DOCKET SECTION

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

POSTAL RATE AND FEE CHANGES, 2000

Docket No. R2000-1

DIRECT TESTIMONY
OF
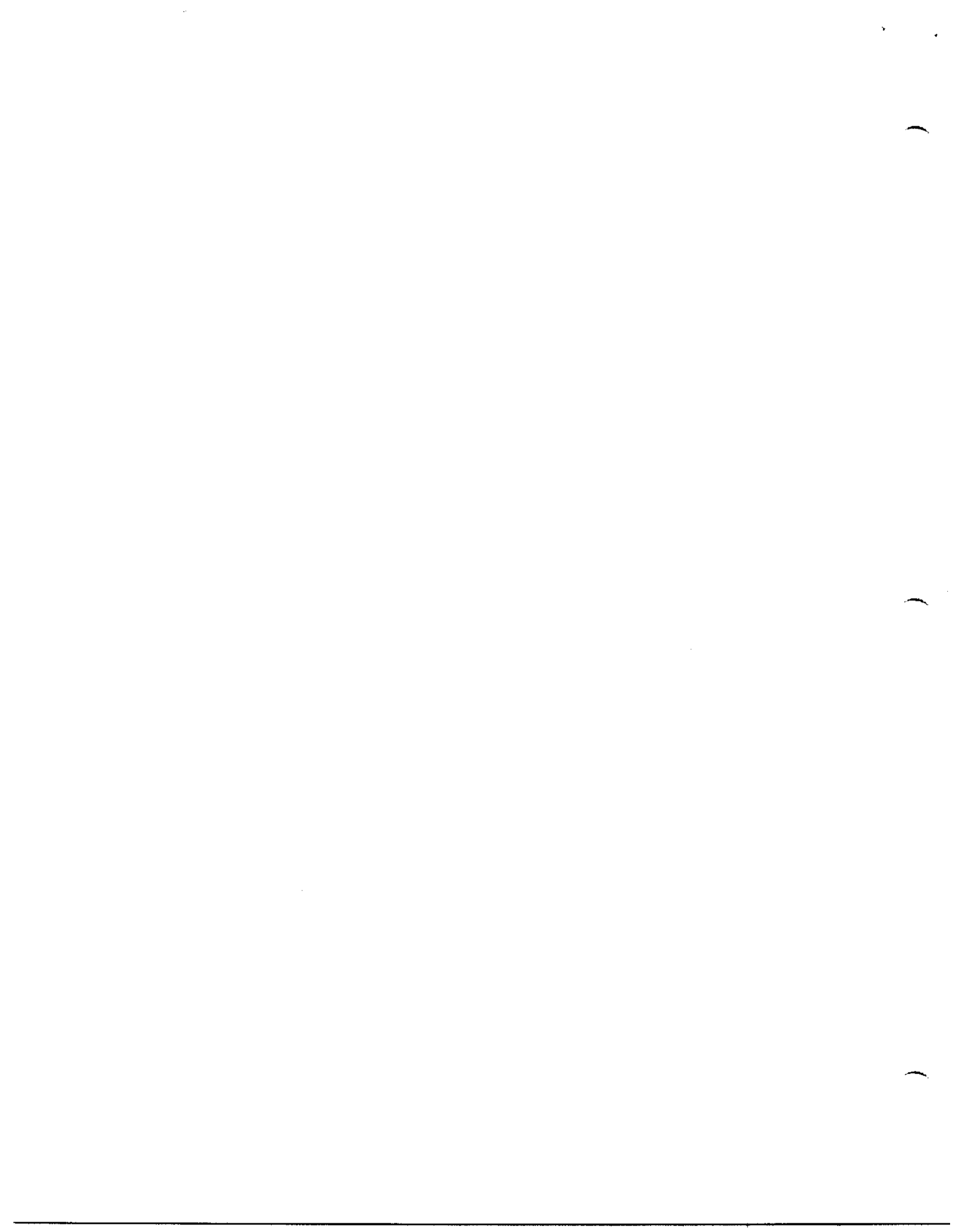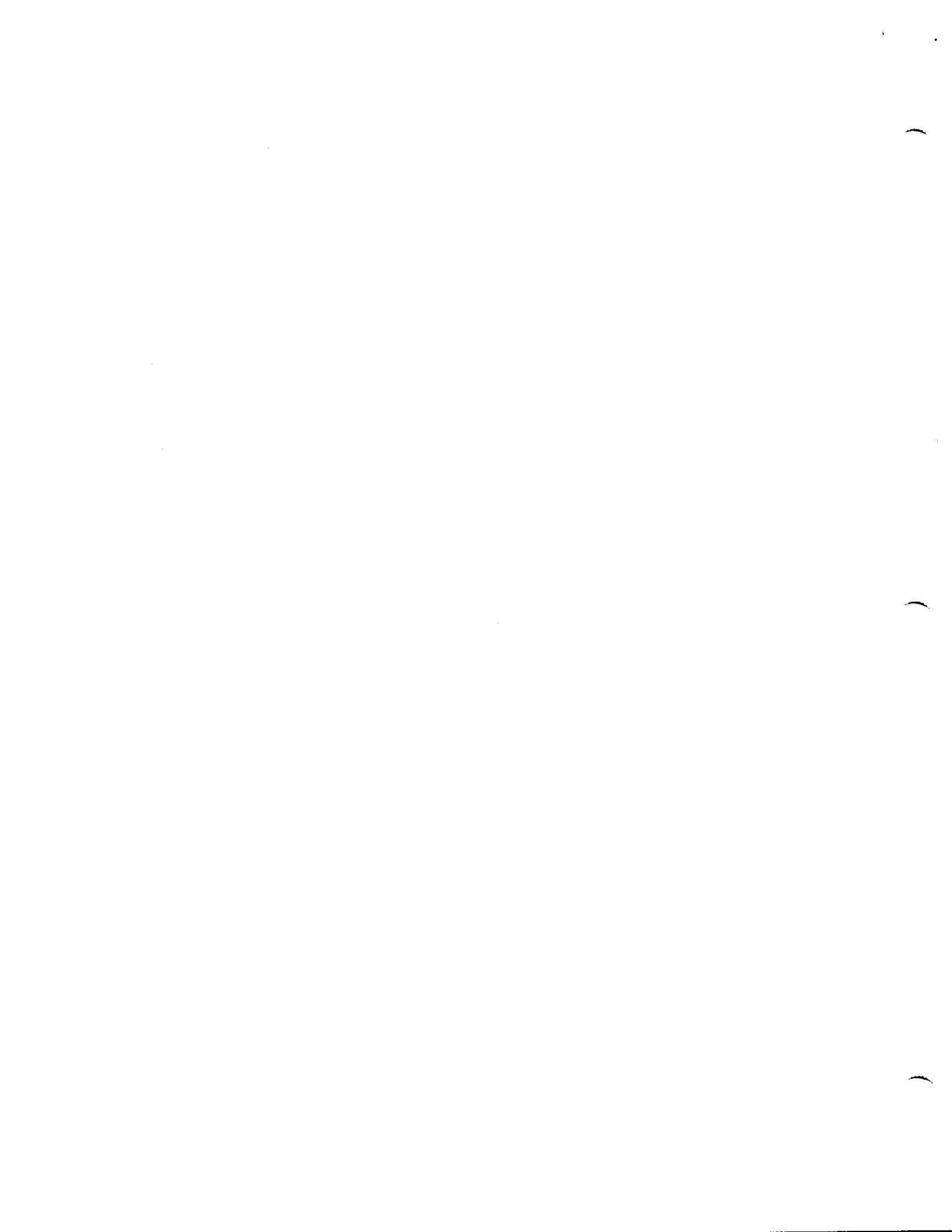JOSEPH D. MOELLER
ON BEHALF OF
UNITED STATES POSTAL SERVICE

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1   Autobiographical Sketch

2   My name is Joseph D. Moeller. I am an Economist in Pricing and Product

3 Design at Postal Service Headquarters. My responsibilities include rate design for

4 Standard Mail (A). Prior to my assignment in Pricing, I was a Marketing Specialist for

5 Advertising Mail in Product Management. I joined the Postal Service in 1987 as a Staff

6 Economist in the Rate Studies Division of the Office of Rates.

7   I have testified on behalf of the Postal Service in several Postal Rate

8 Commission proceedings. In Docket No. R90-1, I presented direct testimony regarding

9 second- and third-class presort-related and shape-related cost differentials. I also

10 presented rebuttal testimony in that proceeding regarding the third-class minimum-per-

11 piece rate structure. In Docket No. MC93-1, I presented cost estimates and proposed

12 rates for the Bulk Small Parcel Service. I offered testimony in support of the Postal

13 Service's proposals for Standard Mail (A) in Docket No. MC95-1, and in Docket No.

14 MC96-2, Nonprofit Classification Reform. In Docket No. R97-1, I presented the rate

15 design for Standard Mail (A).

16   My previous experience includes work as an Industrial Engineer for the Batesville

17 Casket Company of Hillenbrand Industries. My responsibilities included time study

18 analysis of indirect labor.

19   I received a Master of Science Degree in Management in 1986 and a Bachelor

20 of Science Degree in Industrial Management in 1983 from Purdue University.
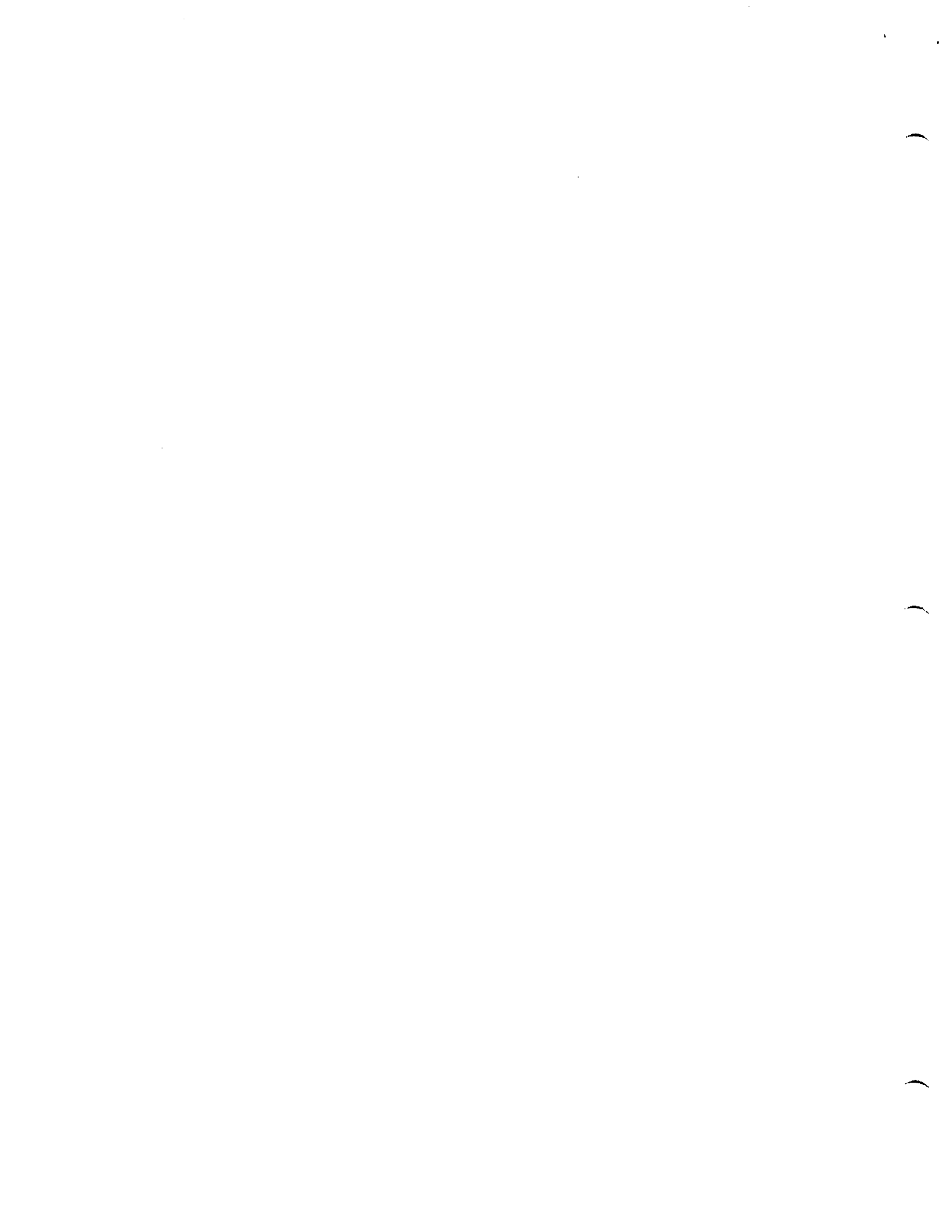
1   I.   PURPOSE OF TESTIMONY

2   The purpose of my testimony is to present the proposed classification change

3   and rates for Standard Mail (A). Rates for the commercial subclasses, Regular and

4   Enhanced Carrier Route, are developed using cost data from various cost witnesses

5   and the rate level requirements developed by witness Mayes (USPS-T-32). Rates for

6   the preferred subclasses, Nonprofit and Nonprofit Enhanced Carrier Route, are also

7   developed from cost data provided by cost witnesses, and the Revenue Forgone

8   Reform Act (RFRA).

9   I begin with an overview of the proposals, and then address each subclass

10 individually.

11

12 II.   PROPOSAL OVERVIEW

13

14   A.   Classification Change - Parcel Barcode Discount

15   The Postal Service proposes a new automation-related discount, a parcel

16 barcode discount, for Standard Mail (A) pieces that are subject to the Residual Shape

17 Surcharge. The Residual Shape Surcharge, which was introduced in

18 Docket No. R97-1, recognized for the first time the higher cost characteristics of parcel-

19 shaped nonletters. Also in Docket No. R97-1, a barcode discount was proposed and

20 recommended for Standard Mail (B) subclasses. A similar discount was not proposed

21 for Standard Mail (A) in part because the Postal Service had not yet established

22 separate rate treatment for Standard Mail (A) parcels. Now that the surcharge has

23 been established, and there is an expectation that a mailer-applied barcode is of value

1   in the processing of the pieces,[1] the Postal Service proposes a discount similar to that

2   available to Standard Mail (B). The discount would be available to Regular and

3   Nonprofit subclass machinable parcels.

4   Creation of the discount for Standard Mail (A) parcels is consistent with the

5   classification criteria of the Postal Reorganization Act. It would enhance fairness and

6   equity in that it would extend to mailers of Standard Mail (A) parcels pricing incentives

7   that are currently offered to similarly processed Standard Mail (B) parcels. Postal

8   Service processing and efficiency would benefit to the extent that additional parcels

9   become barcoded. Also, now that there is a separate rate distinction for parcels,

10   administration of an additional rate element applying to those pieces would not be

11   particularly complex.

12   The Postal Service is also proposing classification changes for several Special

13   Services that would make them available to certain segments of Standard Mail (A).[2]

14   B.   Average Rate Changes

15   The following table displays the percentage change in revenue per piece for the

16   four subclasses in Standard Mail (A):

17
18

Subclass	Percent Change[3]
Regular	9.4
Enhanced Carrier Route	4.9
Nonprofit	5.6
Nonprofit Enhanced Carrier Route	14.8

19

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[1] USPS-T-10 at Section C.1.a.
[2] See USPS-T-39.
[3] WP 1, pages 27, 28. WP 2, pages 27, 28.

1

2   III.   STANDARD MAIL (A) REGULAR SUBCLASS

3

4   A.   Characteristics

5   In Docket No. MC95-1, the Commission recommended, and the Governors

6   approved, a series of changes to First-Class, Periodicals, and Standard Mail schedules.

7   Implemented on July 1, 1996, the changes split the former third-class bulk regular rate

8   subclass into two new subclasses: Regular and Enhanced Carrier Route (ECR). The

9   two new subclasses consist primarily of advertising mail; however, the ECR subclass is

10   geared toward more geographically-dense advertising, whereas Regular caters to

11   advertising that is targeted to recipients based on factors other than, or in addition to,

12   geographic location. Examples of Regular subclass users include mail-order firms

13   targeting specific markets, such as professional uniform buyers or coin collectors.

14   Detailed revenue, volume and rate histories are available in Library References

15   USPS-LR-I-117 and 118.

16   B.   Recent History of Rate Design

17   In Docket No. R90-1, the Postal Service proposed, and the Commission

18   adopted, a rate design methodology for bulk third-class mail which uses an equation to

19   calculate rates.[4] Prior to Docket No. R97-1, the inputs required for the equation

20   included: the selection of a benchmark category from which discounts will be applied,

21   selection of a break point,[5] a target cost coverage for the subclass, and a piece rate for

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[4] PRC Op., MC95-1, para. 5639.
[5] The breakpoint is the maximum weight for a piece subject to the minimum-per-piece rate. Pieces above this weight are subject to the piece/pound rates.

1   pound-rated mail. This last input, the piece rate for pound rated mail, was theoretically

2   set at the rate which, if it were to take advantage of all applicable discounts, would

3   equal zero.[6] In Docket No. R97-1, the Postal Service proposed a slight modification to

4   the formula so that the pound rate would be an input to the equation, rather than the

5   solution. Alternatively, the piece rate for pound-rated mail would be an output rather

6   than an input. The Commission adopted the modification, noting that the change is a

7   "distinction without a difference."[7] Other variables which feed into the equation are the

8   passthroughs for the various discounts. Another output of the formula, before and after

9   the modification, is the basic undiscounted piece rate for nonletters.[8]

10   C.   Proposed Rate Design

11   1.   Rate Design Formula and Process

12   The proposed rate design uses the Commission's methodology and rate design

13   formula as modified in Docket No. R97-1. The following sections will describe how the

14   various rate elements were determined. Although the text may imply that each decision

15   is made independently, in fact the decisions are interdependent, and are reached after

16   an iterative process that is employed until the rate design objectives are met. For

17   example, in consideration of the effect on users (criterion 4), the rate design employs

18   an upper bound on the amount by which an individual rate cell is proposed to increase.

19   To limit the increase on an individual rate category, it may be necessary to adjust

20   several passthroughs. Also, rate relationships, such as the one between 5-digit

21   automation and Enhanced Carrier Route Basic, must be examined, and passthroughs

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[6] PRC Op., MC95-1, para. 5643.
[7] PRC Op., R97-1, para. 5376.
[8] WP 1, page 17, line 20.

1 adjusted in order to maintain the desired relationship. In general, the rate design

2 process begins with the passthroughs underlying the current rates, with modifications

3 made to meet the rate design objectives.

4   2.   Shape Recognition

5   a.   Letter/Nonletter Differential

6 The proposed rates for the Regular subclass continue the rate differential based

7 on shape, which was first introduced in 1991. The differentials incorporated in the

8 current rates reflect 50 percent of the cost difference between letters and flats at the

9 Basic presort tier, and 40 percent of the difference at the 3/5-digit presort tier. In this

10 proceeding, the Postal Service proposes an increase in the shape-based passthroughs

11 to 77 percent for the Basic tier, and 64 percent for the 3/5-digit tier. The Docket No.

12 R97-1 passthroughs are not directly comparable to the passthroughs selected in this

13 proceeding since there are differences in methodology for calculating the underlying

14 costs and measuring the cost difference between letters and flats.[9] Instead of selecting

15 a passthrough solely based on desired percentage recognition of shape differentials,

16 the proposed passthroughs maintain today's per-piece rate differential. Although

17 raising these passthroughs even further may have some logical appeal, the Postal

18 Service's desire to moderate rate increases for individual categories weighs against the

19 expansion of the per-piece differential at this time. If the passthrough were greater, the

20 percentage increase for the category receiving the highest increase in the proposed

21 rates, i.e., minimum-per-piece 3/5-digit presorted automation flats, would likely be even

[9] The cost difference is calculated using costs from witnesses Miller (USPS-T-24) and Yacobucci (USPS-T-25) for comparable categories of Presort category letters and flats.

1 higher.[10] Also, even though the passthroughs were selected to maintain the existing

2 per-piece differentials, they are reasonable in that they recognize a significant portion of

3 the cost differential, and reflect previously expressed intentions to increase the

4 percentage passthroughs.[11]

5   b.   Residual Shape Surcharge

6   The Residual Shape Surcharge was proposed and recommended in Docket

7 No. R97-1 in order to further reflect cost differences due to shape in the rates for

8 Standard Mail (A). The proposed rate design for Standard Mail (A) retains the residual

9 shape surcharge. The residual shape surcharge applies to Standard Mail (A) pieces

10 that are not letter- or flat-shaped, or are prepared as parcels.

11   Witness Crum's testimony (USPS-T-27) conclusively demonstrates that there

12 continues to be a measurable difference between the costs for flat-shaped pieces and

13 the costs for the remaining pieces in the non-letter categories of Regular and Enhanced

14 Carrier Route Mail. Currently, the surcharge recognizing this cost difference is 10

15 cents. The Postal Service proposes an increase in the surcharge to 18 cents per piece

16 for Standard Mail (A) Regular that is neither letter- nor flat-shaped, or is prepared as a

17 parcel. This increase in the surcharge furthers the goal of greater recognition of the

18 cost difference. Also, the 10-cent surcharge was proposed in the absence of a parcel

19 barcode discount. Now, mailers can partially offset the proposed 8 cent increase by

20 tendering parcels that meet automation eligibility requirements.[12]

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[10] Minimum-per-piece 3/5-digit presort automation flats is the category which has the highest proposed increase at 13.8 percent. Pieces subject to the residual piece surcharge, in either commercial subclass, may receive a greater increase in effective postage paid.

[11] Docket No. R97-1, USPS-T-36 at 10.

[12] In Docket No. R97-1, the Postal Service may have proposed a surcharge greater than 10 cents had a parcel barcode also been proposed. Docket No. R97-1, USPS Reply Brief at V-97. Alternatively, if the

1   Using the passthrough methodology employed by the Commission in its Docket

2   No. R97-1 Decision,[13] the 18 cent surcharge equates to a 27.5 percent passthrough.[14]

3   This passthrough is similar to the Commission passthrough of 24 percent; however,

4   since it is applied to a higher cost base, the surcharge is increased. Ideally, a greater

5   passthrough would be proposed; however, in order to moderate the impact of mailers,

6   an even greater per-piece increase in the surcharge is not proposed at this time.

7   Although the Commission noted in its Docket No. R97-1 Opinion that is was

8   using a traditional passthrough approach in recommending the level of the discount, it

9   stated that if revenue/cost relationship within shape were to be considered, the 10 cent

10   surcharge would still result in a 7.8 cent revenue shortfall.[15] The Postal Service

11   continues to advocate the Commission passthrough approach[16] for determining the

12   appropriate level of the surcharge; however, if the revenue/cost relationship were to be

13   considered using the costs as presented in this proposal, one would find that the

14   proposed surcharge still results in a revenue shortfall.[17] Also, that comparison does not

15   consider the offsetting effects of the lower pound rate and the availability of the parcel

16   barcode discount in the Regular subclass.[18] Even if the proposed surcharge resulted in

17   an implicit cost coverage on the surcharged pieces that slightly exceeded 100 percent,

18   the Postal Service does not think it undesirable for Standard Mail (A) parcels to make

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(continued...)
parcel barcode discount were not being proposed in this proceeding, the Postal Service may have
proposed a lower surcharge. Since most parcels are machineable, and since many already are barcoded,
the net surcharge for many parcels will be 15 cents, or an increase of 5 cents from the current surcharge.
[13] PRC Op., R97-1, para. 5485-86.
[14] 18/65.5 = 27.48%. Cost figure from USPS-T-27, page 11.
[15] PRC Op., R97-1, para. 5487.
[16] PRC Op., R97-1, para. 5487.
[17] USPS-T-27, Attachment F, Table 6.
[18] This would result in lower revenue, and only marginal reduction in costs since many parcels may be
barcoded currently, and the savings, therefore, already incorporated in the costs.

1   some contribution to institutional costs, especially in light of the fact that special

2   services such as Delivery Confirmation are being extended to pieces paying the

3   Residual Shape Surcharge, but not to other, less contribution-challenged pieces.

4   3.   Pound Rate

5   The Postal Service proposes a modest reduction, from 67.7 cents to 66.1 cents,

6   in the pound rate for the Regular subclass. The Postal Service has previously

7   demonstrated that the changing shape mix between flats and parcels as weight

8   increases supports a higher pound rate than would be necessary if there were no shape

9   mix change.[19] In other words, if parcels are more prevalent at the higher weight

10   increments, the pound rate results in a higher revenue-per-piece for parcels than for

11   flats. In this filing, however, the shape surcharge implemented in Docket No. R97-1 is

12   not only an established component of the Standard Mail (A) rate structure, but in fact is

13   proposed to increase on pieces that are neither letter nor flat shaped. As such, the

14   increased surcharge further reduces the need for the pound rate to act as a proxy for

15   the changing shape mix as weight increases. Even though the surcharge was

16   established in Docket No. R97-1, the pound rate was not reduced in that proceeding to

17   account for the diminished need for a shape proxy. In this proposal, the surcharge is

18   proposed to increase to an even more significant level, making a reduction even more

19   compelling here.

20   As discussed in section IV.C.2, witness Daniel (USPS-T-28) provides a new cost

21   study examining the effect of weight on costs. While the proposed rate is not derived

22   quantitatively from the study, the proposed pound rate is not inconsistent with the study.

1   Even if the study were to indicate that a greater reduction in the pound rate is justified,

2   such a reduction would result in an increase in the piece rates beyond that proposed,

3   and would be outweighed by the competing objective of tempering the percentage

4   increase for individual categories.

5   The proposed breakpoint weight that is incorporated into the rate design formula

6   is 3.3 ounces. This breakpoint is very near the current breakpoint of 3.3087 ounces. In

7   this proposal, the Postal Service is departing from past practice by anticipating that a

8   rounded breakpoint weight of 3.3 ounces will be used when the rates are implemented.

9   The current practice is to calculate a breakpoint weight to the ten-thousandths place in

10   order to create a perfectly smooth transition from the minimum-per-piece rates to

11   pound-rated rates. Prior to 1991, there was only one pound rate for all pound-rated

12   pieces. Since the advent of destination entry discounts, however, there are as many as

13   four pound rates in a given subclass, and 14 different pound rates in all of Standard

14   Mail (A). Traditionally, the non-destination entry pound rate is used to calculate the

15   precise breakpoint that allows for a perfectly smooth transition for each subclass. Yet

16   that breakpoint is used for the entire subclass, notwithstanding that the breakpoint does

17   not provide for a smooth transition for the destination entry pound rates.[20] So, we are

18   not sacrificing much precision, if any, by merely using the selected breakpoint of 3.3

19   ounces as the prescribed breakpoint; its precision has long been confined exclusively to

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(continued...)
[19] Docket No. R84-1, USPS-RT-8 at 21. Docket No. MC95-1, USPS-T-18 at 12. Docket No. R97-1, USPS-T-36 at 15.
[20] For illustration, WP1, page 36 displays the four breakpoints for the four subclasses (Regular, ECR, Nonprofit, and NECR) currently in effect. It also shows the other 10 "breakpoints" that would provide for the smooth transition from minimum-per-piece rates to piece-pound rates for destination-entered mail.

1   non-destination entry categories.[21] Also, the Postal Service generally chooses the

2   highest of the four breakpoint weights to use for the maximum weight of automation

3   letters in other classes of mail. By using 3.3 ounces for all breakpoints, changes in the

4   weight limit that occur with every rate change can be avoided. This measure also

5   promotes simplicity by eliminating the expression of the breakpoint with a cumbersome

6   figure that is carried to the ten-thousandths of an ounce decimal place.[22]

7   4.   Presort Tiers

8   Presorting continues to result in reduced costs for the Postal Service and

9   warrants recognition in the rate schedule. The rate design methodology includes the

10   "presort tree" first described in Postal Service witness Mitchell's Docket No. R90-1

11   testimony.[23] In the Regular subclass, selection of the shape passthrough at each

12   presort tier and a presort passthrough for letters dictates the effective passthrough for

13   nonletters. The shape passthroughs were selected as described above in section

14   III.C.2.a. Therefore, selection of the letter presort passthrough completes the presort

15   tree.

16   Selection of a letter presort passthrough can affect not only the rate for 3/5-digit

17   presort, but also 3- and 5-digit automation letters, 3/5-digit presort nonletters, and 3/5-

18   digit automation flats.[24] The passthrough, therefore, is very sensitive in that it plays a

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[21] Less than half of Standard Mail (A) is non-destination entry.

[22] The Postal Service is separately considering an increase in the weight limit for automation letters. See Section III.C.5.b.

[23] Docket No. R90-1, USPS-T-20 at 108-09.

[24] A change in the rate for 3/5-digit presort letters changes the rate for all of these other categories because their rates are directly connected to that 3/5-digit presort letter rate in the rate design. See WP1, page 35 for a graphic depiction of the "presort tree" and the importance of the letter presort passthrough.

1 significant role in determining a majority of the rates in the subclass. Witness Miller

2 (USPS-T-24) provides a measurement of cost avoidance due to presort, and the

3 proposed rates recognize 95 percent of that cost savings. Although 100 percent is the

4 current passthrough, selection of 100 percent may result in outcomes for other rate

5 cells that defeat rate design objectives. Selection of 95 percent for the letter presort

6 passthrough, in conjunction with the selected passthroughs, results in a nonletter

7 presort passthrough of 94 percent. Both of the presort passthroughs, 94 and 95

8 percent for nonletters and letters respectively, recognize a significant portion of the

9 savings due to presort and help foster the objectives of the rate design.

10   5.   Automation

11   a.   Letters

12   Witness Miller (USPS-T-24) provides estimates of cost avoidances due to mailer

13 preparation of automation letters. While 100 percent is the passthrough underlying the

14 current discounts, it may be necessary to deviate from it in order to avoid substantial

15 reduction in the discounts, or to meet particular rate relationship objectives. Since

16 discounts encourage mailers to make investments in order to qualify for them, extensive

17 reductions in these incentives should be carefully evaluated. The letter automation

18 discounts became smaller as a result of Docket No. R97-1, and would be further

19 reduced if a simple 100 percent passthrough were applied to the newly measured cost

20 figures. For the Basic tier, a passthrough of 110 percent is selected to maintain 80

21 percent of the existing discount. At the 3-digit tier, a passthrough of 106 percent is

22 selected. This leads to a discount that is a modest 1/10th of a cent greater than the

23 calculated savings, but helps achieve the desired 5-digit automation rate relationship

1   with ECR Basic.[25] It also helps moderate the percentage increase for the category,

2   which at 9.7 percent is above the average for the subclass, and the highest increase for

3   automation letters. The passthrough at the 5-digit automation tier is 160 percent. This

4   passthrough is principally based on achieving the desired rate relationship with ECR

5   Basic letters. As a result of Docket No. R97-1, the rate for 5-digit automation letters is

6   lower than the ECR Basic rate. This has led to significant, beneficial changes in mail

7   preparation. Prior to the establishment of the rate relationship, mailers had the

8   incentive to prepare 10-piece (or greater) packages of carrier route presorted mail.

9   Now, many mailers with the density for ECR Basic instead choose 5-digit automation

10   letters. From a mail processing perspective, this preparation is advantageous, and the

11   Postal Service desires to maintain this rate relationship.[26]

12   b.   Automation Weight Limit

13   Currently, the maximum weight for automation letters is approximately 3.3

14   ounces, which is consistent with the maximum weight for piece rated nonletters, also

15   known as the breakpoint weight. Although the Postal Service does not intend to

16   change the breakpoint weight for nonletters, the rate design is predicated on the

17   assumption that there will be no effect on costs or revenues if the Postal Service

18   increases the maximum weight for Standard Mail (A) automation letters to 3.5 ounces in

19   conjunction with the implementation of Docket No. R2000-1 rates. Given that the

20   weight increase is relatively small, it is believed that the effect on costs and revenues

21   would be *de minimis*. As a consequence, no separate rate is proposed for automation

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[25] The 5-digit automation rate is a reduction off of the 3-digit automation rate. Therefore, a lower 3-digit rate results in a lower 5-digit rate.
[26] USPS-T-10, section II.A.4.

1 letters in the 3.3 to 3.5 ounce weight range; however, once these heavier weight pieces

2 are introduced into the mail processing environment, with the benefit of actual

3 experience, the Postal Service intends to revisit this assumption and determine if there

4 is a more appropriate treatment.   Corresponding changes to the maximum weight of

5 non-automation letters are not contemplated.

6   c.   Flats

7   As described by witness Kingsley (USPS-T-10 at 10-17), the processing

8 environment for flats continues to evolve with a movement toward greater use of

9 mechanization and automation. This changing environment, coupled with differences in

10 mail characteristics between automation and non-automation flats, makes more difficult

11 the estimation of the savings associated with mailer-applied barcodes. Witness

12 Yacobucci (USPS-T-25) presents studies that isolate the incremental benefit of a

13 mailer-applied barcode. The studies find that there is very little benefit to the barcode

14 alone, and illustrate that flat-shaped mail preparation and rate application may need to

15 be reviewed as the flat processing environment evolves. New processing techniques

16 may call for different mail preparation and changes in exactly what preparation is to be

17 encouraged with price signals. In this proceeding, the Postal Service is not proposing a

18 significant change in the rate relationships between automation and non-automation

19 flats. Witness Yacobucci's testimony clearly indicates that the automation discounts

20 are too large, so a reduction is warranted. However, in order to mitigate the impact,

21 and to limit the percentage changes for individual rate cells, the discounts are

22 maintained at nearly 75 percent of their current value.[27] Another reason to maintain the

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[27] The 3/5-digit automation discount is actually 73 percent of its current value.

1   automation discounts is the expectation that many future mail processing developments

2   will involve more extensive automated sortation of flats and will be enhanced by the

3   presence of a mailer-applied barcode.[28]

4   d.   Parcels

5   The parcel barcode discount of 3 cents is proposed to apply to machinable

6   parcels that meet the physical requirements for the discount. Although some

7   machinable parcels are required to be prepared to 5-digit and will therefore not

8   generally benefit from the barcode,[29] the discount will be available since a rate anomaly

9   would occur otherwise. Currently, BMC-prepared machinable parcels receive the same

10   rate as 5-digit presorted machinable parcels, that is, the 3/5-digit nonletter rate.

11   Therefore, if only BMC-prepared parcels received the discount, they would have a lower

12   effective rate than 5-digit presorted parcels, even though the latter entirely avoid the

13   sortation in which the barcode is used.

14   6.   Destination Entry

15   Destination entry discounts for Standard Mail (A) were first offered in 1991. The

16   studies presented by witness Crum (USPS-T-27) provide estimates of the savings due

17   to destination entry. The measured savings due to dropship have grown significantly

18   over the past few filings.[30] The Postal Service proposes an increase in the absolute

19   level of the discounts, which is consistent with the increase in measured savings, but

20   proposes a slight reduction in the percentage passthrough. Passthroughs ranging from

21   73 to 78 percent result in discounts higher than the current discounts, and continue to

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[28] USPS-T-10 at 17-18.

[29] They will not benefit since the barcode is used to sort to the 5-digit level. Pieces presorted to 5-digit, therefore, will not generally be processed on the equipment.

1   encourage mailer dropshipment. A greater percentage passthrough would result in a

2   larger increase in the basic rates, which conflicts with the general guideline of

3   tempering individual rate increases.

4   Particular attention was given to maintaining or increasing the incremental

5   discounts (e.g., the difference between DBMC and DSCF) due to concern expressed

6   during Docket No. R97-1.[31] In that proceeding, the absolute level of the proposed

7   discounts increased or stayed the same, but the gap between DBMC and DSCF

8   shrank, leading to concern that current DSCF-entered mail would migrate to DBMC-

9   entry. By selecting passthroughs that are near 75 percent, the gaps can be maintained

10   or increased. The proposed passthroughs are 73 percent for DBMC and 77 percent for

11   DSCF.[32]

12   The Postal Service is not proposing shape-specific destination entry discounts in

13   this proceeding. In Docket No. R97-1, the Postal Service objected to such fragmenting

14   of the discounts primarily due to the added complexity that would be generated. At that

15   time, the Postal Service also objected to a barcode discount for parcels, also, in part,

16   on the grounds of added complexity, but also because the 10-cent surcharge was

17   already being substantially moderated to cushion the impact on parcel mailers, and a

18   barcode discount would have offset the goal of better reflecting the additional costs due

19   to shape. In this proceeding, the Postal Service is proposing a barcode discount, which

20   does add a modicum of complexity to the rate schedule, but this is outweighed by the

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(continued...)
[30] Measured BMC savings, for example, are 78 percent higher in this case than in Docket No. MC95-1.
[31] Docket No. R97-1, Tr. Vol. 6 at 2760-1.
[32] If 75 percent were chosen for both discounts, the gap in the discounts would not be maintained. To the extent the gap is considered the "discount," the "passthrough" underlying the discount is 93 percent for the
(continued...)

1 objective of rewarding mailer barcoding of machinable parcels.[33] The Postal Service

2 does not, however, consider shape-differentiated destination entry discounts to be

3 warranted at this time. Like the barcode discount in Docket No. R97-1, increased

4 destination-entry discounts for parcels would serve to offset the residual shape

5 surcharge – a surcharge that does not fully reflect the cost difference between flats and

6 parcels. Had the Postal Service proposed shape-differentiated discounts, an even

7 greater increase in the surcharge would have to have been proposed. Until more of the

8 cost differential is recognized in the base rates, the Postal Service is not proposing to

9 de-average the destination-entry discounts, especially in light of the substantial

10 increase in rate complexity and the myriad of new rate relationships that would be

11 created.[34] Some might maintain that shape-differentiated discounts would encourage

12 more dropshipping. However, there is no evidence that that is the case. In fact, some

13 surcharged pieces may be dropshipped currently for service reasons, in which case a

14 larger discount would not be serving as a price signal. In any event, for the reasons

15 above, the proposed destination entry discounts apply to all shapes.

(continued...)
DBMC/DSCF piece difference. Applying 100 percent to this gap would round to a 0.5 cent differential, which is the differential implicit in the proposed discounts.

[33] Also, since the surcharge is proposed to increase, the concern regarding the barcode discount simply being a means of moderating the surcharge is removed. In Docket No. R97-1, the Postal Service objected to the barcode discount if it were simply seen as a means to moderate the surcharge since the surcharge had already been moderated by proposing a very low passthrough of the cost differential.

[34] Creation of new discounts would need to be accompanied with a careful consideration of rate relationships so that rate anomalies between shapes would not be created. This is especially true if the de-averaging were extended to letters, and if using the breakpoint weight for establishing the per-piece destination entry discounts were no longer necessary.

1   D.   Summary of Proposed Regular Rates

2   Below is a summary of proposed Regular Rates:

Regular Subclass

Automation Letters	(in $)	Destination-entry: BMC	SCF
Basic	0.200	0.183	0.178
3-digit	0.193	0.176	0.171
5-digit	0.172	0.155	0.150

Flats (pc-rated)

Basic	0.267	0.250	0.245
3/5-digit	0.231	0.214	0.209

Flats (lb-rated)

per piece:			
Basic	0.131		
3/5 digit	0.095		
per pound:			
Basic	0.661	0.578	0.553
3/5 digit	0.661	0.578	0.553

Presort

Letters	(in $)	Destination entry: BMC	SCF
Basic	0.242	0.225	0.220
3/5-digit	0.225	0.208	0.203

Non-letters (pc-rated)

Basic	0.311	0.294	0.289
3/5-digit	0.258	0.241	0.236

Non-letters (lb-rated)

per piece:			
Basic	0.175		
3/5 digit	0.122		
per pound:			
Basic	0.661	0.578	0.553
3/5 digit	0.661	0.578	0.553

3

1

2   IV.   STANDARD MAIL (A) ENHANCED CARRIER ROUTE SUBCLASS

3

4   A.   Characteristics

5   In Docket No. MC95-1, the Postal Service proposed and the Commission

6   recommended the creation of the Enhanced Carrier Route subclass so that the distinct

7   cost and market characteristics of mail within this subclass could be more fully

8   recognized. Enhanced Carrier Route consists primarily of geographically targeted

9   advertisements, although it does include mailings with as few as 10 pieces per carrier

10   route in the Basic tier. The advertisements are generally for widely used products or

11   services. Examples of ECR users include large department stores and other local

12   service establishments. Parcel-shaped pieces are limited to merchandise samples and

13   are less prevalent in the ECR subclass relative to the Regular subclass.

14   Detailed revenue, volume, and rate histories are available in Library References

15   USPS-LR-I-117 and 118.

16   B.   Recent History of Rate Design

17   As described in the Regular subclass section, a rate design formula was used in

18   Docket No. R90-1 to develop rates for bulk third-class mail. In Docket No. MC95-1, the

19   Commission recommended the establishment of two subclasses to replace bulk regular

20   rate, and used two separate formulae to develop the rates for the two subclasses. In

21   that same docket, the Postal Service proposed elimination of separate rates for letters

22   in the new subclass, but the Commission recommended retention of the existing letter

23   rates, introduced a letter rate for the High Density tier, and placed the carrier route

1   automation rate in the Enhanced Carrier Route subclass. In Docket No. R97-1, the

2   Postal Service proposed the elimination of a rate differential for letters in the Basic tier

3   (but without elimination of the letter rate category), and the Commission recommended

4   the change.

5   C.   Proposed Rate Design

6   1.   Rate Design Formula

7   The proposed rate design uses the Commission's methodology and rate design

8   formula from Docket No. MC95-1, with the recommended modifications from Docket

9   No. R97-1.

10   2.   Pound Rate

11   The Postal Service is proposing a pound rate of 58.4 cents for Enhanced Carrier

12   Route. This is a reduction from today's pound rate of 66.3 cents, but is not as large as

13   the reductions proposed by the Postal Service in Docket No. MC95-1 and Docket No.

14   R97-1.[35] In the latter proceeding, the proposed reduction "generated much

15   controversy"[36] and was rejected by the Commission in favor of maintaining the pound

16   rate at its current level.[37] In its Docket No. R97-1 Recommended Decision, the

17   Commission was concerned with the reliability and the sufficiency of cost evidence, as

18   well as the impact upon the alternative delivery industry, in its rejection of the lower

19   pound rate.[38] In this proceeding, the Postal Service is presenting a new cost approach

20   that supports the proposed rate. In addition, it is moderating the extent of the reduction.

---

[35] The proposed pound rates were 51 cents (Docket No. MC95-1, USPS-T-18 at 15) and 53 cents (Docket No. R97-1, USPS-T-36 at 31).
[36] PRC Op., R97-1, para. 5413.
[37] PRC Op., R97-1, para. 5416.
[38] PRC Op., R97-1, para. 5425.

1   These measures address the Commission's prior concerns and should also address

2   the objections raised by private alternatives.

3   Witness Daniel (USPS-T-28) presents a new cost study that addresses several

4   concerns that have been raised regarding previous weight-related cost studies. She

5   uses an improved distribution methodology for mail processing costs, and, unlike the

6   previous weight study, she allocates elemental load costs on the basis of weight. While

7   the new study provides very detailed data regarding the weight-cost relationship, one

8   straight-forward analysis that can be performed with the new cost data is a comparison

9   of implicit cost coverages for piece-rated pieces and pound-rated pieces.[39] Witness

10   Daniel provides unit cost estimates for each grouping. The following table compares

11   the unit cost and unit revenue (through calculation of an implicit cost coverage) for

12   piece-rated versus pound-rated pieces.[40]

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[39] Although cost coverages are of primary importance at the subclass level, and are not required for subcategories of subclasses, in this instance estimates of implicit coverage can be illuminating.
[40] Although it is not possible to break the 16 ounce weight range precisely at 3.3 ounces for the measurement of costs, it is possible to use a 3.0 ounce break, and a 3.5 ounce break. Rather than choose one "dividing line," comparisons are performed on both. Revenues, on the other hand, can be divided at the breakpoint weight.

1

COMPARISON OF COST COVERAGES FOR PIECE-RATED VS. POUND-RATED ECR								
	Before Rates Unit Revenue	Unit Cost	Implicit Coverage		**After Rates** Unit Revenue	Unit Cost	Implicit Coverage	
Using costs with a 3.0 ounce dividing line for costs:								
Piece-rated	0.13312	0.0663	200.8%		0.14295	0.0663	215.6%	
Pound-rated	0.19419	0.0901	215.5%		0.19472	0.0901	216.1%	
Using costs with a 3.5 ounce dividing line for costs:								
Piece-rated	0.13312	0.0676	196.9%		0.14295	0.0676	211.5%	
Pound-rated	0.19419	0.0916	212.0%		0.19472	0.0916	212.6%	

2   Source: USPS-T-35, WP1, page 34, lines 15-16 for revenue. USPS-T-28, Table 3 for
3   costs.
4
5   The before-rates information shows that the implicit coverage for pound-rated

6   pieces exceeds that for piece-rated pieces. While equalizing cost coverage of the two

7   groupings need not be an end in itself for purposes of ratemaking, the information does

8   suggest that a reduction in the pound rate can be made without grossly distorting the

9   relative coverages of the two groupings. The after-rates figures show that the relative

10   cost coverages converge with the proposed pound rate.

11   Aside from the observations that can be made by using data from the new cost

12   study, there are several other indications that the existing pound rate is too high. First,

13   under the current rates, the per-piece rate for pound-rated mail is only $0.003 for

14   pound-rated Saturation nonletters. The rate structure, therefore, provides that the rate

15   for this pound-rated mail nearly doubles as weight doubles. For example, the total

16   revenue from two 4-ounce pieces is 99.1 percent of the revenue from a single 8-ounce

17   piece. In both mailings, the revenue is virtually the same, but it seems illogical that the

18   Postal Service would be that indifferent between processing and delivering two 4-ounce

1   pieces, and one 8-ounce piece. It seems obvious that the single 8-ounce piece is

2   preferable.

3   Second, the high pound rate has previously been supported by acknowledgment

4   of a changing shape mix between flats and parcels as weight increases. To the extent

5   parcels are more costly to handle, and are more prevalent at the higher weight

6   increments, the steep pound rate generates a higher revenue-per-piece from parcels.

7   This rationale is no longer applicable in Enhanced Carrier Route. It was offered as

8   rationale prior to Docket No. MC95-1 when carrier route was a part of the bulk regular

9   rate subclass. At that time, one pound rate for the entire bulk rate regular (BRR)

10 subclass, and parcels were heavier than flats on average for the subclass.[41] Since

11 BRR was split into two subclasses, each subclass can be independently evaluated to

12 determine if the pound rate needs to act as a proxy for shape mix. In Enhanced Carrier

13 Route subclass, the weight-per-piece for flats and parcels is about the same.[42] It is no

14 longer the case that the pound rate is needed to act as a proxy for shape. Although the

15 pound rate for ECR was reduced slightly when the subclass was created, it still bears

16 vestiges of this proxy-playing role.[43]

17   Despite the reduction in the pound rate, the percentage price change for pound-

18 rated pieces is positive. Intuitively, one might suspect that a lower pound rate would

19 result in a price reduction for these pieces; however, the lower pound rate is

20 accompanied by a higher per-piece rate for pound-rated pieces, resulting in a net

---

[41] Docket No. R84-1, USPS-RT-8 at 21.

[42] The weight per piece for parcels is slightly lower. USPS-T-27, Attachment F, Tables 1-2.

[43] In Docket No. MC95-1, the pound rate was reduced by 2.4 cents. However, ECR rates were reduced in general. Also, the pound rate was set at a level that resulted in a zero piece rate for saturation mail, rather than due to an explicit acknowledgement of the reduced role as proxy for shape change.

1   increase in price.[44] Also, at the Basic level, for example, a piece would have to weigh

2   more than 6 ounces to realize a net reduction in price.[45] The percentage of ECR

3   volume that is over 6 ounces is 4.6 percent.[46] The limited impact of the pound rate

4   reduction is indicative of its modest nature.

5   The moderate reduction in the pound rate is designed to allay concerns for those

6   that contend they may be disadvantaged by a significant reduction in the pound rate.

7   Yet the moderate reduction acknowledges the needs of small businesses who rely on

8   the mail, or wish to use the mail, for affordable advertising.

9   The proposed breakpoint weight which is incorporated into the rate design

10   formula is 3.3 ounces. This breakpoint is very near the current breakpoint.

11   3.   Shape Recognition

12   a.   Residual Shape Surcharge

13   As discussed in Section III.C.2.b, the Postal Service is again proposing a

14   surcharge for pieces which are neither letter nor flat shaped, or are prepared as

15   parcels. In the Regular subclass, the proposed surcharge is 18 cents; however, the

16   proposed surcharge for Enhanced Carrier Route is only 15 cents. This ECR surcharge

17   is equivalent to the net surcharge on Regular barcode-discounted parcels. Witness

18   Crum (USPS-T-27) demonstrates that the cost differential greatly exceeds the

19   proposed surcharge, and, unlike the Regular subclass, the pound rate does little or

---

[44] The revenue-per-piece for pound-rated pieces is currently 19.419 cents; under the proposed rates, the revenue-per-piece is 19.472. USPS-T-35, WP1, page 34.

[45] At 6 ounces, under current rates, the price is 27.36 cents. Under the proposed rates, the price would be 27.40 cents.

[46] Witness Daniel's weight study contains a distribution of pieces by weight. USPS-LR-I-92, Section 1, page 8.

1   nothing to generate much revenue from ECR parcels relative to flats.[47] The increase in

2   the surcharge is moderated, however, in order to limit the percentage increase on these

3   pieces. Parcel-shaped pieces are excluded from ECR unless they are merchandise

4   samples, so the only surchargeable pieces are merchandise samples. Pieces of these

5   dimensions are also required to use Detached Address Labels (DALs), so, merchandise

6   samples with DALs are the only surcharged pieces.[48] It is important to note, however,

7   that not all merchandise samples are surcharged, even if a DAL is used. The

8   surcharge only applies if the sample is not letter- or flat-shaped, or is prepared as a

9   parcel.

10   b.   Letter/Nonletter Differential

11   In Docket No. MC95-1, the Postal Service proposed elimination of separate rates

12   for letters at all density tiers in the proposed Enhanced Carrier Route subclass. The

13   Commission, citing data showing a cost difference by shape, recommended the

14   continuation of the existing rate categories for letters, and extended letter rates to High-

15   Density (formerly 125-piece walk sequence). In Docket No. R97-1, the Postal Service

16   did not propose elimination of all ECR letter categories, but it did propose a

17   passthrough for the letter/nonletter differential of zero percent for the Basic tier.[49] A

18   zero percent shape passthrough at the Basic tier, coupled with rate distinctions for

19   letters at the other tiers, was an attempt to balance the Commission's concern for

20   recognition of cost differences while giving special consideration to the Postal Service's

---

[47] Parcels in ECR are generally light-weight (USPS-T-27, Attachment F, Tables 1-2).

[48] The costs, therefore, reflect the cost consequences of using DALs.

[49] The proposal did not include the elimination of the rate category; however, since the rate is equal to the nonletter rate, letters and nonletters will be subject to a single rate.

1 concern regarding its letter automation program.[50] The Commission recommended the

2 proposal. In this proceeding, the Postal Service is again proposing a zero percent

3 passthrough at the Basic tier, along with a passthough of 65 percent at the High Density

4 tier, and 95 percent at the Saturation tier. These passthroughs are the same as those

5 used by the Commission in its Docket No. R97-1 Recommended Decision.[51]

6   4.   Automation

7 In Docket No. MC95-1, the Commission recommended a discount for Basic

8 automation letters in the Enhanced Carrier Route subclass. The Postal Service

9 proposes a passthrough of 100 percent of the cost differential.

10   5.   Density Tiers

11 Prior to Docket No. R97-1, density discounts were based solely on delivery cost

12 differences. In that proceeding, as well as this one, the rate differential is based on the

13 combined mail processing and delivery cost differences. An updated study by witness

14 Daniel (USPS-T-28) uses In-Office Cost System data to help ascertain the relevant mail

15 processing cost differences. The proposed letter density tier passthroughs of 125

16 percent between Basic and High Density, and 100 percent between High Density and

17 Saturation, result in (by virtue of the "presort tree" and the shape passthroughs

18 described above) passthroughs of 63 percent between Basic and High-Density

19 nonletters, and 84 percent between High-Density and Saturation nonletters. With the

20 exception of the 125 percent passthrough between Basic and High Density letters,

---

[50] In Docket No. MC95-1, the Commission acknowledged the Postal Service's concern that lower rates for carrier route letter mail would be counterproductive to the Postal Service's letter mail automation program, but *on balance* determined that it could not ignore cost differences of the magnitude presented by Postal Service witnesses. PRC Op., MC95-1, para. 5593.
[51] PRC Standard Mail (A) Rate Design Workpapers.

1　these passthroughs are consistent with those underlying the current rates.[52] The 125

2　percent figure, although greater than the 100 percent figure currently underlying the

3　discount, is proposed in order to meet several objectives. The High Density and

4　Saturation rates are calculated off of the Basic letter rate, but that rate is set equal to

5　the nonletter rate in order to facilitate the desired rate relationship with 5-digit

6　automation letters. With no offsetting adjustments, High Density and Saturation letter

7　rates would be higher because of this zero shape passthrough at the Basic level. The

8　proposed rates, therefore, pass through more than 100 percent of the density cost

9　differences for letters. This measure helps mitigate the effect of the zero shape

10　passthrough at the Basic tier. The 125 percent passthrough maintains the current per-

11　piece rate differential between Basic and High Density letters, and helps temper the

12　percentage change for the High Density and Saturation letter tiers. If 100 percent were

13　used, the increase for Saturation letters would be 12.3 percent, or more than double the

14　subclass average.[53] It also allows for greater recognition of the cost difference between

15　Basic and High Density flats.[54]

16　　　　6.　　Destination Entry

17　　　　Destination entry discounts were first offered in 1991. The studies presented by

18　witness Crum (USPS-T-27) provide estimates of the savings due to destination entry.

---

[52] The nonletter passthroughs in the Commission workpapers were 100 percent between High Density and Saturation letters, 36 percent between Basic and High Density nonletters, and 65 percent between High Density and Saturation nonletters. The proposed passthroughs equal or exceed these passthroughs.

[53] Instead, the proposed increase is 10 percent. Although this is still more than double the overall increase for ECR, in Docket No. R97-1, the saturation letter rate *decreased* 2.3 percent. The cumulative net increase since the implementation of Classification Reform (when the rate was lowered) would be a modest 7.5 percent.

[54] The passthrough for the flats would only be 48 percent, rather than the proposed 63 percent, if a 100 percent passthrough were used for letters. This passthrough "falls out" from the presort tree.

1   Passthroughs of 73 percent for DBMC, 77 percent for DSCF, and 77.5 percent for DDU

2   were used to calculate the discounts. See section III.C.6 for more discussion of the

3   destination entry discounts.

1   D.   Summary of Proposed Enhanced Carrier Route Rates

2   Below is a summary of the proposed ECR rates:

		Destination-entry:		
		BMC	SCF	DDU
Letters	(in $)			
Basic	0.175	0.158	0.153	0.147
Automation	0.163	0.146	0.141	0.135
High Density	0.152	0.135	0.130	0.124
Saturation	0.143	0.126	0.121	0.115
Non-letters (pc-rated)				
Basic	0.175	0.158	0.153	0.147
High Density	0.154	0.137	0.132	0.126
Saturation	0.148	0.131	0.126	0.120
Non-letters (lb-rated)				
per piece:				
Basic	0.055			
High Density	0.034			
Saturation	0.028			
per pound:		BMC	SCF	DDU
Basic	0.584	0.501	0.476	0.450
High Density	0.584	0.501	0.476	0.450
Saturation	0.584	0.501	0.476	0.450

3

1

2   V.   STANDARD MAIL (A) NONPROFIT

3

4   A.   Characteristics

5   On October 6, 1996, Nonprofit Classification Reform was implemented. The

6 new structure for nonprofit mail mirrored the structure implemented on July 1, 1996 for

7 commercial Standard Mail (A). The Nonprofit subclass mirrors the Regular subclass.

8 Nonprofit mail consists primarily of charitable solicitations and informational and

9 promotional materials. Examples of users of Nonprofit mail include philanthropic

10 organizations and universities.

11   Detailed revenue, volume, and rate histories are available in USPS Library

12 References I-117 and I-118.

13   B.   Brief History of Rate Design

14   One of the most significant recent developments in the rate design for nonprofit

15 mail was the implementation of the Revenue Forgone Reform Act (RFRA). This law

16 established a six-year phasing schedule that ultimately resulted in rate levels for

17 nonprofit that are one-half the comparable commercial markup. The first "step" of the

18 phasing schedule was a markup which was one-twelfth the commercial markup. Each

19 additional step added another one-twelfth. On October 4, 1998, rates for the sixth and

20 final step were implemented. Since the phasing schedule is now complete, the markup

21 used in this proceeding is six-twelfths, or one-half, the commercial markup.

22   In connection with Docket No. MC96-2, two subclasses, Nonprofit and Nonprofit

23 Enhanced Carrier Route, were established to replace the third-class bulk nonprofit

1   subclass. As a result, separate markups were set for the two subclasses, whereas only

2   one markup was necessary previously. Regular and ECR serve as the commercial

3   counterparts for Nonprofit and Nonprofit Enhanced Carrier Route (NECR), respectively.

4   The effect of the adoption of these two separate markups, and the generally low costs

5   for nonprofit mail in the test year, led to significant rate declines for almost all rate

6   categories of nonprofit mail.[55] In Docket No. R97-1, Nonprofit increased 9.6 percent,

7   and NECR rates decreased again, by 10.6 percent.[56]

8   C.   Proposed Rate Design

9   1.   Rate Design Formula and Process

10   In keeping with the effort to mirror the commercial subclasses, the proposed rate

11   design uses the same formula to develop the rates for the Nonprofit subclass. The

12   markup selected for the formula is an attempt to produce rates that, when applied to the

13   after-rates volume forecast, result in a cost coverage that meets the RFRA-prescribed

14   relationship with the commercial coverage. In general, the rate design process begins

15   with the passthroughs underlying the current rates, with modifications made to meet the

16   rate design objectives such as maintenance of automation discounts and avoidance of

17   rate increases (or decreases) significantly different from the overall subclass average.

18   2.   Pound Rate

19   The current pound rate is 55 cents. The Postal Service is proposing a pound

20   rate of 58 cents. This modest increase in the pound rate is consistent with the overall

---

[55] Only the rates for Basic presort non-automation pieces, and Basic presort automation flats increased from what they otherwise would have been on October 6, 1996.

[56] Using PRC figures. PRC Op., R97-1, Appx. G, page 1.

1   increase for the subclass. By proposing this increase, rather than no increase or a

2   decrease in the pound rate, upward pressure on the piece rates can be avoided.

3   The proposed breakpoint weight which is incorporated into the rate design

4   formula is 3.3 ounces. This breakpoint is very near the current breakpoint. As

5   discussed in Section III.C.3 the Postal Service intends to use the proposed 3.3 ounces

6   as the breakpoint, rather than a calculated breakpoint.

7   3.   Shape Recognition

8   a.   Letter/Nonletter Differential

9   As in the Regular subclass, the rate structure recognizes a cost differential

10   between letters and nonletters. The proposed shape-based passthrough is 50 percent

11   at the Basic tier, and 40 percent at the 3/5-digit tier. These are the same as the

12   passthroughs underlying the current rates.

13   b.   Residual Shape Surcharge

14   Consistent with the proposals for the commercial subclasses, the Postal Service

15   proposes a residual shape surcharge of 18 cents for pieces that are not letter- or flat-

16   shaped, or are prepared as parcels.

17   4.   Presort Tiers

18   The proposed presort passthrough for letters is 85 percent. Given the shape

19   passthroughs described above, the letter presort passthrough implies a 64 percent

20   passthrough for nonletters, which is similar to the existing passthrough of 71 percent.

21   Using the existing passthrough of 100 percent for letter presort would cause wider rate

22   swings and would result (by virtue of the presort tree) in only a 51 percent passthrough

23   for nonletter presort.

1   5.   Automation Discounts

2   a.   Letters

3   For letters, the proposed passthrough for the basic automation discount is 105

4   percent. This passthrough, although higher than 100 percent, only maintains 60

5   percent of the current discount. However, a greater passthrough is not needed to

6   temper the increase for the rate cell, and, if a passthrough similar to those for the other

7   automation letters were used, a potential rate anomaly could exist between Basic and

8   3-digit automation letters.

9   The proposed passthroughs for 3-digit and 5-digit automation are 106 and 199

10   percent, respectively. These passthroughs maintain 100 percent of the current

11   discounts and are necessary to restrain the increase for these rate cells to below 10

12   percent. The 3-digit passthrough is only slightly higher than 100 percent, and the 5-digit

13   passthrough is near the current underlying passthrough of 180 percent.

14   b.   Flats

15   As discussed in section III.C.5.c, the flat automation program continues to

16   evolve. In order to move in the direction indicated by the cost studies, but not create

17   severe rate swings, the proposed passthroughs maintain 80 percent of the current

18   discounts. Even with the high implied passthroughs,[57] the 3/5-digit automation flat rate

19   is proposed to receive the greatest increase in the subclass.

---

[57] The passthroughs are 220 and 360 percent for Basic and 3/5-digit respectively.

1

2   c.   Parcels

3   Consistent with the Regular subclass (Section III.C.5.d), the parcel barcode

4   discount of 3 cents is proposed for Nonprofit pieces that meet the physical dimension

5   requirements for the discount.

6   6.   Destination Entry

7   Destination entry discounts are determined for this subclass in the same manner

8   as the other subclasses. Since the cost study used is a measure of all subclasses

9   combined, and since the passthroughs selected are the same for each subclass, the

10   discounts do not vary by subclass.

1 D. Proposed Nonprofit Rates

2 Below is a summary of the proposed rates for Nonprofit:

Nonprofit Subclass

Automation	(in $)	Destination-entry:	
Letters		BMC	SCF
Basic	0.129	0.112	0.107
3-digit	0.122	0.105	0.100
5-digit	0.101	0.084	0.079
Flats (pc-rated)			
Basic	0.178	0.161	0.156
3/5-digit	0.158	0.141	0.136
Flats (lb-rated)			
per piece:			
Basic	0.058		
3/5 digit	0.038		
per pound:			
Basic	0.580	0.497	0.472
3/5 digit	0.580	0.497	0.472

3

Presort

Letters	(in $)	Destination entry:	
		BMC	SCF
Basic	0.159	0.142	0.137
3/5-digit	0.150	0.133	0.128
Non-letters (pc-rated)			
Basic	0.219	0.202	0.197
3/5-digit	0.175	0.158	0.153
Non-letters (lb-rated)			
per piece:			
Basic	0.099		
3/5 digit	0.055		
per pound:			
Basic	0.580	0.497	0.472
3/5 digit	0.580	0.497	0.472

1
2 VI.   STANDARD MAIL (A) NONPROFIT ENHANCED CARRIER ROUTE
3
4
5   A.   Characteristics
6
7   On October 6, 1996, Nonprofit Classification Reform was implemented. The

8 new structure for nonprofit mail mirrored the structure implemented on July 1, 1996 for

9 commercial Standard Mail (A). The Nonprofit Enhanced Carrier Route (NECR)

10 subclass was created to mirror for the Enhanced Carrier Route subclass. Nonprofit

11 Enhanced Carrier Route consists primarily of requests for funds or information

12 regarding nonprofit organizations. Examples of NECR users include churches or local

13 philanthropic organizations.

14   Detailed revenue, volume, and rate histories are available in USPS LR-I-117 and

15 LR-I-118.

16   B.   Brief History of Rate Design
17
18   As described in section V.B, the Revenue Forgone Reform Act (RFRA)

19 significantly affected the rate design for nonprofit mail. In Docket No. MC96-2, the

20 creation of a separate Nonprofit Enhanced Carrier Route subclass, and the relatively

21 low costs for nonprofit carrier route mail, led to significant reductions in rates for carrier

22 route mail. The rate decreases were so great that the implied Step 4 and Step 5 rates

23 for NECR nonletters fell below a floor established in the RFRA for the phased rates. In

24 order to comply with this provision of the law, the Postal Service implemented "full"

25 rates for a few categories that would otherwise would have fallen below the statutorily-

26 prescribed floor for nonletters. The RFRA formula, coupled with low costs, led to

27 another rate decrease for NECR in Docket No. R97-1.

1   C. Anticipated Changes in the Revenue Forgone Reform Act

2   The percentage rate changes for nonprofit Standard Mail (A) as a result of

3   Docket No. R97-1 were very different than those for commercial.[58] The much larger

4   rate increase for the Nonprofit subclass was an issue of concern for many parties,

5   including the Postal Service; however, the formula prescribed by the RFRA precluded

6   the Postal Service, as well as the Commission, from mitigating the rate increase by

7   reducing the markup. As preparations for the current proposals were underway, it

8   became clear that a much more pronounced difference in percentage rate change was

9   in store for NECR. Specifically, a change in excess of 30 percent would be necessary

10   to comply with the RFRA requirement that the nonprofit markup be one-half the

11   commercial markup. We anticipate that legislation will be enacted which will help avoid

12   rate swings significantly different from the commercial subclasses. In particular, the

13   Postal Service's proposed rates reflect our anticipation that the RFRA would limit the

14   extent to which rate increases for nonprofit could exceed the commercial counterpart.

15   The markup could be set at less than one-half the commercial markup if necessary to

16   keep the percentage increase within 10 percentage points of commercial. There is no

17   provision limiting the amount by which the nonprofit rate increase can be *below* the

18   commercial increase. The rate design anticipates that legislation embodying these

19   safeguards will be enacted by the time the Commission must issue its Recommended

20   Decision. By anticipating the changes, the revenue "lost" due to the changes can be

21   recaptured from the other classifications through the rate level assignments.

22

1   D.   Proposed Rate Design

2   1.   Rate Design Formula

3   In keeping with the effort to mirror the commercial subclasses, the proposed rate

4   design uses the same formula to develop the rates for the NECR subclass. The

5   markup selected for the formula is an attempt to produce rates that, when applied to the

6   after-rates volume forecast, result in a cost coverage or percentage change that meets

7   the anticipated RFRA-prescribed relationship with the commercial ECR coverage or

8   rate change.

9   2.   Pound Rate

10   The proposed pound rate is 37 cents. This is a large increase over the current

11   rate of 29 cents, but absorbs some of the upward pressure that would otherwise be

12   applied to the piece rates. Also, despite the increase, the pound rate is still well below

13   what it was prior to the implementation of the Docket No. R97-1 rates.

14   The proposed breakpoint weight which is incorporated into the rate design

15   formula is 3.3 ounces. This breakpoint is very near the current breakpoint.

16   3.   Shape Recognition

17   a. Letter/Nonletter Differential

18   The proposed passthroughs for shape are maintained at the levels underlying

19   the current rates. The Basic tier rate design helps establish a rate relationship between

20   Basic NECR and 5-digit automation and mirrors the corresponding relationship

---

(continued...)
[58] Nonprofit increased 14.8 percent, its commercial counterpart only 2.6 percent. Nonprofit ECR decreased 7.6 percent, but commercial ECR increased 2.3 percent.

1   proposed for the commercial subclasses. The High-Density and Saturation shape

2   passthroughs are proposed at 100 percent.

3   b.   Residual Shape Surcharge

4   In order to mirror the commercial subclasses, the Postal Service proposes a

5   residual shape surcharge of 15 cents for non-letter and non-flat shaped pieces. There

6   are relatively few parcels in NECR,[59] so the revenue received through application of the

7   surcharge does not significantly push down the letter and flat rates.

8   4.   Density Tiers

9   Significant changes in the measured cost differentials between the density tiers

10   require selection of passthroughs to moderate the adverse consequences on the Basic

11   rates. For letters, full passthrough of the cost differential between Basic and High

12   Density would result in increases for the basic tier of nearly 30 percent. Instead, a

13   passthrough of 47 percent is proposed. It allows for an increase in the discount, while

14   tempering the adverse rate effect on the Basic rates that a higher passthrough would

15   cause. The passthrough between High Density and Saturation can be maintained at its

16   current 100 percent level without adverse rate implications. Given the shape

17   passthroughs described above, the resulting passthroughs for density for nonletters are

18   30 percent between Basic and High-Density, and 100 percent between High-Density

19   and Saturation. These passthroughs are similar to those that currently underlie the

20   rates: 25 and 100 percent.

21

22

---

[59] Less than 1 percent of nonletters are parcels. See WP 2, page 13.

1   5.   Automation

2   The proposed passthrough for the Automation discount, 37 percent, is low but

3   results in a discount which is nearly double its current value. Ordinarily, such a large

4   increase would not occur, but in this proceeding, it is necessary in order for the resulting

5   rate to be lower than the 5-digit automation rate.[60]

6   6.   Destination Entry

7   Destination entry discounts are determined for this subclass in the same manner

8   as the other subclasses. Since the cost study used to determine destination entry

9   discounts measures savings for all subclasses combined, and since the passthroughs

10   selected are the same for each subclass, the discounts do not vary by subclass.

---

[60] The ECR auto rate is 1/10 cent lower than the 5-digit automation rate.

1   D.   Proposed Nonprofit Enhanced Carrier Route Rates

2   Below is a summary of proposed rates for Nonprofit Enhanced Carrier Route:

3

		Destination-entry:		
		BMC	SCF	DDU
Letters	(in $)			
Basic	0.113	0.096	0.091	0.085
Automation	0.100	0.083	0.078	0.072
High-Density	0.090	0.073	0.068	0.062
Saturation	0.084	0.067	0.062	0.056
Non-letters (pc-rated)				
Basic	0.113	0.096	0.091	0.085
High Density	0.097	0.080	0.075	0.069
Saturation	0.092	0.075	0.070	0.064
Non-letters (lb-rated)				
per piece:				
Basic	0.037			
High Density	0.021			
Saturation	0.016			
per pound:		BMC	SCF	DDU
Basic	0.370	0.287	0.262	0.236
High Density	0.370	0.287	0.262	0.236
Saturation	0.370	0.287	0.262	0.236

4
5
6
7

1
2 VIII.   TEST YEAR 2001 FINANCIAL SUMMARY
3
4   The following table depicts the financial implications of Standard Mail (A)

5   proposal.[61] The revenue, cost, and contribution figures are in millions of dollars:

6   **Test Year After Rates Financial Summary**

7

	Revenue	Cost	Contribution	Coverage
Regular	$9070.437	$6823.933	$2246.504	132.9%
ECR	5162.025	2471.864	2690.160	208.8%
Nonprofit	1543.086	1320.611	222.475	116.9%
Nonprofit ECR	264.218	208.577	55.641	126.7%

8
9
10   The coverages for Regular and ECR meet those proposed by witness Mayes

11 (USPS-T-32). The coverage for Nonprofit meets the RFRA requirement that the

12 markup for the subclass be one-half of the commercial markup.[62] The markup for

13 NECR is lower than one-half of the commercial markup due to the anticipated revision

14 in the RFRA.

15

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[61] WP 1, page 25, and WP 2, page 25.

[62] Actually, the markup for nonprofit is 51 percent of the commercial markup. In the rate design formula, the markup is 47.4 percent of the commercial markup; however, due to mail mix changes in the after rates volumes, the after rates coverage (and markup) increases. Such a slight variation is not unprecedented. As information, in Docket No. R97-1, the PRC recommended rates that reflected a 40 percent markup, when the target was 42 percent for Step 5 of the phasing process.
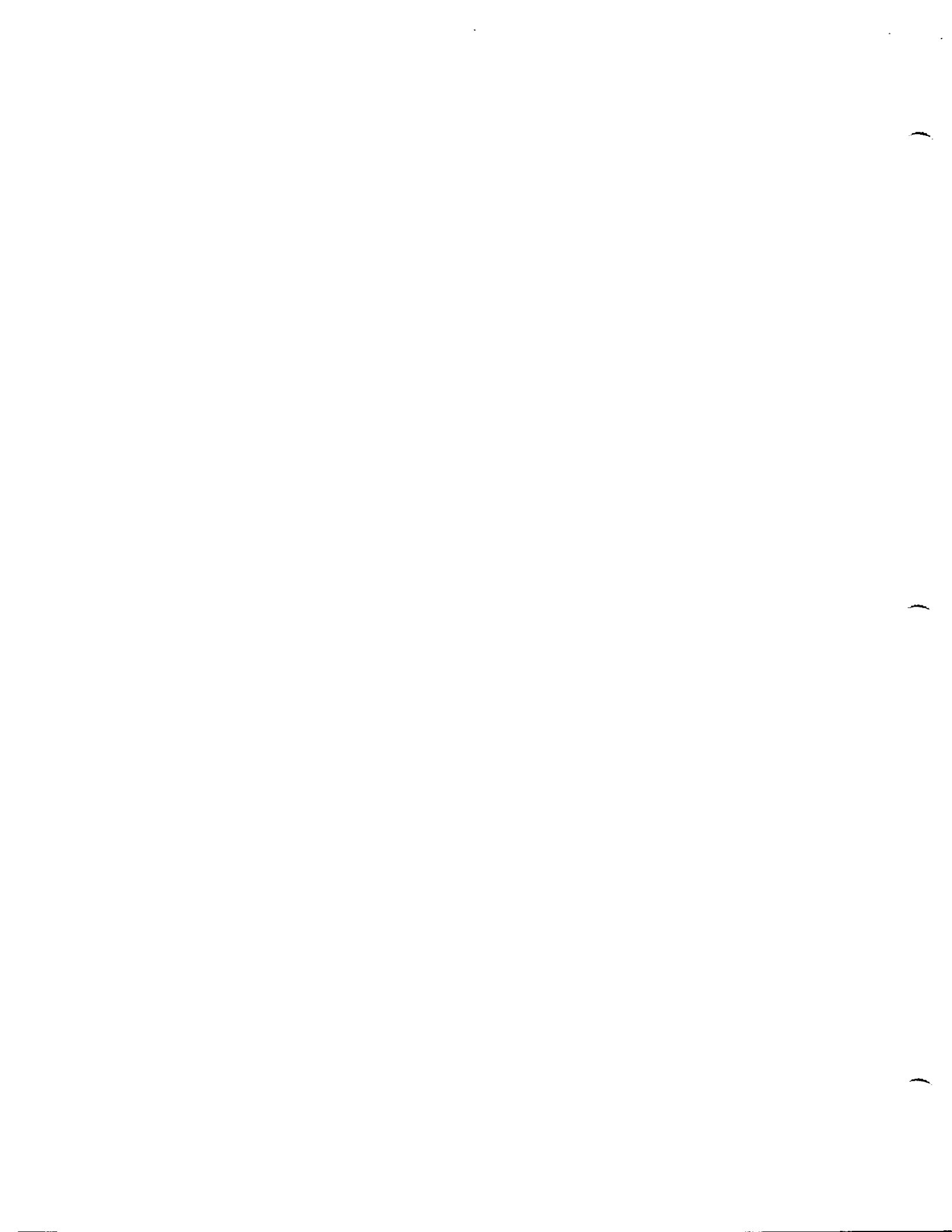
1   **Description of USPS-T-35 Workpapers**

2

3

4   This appendix describes the spreadsheets that are associated with my

5   testimony. The spreadsheets and the corresponding Excel files are available in

6   USPS-LR-I-166.

7

8

9   **Workpaper 1 (WP1)** - Workpaper 1 is in EXCEL spreadsheet file: wp1_comm.xls. It

10   is for Standard Mail (A) Regular and Enhanced Carrier Route and contains

11   worksheets (the tabs at the bottom of the screen when the spreadsheet file is open)

12   and ranges corresponding to the page numbers as follows:

13

14   Page 1 - Worksheet bd - Billing Determinants for FY98. These billing determinants

15   are used to distribute volumes to various rate categories. For example, the volume

16   forecast provides the volume of Automation 3/5-digit flats. The billing determinants

17   include information about the percentage of these flats that pay the minimum-per-

18   piece rate, their destination-entry profile, etc. This information is reformatted in page

19   2 and is used to distribute the forecasted volume into these various subgroups on

20   page 4.

21

22   Page 2 - Worksheet bd% - Reformatting of the data in page 1 for ease of use in the

23   rate development process. The volumes in the volume forecast (page 3) can be

24   distributed to a finer level of detail corresponding to the applicable rate categories

25   (e.g., DBMC-entered, pound-rated).

1

2   Page 3 - Worksheet vol - Volume forecasts for FY01, before and after rates.

3

4   Page 4 - Worksheet v01br - Before Rates volume distributed to rate category. The

5   volumes from page 3 are broken into finer sub-categories using the billing determinant

6   information from page 2.

7

8   Page 5 - Worksheet r01br, range BR01prst - Calculation of revenue from presort

9   categories, FY01 before rates. Applies the current rates to the volume by rate

10 category from page 4.

11

12 Page 6 - Worksheet r01br, range BR01auto - Calculation of revenue from automation

13 categories, FY01 before rates. Applies the current rates to the volume by rate

14 category from page 4. Also includes a summary of the Regular subclass by including

15 Presort category figures from page 5.

16

17 Page 7 - Worksheet r01br, range BR01ecr - Calculation of revenue from ECR

18 subclass, FY01 before rates. Applies current rates to the volume by rate category

19 from page 4.

20

21 Page 8 - Worksheet tybr_sum - Test year before rates summary. Summarizes the

22 revenue from pages 5-7, volume from page 4, and costs from page 16.

23

1   Page 9 - Worksheet drop - Calculation of the destination entry discounts and the

2   value of the discounts for incorporation into the rate design formula.

3

4   Page 10 - Worksheet cost - Mail Processing and Delivery Costs for use in determining

5   automation and presort discounts, as well as letter-nonletter differentials. In this

6   proceeding, unlike Docket No. R97-1, alternative cost estimates are provided for

7   certain cost avoidance calculations (see lines 29-39). For example, the letter costs

8   presented in lines 5, 6, 14, 15, and 16 include only those mail processing costs

9   deemed worksharing-related for use in determining the cost differentials for letter

10   presort and letter automation discounts. They are not particularly well suited for use

11   in calculating the letter-nonletter differential since there is not an equivalent measure

12   (that includes the same cost groupings) for nonletters. So, in lines 32 and 33, costs

13   that reflect all mail processing (not just "worksharing-related" letter mail processing

14   costs) are provided. These costs are comparable to the flats costs in lines 1 and 2

15   since they, too, measure the mail processing costs for the respective rate categories.

16   As shown in Worktable B, page 11, it is these two sets of costs (lines 1-2, lines 32-33)

17   that are used to calculate the letter-nonletter differential.

18

19   Also, due to preparation and eligibility requirement differences between automation

20   and non-automation flats, the costs in lines 1,2,10, and 11 are not well suited for

21   calculation of barcode-related cost savings. Therefore, as provided by witness

22   Yacobucci (USPS-T-25), lines 36-39 contain costs for the purpose of calculating

23   barcode-related savings by isolating the incremental effect of the barcode.

1

2   Page 11 - Worksheet passreg - Development of passthroughs for the Regular

3   subclass to determine presort discounts, and shape differentials.

4

5   Page 12 - Worksheet regval – Passthroughs for automation discounts, and calculation

6   of the value of the automation, presort, and shape discounts for incorporation into the

7   rate design formula. The footnotes describe which cost figures are used to calculate

8   the differentials. Also see the description of page 10 for more information regarding

9   cost measurements.

10

11 Page 13 – Worksheet parcel_br – The Test Year Before Rates revenue calculation on

12 pages 5-7 includes an estimate of revenue from the residual shape surcharge

13 calculated on this page. The estimate also includes an adjustment that attempts to

14 account for the potential loss of surcharge revenue due to the implementation of the

15 surcharge and mailer efforts to avoid it. See the description of Page 14 for further

16 explanation.

17

18 Page 14 - Worksheet parcel - The rate design formulae on pages 17 and 20 include

19 estimates of expected revenue from the residual shape surcharge. This worksheet

20 estimates the revenue and includes the assumption that the percentage of nonletter

21 pieces which would be subject to the surcharge remains constant before and after

22 rates. An adjustment is made, however, since the parcel percentage applied to the

23 nonletter volume is from FY98, which was prior to the implementation of the

1   surcharge. The volume is reduced to recognize the likelihood that some mailers

2   have, or will, take steps to avoid paying the surcharge. For example, some mailers

3   are attempting to reconfigure their pieces as automation flats, as the maximum

4   thickness was increased to 1.25 inches from 0.75 inch in 1998. Although the extent to

5   which mailers will successfully avoid the surcharge is unknown, an estimate of a 25

6   percent reduction is applied to the surcharge projection for the Regular subclass. In

7   ECR, sample mailers may have reconfigured as flats, or left the mailstream, since the

8   10 cent surcharge represented a significant percentage rate increase. For ECR, an

9   estimate of a 50 percent reduction is incorporated into the revenue projections. Since

10 there are so few parcels in ECR, the revenue projection is very insensitive to the

11 surcharge reduction estimate.

12

13 This sheet calculates the expected revenue for purposes of the formula, as well as

14 estimates the after rates revenue from the surcharge for calculation of total after rates

15 revenue in pages 22-24. The worksheet also includes an estimate of the revenue

16 leakage due to the barcode discount. The assumption is that all parcels 6 ounces

17 and above will claim the discount. While some of these parcels may not in fact be

18 machinable or otherwise not eligible for the discount, this may be offset by pieces

19 weighing less than 6 ounces that, by approval of the BMC manager, can be prepared

20 as machinable parcels.

21

22 Page 15 - Worksheet fees - The rate design formula has fee revenue as an input.

23 This sheet reports the expected revenue, before and after rates.

1

2   Page 16 - Worksheet volvar - This sheet contains the before rates costs which are

3   used in the rate design formulae. It also contains the after rates costs, which are

4   used in the financial summary on page 25.

5

6   Page 17 - Worksheet form - This sheet contains the Regular subclass rate design

7   formula.

8

9   Page 18 - Worksheet CRpass - Development of shape and density passthroughs for

10   the ECR subclass to determine rate differentials. For simplicity, the term "flat" is used

11   throughout this page instead of the more precise "nonletters."

12

13   Page 19 - Worksheet CRval - Calculation of the value of the discounts, based on

14   passthroughs from page 18, and the automation passthrough on this page, for

15   incorporation into the rate design formula for ECR.

16

17   Page 20 - Worksheet CRform - This sheet contains the ECR subclass rate design

18   formula.

19

20   Page 21 - Worksheet vTYar - Distribution of the Test Year After Rates volume (from

21   page 3) to rate categories using the billing determinant information from page 2.

22

1   Page 22 - Worksheet rTYar; Range TYARprst - Applies the proposed rates to the

2   volume forecast (from page 21) to determine test year revenue for the presort

3   categories.

4

5   Page 23 - Worksheet rTYar; Range TYARauto - Applies the proposed rates to the

6   volume forecast (page 21) to determine test year revenue for the automation

7   categories. This sheet also includes the summary of the Regular subclass.

8

9   Page 24 - Worksheet rTYar; Range TYARecr - Applies the proposed rates to the

10   volume forecast (page 21) to determine test year revenues for ECR.

11

12   Page 25 - Worksheet finsum - This sheet summarizes the revenues and costs for the

13   Regular and ECR subclasses, and calculates contribution and cost coverage. The

14   contribution reflects the expectation that any effect on costs and revenues

15   accompanying an increase in the letter automation weight limit would be *de minimis*.

16   See USPS-T-35 at III.C.5.b.

17

18   Page 26 - Worksheet chg_rev; Range chgpre - This sheet applies the proposed rates

19   to the before rates volumes in order to assist in the calculation of percentage change

20   in revenue per piece. By applying the before rates volume, a constant mail mix is

21   used, and the effects of migration within subclass, or across subclasses, is controlled

22   for.

23

1   Page 27 - Worksheet chg_rev; Range chgauto - This sheet applies the proposed

2   rates to the before rates volumes in order to assist in the calculation of percentage

3   change in revenue per piece for the Regular subclass. By applying the before rates

4   volume, a constant mail mix is used, and the effects of migration within subclass, or

5   across subclasses, is controlled for.

6

7   . Page 28 - Worksheet chg_rev; Range chgecr - This sheet applies the proposed rates

8   to the before rates volumes in order to assist in the calculation of percentage change

9   in revenue per piece for the ECR subclass. By applying the before rates volume, a

10   constant mail mix is used, and the effects of migration within subclass, or across

11   subclasses, is controlled for.

12

13   Page 29 - Worksheet sum - Summary of proposed rates.

14

15   Page 30 - Worksheet chgsum; Range sumreg; summary of current and proposed

16   rates for Regular.

17

18   Page 31 - Worksheet chgsum; Range sumecr; summary of current and proposed

19   rates for ECR.

20

21   Page 32 – Worksheet BRrev – This sheet calculates the net revenue (revenue from

22   the rates, less the destination entry discounts) by rate category for ECR, using current

1   rates. This will be used on Page 34 in the calculation of revenue per piece for certain

2   groupings of ECR.

3

4   Page 33 – Worksheet ARrev – This is like page 32, only it uses the proposed rates.

5

6   Page 34 – Worksheet rev-pc_ecr – This sheet combines the Before and After rates

7   revenue from pages 32 and 33, and calculates the revenue per piece for certain

8   groupings for use in discussion of the proposed pound rate.

9

10   Page 35 – Worksheet tree – This is a depiction of the "presort tree" and its connection

11   to the automation rates.

12

13   Page 36 – Worksheet breakpoint – This sheet displays the calculation of the current

14   breakpoints for the four subclasses in Standard Mail (A) and shows how they would

15   differ if they were calculated using the destination entry pound rates.

1

2   **Workpaper 2** - Workpaper 2 is in EXCEL spreadsheet file: wp2_np.xls. It is for

3   Standard Mail (A) Nonprofit and Nonprofit Enhanced Carrier Route and contains

4   worksheets (the tabs at the bottom of the screen when the spreadsheet file is open)

5   and ranges corresponding to the page numbers as follows:

6

7   Page 1 - Worksheet bd - Billing Determinants for FY98. These billing determinants

8   are used to distribute volumes to various rate categories. For example, the volume

9   forecast provides the volume of Automation 3/5-digit flats. The billing determinants

10 include information about the percentage of these flats that pay the minimum-per-

11 piece rate, their destination-entry profile, etc. This information is reformatted in page

12 2 and is used to distribute the forecasted volume into these various subgroups on

13 page 4.

14

15 Page 2 - Worksheet bd% - Reformats the data in page 1 for ease of use in the rate

16 development process. The volumes in the volume forecast can be distributed to a

17 finer level of detail corresponding to the applicable rate categories (e.g., DBMC-

18 entered, pound-rated).

19

20 Page 3 - Worksheet vol - Volume forecasts for FY01, before and after rates.

21

1   Page 4 - Worksheet v01br - Before Rates volume distributed to rate category. The

2   volumes from page 3 are broken into finer sub-categories using the billing determinant

3   information from page 2.

4

5   Page 5 - Worksheet r01br, range BRprst - Calculation of revenue from presort

6   categories, FY01 before rates. Applies the current rates to the volume by rate

7   category from page 4.

8

9   Page 6 - Worksheet r01br, range BRauto - Calculation of revenue from automation

10   categories, FY01 before rates. Applies the current rates to the volume by rate

11   category from page 4. Also includes a summary of the Nonprofit subclass by

12   including Presort category figures from page 5.

13

14   Page 7 - Worksheet r01br, range BRecr - Calculation of revenue from NECR

15   subclass, FY01 before rates. Applies current rates to the volume by rate category

16   from page 4.

17

18   Page 8 - Worksheet tybr_sum - Test year before rates summary. Summarizes the

19   revenue from pages 5-7, volume from page 4, and costs from page 16.

20

21   Page 9 - Worksheet drop - Calculation of the destination entry discounts and the

22   value of the discounts for incorporation into the rate design formula.

23

1   Page 10 - Worksheet cost - Mail Processing and Delivery Costs for use in determining

2   automation and presort discounts, as well as letter-nonletter differential. In this

3   proceeding, unlike Docket No. R97-1, alternative cost estimates are provided for

4   certain cost avoidance calculations (see lines 29-39). For example, the letter costs

5   presented in lines 5, 6, 14, 15, and 16 include only those mail processing costs

6   deemed worksharing-related for use in determining the cost differentials for letter

7   presort and letter automation discounts. They are not particularly well suited for use

8   in calculating the letter-nonletter differential since there is not an equivalent measure

9   (that includes the same cost groupings) for nonletters. So, in lines 32 and 33, costs

10   that reflect all mail processing (not just "worksharing-related" mail processing costs)

11   are provided. These costs are comparable to the flats costs in lines 1 and 2 since

12   they, too, measure the mail processing costs for the respective rate categories. As

13   shown in Worktable B, page 11, it is these two sets of costs (lines 1-2, lines 32-33)

14   that are used to calculate the letter-nonletter differential.

15

16   Also, due to preparation and eligibility requirement differences between automation

17   and non-automation flats, the costs in lines 1, 2, 10, and 11 are not well suited for

18   calculation of barcode-related cost savings. Therefore, as provided by witness

19   Yacobucci (USPS-T-25), lines 36-39 contain costs for the purpose of calculating

20   barcode-related savings by isolating the incremental effect of the barcode.

21

22   Page 11 - Worksheet passnp - Development of passthroughs for the Nonprofit

23   subclass to determine presort discounts, and shape differentials.

1

2   Page 12 - Worksheet npval – Passthroughs for automation discounts, and calculation

3   of the value of the automation, presort, and shape discounts for incorporation into the

4   rate design formula. The footnotes describe which cost figures are used to calculate

5   the differentials. Also see the description of page 10 for more information regarding

6   cost measurements.

7

8   Page 13 – Worksheet parcel_br – The Test Year Before Rates revenue calculation on

9   pages 5-7 includes an estimate of revenue from the residual shape surcharge

10   calculated on this page. The estimate also includes an adjustment that attempts to

11   account for the potential loss of surcharge revenue due to the implementation of the

12   surcharge and mailer efforts to avoid it. See the description of Page 14 for further

13   explanation.

14

15   Page 14 - Worksheet parcel - The rate design formulae on pages 17 and 20 include

16   estimates of expected revenue from the residual shape surcharge. This worksheet

17   estimates the revenue and includes the assumption that the percentage of nonletter

18   pieces which would be subject to the surcharge remains constant before and after

19   rates. An adjustment is made, however, since the parcel percentage applied to the

20   nonletter volume is from FY98, which was prior to the implementation of the

21   surcharge. The volume is reduced to recognize the likelihood that some mailers

22   have, or will, take steps to avoid paying the surcharge. For example, some mailers

23   are attempting to reconfigure their pieces as automation flats, as the maximum

1   thickness was increased to 1.25 inches from 0.75 inch in 1998. Although the extent to

2   which mailers will successfully avoid the surcharge is unknown, an estimate of a 25

3   percent reduction is applied to the surcharge projection for the Nonprofit subclass. In

4   NECR, sample mailers may have reconfigured as flats, or left the mailstream, since

5   the 10 cent surcharge represented a significant percentage rate increase. For NECR,

6   an estimate of a 50 percent reduction is incorporated into the revenue projections.

7   Since there are so few parcels in nonprofit, the revenue projection is very insensitive

8   to the surcharge reduction estimate.

9

10   This sheet calculates the expected revenue for purposes of the formula, as well as

11   estimates the after rates revenue from the surcharge for calculation of total after rates

12   revenue in pages 22-24. The worksheet also includes an estimate of the revenue

13   leakage due to the barcode discount. The assumption is that all parcels 6 ounces

14   and above will claim the discount. While some of these parcels may not in fact be

15   machinable or otherwise not eligible for the discount, this may be offset by pieces

16   weighing less than 6 ounces that, by approval of the BMC manager, can be prepared

17   as machinable parcels.

18

19   Page 15 - Worksheet fees - The rate design formula has fee revenue as an input.

20   This sheet reports the expected revenue, before and after rates.

21

1   Page 16 - Worksheet volvar - This sheet contains the before rates costs which are

2   used in the rate design formulae. It also contains the after rates costs, which are

3   used in the financial summary on page 25.

4

5   Page 17 - Worksheet form - This sheet contains the Nonprofit subclass rate design

6   formula.

7

8   Page 18 - Worksheet CRpass - Development of shape and density passthroughs for

9   the NECR subclass to determine rate differentials. For simplicity, the term "flat" is

10 used throughout this page instead of the more precise "nonletters."

11

12 Page 19 - Worksheet CRval - Calculation of the value of the discounts, based on

13 passthroughs from page 17, and the automation passthrough on this page, for

14 incorporation into the rate design formula for NECR.

15

16 Page 20 - Worksheet CRform - This sheet contains the NECR subclass rate design

17 formula.

18

19 Page 21 - Worksheet vTYar - Distribution of the Test Year After Rates volume (from

20 page 3) to rate categories using the billing determinant information from page 2.

21

1   Page 22 - Worksheet rTYar; Range TYARprst - Applies the proposed rates to the

2   volume forecast (from page 21) to determine test year revenue for the presort

3   categories.

4

5   Page 23 - Worksheet rTYar; Range TYARauto - Applies the proposed rates to the

6   volume forecast (page 21) to determine test year revenue for the automation

7   categories. This sheet also includes the summary of the Nonprofit subclass.

8

9   Page 24 - Worksheet rTYar; Range TYARecr - Applies the proposed rates to the

10   volume forecast (page 21) to determine test year revenues for NECR.

11

12   Page 25 - Worksheet finsum - This sheet summarizes the revenues and costs for the

13   Nonprofit and NECR subclasses, and calculates contribution and cost coverage. The

14   contribution reflects the expectation that any effect on costs and revenues

15   accompanying an increase in the letter automation weight limit would be *de minimis*.

16   See USPS-T-35 at III.C.5.b.

17

18   Page 26 - Worksheet chg_rev; Range chgpre - This sheet applies the proposed rates

19   to the before rates volumes in order to assist in the calculation of percentage change

20   in revenue per piece. By applying the before rates volume, a constant mail mix is

21   used, and the effects of migration within subclass, or across subclasses, is controlled

22   for.

23

1   Page 27 - Worksheet chg_rev; Range chgauto - This sheet applies the proposed

2   rates to the before rates volumes in order to assist in the calculation of percentage

3   change in revenue per piece for the Nonprofit subclass. By applying the before rates

4   volume, a constant mail mix is used, and the effects of migration within subclass, or

5   across subclasses, is controlled for.

6

7   Page 28 - Worksheet chg_rev; Range chgecr - This sheet applies the proposed rates

8   to the before rates volumes in order to assist in the calculation of percentage change

9   in revenue per piece for the NECR subclass. By applying the before rates volume, a

10   constant mail mix is used, and the effects of migration within subclass, or across

11   subclasses, is controlled for.

12

13   Page 29 - Worksheet sum - Summary of proposed rates.

14

15   Page 30 - Worksheet chgsum; Range sum_np - summary of current and proposed

16   rates for Nonprofit.

17

18   Page 31 - Worksheet chgsum; Range sum_necr - summary of current and proposed

19   rates for NECR.

20

21