~~g.~~ f.	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.

* * * * *

Amend the Periodicals Classification Schedule by deleting the text that is stricken:

PERIODICALS
CLASSIFICATION SCHEDULE

* * * * *

~~460 ANCILLARY SERVICES~~

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

~~**Service**~~	~~**Schedule**~~
~~Special delivery~~	~~SS-17~~

* * * * *

Amend the General Definitions, Terms and Conditions section of the DMCS by deleting the text that is stricken and inserting the text that is underlined:

GENERAL DEFINITIONS, TERMS AND CONDITIONS

* * * * *

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~~ general insurance, 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.

* * * * *

Amend Classification Schedule SS–3, Caller Service, by deleting the text that is stricken and inserting the text that is underlined:

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.

* * * * *

Amend Classification Schedule SS–4, Certificate of Mailing, by deleting the text that is stricken and inserting the text that is underlined:

CLASSIFICATION SCHEDULE SS-4--CERTIFICATE OF MAILING

* * * * *

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 payment of the applicable fees:

	Classification Schedule
a. Parcel airlift	SS-13
~~b. Special delivery~~	~~SS-17~~
~~c.~~ b. Special handling	SS-18

* * * * *

Amend Classification Schedule SS–5, Certified Mail, by deleting the text that is stricken.

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
~~c. Special delivery~~	~~SS-17~~

Amend Classification Schedule SS–6, Collect on Delivery Service, by deleting the text that is stricken and inserting the text that is underlined:

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
~~c. Special delivery~~	~~SS-17~~
~~d.~~ c. Special handling	SS-18

* * * * *

Delete Classification Schedule SS–9, Insured Mail, in its entirety and replace it with the following:

CLASSIFICATION SCHEDULE SS-9–INSURED MAIL

Part a - Express Mail Insurance

9a.01 **Definition**

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

Part b - General Insurance

9b.01 **Definition**

9b.010 General Insurance is a service that provides the mailer with indemnity for loss of, rifling of, or damage to mailed items.

9b.02 **Description of Service**

9b.020 The maximum liability of the Postal Service under this part is $5000.

9b.021 General Insurance is available for mail sent under the following classification schedules:

a. First-Class Mail, if containing matter which may be mailed as Standard Mail
b. Single Piece, Parcel Post, Bound Printed Matter, Special, and Library Standard Mail

9b.022 This service is not available for matter offered for sale, addressed to prospective purchasers who have not ordered or authorized their sending. If such matter is received in the mail, payment will not be made for loss, rifling, or damage.

9b.023 The mailer is issued a receipt for each item mailed. For items insured for more than $50, a receipt of delivery is obtained by the Postal Service.

9b.024 For items insured for more than $50, a notice of arrival is left at the mailing address when the first attempt at delivery is unsuccessful.

9b.025 A claim for complete loss may be filed by the mailer only. A claim for damage or for partial loss may be filed by either the mailer or addressee.

9b.026 A claim for damage or loss on a parcel sent merchandise return (SS-20) may only be filed by the purchaser of the insurance.

9b.027 Indemnity claims must be filed within a specified period of time from the date the article was mailed.

9b.028 Additional copies of the original mailing receipt may be obtained by the mailer, upon payment of the applicable fee set forth in Rate Schedule SS-9.

9b.03 **Deposit of Mail**

9b.030 Mail insured under this part must be deposited in a manner specified by the Postal Service.

9b.04 **Forwarding and Return**

9b.040 By insuring an item, the mailer guarantees forwarding and return postage unless instructions on the piece mailed indicate that it not be forwarded or returned.

9b.041 Mail undeliverable as addressed sent under this part will be returned to the sender as specified by the sender or by the Postal Service.

9b.05 **Other Services**

9b.050 The following services, if applicable to the class of mail, may be obtained in conjunction with mail sent under this part 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.	Special handling	SS-18
e.	Merchandise return (shippers only)	SS-20

9b.06 **Fees**

9b.060 The fees for General Insurance are set forth in Rate Schedule SS-9.

Period ~~for~~ of box ~~rentals~~ use	Fee
95 days or less	½ semi-annual fee
96 to 140 days	¾ semi-annual fee
141 to 190 days	Full semi-annual fee
191 to 230 days	1¼ semi-annual fee
231 to 270 days	1½ 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.

Amend Classification Schedule SS–11, Mailing List Services, by deleting the text that is stricken and inserting the text that is underlined:

CLASSIFICATION SCHEDULE SS-11–MAILING LIST SERVICES

11.01 **Definition**

* * * * *

11.02 **Description of Service**

* * * * *

11.0221 Gummed labels, wrappers, envelopes or ~~postal~~ <u>Stamped Cards</u> or post cards indicative of one-time use will not be accepted as mailing lists.

* * * * *

Amend Classification Schedule SS–13, Parcel Airlift, by deleting the text that is stricken and inserting the text that is underlined:

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

* * * * *

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 ~~$25~~ <u>$50</u>)	SS-15
d. Return receipt (if insured for more than ~~$25~~ <u>$50</u>)	SS-16
~~e. Special delivery (if mailed for delivery within the 48 contiguous states)~~	~~SS-17~~
~~f.~~ <u>e.</u> Special handling	SS-18

* * * * *

Amend Classification Schedule SS–14, Registered Mail, by deleting the text that is stricken and inserting the text that is underlined:

CLASSIFICATION SCHEDULE SS-14--REGISTERED MAIL

14.01 **Definition**

14.010 Registered mail is a service which provides added protection to mail sent under this Domestic Mail Classification Schedule and ~~optional~~ indemnity in case of loss or damage.

14.02 **Description of Service**

* * * * *

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
~~d. Special delivery~~	~~SS-17~~
~~e.~~ d. 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.

* * * * *

Amend Classification Schedule SS–16, Return Receipts, by deleting the text that is stricken and inserting the text that is underlined:

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. ~~First-Class~~ Priority Mail (merchandise only)	
g. Standard Mail (limited to 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:~~ 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.

* * * * *

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*Amend Schedule SS-17, Special Delivery, by deleting the text in its entirety:

*This effectively eliminates Special Delivery from the Service's offerings.

~~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 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.~~

Amend Classification Schedule SS–18, Special Handling, by deleting the text that is stricken and inserting the text that is underlined:

CLASSIFICATION SCHEDULE SS-18--SPECIAL HANDLING

* * * * *

18.02 **Description of Service**

* * * * *

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

* * * * *

Amend the Domestic Mail Classification Schedule by inserting the following:

CLASSIFICATION SCHEDULE SS–19A — STAMPED CARDS

19A.01 **Definition**

19A.010 **Stamped Cards.** Stamped Cards are cards with postage imprinted or impressed on them and supplied by the Postal Service for the transmission of messages.

19A.011 **Double Stamped Cards.** Double Stamped Cards consist of two attached cards, one of which may be detached by the receiver and returned by mail as a single Stamped Card.

19A.020 **Description of Service.** Stamped Cards are available for First-Class Mail.

19A.030 **Fees.** The fees for Stamped Cards are set forth in Rate Schedule SS-19A.

TECHNICAL APPENDICES

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DISCUSSION OF MARKET RESEARCH FOR P.O. BOXES

Witness Ellard provides a discussion of the market research (price sensitivity study) he conducted to assess customer reaction to potential increases in the rental fees for selected categories of post office boxes. For two price tiers and three size groups, he estimated the proportion of current box holders who would retain their post office boxes in spite of increases in the rental fee. For each estimation cell, estimates were derived for three alternative fees, reflecting what was termed the low, medium and high prices. USPS-T-6 at 4. This study provided data from respondents of a systematic sample of box holders from a sample of post offices selected proportional to the household population of the areas in which they were located. Id. at 2.

On brief, the Office of Consumer Advocate (OCA) argues that the market research (1) failed to address the impact of the nonresident fees on customer reaction, (2) could not provide a reliable estimate of box holders who are nonresidents of the areas in which their boxes are rented, and (3) did not assess the reaction of potential box holders to possible increases in rental rates. In addition, the OCA asserts that the reliability of the market research conducted by witness Ellard is unknown. OCA Brief at 51-55.

In response to the OCA's criticism of the price sensitivity study for this docket, the Postal Service contends that the OCA focuses on what was not investigated, rather than the value of the study of the existing box holders. The Service maintains that the survey was not intended to be a full-blown study of nonresident reactions. Regarding the OCA's assertions relating to the reliability of the estimates produced by the study, the Postal Service argues that the variance estimation procedure employed by witness Ellard is routinely used by survey researchers, and is based on a plausible assumption. It asserts that witness Ellard produced a "straightforward" study that measured an uncomplicated variable, and that the study was conducted properly and is properly relied upon by the Service in its box fee proposals. USPS Reply Brief at 50-51.

While the basic objective of the market researcher is clear, the conceptual, statistical and cognitive issues germane to the achievement of that objective could not appropriately be characterized as uncomplicated. There are aspects of the questionnaire design, sampling, data collection, and estimation procedures associated with the sensitivity study that occasion measurement errors whose effect on the final results cannot be easily assessed.

There are no definitive results that suggest the possible impact that quantifying the "nonresident" box holders and obtaining their reaction to potential nonresidents fees would have had on the survey results. However, OCA justifiably argues that an analysis of responses from this group would have provided a more comprehensive picture of customer sensitivity to various fee increases. Similarly, knowledge gleaned from the reaction of individuals on the waiting lists for post office boxes, might have also facilitated decisions on the proposed increases.

The Commission concurs with the OCA's general assessment of the quality of witness Ellard's documentation of the estimation process for the market research, particularly that relating to the trimming of weights, the ratio adjustment, and the "cross examination of weights." OCA Brief at 56-58. It lacked the level of detail that would have permitted an easily discernible review of the processes. In addition, the following should be noted:

1. Sampling Bias — Instructions given to the postmasters regarding the selection of a sample of box holders clearly resulted in a conditional inclusion probability of either one or zero, depending on the location of the box on the sampling list. If there were say M boxes in a given size category in a specific post office, where M is greater than 25, then the sample of boxes selected for this category was fixed. If k represents the largest integer less than or equal to M/25, then the first box selected for the given category was the kth box, and every kth box after that was also selected until the sample totaled 25 boxes. This was not a random process; it was biased. Those

boxes whose list numbers were multiples of k were selected with probability 1.00, while the others had no chance of being selected. To the extent that the boxes with zero probability of selection differed from those whose conditional inclusion probability was 1.00, the survey estimates are biased.

2. Weighting Errors — Since the conditional inclusion probabilities were incorrect, the associated weights were also incorrect. The extent to which the "trimming" and the final ratio adjustments compensated for this inadequacy is unclear.

3. Nonresponse Bias — Nonresponse to the survey occurred at both the postmaster and box holder level. The box holder could have been a respondent to both a reply card request and a telephone interview. Unless one can assume that the sample box holders were "missing at random," that is, the variables of interest are not related to the response patterns of the box holders, the size of the nonresponse among the box holders could have led to a sizable bias in the reported results. Of the 16,193 reply cards provided for the box holders, there were responses for only 2,608. SSR-111 at 41.

4. Cognitive Issues — It seems plausible that there was a reflexive objection to the prospect of any fee increase, and that the customer is more likely to retain the post office box than the initial reaction would indicate. However, the contextual effect of the auxiliary questions designed to set a "conversation tone" (USPS-T-6 at 4), is far from obvious. The initial inquiries, about the importance of the boxes to the customers and the level of privacy and security they afford, could conceivably increase reluctance to subsequently state that the boxes would not be retained if a fee increase occurred.

The order in which the questions directly relating to the possible increases in rental fees were asked, may have also "conditioned" the respondents to the extent that different percentage distributions would have resulted if the questions regarding the largest fee had been asked prior to those relating to the medium-range fee. Still another distribution could have resulted from initially asking questions relating to the smallest fee increase.

5. Variance Estimation — As observed by the OCA, witness Ellard offers an unconventional definition of the design effect for a sample design. OCA Brief at 58-59. The rather crude approximation of this measure for the actual survey design has dubious utility in providing reliable estimates of the variability of the acceptance rates. Ostensibly, efforts to derive a variance estimator directly would have been preferable to the approach taken by witness Ellard.

In light of the sensitivity study's potential measurement errors, the Commission questions the reliability of the acceptance rates' point estimates for the selected price increases. There is even some difficulty in concluding that the results accurately reflect the potential reaction of the sample respondents to the indicated price increases. However, witness Lyons used the midpoint between the worse case scenario and a "perfect" acceptance rate in his estimate of the impact on revenues and volume of the post office box fee redesign. USPS-T-1, Appendix at A1-A2. If the assumption that the acceptance rate estimates from the market research are lower bounds for the actual rates holds, then the associated estimates made by witness Lyons may have resulted in a substantial reduction in the difference between the estimates and their "true values." Tables 1 and 2 shown below illustrate that point. Let $\hat{A}_c$ represent the estimated acceptance rate for the cth price tier/size group cell. In addition, A_c denotes the true value of the acceptance rate, and $d_c=A_c-\hat{A}_c$. Then the absolute difference between the true value A_c and the estimate of the acceptance rate used by witness Lyons is $|(A_c+d_c)/2-50|$. Note that the estimate used by witness Lyons does not produce an improvement in the "absolute error" if the estimate from the market research is reasonably close to the "true value." For example, in Table 1 the assumed estimate from the sample survey is 73 percent. If the true value is 75 percent, then

d_c=2%, while the use of the midpoint between the estimate and 100 percent would lead to an absolute difference of 11.5 percent.

Table 1

Absolute Difference Between True Value and "Midpoint Estimate"*
(Assume $\hat{A}_c$ = 73%)

A_c	d_c	"Midpoint Estimate" $\hat{A}_{c(m)}$	Absolute Difference
75	2.0	86.5	11.5
80	7.0	86.5	6.5
85	12.0	86.5	1.5
90	17.0	86.5	3.5
95	22.0	86.5	8.5

*Table entries represent percentages.

Table 2

Absolute Difference Between True Value and "Midpoint Estimate"*
(Assume $\hat{A}_c$ = 79%)

A_c	d_c	"Midpoint Estimate" $\hat{A}_{c(m)}$	Absolute Difference
80	1.0	89.5	9.5
85	6.0	89.5	4.5
90	11.0	89.5	0.5
95	16.0	89.5	5.5

*Table entries represent percentages.

ADJUSTMENTS TO POST OFFICE BOX VOLUMES AND REVENUES

The Postal Service's initial volume and revenue estimates provided for free boxes in delivery Group III only. Over the course of this proceeding it has become clear that the Service intends to offer free boxes to all post office box holders ineligible for carrier delivery.[1] *See* chapter IV, section A. This commitment by the Postal Service results in changes to the test year before rates volumes and revenues shown in witness Lyons' Workpaper C (LR-SSR-121).

Responses to P.O. Information Request No. 4, question 6, and P.O. Information Request No. 5, question 2, are the basis for the adjustments made in Tables 1-3. The record indicates three types of adjustments are necessary: a volume correction to the Postal Service's initial filing; a correction to specific rates in the Service's initial filing; and, recalculation of revenue loss due to boxes provided at no charge.

The first adjustment involves the number of Group III boxes. Witness Lyon's Workpaper C, page 3, shows 2,707,964 Group III boxes moving from $2 to $0. The actual number of Group III boxes listed in the Delivery Statistics File (LR-SSR-93) is 338,510. In response to P.O. Information Request No. 4, question 6, Lyons states that the "most likely" number of Group III boxes is 338,510. Tr. 8/3007. This correction results in a before rates volume reduction of 2,369,454 (2,707,964 - 338,510) boxes and a before rates revenue reduction of $4,738,908 (2,369,454 x $2).

The second adjustment concerns Group I offices paying Group II fees. According to the Postal Service response to P.O. Information Request No. 4, question 6, there are currently 72,964 Group IC boxes for which Group II fees are charged. Id. at 3009. In Lyons' Workpaper C these boxes are shown at Group IC fees.

[1] Except for customers in rural offices who live within a quarter mile of a postal facility.

Correcting for this results in a before rates revenue reduction of $3,097,080 as detailed below.

Box Size	Free Box Volume	Group IC Fees	Revenue at Group IC Fees	Group II Fees	Revenue at Group II Fees	Revenue Reduction
1	45,589	$ 40	$ 1,823,551	$ 8	$ 364,710	$ 1,458,841
2	19,286	$ 58	$ 1,118,596	$ 13	$ 250,720	$ 867,876
3	6,418	$ 104	$ 667,447	$ 24	$ 154,026	$ 513,421
4	1,379	$ 172	$ 237,217	$ 35	$ 48,271	$ 188,946
5	292	$ 288	$ 84,047	$ 55	$ 16,051	$ 67,996
All	72,964	$ 54	$ 3,930,858	$ 11	$ 833,778	$ 3,097,080

The third adjustment involves recalculating lost revenue from box service provided at no charge. The Postal Service estimates that there are between 315,280 and 3,566,437 box holders ineligible for carrier delivery, and therefore eligible for box service at no charge. The Service considers the "most likely" number of box holders eligible for service at no charge to be 942,306. These boxes are spread among Group IC, Group II, and Group III. Within these groups they are distributed among box sizes in the same proportion as shown in USPS-T-4, Table 14. Providing boxes at no charge to these box holders ineligible for delivery results in a before rates revenue loss of $7,268,129 as detailed in Tables 1-4.

Table 1

Volume and Revenue Forecast for Post Office Boxes

Estimated Revenue Loss due to Providing Free Boxes to Boxholders in Non-Delivery Offices
Using the Postal Service Proposed Minimum, Maximum and Most Likely Number of Boxholders Ineligible for Delivery

		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
					Boxholders Ineligible for Delivery from any Office			Revenue Loss for Providing Free Boxes to Boxholders Ineligible for Delivery		
Group	Box Size	Current Annual Fee	Total Number of Boxes	Boxholders In Non-Delivery Offices	Minimum	Maximum	Most Likely	Minimum	Maximum	Most Likely
1A	1	$48	35,409							
	2	$74	2,236							
	3	$128	1,239							
	4	$210	129							
	5	$348	38							
Subtotal			39,051							
1B	1	$44	63,586							
	2	$66	14,735							
	3	$112	5,385							
	4	$190	843							
	5	$310	911							
Subtotal			85,460							
1C	1	$40	4,558,877							
	2	$58	1,928,614							
	3	$104	641,776							
	4	$172	137,917							
	5	$288	29,183							
Subtotal			7,296,367							
2	1	$8	5,141,274	1,027,011	102,701	513,506	308,103	($821,609)	($4,108,044)	($2,464,826)
	2	$13	2,065,039	344,586	34,459	172,293	103,376	($447,962)	($2,239,809)	($1,343,885)
	3	$24	534,762	82,677	8,268	41,339	24,803	($198,425)	($992,124)	($595,274)
	4	$35	44,584	5,415	542	2,708	1,625	($18,953)	($94,763)	($56,858)
	5	$55	4,972	565	57	283	170	($3,108)	($15,538)	($9,323)
Subtotal			7,790,631	1,460,254	146,025	730,127	438,076	($1,490,055)	($7,450,277)	($4,470,166)
Group 3		$2	338,510	338,510	169,255	2,437,168	304,659	($338,510)	($4,874,335)	($609,318)
Group 1			**7,420,878**	**0**	**0**	**0**	**0**	**$0**	**$0**	**$0**
Group 2			**7,790,631**	**1,460,254**	**146,025**	**730,127**	**438,076**	**($1,490,055)**	**($7,450,277)**	**($4,470,166)**
Group 3			**338,510**	**338,510**	**169,255**	**2,437,168**	**304,659**	**($338,510)**	**($4,874,335)**	**($609,318)**
Subtotal			**15,550,019**	**1,798,764**	**315,280**	**3,167,295**	**742,735**	**($1,828,565)**	**($12,324,612)**	**($5,079,484)**
Caller Service(CS)			**100,770**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**
Total			**15,650,789**	**1,798,764**	**315,280**	**3,167,295**	**742,735**	**($1,828,565)**	**($12,324,612)**	**($5,079,484)**

Source: PRC-LR-3, Worksheet POBOX.WK4, Sheet B.

Table 2

Volume and Revenue Forecast for Post Office Boxes

Estimated Revenue Loss due to Providing Free Boxes to Boxholders in Delivery Offices
Using the Postal Service Proposed Minimum, Maximum and Most Likely Number of Boxholders Ineligible for Delivery

		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
			Total	Boxholders	Boxholders Ineligible for Delivery from any Office			Revenue Loss for Providing Free Boxes to Boxholders Ineligible for Delivery		
Group	Box Size	Current Annual Fee	Number of Boxes	in Delivery Offices	Minimum	Maximum	Most Likely	Minimum	Maximum	Most Likely
1A	1	$48	35,409	35,409						
	2	$74	2,236	2,236						
	3	$128	1,239	1,239						
	4	$210	129	129						
	5	$348	38	38						
Subtotal			39,051	39,051						
1B	1	$44	63,586	63,586						
	2	$66	14,735	14,735						
	3	$112	5,385	5,385						
	4	$190	843	843						
	5	$310	911	911						
Subtotal			85,460	85,460						
1C	1	$40	4,558,877	4,558,877	0	91,178	45,589	$0	($729,420)	($364,710)
	2	$58	1,928,614	1,928,614	0	38,572	19,286	$0	($501,440)	($250,720)
	3	$104	641,776	641,776	0	12,836	6,418	$0	($308,052)	($154,026)
	4	$172	137,917	137,917	0	2,758	1,379	$0	($96,542)	($48,271)
	5	$288	29,183	29,183	0	584	292	$0	($32,101)	($16,051)
Subtotal			7,296,367	7,296,367	0	145,927	72,964	$0	($1,667,556)	($833,778)
2	1	$8	5,141,274	4,114,263	0	164,571	82,285	$0	($1,316,564)	($658,282)
	2	$13	2,065,039	1,720,453	0	68,818	34,409	$0	($894,636)	($447,318)
	3	$24	534,762	452,085	0	18,083	9,042	$0	($434,002)	($217,001)
	4	$35	44,584	39,169	0	1,567	783	$0	($54,837)	($27,418)
	5	$55	4,972	4,407	0	176	88	$0	($9,695)	($4,848)
Subtotal			7,790,631	6,330,377	0	253,215	126,608	$0	($2,709,733)	($1,354,867)
Group 3		$2	338,510	0						
Group 1			7,420,878	7,420,878	0	145,927	72,964	$0	($1,667,556)	($833,778)
Group 2			7,790,631	6,330,377	0	253,215	126,608	$0	($2,709,733)	($1,354,867)
Group 3			338,510	0	0	0	0	$0	$0	$0
Subtotal			15,550,019	13,751,255	0	399,142	199,571	$0	($4,377,289)	($2,188,644)
Caller Service(CS)			100,770	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total			15,650,789	13,751,255	0	399,142	199,571	$0	($4,377,289)	($2,188,644)

Source: PRC-LR-3, Worksheet POBOX.WK4, Sheet C.

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Table 3

Volume and Revenue Forecast for Post Office Boxes

Estimated Revenue Loss due to Providing Free Boxes to Boxholders in All Offices
Using the Postal Service Proposed Minimum, Maximum, and Most Likely Number of Boxholders Ineligible for Delivery

		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
				Boxholders Ineligible for Delivery from any Office			Revenue Loss for Providing Free Boxes to Boxholders Ineligible for Delivery		
Group	Box Size	Current Annual Fee	Total Number of Boxes	Minimum	Maximum	Most Likely	Minimum	Maximum	Most Likely
1A	1	$48	35,409						
	2	$74	2,236						
	3	$128	1,239						
	4	$210	129						
	5	$348	38						
Subtotal			39,051						
1B	1	$44	63,586						
	2	$66	14,735						
	3	$112	5,385						
	4	$190	843						
	5	$310	911						
Subtotal			85,460						
1C	1	$40	4,558,877	0	91,178	45,589	$0	($729,420)	($364,710)
	2	$58	1,928,614	0	38,572	19,286	$0	($501,440)	($250,720)
	3	$104	641,776	0	12,836	6,418	$0	($308,052)	($154,026)
	4	$172	137,917	0	2,758	1,379	$0	($96,542)	($48,271)
	5	$288	29,183	0	584	292	$0	($32,101)	($16,051)
Subtotal			7,296,367	0	145,927	72,964	$0	($1,667,556)	($833,778)
2	1	$8	5,141,274	102,701	678,076	390,389	($821,609)	($5,424,608)	($3,123,108)
	2	$13	2,065,039	34,459	241,111	137,785	($447,962)	($3,134,445)	($1,791,203)
	3	$24	534,762	8,268	59,422	33,845	($198,425)	($1,426,126)	($812,275)
	4	$35	44,584	542	4,274	2,408	($18,953)	($149,599)	($84,276)
	5	$55	4,972	57	459	258	($3,108)	($25,233)	($14,170)
Subtotal			7,790,631	146,025	983,342	564,684	($1,490,055)	($10,160,010)	($5,825,033)
Group 3		$2	338,510	169,255	2,437,168	304,659	($338,510)	($4,874,335)	($609,318)
Group 1			7,420,878	0	145,927	72,964	$0	($1,667,556)	($833,778)
Group 2			7,790,631	146,025	983,342	564,684	($1,490,055)	($10,160,010)	($5,825,033)
Group 3			338,510	169,255	2,437,168	304,659	($338,510)	($4,874,335)	($609,318)
Subtotal			15,550,019	315,280	3,566,437	942,306	($1,828,565)	($16,701,901)	($7,268,129)
Caller Service(CS)			100,770	N/A	N/A	N/A	N/A	N/A	N/A
Total			15,650,789	315,280	3,566,437	942,306	($1,828,565)	($16,701,901)	($7,268,129)

Source: PRC-LR-3, Worksheet POBOX.WK4, Sheet D.

Table 4

Volume and Revenue Forecast for Post Office Boxes

Commission's Estimation of Paid Boxs Using the Postal Service's "Most Likely" Number of Boxholders Expected to Receive Free Boxes

Group	Box Size	(1) Current Annual Fee	(2) Total Number of Boxes	(3) Number of Free Boxes	(4) Revenue Loss from Free Boxes	(5) Number of Paid Boxes	(6) Distribution of Paid Group 3 Boxes to Group 2	(7) Total Number of Paid Boxes
1A	1	$48	35,409			35,409		35,409
	2	$74	2,236			2,236		2,236
	3	$128	1,239			1,239		1,239
	4	$210	129			129		129
	5	$348	38			38		38
Subtotal			39,051			39,051		39,051
1B	1	$44	63,586			63,586		63,586
	2	$66	14,735			14,735		14,735
	3	$112	5,385			5,385		5,385
	4	$190	843			843		843
	5	$310	911			911		911
Subtotal			85,460			85,460		85,460
1C	1	$40	4,558,877	45,589	($364,710)	4,513,288		4,513,288
	2	$58	1,928,614	19,286	($250,720)	1,909,328		1,909,328
	3	$104	641,776	6,418	($154,026)	635,358		635,358
	4	$172	137,917	1,379	($48,271)	136,538		136,538
	5	$288	29,183	292	($16,051)	28,891		28,891
Subtotal			7,296,367	72,964	($833,778)	7,223,403		7,223,403
2	1	$8	5,141,274	390,389	($3,123,108)	4,750,885	22,339	4,773,225
	2	$13	2,065,039	137,785	($1,791,203)	1,927,254	8,973	1,936,227
	3	$24	534,762	33,845	($812,275)	500,917	2,324	503,241
	4	$35	44,584	2,408	($84,276)	42,176	194	42,370
	5	$55	4,972	258	($14,170)	4,714	22	4,736
Subtotal			7,790,631	564,684	($5,825,033)	7,225,947	33,851	7,259,798
Group 3		$2	338,510	304,659	($609,318)	33,851		
Group 1			7,420,878	72,964	($833,778)	7,347,914		7,347,914
Group 2			7,790,631	564,684	($5,825,033)	7,225,947		7,259,798
Group 3			338,510	304,659	($609,318)	33,851		0
Subtotal			15,550,019	942,306	($7,268,129)	14,607,713		14,607,713
Caller Service(CS)			100,770	N/A	N/A	100,770		100,770
Total			15,650,789	942,306	($7,268,129)	14,708,483		14,708,483

Note: This table is based on Table 3 except Column (6) which is based on the response to POIR No. 5, Item 2 (Tr. 8/3025).
Source: PRC-LR-3, Worksheet POBOX.WK4, Sheet E.

Notes to Tables 1-3

(1)	Current annual fee
(2)	USPS-T-1, Table 14
(3)	Tr. 8/3008 (boxes distributed in same proportion as column (2))
(4,5,6)	Column (3) * percentages from Tr. 8/3008
(7)	Column (4) * column (2)
(8)	Column (5) * column (2)
(9)	Column (6) * column (2)
(10)	Group III calculations are from Tr. 8/3007

COST ADJUSTMENTS REFLECTING IMPACT OF RECOMMENDED FEES ON POST OFFICE BOXES

The Postal Service's proposal for changes in fees for post office boxes results in adjustments in processing and delivery costs. These adjustments are premised on the assumption that a percentage decrease in the number of post office boxes in use will cause an increase in the volume of mail delivered on the street by either a city carrier or a rural carrier. USPS-T-5, Appendix B. The testimony of Postal Service witness Patelunas at Appendix B describes the development of these cost adjustments and presents the workpapers detailing their calculation.

The Commission follows the same basic procedure as the Postal Service to estimate the reduction in mail processing costs and the increase in delivery costs that would result from increasing post office box fees. The Commission's estimating procedure, however, takes into account a corrected pre-classification before-rates base population of Group III boxes (*see* Appendix D, Schedule 2, n. 7), which has an impact on the cost adjustment distribution key (USPS cost component 1417/PRC cost component 2152).

The Commission used city delivery carrier costs calculated by established R94-1 methods as the starting point for estimating the cost effect of diverting this small portion of box-delivered volume to carrier delivered volume. Box-delivered volumes are available for FY 1994, but not for the FY 1995 base year. However, Carrier Cost System data were not provided for FY 1994. Therefore, the Commission approximated what FY 1994 carrier costs would be if calculated by R94-1 methods by taking ratios of the Postal Service's estimated carrier costs to PRC estimated carrier costs in FY 1995, and applying those ratios to the FY 1994 carrier costs estimated by the Postal Service. Separate ratios were used for in-office and for street carrier costs. This approximation method is similar to that which the Postal Service suggested be used to estimate all attributable costs according to established R94-1 methods. *See* Motion of USPS for Reconsideration of Order No. 1120, and Partial Response, June 28, 1996, Attachments A through C. The Commission considers it adequate to make the exceedingly minor adjustment involved here.

The Commission's recommended post office box fees result in a much smaller amount of volume being diverted to carrier delivery. This reduces the amount of the net cost adjustment to $8.5 million as compared to the Postal Service's net adjustment of $30.2 million. USPS-T-5, Appendix B at 6.

Cost Adjustments at
PRC Proposed Box Rates

Class Category	ODIS Box Section Volume 1/ (1)	Total ODIS Volume 2/ (2)	PO Box % of Total ODIS Vol 3/ (3)
FC Single Piece	6,439,584,780	53,475,326,460	12.04%
FC Presort	2,830,189,019	34,630,894,333	8.17%
FC Postcards			
Priority	53,691,895	679,080,596	7.91%
Express			
2nd In County			
2nd Regular rate			
2nd Nonprofit rate			
2nd Classroom Rate			
TC Single Piece	20,731,086	192,529,952	10.77%
TC Bulk Reg Other Prst	2,786,610,771	26,874,390,279	10.37%
TC Bulk Reg Car-Rt Prst	661,009,499	26,352,424,174	2.51%
Total Bulk Rate Reg	3,447,620,270	53,226,814,453	6.48%
TC Nonprof Other Prst	681,092,059	8,559,056,496	7.96%
TC Nonprof Car-Rt Prst	54,384,332	2,458,081,698	2.21%
Total Nonprofit Rate	735,476,391	11,017,138,194	6.68%
4th Parcel Post	14,439,268	257,755,477	5.60%
4th Bound Prntd Matter			
4th Special Rate			
4th Library Rate			
4th Other	29,979,123	553,346,911	5.42%
Free for the Blind			
International			
Subtotal above classes			
Other			
Grand Total	13,571,711,832	154,032,886,376	8.81%

1/ USPS Lib Ref. SSR-92
2/ USPS Lib. Ref. SSR-92
3/ col (1) / col (2)

C07208

Docket No. MC96-3

Cost Adjustments at
PRC Proposed Box Rates

Line #	CRA Line Number & Title	RPW FY 1994 1/ (1)	PO Box % Total ODIS Volume 2/ (2)	PO Box % Total RPW Volume 3/ (3)	Distnb of Non-ODIS Volumes 6/ (4)	Total PO Box Volumes 7/ (6)	Total Non-PO Box Volumes 8/ (7)
1	101 LETTER NP	55,057,479	12.04%	6,630,110		6,630,110	48,427,369
2	LETTER 5-DIGIT	32,431,865					
3	LETTER C-RTE	3,075,441					
4	102. TOTAL PRESORT	35,507,306	8 17%	2,901,813		2,901,813	32,605,493
5	103. POSTAL CARD	437,908	12.04%	52,734		52,734	385,174
6	104. P-CARD NONPRSRT	2,561,614	12.04%	308,474		308,474	2,253,140
7	P-CARD 5-DIGIT	1,430,492					
8	P-CARD C-RTE	338,091					
9	105. TOTAL PRST CDS	1,768,583	8.17%	144,536		144,536	1,624,047
10	107 TOTAL FIRST	95,332,890				10,037,667	85,295,223
11	110. PRIORITY	769,657	7.91%	60,853		60,853	708,804
12	111. EXPRESS	56,193			5,484	5,484	50,709
13	112. MAILGRAM	5,329			520	520	4,809
14	113 WITHIN COUNTY	1,006,421			98,218	98,218	908,203
15	118. 2ND NONPROFIT	2,268,723			221,408	221,408	2,047,315
16	119. CLASSROOM	80,039			7,811	7,811	72,228
17	117. 2ND REGULAR	6,872,470			670,694	670,694	6,201,776
18	123. TOTAL SECOND	10,227,653				998,131	9,229,522
19	125. 3RD SINGLE PC	179,370	10.77%	19,314		19,314	160,056
20	REG NONPRST	5,960,109					
21	126 REG C-RTE	29,813,495	2.51%	747,825		747,825	29,065,670
22	REG 5-DIGIT	21,562,919					
23	127. TOT REG OTHER	27,523,028	10 37%	2,853,868		2,853,868	24,669,160
24	128. TOTAL REGULAR	57,336,523				3,601,693	53,734,830
25	NONPROF NPRST.	3,115,580					
26	131 NONPROF C-RTE	2,938,376	2 21%	65,011		65,011	2,873,365
27	NONPROF 5-DIGIT	5,845,699					
28	132. TOT NP BASIC	8,961,279	7.96%	713,099		713,099	8,248,180
29	133. TOT NONPROFIT	11,899,655				778,110	11,121,545
30	135. TOTAL THIRD	69,415,548				4,399,117	65,016,431
31	136. TOT ZONE RATE	224,332	5 60%	12,567		12,567	211,765
32	137. BND PRNT MATTER	420,119	5.42%	22,761		22,761	397,358
33	139. SPECIAL 4TH	191,229	5 42%	10,360		10,360	180,869
34	140. LIBRARY RATE	35,846	5.42%	1,942		1,942	33,904
35	141 TOTAL FOURTH	871,526				47,630	823,896
36	142. USPS PENALTY	448,902			43,809	43,809	405,093
37	147. FREE BLIND	49,664			4,847	4,847	44,817
38	161. TOT INTERNAT'L	862,029			84,127	84,127	777,902
39	162. TOT ALL MAIL	178,039,391				15,682,185	162,357,206
40	163. REGISTRY	22,592			2,205	2,205	20,387
41	165. INSURANCE	32,152			3,138	3,138	29,014
42	164. CERTIFIED	240,197			23,441	23,441	216,756
43	166. COD	5,537			540	540	4,997
44	168. MONEY ORDERS	196,685			19,195	19,195	177,490
45	167. SPEC DELIVERY	642			63	63	579
46	169. STMPD ENVEL.					0	0
47	170. SPEC HNDLG					0	0
48	171. P.O. BOX					0	0
49	172. OTHER					0	0
50	173. TOT SPECIAL SVS	497,805				48,581	449,224
51	198. TOTAL	178,537,196	8.81%	15,730,767	1,185,499	15,730,767	162,806,429
52	199. OTHER	0					
53	200. GRAND TOTAL	178,537,196		14,545,268 4/	12,147,575		178,537,196
54				1,185,499 5/			0
55							
56		1/ USPS-T-5, WP B-1, WS 1 1.2		5/ Line 51 - line 53			
57		2/ Appendix C, Part 2, p10		6/ Col (3) line 54 distribute on Total non-ODIS RPW vols			
58		3/ col (1) X col (2)		7/ Col (3) + col (4)			
59		4/ Sum lines 1-50		8/ Col (1) - col (5)			

Cost Adjustments at
PRC Proposed Box Rates

Line #	CRA Line Number & Title	(1) RPW FY 1994 1/	(2) FY94 IOCS Tally Costs ($1,000) 2/	(3) Distrib of Non-Direct Tallies 3/	(4) FY 1994 PO Box Costs 4/	(5) FY 1994 In-Office Costs 5/	(6) FY 1994 Street Costs 6/	(7) FY 1994 Rural Costs 7/	(8) FY 1994 Delivery Costs 8/
1	101. LETTER NP	55,057,479	209,836	25,508	235,344	1,462,550	762,220	256,632	2,481,402
2	LETTER 5-DIGIT	32,431,865	48,119	15,026	63,145				
3	LETTER C-RTE	3,075,441	766	1,425	2,191				
4	102 TOTAL PRESORT	35,507,306	48,885	16,451	65,336	833,958	460,469	204,122	1,498,549
5	103. POSTAL CARD	437,908	0	203	203	129	3,019	1,335	4,483
6	104. P-CARD NONPRSRT	2,561,614	5,480	1,187	6,667	56,328	31,291	14,617	102,236
7	P-CARD 5-DIGIT	1,430,492	0	663					
8	P-CARD C-RTE	338,091	0	157					
9	105. TOTAL PRST CDS	1,768,583	0	819	819	20,118	14,083	8,429	42,629
10	107 TOTAL FIRST	95,332,890	264,201	44,168	308,369	2,373,083	1,271,081	485,135	4,129,299
11	110. PRIORITY	769,657	7,028	357	7,385	27,286	28,135	7,070	62,492
12	111. EXPRESS	56,193	365	26	391	23,435	27,066	3,565	54,066
13	112. MAILGRAM	5,329	0	2	2	1	88	98	187
14	113. WITHIN COUNTY	1,006,421	757	466	1,223	11,727	11,905	11,789	35,421
15	118. 2ND NONPROFIT	2,268,723	2,627	1,051	3,678	31,777	27,537	26,576	85,890
16	119 CLASSROOM	80,039	337	37	374	1,331	1,005	937	3,273
17	117. 2ND REGULAR	6,872,470	12,191	3,184	15,375	129,441	87,853	80,505	297,799
18	123 TOTAL SECOND	10,227,653	15,912	4,739	20,651	174,276	128,300	119,807	422,383
19	125 3RD SINGLE PC.	179,370	2,410	83	2,493	38,220	10,060	2,873	51,153
20	REG NONPRST	5,960,109		2,761		0	0		
21	126. REG C-RTE	29,813,495	0	13,813	13,813	402,764	468,049	215,200	1,086,013
22	REG 5-DIGIT	21,562,919		9,990					
23	127. TOT REG OTHER	27,523,028	62,651	12,752	75,403	470,902	401,794	224,948	1,097,645
24	128. TOTAL REGULAR	57,336,523	62,651	26,564	89,215	873,666	869,844	440,148	2,183,658
25	NONPROF. NPRST.	3,115,580		1,443					
26	131. NONPROF. C-RTE	2,938,376	0	1,361	1,361	31,763	24,197	10,736	66,696
27	NONPROF 5-DIGIT	5,845,699		2,708					
28	132. TOT NP. BASIC	8,961,279	11,340	4,152	15,492	115,579	87,185	57,882	260,646
29	133. TOT NONPROFIT	11,899,655	11,340	5,513	16,853	147,342	111,381	68,618	327,341
30	135. TOTAL THIRD	69,415,548	76,401	32,161	108,562	1,059,228	991,286	511,639	2,562,152
31	136. TOT ZONE RATE	224,332	2,441	104	2,545	12,691	25,590	6,198	44,480
32	137. BND PRNT MATTER	420,119	561	195	756	7,308	27,009	5,891	40,208
33	139. SPECIAL 4TH	191,229	612	89	701	7,182	16,304	3,813	27,299
34	140. LIBRARY RATE	35,846	692	17	709	781	2,699	1,095	4,575
35	141. TOTAL FOURTH	871,526	4,306	404	4,710	27,963	71,602	16,997	116,562
36	142. USPS PENALTY	448,902	0	208	208	10,164	8,016	2,480	20,661
37	147. FREE BLIND	49,664	59	23	82	1,641	2,274	451	4,366
38	161. TOT INTERNAT'L	862,029	592	399	991	13,004	12,849	2,845	28,698
39	162. TOT ALL MAIL	178,039,391	368,864	82,486	451,350	3,710,082	2,540,698	1,150,087	7,400,866
40	163 REGISTRY	22,592	0	10	10	2,460	4,088	2,162	8,711
41	165. INSURANCE	32,152	0	15	15	1,015	1,763	2,002	4,779
42	164 CERTIFIED	240,197	0	111	111	26,584	54,248	46,081	126,913
43	166 COD	5,537	0	3	3	1,257	2,478	5,508	9,244
44	168. MONEY ORDERS	196,685	0	91	91	0	0	2,440	2,440
45	167. SPEC DELIVERY	642	0	0	0	0	0	108	108
46	169. STMPD ENVEL.			0	0	0	0		0
47	170. SPEC HNDLG			0	0	0	0		0
48	171. P.O. BOX			0	0	313	43		356
49	172. OTHER			0	0	8,944	1,194	19	10,157
50	173. TOT SPECIAL SVS	497,805	0	231	231	40,573	63,814	58,320	162,707
51	198. TOTAL	178,537,196	368,864	82,717	451,581	3,750,655	2,604,511	1,208,407	7,563,573
52	199. OTHER	0	82,717	0		0	0	0	0
53	200. GRAND TOTAL	178,537,196	451,581	82,717		3,750,655	2,604,511	1,208,407	7,563,573
54									
55			3,158,527						
56									
57			175,378,669						

1/ USPS-T-5, WP B-1, WS1 1.2
2/ USPS LR-SSR-103
3/ Col (2) line 51 distribute on non-IOCS RPW amounts in col(
4/ Col (2) + col (3)
5/ Appendix C, Part 2, p 13,col.9
6/ Appendix C, Part 2, p.13,col.10
7/ USPS LR-SSR-3, pp 33-34
8/ Col (5) + col (6) + col (7)

Docket No. MC96-3

Line #	CRA Line Number & Title	USPS FY 1995 In-Office Costs 1/ (1)	USPS FY 1995 Street Costs 2/ (2)	PRC FY 1995 In-Office Costs 3/ (3)	PRC FY 1995 Street Costs 4/ (4)	Cost Adjustments at PRC Proposed Box Rates — PRC-to-USPS Cost Ratio In-Office Costs 5/ (5)	PRC-to-USPS Cost Ratio Street Costs 6/ (6)	FY 1994 In-Office Costs 7/ (7)	FY 1994 Street Costs 8/ (8)	FY 1994 adjusted for PRC Methodology In-Office Costs 9/ (9)	FY 1994 adjusted for PRC Methodology Street Costs 10/ (10)
1	101. LETTER NP	1,477,066	578,639	1,481,533	804,500	1.003024	1 390331	1,458,140	548,229	1,462,550	762,220
2	LETTER 5-DIGIT										
3	LETTER C-RTE										
4	102. TOTAL PRESORT	766,527	356,763	769,069	485,334	1 003316	1 360382	831,202	338,485	833,958	460,469
5	103 POSTAL CARD	403	2,667	417	3,439	1.034739	1 289464	125	2,341	129	3,019
6	104 P-CARD NONPRSRT	50,632	28,325	50,709	32,243	1.001521	1 138323	56,242	27,489	56,328	31,291
7	P-CARD 5-DIGIT										
8	P-CARD C-RTE										
9	105 TOTAL PRST CDS	22,054	14,695	22,103	17,251	1.002222	1 173937	20,073	11,996	20,118	14,083
10	107. TOTAL FIRST	2,316,682	981,089	2,323,831	1,342,767	1.003086	1.36865	2,365,782	928,540	2,373,083	1,271,081
11	110 PRIORITY	29,087	27,724	29,145	30,654	1.001994	1 105685	27,232	25,446	27,286	28,135
12	111 EXPRESS	15,323	16,020	15,573	28,662	1 016315	1 789139	23,059	15,128	23,435	27,066
13	112 MAILGRAM	65	45	66	59	1 015385	1 311111	1	67	1	88
14	113. WITHIN COUNTY	11,137	10,322	11,163	11,622	1.002335	1 125945	11,700	10,573	11,727	11,905
15	118 2ND NONPROFIT	32,024	26,441	32,090	29,785	1.002061	1.12647	31,712	24,445	31,777	27,537
16	119. CLASSROOM	974	758	976	857	1.002053	1.130607	1,328	889	1,331	1,005
17	117. 2ND REGULAR	134,209	84,721	134,425	95,585	1 001609	1 128233	129,233	77,868	129,441	87,853
18	123. TOTAL SECOND	178,344	122,242	178,654	137,849	1.001738	1 127673	173,973	113,775	174,276	128,300
19	125 3RD SINGLE PC.	18,998	6,875	19,004	7,189	1.000316	1 045673	38 208	9,621	38,220	10,060
20	REG NONPRST										
21	126 REG C-RTE	401,667	383,097	403,784	490,113	1.005271	1 279344	400,652	365,851	402,764	468,049
22	REG 5-DIGIT										
23	127. TOT REG OTHER	516,914	295,821	519,721	437,734	1 00543	1 479726	468,359	271,533	470,902	401,794
24	128 TOTAL REGULAR	918,581	678,918	923,505	927,847	1 00536	1 366655	869,011	637,384	873,666	869,844
25	NONPROF. NPRST										
26	131. NONPROF. C-RTE	28,800	22,440	28,840	24,478	1.001389	1 09082	31,719	22,182	31,763	24,197
27	NONPROF 5-DIGIT										
28	132. TOT NP. BASIC	120,441	73,047	120,730	87,607	1 0024	1 199324	115,302	72,695	115,579	87,185
29	133 TOT NONPROFIT	149,241	95,487	149,570	112,085	1 002204	1 173825	147,021	94,877	147,342	111,381
30	135. TOTAL THIRD	1,086,820	781,280	1,092,079	1,047,121	1 004839	1,340263	1,054,240	741,882	1,059,228	991,286
31	136 TOT ZONE RATE	7,279	22,637	7,340	25,696	1,00838	1 135133	12,586	22,544	12,691	25,590
32	137 BND PRNT MATTER	7,770	23,402	7,868	28,382	1 012613	1 212802	7,217	22,270	7,303	27,009
33	139 SPECIAL 4TH	4,584	13,478	4,630	15,769	1 010035	1 169981	7,111	13,935	7,182	16,304
34	140 LIBRARY RATE	773	1,890	778	2,179	1.006468	1 15291	776	2,341	781	2,699
35	141. TOTAL FOURTH	20,406	61,407	20,616	72,026	1.010291	1 172928	27,690	61,090	27,963	71,602
36	142. USPS PENALTY	10,837	5,949	10,862	7,194	1 002307	1,209279	10,141	6,629	10,164	8,016
37	147. FREE BLIND	1,350	1,904	1,353	2,035	1 002222	1.068803	1,637	2,128	1,641	2,274
38	161. TOT INTERNAT'L	12,211	10,422	12,250	12,413	1 003194	1 191038	12,963	10,788	13,004	12,849
39	162 TOT ALL MAIL	3,671,125	2,008,082	3,684,429	2,680,780	1 003624	1 334995	3,698,718	1,903,473	3,710,082	2,540,698
40	163. REGISTRY	2,114	3,830	2,117	3,967	1.001419	1 03577	2,457	3,947	2,460	4,088
41	165 INSURANCE	740	1,938	742	2,032	1.002703	1 048504	1,012	1 681	1,015	1,763
42	164. CERTIFIED	25,934	50,193	25,967	51,898	1.001272	1 033969	26,550	52,466	26,584	54,248
43	166 COD	764	1,576	774	2,027	1.013089	1 286168	1,241	1,927	1,257	2,478
44	168 MONEY ORDERS	0	0	0	0	#DIV/0!	#DIV/0!	0	0	-	-
45	167. SPEC DELIVERY	119	14	119	16	1	1 142857	0	0	-	-
46	169 STMPD ENVEL.	0	0	0	0	#DIV/0!	#DIV/0!	0	0	-	-
47	170 SPEC HNDLG	0	0	0	0	#DIV/0!	#DIV/0!	0	0	-	-
48	171. P.O. BOX	139	16	139	19	1	1 1875	313	36	313	43
49	172 OTHER	8,514	1,000	8,517	1,161	1.000352	1.161	8,941	1,028	8,944	1,194
50	173 TOT SPECIAL SVS	38,324	58,567	38,375	61,120	1.001331	1 043591	40,514	61,085	40,573	63,814
51	198 TOTAL	3,709,449	2,066,649	3,722,804	2,741,900	1.0036	1 326737	3,737,232	1,966,558	3,750,655	2,604,511
52	199. OTHER	0	0	0	0	#DIV/0!	#DIV/0!	0	0		
53	200. GRAND TOTAL	4,161,304	7,301,180	4,161,304	7,301,180	1	1	4,163,359	6,880,064	4,163,359	6,880,064
54											
55											
56											
57											

1/ Exhibit USPS-T-5A at 25-26
2/ Exhibit USPS-T-5A at 27-28
3/ PRC Lib Ref. 5, Part 2, Base Year at 6
4/ PRC Lib Ref 5, Part 2, Base Year at 7
5/ Col 3/Col 1
6/ Col. 4/Col 2
7/ USPS-T-5, Appendix B, P.3, Col 5
8/ USPS-T-5, Appendix B, P 3, Col 6
9/ Col 7 * Col. 5
10/ Col 8 * Col. 6

Line #	CRA Line Number & Title	(1) RPW FY 1994 1/	Cost Adjustments at PRC Proposed Box Rates (2) FY 1994 PO Box Costs 2/	(3) FY 1994 Delivery Costs 3/	(4) Units FY 1994 PO Box Costs 4/	(5) Units FY 1994 Delivery Costs 5/	(6) 0.02728 6/ Units FY 1996 PO Box Costs 8/	(7) 0.0343 7/ Units FY 1996 Delivery Costs 9/
			0	0				
1	101. LETTER NP	55,057,479	235,344	2,481,402	0.0355	0.0512	0.0365	0.0530
2	LETTER 5-DIGIT	32,431,865	63,145	0				
3	LETTER C-RTE	3,075,441	2,191	0				
4	102. TOTAL PRESORT	35,507,306	65,336	1,498,549	0.0225	0.0460	0.0231	0.0475
5	103. POSTAL CARD	437,908	203	4,483	0.0038	0.0116	0.0040	0.0120
6	104 P-CARD NONPRSRT	2,561,614	6,667	102,236	0.0216	0.0454	0.0222	0.0469
7	P-CARD 5-DIGIT	1,430,492	0	0				
8	P-CARD C-RTE	338,091	0	0				
9	105. TOTAL PRST CDS	1,768,583	819	42,629	0.0057	0.0262	0.0058	0.0271
10	107. TOTAL FIRST	95,332,890	308,369	4,129,299	0.0307	0.0484	0.0316	0.0501
11	110 PRIORITY	769,657	7,385	62,492	0.1214	0.0882	0.1247	0.0912
12	111. EXPRESS	56,193	391	54,066	0.0713	1.0662	0.0733	1.1028
13	112. MAILGRAM	5,329	2	187	0.0047	0.0389	0.0049	0.0402
14	113 WITHIN COUNTY	1,006,421	1,223	35,421	0.0125	0.0390	0.0128	0.0403
15	118 2ND NONPROFIT	2,268,723	3,678	85,890	0.0166	0.0420	0.0171	0.0434
16	119. CLASSROOM	80,039	374	3,273	0.0479	0.0453	0.0492	0.0469
17	117. 2ND REGULAR	6,872,470	15,375	297,799	0.0229	0.0480	0.0235	0.0497
18	123. TOTAL SECOND	10,227,653	20,651	422,383	0.0207	0.0458	0.0213	0.0473
19	125. 3RD SINGLE PC.	179,370	2,493	51,153	0.1291	0.3196	0.1326	0.3306
20	REG NONPRST	5,960,109	0	0				
21	126. REG C-RTE	29,813,495	13,813	1,086,013				
22	REG 5-DIGIT	21,562,919	0	0				
23	127 TOT REG OTHER	27,523,028	75,403	1,097,645				
24	128. TOTAL REGULAR	57,336,523	89,215	2,183,658	0.0248	0.0406	0.0254	0.0420
25	NONPROF. NPRST	3,115,580	0	0				
26	131. NONPROF C-RTE	2,938,376	1,361	66,696				
27	NONPROF 5-DIGIT	5,845,699	0	0				
28	132. TOT NP. BASIC	8,961,279	15,492	260,646				
29	133. TOT NONPROFIT	11,899,655	16,853	327,341	0.0217	0.0294	0.0222	0.0304
30	135. TOTAL THIRD	69,415,548	108,562	2,562,152	0.0247	0.0394	0.0254	0.0408
31	136. TOT ZONE RATE	224,332	2,545	44,480	0.2025	0.2100	0.2080	0.2172
32	137. BND PRNT MATTER	420,119	756	40,208	0.0332	0.1012	0.0341	0.1047
33	139. SPECIAL 4TH	191,229	701	27,299	0.0676	0.1509	0.0695	0.1561
34	140 LIBRARY RATE	35,846	709	4,575	0.3649	0.1349	0.3748	0.1396
35	141. TOTAL FOURTH	871,526	4,710	116,562	0.0989	0.1415	0.1016	0.1463
36	142. USPS PENALTY	448,902	208	20,661	0.0047	0.0510	0.0049	0.0528
37	147 FREE BLIND	49,664	82	4,366	0.0169	0.0974	0.0174	0.1008
38	161 TOT INTERNAT'L	862,029	991	28,698	0.0118	0.0369	0.0121	0.0382
39	162. TOT ALL MAIL	178,039,391	451,350	7,400,866	0.0288	0.0456	0.0296	0.0471
40	163 REGISTRY	22,592	10	8,711	0.0047	0.4273	0.0049	0.4419
41	165. INSURANCE	32,152	15	4,779	0.0047	0.1647	0.0049	0.1704
42	164. CERTIFIED	240,197	111	126,913	0.0047	0.5855	0.0049	0.6056
43	166 COD	5,537	3	9,244	0.0047	1.8500	0.0049	1.9134
44	168. MONEY ORDERS	196,685	91	2,440	0.0047	0.0137	0.0049	0.0142
45	167. SPEC DELIVERY	642	0	108	0.0047	0.1864	0.0049	0.1928
46	169. STMPD ENVEL		0	0			0.0000	0.0000
47	170. SPEC HNDLG		0	0			0.0000	0.0000
48	171. P.O. BOX		0	356			0.0000	0.0000
49	172. OTHER		0	10,157			0.0000	0.0000
50	173. TOT SPECIAL SVS	497,805	231	162,707	0.0047	0.3622	0.0049	0.3746
51	198. TOTAL	178,537,196	451,581	7,563,573				
52	199. OTHER	0		0				
53	200. GRAND TOTAL	178,537,196		7,563,573				

1/ USPS-T-5, WP B-1, WS 1 1 2
2/ Appendix C, Part 2, p.12, col. 4
3/ Appendix C, Part 2, p.12, col. 8
4/ Col. 2 / Appendix C, Part 2, p. 11, col 5
5/ Col. 3 / Appendix C, Part 2, p. 11, col 6
6/ USPS T-5, App. B, p.4, col. 6
7/ USPS-T-5, App. B, p.4, col. 7
8/ Footnote 6 * col (4)
9/ Footnote 7 * col (5)

Cost Adjustments at
PRC Proposed Box Rates

Line #	CRA Line Number & Title	(1) FY 1996 Volum After Rates 1/	(2) PO Box Portion 2/	(3) Non POB Portion 3/	(4) -0.02620 4/ Diverted POB Out 5/
1	101 LETTER NP	54,841,139	6,604,058	48,237,081	-173,003
2	LETTER 5-DIGIT	34,984,069			
3	LETTER C-RTE	3,199,666			
4	102. TOTAL PRESORT	38,183,735	3,120,543	35,063,192	-81,747
5	103. POSTAL CARD	428,618	51,615	377,003	-1,352
6	104 P-CARD NONPRSRT	2,725,342	328,190	2,397,152	-8,597
7	P-CARD 5-DIGIT	1,590,888			
8	P-CARD C-RTE	431,730			
9	105. TOTAL PRST CDS	2,022,618	165,297	1,857,321	-4,330
10	107. TOTAL FIRST	98,201,452	10,339,700	87,861,752	-270,863
11	110. PRIORITY	975,743	77,148	898,595	-2,021
12	111. EXPRESS	57,456	5,607	51,849	-147
13	112. MAILGRAM	3,261	318	2,943	-8
14	113 WITHIN COUNTY	950,719	92,782	857,937	-2,431
15	118. 2ND NONPROFIT	2,228,611	217,493	2,011,118	-5,698
16	119. CLASSROOM	73,592	7,182	66,410	-188
17	117. 2ND REGULAR	6,889,248	672,331	6,216,917	-17,613
18	123. TOTAL SECOND	10,142,170	989,788	9,152,382	-25,929
19	125. 3RD SINGLE PC.	111,861	12,045	99,816	-316
20	REG NONPRST	6,332,819			
21	126. REG C-RTE	30,153,131	756,344	29,396,787	-19,814
22	REG 5-DIGIT	23,961,755			
23	127. TOT REG OTHER	30,294,574	3,141,250	27,153,324	-82,289
24	128. TOTAL REGULAR	60,447,705	3,797,128	56,650,577	-99,471
25	NONPROF. NPRST.	3,106,846			
26	131. NONPROF. C-RTE	3,184,347	70,453	3,113,894	-1,846
27	NONPROF 5-DIGIT	6,108,199			
28	132. TOT NP BASIC	9,215,045	733,293	8,481,752	-19,210
29	133. TOT NONPROFIT	12,399,392	810,787	11,588,605	-21,240
30	135. TOTAL THIRD	72,958,958	4,623,676	68,335,282	-121,124
31	PPOST INTER	0			
32	PPOST INTRA	224,820		224,820	0
33	136. TOT ZONE RATE	224,820	12,594	212,226	-330
34	137. BND PRNT MATTER	525,693	28,481	497,212	-746
35	139. SPECIAL 4TH	242,740	13,151	229,589	-345
36	140. LIBRARY RATE	22,800	1,235	21,565	-32
37	141. TOTAL FOURTH	1,016,053	55,529	960,524	-1,455
38	142. USPS PENALTY	407,071	39,727	367,344	-1,041
39	147 FREE BLIND	55,522	5,418	50,104	-142
40	161. TOT INTERNAT'L	809,136	78,965	730,171	-2,069
41	162 TOT ALL MAIL	184,626,822	16,262,424	168,364,398	-426,017
42	163 REGISTRY	19,114	1,865	17,249	-49
43	165. INSURANCE	28,827	2,813	26,014	-74
44	164. CERTIFIED	273,995	26,740	247,255	-700
45	166 COD	4,767	465	4,302	-12
46	168 MONEY ORDERS	199,221	19,442	179,779	-509
47	167. SPEC DELIVERY	0	0	0	0
48	169 STMPD ENVEL	784,384	0	0	0
49	170 SPEC HNDLG	244	0	0	0
50	171. P O BOX	15,241	0	0	0
51	172 OTHER	0	0	0	0
52	173. TOT SPECIAL SVS	1,325,793	129,386	1,196,407	-3,389
53	198. TOTAL	185,952,615	16,384,133	169,568,482	-429,205
54	199. OTHER	0			
55	200. GRAND TOTAL	185,952,615	16,384,133	169,568,482	

1/ Appendix D, Schedule 2
2/ Appendix C, Part 2, P 11, col (6) portion of total
3/ Appendix C, Part 2, P 11, col (7) portion of total
4/ Appendix D, Schedule 2
(15241-15651)/15651
5/ Footnote 4 * col (2)

Docket No. MC96-3

**Cost Adjustments at
PRC Proposed Box Rates**

Line #	CRA Line Number & Title	(1) FY 1996 Volume After Rates 1/	(2) PO Box Portion 2/	(3) Non POB Portion 3/	(4) -0.02620 Diverted POB Out 4/	(5) PO Box Savings 5/	(6) Delivery Costs 6/	Net Adjustment 7/
1	101. LETTER NP	54,841,139	6,604,058	48,237,081	-173,003	-6,308	9,169	2,860
2	LETTER 5-DIGIT	34,984,069						
3	LETTER C-RTE	3,199,666						
4	102. TOTAL PRESORT	38,183,735	3,120,543	35,063,192	-81,747	-1,891	3,886	1,995
5	103. POSTAL CARD	428,618	51,615	377,003	-1,352	-5	16	11
6	104. P-CARD NONPRSRT	2,725,342	328,190	2,397,152	-8,597	-191	403	213
7	P-CARD 5-DIGIT	1,590,888						
8	P-CARD C-RTE	431,730						
9	105 TOTAL PRST CDS	2,022,618	165,297	1,857,321	-4,330	-25	118	92
10	107 TOTAL FIRST	98,201,452	10,339,700	87,861,752	-270,863	-8,421	13,592	5,171
11	110 PRIORITY	975,743	77,148	898,595	-2,021	-252	184	(68)
12	111. EXPRESS	57,456	5,607	51,849	-147	-11	162	151
13	112. MAILGRAM	3,261	318	2,943	-8	0	0	0
14	113. WITHIN COUNTY	950,719	92,782	857,937	-2,431	-31	98	67
15	118. 2ND NONPROFIT	2,228,611	217,493	2,011,118	-5,698	-97	247	150
16	119. CLASSROOM	73,592	7,182	66,410	-188	-9	9	(0)
17	117. 2ND REGULAR	6,889,248	672,331	6,216,917	-17,613	-415	875	460
18	123 TOTAL SECOND	10,142,170	989,788	9,152,382	-25,929	-552	1,229	676
19	125. 3RD SINGLE PC.	111,861	12,045	99,816	-316	-42	104	62
20	REG NONPRST	6,332,819						
21	126 REG C-RTE	30,153,131	756,344	29,396,787	-19,814			
22	REG 5-DIGIT	23,961,755						
23	127. TOT REG OTHER	30,294,574	3,141,250	27,153,324	-82,289			
24	128 TOTAL REGULAR	60,447,705	3,797,128	56,650,577	-99,471	-2,531	4,181	1,650
25	NONPROF. NPRST.	3,106,846						
26	131. NONPROF. C-RTE	3,184,347	70,453	3,113,894	-1,846			
27	NONPROF 5-DIGIT	6,108,199						
28	132. TOT NP. BASIC	9,215,045	733,293	8,481,752	-19,210			
29	133. TOT NONPROFIT	12,399,392	810,787	11,588,605	-21,240	-473	647	174
30	135. TOTAL THIRD	72,958,958	4,623,676	68,335,282	-121,124	-3,046	4,932	1,886
31	PPOST INTER	0						
32	PPOST INTRA	224,820		224,820				
33	136 TOT ZONE RATE	224,820	12,594	212,226	-330	-69	72	3
34	137. BND PRNT MATTER	525,693	28,481	497,212	-746	-25	78	53
35	139 SPECIAL 4TH	242,740	13,151	229,589	-345	-24	54	30
36	140. LIBRARY RATE	22,800	1,235	21,565	-32	-12	5	(8)
37	141. TOTAL FOURTH	1,016,053	55,529	960,524	-1,455	-130	208	78
38	142. USPS PENALTY	407,071	39,727	367,344	-1,041	-5	55	50
39	147. FREE BLIND	55,522	5,418	50,104	-142	-2	14	12
40	161. TOT INTERNAT'L	809,136	78,965	730,171	-2,069	-25	79	54
41	162. TOT ALL MAIL	184,626,822	16,262,424	168,364,398	-426,017	-12,444	20,455	8,011
42	163. REGISTRY	19,114	1,865	17,249	-49	0	22	21
43	165. INSURANCE	28,827	2,813	26,014	-74	0	13	12
44	164. CERTIFIED	273,995	26,740	247,255	-700	-3	424	421
45	166. COD	4,767	465	4,302	-12	0	23	23
46	168 MONEY ORDERS	199,221	19,442	179,779	-509	-2	7	5
47	167. SPEC DELIVERY	0	0	0	0	0	0	-
48	169. STMPD ENVEL.	784,384	0	0	0	0	0	-
49	170 SPEC HNDLG	244	0	0	0	0	0	-
50	171. P.O. BOX	15,241	0	0	0	0	0	-
51	172 OTHER	0	0	0	0	0	0	-
52	173. TOT SPECIAL SVS	1,325,793	129,386	1,196,407	-3,389	-7	489	482
53	198 TOTAL	185,952,615	16,384,133	169,568,482	-429,205	-12,451	20,944	8,494
54	199 OTHER	0						
55	200 GRAND TOTAL	185,952,615	16,384,133	169,568,482				

1/ Appendix D, Schedule 2
2/ Appendix C, Part 2, p.15, col 2
3/ Appendix C, Part 2, p.15, col 3
4/ Appendix C, Part 2, p 158, col. 4
5/ Appendix C, Part 2, p.14, col 6 * col. 4
6/ Appendix C, Part 2, p 7, col. 14 * col. 4
7/ Col. 6 - col 5

Distribution of PO Box Cost Adjustment
($ 000's)

Component No.	Description	TYBR Cost 1/ (1)	PO Box Cost Adjustment 2/ (2)
	Segment 6:		
601	In-Office Direct Labor	2,876,123	7,824
602	In-Office Support	545,592	1,484
603	CAG K	261	1
604	Training, Veh. Prep, & Key Hdlg.	128,680	350
	Total Segment 6	3,550,656	9,659
	Segment 7:		
701	Elemental Load	1,158,373	3,151
702	Coverage-Related Load - MSS	53,175	145
703	Coverage-Related Load - SSS	130,233	354
704	Access - MSS	100,202	273
705	Access - SSS	529,494	1,440
706	Oth. Attrib. - Office	427,738	1,164
707	Oth. Attrib. - Elem. Load	152,091	414
708	Oth. Attrib. - Cov-Rel. Load - MSS	10,123	28
709	Oth. Attrib. - Cov-Rel. Load - SSS	16,529	45
710	Oth. Attrib. - Access - MSS	14,919	41
711	Oth. Attrib. - Access - SSS	68,533	186
712	Oth. Attrib. - Route	16,812	46
713	Route	125,610	342
	Total Segment 7	2,803,832	7,627
	Segment 10:		
1001	Evaluated Routes	1,225,945	3,335
1002	Other Routes	118,874	323
	Total Segment 10	1,344,819	3,658
	Grand Total	7,699,307	20,944

1/ PRC Lib. Ref. 5, Part 1, Test Year Before Rates, p. 6-7
2/ Appendix C, p.16, Col. 6, line 53 distributed on col. 1

VOLUME, REVENUE, AND COST TABLES

Table 1
Test Year Volume, Cost , Revenue, and Cost Coverage by Class
at Commission Recommended Rates

	Volume (000)	Attributable Cost ($ 000)	Revenue ($ 000)	Contribution to Institutional Cost ($ 000)	Cost/Pc. (Cents)	Rev./Pc. (Cents)	Contribution to Institutional Cost/Pc. (Cents)	Cost Coverage	Change in Rev./Pc.
First-Class Mail:									
Letters	93,024,874	19,057,241	31,910,851	12,853,610	20.486	34.304	13.817	167.4%	0.00%
Cards	5,176,578	653,354	994,888	341,534	12.621	19.219	6.598	152.3%	0.00%
Priority Mail	975,743	1,616,805	3,438,641	1,821,836	165.709	352.413	186.713	212.7%	0.00%
Express Mail	57,456	585,856	739,372	153,516	1,019.657	1,286.845	267.188	126.2%	0.00%
Mailgrams	3,261	804	1,848	1,044	24.655	56.670	32.015	229.9%	0.00%
Second-Class Mail:									
Within County	950,719	76,338	79,721	3,383	8.030	8.385	0.356	104.4%	0.00%
Regular Rate	6,888,248	1,384,512	1,551,197	166,685	20.097	22.518	2.418	112.0%	0.00%
Nonprofit	2,226,811	318,527	338,066	19,539	14.293	15.169	0.877	106.1%	0.00%
Classroom	73,592	13,457	10,265	(3,192)	18.286	13.949	(4.337)	76.3%	0.00%
Third-Class Mail:									
Single Piece	111,861	224,388	114,174	(110,214)	200.595	102.068	(98.527)	50.9%	0.00%
Bulk Rate Regular	60,447,705	6,796,000	10,761,117	3,965,117	11.243	17.802	6.560	158.3%	0.00%
Bulk Rate Nonprofit	12,398,392	1,125,521	1,373,818	248,297	9.077	11.080	2.002	122.1%	0.00%
Fourth-Class Mail.									
Parcel Post	224,820	636,204	746,229	110,025	282.983	331.922	48.939	117.3%	0.00%
Bound Printed Matter	525,893	283,845	518,823	234,978	53.994	98.693	44.699	182.8%	0.00%
Special Rate	242,740	297,602	405,975	108,373	122.601	167.247	44.646	136.4%	0.00%
Library Rate	22,800	43,363	43,436	73	190.187	190.508	0.321	100.2%	0.00%
USPS Penalty Mail	407,071								
Free-for-the-Blind Mail	55,522	29,592		(29,592)	53.298		(53.298)		
International Mail 1/	809,138	1,373,787	1,392,208	18,421	169.784	172.061	2.277	101.3%	0.00%
Total All Mail	184,626,823	34,517,196	54,420,629	19,903,433	18.696	29.476	10.780	157.7%	0.01%
Special Services:									
Registry	19,114	72,992	105,195	32,203	381.872	550.350	168.478	144.1%	0.00%
Insurance	28,827	42,385	62,681	20,296	147.031	217.435	70.404	147.9%	22.95%
Certified	273,995	298,412	369,893	71,481	108.911	135.000	26.089	124.0%	22.73%
COD	4,767	21,364	19,775	(1,589)	448.164	414.831	(33.333)	92.6%	0.00%
Money Orders	198,221	195,347	169,692	(25,655)	98.055	85.178	(12.878)	86.9%	0.00%
Special Delivery									
Stamped Cards 2/	428,618	5,036			1.175				
Return Receipt	247,591	220,129	275,987	55,858	88.906	111.473	22.565	125.4%	-3.88%
Special Handling 3/	244	4,663	886	(4,663)	1,912.885	363.520	(1,912.865)	19.0%	0.00%
Box/Caller Service	15,241	523,228	551,319	28,091	3,432.978	3,617.288	184.311	105.4%	8.73%
Stamped Envelopes	784,384	14,650	23,262	8,612	1.868	2.966	1.098	158.8%	0.00%
Other Costs		220,087		(220,087)					
Domestic Fees 4/			318,582	318,582					
International Fees 4/			262,289	262,289					
Miscellaneous Revenue			170,670	170,670					
Philatelic Revenue			33,272	33,272					
Total Mail & Services	184,626,823	36,130,433	56,781,286	20,650,834	19.569	30.755	11.185	157.2%	0.17%
Institutional Costs		19,840,306							
Appropriations			93,089						
Investment Income			135,944						
Total Revenue Requirement		55,970,739							
Total Revenues			57,010,290						
Net Surplus (Loss)			1,039,551						
Before Rates Net Surplus (Loss)			932,462						
Difference			107,089						

1/ Not subject to PRC jurisdiction.
2/ Because attributable costs of manufacturing Stamped Cards are also included in the attributable costs of Cards, they are not added to total attributable costs.
3/ Consistent with the Postal Service presentation, revenues from Special Handling are also included in Domestic Fees, and thus are not added to total revenue.
4/ Consistent with the Postal Service presentation, fees have not been apportioned to mail categories.

Source: PRC-LR-3, Worksheet _OUT_SS WK4, Sheet A.

Table 2

Summary of Estimated 1996 Test Year Finances for Affected Special Services

Special Services	Before Rates Volume (000)	Before Rates Revenue ($ 000)	Before Rates Attributable Costs ($ 000)	Before Rates Contrib. to Institutional Costs ($ 000)	Before Rates Cost Coverage	After Rates Volume (000)	After Rates Revenue ($ 000)	After Rates Attributable Costs ($ 000)	After Rates Contrib. to Institutional Costs ($ 000)	After Rates Cost Coverage	Change in Contrib. to Institutional Costs
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Registered Mail	19,181	105,563	73,162	32,401	144.3%	19,114	105,195	72,992	32,203	144.1%	(197)
Insured Mail	27,798	49,162	34,392	14,770	142.9%	28,827	62,681	42,385	20,296	147.9%	5,526
Certified Mail	276,538	304,192	301,205	2,987	101.0%	273,995	369,893	298,412	71,481	124.0%	68,494
Special Delivery	208	2,091	2,217	(126)	94.3%						126
Stamped Cards \1						428,618		5,036			
Return Receipt	249,301	289,135	227,425	61,710	127.1%	247,591	275,997	220,129	55,868	125.4%	(5,842)
Post Office Boxes	15,651	520,700	526,030	(5,330)	99.0%	15,241	551,319	523,228	28,091	105.4%	33,421
Total		1,270,843	1,164,431	106,412			1,365,085	1,157,146	207,940		101,528

1/ Because attributable costs of manufacturing Stamped Cards are also included in the attributable costs of First-Class Cards, they are not added to total attributable costs of special services.

Source: PRC-LR-3, Worksheet _OUT_SS.WK4, Sheet A.

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Table 1

1996 Test Year Volume Forecasts
(Pieces in Thousands)

	TYBR Forecast 1/ (1)	Volume Changes: Insurance 2/ (2)	Volume Changes: Special Delivery 3/ (3)	TYAR Forecast 4/ (4)
First-Class Mail:				
Letters and Parcels	54,841,077	152	(90)	54,841,139
Presort Letters & Pcls	34,984,069			34,984,069
Carrier Presort Letters	3,199,666			3,199,666
Total Letters	93,024,812	152	(90)	93,024,874
Postal Cards	428,618			428,618
Private Mailing Cards	2,725,342			2,725,342
Presort Private Cards	1,590,888			1,590,888
Carrier Presort Cards	431,730			431,730
Total Cards	5,176,578			5,176,578
Total First Class	98,201,390	152	(90)	98,201,452
Priority Mail	975,334	416	(7)	975,743
Express Mail	57,255	97	104	57,456
Mailgrams	3,261			3,261
Second-Class Mail:				
Within County	950,719			950,719
Regular Rate	6,889,248			6,889,248
Nonprofit	2,228,611			2,228,611
Classroom	73,592			73,592
Total Second Class	10,142,170			10,142,170
Third-Class Mail				
Single Piece	111,865	2	(6)	111,861
Bulk Rate-Regular	6,332,819			6,332,819
-5 dig Prst	23,961,755			23,961,755
-Carr.Prst	30,153,131			30,153,131
Total Bulk Rate Regular	60,447,705			60,447,705
Bulk Rate-Nonprofit	3,106,846			3,106,846
-5 dig Prst	6,108,199			6,108,199
-Carr Prst	3,184,347			3,184,347
Total Bulk Rate Nonprofit	12,399,392			12,399,392
Total Third Class	72,958,962	2	(6)	72,958,958
Fourth-Class Mail:				
Parcel Post	224,482	339	(1)	224,820
Bound Printed Matter	525,693			525,693
Special Rate	242,719	21		242,740
Library Rate	22,799	1		22,800
Total Fourth Class	1,015,693	361	(1)	1,016,054
USPS Penalty Mail	407,071			407,071
Free for the Blind	55,522			55,522
TOTAL DOMESTIC MAIL	183,816,658	1,029	0	183,817,687
International Mail	809,136			809,136
TOTAL ALL MAIL	184,625,794	1,029	0	184,626,823
Special Services				
Registered Mail 5/	19,181			19,114
Insured Mail	27,798	1,029		28,827
Certified Mail	276,538			273,995
Collect-On-Delivery	4,767			4,767
Money Orders	199,221			199,221
Special Delivery	208		(208)	0
Stamped Cards	0			428,618
Subtotal	527,713	1,029	(208)	954,543
Return Receipt	249,301			247,591
Special Handling 6/	244			244
Post Office Boxes 7/	15,651			15,241
Stamped Envelopes	784,384			784,384
Total Special Services	1,577,292	1,029	(208)	2,002,002

1/ TYBR volume forecast is from LR-SSR-121, WP E, Pages 1 & 2
2/ New insured mail volume expected to be generated by the recommended higher indemnity limits is from Schedule 3, Table 2
3/ Mail volume expected to migrate to Express Mail due to the elimination of Special Delivery is from Schedule 3, Table 7
4/ TYAR volume forecasts for Registry, Insured, Certified, Special Delivery, Stamped Cards, Return Receipt, Special Handling, and P O Boxes are from Schedule 3
5/ TYBR and TYAR volume forecasts for Certified Mail have been adjusted to reflect actual base year volume from billing determinants See response to POIR No 5, Item 1
6/ TYBR and TYAR volume forecasts for Special Handling corrected to reflect volume growth factors submitted by the Postal Service in response to POIR No 4, Item 13
7/ TYBR number of P.O. Boxes in use corrected to reflect a drop of 2.4 million in the proposed number of Goup 3 boxes See response to POIR No. 4, Item 6
Source: PRC-LR-3, Worksheet _OUT_SS.WK4, Sheet B.

Docket No. MC96-3

Table 2

1996 Test Year Revenue Forecasts
(Dollars in Thousands)

	TYBR Forecast 1/ (1)	Revenue Changes: Insurance (2)	Revenue Changes: Special Delivery (3)	TYAR Forecast 1/ (4)
First-Class Mail				
Letters and Parcels	21,290,478	59	(35)	21,290,502
Presort Letters & Pcls	9,753,457			9,753,457
Carrier Presort Letters	866,892			866,892
Total Letters	31,910,827	59	(35)	31,910,851
Postal Cards	85,724			85,724
Private Mailing Cards	569,049			569,049
Presort Private Cards	271,021			271,021
Carrier Presort Cards	69,094			69,094
Total Cards	994,888			994,888
Total First Class	32,905,715	59	(35)	32,905,739
Priority Mail	3,437,199	1,465	(24)	3,438,641
Express Mail	736,783	1,253	1,335	739,372
Mailgrams	1,848			1,848
Second-Class Mail				
Within County	79,721			79,721
Regular Rate	1,551,197			1,551,197
Nonprofit	338,066			338,066
Classroom	10,265			10,265
Total Second Class	1,979,249			1,979,249
Third-Class Mail				
Single Piece	114,178	2	(6)	114,174
Bulk Rate-Regular	1,596,799			1,596,799
-5 dig.Prst.	4,624,884			4,624,884
-Carr.Prst.	4,539,434			4,539,434
Total Bulk Rate Regular	10,761,117			10,761,117
Bulk Rate-Nonprofit	423,955			423,955
-5 dig Prst.	673,913			673,913
-Carr.Prst.	275,950			275,950
Total Bulk Rate Nonprofit	1,373,818			1,373,818
Total Third Class	12,249,113	2	(6)	12,249,109
Fourth-Class Mail:				
Parcel Post	745,106	1,126	(3)	746,229
Bound Printed Matter	518,823			518,823
Special Rate	405,940	35	0	405,975
Library Rate	43,434	2	0	43,436
Total Fourth Class	1,713,303	1,163	(3)	1,714,463
USPS Penalty Mail				
Free for the Blind				
TOTAL DOMESTIC MAIL	53,023,210	3,943	1,268	53,028,421
International Mail	1,392,208			1,392,208
TOTAL ALL MAIL	54,415,418	3,943	1,268	54,420,629
Special Services				
Registered Mail	105,563			105,195
Insured Mail	49,162			62,681
Certified Mail	304,192			369,893
Collect-On-Delivery	19,775			19,775
Money Orders	169,692			169,692
Special Delivery	2,091			0
Stamped Cards	0			0
Subtotal	650,475			727,236
Return Receipt	289,135			275,997
Special Handling 2/	886			886
Post Office Boxes	520,700			551,319
Stamped Envelopes	23,262			23,262
Total Special Services	1,483,572			1,577,814
Domestic Fees	316,592			316,592
International Fees	262,289			262,289
Total Fees	578,881			578,881
Miscellaneous	170,670			170,670
Philatelic	33,272			33,272
TOTAL MAIL AND SERVICES	56,681,813			56,781,266
Appropriations	93,080			93,080
Investment Income	133,007			135,944
GRAND TOTAL	56,907,900			57,010,290

1/ TYBR revenue forecast is from LR-SSR-121, WP E, Pages 1&2
TYBR and TYAR revenue forecasts for Registry, Insured, Certified, Special Delivery, Return Receipt, Special Handling and P.O. Boxes are from Schedule 3
2/ Consistent with the Postal Service presentation, the revenues from Special Handling are included in Domestic Fees, and thus are not added to total revenue
Source: PRC-LR-3, Worksheet _OUT_SS.WK4, Sheet B.

Table 3

1996 Test Year Attributable Cost Forecasts
(Dollars in Thousands)

	TYBR Forecast 1/	Cost Changes: Insurance 2/	Cost Changes: Special Delivery 2/	TYAR Forecast 3/
	(1)	(2)	(3)	(4)
First-Class Mail				
Letters and Parcels	14,596,859	41	(24)	14,601,485
Presort Letters & Pcls	4,455,131			4,455,756
Total Letters	19,051,990	41	(24)	19,057,241
Postal Cards	45,061			45,106
Private Mailing Cards	463,183			463,381
Presort Private Cards	144,795			144,867
Total Cards	653,039			653,354
Total First Class	19,705,029	41	(24)	19,710,595
Priority Mail	1,615,900	689	(11)	1,616,805
Express Mail	584,075	993	1,059	585,856
Mailgrams	803			804
Second-Class Mail,				
Within County	76,306			76,338
Regular Rate	1,384,170			1,384,512
Nonprofit	318,428			318,527
Classroom	13,452			13,457
Total Second Class	1,792,356			1,792,834
Third-Class Mail,				
Single Piece	224,328	5	(12)	224,388
Bulk Rate-Regular	4,690,817			4,692,949
-Carr.Prst.	2,103,938			2,103,051
Total Bulk Rate Regular	6,794,755			6,796,000
Bulk Rate-Nonprofit	982,570			983,170
-Carr.Prst.	142,373			142,351
Total Bulk Rate Nonprofit	1,124,943			1,125,521
Total Third Class	8,144,026	5	(12)	8,145,909
Fourth-Class Mail				
Parcel Post	635,208	960	(2)	636,204
Bound Printed Matter	283,845			283,845
Special Rate	297,535	26	0	297,602
Library Rate	43,354	2	0	43,363
Total Fourth Class	1,259,942	988	(2)	1,261,014
USPS Penalty Mail				
Free for the Blind	29,588			29,592
TOTAL DOMESTIC MAIL	33,131,719	2,715	1,009	33,143,409
International Mail	1,373,428			1,373,787
TOTAL ALL MAIL	34,505,147	2,715	1,009	34,517,196
Special Services				
Registered Mail	73,162			72,992
Insured Mail	34,392			42,385
Certified Mail	301,205			298,412
Collect-On-Delivery	21,361			21,364
Money Orders	195,226			195,347
Special Delivery	2,217			0
Stamped Cards 4/	0			5,036
Subtotal	627,563			630,500
Return Receipt 5/	227,425			220,129
Special Handling	4,661			4,663
Post Office Boxes	526,030			523,228
Stamped Envelopes	14,647			14,650
Total Special Services	1,400,326			1,393,170
Other Costs	219,974			220,067
TOTAL MAIL AND SERVICES	36,125,447			36,130,433
Total Other Costs	19,849,991			19,840,306
TOTAL ACCRUED	55,975,438			55,970,739

1/ TYBR attributable costs are from LR-PRC-5, Part 1
2/ The cost changes due to increase in insured mail volume and migration of special delivery volume to Express Mail are calculated using TYBR unit costs
3/ TYAR attributable costs are from LR-PRC-5, Part 2
4/ Because attributable costs of manufacturing Stamped Cards are also included in the attributable costs of First-Class Cards, they are not added to total attributable costs
5/ TYBR and TYAR Return Receipt costs are from Schedule 3 Table 11
Source: PRC-LR-3, Worksheet _OUT_SS.WK4, Sheet B.

Table 1

Registered Mail Revenue Forecast

Type of Service	Value up to:	Transactions (In Thousands) FY 1995 (Base Year)	Before Rates Forecast	After Rates Forecast 1/	Fees (In Dollars) Current (R94-1)	PRC Recom-mended	Revenue ($ Thousands) Before Rates Forecast	After Rates Forecast
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Domestic Uninsured	$100	4,288	4,043	4,029	4.85	4 85	19,608	19,540
Domestic Insured	$100	1,833	1,728	1,722	4.95	4 95	8,555	8,525
	$500	1,812	1,709	1,703	5 40	5.40	9,226	9,194
	$1,000	1,059	998	995	5.85	5 85	5,841	5,821
	$2,000	973	917	914	6 30	6 30	5,780	5,760
	$3,000	511	482	480	6 75	6 75	3,251	3,240
	$4,000	304	286	285	7.20	7 20	2,063	2,055
	$5,000	263	248	247	7 65	7 65	1,898	1,891
	$6,000	156	147	146	8 10	8 10	1,190	1,185
	$7,000	128	121	120	8 55	8.55	1,033	1,029
	$8,000	123	116	116	9 00	9.00	1,044	1,040
	$9,000	39	37	37	9 45	9 45	350	349
	$10,000	132	124	124	9 90	9 90	1,231	1,227
	$11,000	51	48	48	10 35	10 35	497	495
	$12,000	30	29	29	10 80	10.80	310	309
	$13,000	27	26	26	11.25	11 25	288	287
	$14,000	26	25	24	11 70	11 70	287	286
	$15,000	39	37	37	12.15	12 15	447	445
	$16,000	32	30	30	12 60	12 60	374	373
	$17,000	23	22	22	13 05	13 05	286	285
	$18,000	23	22	21	13 50	13 50	291	290
	$19,000	14	13	13	13 95	13 95	179	179
	$20,000	50	48	47	14.40	14.40	684	682
	$21,000	14	13	13	14 85	14.85	191	191
	$22,000	14	13	13	15.30	15.30	195	194
	$23,000	14	13	13	15 75	15.75	205	204
	$24,000	10	9	9	16.20	16 20	148	148
	$25,000	92	87	86	16.65	16 65	1,442	1,437
Subtotal		12,079	11,389	11,349			66,895	66,662
International	$100	8,209	7,739	7,712	4 95	4 95	38,309	38,176
	$500	45	42	42	5 40	5 40	229	228
	$1,000	12	11	11	5.85	5 85	64	63
Subtotal		8,265	7,792	7,765			38,601	38,467
Total		20,344	19,181	19,114			105,496	105,129
Handling Charges	$1,000	156	147	147	0 45	0.45	66	66
Total							105,563	105,195

1/ The decrease in after-rates volume for registered mail is due to an increase in its fixed weight price index that results from the recommended classification change eliminating the uninsured option for declared values over $100

Source: PRC-LR-3, Worksheet REVENUE.WK4, Sheet A .

Table 2

New Insured Mail Volume Expected to Be Generated by the Recommended Higher Indemnity Limits

Purpose: Distribute to mail categories new mail volume generated from the increase in (a) the indemnity limit from $600 to $5000, and (b) the indemnity limit for Express Mail merchandise from $500 to $5000.
Source: PRC-LR-3, Worksheet INSR.WK4, Sheet A .

Part A: New Pieces from Increasing Indemnity Limits	
Total New Pieces from Mail Insurance Survey, 1993 1/	1,012,043
Total New Pieces from Mail Insurance Survey, February, 1996 2/	17,274
Total	1,029,317
Less EMS	97,390
New Pieces without Express Mail	931,927

Part B: Allocation of New Pieces to Mail Categories				
	(1)	(2)	(3)	(4)
Mail Category	Insured Pieces in Range $500.01 to $600 3/	Percent of Pieces at $500.01 to $600 4/	New Pieces w/o EMS 5/	New Pieces w EMS 6/
Priority Mail	329,186	44.615%	459,227	415,777
Free Mail for Blind & Hndicapped	94	0.013%	131	119
Fourth-Class SPC 4th-CL Rate	16,589	2.248%	23,142	20,953
Fourth-Class Parcels Zone Rate	268,531	36.394%	374,611	339,167
Fourth-Class Bound Printed Matter	0	0.000%	0	0
Third-Class Single Piece Rate	1,927	0.261%	2,688	2,434
Third-Class Bulk Rate Car Presort	0	0.000%	0	0
First-Class Letters and Parcels	120,595	16.344%	168,235	152,317
Fourth-Class Library Rate	920	0.125%	1,283	1,162
Subtotal	737,842	100 000%	1,029,317	931,927
Express Mail				97,390
Total				1,029,317

Part C: Estimation of EMS Increase Due to Raising Indemnity Limit from $500 to $5,000	
Total Fourth-Class Parcel Post Volume for GFY 95 from RPW 7/	218,059,860
Fourth-Class Parcel Post Volume insured between $500.01 and $600 8/	374,611
% Fourth-Class Parcel Post insured between $500.01 and $600 9/	0.17%
Express Mail Volume for GFY 95 from RPW 10/	56,690,164
New Insured EMS Pieces due to Raising Idemnity Limit 11/	97,390

Footnotes:

1/ The documentation of the 1993 Survey is in USPS-LR-SSR-109, pp. 12 to 105. The figure 1,012,043 is on p. 95.
2/ The documentation of the 1996 Survey is in USPS-LR-SSR-109, pp. 106 to 124. The figure 17,274 can be calculated from data on either p. 117 or p. 124.
3/ USPS-LR-SSR-109, pp. 7-11.
4/ Percent distribution of pieces in Column (1).
5/ Distribution of pieces before Express Mail adjustment.
6/ New insured piece estimate in Column (3) less new Express Mail insured volume distributed according to percentage in Column (2).
7/ FY95 Parcel Post pieces from RPW Report.
8/ New Parcel Post pieces from Part B, Column (3).
9/ New Parcel Post pieces divided by total FY95 Parcel Post pieces.
10/ FY95 Express Mail pieces from RPW Report.
11/ FY95 Express Mail pieces multiplied by percent Fourth-Class Parcel Post pieces insured between $500.01 and $600

Table 3

Revenue Expected to Be Generated from New Insured Mail Volume

Purpose: Estimate revenue from the new volume of 1,012,043 pieces in the $600 to $2,000 range.
This analysis estimates the average insured value of new pieces based on the response to Question 11 in the 1993 insured mail customer survey (USPS LR-SSR-109).
An average fee is then calculated. The average fee is multiplied by the total transactions to estimate test year revenue.
The revenue from the new volume of 17,274 pieces in the $2,000 to $5,000 range is developed directly from the 1996 insured mail survey (USPS LR-SSR-109).
Source: PRC-LR-3, Worksheet INSR.WK4, Sheet B.

Part A: Estimation of Average Insured Value of New Pieces					
Value Level 1/		Average Value Level	Percent of Parcels Shipped with Other Carriers 2/	Relative Percent	Average Value 3/
From	To				
(1)	(2)	(3)	(4)	(5)	(6)
$601	$700	$650.50	7.00%	13.21%	$85.92
$701	$800	$750.50	3.00%	5.66%	$42.48
$801	$900	$850.50	5.00%	9.43%	$80.24
$901	$1,500	$1,200.50	9.00%	16.98%	$203.86
$1,501	$2,000	$1,750.50	29.00%	54.72%	$957.82
	Total		53.00%	100.00%	$1,370.31
Average Insured Value Always Rounded Up to Hundreds of Dollars					$1,400.00

Part B: Estimation of Average Fee for Pieces in $601 to $2000 Range Based on Average Insured Value 4/						
	New Volume Split	Average Piece Fee	$100 Incements in the Average Value 5/	Average Value Fee 6/	Weighted Value Fee 7/	Average Fee 8/
	(1)	(2)	(3)	(4)	(5)	
Express Mail	9.46%	$0.00	9	$8.10	$0.77	
Other Subclasses	90.54%	$1.45	13	$11.70	$10.59	
Total	100.00%	$1.45			$11.36	$12.81

Part C: Revenue from New Insured Pieces in $601 to $2,000 Value Range from 1993 Survey	
Average Fee	$12.81
Total New Pieces	1,012,043
Total Revenue from New Pieces in $601 to $2,000 Value Range	$12,962,245

Part D: Revenue from New Insured Pieces in $2,001 to $5,000 Value Range from 1996 Survey		
Average Fee	$32.20	9/
Total New Pieces	17,274	
Total Revenue from New Pieces in $2,001 to $5,000 Value Range	$556,301	

Part E: Summary, Revenue from New Insured Pieces in $601 to $5,000 Value Range from 1993 Survey		
Average Fee	$13.13	10/
Total New Pieces	1,029,317	
Total Revenue from New Pieces	$13,518,546	

Footnotes:

1/ Ranges in value levels based on the response to POIR No. 6, Item 2.
2/ USPS-LR-SSR-109, Question 11, Page 94.
3/ Relative Percent in Column (4) times Average Step Value in Column (2).
4/ See USPS-T-8 for proposed fee structure and levels.
5/ Express Mail insured value over $500 = ($1,400-$500)/$100
Other insured value over $100 = ($1,400-$100)/$100
6/ Average Value Fee = $.90 times "100 value" in Column (3)
7/ Wgtd. Value Fee = Average Value Fee times % Express or Other in Column (1)
8/ Average Fee (Sum of Average Piece and Weighted Value Fees)
9/ Average Fee =($.90 x((($2,001+$5,000)/2)-100)/100)+$1.60.
For simplicity, adjustment for Express fee difference is not included in calculation of average fee
10/ Average Fee (Revenue from $601 to $2,000 pieces + Revenue from $2,001 to $5,000 Pieces)/ New Pieces

Table 4

Insured Mail Revenue Forecast

Type of Service	Liability up to:	Transactions (In Thousands) FY 1995 (Base Year)	Transactions (In Thousands) Before Rates Forecast	Transactions (In Thousands) After Rates Forecast	Fees (In Dollars) Current (R94-1)	Fees (In Dollars) PRC Recom-mended	Revenue ($ Thousands) Before Rates Forecast	Revenue ($ Thousands) After Rates Forecast
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Domestic	$50	12,199	11,732	11,732	0.75	0.75	8,799	8,799
	$100	8,300	7,981	7,981	1.60	1.60	12,770	12,770
	$200	3,876	3,728	3,728	2.50	2.50	9,319	9,319
	$300	1,614	1,552	1,552	3.40	3.40	5,278	5,278
	$400	595	572	572	4.30	4.30	2,461	2,461
	$500	636	612	612	5.20	5.20	3,182	3,182
	$600	797	766	766	6.10	6.10	4,675	4,675
	$700 - $5,000	0	0	1,029	0.00	13.13	0	13,519
Subtotal		28,018	26,944	27,973			46,485	60,004
International								
Canada		191	183	183	2.53	2.53	464	464
Other		697	671	671	3.30	3.30	2,213	2,213
Subtotal		888	854	854			2,677	2,677
Total		28,906	27,798	28,827			49,162	62,681

Source: PRC-LR-3, Worksheet REVENUE.WK4, Sheet B.

Table 5

Certified Mail Revenue Forecast

Type of Service	Transactions (In Thousands)			Fees (In Dollars)		Revenue ($ Thousands)	
	FY 1995 (Base Year)	Before Rates Forecast	After Rates Forecast	Current (R94-1)	PRC Recom-mended	Before Rates Forecast	After Rates Forecast
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Basic Fee	266,431	276,538	273,995	1.10	1.35	304,192	369,893

Source: PRC-LR-3, Worksheet REVENUE.WK4, Sheet C.

Table 6

Adjustment of Certified Mail Volume Forecasts

Purpose: To adjust the certified mail volume forecasts to reflect the actual base year (FY 1995) "pure" volume from billing determinants. This adjustment is based on the Response to POIR No. 5, Item 1.
Source: PRC-LR-3, Worksheet _VF_SS.WK4, Sheet E.

Item	Volume (Thousands)	
(a) Base Year Volume Forecast	279.028	1/
(b) TYBR Volume Forecast	289.613	2/
(c) TYAR Volume Forecast	286.950	3/
(d) Base Year Billing Determinants	266.431	4/
(e) Ratio of TYBR to Base Year Forecasts	1.03794	5/
(f) Adjusted TYBR Volume Forecast	276.538	6/
(g) Ratio of TYAR to TYBR Forecasts	0.99080	7/
(h) Adjusted TYAR Volume Forecast	273.995	8/

Sources:

1/ LR-SSR-102
2/ LR-SSR-121, W/P E, Page 2
3/ PRC-LR-3, Worksheet _VF_SS.WK4, Sheet E
4/ LR-SSR-121, W/P D, Page 1
5/ (b)/(a)
6/ (d)*(e)
7/ (c)/(b)
8/ (f)*(g)

Table 7

Migration of Special Delivery Volume

Purpose:
With the elimination of special delivery, 104,000 pieces are expected to migrate to Express Mail. The purpose of this workpaper is to develop an adjustment to Test Year volumes to account for this migration. The adjustment uses RPW special delivery piece data by general class groupings (Part 1). Pieces are assigned to subclasses based on RPW subclass volume split factors (Parts 2 & 3).
Source:
PRC-LR-3, Worksheet SD&SH.WK4, Sheet A.

Part 1: Assignment of Transactions to Classes

Class of Mail	FY95 Special Delivery Transactions 1/	Category Assignment
	(1)	(2)
First-Class & Priority		
Not over 2 lbs.	244,255	1C+Priority
Over 2 lbs. but not over 10 lbs.	14,038	Priority
Over 10 lbs.	1,444	Priority
Subtotal	259,737	
Other Classes		
Not over 2 lbs.	9,773	3rd+PP
Over 2 lbs. but not over 10 lbs.	6,976	Parcel Post
Over 10 lbs.	1,362	Parcel Post
Subtotal	18,111	
Total Domestic	277,848	

Part 2: Split Factors to Assign Transactions to Subclasses

	Pieces 2/ (000)	Distribution Factor
	(1)	(2)
First-Class Nonpresorted Letters	55,049,377	99.0%
Priority Not Over Two Pounds	572,555	1.0%
Total	55,621,932	100.0%
Third-Class Single Piece	179,170	79.1%
Parcel Post Not Over Two Pounds (Without DBMC)	47,343	20.9%
Total	226,513	100.0%

Part 3: Distribution of Migrated Transactions to Subclasses

Subclasses	Adjusted 3/ FY95	Distribution	TYAR Adjust. to Subclasses (000)	
	(1)	(2)	(3)	
First-Class Letters & Parcels	241,741	87.0%	90	
Priority Mail	17,996	6.5%	7	
Third-Class Single Piece Rate	16,068	5.8%	6	
Parcel Post	2,043	0.7%	1	
Total	277,848	100.0%	104	4/

Footnotes:
1/ USPS-LR-SSR-43, Section VII; Other Classes - Not Over 2 lbs. includes Mail Categories 8760 and 8730.
2/ Source: FY94 Billing Determinants. In USPS-T-1, WP4, Single Piece Third-Class volume was set at 179 thousand pieces instead of the correct figure of 179,170 thousand pieces used in this table
3/ Part 1 "1C+Priority" and "3rd+PP" volume apportioned to subclasses based on Part 2 split factors plus assigned volume in Part 1.
4/ USPS-LR-SSR-135. With the elimination of special delivery service, one-half of TYBR forecast of special delivery mailpieces is expected to convert to Express Mail.

Table 8

Special Delivery Revenue Forecast

Type of Service	Volume (In Thousands) FY 1995 (Base Year) (1)	Before Rates Forecast (2)	After Rates Forecast (3)	Fees (In Dollars) Current (R94-1) (4)	PRC Recom-mended (5)	Revenue ($ Thousands) Before Rates Forecast (6)	After Rates Forecast (7)
First Class & Priority							
Not over 2 lbs.	244	170	0	9.95	0.00	1,688	0
Over 2 lbs., under 10 lbs	14	10	0	10.35	0 00	101	0
Over 10 lbs.	1	1	0	11.15	0.00	11	0
Subtotal	260	180	0			1,800	0
Other Classes							
Not over 2 lbs.	10	7	0	10.45	0.00	71	0
Over 2 lbs., under 10 lbs	7	5	0	11.25	0 00	55	0
Over 10 lbs.	1	1	0	12.10	0.00	11	0
Subtotal	18	13	0			137	0
Total Domestic	278	193	0			1,937	0
International LC Letter Packages							
Not over 2 lbs.	4	3	0	9.95	0.00	26	0
Over 2 lbs.	0	0	0	10.35	0.00	0	0
Subtotal	4	3	0			26	0
Surface & Air AO							
Not over 2 lbs.	11	8	0	10.45	0.00	82	0
Over 2 lbs.	6	4	0	11.25	0.00	46	0
Subtotal	17	12	0			128	0
Total International	21	15	0			154	0
Total	299	208	0			2,091	0

Source: PRC-LR-3, Worksheet REVENUE.WK4, Sheet D.

Table 9

Postal and Stamped Cards Revenue Forecast

Type of Service	Volume (In Thousands) Before Rates Forecast (1)	Volume (In Thousands) After Rates Forecast (2)	Rate & Fees (In Dollars) Current (R94-1) (3)	Rate & Fees (In Dollars) PRC Recom-mended (4)	Revenue ($ Thousands) Before Rates Forecast (5)	Revenue ($ Thousands) After Rates Forecast (6)
Postal Card Rate	*428,618*	*428,618*	*0.20*	*0.20*	*85,724*	*85,724*
Stamped Card Fee	0	428,618	0.00	0.00	0	0
Total					85,724	85,724

Source: PRC-LR-3, Worksheet REVENUE.WK4, Sheet E.

Table 10

Return Receipt Volume and Revenue Forecasts

Type of Service	Transactions (In Thousands) FY 1995 (Base Year) (1)	Before Rates Forecast (2)	After Rates Forecast (3)	Fees (In Dollars) Current (R94-1) (4)	PRC Recom-mended (5)	Revenue ($ Thousands) Before Rates Forecast (6)	After Rates Forecast (7)
Requested at Time of Mailing:							
To Whom & When Delivered:							
Registered Mail	4,540	4,224	4,209	1.10	1.10	4,646	4,630
Insured Mail	702	681	706	1.10	1.10	749	777
Certified Mail	207,762	215,644	213,661	1.10	1.10	237,208	235,027
Merchandise	2,771	2,968	3,006	1.20	1.20	3,561	3,607
Subtotal	215,774	223,516	221,581			246,164	244,040
To Whom, When, & Where Delivered:							
Registered Mail	62	58	58	1.50	1.10	87	64
Insured Mail	6	5	6	1.50	1.10	8	6
Certified Mail	4,314	4,477	4,436	1.50	1.10	6,716	4,880
Merchandise	19,625	21,021	21,288	1.65	1.20	34,685	25,546
Subtotal	24,006	25,562	25,788			41,496	30,496
Requested After Mailing:							
To Whom & When Delivered:							
Registered Mail	0	0	0	6.60	6.60	0	0
Insured Mail	0	0	0	6.60	6.60	0	0
Certified Mail	215	223	221	6.60	6.60	1,475	1,461
Subtotal	215	223	221			1,475	1,461
Total	239,996	249,301	247,591			289,135	275,997
Summary by Special Service							
Registered Mail	4,602	4,282	4,267			4,733	4,694
Insured Mail	708	686	712			757	783
Certified Mail	212,291	220,344	218,318			245,398	241,367
Merchandise	22,395	23,989	24,294			38,246	29,153
Total	239,996	249,301	247,591			289,135	275,997

Source: PRC-LR-3, Worksheet RETREC.WK4, Sheet A.

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Table 11

Return Receipt Attributable Costs and Cost Coverages
(Revenue, Transactions, and Cost in Thousands)

Type of Service	Before Rates Revenue	Before Rates Transactions	Before Rates Unit Cost 1/	Before Rates Attributable Costs	Before Rates Cost Coverage	After Rates Revenue	After Rates Transactions	After Rates Unit Cost 1/	After Rates Attributable Costs	After Rates Cost Coverage
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Non-Merchandise										
Whom and When	242,603	220,548	0.86	189,705	128%	240,433	218,576	NA	NA	NA
Whom When Where	6,811	4,541	1.10	4,983	137%	4,950	4,500	NA	NA	NA
Subtotal	249,414	225,089		194,689	128%	245,383	223,075	0.87	193,303	127%
Merchandise										
Whom and When	3,561	2,968	1.04	3,088	115%	3,607	3,006	NA	NA	NA
Whom When Where	34,685	21,021	1.35	28,285	123%	25,546	21,288	NA	NA	NA
Subtotal	38,246	23,989		31,373	122%	29,153	24,294	1.05	25,474	114%
After Mailing	1,475	223	6.10	1,364	108%	1,461	221	6.10	1,351	108%
Total	289,135	249,301		227,425	127%	275,997	247,591		220,129	125%

1/ The source of unit costs is LR-SSR-104. The after rates unit costs ($0.87 for non-merchandise and $1.05 for merchandise), are calculated on Page 10 of LR-SSR-104.

Source: PRC-LR-3, Worksheet RETREC.WK4, Sheet B.

Table 12

Volume and Revenue Forecast for Post Office Boxes

Estimated Revenue from Paid Resident Boxes

		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Group	Box Size	Current Annual Fee	PRC Recom-mended Annual Fee	Percent Change In Fees	Total Number of Paid Boxes	Before Rate Number of Paid Boxes	Implicit Price Elasticity	After Rate Number of Paid Boxes	Before Rate Revenues	After Rate Revenues	Additional Revenues
1A	1	$48	$48	0%	35,409	28,303	-0.52191	28,303	$1,358,523	$1,358,523	$0
	2	$74	$74	0%	2,236	1,594	-0.60052	1,594	$117,921	$117,921	$0
	3	$128	$128	0%	1,239	1,077	-0.51666	1,077	$137,800	$137,800	$0
	4	$210	$242	15%	129	112	-0.51666	103	$23,538	$24,990	$1,451
	5	$348	$418	20%	38	33	-0.51666	30	$11,490	$12,367	$877
	CS	$500	$500	0%	1,507	1,507	-0.51666	1,507	$753,500	$753,500	$0
Subtotal		$74	$74	0%	40,558	32,625		32,613	$2,402,773	$2,405,102	$2,328
1B	1	$44	$44	0%	63,586	50,825	-0.47842	50,825	$2,236,281	$2,236,281	$0
	2	$66	$66	0%	14,735	10,501	-0.60255	10,501	$693,078	$693,078	$0
	3	$112	$112	0%	5,385	4,679	-0.51666	4,679	$524,050	$524,050	$0
	4	$190	$218	15%	843	732	-0.51666	677	$139,171	$147,523	$8,352
	5	$310	$372	20%	911	792	-0.51666	710	$245,386	$264,035	$18,650
	CS	$480	$480	0%	1,373	1,373	-0.51666	1,373	$659,040	$659,040	$0
Subtotal		$65	$66	1%	86,833	68,902		68,764	$4,497,005	$4,524,007	$27,001
1C	1	$40	$40	0%	4,513,288	3,607,491	-0.52191	3,607,491	$144,299,644	$144,299,644	$0
	2	$58	$58	0%	1,909,328	1,360,719	-0.60516	1,360,719	$78,921,673	$78,921,673	$0
	3	$104	$104	0%	635,358	552,062	-0.51666	552,062	$57,414,409	$57,414,409	$0
	4	$172	$172	0%	136,538	118,637	-0.51666	118,637	$20,405,645	$20,405,645	$0
	5	$288	$288	0%	28,891	25,103	-0.51666	25,103	$7,229,804	$7,229,804	$0
	CS	$450	$450	0%	65,251	65,251	-0.51666	65,251	$29,362,950	$29,362,950	$0
Subtotal		$59	$59	0%	7,288,654	5,729,263		5,729,263	$337,634,125	$337,634,125	$0
2	1	$8	$12	50%	4,750,885	4,494,432	-0.08495	4,303,532	$35,955,453	$51,642,386	$15,686,933
	2	$13	$20	54%	1,927,254	1,790,620	-0.13584	1,659,650	$23,278,057	$33,193,001	$9,914,944
	3	$24	$36	50%	500,917	442,179	-0.15221	408,527	$10,612,287	$14,706,987	$4,094,700
	4	$35	$53	51%	42,176	37,230	-0.15221	34,316	$1,303,066	$1,818,756	$515,690
	5	$55	$83	51%	4,714	4,162	-0.15221	3,839	$228,885	$318,644	$89,759
	CS	$134	$450	236%	32,639	32,639	-0.15221	20,924	$4,373,626	$9,415,681	$5,042,055
Subtotal		$11	$17	55%	7,258,586	6,801,261		6,430,789	$75,751,374	$111,095,454	$35,344,080
Group 3 Offices Assigned to Group 2	1	$2	$12	500%	22,339	22,339	-0.05357	16,356	$44,679	$196,267	$151,588
	2	$2	$20	900%	8,973	8,973	-0.06917	3,387	$17,946	$67,745	$49,799
	3	$2	$36	1700%	2,324	2,324	-0.03609	898	$4,647	$32,332	$27,685
	4	$2	$53	2550%	194	194	-0.02441	73	$387	$3,876	$3,488
	5	$2	$83	4050%	22	22	-0.01537	8	$43	$677	$634
Subtotal		$2	$15	626%	33,851	33,851		20,722	$67,702	$300,896	$233,194
Group 1		$54	$54	0%	7,347,914	5,762,659		5,762,609	$313,768,414	$313,787,744	$29,330
Group 2		$11	$16	51%	7,259,798	6,802,473		6,430,587	$71,445,450	$101,980,670	$30,535,219
Subtotal		$31	$34	11%	14,607,713	12,565,132		12,193,096	$385,203,865	$415,768,414	$30,564,549
Caller Service(CS)		$349	$451	29%	100,770	100,770		89,055	$35,149,116	$40,191,171	$5,042,055
Total		$33	$37	12%	14,708,483	12,665,902		12,282,151	$420,352,981	$455,959,584	$35,606,604

Note: Although the Commission recommends the same fees for resident and nonresident boxes, it forecasts volume and revenue separately to remain consistent with the Postal Service's presentation. In order to allow a direct comparison with the Postal Service's calculations, forecasts are presented in two tables -- one for resident and another for nonresident boxes

Source: PRC-LR-3, Worksheet POBOX.WK4, Sheet F.

Table 13

Volume and Revenue Forecast for Post Office Boxes

Estimated Revenue from Paid Nonresident Boxes

Nonresident's Fee= 0

Group	Box Size	(1) Current Annual Fee	(2) PRC Recom-mended Annual Fee	(3) Percent Change in Fees	(4) Total Number of Paid Boxes	(5) Before Rate Number of Paid Boxes	(6) Implicit Price Elasticity	(7) After Rate Number of Paid Boxes	(8) Before Rate Revenues	(9) After Rate Revenues	(10) Additional Revenues
1A	1	$48	$48	0%	35,409	7,106	-0.52191	7,106	$341,109	$341,109	$0
	2	$74	$74	0%	2,236	642	-0.60052	642	$47,543	$47,543	$0
	3	$128	$128	0%	1,239	162	-0 51666	162	$20,792	$20,792	$0
	4	$210	$242	15%	129	17	-0.51666	16	$3,552	$3,771	$219
	5	$348	$418	20%	38	5	-0.51666	4	$1,734	$1,866	$132
Subtotal		$52	$52	0%	39,051	7,933		7,931	414,729	415,080	351
1B	1	$44	$44	0%	63,586	12,761	-0.47842	12,761	$561,503	$561,503	$0
	2	$66	$66	0%	14,735	4,234	-0.60255	4,234	$279,432	$279,432	$0
	3	$112	$112	0%	5,385	706	-0.51666	706	$79,070	$79,070	$0
	4	$190	$218	15%	843	111	-0.51666	102	$20,999	$22,259	$1,260
	5	$310	$372	20%	911	119	-0.51666	107	$37,024	$39,838	$2,814
Subtotal		$55	$55	1%	85,460	17,931		17,910	978,029	982,103	4,074
1C	1	$40	$40	0%	4,513,288	905,797	-0.52191	905,797	$36,231,885	$36,231,885	$0
	2	$58	$58	0%	1,909,328	548,609	-0.60516	548,609	$31,819,343	$31,819,343	$0
	3	$104	$104	0%	635,358	83,297	-0.51666	83,297	$8,662,848	$8,662,848	$0
	4	$172	$172	0%	136,538	17,900	-0.51666	17,900	$3,078,861	$3,078,861	$0
	5	$288	$288	0%	28,891	3,788	-0.51666	3,788	$1,090,853	$1,090,853	$0
Subtotal		$52	$52	0%	7;223,403	1,559,391		1,559,391	80,883,790	80,883;790	0
2	1	$8	$12	50%	4,750,885	256,454	-0.08495	245,561	$2,051,630	$2,946,732	$895,102
	2	$13	$20	54%	1,927,254	136,634	-0.13584	126,641	$1,776,247	$2,532,813	$756,566
	3	$24	$36	50%	500,917	58,739	-0.15221	54,268	$1,409,725	$1,953,661	$543,936
	4	$35	$53	51%	42,176	4,946	-0.15221	4,559	$173,098	$241,602	$68,504
	5	$55	$83	51%	4,714	553	-0.15221	510	$30,405	$42,328	$11,923
Subtotal		$12	$18	50%	7,225;947	457,325		431,539	$5,441,106	$7,717,136	$2,276,031
Group 1		$52	$52	0%	7,347,914	1,585,256		1,585,233	$82,276,647	$82,280,973	$4,425
Group 2		$12	$18	50%	7,225,947	457,325		431,539	$5,441,106	$7,717,136	$2,276,031
Total		$43	$45	4%	14,573,862	2,042,581		2,016,771	$87,717,653	$89,998,109	$2,280,456
Reserve Numbers 1/		$30	$30	0%	178,717	178,717		178,717	$5,361,510	$5,361,510	$0
Group 1 R & NR		$54	$54	0%	7,347,914	7,347,914		7,347,742	$396,034,962	$396,068,717	$33,755
Group 2 R & NR		$11	$16	51%	7,259,798	7,259,798		6,862,126	$76,886,566	$109,697,806	$32,811,250
Caller Service(CS)		$349	$451	29%	100,770	100,770		89,065	$35,149,116	$40,191,171	$5,042,055
Total Paid Boxes		$35	$38	11%	14,708,483	14,708,483		14,298,922	$508,070,634	$545,957,694	$37,887,060
Free Boxes 2/		N/A	N/A	N/A	942,306	942,306		942,306	7,268,129	N/A	(7,268,129)
Subtotal		$33	$36	9%	15,650,789	15,650,789		15,241,229	$515,338,763	$545,957,694	$30,618,931
Reserve Numbers		$30	$30	0%	178,717	178,717		178,717	$5,361,510	$5,361,510	$0
Grand Total		$33	$36	9%	15,829,506	15,829,506		15,419,946	$520,700,273	$551,319,204	$30,618,931

Note: Although the Commission recommends the same fees for resident and nonresident boxes, it forecasts volume and revenue separately to remain consistent with the Postal Service's presentation. In order to allow a direct comparison with the Postal Service's calculations, forecasts are presented in two tables -- one for resident and another for nonresident boxes.

Source: PRC-LR-3, Worksheet POBOX.WK4, Sheet G.

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Table 14

Volume and Revenue Forecast for Post Office Boxes

Notes for Tables 12 and 13

Column	Comments
(1)	Current Annual Fee.
(2)	Proposed Annual Fee.
(3)	Percentage change in fees; (3) = (2) / (1) - 1
(4)	Total number of paid boxes from Appendix C, Part 1, Table 4, Columns (5) and (6); Caller Service numbers from LR-SSR-113 at 50.
(5)	Resident or Nonresident number of boxes in (4) * the corresponding unrounded percentage from Table 15, Part 1 Group 1,size 3 percentage is used for Group 1, sizes 4 and 5, Group 2, size 3 is used for Group 2, size 4 and size 5.
(6)	Price elasticities at the Postal Service proposed prices; E = (% Accept - 1)/(dP/P) % Accept = Percentage of acceptance calculated as the midpoint of "worst case" and "best case" scenarios. "Worst Case" scenario percentages are presented in Table 15, Part 2. "Best Case" scenario is 100%. Low price acceptance percentages are used as "Worst Case" scenario percentages. The calculated elasticity of Box Size 3 [E3=(%Accept3-1)/(dP3/P3)] is used for Box sizes 4, 5, and Caller services
(7)	After Rate Increase number of boxes: = (5) * [1+ (6)*(3)]
(8)	Before Rate Increase revenues: = (1) * (5)
(9)	After Rate Increase revenues: = (2) * (7)
(10)	Additional revenues: = (9) - (8)
Footnote 1/	Reserve numbers are caller numbers reserved for future use by a caller See Docket No R94-1, USPS-T-1, Page 215.
Footnote 2/	The $7.3 million reduction in revenue due to classifying 942,306 boxes free is from witness Lyons response to POIR No. 4, Item 6. The calculation of this free-box effect is documented in Appendix C, Part 1. It is added to before rates revenue so that the calculated changes in revenue, cost coverage, and other statistics from before- to after- rates reflect the impact of both the classification and rate changes recommended by the Commission.
CS	Stands for Caller Service

Source: PRC-LR-3, Worksheet POBOX.WK4, Sheet H.

Table 15

Volume and Revenue Forecast for Post Office Boxes

Resident/Nonresident Split Factors and Acceptance Percentages

Part 1. Resident / Nonresident Percent									
	Total Sample	Group1				Group2			
		Total	Size 1	Size 2	Size 3	Total	Size 1	Size 2	Size 3
Resident	86%	78%	80%	71%	87%	94%	95%	93%	88%
Non-resident	14%	22%	20%	29%	13%	6%	5%	7%	12%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%

Note: Resident/ Nonresident breakdown is derived from question 1A in market survey as presented in SSR-111, at 58.

Part 2. Price Increase Acceptance Percentage - "Worst Case Scenario"								
	Group 1				Group 2			
	Total	Size 1	Size 2	Size 3	Total	Size 1	Size 2	Size 3
Would accept low price	73%	74%	71%	74%	79%	83%	73%	70%
Would accept low -to-mid price	67%	70%	62%	68%	59%	61%	55%	51%
Would accept mid price	62%	66%	53%	62%	38%	39%	38%	33%
Would accept mid-to-high price	47%	48%	42%	53%	26%	25%	27%	25%
Would accept high price	31%	29%	32%	45%	13%	11%	17%	17%

Notes:

Acceptance Percentages for low, mid, and high prices are taken directly from market research:
Group 1 and Group 2 Totals are from USPS-T-6 (T. D. Ellard's Testimony), Table 8;
Group 1 by box size are from LR-SSR-111, Table 1-7;
Group 2 by box size are from LR-SSR-111, Table 2-7;

Acceptance Percentages for low-to-mid and mid-to-high prices are midpoint calculations.

Source: PRC-LR-3, Worksheet POBOX.WK4, Sheet I.

Table 16

Corrected Special Handling Volume and Revenue Forecasts, and Domestic Fee Adjustment

Part A: Corrected Special Handling Volume and Revenue Forecasts

Purpose: To correct test year volume and revenue forecasts for Special Handling by employing corrected volume growth factors submitted by the Postal Service in response to POIR No. 4, Item 13.

	Transactions				Proposed Average Revenue (In Dollars)		Revenue ($ Thousands)	
Mail Category	FY 1995 (Base Year) 1/	Volume Growth Factor 2/	Before Rates Forecast	After Rates Forecast	Before Rates Forecast 3/	After Rates Forecast 3/	Before Rates Forecast	After Rates Forecast
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Third-Class								
Single Piece	64,981	-13.6%	56,144	56,144	3.635	3.635	204	204
Fourth Class	172,928	8.5%	187,627	187,627	3.635	3.635	682	682
Total	237,909		243,770	243,770			886	886

Part B: Adjustment of Domestic Mail Fees

Purpose: To adjust proposed test year domestic fees in order to reflect corrected test year revenues from Special Handling. This adjustment is required because revenues from Special Handling are included in domestic fees. See LR-SSR-11, at 210-11.

	Domestic Fees ($ Thousands)	
Item	Before Rates Forecast	After Rates Forecast
	(1)	(2)
Proposed Domestic Fees 4/	316,603	316,603
Less Proposed Special Handling Revenue 4/	(897)	(897)
Plus Corrected Special Handling Revenue	886	886
Corrected Domestic Fees	316,592	316,592

1/ USPS-LR-SSR-43, Section VII.
2/ See Response to POIR No. 4, Item 13 for these corrected growth factors for special handling transactions.
3/ USPS-LR-SSR-121, WP E, Pages 1&2.
4/ USPS-LR-SSR-121, WP E, Pages 1&2.

Source: PRC-LR-3, Worksheet SD&SH.WK4, Sheet B.

DESCRIPTION OF PRC LIBRARY REFERENCES

Accompanying the Commission's Recommended Decision and appendices are three library references containing the workpapers detailing volume, revenue and cost calculations supporting the Commission's recommended classifications, rates, and fees. The following is a description of those three library references.

PRC-LR- 3 - Program for Forecasting Volumes, Revenues, and Return Receipt Attributable Costs

This library reference, presented in electronic form, documents the program used by the Commission to forecast Test Year 1996 volumes and revenues for all mail categories and attributable costs for return receipt service. The after-rates volume, revenue, and return receipt attributable cost forecasts are all calculated using Lotus 1-2-3 for Windows™ release 5 worksheets.

The Commission's program was created by utilizing information from the following sources:

1. Volume forecasting program in LR-SSR-135, "Forecasting Material in Response to Items 12 and 13, POIR No. 2."[1]

2. Exhibits A through C and Workpapers A through F in LR-SSR-121, "Diskette of witness Lyons Spreadsheets and Files Underlying Exhibits A-C, and Workpapers A-F." LR-SSR-121 was revised on September 4, 1996.

3. Responses to POIR No. 4, Item 6, and POIR No. 5, Item 2, which estimate (1) the number of free P.O. Boxes, and (2) the impact of these free boxes on revenue projected by the Postal Service in its proposal.

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[1] In LR-SSR-101, the Postal Service submitted after-rates volume forecasting spreadsheets for four elements of the special services reform proposal — registry, certified mail, special delivery and postal cards. In response to POIR No. 2, Item 13, the Postal Service revised the forecast for registry and resubmitted the after-rates volume forecast program as Part Two of LR-SSR-135.

4. Response to POIR No. 4, Item 13, which provides corrected growth factors for Special Handling transactions.

5. Response to POIR No. 5, Item 1, Table 1, which illustrates the method for adjusting the certified mail TYBR and TYAR volume forecasts to reflect the actual base year (FY 1995) "pure" volume from billing determinants.

6. Response to POIR No. 6, Item 2, which explains the method used to calculate the revenue from the new insured mail volume expected to be generated from the proposed higher indemnity limits.

7. PRC-LR-5, Postal Rate Commission Cost Roll Forward Model.

The Commission's program consists of the following ten spreadsheets:

(1) CERT.WK4

Develops the fixed-weight price index for certified mail.

(2) PCARDS.WK4

Develops the fixed-weight price index for postal cards.

(3) REG.WK4

Develops the fixed-weight price index for registry mail.

(4) _VF_SS.WK4

Calculates the after-rates volume forecast for four elements of the Special Services reform proposal — registry, certified mail, special delivery and postal cards.

(5) INSR.WK4

- Sheet A: Calculates the new insured mail volume by mail category expected to be generated by the recommended higher indemnity limits.
- Sheet B: Calculates the revenue expected to be generated from the new insured mail volume.

(6) RETREC.WK4

- Sheet A: Calculates the TYBR and TYAR volume and revenue forecasts for return receipt service.
- Sheet B: Develops the attributable costs and cost coverages for return receipt.

(7) SD&SH.WK4

- Sheet A: With the elimination of special delivery, 104,000 pieces are expected to migrate to Express Mail. Sheet A develops the adjustments in test year volume by category to account for this migration.
- Sheet B: Calculates the test year volume and revenue for special handling.

(8) POBOX.WK4

Calculates TYBR and TYAR volume and revenue forecasts for P.O. Boxes.

(9) REVENUE.WK4

Calculates TYBR and TYAR revenue forecasts as follows:

- Sheet A: Registered Mail.
- Sheet B: Insured Mail.
- Sheet C: Certified Mail.
- Sheet D: Special Delivery.
- Sheet E: Stamped Cards.

(10) _OUT_SS.WK4

- Sheet A: Presents Appendix D, Schedule 1, and other summary tables.
- Sheet B: Presents summary tables for volumes, attributable costs, revenues and contributions to institutional costs.
- Sheet D: Lists printing MACROS.

PRC-LR- 4 - Base Year Carrier Street and Related Costs Workpapers

These workpapers document the implementation of the Commission's base year carrier street time cost analysis. The basic operation of the Commission's street time cost model is the same as in the last omnibus rate proceeding, Docket No. R94-1. *See* Docket No. R94-1 Opinion and Further Recommended Decision, Appendix Z and PRC-LR-3 and PRC-LR-10 from Docket No. R94-1. The computer programs and output for the Commission's cost attribution method are contained in this library reference for carrier costs, Cost Segment 7, and the related cost segments affected by Cost Segment 7 results. Additionally, the diskette and compact disk submitted with this library reference contain electronic copies of these programs and data.

Development of the Distributions of Single Subclass Stops

The Carrier Cost System (CCS) FY 1995 provides the input data to which the Commission's R94-1 single subclass stop analysis is applied. The source of the input data is the computer file identified as the "z" file in program documentation contained in USPS-LR-SSR-31A and provided in SAS format by the USPS as part of USPS-LR-SSR-36A filed on July 24, 1996.

The SAS program that tabulates the single subclass and multiple subclass stops in this docket is the program from PRC-LR-3, Docket No. R94-1. It aggregates data for the categories "Carrier Route WS" and "Carrier Route" to yield the total Carrier Route data.

Attached is a PC diskette containing the SAS program entitled "SSNOCRT.SAS" and a CD containing the USPS "z" file in PC format titled "ZMC963.SD2". Also attached are printed copies of the Output and the Log of the SAS program "SSNOCRT.SAS".

Development of the Carrier Street Time Costs

The spreadsheets used to determine base year carrier street time attributable costs are modifications of the spreadsheets in PRC-LR-10, Docket No. R94-1 Further

Recommended Decision and Opinion. No methodological changes occur from Docket No. R94-1. Minor technical modifications made to the worksheets exist solely to accommodate the Excel format used by the Postal Service, establish links to the FY 1995 Base Year data provided by the Postal Service, and use the Single Subclass Stop Data from the CCS for FY 1995 as output by the SAS program "SSNOCRT.SAS".

The technical modifications are as follows.

1. Convert the Quattro Pro programs in PRC-LR-10 from Docket No. R-94-1 to Excel 7.0 format.

2. Change the links to the FY 1993 data in the USPS files "control.xls", "i-forms.xls" and "govadj.xls" to the FY 1995 data in the similarly designated data spreadsheets for FY 1995 submitted as part of Docket No. MC96-3, USPS Workpapers, witness Patelunas, WP-B Base Year 1995 Cost Segment Spreadsheets (1-20).

3. Replace the data from USPS FY 1993 CCS in PRC-LR-10 Quattro Pro programs with Excel links to the corresponding data for FY 1995 provided by the USPS for this Docket.

4. Add a new worksheet 7.03.1 that uses the access and elemental load costs from worksheet 7.03 to distribute the lump sum adjustments.

5. Revise worksheet 7017 to establish an Excel link command to the appropriate costs in Workbook "ws06prc.xls".

6. Create the Excel spreadsheet "ws06prc.xls". This worksheet recreates the worksheets "ws6.0.1" through "ws6.0.4", "ws2.0.4", "ws2.0.5", "ws12.0.2", "ws12.0.3", "ws13.2.1", "ws13.2.2", "ws13.2.3", and "ws20.2.1" in witness Patelunas' testimony USPS-T-5 WP B, as adjusted for the Single Subclass Cost Method contained in the R94-1 Opinion and Further Recommended Decision.

Included with the PC diskette submitted with this library reference are the Excel spreadsheet designated as "cra95ss.xls", which is the Excel version of the Quattro Pro program in PRC-LR-10 from R94-1, and "ws06prc.xls", which was created to link Segment 6 costs directly to Segment 7. Also included is a printout of the relevant spreadsheets.

PRC-LR- 5 - Postal Rate Commission Cost Roll Forward Model

These workpapers document the procedures the Commission uses to roll forward base year attributable costs to the test year. The basic operation of the Commission's roll-forward cost model is the same as in the last omnibus rate proceeding, Docket No. R94-1. *See* PRC-LR-9 and PRC-LR-17, Docket No. R94-1. The cost model is written in the C programming language which can be operated on any personal computer operating under MS-DOS 3.0 or higher. The model can also be operated in a Windows 3.x or Windows95 environment in the DOS window. A listing of the programs, factor files, manual input, and results of the Commission's roll-forward of costs from the base year to the test year is included in these workpapers. These files are also provided on a diskette included with this library reference.

Development of PRC Base Year Attributable Costs

The Commission's Base Year and Test Year attributable costs parallel those proposed by the Postal Service in this docket except where the Postal Service's proposals do not reflect the Commission's R94-1 cost attribution methodology:

1. Segment 3, window service clerk specific fixed postal cards.

2. Segments 2, 7, 12, 13, and 20 City Delivery Carriers, street time, single subclass costs. *See* PRC-LR-4.

3. Segment 7, City Delivery Carriers, street time, variable driving time.

4. Segment 7, City Delivery Carrier, special purpose route variability

5. Segment 8, Vehicle Service Drivers variability.

6. Segment 9, Special Delivery Messengers, non-volume related variability.

7. Segment 12, Motor Vehicle Service city carrier personnel and city carrier supplies and materials street variability

8. Segment 14, Air Transportation, Alaskan Air test year attribution adjustment and Intra-Hawaii cost distribution.

Direct cost component changes that result from applying the Commission's city carrier cost attribution methods are calculated in the workpapers filed as PRC-LR-4. The direct and indirect cost component changes from PRC-LR-4, the Segment 3 window service specific fixed postal cards, and the Segment 14 air transportation cost changes are keypunched directly into the Commission's base year ASCII text cost matrix, **by95p.cst**. This text matrix is then read into a binary format by the program **xread.exe**. There are then four runs of the cost model programs to develop the short-run cost matrix. This short-run matrix is similar to the Postal Service's "A" report in Patelunas Workpaper D. The four runs are:

1. Adjustment of Segment 3 clerk and mailhandler direct labor costs for the peak load adjustment and the change in variability for Segment 8 vehicle service drivers.

2. Development of Segment 11 custodial maintenance (component 1102-PRC and component 75-USPS) and Segment 16 supplies and services (component 1611-PRC and component 184-USPS).

3. Development of Segment 3, Administrative Clerks, Quality Control and General Administrative.

4. Final calculation of indirect cost distribution.

These four steps result in the binary cost matrix **by95lp.bin** which, as noted before, is the same in format as the CRA "A" report. The long run cost program, **lrcost.exe**, is run using the factor file **pessa95p.fac**. This program calculates the PESSA costs and the Segment 9 fixed attributable costs. The result of this program is the binary matrix **by95lp.lr**. This matrix corresponds to witness Patelunas' Exhibit T-5A before final adjustments.

The DOS batch file **startup.bat** shows the programs, factor files, and the resultant binary cost matrices used to develop the Commission's Base Year.

PRC Test Year After Rates Attributable Costs

The Commission uses the roll-forward methodologies from Docket No. R94-1 in all but one respect. The Commission has adopted the Postal Service's proposed roll forward treatment of Segment 2, Other Supervisors and Technicians. Opinion at III-3. There are six differences between the Commission's Docket No. R94-1 roll forward methodology and the Postal Service's in Docket No. MC96-3. These differences are:

1. Segment 3 Administrative Clerks mail volume effect: In Docket No. MC96-3 the Postal Service roll forward model gives these components a direct mail volume cost effect. The Commission's R94-1 roll forward procedure gives these components a cost redistribution mail volume effect.

2. Segment 10 Rural Carriers Other Routes non-volume workload effect: In Docket No. MC96-3, the Postal Service's procedure omits this effect. The Commission's R94-1 roll forward procedure includes this effect.

3. Segment 12 Motor Vehicle Service, Special Delivery Messengers cost ripple effect: The Postal Service "piggybacks" the cost components for personnel-special delivery messengers and supplies and materials-special delivery messengers on total Segment 9 special delivery messengers personnel costs. The Commission "piggybacks" these cost components on the street component of Segment 9 personnel costs.

4. Segment 2 Employee and Labor Relations Supervisors: The mail volume effect for this component is described as a "mixed cost" in that the costs vary with both direct and indirect costs. USPS-T-5 at 16-17. However, in the documentation of the Service's roll forward this component does not receive the volume cost effect as described in that testimony. The Commission's roll forward corrects this oversight.

5. The Commission's roll forward procedure corrects a Segment 18 indirect cost redistribution in the additional workday cost effect. *See* Tr. 8/3073.

6. Recalculation of the P.O. Box cost adjustment and the P.O. Box cost adjustment distribution key. Appendix C, Part 2.

The factors used for all six cost effects in the roll-forward (cost level, mail volume, nonvolume workload, additional workday, cost reductions, and other programs) are the same factors that are shown in witness Patelunas' Exhibit 5D, except for the other programs cost effect for the P.O. Box cost adjustment described in Appendix C, Part 2.

Cost Roll Forward Process

The Commission's cost roll forward procedure begins with the base year cost matrix **by95lp.bin**. The indirect cost "ripple" file **prc96rip.dat** is copied to the text file **ripdat1.** The new test year volumes in the file **volume.dat** are read into the base year cost matrix by the program **putvol.exe.** The factor file used to roll forward to the test year after rates before the workload adjustment is **tyar96p.fac**. The short run cost model, **costmod.exe**, is then used to roll forward the base year costs to test year after rates costs before the workload adjustment, creating the binary cost matrix **tyar96p.bin**. This cost model is used again with the factor file **ty96mixp.fac** to create the cost matrix **ty96mixp.bin**, which calculates test year after rates costs after the workload adjustment. The long-run cost program, **lrcost.exe**, is then run using the factor file **pessa96p.fac**. This program calculates the PESSA costs and the Segment 9 fixed attributable costs. The result of this program is the binary matrix **tyar96p.lr**. This matrix corresponds to witness Patelunas' Exhibit T-5H before final adjustments.

The DOS batch file **testroll.bat** shows the programs, factor files, and the resultant binary cost matrices used to develop the Commission's Test Year After Rates costs after workload mix adjustment.

The Commission's Test Year Before Rates costs are developed by the same procedure as its Test Year After Rates. The factor files used to develop before rates costs are **tybr96p.fac, br96mixp.fac and pessa96p.fac**. The DOS batch file **rollbr96.bat** shows the programs, factor files, and the resultant binary cost matrices used to develop the Commission's Test Year Before Rates after workload mix adjustment.

POST OFFICE BOX COST ALLOCATION UPDATED FOR FY 1996 BEFORE RATES

The purpose of this Appendix is to update the Postal Service's FY 1994 post office box attributable cost allocation to FY 1996 cost levels. The attributable costs are on a before rates basis and reflect the established costing methodology.

Table 1 shows the FY 1996 attributable space provision, space support, and all other costs. These costs are broken down by cost segment. Table 2 details the equivalent capacity calculations necessary for the allocation of space provision and space support costs. This table uses the Postal Service's methods as outlined in USPS-T- 4 and LR-SSR-119. Tables 3-6 detail the allocation by delivery group and box size. Table 7 summarizes the FY 1996 before rates allocated attributable costs for post office boxes.

Table 1

Post Office Box TY Before Rates Attributable Costs

Source: PRC Library reference 5

Space Support	**Cost Segment**	**Cost in Thousands**
Custodial Personnel	11.1.1	101,430
Contract Cleaners	11.1.2	4,661
Plant & Building Equip.	11.3.0	In Custodial Personnel
Fuel & Utilities	15.2.0	37,364
Custodial	16.3.1	90,569
Postal Inspection	18.1.2	6,901
Total		240,925

Space Provision		
Rents	15.1.0	82,690
Interest	20.5.0	25,650
Building Depr.	20.3.0	74,405
Total		182,745

All Other			**Per Box**
Postmasters	C/S 1	3,010	0.20
Supervisors	C/S 2	8,494	0.56
Clerks & Mailhandlers	C/S 3	75,509	4.96
City Delivery Carriers	C/S 6&7	159	0.01
Repriced Annual	18.3.1	230	0.02
Holiday Leave	18.3.1	13	0.00
CSRS	18.3.2	5,844	0.38
Workers' Comp	18.3.4	3,350	0.22
Retiree Health	18.3.6	2,639	0.17
Annuitant Cola	18.3.7	2,665	0.18
Unemployment Comp	18.3.5	443	0.03
Total		102,356	6.73

TOTAL ATTRIB. COSTS		526,026

Table 2

TY Before Rates Equivalent Capacity Calculations

		(a)	(b)	(c)	(d)	(e)	(f)	(g)
	Box Size	**Number of Boxes in Use**	**Capacity Factor**	**Standardized to Box Size 1**	**% of Standardized**	**% of Boxes**	**Rents**	**Rent * Standardized**
I-A	1	35,409	1	35,409	0.17%	0.23%	18.83	666,751
	2	2,236	1.5	3,354	0.02%	0.01%		63,156
	3	1,239	3	3,717	0.02%	0.01%		69,991
	4	129	6	774	0.00%	0.00%		14,574
	5	38	12	456	0.00%	0.00%		8,586
	All	39,051		43,710	0.21%	0.26%		823,059
I-B	1	63,586	1	63,586	0.30%	0.42%	15.51	986,219
	2	14,735	1.5	22,103	0.11%	0.10%		342,810
	3	5,385	3	16,155	0.08%	0.04%		250,564
	4	843	6	5,058	0.02%	0.01%		78,450
	5	911	12	10,932	0.05%	0.01%		169,555
	All	85,460		117,834	0.56%	0.56%		1,827,598
I-C	1	4,558,877	1	4,558,877	21.83%	29.97%	7.4	33,735,690
	2	1,928,614	1.5	2,892,921	13.85%	12.68%		21,407,615
	3	641,776	3	1,925,328	9.22%	4.22%		14,247,427
	4	137,917	6	827,502	3.96%	0.91%		6,123,515
	5	29,183	12	350,196	1.68%	0.19%		2,591,450
	All	7,296,367		10,554,824	50.53%	47.97%		78,105,698
II	1	5,141,274	1	5,141,274	24.62%	33.80%	5.76	29,613,738
	2	2,065,039	1.5	3,097,559	14.83%	13.58%		17,841,937
	3	534,762	3	1,604,286	7.68%	3.52%		9,240,687
	4	44,584	6	267,504	1.28%	0.29%		1,540,823
	5	4,972	12	59,664	0.29%	0.03%		343,665
	All	7,790,631		10,170,287	48.69%	51.22%		58,580,850
TOTAL		15,211,509		20,886,654	100.00%	100.00%		139,337,205

Space Provision	(h) **"C" Factor**
Rents	0.593
Interest	0.184
Building Depr.	0.534
Total	1.312

NOTES
(a) Appendix C, Table 4, Column (2)
(b) USPS-T-4 at 40
(c) (a) * (b)
(d) Equivalent Capacity / Total Equivalent Capacity
(e) Number of Boxes / Total Number of Boxes
(f) USPS-T-4 at 43
(g) (c) * (f)
(h) [Table 1, All Other Cost per Box * 1000] / Total boxes

Table 3

Allocation of Fiscal Year 1996 Attributable Costs to Group IA Post Office Boxes

GROUP IA	Box Size					
Space Support	**1**	**2**	**3**	**4**	**5**	**All**
Custodial Personnel	171.95	16.29	18.05	3.76	2.21	212.26
Contract Cleaners	7.90	0.75	0.83	0.17	0.10	9.75
Fuel & Utilities	63.34	6.00	6.65	1.38	0.82	78.19
Custodial	153.54	14.54	16.12	3.36	1.98	189.54
Postal Inspection	11.70	1.11	1.23	0.26	0.15	14.44
Total	408.44	38.69	42.88	8.93	5.26	504.19
Per Box	11.53	17.30	34.60	69.21	138.42	12.91
Space Provision						
Rents	395.69	37.48	41.54	8.65	5.10	488.45
Interest	122.74	11.63	12.88	2.68	1.58	151.51
Building Depr.	356.04	33.72	37.37	7.78	4.59	439.51
Total	874.46	82.83	91.80	19.11	11.26	1,079.47
Per Box	24.70	37.04	74.09	148.18	296.35	27.64
All Other						
Postmasters	7.01	0.44	0.25	0.03	0.01	7.73
Supervisors	19.77	1.25	0.69	0.07	0.02	21.81
Clerks & Mailhandlers	175.77	11.10	6.15	0.64	0.19	193.85
City Delivery Carriers	0.37	0.02	0.01	0.00	0.00	0.41
Repriced Annual	0.54	0.03	0.02	0.00	0.00	0.59
Holiday Leave	0.03	0.00	0.00	0.00	0.00	0.03
CSRS	13.60	0.86	0.48	0.05	0.01	15.00
Workers' Comp	7.80	0.49	0.27	0.03	0.01	8.60
Retiree Health	6.14	0.39	0.21	0.02	0.01	6.77
Annuitant Cola	6.20	0.39	0.22	0.02	0.01	6.84
Unemployment Comp	1.03	0.07	0.04	0.00	0.00	1.14
Total	238.26	15.05	8.34	0.87	0.26	262.77
Per Box	6.73	6.73	6.73	6.73	6.73	6.73
TOTAL ATTRIB. COSTS	1,521.17	136.56	143.01	28.91	16.78	1,846.43
Per Box	**$ 42.96**	**$ 61.08**	**$ 115.42**	**$ 224.11**	**$ 441.50**	**$ 47.28**

Calculation of Unit Costs

Space Support
Space support attributable costs (Table 1) * % Standardized (Table 2, column (d))

Space Provision
"C" Factor (Table 2, column (h)) * [Rent * Standardized] (Table 2, column (g))

All Other
All Other attributable costs per box (Table 1) * Number of Boxes

Table 4

Allocation of Fiscal Year 1996 Attributable Costs to Group IB Post Office Boxes

GROUP IB	Box Size					
Space Support	**1**	**2**	**3**	**4**	**5**	**All**
Custodial Personnel	308.79	107.33	78.45	24.56	53.09	572.22
Contract Cleaners	14.19	4.93	3.61	1.13	2.44	26.30
Fuel & Utilities	113.75	39.54	28.90	9.05	19.56	210.79
Custodial	275.72	95.84	70.05	21.93	47.40	510.95
Postal Inspection	21.01	7.30	5.34	1.67	3.61	38.93
Total	733.46	254.95	186.35	58.34	126.10	1,359.20
Per Box	11.53	17.30	34.60	69.21	138.42	15.90
Space Provision						
Rents	585.27	203.44	148.70	46.56	100.62	1,084.59
Interest	181.55	63.11	46.13	14.44	31.21	336.43
Building Depr.	526.63	183.06	133.80	41.89	90.54	975.92
Total	1,293.46	449.61	328.62	102.89	222.38	2,396.95
Per Box	20.34	30.51	61.03	122.05	244.10	28.05
All Other						
Postmasters	12.58	2.92	1.07	0.17	0.11	16.91
Supervisors	35.51	8.23	3.01	0.47	0.32	47.72
Clerks & Mailhandlers	315.64	73.14	26.73	4.18	2.83	424.22
City Delivery Carriers	0.66	0.15	0.06	0.01	0.01	0.89
Repriced Annual	0.96	0.22	0.08	0.01	0.01	1.29
Holiday Leave	0.05	0.01	0.00	0.00	0.00	0.07
CSRS	24.43	5.66	2.07	0.32	0.22	32.83
Workers' Comp	14.00	3.25	1.19	0.19	0.13	18.82
Retiree Health	11.03	2.56	0.93	0.15	0.10	14.83
Annuitant Cola	11.14	2.58	0.94	0.15	0.10	14.97
Unemployment Comp	1.85	0.43	0.16	0.02	0.02	2.49
Total	427.86	99.15	36.23	5.67	3.83	575.05
Per Box	6.73	6.73	6.73	6.73	6.73	6.73
TOTAL ATTRIB. COSTS	2,454.77	803.70	551.20	166.90	352.31	4,331.19
Per Box	**$ 38.61**	**$ 54.54**	**$ 102.36**	**$ 197.99**	**$ 389.25**	**$ 50.68**

Calculation of Unit Costs

Space Support
Space support attributable costs (Table 1) * % Standardized (Table 2, column (d))

Space Provision
"C" Factor (Table 2, column (h)) * [Rent * Standardized] (Table 2, column (g))

All Other
All Other attributable costs per box (Table 1) * Number of Boxes

Table 5

Allocation of Fiscal Year 1996 Attributable Costs to Group IC Post Office Boxes

GROUP IC	Box Size					
Space Support	**1**	**2**	**3**	**4**	**5**	**All**
Custodial Personnel	22,138.87	14,048.63	9,349.80	4,018.52	1,700.63	51,256.45
Contract Cleaners	1,017.34	645.58	429.65	184.66	78.15	2,355.38
Fuel & Utilities	8,155.35	5,175.13	3,444.21	1,480.31	626.46	18,881.46
Custodial	19,768.27	12,544.32	8,348.63	3,588.23	1,518.52	45,767.97
Postal Inspection	1,506.26	955.83	636.13	273.41	115.71	3,487.34
Total	52,586.09	33,369.49	22,208.42	9,545.13	4,039.47	121,748.60
Per Box	11.53	17.30	34.60	69.21	138.42	16.69
Space Provision						**All**
Rents	20,020.53	12,704.40	8,455.17	3,634.01	1,537.90	46,352.01
Interest	6,210.26	3,940.84	2,622.75	1,127.25	477.05	14,378.15
Building Depr.	18,014.60	11,431.50	7,608.02	3,269.91	1,383.81	41,707.84
Total	44,245.39	28,076.74	18,685.94	8,031.18	3,398.77	102,438.01
Per Box	9.71	14.56	29.12	58.23	116.46	14.04
All Other						**All**
Postmasters	902.09	381.63	126.99	27.29	2.62	1,443.78
Supervisors	2,545.64	1,076.92	358.36	77.01	7.41	4,074.24
Clerks & Mailhandlers	22,629.99	9,573.52	3,185.74	684.61	65.85	36,218.72
City Delivery Carriers	47.65	20.16	6.71	1.44	0.14	76.27
Repriced Annual	68.93	29.16	9.70	2.09	0.20	110.32
Holiday Leave	3.90	1.65	0.55	0.12	0.01	6.24
CSRS	1,751.44	740.94	246.56	52.99	5.10	2,803.14
Workers' Comp	1,003.99	424.73	141.34	30.37	2.92	1,606.86
Retiree Health	790.91	334.59	111.34	23.93	2.30	1,265.83
Annuitant Cola	798.70	337.89	112.44	24.16	2.32	1,278.30
Unemployment Comp	132.77	56.17	18.69	4.02	0.39	212.49
Total	30,676.01	12,977.36	4,318.42	928.02	89.26	49,096.18
Per Box	6.73	6.73	6.73	6.73	6.73	6.73
TOTAL ATTRIB. COSTS	127,507.49	74,423.59	45,212.78	18,504.33	7,527.49	273,282.79
Per Box	**$ 27.97**	**$ 38.59**	**$ 70.45**	**$ 134.17**	**$ 261.61**	**$ 37.45**

Calculation of Unit Costs

Space Support
Space support attributable costs (Table 1) * % Standardized (Table 2, column (d))

Space Provision
"C" Factor (Table 2, column (h)) * [Rent * Standardized] (Table 2, column (g))

All Other
All Other attributable costs per box (Table 1) * Number of Boxes

Table 6

Allocation of Fiscal Year 1996 Attributable Costs to Group II Post Office Boxes

GROUP II	Box Size					
Space Support	**1**	**2**	**3**	**4**	**5**	**All**
Custodial Personnel	24,967.11	15,042.40	7,790.75	1,299.06	289.74	49,389.06
Contract Cleaners	1,147.31	691.24	358.01	59.70	13.31	2,269.57
Fuel & Utilities	9,197.19	5,541.20	2,869.90	478.54	106.73	18,193.56
Custodial	22,293.66	13,431.68	6,956.53	1,159.95	258.72	44,100.54
Postal Inspection	1,698.69	1,023.44	530.06	88.38	19.71	3,360.29
Total	59,303.97	35,729.96	18,505.24	3,085.63	688.22	117,313.01
Per Box	11.53	17.30	34.60	69.21	138.42	15.06
Space Provision						
Rents	17,574.34	10,588.34	5,483.91	914.41	203.95	34,764.95
Interest	5,451.47	3,284.45	1,701.08	283.64	63.26	10,783.90
Building Depr.	15,813.51	9,527.46	4,934.46	822.79	183.51	31,281.73
Total	38,839.32	23,400.25	12,119.44	2,020.84	450.73	76,830.57
Per Box	7.55	11.33	22.66	45.33	90.65	9.86
All Other						
Postmasters	1,017.34	408.62	105.82	8.82	0.35	1,541.58
Supervisors	2,870.85	1,153.10	298.61	24.90	0.99	4,350.23
Clerks & Mailhandlers	25,520.97	10,250.73	2,654.53	221.31	8.81	38,672.22
City Delivery Carriers	53.74	21.59	5.59	0.47	0.02	81.43
Repriced Annual	77.74	31.22	8.09	0.67	0.03	117.80
Holiday Leave	4.39	1.76	0.46	0.04	0.00	6.66
CSRS	1,975.19	793.35	205.45	17.13	0.68	2,993.03
Workers' Comp	1,132.25	454.78	117.77	9.82	0.39	1,715.71
Retiree Health	891.94	358.26	92.77	7.73	0.31	1,351.57
Annuitant Cola	900.73	361.79	93.69	7.81	0.31	1,364.89
Unemployment Comp	149.73	60.14	15.57	1.30	0.05	226.88
Total	34,594.87	13,895.34	3,598.33	300.00	11.95	52,422.01
Per Box	6.73	6.73	6.73	6.73	6.73	6.73
TOTAL ATTRIB. COSTS	132,738.16	73,025.55	34,223.02	5,406.46	1,150.89	246,565.59
Per Box	**$ 25.82**	**$ 35.36**	**$ 64.00**	**$ 121.26**	**$ 235.80**	**$ 31.65**

Calculation of Unit Costs

Space Support
Space support attributable costs (Table 1) * % Standardized (Table 2, column (d))

Space Provision
"C" Factor (Table 2, column (h)) * [Rent * Standardized] (Table 2, column (g))

All Other
All Other attributable costs per box (Table 1) * Number of Boxes

Table 7

Comparison of Allocated Attributable Cost for FY 1996 and Current Fee

Group	Box Size	1996 BR Unit Cost	Current Fee	Implicit 1996 BR Coverage
A	1	42.96	48.00	112%
	2	61.08	74.00	121%
	3	115.42	128.00	111%
	4	224.11	210.00	94%
	5	441.50	348.00	79%
	All Sizes	47.28	52.85	112%
B	1	38.61	44.00	114%
	2	54.54	66.00	121%
	3	102.36	112.00	109%
	4	197.99	190.00	96%
	5	389.25	310.00	80%
	All Sizes	50.68	56.35	111%
C	1	27.97	40.00	143%
	2	38.59	58.00	150%
	3	70.45	104.00	148%
	4	134.17	172.00	128%
	5	261.61	288.00	110%
	All Sizes	37.45	53.87	144%
D	1	25.82	8.00	31%
	2	35.36	13.00	37%
	3	64.00	24.00	38%
	4	121.26	35.00	29%
	5	235.80	55.00	23%
	All Sizes	31.65	10.61	34%