

UNITED STATES OF AMERICA
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

Before Commissioners:

Edward J. Gleiman, Chairman;
George A. Omas, Vice Chairman;
Dana B. Covington; Ruth Y. Goldway;
and W.H. "Trey" LeBlanc III

Postal Rate and Fee Changes

Docket No. R2000-1

NOTICE OF INQUIRY NO. 2 CONCERNING BASE YEAR DATA

(Issued April 21, 2000)

On February 2, 2000, the Commission issued Notice of Inquiry No. 1 Concerning Base Year Data. The Notice of Inquiry noted that the Postal Service Request uses FY 1998 costs as the base for projection to test year costs, and that audited FY 1999 data would become available soon. It asked participants to comment on the desirability of utilizing FY 1999 data in this case.

Participants were given the opportunity to comment on this subject at the prehearing conference held on February 16, 2000, and invited to submit written comments on or before February 23, 2000. Those choosing to comment generally recognized the benefits of using more recent data as a base for projections, but also indicated it would be wise to await the actual publication of the more recent data so that its suitability for any specific purpose could be evaluated.

The Postal Service filed its FY 1999 Cost and Revenue Analysis on April 4, 2000 (Library Reference LR-I-275), and the supporting billing determinants on March 31,

2000 (Library Reference LR-I-259).¹ The Cost Segments and Components Report also has been filed, on April 4, 2000 (Library Reference LR-I-276).²

Now that these data have been provided, and participants have had the opportunity to review this material, it is important to promptly resolve whether this data should be used in this proceeding, and if so to what extent. Several possible outcomes might be appropriate, for example: (1) use FY 1999 as the base year for all analyses; (2) use the estimates of FY 1999 costs initially submitted by the Postal Service rather than the actual data; or (3) some other result that one or more participants suggest that can be justified as yielding reliable results while protecting the due process rights of participants.

Any use of actual FY 1999 cost data will entail some additional calculations as, for example, audited FY 1999 costs attributed in Commission-approved methods have not yet been calculated and made part of the record in this case. All participants, and especially the Postal Service, should include in their comments an estimate of whether, and to what extent, the use of FY 1999 data will require the commitment of additional resources in order to allow this case to be completed within the statutory 10 month period, and how that factor bears on their advice to the Commission. Participants that are preparing evidentiary presentations while this matter is under consideration will, where appropriate, be given the opportunity to amend their presentations as necessary.

In order to assist participants to evaluate the significance of the actual data recently published by the Postal Service, the Commission has had its staff prepare the three attachments to this Notice of Inquiry. They show the difference between estimated FY 1999 and actual FY 1999 costs by subclass and service using estimated and actual FY 1999 cost data, applying both the Postal Service's proposed, and the current Commission-established attribution methods. To derive the latter comparison,

¹ Billing determinants for Express Mail and parcel post were omitted. They were provided as a supplement to LR-I-259 on April 19, 2000.

² Related workpapers A and B were filed April 5, 2000 as Library References LR-I-277 and LR-I-278, respectively.

the Commission used unaudited information provided pursuant to Rule 103 to develop the FY 1999 costs reflecting existing attribution methods.

Attachment 1 is a table showing the unit costs for the estimated interim year FY 1999 and the actual FY 1999 under both the Postal Service's proposed cost methodology in R2000-1 and the Commission's R97-1 cost methodology. The first three (3) columns of attachment 1 are unit costs by class and subclass under the Postal Service's proposed cost methodology. The first column shows the unit costs for estimated interim year 1999. The second column is the unit costs for actual FY 1999. The third column shows the percent increase or decrease in unit costs of actual FY 1999 over the estimated interim year 1999 unit costs in the first column.

Columns four through six show the same information as the first three columns with the difference being that the unit costs in columns four, five, and six are based on the Commission's R97-1 costing methodology.

Attachment 2 details the derivation of the unit costs shown in attachment 1. The first two pages of attachment 2 detail costs by class and subclass from the cost segments and components, after final adjustments, as originally filed by the Postal Service in R2000-1. The actual FY 1999 costs are from Library Reference I-276, which is the actual FY 1999 Cost Segments and Components report. Pages 3 and 4 of attachment 2 show the costs by class and subclass, after final adjustments under the Commission's R97-1 cost methodology, as prepared by the Postal Service and filed as Library Reference I-131. The actual FY 1999 costs are taken from the preliminary FY 1999 Cost Segments and Components report – PRC Version filed as Exhibit 4 in Docket No. IM2000-1.

An adjustment had to be made in the PRC version of the estimated interim year 1999 from Library Reference I-131. Segment 14 air transportation costs do not reflect the Alaskan air adjustment. However, costs under the Postal Service's methodology and the actual FY 1999 Cost Segments and Components report – PRC Version filed in IM2000-1 did reflect the adjustment. Attachment 3 details the

adjustment made to the PRC version interim year 1999 costs by class and subclass of mail as shown in LR-I-131.

Participants are requested to comment on the appropriate use of actual FY 1999 results in this case on or before May 8, 2000. Reply comments may be filed by May 15, 2000.

By the Commission.

(SEAL)

A handwritten signature in black ink, reading "Cyril J. Pittack". The signature is written in a cursive style with a large, stylized initial "C".

Cyril J. Pittack
Acting Secretary

	USPS R2000-1 Proposed Methodology			PRC R97-1 Cost Methodology		
	¢ Est. FY 99 (1) a/	¢ Act. FY 99 (2) b/	% Difference Act. FY 99 vs Est. FY 99 (3) c/	¢ Est. FY 99 (4) d/	¢ Act. FY 99 (5) e/	% Difference Act. FY 99 vs Est. FY 99 (6) f/
First-Class Mail:						
Single-Piece Letters	23.59	23.51	-0.33%	26.03	26.00	-0.11%
Presort Letters	10.40	10.50	1.04%	11.25	11.38	1.13%
Total Letters	17.74	17.74	0.03%	19.47	19.51	0.20%
Single-Piece Cards	17.99	17.88	-0.65%	19.76	19.78	0.08%
Presort Cards	5.97	6.06	1.47%	6.41	6.49	1.16%
Total Cards	12.44	12.42	-0.18%	13.60	13.65	0.32%
Priority Mail	224.03	232.13	3.62%	247.53	263.34	6.39%
Express Mail	614.53	585.89	-4.66%	935.10	954.44	2.07%
Periodicals:						
In-County	8.62	9.35	8.45%	8.93	9.88	10.68%
Outside County:						
Regular	25.08	24.87	-0.87%	26.57	26.29	-1.04%
Nonprofit	17.54	17.63	0.50%	18.61	18.77	0.88%
Classroom	23.77	24.48	3.00%	25.21	25.40	0.73%
Standard (A):						
Single-Piece Rate	-	231.51		-	292.76	
Commercial Standard:						
Enhanced Carrier Rte.	6.81	7.13	4.62%	7.28	7.61	4.60%
Regular	15.73	15.00	-4.64%	17.10	16.33	-4.54%
Aggregate Nonprofit:						
Nonprofit Enhanced Carr. Rte.	6.78	6.36	-6.14%	7.23	6.60	-8.78%
Nonprofit Regular	10.96	11.16	1.89%	11.85	12.14	2.46%
Standard (B):						
Parcels Zone Rate	284.13	286.70	0.90%	290.30	294.06	1.30%
Bound Printed Matter	83.93	85.67	2.07%	84.42	88.58	4.93%
Special Rate	134.71	156.23	15.98%	139.20	163.60	17.53%
Library Rate	153.90	171.85	11.66%	158.56	175.61	10.76%
U.S. Postal Service						
Free for the Blind	65.30	51.27	-21.48%	70.75	56.14	-20.65%
International Mail	124.13	127.60	2.79%	131.80	137.35	4.21%
Total Mail	17.76	17.80	0.22%	19.39	19.53	0.76%
Special Services:						
Registry	558.14	640.73	14.80%	517.65	494.46	-4.48%
Certified	82.16	79.81	-2.86%	90.35	87.79	-2.83%
Insurance	156.28	158.99	1.73%	159.23	164.11	3.06%
COD	274.93	299.09	8.79%	306.81	333.81	8.80%
Money Orders	61.27	65.18	6.37%	65.37	71.34	9.14%
Total Volume Variable	18.43	18.47	0.24%	20.10	20.25	0.74%

a/ Attachment 2, Page 1-2, Col. 6
b/ Attachment 2, Page -21, Col. 9
c/ (col.2 - col.1)/col.1

d/ Attachment 2, Page 3-4, Col. 6
e/ Attachment 2, Page 3-4, Col. 9
f/ (col. 5 - col. 4)/col.4

Docket No. R2000-1
Interim Year 1999 - USPS Proposal

Docket No. R2000-1
Actual FY 1999 - USPS Proposal

	<u>Total</u> <u>Costs a/</u> (1)	<u>Volumes b/</u> (2)	<u>Cost per</u> <u>Piece c/</u> (3)	<u>Total</u> <u>Costs d/</u> (4)	<u>Volumes e/</u> (5)	<u>Cost per</u> <u>Piece f/</u> (6)
First-Class Mail:						
Single-Piece Letters	12,685,093	53,783,619	23.585	12,643,541	53,783,619	23.508
Presort Letters	4,455,799	42,859,119	10.396	4,502,000	42,859,119	10.504
Total Letters	17,140,892	96,642,738	17.736	17,145,541	96,642,738	17.741
Single-Piece Cards	512,957	2,850,770	17.994	509,621	2,850,770	17.877
Presort Cards	145,830	2,442,946	5.969	147,972	2,442,946	6.057
Total Cards	658,787	5,293,716	12.445	657,593	5,293,716	12.422
Total First-Class	17,799,679	101,936,454	17.462	17,803,134	101,936,454	17.465
Priority Mail	2,664,735	1,189,469	224.027	2,761,136	1,189,469	232.132
Express Mail	422,018	68,673	614.533	402,347	68,673	585.888
Mailgrams	1,100	4,087	26.915	919	4,087	22.486
Periodicals:						
In-County	77,005	893,454	8.619	83,514	893,454	9.347
Outside County:						
Regular	1,842,442	7,345,117	25.084	1,790,473	7,200,355	24.866
Nonprofit	346,552	1,975,997	17.538	373,761	2,120,463	17.626
Classroom	14,085	59,259	23.769	14,580	59,555	24.482
Total Periodicals	2,280,084	10,273,827	22.193	2,262,328	10,273,827	22.020
Standard (A):						
Single-Piece Rate	-	42,037	-	97,318	42,037	231.506
Commercial Standard:						
Enhanced Carrier Rte.	2,232,237	32,755,982	6.815	2,335,311	32,755,982	7.129
Regular	6,135,143	38,996,265	15.733	5,850,752	38,996,265	15.003
Total Commercial	8,367,380	71,752,247	11.661	8,186,063	71,752,247	11.409
Aggregate Nonprofit:						
Nonprofit Enhanced C	197,751	2,917,830	6.777	185,605	2,917,830	6.361
Nonprofit Regular	1,199,649	10,949,596	10.956	1,222,333	10,949,596	11.163
Total Aggregate Nonp	1,397,400	13,867,426	10.077	1,407,938	13,867,426	10.153
Total Standard (A)	9,764,780	85,661,710	11.399	9,691,319	85,661,710	11.313
Standard (B):						
Parcels Zone Rate	906,332	318,982	284.133	914,529	318,982	286.702
Bound Printed Matter	416,027	495,662	83.934	424,658	495,662	85.675
Special Rate	269,962	200,404	134.709	313,097	200,404	156.233
Library Rate	43,211	28,077	153.902	48,250	28,077	171.849
Total Standard (B)	1,635,532	1,043,125	156.792	1,700,534	1,043,125	163.023

	Docket No. R2000-1 Interim Year 1999 - USPS Proposal			Docket No. R2000-1 Actual FY 1999 - USPS Proposal		
	Total Costs a/ (1)	Volumes b/ (2)	Cost per Piece c/ (3)	Total Costs d/ (4)	Volumes e/ (5)	Cost per Piece f/ (6)
U.S. Postal Service	-	382,283	-	-	382,283	-
Free for the Blind	34,757	53,227	65.300	27,290	53,227	51.271
International Mail	1,195,945	963,425	124.135	1,229,339	963,425	127.601
Total Mail	35,798,630	201,576,280	17.759	35,878,346	201,576,280	17.799
Special Services:						
Registry	94,326	16,900	558.142	108,283	16,900	640.728
Certified	404,721	492,629	82.155	393,151	492,629	79.807
Insurance	75,968	48,610	156.281	77,283	48,610	158.986
COD	15,418	5,608	274.929	16,773	5,608	299.091
Special Delivery	1	-	-	-	-	-
Money Orders	135,338	220,878	61.273	143,959	220,878	65.176
Stamped Cards	3,136			3,188		
Stamped Envelopes	11,380			11,120		
Special Handling	2,297			2,128		
PO Box	502,726			504,118		
Other	101,766			94,861		
Total Special Serv	1,347,077			1,354,864		
Total Volume Variable	37,145,707	201,576,280	18.428	37,233,210	201,576,280	18.471
Other Costs	25,254,661		12.529	25,158,632		12.481
Total Costs	62,400,368	201,576,280	30.956	62,391,842	201,576,280	30.952
% Volume Variable	60.1%			60.1%		

a/ USPS Exh. 14C

b/ USPS Exh. 14A at 9

c/ col 1/col.2

d/ USPS LR-I-276, FY 1999 Cost Segments and Components

Report, D report after final adjustments

e/ USPS LR-I-275, FY 1999 Cost and Revenue Analysis
report at 3-4

f/ col.4/col.5

Docket No. R2000-1
Interim Year 1999 - PRC Method

Docket No. R2000-1
Actual FY 1999 - PRC Method

	Total <u>Costs a/</u> (1)	<u>Volumes b/</u> (2)	Cost per <u>Piece c/</u> (3)	Total <u>Costs d/</u> (4)	<u>Volumes e/</u> (5)	Cost per <u>Piece f/</u> (6)
First-Class Mail:						
Single-Piece Letters	13,997,858	53,783,619	26.026	13,981,947	53,783,619	25.997
Presort Letters	4,822,436	42,859,119	11.252	4,876,852	42,859,119	11.379
Total Letters	18,820,294	96,642,738	19.474	18,858,799	96,642,738	19.514
Single-Piece Cards	563,347	2,850,770	19.761	563,807	2,850,770	19.777
Presort Cards	156,714	2,442,946	6.415	158,536	2,442,946	6.490
Total Cards	720,061	5,293,716	13.602	722,343	5,293,716	13.645
Total First-Class	19,540,355	101,936,454	19.169	19,581,142	101,936,454	19.209
Priority Mail	2,944,313	1,189,469	247.532	3,132,354	1,189,469	263.341
Express Mail	642,159	68,673	935.097	655,440	68,673	954.436
Mailgrams	1,254	4,087	30.683	1,136	4,087	27.795
Periodicals:						
In-County	79,758	893,454	8.927	88,273	893,454	9.880
Outside County:						
Regular	1,951,655	7,345,117	26.571	1,893,303	7,200,355	26.295
Nonprofit	367,699	1,975,997	18.608	398,042	2,120,463	18.771
Classroom	14,940	59,259	25.212	15,124	59,555	25.395
Total Periodicals	2,414,052	10,273,827	23.497	2,394,742	10,273,827	23.309
Standard (A):						
Single-Piece Rate	-	42,037	-	123,068	42,037	292.761
Commercial Standard:						
Enhanced Carrier Rte.	2,383,236	32,755,982	7.276	2,492,941	32,755,982	7.611
Regular	6,669,811	38,996,265	17.104	6,366,766	38,996,265	16.327
Total Commercial	9,053,047	71,752,247	12.617	8,859,707	71,752,247	12.348
Aggregate Nonprofit:						
Nonprofit Enhanced C	211,052	2,917,830	7.233	192,518	2,917,830	6.598
Nonprofit Regular	1,297,732	10,949,596	11.852	1,329,675	10,949,596	12.144
Total Aggregate Nonp	1,508,784	13,867,426	10.880	1,522,193	13,867,426	10.977
Total Standard (A)	10,561,831	85,661,710	12.330	10,504,968	85,661,710	12.263

Docket No. R2000-1
Interim Year 1999 - PRC Method

Docket No. R2000-1
Actual FY 1999 - PRC Method

	Total Costs <u>a/</u> (1)	Volumes <u>b/</u> (2)	Cost per Piece <u>c/</u> (3)	Total Costs <u>d/</u> (4)	Volumes <u>e/</u> (5)	Cost per Piece <u>f/</u> (6)
Parcels Zone Rate	926,012	318,982	290.302	938,012	318,982	294.064
Bound Printed Matter	418,430	495,662	84.418	439,055	495,662	88.580
Special Rate	278,955	200,404	139.196	327,865	200,404	163.602
Library Rate	44,518	28,077	158.556	49,306	28,077	175.610
Total Standard (B)	1,667,914	1,043,125	159.896	1,754,238	1,043,125	168.171
U.S. Postal Service	-	382,283	-	-	382,283	-
Free for the Blind	37,660	53,227	70.754	29,882	53,227	56.141
International Mail	1,269,813	963,425	131.802	1,323,306	963,425	137.354
Total Mail	39,079,159	201,576,280	19.387	39,377,208	201,576,280	19.535
Special Services:						
Registry	87,483	16,900	517.651	83,563	16,900	494.456
Certified	445,085	492,629	90.349	432,481	492,629	87.790
Insurance	77,400	48,610	159.226	79,772	48,610	164.106
COD	17,206	5,608	306.812	18,720	5,608	333.809
Special Delivery	1	-	-	-	-	-
Money Orders	144,387	220,878	65.370	157,579	220,878	71.342
Stamped Cards	3,136			3,188		
Stamped Envelopes	11,319			11,076		
Special Handling	1,760			1,203		
PO Box	494,294			496,805		
Other	155,506			152,957		
Total Special Serv	1,437,577			1,437,344		
Total Volume Variable	40,516,736	201,576,280	20.100	40,814,552	201,576,280	20.248
Other Costs	21,907,456		10.868	21,577,283		10.704
Total Costs	62,424,192	201,576,280	30.968	62,391,835	201,576,280	30.952
% Volume Variable	65.7%			65.9%		

a/ Attachment 3, Col. 4

b/ USPS Exh. 14A at 9

c/ col.1/col.2

d/ Docket No. IM2000-1, Exh. 4, Preliminary Cost Segments
and Components Report, FY 1999-PRC Version at 7-8

e/ USPS LR-I-275, FY 1999 Cost and Revenue Analysis
report at 3-4

f/ col 4/col.5

Line No.		Unadjusted	Adjusted	Unadjusted	Adjusted
		Est. FY 99	Est. FY 99	Est. FY 99	Est. FY 99
		Alaskan	Alaskan	Total	Total
		<u>Air a/</u>	<u>Air c/</u>	<u>Costs d/</u>	<u>Costs e/</u>
		(1)	(2)	(3)	(4)
First-Class Mail:					
1	Single-Piece Letters	146	12	13,997,992	13,997,858
2	Presort Letters	-	-	4,822,436	4,822,436
3	Total Letters	146	12	18,820,428	18,820,294
4	Single-Piece Cards	-	-	563,347	563,347
5	Presort Cards	-	-	156,714	156,714
6	Total Cards	-	-	720,061	720,061
7	Total First-Class	146	12	19,540,489	19,540,355
8	Priority Mail	819	65	2,945,067	2,944,313
9	Express Mail	-	-	642,159	642,159
10	Mailgrams	-	-	1,254	1,254
Periodicals:					
11	In-County	-	-	79,758	79,758
Outside County:					
12	Regular	142	11	1,951,786	1,951,655
13	Nonprofit	35	3	367,731	367,699
14	Classroom	2	0	14,942	14,940
15	Total Periodicals	179	14	2,414,217	2,414,052
Standard (A):					
16	Single-Piece Rate	-	-	-	-
Commercial Standard:					
17	Enhanced Carrier Rte.	546	43	2,383,739	2,383,236
18	Regular	559	44	6,670,326	6,669,811
19	Total Commercial	1,105	87	9,054,065	9,053,047
Aggregate Nonprofit:					
20	Nonprofit Enhanced Carr. Rte.	2	0	211,054	211,052
21	Nonprofit Regular	20	2	1,297,750	1,297,732
22	Total Aggregate Nonprofit	22	2	1,508,804	1,508,784
23	Total Standard (A)	1,127	89	10,562,869	10,561,831

Line No.		Unadjusted	Adjusted	Unadjusted	Adjusted
		Est. FY 99	Est. FY 99	Est. FY 99	Est. FY 99
		Alaskan	Alaskan	Total	Total
		<u>Air a/</u>	<u>Air c/</u>	<u>Costs d/</u>	<u>Costs e/</u>
		(1)	(2)	(3)	(4)
Standard (B):					
24	Parcels Zone Rate	96,560	7,619	1,014,953	926,012
25	Bound Printed Matter	122	10	418,542	418,430
26	Special Rate	114	9	279,060	278,955
27	Library Rate	23	2	44,539	44,518
28	Total Standard (B)	96,819	7,639	1,757,094	1,667,914
29	U.S. Postal Service	208	16		
30	Free for the Blind	-	-	37,660	37,660
31	International Mail	-	-	1,269,813	1,269,813
32	Total Mail	99,298	7,835	39,170,622	39,079,159
Special Services:					
33	Registry	-	-	87,483	87,483
34	Certified	-	-	445,085	445,085
35	Insurance	-	-	77,400	77,400
36	COD	-	-	17,206	17,206
37	Special Delivery	-	-	1	1
38	Money Orders	-	-	144,387	144,387
39	Stamped Envelopes	-	-	3,136	3,136
40	Stamped Cards	-	-	11,319	11,319
41	Special Handling	-	-	1,760	1,760
42	PO Box	-	-	494,294	494,294
43	Other	-	-	155,506	155,506
44	Total Special Services	-	-	1,437,577	1,437,577
45	Total Attributable	99,298	7,835 b/	40,608,199	40,516,736
46	Other Costs	-	91,463	21,815,993	21,907,456
47	Total Costs	99,298	99,298	62,424,192	62,424,192
48	Alaska Air Adjust.		7.890% f/		

a/ USPS LR-I-131, Vol.D, Table D at 45-46

f/ USPS LR-I-59, Sect. 7 at 3

b/ L.47 col.2 x l.48 col.2

c/ Distributed on basis of Col. 1

d/ USPS LR-I-131, Vol.D, Table E at 1-2

e/ (Col.2 - Col.1) + Col.3