DECISION OF THE GOVERNORS OF THE UNITED STATES POSTAL SERVICE ON THE RECOMMENDED DECISION ON FURTHER RECONSIDERATION OF THE POSTAL RATE COMMISSION ON POSTAL RATE AND FEE CHANGES, DOCKET NO. R2000-1

May 7, 2001

INTRODUCTION

On April 10, 2001, the Postal Rate Commission issued its third recommended decision in the most recent omnibus postal rate case (Docket No. R2000-1). In two previous decisions in this docket,[1] we had asked the Commission to reconsider its determination to cut nearly $1 billion from the Postal Service's revenue requirement. In its first Recommended Decision (November 13, 2000) (hereinafter, "First Recommended Decision"), the Commission recommended rates and fees based on a revenue requirement approximately $1 billion less than we found to be supported on the record. In our Decision of December 4, 2000, we allowed those recommendations to take effect under protest and returned the case to the Commission for reconsideration of several issues, including the Commission's reductions in the revenue requirement. In its Further Recommended Decision (February 9, 2001) (hereinafter, "Second Recommended Decision"), the Commission restored to the revenue requirement approximately $97 million in costs associated with supervisory personnel, and it recommended changes in rates for Bound Printed Matter and fees for Certified Mail that would produce approximately $53 million in additional revenues from Certified Mail. Because we found that these limited changes would not correct the imbalance of revenues and expenses in the test year, we rejected the Recommended Decision, and the Postal Service resubmitted its Request, pursuant to 39 U.S.C. § 3625(d). In its Opinion and Recommended Decision on Further Reconsideration (April

[1] Decision of the Governors of the United States Postal Service on the Recommended Decision of the Postal Rate Commission on Postal Rate and Fee Changes, Docket No. R2000-1 (Dec. 4, 2000)(First Governors Decision); Decision of the Governors of the United States Postal Service on the Recommended Decision of the Postal Rate Commission on Postal Rate and Fee Changes, Docket No. R2000-1 (March 5, 2001)(Second Governors Decision).

10, 2001) (hereinafter, "Third Recommended Decision"), the Commission has once again declined. The Commission's latest opinion squarely places before the Governors issues relating to our statutory obligations and fiduciary duty to ensure the financial integrity of the Postal Service and the postal system.

Under the Postal Reorganization Act ("the Act"), the Governors have ultimate responsibility to ensure that postal revenues are sufficient to enable the Postal Service to "maintain and continue the development of postal services of the kind and quality adapted to the needs of the United States." We also have ultimate responsibility to ensure that "postal rates and fees ...provide sufficient revenues so that the total estimated income and appropriations to the Postal Service will equal as nearly as practicable total estimated costs of the Postal Service ...includ[ing] ... a reasonable provision for contingencies." 39 U.S.C. § 3621 (often referred to as the "break even" requirement). To this end, the Act gives us, in certain limited circumstances, the authority to modify a recommended decision when we unanimously find that "the rates recommended by the Commission are not adequate to provide sufficient total revenues so that total estimated income and appropriations will equal as nearly as practicable estimated total costs." 39 U.S.C. § 3625(d). We are exercising that authority today.

We find, based on evidence on the record, that the revenues generated by the rates and fees the Commission most recently recommended to us will not permit break-even in the test year (FY 2001), as contemplated by 39 U.S.C. § 3621. We make this finding based solely on the arguments and evidence in the administrative record before us and the Commission.

Having twice returned this matter to the Commission, and having unanimously found that the rates recommended by the Commission are inadequate, we are authorized by law to modify the rates and fees. The rates and fees we establish by this modification are set forth in Attachment A. The record basis for our selection of these particular rates is set forth below. In accordance with concurrent Board Resolution No. 01-8, these rates and fees will become effective on at 12:00 a.m., July 1, 2001.

STATEMENT OF EXPLANATION AND JUSTIFICATION

Under 39 U.S.C. § 3625(d), in order to modify a Commission Recommended Decision, the Governors must expressly find that:

> (1) such modification is in accord with the record and the policies of [39 U.S.C. Chapter 36], and
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> (2) the rates recommended by the Commission are not adequate to provide sufficient total revenues so that total estimated income and appropriations will equal as nearly as practicable estimated total costs.

As demonstrated below, our conclusions on these issues are well-supported on the evidentiary record. We differ with the Commission's conclusion that the Postal Service did not establish on the record that its proposed provision for contingencies of 2.5 percent of total estimated test year costs was reasonable. We do not accept the Commission's determination to incorporate a lower 1.5 percent contingency provision based on its purported authority to alter the revenue requirement. In this regard, we find that the record provides substantial support for the Postal Service's proposed contingency provision, and that the Commission has acted outside its statutory authority in substituting its judgment for the Board of Governors. We further do not agree with the Commission's determination to eliminate from the revenue requirement approximately $200 million in actual expenses represented by the Field Reserve.

In our first two decisions in this docket, we outlined our reasons for allowing the Commission's recommended rates under protest and rejecting the Commission's Second Recommended Decision. We hereby incorporate those discussions by reference. The following addresses in three parts the Governors' findings required by 39 U.S.C. §§ 3625(d)(1) and (2).

In Part I, we will discuss the evidentiary basis in the record for our conclusions: (1) that the Commission's recommended rates fail to produce revenues sufficient to cover costs, within the meaning of 39 U.S.C. § 3621; (2) that the Postal Service's proposed 2.5 percent contingency provision is reasonable, and that it should not have been replaced with the Commission's determination of a 1.5 percent contingency; and (3) that the Commission erred in effectively eliminating the $200 million Field Reserve from the revenue requirement by subsuming it within the provision for contingencies. In Part II, we will outline the legal framework that forms the basis for our conclusions that the Commission has exceeded its authority. We will also explain the applicable standard by which the contingency should be reviewed under the Act. Finally, in Part III, we will present a detailed class-by-class discussion of the modified rates and fees, explaining their derivation and justifying them in accordance with applicable policies in the Act.[2]

PART I EVIDENTIARY BASIS FOR MODIFICATION

THE RATES AND FEES RECOMMENDED DO NOT COVER COSTS

The Commission has three times recommended rates and fees which do not cover total estimated test year costs or provide a reasonable provision for contingencies. The Commission reduced the contingency provision from 2.5 percent to 1.5 percent of total estimated costs and eliminated the "field reserve" as a test year expense. These two reductions total almost $900 million.[3] Thus, the rates and fees recommended by the Commission will provide approximately $900 million less than is necessary to break even in the test year in this case.

We note that our final revenue requirement after modification of the rates ($69.6 billion) is higher than that ($69.0 billion) on which the Postal Service's original request was based. This result is due to the fact that during the course of the case, the Commission ordered the Postal Service to provide updated costs. PRC Order No. 1294. The Postal Service provided testimony documenting all appropriate updates on July 7, 2000. The update showed that costs had increased in many areas, resulting in a total revenue requirement of $69.8 billion, as we found in our first Decision. The Commission accepted this update, but then reduced the contingency provision and eliminated the field reserve expense. The Commission's reductions nullified the updated evidence that cost growth had accelerated beyond what was included in the Postal Service's original request. The resulting revenue requirement was $68.8 billion, leaving a gap of approximately $1 billion between the revenue requirement based on updated

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[2] In *Time, Inc. v. United States Postal Service,* 685 F.2d 760 (2d Cir. 1982), the Court of Appeals held that in modifying rates and fees pursuant to 39 U.S.C. § 3625(d), the Governors must "explain the basis for the particular class by class modifications and the rationale for the new interrelationship created." *Id.* at 772.

[3] The derivation of this figure is explained in detail below in the section on the Technical Structure of the Modification Exercise in Part III of this Decision.

costs and the revenue to be generated from the rates and fees recommended by the Commission. The Commission's rates and fees based on the updated costs have now been in effect since January 7 and have not been challenged in court by any party.

We see no legal barrier to our reliance on the updated costs.[4] Our modified rates and fees, like the Commission's rates and fees, are based on the updated costs that are fully supported on the record. The only difference is that we have restored the contingency provision and the field reserve expense, also supported on the record as we explain below, resulting in a final revenue requirement of $69.6 billion.[5]

THE POSTAL SERVICE'S CONTINGENCY PROVISION OF 2.5 PERCENT IS REASONABLE

The Future Does Not Repeat the Past

In addition to differences in legal interpretations regarding our respective authorities, as we discuss in Part II below, there are fundamental differences between the Commission and ourselves on the determination of the contingency provision amount. The Commission relies on past results as mechanical predictors of the future and as adequate gauges of financial risk.

In its First Recommended Decision, the Commission noted that its "review must be guided by the objective of providing reasonable assurance of revenue sufficiency for the Postal Service in accordance with § 3621." First Recommended Decision at 67. This statement sums up the Commission's failure in this case. The Commission failed to be guided by the statute's

[4] *See* Reply Comments of the United States Postal Service in Accordance with Order No. 1305, Docket No. R2000-1, at 2-7 (March 28, 2001).

[5] The before-modification and after-modification revenue requirements are shown in Attachments One and Two. As shown in Attachment One, the before-modification scenario includes a revenue requirement of $69.8 billion, revenues of $68.8 billion, and a consequent $1 billion gap. As shown in Attachment Two, the modification rates raise revenues by $800 million to $69.6 billion. The rate increases which generate these revenues, however, also reduce mail volume, which, in turn, reduces expenses by $200 million. The ultimate result is a revenue requirement of $69.6 billion. The original $1 billion gap in net revenue, therefore, has been eliminated by a combination of $800 million in additional revenue, and $200 million in reduced expenses associated with the volume lost as a result of the rate increases.

objective of providing a cushion against events that cannot be predicted, quantified or modeled based on the past, in order to assure that the Postal Service does indeed break even in the future. The Commission disregarded testimony on behalf of the Postal Service from its chief financial officer and from a highly respected economist.[6] Both testified that the financial risks in the near future created circumstances quite different from those that had allowed the Postal Service to succeed in recent years with relatively low contingency provisions.

The Commission noted that "[w]hile the Postal Service has explained why its operations goals are expected to generate a particular level of expenses, no such presentation has been made in this case regarding the provision for contingencies." Unlike projecting base operating costs, it is nonsensical to attempt to predict the unpredictable. The purpose of the contingency provision is to protect the Postal Service from the adverse impacts of the unpredictable.

The Commission places its initial reliance in this case on variance analysis, which quantifies the degree to which past projections differed from actual results.[7] First Recommended Decision at

[6] At the rebuttal stage of hearings, the Postal Service presented testimony from Richard J. Strasser, Jr., then Acting Chief Financial Officer and Executive Vice President, now no longer acting, and Dr. Victor Zarnowitz, an economist with vast academic and business credentials, currently working at the Conference Board, the premier worldwide business membership and research network, which analyzes and presents the leading economic indicators.

[7] The Commission has been inconsistent in its reliance on variance analysis. In Docket No. R97-1, *the Commission made no mention of the variance analysis which would have supported* a larger contingency than the Postal Service's. As witness Strasser testified:

> In its most recent Opinion in an omnibus rate case (Docket No. R97-I), the Commission made no reference at all to the usefulness of variance analysis. It did not rely on any approaches more quantitative or objective than those used by the Postal Service for determining the amount of the contingency. It is worth recalling that, in Docket No. R97-I, the weighted average variances calculated from the four previous test years would have implied the need for 3.5 percent contingency, when applied to estimated test year costs, rather than the 1.0 percent contingency provision that the Postal Service used in determining its revenue requirement, and that the Commission recommended. I find it interesting that no party proposed relying on variance analysis to determine the contingency provision in Docket No. R97-I.

Tr. 46-A/20187. Interestingly, even if we were to rely on variance analysis, the variance analysis in this case had an upper range of 2.3 percent, which is very close to the Postal *Service's 2.5 percent contingency provision. USPS-T-9, at* 45.

68-69. Variance analysis would be reliable if it were true that variances in the future necessarily reflect variances in the past. However, as the actual circumstances and environment in which the Postal Service operates change, it would seem to become less, not more, likely that past variances will recur. There can be no doubt that this environment inevitably changes. This is particularly true with regard to the very recent past, and we expect it to be true of the near future as well. In our view, variance analysis is only determinative in a world where crystal balls work and where economists all agree. As witness Tayman testified:

> Variance analysis can only show us what happened in the past, and should not be relied upon exclusively to determine the prudent amount of cushion against unforeseen events in the Test Year. Regardless of what history shows, management must be allowed to assume its responsibility to determine the amount of contingency most appropriate for achieving its goals.
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> [V]ariance analyses ... attempt to show hypothetically how future costs and revenues would behave if the individual segment variances experienced in the past were to be precisely repeated in the Test Year ... [which] does not allow for management's judgment regarding the future and the influence of management's subsequent actions ....[8]

Our fiduciary duty to the Postal Service does not allow us to sit contentedly assuming that the Postal Service can operate in the future on the assumptions of the past. Prudent managers of any business must use their judgment to assess the uncertainties that may lie ahead and plan what is necessary to plan for and survive the risks associated with these uncertainties.[9] In the

[8] USPS-T-9, at 44-45.

[9] As witness Strasser testified:

> [I]ntervenors have argued that the contingency must be justified largely empirically, with statistics and hard data, such as a historical variance or probability analyses. As the Postal Service has long maintained, however, while historical and forecasted quantitative data can clearly aid the decision-making process, the ultimate decision to include a provision for contingencies is logically and necessarily judgmental, and represents a major policy choice by the Board of Governors as to the level of risk the Postal Service is willing to assume in the test year with regard to unknown developments. In this regard, it seems ironic that each intervenor witness who insists that judgment should not be the basis for determining the contingency has in fact used the very approach he has argued against. Each of them has considered historical data, examined forecasts and trends related to the future, and then judgmentally determined that

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case of the Postal Service, which has no retained earnings and has a statutory mandate to break even, the need to protect against net losses due to unforeseen circumstances is fundamental.

Present Circumstances and Basis for Decision

In taking this exceptional course of modifying rates, we are mindful of the financial circumstances now confronting the Postal Service, although we emphasize that our Decision is based only on record evidence before the Commission. In our view, there was sufficient evidence before the Commission that the contingency provision included in the Postal Service's Request was reasonable and necessary in light of circumstances articulated by the Postal Service at that time. The Commission chose to give more weight to other voices downplaying the financial risks facing the Postal Service. We do not rely upon the fact that we now know the Postal Service was generally right and the Commission and these parties were generally wrong concerning the state of both the economy and postal finances, nor does this fact prevent us from taking an objective look at the record. When we do so, we conclude that indeed there was sufficient evidence to support the proposition that the Postal Service's contingency provision was reasonable under the circumstances known and articulated at that time.

The Commission has taken statements by us in our previous Decisions in this case and by Postal Service pleadings in the reconsideration process as indicating that we possess more recent information regarding the Postal Service's financial condition which would have been relevant to the Commission in its reconsiderations. To some extent, the Commission has misconstrued our statements. In its 3rd Opinion, the Commission states that "the Governors also refer to changed circumstances under which the Postal Service is portrayed as 'operating under rates inadequate to meet [its] revenue needs' because of '[s]ubsequent events.'" The Commission then criticizes us for refusing "to document these conditions" by asking that the

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> a lower contingency is warranted based on the facts they have considered. This is the same process the Postal Service followed.

Tr. 46-A/20183.

record be reopened. We did not say that the cause of the inadequacy of the rates was subsequent events. What we actually said was:

> [W]e find ourselves, almost half way into the test year, operating under rates inadequate to meet the Postal Service's revenue needs. With every day that passes, our judgment as to the appropriate level of the Postal Service's revenue requirement, and specifically the reasonableness of its contingency provision, is vindicated. With each day, moreover, we become more convinced that the Commission's substitution of its judgment was inappropriate, and that its judgment was clearly wrong. We need not look beyond the evidentiary record before us and the Commission to reach this conclusion. *Subsequent events only reinforce what is already on the record.*

Governors' Decision on Further Recommended Decision at 3 (March 5, 2001) (emphasis added). The cause of the inadequacy of the rates was the Commission's reduction of the contingency provision.

When we issued our previous two Decisions, we encouraged the Commission to reexamine the record and affirm that the Postal Service had supported its contingency provision in this case as well as it had in the many previous cases. In previous cases, the Commission had accepted the Postal Service's contingency provision, even in the face of challenges by other parties.[10] Consistent with previous decisions, we hoped the Commission would review the

[10] The Commission suggests that its apparently inconsistent treatment of the contingency provision in past cases can be explained by the "unprecedented" level of attention given to the topic by intervenors in the instant case. Second Recommended Decision at 36; First Recommended Decision, Vol. 1, at 65. On the contrary, intervenors have challenged the Postal Service's revenue requirement in virtually every rate case. The contingency has been specifically challenged in most of these. *See, e.g.*, Direct Testimony of Melvin E. Lewis, Docket No. R71-1 in R71-1 Supporting Record, Vol. 3, at 3-1064-75; Direct Testimony of Robert L. Hines, Docket No. R71-1, in *id.*, Vol. 3, at 3-523-27; Direct Testimony of Lawrence S. Lewin, Docket No. R74-1 in R74-1 Supporting Record, Vol. 4, at 4-1306-21; Rebuttal Testimony of Mario Sonnino, Docket No. R74-1, in *id.*, Vol. 4, at 4-1764-68; Direct Testimony of Lawrence Lewin, Docket No. R76-1; Direct Testimony of Paul Kagen, Docket No. R76-1; Direct Testimony of Boyd Ladd, Docket No. R76-1; Direct Testimony of Arthur Eden, Docket No. R77-1; Direct Testimony of Norman C. Lerner, Docket No. R77-1; Rebuttal Testimony of R. Bruce McGregor, Docket No. R77-1; Direct Testimony of Arthur Eden, Docket No. R80-1; Direct Testimony of Paul Kagen, Docket No. R80-1; Rebuttal Testimony of R. Bruce McGregor, Docket No. R80-1; Direct Testimony of Arthur Eden, Docket No. R84-1; Direct Testimony of Branem Coberly, Docket No. R84-1; Direct Testimony of Robert J. Meyers, Docket No. R84-1; Direct Testimony of Arthur Eden, Docket No. R87-1; Direct Testimony of Richard W. Bossert, Docket No. R87-1;
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record and conclude that the rosy predictions of those testifying for a smaller contingency provision were not persuasive, and that their testimony was certainly not of such greater weight than the Postal Service's position that it could possibly support the conclusion that the Postal Service's contingency provision needed to be rejected as unreasonable. But the Commission did none of this, and chastises us for holding back relevant information from its consideration.

It is self-evident that there is more recent information available now concerning the Postal Service's financial condition in FY 2001 than there was several months ago. That is true on an ongoing basis. For instance, recently published Financial and Operating Statements for Accounting Period 7 show a year-to-date loss of $291 million, whereas the Postal Service had planned for net income of $291 million, a negative variance of $582 million, caused primarily by low volumes and revenues, with costs very near plan. Whether these lower volumes were caused by the state of the economy, by increased diversion to electronic and other means, or any other factors or combinations thereof is not known with certainty. But the possibility that any of these factors could depress volume and revenue below predictions was clearly explained on the record before the Commission.[11]

The Commission indicated that it could reopen the record or consider a new request in an expeditious fashion. Aside from the delay likely to be caused by reopening the record, notwithstanding the Commission's intentions to expedite, there is, as we have said, no need for

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Direct Testimony of Perry D. Quick, Docket No. R87-1; Direct Testimony of Perry D. Quick, Docket No. R90-1; Direct Testimony of Richard J. Bossert, Docket No. R90-1; Direct Testimony of Ralph Nader, Docket No. R90-1; Direct Testimony of Arthur Eden, Docket No. R90-1; Direct Testimony of Pamela Thompson, Docket No. R94-1; Direct Testimony of John Stapert, Docket No. R97-1; Direct Testimony of Lawrence Buc, Docket No. R97-1.

[11] On the other hand, the suggestion that post-record information may be reviewed to corroborate the evaluation of record evidence, upon which exclusive reliance nonetheless remains, is one which should be familiar to the Commission. The Commission did just that in Docket No. R80-1, examining several Postal Service financial reports which were not available when the evidentiary record closed. See Commission's Second Opinion & Recommended Decision, Docket No. R80-1, at 9, 32, 39 (June 4, 1981). It did the same thing in Docket No. R90-1, citing post-record information because "it provided a check to assure that the Commission's decision was not seriously inconsistent with known results." Commission's Second Opinion and Recommended Decision, Docket No. R90-1, Appendix I, at 54 (May 24, 1991).

additional evidence, since it is our decision that the current record contains adequate support for the Postal Service's contingency provision. We have not asked the Commission to recommend rates on the basis of the latest financial information. Such an approach would require new cost projections and could essentially make this a perpetual rate case. The Commission's procedures embody the concept of ratemaking that relies on projections of future costs and revenues based on actual results for a fixed period. The Commission already chose to update that basis once during the case. Although the Commission believes that doing so significantly reduced uncertainty, evidence was supplied on the record with regard to the increased uncertainties faced by the Postal Service. We do not agree that updating of that nature addresses the issue of uncertainties caused by unanticipated changes in trends or other external circumstances. Simply updating inflation indices does not reduce the level of uncertainty from what it was when the case was filed.

In this regard, we point out that we are relying, as did the Commission, on the updated costs presented by the Postal Service during the case in accordance with Commission's Order No. 1294. Although the Postal Service had argued before the Commission that it should base its recommendation on its original test year projections, rather than the updated ones that produced a higher revenue requirement, our position was influenced by due process considerations and concerns for the state of the record. In any event, the Postal Service argued in the alternative, that if the Commission chose to update costs, it should do so comprehensively. Furthermore, we have not challenged the Commission's use of updated costs. We note that no party has asked for judicial review of the rates currently in effect, which are based on the updated costs. We have sought to restore only those items that we believe the Commission should not have eliminated. The Commission restored certain supervisory costs in its Second Recommended Decision. We now restore the full contingency provision and the field reserve expenses.

An additional point bears noting with respect to our use of the cost and revenue estimates updated by information provided on the record in response to Order No. 1294. As emphasized in later sections of this Decision, aside from our disagreement on the two core revenue requirement issues, we have striven within this modification to build as directly as possible upon the foundation provided by the Commission's recommendations. This means that, in terms of matters such as subclass cost estimates, cost avoidance estimates, workshare discounts and other rate design issues, institutional cost allocations, and similar "intermediate" ratemaking inputs, we have relied as much as possible on the findings and determinations made by the Commission, and built into its methodologies and models. That approach, however, would not have been possible had we instead tried to rely exclusively on the revenue requirement and FY 1998 base year information submitted with the Postal Service's initial filing. Because the Commission so thoroughly incorporated the updated information into every aspect of its recommendations, as a practical matter, there would have been no way for us simultaneously to disentangle effects based on "updated" information from those based on initial information, while purporting to adhere to the basic structural components of the Commission's recommendations. In other words, trying to avoid utilization of the updated cost and revenue information would not only have caused our modification to be based on less recent actual data, but it also would have presented a logistical nightmare, and would have precluded any ability to provide a straightforward demonstration of the relationship between our rates and those recommended by the Commission. Once the Commission committed to basing its recommendations on the totality of updated information, there was no realistic opportunity to undo that result in the context of the modification process, in which time is of the essence, and we have neither the means nor the desire to try to reinvent the wheel.

Record Support for Postal Service Contingency Provision

There is clear support on the record for the Postal Service's contingency provision of 2.5 percent. In a nearly $70-billion-a-year enterprise, there are numerous factors that, simply by virtue of a small adverse, unexpected shift, could result in serious financial difficulty. When the case was filed in January of 2000, witness Tayman provided testimony enumerating areas of concern that led postal management to include a contingency provision that provided a more customary level of protection than the lower contingency provisions of the previous two cases.[12] The concerns expressed by witness Tayman follow:

[12] USPS-T-9, at 43-44.

- The Postal Service's (then) recent financial performance had not been as favorable as in the mid-1990s. Specifically, the Postal Service fell significantly ($600 million) short of its revenue plan for FY 1999.

- Volume growth was below historic norms.

- In the face of continued growth in mail volume (even if slower than in the past) and continued growth in the delivery network, FY 2000 workyears were to be kept at the levels of the previous year and a 1.5 reduction in workyears was projected for FY 2001. As witness Tayman testified, "It will be a challenge to achieve this reduction."

- New pressures could be brought to bear on salary and benefit cost levels to raise them above projected levels.

- The possibility that health benefit costs would increase beyond the projected level.

- Future labor contracts could be more costly than might be expected based on those in the recent past.

- The competitive environment in which the Postal Service operates would intensify, including electronic diversion and foreign competition.

- Competitors' legislative efforts could result in adverse financial consequences for the Postal Service.

In his rebuttal testimony in August of 2000, Witness Strasser elaborated on these concerns and also testified.[13]

- Inflation could end up being even greater than projected.

- There is an increase in uncertainty in the general economy, as explained in the testimony of renowned economist Dr. Victor Zarnowitz, USPS-RT-2.

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[13] Tr. 46-A/20185, 20191, 20199, 20211.

- The Postal Service's assumptions regarding future expenses and cost reduction initiatives were very aggressive and might not be achieved.

- Revenue generation efforts that were included in revenue projections might not be successful.

In addition, witness Zarnowitz presented comprehensive quantitative and qualitative testimony on economic trends. Based on these trends and his extensive experience, he testified that:

> [A]lthough the U.S. economy has benefited from benevolent economic conditions since the mid-1990s there has been a gradual increase in the imbalances and risks that accompany any boom. This process has accelerated in the immediately past and current year, resulting in a much higher level of uncertainty about the direction of the economy.

Tr. 41/18190. After examining all the relevant indicators, Dr. Zarnowitz concluded:

> Since mid-1990s, the U.S. economy benefited from higher employment, consumption, technical innovations, investment, productivity, and profitability-- just as in previous vigorous business expansions. But it also experienced a gradual increase in the imbalances that tend to accompany all booms and produce rising risks. This process greatly accelerated during the past and, particularly, the current year. This can be seen from slower growth in leading indicators, employment, and consumption; more upward pressures on costs of employment and finance; interest-rate hikes by the Fed to cool the economy and prevent a bout of inflation; and the more subdued and irregular behavior of the stock market. Persistent trade and current-account deficits, low saving and high borrowing all add up to a condition that tends to become more uncertain and more risky over time.
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> In my opinion, then, the least plausible assumption about the present state of the U.S. economy is that it will remain unchanged in the foreseeable future. The risk of a slowdown has increased, and so has the risk of higher inflation and interest rates. Future destabilization of the stock market cannot be precluded. Hence there is more uncertainty now than before about the forecasts of the economy in the years ahead. This includes the projections of the Postal Service, which will generally need more protection or insurance against unexpected adverse events (the presumed function of a contingency provision) than it has in recent years.

Tr. 41/18212-13

The Commission's Criticism Do Not Withstand Scrutiny

One of the difficulties we have had in evaluating the Commission's review of the record is that its First Recommended Decision provided almost no specific citations to whatever testimony and record evidence formed the bases for its conclusions. The Commission's further recommended decisions have, to some degree, clarified the bases for its conclusions, although more by oblique reference than by direct analysis. We note that its initial Opinion section on the contingency provision consists primarily of a lengthy summarization by the Commission of the positions of both the Postal Service and the parties, but only a relatively short discussion in support of the Commission's slashing of the provision. That short section consists almost entirely of criticism of the Postal Service's position. Almost no reference is made to other parties' testimony to indicate what record support the Commission found for its conclusions.[14]

Although the Commission notes in its Opinion that ["t]he greatest potential source of uncertainty concerning the Postal Service's financial results in the test year appears to be ambitious cost reduction programs," it provides no further discussion of this important basis for the Postal Service's contingency provision.[15] It is evident that there is a significant risk of huge financial

[14] With the exception of two footnote references, the only discussion in the Commission's analysis section that specifically cites record testimony opposing the Postal Service is the Commission's conclusion that "the short-term outlook for the national economy does not appear to involve any significant risk of unforeseeable financial harm to the Service." First Recommended Decision at 70. This conclusion was based on OCA witness Rosenberg's testimony "that the United States continues to enjoy robust growth in the longest economic expansion in over half a century. Tr. 22/9815." Id. If this is the evidentiary fulcrum of the Commission's analysis, it cannot stand in the face of the testimony on behalf of the Postal Service. We did not find these conclusions credible at the time the Commission made them and certainly do not find them credible now. Witness Rosenberg's confidence was based on a relatively short-sighted view of a somewhat unusual situation, without the benefit of a longer-term view and a more considered approach, such as that supplied for the record by Dr. Zarnowitz.

[15] In the past the Commission has been more mindful of the uncertainties associated with cost reduction programs: "We are mindful of the fact that cost-cutting procedures can reduce the imbalance between costs and revenues, with a possible concomitant reduction in the necessary contingency provision. We would be reluctant, however, to rely on the prospect of successful cost reduction measures as a ground for reducing the contingency requirement. As witness Osborne's supplemental testimony makes clear, the savings associated with these programs are estimates only. As such, they are subject to the same uncertainties as cost projections."

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proportions in assuming over one-half billion dollars in breakthrough productivity initiatives on top of already planned cost reduction programs. The Commission fails to discuss this issue and concludes only by saying: "On balance, these considerations support a conclusion that a 2.5 percent contingency allowance is not necessary to assure revenue sufficiency in the test year, and thus is excessive." First Recommended Decision at 71.

In its second Opinion, the Commission clarified to some extent the record bases for its continued refusal to restore the Postal Service's contingency provision. It provided particular *citations to the section of its first Opinion summarizing the various witnesses' testimonies.* By following the trail from the Second Recommended Decision back to the summaries in the First Recommended Decision, we are better able to discern what the Commission may have perceived as the record bases for its conclusions. All involved would have been better served if those citations had been indicated directly in the First Recommended Decision. We examine the chain of citations below to attempt to explain why our conclusions regarding the record support for the Postal Service's contingency provision differ from the Commission's. We want to emphasize, as we discuss fully in Part II below, that we do not regard the appropriate approach in analyzing the contingency to be a *de novo* weighing of evidence, but rather an examination of the record to determine whether there is sufficient basis to conclude that the Postal Service's contingency provision is not "reasonable" as that term is used in the statute.

1. *Use of Updated Costs*

The Commission concluded that disagreements concerning future inflation were rendered moot: "By using the most recent information available on the record, the Commission's test year forecasts minimize uncertainty concerning the impact of misestimates of economic activity on Postal Service costs." First Recommended Decision at 70. We disagree. The contingency is intended to provide protection against the possibility that even the most recent projections might not only be wrong, but might be wrong to a significant degree. Moreover, by focusing on "the potential for cost increases driven by inflation" as "chief perils," the Commission ignored the

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PRC Op., R76-1, at 60-61.

testimony on the record concerning the equally threatening possibility of lower revenues due to slower volume growth or changes in the mix of mail.[16]

2. *Witness Buc's Testimony*

At page 37 of its Second Recommended Decision, the Commission states that DMA et al. witness Buc's analysis "effectively challenged" witness Tayman's dismissal of the variance analysis, citing para. 2081 of the First Recommended Decision, which stated that witness Buc "asserts that witness Tayman's presentation in this case provides little support for the Service's proposed contingency provision ...[,] criticizes Witness Tayman's dismissal of the Service's variance analysis as a basis for determining an appropriate contingency level, and asserts that five of the seven considerations he cites do not provide support because they concern financial challenges that cannot be considered 'unforeseen and unforeseeable events.' *Id.* at 9540-44."

Concerning the Postal Service's presentation of and support for the contingency, witness Buc's assertions were contradicted on the record by witness Strasser:

> The Postal Service has consistently provided a reasoned articulation of risk in its rate case requests, and this case is no exception. While we have consistently said that "variance analysis cannot be relied upon in a vacuum as the basis for determining an appropriate contingency level" (see USPS-T-9, p.45), Postal Service management does examine historical trends and performs objective and quantitative analyses. These aid judgment in selecting the contingency. This was explained by the Postal Service in its response to OCA Question on the Contingency No. 2 (May 17, 2000), where we stated:
>
>> [T]he *framework for assessing the reasonableness of the contingency* amount is embodied in a basic approach to identifying sources of risk in estimating future needs. Some of these uncertainties are more identifiable than others. To the extent they can be identified, an attempt is usually made to evaluate the potential effects on future needs by some order of magnitude (e.g., calculate the value of various percentage changes in revenue, health benefits or wages). These potential effects are combined with a more subjective assessment of the potential for totally unknown adversities in the current environment. This evaluation necessarily also involves consideration of historical circumstances, as well as knowledge of and forecasts for the economy in general, *operational challenges, market trends, and certain institutional factors,*

[16] *See, e.g.*, Tr. 46-A/20191, 20217, 20252-53, 20279, 20301, 20364-65.

> such as the relative unpredictability of the collective bargaining process. The overall sense of risk that emerges from this evaluation is balanced subjectively against the other elements of the Postal Service's proposals and policy choices, such as the impact of rate increases on customers and the Board's policy regarding equity restoration.

Tr. 46-A/20187-88.

Witness Buc's "five of seven" theory was essentially that, because the Postal Service already provided its best estimates of what these costs would be in the test year, it was not entitled to the coverage of the contingency provision because they are known items. This is a serious misinterpretation of the purposes of the contingency provision and is clearly contradicted by the Commission's own statements accepting the contingency as a cushion against mis-estimation of known events and unforeseen circumstances leading to unforeseeable results.

3. Analogies to Other Industries

At page 37 of its Second Recommended Decision, the Commission refers to "OCA witness Burns' testimony that the Service's subjective assessment of a reasonable contingency provision was incompatible with the systematic approach to estimating the need for contingency reserves used in the insurance and other industries." The Commission cites para. 2085 of its First Recommended Decision, which states:

> According to witness Burns, the purpose of the contingency provision is twofold: to provide a cushion against potential expenses caused by unforeseeable events, and to compensate for forecasting errors. [Tr. 22] at 9710. Witness Burns observes that contingency reserves are used for the same purpose in the insurance industry, and are subject to a requirement that the provision be clearly related to future, uncontrollable events, rather than serving as a device to smooth out irregularities or volatility in earnings. *Id.* at 9710-11. This requirement is important, he testifies, because without it contingency reserves tend to become larger than necessary, and managers of the enterprise make less effort to limit cost increases within their control. *Id.* at 9712-14.

As a general rule, analogies between the Postal Service and private businesses are less than perfect. It goes without saying that the Postal Service's structure, strictures and entire *raison d'être* and those of the insurance industry are quite different: one is a public service that is supposed to break even, the other is composed of for-profit companies. More specifically, witness Burns's own example demonstrates the inapplicability of the analogy he seeks to draw.

If contingency reserves in the insurance industry are not supposed to serve as a "a device to smooth out irregularities or volatility in earnings," then they are readily distinguishable from the Postal Service's provision for contingencies. The latter is specifically designed to allow the Postal Service to break even, even when expenses exceed or revenues fall short of those that could normally be projected. Moreover, witness Burns's insurance analogy was thoroughly discredited by the testimony of witness Strasser.[17] Furthermore, witness Burns's theory that postal managers make less effort to limit cost increases due to the existence of a provision for

[17] "Witness Burns declares, but makes no effort to explain and justify why the nature and function of the insurance reserve is similar to the contingency in the Postal Service's revenue requirement. At a level of from 13 to 18 percent, in effect (see Tr. 22/ 9726-27), typical insurance industry reserves exceed by more than five times the proposed 2.5 percent contingency provision. As witness Burns confirms, furthermore, insurance companies differ fundamentally from the Postal Service, because they are allowed to earn profits and most have positive equity. In other words, the role and size of insurance reserves as a financial cushion, and the abilities of the insurance companies to absorb future adversities differ fundamentally from the functions the contingency performs in the Postal Service's revenue requirement. Tr. 22/9723. In fact, it was no doubt largely because the Postal Service, with its break-even mandate, does not have the profit margins or provisions for return on investment enjoyed by other firms that Congress believed it important to provide for contingencies in outlining the revenue requirement in 39 U.S.C. § 3621."

Tr. 46-A/20192.

"... the purpose of insurance reserves is significantly different from the function of the contingency. In order to guarantee that there will be enough money to pay on their customers claims, insurance companies seek to predict whether the random occurrence of accidents or natural disasters will differ from a historical pattern. Witness Burns testifies that probability analysis is used in the insurance industry "to predict the likely number, severity, and location" of catastrophes." Tr. 22/9744. He further testifies that "items for which a history exists," such as natural catastrophes," lend themselves to probability and variance analysis more readily than items for which no history exists." Tr. 22/9746. By contrast, the contingency in postal ratemaking is designed to protect against the totally unknown and "known unknowns," such as volume erosion due to the Internet or future legislation. There is no history for the totally unknown and there is usually insufficient history for "known unknowns" on which to base a probability analysis. A totally unknown adverse event that depended on complicated political relationships, such as the unplanned legislative transfer of Post Office Department annuitant costs to the Postal Service (which occurred under the Omnibus Budget and Reconciliation Act (OBRA) of 1990) simply could not have been predicted by a probability analysis."

Tr. 46-A/20192-93.

contingencies is purely speculation on his part, not supported by evidence, and indeed rebutted by witness Strasser.[18]

4. *State of the Economy*

Regarding the so-called "subjective" factors (such as the state of the economy, and the Postal Service financial condition), in its Second Recommended Decision the Commission revealed that it had found witness Rosenberg's testimony "particularly convincing" with regard to his "analysis to support his conclusion that a one percent contingency would be more than adequate in the test year," summarized at paras. 2093-2102 of the First Recommended Decision. Second Recommended Decision at 37-38. Once again, witness Rosenberg's analysis was rebutted by witnesses Strasser and Zarnowitz.

With regard to the state of the economy, the Commission stated:

> [W]itness Rosenberg presents statistics to support his conclusion that conditions in the national economy are relatively stable: the United States is currently enjoying the longest economic expansion in more than half a century, and is doing so in a climate of relatively low inflation. According to witness Rosenberg, these conditions should allow the Postal Service to meet its responsibilities with a minimum contingency provision. *Id.* at 9811-15.

First Recommended Decision, para. 2094

At the pages cited by the Commission, witness Rosenberg testifies:

> Other things being equal, relatively favorable and stable economic conditions at present and forecasts of reasonable stability over the near-term future can be expected to strengthen the ability of the Postal Service to forecast revenues and

[18] "[T]here is absolutely no reason to reduce the proposed contingency in response to OCA Witness Burns' unfounded concern that the contingency constructs a 'moral hazard for lax and inefficient management' (See Tr. 22/9775), or Witness Rosenberg's fear that the contingency provision provides a cushion that results 'in a tendency toward slackness.' See. Tr. 22/9826. As a [former] field District Manager, I must emphatically take exception to these suggestions. Postal managers and craft employees are concerned about our customers and the future of our business and do not behave in this manner. Extraordinary efforts have been made by dedicated managers and employees working to achieve the $100 million net income goal set forth for FY 2000. There have been continuing field and headquarters operating budget cuts throughout this year." Tr. 46-A/20185.

> expenses on a going forward basis, so the Postal Service's estimates would be expected to be more reliable now than in more uncertain times. More accurate forecasts or estimates would tend to allow for a relatively smaller provision for contingencies.

Tr. 22/9811-12.

Witness Rosenberg's inflation analysis was shown by witness Strasser to be flawed. Witness Strasser re-analyzed the inflation data to show that "the Docket No. R2000-1 average inflation rate is the greatest of each of the five rate cases [beginning with Docket No. R87-1], and the test year inflation rate is the greatest over the" period beginning with 1996. Tr. 46-A/20196-97.

The testimony of witness Rosenberg on which the Commission specifically relied includes the following:

> The United States is currently enjoying the longest economic expansion in over half a century. We continue to have robust economic growth combined with low and relatively stable inflation. These conditions should allow the Postal Service to meet its responsibilities with a minimum provision for contingencies."

Tr. 22/9815.

The record, because it closed in September of 2000, of course does not show that the "robust economic growth" predicted by witness Rosenberg turned within a few months to significant economic slowdown with recessionary impacts. But it does contain the opinions of Dr. *Zarnowitz who, demurring from claims of perfect knowledge, nevertheless cautioned:*

> None of the [opposing testimonies] deal with the problem of what might happen if *the current period of expansion comes to an end, and in my opinion, it will come* to an end. At least all the past expansions did, and there is no good reason why this one should be different in this respect. And I think that this is a very, very important problem here, and in the past, the transition was often very, very quick, much quicker than people expected, so it is not to be precluded. Something like that could come even in the next year.
>
> *I will not stress it very much.* As you pointed out, I have been wrong on that before; many others have. But that does not change the basic problem that we are facing."

Tr. 41/18243.[19] This testimony provides clear support for the reasonableness, in light of the possibility of adverse changes in the economy, of the Postal Service's return to the more customary level of protection provided by a 2.5 percent contingency provision.

5. *Postal Service Financial Condition*

With respect to the Postal Service's financial condition, The Commission relies on witness Rosenberg's testimony that the Postal Service has generated net income in recent years, even with contingency provisions less than 2.5 percent. First Recommended Decision, at 45. Again, witness Strasser rebutted this testimony.

> The need for a reasonable provision for contingencies, however, is not limited to periods experiencing financial losses. As discussed above, I am concerned about the declining trend in our net incomes that has developed, in spite of recent financial successes and favorable economic conditions. Net income has declined in every year since FY 1995, and the Postal Service is $436 million behind its FY 2000 net income plan through accounting period 11.
>
> ***
>
> [I]t is important to note that the updated test year deficiency would have been much larger without the benefit of offsetting cost decreases due to breakthrough productivity initiatives, and increases in miscellaneous revenue due to revenue generation initiatives. In other words, in light of this updated information, increased costs are very likely to be incurred. In addition, the offsetting cost reductions and the generation of additional miscellaneous revenue, which are critical to achieving test year financial goals, clearly involve a heightened degree of risk. Given this higher level of uncertainty, it would not be reasonable for the contingency provision to be any lower than 2.5 percent.

Tr. 46-A/20197, 20198.

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[19] The Commission, in its Third Recommended Decision, criticized Dr. Zarnowitz's testimony: "He did not predict when or why that boom might end. And witness Zarnowitz agreed that economic projections over the term at issue in this rate case have some reliability." Third Recommended Decision at 9-40. Dr. Zarnowitz's testimony was full of concrete analytical evidence concerning the likelihood of a downturn. While the Commission might have preferred that he pinpoint the time the downturn would accelerate, Dr. Zarnowitz knew better than to predict the unpredictable. His point, and the Postal Service's, was that the uncertainty concerning the timing of a downturn called for a higher level of protection than had been necessary in recent years.

The record demonstrates once again that Witness Rosenberg misses the point of the contingency provision. The contingency provision is there to protect against the possibility that good times will not continue, as expected and hoped. Good business sense suggests that it is foolish not to prepare for a rainy day simply because the sun has been shining. By putting all its stock in the view that good economic times and financial success would follow the Postal Service into the test year, *the Commission made a decision based on an improper substitution of its judgment for that of postal management*, as we discussed in our December 4 Decision, at 10.

The Commission also indicates reliance on witness Rosenberg's observation "that increasing rates by an additional $1 billion to fund a larger contingency provision may be counter-productive, because it would degrade the Postal Service's position in what witness Tayman characterizes as an 'increasingly competitive environment.'" Second Recommended Decision at 37, citing First Recommended Decision, at para. 2099, citing Tr. 22/9827-28. The Commission also cites witness Rosenberg's belief that increased rates may produce a "'vicious cycle'" in which rising postal rates create more headroom for competitors, which would result in lower postal revenues and pressure for further rate increases. *Id.* at 9832-33, citing USPS-T-9 at 44." Second Recommended Decision at 37, citing First Recommended Decision, at para. 2099. As a result, the Commission concluded that:

> [T]his amount is difficult to reconcile with the Postal Service's witnesses' expressions of concern regarding the increasingly competitive environment in which it operates. It is not the Commission's function to direct how the Postal Service should respond to competitive pressures. However, for ratemaking purposes it is difficult to interpret a perceived increase in the intensity of competition as a justification for increasing an item that will raise all rates in the aggregate."

PRC Op. at 75. Yet the Commission in estimating test year volumes, costs and revenues has used the demand equations sponsored by Postal Service witnesses Musgrave, Thress and Tolley. With limited exceptions, these equations identify the demand for postal services as being inelastic. When demand for a service is inelastic, revenues increase when prices increase. This is the basis for the Commission's recommendations to increase rates and it is the basis for our rate increase determinations as well. We find this justification to be sufficient. While we are wary of pricing our services out of the market and losing revenues as a consequence, we do not find that the rate increases we are recommending will have this impact.

The Commission elaborated on its concerns concerning the Postal Service's financial condition in its Second Recommended Decision:

> While witnesses Tayman and Strasser both express general concern about the prospective strength of volume and revenue growth for the Service, neither presents an analytical approach to assessing the magnitude of the potential impact. Moreover, as the Opinion observes, Postal Service witness Thress provided supplemental testimony that the Service did not perceive a need to update test year volume and revenue forecasts, in part because "the initial forecast is performing quite well compared with the most recent actuals...." PRC Op. R2000-1, para. 2163 (citation omitted).

Second Recommended Decision at 40.[20] The Commission once again misses the point of the contingency: to protect against deviations from the predictable, from what worked in the past, and from what is expected to, but does not necessarily, continue into the future. To the extent there existed an unbiased "analytical approach to assessing the magnitude of the potential impact" of factors affecting volume and revenue growth, including the future nature and extent

[20] Moreover, the Commission had available to it, at the time it issued its first Recommended Decision in November, information that was not available to witness Thress at the time he made the statement to which the Commission refers. In witness Strasser's appearance on the stand later in the hearing process, he stressed the importance to postal finances not only of trends in total volume, but, more specifically, the trends in the high contribution subclasses as well. Tr. 46A/20364-66. He mentioned concerns about First-Class Mail and Priority Mail in particular. *Id.* at 20217, 20252-53, 20279, 20364-66. In its First Recommended Decision, the Commission presented a comparison of actual versus forecast volume for all four quarters of FY 2000, in contrast with the figures for the first three quarters presented by witness Thress. PRC Op., R2000-1, Vol. 2, Appendix I (November 13,2000). The new figures for Quarter 4 corroborated the concerns expressed by Mr. Strasser. For the first time during FY 2000, actual total volume was below forecast in Quarter 4. More importantly, the trends for First-Class Mail and Priority were fairly striking. For both types of mail, the amount by which actuals were below the forecast was more than twice as much in Quarter 4 (1.9 percent, and 6.6 percent, respectively) as it had been for any previous quarter. Within First-Class letters, another troubling feature was that in Quarter 4, for the first time during the year, none of the overforecast of Single-Piece Letters was offset by an underforecast of Workshared Letters. Unlike in the previous three quarters, actuals were below forecast for both categories. Despite Mr. Strasser's explicit testimony that these types of trends were additional factors supporting the full contingency, the Commission chose not to acknowledge the fact that the most recent information available at the
(continued...)

of electronic diversion, the Postal Service presented it in the testimony of witnesses Tolley and Thress. The contingency is legitimately relied upon by the Postal Service to protect it further against the effects on volume and revenue growth of changes beyond those that an unbiased forecast would project (*i.e.*, those with an expected probability of 50 percent or greater). One example of this would be the introduction of new technology that adversely affects postal volumes well beyond what could have been projected before that technology was conceived. The very purpose of a provision for contingencies is to provide a cushion in the event that circumstances other than the most probable actually unfold. *We do not need the contingency to protect against what we know – it is needed to protect against what we do not know.*

6. The Contingency Provision's Proportion to Revenue Deficiency

The Commission relies in part on its unfounded belief that "the appropriate size of the contingency should be related to the size of the requested increase in revenues." First Recommended Decision at 73. In other words, the contingency should not constitute a "disproportionate share" of additional revenues that the new rates and fees are designed to generate. This unprecedented analysis is a total irrelevancy, is counter-intuitive, and is inconsistent with the Commission's own precedent.

As any businessperson would recognize, implementing a relatively small price increase puts a business at greater risk of not covering its costs than implementing a larger one. This concern is magnified in the case of the Postal Service, which cannot raise prices unilaterally and must engage in an 18-month endeavor to do so. As our previous Decisions explain, the contingency provision must protect the entire Postal Service, which has an annual budget of nearly $70 billion. It is the totality of postal operations that must be protected against unforeseen events. The size of the most recent rate increase is not relevant to the level of protection needed.

In Docket No. R87-1, an argument was made that the contingency was too large a proportion of the revenue deficiency. The Commission dismissed that argument: "Since the purpose of the contingency is to enhance the ability of the Postal Service to absorb unforeseen adversity

(...continued)
time of its initial recommendations further corroborated his concerns.

without incurring a deficit, we agree with the Postal Service that viewing the contingency as a percentage of total segment costs, as the Kappel Commission viewed it, provides a more relevant perspective. *See* Towards Postal Excellence: The Report of the President's Commission on Postal Organization (June 1969), at 82." PRC Op., R87-1, at 46.

FIELD RESERVE

As part of our modification, we are restoring the "field reserve" amount to the revenue requirement. The Commission had excluded from the revenue requirement the $200 million field reserve described in connection with the update as a test year expense. Instead, the Commission subsumed this expense within the already-reduced contingency provision. As a result, the 1.5 percent that the Commission included for contingencies was effectively reduced to 1.2 percent, providing even less protection against unforeseen expenses.[21]

We find that the record supports the field reserve's inclusion as a test year expense item. Extensive testimony was provided by witness Strasser on this matter:

> In discussions pertaining to these adjustments, there has been some confusion regarding the character and impact of the approximately $200 million "field reserve." There has been some suggestion that this expense is merely an element of the contingency provision. This conclusion is wrong. ...
> The field reserve is an actual budget expense item that the Postal Service projects it will spend during the test year. It is as real as any other expense in the Postal Service's budget. It has not yet been assigned to a particular expense account, pending evaluation in the field of the particular needs of each location as the year progresses. Its status is similar to a series of other reserved line items in the Postal Service's budget process. For example, budgeted field expenses for projected COLAs and increased health benefit expenses are held in a headquarters reserve account at the beginning of the year. They are not allocated to field operating units until well into the budget year, when the actual CPIs (in the case of COLAs) and the actual health benefit increases are known. The reserve is then distributed to the field as needed as the year progresses. In the same way, the breakthrough productivity field reserve will be distributed as

[21] In *Newsweek*, the Commission's conversion of actual expenses into a component of the contingency provision in Docket No. R80-1 provided one of the bases for the court's conclusion that the Commission's revenue cuts were arbitrary. *Newsweek*, 663 F.2d at 1205.

> needed as the year progresses, once it is known where and for what the funds are needed.

Tr. 46D/20207-09 (emphasis added).

In cross-examination, witness Strasser elaborated on this matter in some detail:

> Q If this amount is pending evaluation, does that suggest that these needs may not materialize as the year progresses?
>
> A No. It is evaluation as to what they will be used on. These will definitely be spent. What we did in our budget process is that we have a list of investments that should be made, and there [are] too many on the list to fund and end up anywhere near where we want to end the year in terms of net income.
>
> In addition, we have, as you know, added our breakthrough productivity to the normal array of cost reductions we have given to the Postal field, and the field units are going to have to reduce work hours, compared to this year, twice as much as they have achieved in the reductions this year. In other words, it is going to be somewhere in the range of 1.5 percent to a 2 percent reduction in work hours compared to the work hours in this fiscal year.
>
> So there is increased, with our breakthrough productivity, there is increased uncertainty as to whether the opportunity for — we are discussing with the field where the opportunity is for breakthrough productivity and what the specified amounts are by field location. So we have created this $200 million field reserve by holding back the investments that equate to $200 million. And specifically, what we have done is we have reduced the budget for mail transport equipment, which is a risk due to the fall mailing season next year. We have reduced the advertising budget and held it steady and constant when we, in fact, are having new product introductions like Priority Mail Global Guaranteed.
>
> We have held back on infrastructure, information platform infrastructures that we need for this mail, the mailing community, and we are trying to create an opportunity to give the mailers a window on the process to find out where their mail is, and there [are] $100 million in infrastructure expenses that need to be put towards that program.
>
> We have held those specific expenses in reserve until we are sure that the breakthrough productivity and the allocation of the breakthrough productivity works in this process. If it works and we get indications during the beginning of the year that it is being achieved, we will spend the $200 million on those specific investments that I just mentioned. It if doesn't work, we will have to hold back on those investments for a future fiscal year and cover the shortfall in the breakthrough productivity.

***

> Q [A]s I understood it, it sounded like there was a chance that the $200 million might not be spent. If certain events didn't fall into place, then you might not spend that $200 million, is that right?
>
> A No, that is not correct. What I said was, if we don't need it to cover the breakthrough productivity, and if the field achieves the reduction in the work hours that we have targeted to achieve with this very massive effort, we will spend it on the infrastructure for the information platform, the advertising for product introductions, and the mail transport equipment that we believe we need for next fall's mailing season.

Tr. 46A/20295-97 (emphasis added).

In light of this testimony that the field reserve will be spent either on operations in areas where *the very challenging breakthrough productivity inititiaves are not able to be met, or else on the* specific items enumerated by witness Strasser, we have restored the field reserve as a test year expense.

We are cognizant of the Commission's concern that not knowing on what the field reserve will end up being spent makes it difficult to distribute it to the classes of mail. We view this matter as one which arose out of the updating exercise that the Commission ordered and would hope that the difficulties it engendered could be avoided in future cases. This cannot , however, detract from the fact that the field reserve is an actual test year expense. Accordingly, the expense is being distributed in the manner that it is most likely to be spent, as the Postal *Service had indicated on the record.*

PART II STATUTORY FRAMEWORK

The instant dispute over the Postal Service's revenue requirement arises against a background of disagreement between the Governors and the Commission that spans the 30-year period since Postal Reorganization in 1970.[22] The crux of this disagreement is whether, or to what extent, the Commission is authorized to alter the Postal Service's estimates of expenses and revenue need that form the foundations of Postal Service rate requests under 39 U.S.C. §3622. The Commission apparently believes that review and ultimately establishment of the Postal Service's revenue requirement in rate proceedings are integral to its recommendation of rate and fee changes. We believe that determination of the Postal Service's revenue objectives, including decisions over sources and uses of revenues, constitute fundamental choices associated with managing the Postal Service that were not intended to be incorporated or effectively subsumed under the Commission's limited ratemaking functions. In Docket No. R2000-1, this controversy turns principally on whether the Commission can lawfully reduce the revenue requirement by revising the provision for contingencies adopted by the Board of Governors and included in the Postal Service's revenue requirement. The following outlines our positions on several issues related to this question.

[22] The Governors' views rest on an interpretation of the statutory ratemaking scheme that dates back to the first omnibus rate case conducted under the Act (Docket No. R71-1). *See* United States Postal Service Decision of the Governors on Rates of Postage and Fees for Postal Services, in United States Postal Service, Action of the Governors Under 39 U.S.C. Section 3625 *and supporting record in the matter of Postal Rate and Fee Increases, 1971: Docket No.* R71-1 before the Postal Rate Commission, Volume 1, at I-367-70 (1972) (hereinafter R71-1 Supporting Record). During the case, the position of the Post Office Department, with which we agree, was expressed in *Post Office Department Brief on Threshold Jurisdictional Issues, in* R71-1 Supporting Record, at 2-495-502; United States Postal Service Brief to the Chief Examiner, in R71-1 Supporting Record, Vol. 2,at 2-665-70. Similarly, the Commission's *interpretation extends from* that *first case*, although it has also evolved somewhat over the years. *See* PRC Op. R71-1, in R71-1 Supporting Record, Volume 1, at I-268-271. *See also* Ruling on Objections to Certain Interrogatories, in R71-1 Supporting Record, Volume 2, at 2-95-99.

STATUTORY AUTHORITY

The Act does not establish a role for the Commission in determining the Postal Service's revenue requirement. Rather, it vests exclusive authority to manage the Postal Service's finances in the Board of Governors and the Postal Service.[23] Section 3621, which, among other things, enunciates the break-even policy, specifically vests the final authority to establish postal rates, fees, and mail classifications in the Governors. Section 3621 also describes the constituent elements of Postal Service's revenue requirement in the break-even calculus, including "a reasonable provision for contingencies." Nowhere does section 3621, or any other provision of the Act, refer to or establish a role for the Commission in determining or approving expenses, or any other element of the revenue requirement.

The Commission's interpretation of its authority to alter the revenue requirement is entirely derivative and dependent upon general references in the statutory language. Section 3622(b), which establishes the Commission's substantive role in the ratemaking process, only enumerates criteria bearing on the allocation of costs among classes of mail and types of service, and the recommendation of rates and fees. No provision of the Act explicitly authorizes the Commission to determine how much revenue the Postal Service needs, or to pass judgment on Postal Service decisions creating such needs. Nor does the Act authorize the

[23] For example: Section 202(a) provides that the "exercise of the powers of the Postal Service shall be directed by a Board of Governors...;" Section 205(a) provides that "the Board shall direct and control the expenditures and review the practices and policies of the Postal Service...;" Section 401(3) empowers the Postal Service, *inter alia*, to "determine the character of, and necessity for, its expenditures...;" Section 401(4) empowers the Postal Service to "determine and keep its own system of accounts...." Section 401(5) empowers the Postal Service "to acquire...such personal and real property, or any interest therein, as it deems necessary or convenient in the transaction of its business...," and "to hold, maintain, sell, lease, or otherwise dispose of such property or any interest therein...." Section 2008(c) provides "[s]ubject only to the provisions of this chapter, the Postal Service is authorized to make such expenditures and to enter into such contracts, agreements, and arrangements, upon such terms and conditions and in such manner as it deems necessary...." Other provisions, for example in Part III of the statute, outline plenary authorities or functions over a variety of matters affecting the Postal Service's financial condition. The prerogatives identified are in certain respects subject to specific limitations and conditions. For example, section 2009 requires the Postal Service to prepare and submit an annual budget to the Office of Management and Budget, and Section 2008(c) requires an audit by the Comptroller General.

Commission to assess and restrict, directly or indirectly, Board of Governors decisions on where the Postal Service will obtain the revenues it requires.

The Commission develops the case for its authority through inference.[24] It relies principally on section 3622(b), which directs that it must recommend rates and fees "in accordance with the policies of [title 39, United States Code]." According to the Commission, these policies include the break-even requirement in section 3621, as well as enumeration of the revenue requirement elements. Therefore, the Commission reasons it has the authority to enforce break-even through its ratemaking function. The Commission believes that, by weighing evidence presented at hearings it must conduct under 39 U.S.C. § 3624, it is in a position to make an *independent* judgment about how much revenue the Postal Service needs.[25]

The Commission supports these inferences by arguing that the statutory scheme simply could not work unless the Commission had the disputed authority.[26] It asserts that its independence and its ability to evaluate and recommend rates under the specific criteria in 39 U.S.C. § 3622(b) would be impaired, if the Postal Service could dictate overall revenue objectives. The Commission believes it could not give full effect to the hearing and appellate review processes required by the Act if it did not have the ability to inquire into expenses and other components of the revenue requirement. Initially, the Commission also contended that the Postal Service's assertion of exclusive jurisdiction over the revenue requirement would deprive us of the Commission's advice.

The Commission's logic is not persuasive in the absence of an express grant of authority in the statute, and in the face of the express statutory grants of authority to the Board of Governors, the Postal Service, and the Governors. The Commission's independence in enforcing break-even and determining revenue need might be compromised, as the Commission claims, only if

[24] First Recommended Decision, at 62-65; *See* PRC Op. R71-1, in R71-1 Supporting Record, Vol. I, at 1-268-71. Second Recommended Decision, at 5-8; Third Recommended Decision, at 1-5. *See* PRC Op. R71-1, in R71-1 Supporting Record, Vol. I, at 1-268-71.

[25] Second Recommended Decision, at 6-7.

[26] PRC Op. R71-1, in R71-1 Supporting Record, Vol. 1, at 1-269-71.

Congress *intended* that it perform those functions. It did not. The Commission's proper functions in cost allocation and rate design are only impaired by not being able to adjust the revenue requirement, if one assumes that the general price level, and its effect on individual price levels for classes of mail, were intended to be matters for Commission determination. There is no evidence that Congress intended this result. The hearing and appellate processes would be undermined only if reasonable inquiry in Commission proceedings were to be precluded. In practice, it has not been.[27] Notwithstanding the value of Commission advice, it is only advice, and must not limit the Governors' exercise of their statutory authority.[28]

Beyond these clear conclusions from the language of the statute, the legislative history of the Act supports the Governors' long-held interpretation.[29] Conversely, the Commission's view of the same legislative history relies on those parts that directly pertain to the creation of its independent ratemaking role.[30]

We believe that the most compelling evidence of Congressional intent is found in numerous statements in the legislative history demonstrating that the central purpose of the Postal Reorganization Act was to vest management authority and control in a single entity, the Postal

[27] In Docket No. R71-1, the Post Office Department originally objected to discovery regarding revenue requirement issues, on the grounds that the Commission lacked authority to affect the revenue requirement. See Ruling on Objections to Certain Interrogatories (May 11, 1971), in R71-1 Supporting Record, Vol 2, at 2-95. Once discovery was directed, however, the Postal Service complied. For over 30 years, the Postal Service has cooperated with reasonable discovery and other inquiries into the revenue requirement.

[28] As we stated in Docket No. R71-1, the Commission's recommendations are likely to be tightly binding, and its "advice" cannot be permitted to interfere with our management prerogatives. Governors Decision, Docket No. R71-1, in R71-1 Supporting Record, Vol. 1, at 1-368. *See First Governors' Decision*, at 3-5.

[29] We fundamentally agree with the Post Office Department's and Postal Service's contemporaneous interpretation and analysis of the statute and legislative history expressed first in Docket No. R71-1. *See* United States Postal Service Brief to the Chief Examiner, in R71-1 Supporting Record, Vol. 2, at 2-667-670; United States Postal Service Brief on Exceptions to Initial Decision of the Presiding Officer (Feb. 18, 1972), in *Id.*, Vol. 1, at 1-48-50.

[30] PRC Op. R71-1, in R71-1 Supporting Record, Vol. 1, at 1-270-71.

Service.[31] Furthermore, that legislative history demonstrates conclusively that, in the context of ratemaking, Congress intended that the Postal Service would control the overall revenue requirement, and the Commission would have the function of allocating costs and designing rates within that constraint.[32]

Judicial opinion supports this view. In circumstances similar in some respects to the instant proceeding, the United States Court of Appeals for the Second Circuit overturned the Commission's reduction of the Postal Service's revenue requirement in Docket No. R80-1, including its finding that the Postal Service's proposed contingency provision should be reduced.[33] The Court concluded that the Commission's actions in cutting about $1 billion from the Postal Service's revenue requirement for the purpose of influencing the Postal Service's policy choices was arbitrary and capricious.[34] With respect to the Commission's substitution of a lower contingency provision, the Court held that the Commission's action was "an unlawful intrusion into the policy-making domain of the Board."[35]

[31] Reply of the United States Postal Service to Comments of Participants in Response to the Postal Service's Memorandum on Reconsideration, Docket No. R2000-1, at 8-9 (Jan. 19, 2001); United States Postal Service Brief to the Chief Examiner, in R71-1 Supporting Record, Vol. 2, at 2-667-670.

[32] *Id.* at 2-668-69.

[33] *Newsweek, Inc. v. United States Postal Service*, 663 F.2d 1186 (2d Cir. 1981); *affirmed on other grounds sub nom, National Association of Greeting Card Publishers v. United States Postal Service*, 462 U.S. 410 (1983) (hereinafter *Newsweek*)..

[34] *Id.* at 1203-06. In analyzing the Commission's role, the Second Circuit was heavily influenced by the opinion of the D.C. Circuit Court of Appeals in *Governors of the United States Postal Service v. Postal Rate Commission*, 654 F.2d 108 (D.C. Cir. 1981).

[35] *Newsweek*, at 1205. We agree with the Postal Service's analysis of this and related judicial precedent as it applies to the Commission's authority generally and this particular proceeding. *See* Reply Brief of the United States Postal Service, Docket No. R2000-1, at II-3-8 (Sep. 22, 2000); United States Postal Service Brief to the Postal Rate Commission, Docket No. R84-1, at I-2-4 (July 9, 1984); United States Postal Service Reply Brief to the Postal Rate Commission, Docket No. R84-1, at I-1-10 (July 19, 1984).

The Commission dismisses the implications of *Newsweek* by arguing that it only applies to the precise facts that were before the court.[36] In this regard, the Commission has concluded that *Newsweek* would only constrain its review and revision of the Postal Service's revenue needs, if the Commission's intended purpose in cutting the revenue requirement, and specifically the contingency, were to "discipline" the Postal Service, or to bring about more frequent rate case filings.[37] The court held that revenue cuts based on these motives, which were explicitly avowed by the Commission in Docket No. R80-1, amounted to impermissible intrusion into the Board's statutory authority.

We think the Commission's view substantially misses the broader point of the court's holding. Whether the effect of *Newsweek* as precedent must be limited to its precise facts, the clear thrust of the court's decision is that the Commission is limited in its statutory authority to constrain any policy choice by the Board or the Governors, including choice of a reasonable provision for contingencies. Furthermore, we must emphasize that, in *Newsweek,* the court's conclusions were not limited to the Commission's intent, but also extended to the "effect" of its recommendations. The court stated:

> Whether or not it was the intent of the PRC to cause more frequent rate filings by eliminating nearly $1 billion from the Postal Service's revenue requirement, the Board determined that the PRC's action would necessarily have that effect.[38]

In a related opinion, the court summarized its holding in *Newsweek* more broadly. There, the court noted:

> We stated quite firmly in *Newsweek* that the PRC must accede to the Board's estimates of the Service's revenue needs.[39]

The Commission dismisses this statement as nonbinding *dicta*. Again, however, this misses the larger point. Whether or not the precise facts control, these and other statements made by

[36] PRC Op. R84-1, Vol. 1, at 14-25.

[37] *Id.* at 24-25.

[38] *Newsweek*, at 1204.

the court represent judicial opinion identifying limits on the Commission's authority. What is most significant is that these decisions adopt the formulation evident in the legislative history cited above, that Congress intended a division of responsibilities between the Postal Service and the Commission, in which the Postal Service would determine its revenue needs, and the Commission's function would be limited to its expertise in ratemaking.[40]

The logic of the statutory scheme restricts the Commission's ability to substitute its own judgment in recommending the provision for contingencies. The Commission describes the "complementary roles" of the Governors and the Commission as involving a logical mechanism that it claims provides balanced opportunities for each agency to carry out separate functions.[41] In this view, Commission hearings initiated by a Postal Service Request enable the Commission to weigh evidence from the Postal Service and other parties, and to make a recommendation based on the Commission's independent assessment of the record. This recommendation encompasses an overall revenue requirement, including a provision for contingencies. The Governors, in response, may elect one of the decision options under 39 U.S.C. § 3625. If they

(...continued)
[39] *Time, Inc. v. United States Postal Service,* 685 F.2d 685, 775 (2d Cir. 1982).

[40] This general conclusion has been recited in another context by the Supreme Court in *National Association of Greeting Card Publishers v. United States Postal Service*, 462 U.S. 810 (1983). The Court stated:

> Although the Postal Reorganization Act divides ratemaking responsibility between two agencies, the legislative history demonstrates "that ratemaking...authority [was] vested primarily in [the] Postal Rate Commission." S.Rep. No. 91-912, p. 4 (1970)(Senate Report); *see Time, Inc. v. USPS,* 685 F.2d 760, 771 (CA2 1982); *Newsweek, Inc. v. USPS,* 663 F.2d, at 1200-1201; *NAGCP III*, 197 U.S. App. D.C., at 87, 607 F.2d, at 401. The structure of the Act supports this view. *While the Postal Service has final responsibility for guaranteeing that total revenues equal total costs, the Rate Commission determines the proportion of the revenues that should be raised by each class of mail.*

Id. at 821 (emphasis added). Not surprisingly, the Commission's citation to this statement emphasizes, not the division of responsibilities, but the term "*final* responsibility," inferring a role for the Commission in setting the revenue requirement. PRC Op. R2000-1, Vol. 1, at 64-65.

[41] First Recommended Decision, at 65; Second Recommended Decision, at 5-8.

determine that the Commission's rates and fees will produce inadequate revenues, they may modify.

Apart from arrogating to the Commission a function which was never intended, the Commission's characterization of the statutory scheme is fatally flawed, since, both legally and practically, it substantially deprives us of a realistic opportunity to affect the final outcome under 39 U.S.C. § 3621, in a way that meets the Postal Service's financial needs. As explained above, the Commission began thirty years ago by justifying its assertion of authority over the revenue requirement with the claim that the Governors were entitled to the Commission's advice. We quickly pointed out in Docket No. R71-1 that the Commission's advice on such matters could easily deprive us of our statutory authority,[42] as the Commission's three Opinions in this case demonstrate. The Commission has now abandoned the pretense that its role is advisory.[43] If there is any doubt that the Commission envisions a different process, in which it

[42] We stated:

> Putting aside the delays and expenses for all concerned that would be involved in a proceeding that ranges beyond the Commission's unquestionable jurisdiction, there might be something to be said for this view if we were in a position to treat the recommendations as "advisory" in the usual sense. But we are not, as the circumstances of this case make clear.
>
> Our real options are few and narrow. We may modify the Commission recommendations only under limited circumstances. Even if it were practical to go through the protracted proceedings that must precede modification, the dissent of a single Governor would nullify the judgment of the rest. The *Commission's rate recommendations are, in actual effect, apt to be tightly* binding; if they should interfere with basic management decisions having significant cost consequences, as most such decisions do, they would prevent us from meeting our responsibility as members of the Board to direct the exercise of the powers of the Postal Service."

Governors' Decision, Docket No. R71-1, in R71-1 Supporting Record, Vol. 1, at 1-368.

[43] If nonbinding "advice" were the objective, it should have been sufficient for the Governors to effectively communicate our response rejecting the Commission's views on the contingency in our first decision in this proceeding, which allowed the recommended rates under protest and returned the "advice" to the Commission for reconsideration. In the Commission's Second Recommended Decision, the advisory nature of the Commission's position was lost and, in the context of the procedural framework in the statute, it became coercive.

assumes the key role in determining the revenue requirement, it is dispelled by the following passage from the Commission's Second Recommended Decision in this proceeding:

> In sum, the participants in rate proceedings, including the Postal Service, take great pains to build an evidentiary record that accurately identifies the causes and levels of projected test year costs by class and subclass of mail. That record is the basis for fair and equitable rates. The Commission must thoroughly review the evidence presented by the Postal Service and the other participants, and evaluate that evidence. In this case, as in all recent rate cases, the Commission has accepted many of the Service's estimates, but in some instances it has concluded that the evidence presented by other participants was more convincing. As a result, in some areas test year revenue requirements have been altered.
>
> If the Commission were to uncritically accept unreasonably large contingency amounts, it would allow the Service to understate "inconvenient" costs, (such as costs associated with providing competitive products) and essentially negate the extensive efforts of participants to understand and identify test year expenses. It would also undermine the efforts of the Commission to weigh the rate policy evidence presented by the Service and the other participants, and to balance all of the applicable statutory criteria to develop fair and equitable rates. *The Commission believes that providing the Governors with rate recommendations that will generate sufficient revenues to allow the Postal Service to recover only those expenses justified on the evidentiary record is consistent with its role in helping to develop appropriate rates for the nation's mailers.*[44]

In this vision, as in the current circumstance, the Governors will rarely, if ever, be able to use the modification option to correct satisfactorily for Commission error or abuse. As we pointed out in our Second Decision in this docket, we "find ourselves, almost half way into the test year, operating under rates inadequate to meet the Postal Service's revenue needs." Second Governors Decision at 3. Under the Commission's approach, this will always be the situation, except in those circumstances when we are able to select a test year far enough in the future to allow a substantial cushion of time to correct the Commission's recommendations. Even as we modify today, there is no hope to recover more than a fraction of the contingency reserve expected, and needed, for the test year in this case. This situation cannot be what Congress intended when it designed the statutory scheme.

[44] Second Recommended Decision, at 6-7 (emphasis added).

In the context of the contingency issue, a construction that truly gives effect to the statutory scheme would require the Commission to defer substantially to the Board's judgment in proposing a contingency provision, as explained below. At a minimum, furthermore, the statutory scheme would preclude the Commission from selecting the contingency provision *de novo* by "weighing" the evidence and incorporating the Commission's judgment, rather than the Postal Service's. As explained above, that result was clearly not what Congress intended.

Finally, we must place our views on the Commission's authority in an important perspective. As we stated in our Second Decision in this proceeding, "[w]e recognize that the Board and the Postal Service do not exercise unfettered, unreviewable discretion in assessing and securing the Postal Service's financial needs through the ratemaking process." Second Governors' Decision at 2. The court in *Newsweek* specifically addressed the contention that Commission intervention is needed to protect against unrestrained exercise of Postal Service discretion. The court stated:

> We stress that the Board, and not the PRC, is responsible for making policy decisions for the Postal Service. Should the Board exceed its authority or make questionable policy choices, remedies may be pursued through congressional amendment or judicial review. Further, the President may influence the Board's policy decisions through his appointment powers. Aside from these checks, the Board is free to fashion the policies of the Postal Service without interference, including from the PRC.[45]

In fact, our responses to Commission recommendations have not been unreasonable or inflexible over the course of the 30 year history of postal ratemaking under the Act.[46] As mentioned above, after initial objections to discovery by the Post Office Department were overruled in Docket No. R71-1, the Postal Service in that case and subsequently has cooperated with discovery and review of the revenue requirement in Commission proceedings. Early in that first case, furthermore, the Postal Service acknowledged that the Commission had the authority to adjust the revenue requirement for the volume effects of rate recommendations

[45] *Newsweek, at 1204-05.*

[46] Some of the statements made by the Postal Service in other proceedings in the past might appear to communicate a stridency and inflexibility of our position that is belied by our actual practice.

different from those proposed by the Postal Service.[47] In our Decision in Docket No. R71-1, we noted that Commission corrections of errors in estimates would be welcome, while we maintained our position regarding the respective roles of the Postal Service and the Commission.[48] In subsequent cases, even where we disagreed with the assertion of jurisdiction by the Commission, we did not automatically challenge the result, if it was reasonable.[49]

Where the Commission's action exceeding its authority placed the Postal Service at a serious financial disadvantage, as in Docket No. R80-1, we challenged the result. As discussed above, our position in that case was vindicated by the court of appeals. The current proceeding, however, is only the second instance in which we have modified the Commission's Recommended Decision in an omnibus rate case as a result of the Commission having cut the Postal Service's revenue requirement and reduced the contingency provision.

By contrast, there have been several instances where changes in cost estimates occurring during litigation of rate cases have resulted in erosion of the proposed contingency. Rather than attempt to amend its proposals in those instances, the Postal Service has settled for an effective contingency provision lower than originally proposed.[50]

[47] United States Postal Service Brief to the Chief Examiner, in R71-1 Supporting Record, Vol. 2, at 2-666, n. 175.

[48] Governors' Decision, Docket No. R71-1, in R71-1 Supporting Record, Vol. 1, at 1-369.

[49] *See* Governors' Decision, Docket No. R74-1, in R74-1 Supporting Record, Vol. 1, at 1-1360-61.

[50] In several cases, evidence was introduced demonstrating that estimates of Postal Service expenses in the test year had increased since the Postal Service submitted its Request, but the Commission declined to base its recommendations on the higher estimates, resulting in effective contingency provisions lower than had been proposed as percentages of total costs (Docket Nos. R71-1, R74-1, R76-1, R77-1). The Postal Service asked the Commission to increase its revenue requirement in only one of those cases. In Docket No. R90-1, the Postal Service declined to amend its request, although extraordinary OBRA liabilities significantly increased the Postal Service's revenue needs during litigation. The Postal Service acknowledged that its failure to amend would result in less revenue being available to meet contingencies. In two cases (Docket Nos. R84-1 and R97-1), the Board of Governors delayed implementation of rates that had been recommended and approved by the Governors.

A REASONABLE PROVISION FOR CONTINGENCIES AS A CUSHION AGAINST UNFORSEEN ADVERSITIES

The salient characteristic of the contingency provision is that it is required by the Act. Section 3621 provides that "'total estimated costs' shall include (without limitation)...a reasonable provision for contingencies." While there is relatively little legislative history illuminating specific Congressional intent, that which exists demonstrates that the contingency provision was meant to provide a cushion against failure to achieve the break-even objective ultimately embodied in section 3621.[51]

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[51] The provision for contingencies originated in the Postal Reform and Salary Adjustment Act of 1970 (H.R. 4), which was a direct response to the recommendation in the Kappel Commission Report. *Towards Postal Excellence: The Report of the President's Commission on Postal Organization* (1968). The Kappel Commission Report sought enforcement of the budgetary standard requirement mandated by the Postal Policy Act of 1958. This standard contemplated that total revenue would equal total costs, exclusive of "public service costs" (the break-even requirement). The Kappel Commission elaborated on the composition of permissible costs that the Post Office Department should seek to cover as follows:

> The principal purpose of a rate structure is to provide the revenues necessary to sustain the enterprise. Privately-owned utilities are entitled to recover all of their legitimate economic costs, such as operating expenses, depreciation, interest on debt, profit for equity capital, *a reserve for contingencies* and an allowance for research and development, where appropriate. This overall revenue requirement may be termed the "budgetary standard."
>
> The Postal Policy Act sets a budgetary standard for the Post Office by specifying that postal revenues as a whole should equal costs as a whole, exclusive of "public service costs." The budgetary standard sets a floor, however, as well as a ceiling. Since the requirement of the Act that revenues cover costs (except for public service costs) has not, in fact, been followed, the postal service has had to be subsidized by the taxpayer.
>
> It is essential that postal revenues be brought into line with postal costs. Although this process may well be spread over several years to minimize the impact on mail users, only a self-supporting postal service can keep up with user needs and can keep costs at the lowest possible level.[51]

Id. at 129 (emphasis added). Importantly, the Kappel Commission not only articulated a conceptual rationale to include a reasonable provision for contingencies, but also quantified it as a range of "about three to five percent." *Id.* at 82. H.R. 4 specifically made allowance for a

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Both the Postal Service and the Commission have accepted this view. The Commission has stated that "the essential purpose of the contingency provision is to prevent a working capital shortage due to a revenue shortfall or to expenses which are unforeseeable in kind or amount."[52] While emphasizing the Commission's role in reviewing the contingency, the Commission elaborated as follows:

> the contingency allowance performs an important function in the financial management of the Postal Service. Unlike most other regulated enterprises, the Postal Service is operated on a break-even basis. It has no retained earnings on which to rely during periods of financial stringency. Being untaxed, it does not maintain tax reserves which can drain down during short-term tax deficiencies. In sum, the contingency provision plays a preeminent role — which in most private enterprises is assumed by a variety of other financial devices — in insuring the ability of the system to continue rendering service to mailers.[53]

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"reasonable provision for contingencies" in the composition of total costs subject to the break-even requirement. H.R. 4, 91st Cong., 1st Sess. § 1201(b)(1969). The Postal Service Act of 1969, prepared by the Administration with the assistance of the Post Office Department, adopted the same language as H.R. 4. See H.R. 11750, 91st Cong., 1st Sess. § 1201(b)(1969). During hearings before the Post Office and Civil Service Committee in the Senate on H.R. 4 and H.R. 11750, Postmaster General Blount made the only references to an allowance for contingencies. Addressing Chairman McGee's skepticism regarding the Postal Service's capacity to absorb rising costs without frequent rate increases, Mr. Blount stated that

> as to the breakeven line, the legislature provides that the costs we are to cover after the five-year transitional period shall include a *reasonable provision for contingencies*, which would allow us the necessary leeway. Obviously, in a system as large as this you can't come out right at the zero position; you have to have a safe cushion.

Hearings on the Reorganization of the Postal Establishment to Provide for Efficient and Economical Postal Service Before the Senate Comm. on the Post Office and Civil Service, 91st Cong., 1st Sess. 505, 515 (1969) (emphasis added). The primary bill introduced in the Senate regarding rate policy (S. 3842) mirrored the language of H.R. 4 and H.R. 11750. The Postal Reorganization and Salary Adjustment Act of 1970 (H.R. 17070) also incorporated the language used in H.R. 4 and H.R. 11750. *See* H.R. 17070, 91st Cong., 2d Sess. § 1201(b)(1970). After having passed both houses and proceeding to conference, both houses adopted the final version of H.R. 17070 with the contingency language intact.

[52] PRC Op. R76-1, at 51-52.

[53] *Id.* at 52-53.

This characterization fundamentally matches the description given by the Postal Service's revenue requirement witness in Docket No. R71-1, who contrasted the Postal Service's situation with private corporations' financial policy options "whenever they encounter a serious revenue lag, unforeseen costs, or a tightening of cash flow."[54]

The financial policy dimension represents the contingency's most important characteristic. In this proceeding, the Postal Service's Chief Financial Officer testified that the contingency provision constitutes an important policy choice by the Board of Governors.[55] It represents the level of risk that the Board is willing to assume in proposing a particular revenue goal as the basis for omnibus rate changes. The Commission, however, has taken pains to deny this role. In its Second Recommended Decision in this case it stated:

> The Postal Service continues to espouse the view that determination of a contingency provision is a policy choice within the exclusive province of the Governors' authority under 39 U.S.C. § 3621. Throughout its institutional history, the Commission has declined to affirm and act upon this interpretation, which would exclude the contingency provision from consideration in its evidentiary proceedings, and render its incorporation in recommended rates merely a ministerial and mechanical act. Rather, as the Opinion of November 13 reiterates, the Commission has consistently adhered to its judgment that the reasonability of a proposed contingency provision is an issue appropriate for exploration in formal hearings required by § 3624(a), and for a Commission recommendation consistent with the balance of the evidentiary record so produced.[56]

The Commission's refusal to admit the policy character of the contingency provision no doubt arises from the *Newsweek* court's warning against Commission revenue requirement cuts that infringe upon management authority. The court in that case held that the Commission's

[54] Written cross-examination of Postal Service witness James W. Hargrove, in R71-1 Supporting Record, Vol. 3, at 3-1160.

[55] Tr. 46-A/20183.

[56] *Second Recommended Decision*, at 33.

reduction of the Postal Service's contingency provision was "an unlawful intrusion into the policy-making domain of the Board."[57]

The Commission itself, however, has in the past acknowledged the policy nature of the contingency provision. In Docket No. R94-1, the Postal Service justified proposing an arguably artificially low contingency provision (1 percent), on the basis that the choice represented a policy trade-off in relation to a determination to suppress the impact of an otherwise larger overall rate increase. In approving the Postal Service's proposed contingency provision, the Commission stated:

> The reasonableness of a contingency provision can only be judged as a product of the historical record and in the factual and policy context of a particular rate proceeding. In this case, the Postal Service has limited the magnitude of its proposed contingency provision for the overt purpose of constructing a constrained revenue requirement in order to restrain the overall level of rate increases as a business objective. The Postal Reorganization Act does not require that the Commission pass judgment on the wisdom or soundness of the Postal Service's business objectives; it only requires that the Commission recommend postal rates that satisfy the Act's specified policies and factors. In this proceeding, the Commission finds nothing in those criteria that would require a departure from the Service's proposed contingency allowance.[58]

There are only so many financial policy tools available to the Postal Service to secure needed revenues, including seeking appropriations, borrowing, and disposing of assets.[59] At one time or another, intervenors in Commission rate proceedings have advocated that all of these, as well as others, should supplant the contingency as alternative sources of revenue. This is one reason why the *Newsweek* court had little trouble concluding that the Commission's actions in cutting the revenue requirement in Docket No. R80-1 intruded on the policy domain of the Board. Whether or not the Commission states that its purpose in cutting the revenue requirement is to induce the filing of more frequent rate cases, reducing the revenue

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[57] *Newsweek*, at 1205.

[58] PRC Op. R94-1, at II-12.

[59] *See* written cross-examination of Postal Service witness James W. Hargrove, in R71-1 Supporting Record, Vol. 3, at 3-1160.

requirement for any purpose runs the risk of having an effect on filing frequency or other financial policy choices that we must make. If the intent, or the effect, of the Commission's action is to substitute its judgment for ours or the Board's on a matter related to financial or other policy, the Commission risks overstepping the bounds of its statutory authority.

The Commission's chief fear, however — that we seek to remove consideration of the contingency provision from Commission proceedings — is unfounded. We do believe that the contingency provision is subject to inquiry on the record. We strongly maintain, however, that the standard to be applied in assessing the reasonableness of the contingency is much lower than the Commission asserts, as discussed below. Furthemore, we strongly believe that the Commission's approach to the contingency as a *de novo* determination, in which the Commission may substitute its subjective judgment for the Board's, is inconsistent with the Commission's statutory authority.

Beyond these issues of authority, we also believe that determination of the appropriate level of contingency is inherently and predominantly subjective. As argued by the Postal Service in this case, the provision for contingencies is not an estimate or prediction. This has been the Postal Service's position from the outset,[60] and it has been restated by every Postal Service revenue requirement witness since the first rate case. The Commission itself has often acknowledged the subjective nature of the contingency provision.[61] Over time, however, it has tended to gravitate toward analyses that are superficially more objective and formulaic than we believe is required or acceptable.

In this regard, we must again emphasize that we do not assert that the subjective nature of selection of a contingency provision makes it essentially unreviewable. Rather, we believe that, by virtue of its policy and subjective nature, inclusion of a particular contingency within the

[60] *See* Written cross-examination of Postal Service witness James W. Hargrove, in R71-1 Supporting Record, Vol. 3, at 3-1159.

[61] *See, e.g.*, PRC Op. R87-1, Vol. 1, at 35-36.

revenue requirement is due more deference under a fairer standard that the Commission in this proceeding has been willing to give. We discuss this more fully below.

STANDARD OF REVIEW

Congress entrusted the establishment of the Postal Service's revenue needs to the discretion of the Board and the Governors under 39 U.S.C. §§ 3622(a), 3621, and 3625. As noted above, we do not assert that this authority should remove the revenue requirement from reasonable inquiry in Commission proceedings. The Commission, however, must substantially defer to the Board's determinations and apply an appropriate standard, if it does review the Postal Service's revenue objectives. This deference clearly encompasses the selection of the contingency provision, which represents an important policy choice by the Board, as well as an integral part of the Postal Service's revenue requirement under 39 U.S.C. § 3621.

The Act establishes the standards for judicial review of Governors' decisions and Commission recommendations,[62] but does not explicitly identify standards the Commission should apply in considering the Postal Service's Request and testimony.[63] It is axiomatic, however, that the

[62] Section 3628 of the Act incorporates applicable provisions of the Administrative Procedure Act (APA) and other pertinent legislation.

[63] Section 556(d) of the APA (5 U.S.C. § 556(d)), which is incorporated by reference in 39 U.S.C. § 3624(a), does refer to "burden of proof." Under this provision, "[e]xcept as otherwise provided by statute, the proponent of a rule or order has the burden of proof." *Id.* It has been held, however, that "'the burden of proof' [section 556(d)] cast upon the 'proponent' is the burden of coming forward with proof, and not the ultimate burden of persuasion." *Environmental Defense Fund, Inc. v. EPA*, 548 F.2d 998 (D.C. Cir. 1976), *cert. denied* 431 U.S. 925 (1977); *See* 2 KENNETH CULP DAVIS & RICHARD J. PIERCE, JR., ADMINISTRATIVE LAW TREATISE § 10.7 (3d Ed. 1994). "[T]he substantive statute and its regulations govern the allocation of the ultimate burden of persuasion." *State of Maine, v. Dept. of Labor,* 669 F.2d 827, 829 (1st Cir. 1982).

In the context of postal ratemaking, we believe that the balance of authorities between the Postal Service and the Commission in the statutory scheme, which vests determination of the contingency provision in the Board's discretion, creates a presumption in favor of the reasonableness of the Postal Service's proposed contingency. Furthermore, under an appropriate standard of review, the Commission must defer to the judgment of the Board, rather than substitute its own judgment based on its independent evaluation of the evidence.

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scope of Commission review is bounded by the limits of its authority under the Act. Accordingly, as explained above, the Commission may not substitute its judgment for the Board's.

To the extent that the hearings provided under 39 U.S.C. § 3624 entail inquiry into the reasonableness of the contingency provision, we believe that the appropriate standard of Commission review should parallel the standards that have been adopted by courts in reviewing federal agency decisions under the Administrative Procedure Act (APA). Under these standards, courts will not substitute their judgment for the agency's, but rather will defer to agency authority and expertise, and will uphold the agency's determination, if supported on the record.[64]

In judicial review, this deference arises out of Congress's decision to delegate decision-making responsibility in a particular substantive area to an administrative entity.[65] Judicial review of agency action is typically available, but generally under limited standards outlined in the APA. Unless otherwise qualified, these standards afford agencies relatively wide discretion in making determinations within their areas of responsibility.

In this regard, the statutory scheme of the Postal Reorganization Act is unique. The Commission does not review Board of Governors' decisions as an appellate tribunal or regulate the Postal Service in a conventional sense.[66] Rather, the Commission performs a limited

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Accordingly, we believe the Act places the ultimate burden of persuasion to demonstrate that the proposed contingency is unreasonable on parties opposing the Postal Service's contingency.

[64] *Citizens to Preserve Overton Park, Inc. v. Volpe*, 401 U.S. 402, 416 (1971); *Illinois Central Railroad Co. v. Norfolk & Western Railway Co*, 385 U.S. 57, 69 (1966). *See Burlington Northern Railroad Co. v. Surface Transportation Board,* 114 F.3d 206, 210 (D.C. Cir. 1997).

[65] *See id.; American Trucking Associations, Inc. v. U.S.*, 627 F. 2d 1313, 1320-21 (D.C. Cir. 1980).

[66] "The responsibilities of the Postal Rate Commission are strictly confined to relatively passive review of rate, classification, and major service changes, unadorned by the overlay of broad FCC-esque responsibility for industry guidance and of wide discretion in choosing the
(continued...)

regulatory function in formulating recommendations on postal rates, fees, and classifications. Within the scope of its authority, the Commission is authorized to evaluate the evidentiary record it creates in its hearings, and to develop recommendations on the allocation of costs and the design of rates and fees. As we have explained, however, that authority does not extend to matters Congress has reserved exclusively for the Board and the Governors. On these matters, the Postal Service stands as an independent federal establishment to which Congress has entrusted the responsibility for developing and operating the nation's mail system. Accordingly, the standard of judicial deference to agency authority applies to Commission review of Postal Service decisions, just as courts and Congress have placed limits on judicial review of other agencies' decisions.

Depending on the procedural context, and the nature of agency action, most administrative actions are reviewed in court under one of two standards in the APA: agency action will be unlawful and set aside if found to be "(A) arbitrary, capricious, an abuse of discretion, or otherwise not in accordance with law...[or] (E) unsupported by substantial evidence...."[67] Of these, Commission review of Board determinations should apply the arbitrary and capricious standard.[68] *This standard presents a narrow set of guidelines which could be employed to* assess the proposed contingency. The Supreme Court has described the standard as follows:

(...continued)
appropriate manner and means of pursuing its statutory mandate." *Governors,* 654 F.2d 117.

[67] 5 U.S.C. §§ 706 (A), (E). These two standards are sometimes applied together to address factual (substantial evidence) and other (arbitrary and capricious) dimensions of the same agency action. *Schoenbohm v. FCC,* 204 F.3d 243, 246 (D.C. Cir. 2000), *cert. denied* 519 U.S. 975 (1996). This section also lists agency action "(C) in excess of statutory jurisdiction, authority, or limitations, or short of statutory right...." In accordance with our discussion above, we believe the Commission's reduction of the contingency provision would fall squarely within this basis for reversal on appeal.

[68] The standards applied in judicial review do not align perfectly with the relationship between the Postal Service and the Commission. But the substantial evidence standard can not strictly apply to Commission review of the contingency, since the Postal Service's proposals arise out of the exercise of discretion, not the consideration of an evidentiary record. *See Citizens to Preserve Overton Park,* 401 U.S. at 414-15.

> Under the "arbitrary and capricious" standard the scope of review is a narrow one. A reviewing court must "consider whether the decision was based on a consideration of the relevant factors and whether there has been a clear error of judgment. . . . Although this inquiry into the facts is to be searching and careful, the ultimate standard of review is a narrow one. The court is not empowered to substitute its judgment for that of the agency." *Citizens to Preserve Overton Park v. Volpe*, *supra*, at 416. The agency must articulate a "rational connection between the facts found and the choice made." *Burlington Truck Lines v. United States*, 371 U.S. 156, 168 (1962). While we may not supply a reasoned basis for the agency's action that the agency itself has not given, *SEC v. Chenery Corp.*, 332 U.S. 194, 196 (1947), we will uphold a decision of less than ideal clarity if the agency's path may reasonably be discerned. *Colorado Interstate Gas Co. v. FPC*, 324 U.S. 581, 595 (1945).[69]

In light of the statutory relationship between the Postal Service and the Commission, we believe that no higher standard could be applied by the Commission under the Act.[70] Evidence presented by the Postal Service would establish the factual bases justifying the Postal Service's contingency provision, under the substantive standard of reasonableness expressed in 39 U.S.C. § 3621. The Commission should be required to defer to the Board's judgment, unless it were found to be clearly unreasonable under the arbitrary and capricious standard.

[69] *Bowman Transportation, Inc. v. Arkansas-Best Freight System, Inc.*, 419 U.S. 281, 285 (1974).

[70] While the arbitrary and capricious standard is often regarded as less stringent than the substantial evidence test, a significant body of judicial opinion acknowledges that, as a measure of evidentiary support, the two standards tend to converge. *See* 2 KENNETH CULP DAVIS & RICHARD J. PIERCE, JR., ADMINISTRATIVE LAW TREATISE § 11.4 (3d Ed. 1994). In this regard, we note again that the lack of an evidentiary record before the Postal Service invalidates substantial evidence as a standard the Commission could apply. It is instructive, however, that, even under substantial evidence, the "possibility of drawing two inconsistent conclusions from the evidence does not prevent an administrative agency's finding from being supported by substantial evidence." *Consolo v. Federal Maritime Commission*, 383 U.S. 607, 620 (1966). Furthermore, even if the Commission were in a position to apply substantial evidence standard to the Postal Service's determination of the contingency, on the basis of the evidentiary record before the Commission, the Commission would still be obligated to defer to the Postal Service's judgment, as the agency whose decision is being reviewed. That judgment would be upheld as long as it was supported by "'such relevant evidence as a reasonable mind might accept as adequate to support a conclusion.'" *Id.* (citation omitted).

In the past, the Commission has tended to minimize the extent to which it owes deference to the Board's judgment in reviewing the elements of the revenue requirement, including the contingency provision. In this regard, we are concerned that, particularly in the instant proceeding, the Commission's views have evolved to a more extreme interpretation of its role. As noted above, the Commission appears to take the position that it has the authority, in effect, to establish the revenue requirement through de novo review of evidence placed on the record by the Postal Service and other parties, and through application of the Commission's independent judgment.[71] The following passage from the Third Recommended Decision epitomizes this view:

> With respect to the Governors' assertion of their need for discretion to choose a contingency allowance and establish the size of the revenue requirement generally, the Commission must continue to respectfully decline to adopt this model of postal ratemaking. The development of the evidentiary record on the estimated costs, volumes, and revenues of the various classes of mail and types of service frequently produces myriad affects on the aggregate revenue requirement. Indeed, the change in the revenue requirement in Docket No. R84-1, cited in the Postal Service Comments at 2, illustrates how an issue addressed in the course of a ratemaking proceeding -- in that case, First-Class volumes -- can affect the overall level of the revenue requirement. *Given this interdependence of the revenue requirement and other issues on which the Commission must make findings, it is impossible to conclude that the choice of a contingency allowance should somehow remain unaffected by the factual record made during a rate case.*

Third Recommended Decision, at 9 (emphasis added).

This statement appears to express an expectation by the Commission that it will have occasion to adjust the contingency provision in each subsequent rate proceeding. In this regard, the Commission's views on its authority combine with two other factors. As noted above, the Commission believes that the need for a contingency diminishes as more recent information is brought to bear on Postal Service estimates of actual expenses in the test year. Furthermore,

[71] Even under the standards explicit in the APA, *de novo* review is available only in very narrow circumstances. 5 U.S.C. § 706(F); *Citizens to Preserve Overton Park, Inc.*, 401 U.S. 415. *See United States v. Carlo Bianchi & Co.*, 373 U.S. 709, 715 (1963); *Doraiswami v. Secretary of Labor*, 555 F.2d 832, 839-40 (D.C. Cir. 1976).

in recent cases, the Commission has been inclined to update the record for the most recent information available. We therefore infer that the Commission believes that a reasonable contingency provision can only be assessed and determined by the Commission, after the close of the evidentiary record in each case. This approach, however, would effectively nullify the discretion of the Board to determine the proper level of contingency as a policy choice in the first instance, and as an expression of the Postal Service's expectations of need in the test year when it files a Request under 39 U.S.C. § 3622(a). This is a distortion of the statutory scheme.

That scheme establishes the Commission's obligation to defer to the Board's choice of a reasonable contingency. The Commission can disregard that deference, or formulate recommendations inconsistent with it, only by risking intrusion on the Board's prerogatives. In this regard, the Court of Appeals for the District of Columbia Circuit in the *Governors* case cautioned against such overreaching by the Commission. Referring to the Commission's claim that it performed a regulatory function with respect to the Postal Service, the Court stated:

> As a "partner" of the Board the Postal Rate Commission was assigned the duty and authority to make recommendations with respect to rates and classifications. There is no indication that Congress contemplated that either "partner" would trench on the functions and prerogatives of the other; on the contrary each was to recognize and be guided by its "constitutional and legal responsibilities". Congress did not intend that the Postal Rate Commission regulate the Postal Service; one partner does not regulate another, and authority to assist in ratemaking and classification does not include authority to interfere in management. It follows that a management decision by the Postal Service may not be overruled or modified by the Rate Commission.

Governors, 654 F.2d 114-115 [footnote omitted]. This language was relied upon by the Court of Appeals for the Second Circuit in *Newsweek* in holding that the Commission had exceeded its authority by cutting the Postal Service's revenue requirement in Docket No. R80-1. *Newsweek*, 663 F.2d at 1203.

We acknowledge that the Commission's interpretation of the statutory scheme is significantly different from ours. According to the Commission, the existence of our modification authority under 39 U.S.C. § 3625(d) supports an expansive interpretation of the Commission's role in determining the revenue requirement. In this view, Congress would not have created the modification authority, unless it were intended to reconcile differences of opinion between the Board's determination and the Commission's independent evaluation of the revenue requirement. Most basically, this is wrong because Congress intended a clear division of responsibilities in the statutory scheme, as explained above. The logic of the Commission's argument also fails, however, since the need for modification can easily be reconciled with the Commission's proper sphere of authority and responsibility. For example, Congress intended us to be able to modify, if we were to determine that a rate or classification recommended by the Commission would have an unintended volume or revenue consequence, because the Commission had erroneously assessed the market response, or relied on wrong or insufficient data.[72] We might also modify if we were to determine that the Commission had made an error in methodology in forecasting volumes and revenues.[73]

The Commission's interpretation would also have serious consequences that are inconsistent with the statutory division of responsibilities, and with the pervasive evidence in the Act that Congress was concerned about ensuring revenue sufficiency.[74] Normally, modification, if successful, will only be possible after much of the test period on which the revenue requirement is based has already passed. In this case, we estimate roughly that the Postal Service has lost approximately $20 million a week during the time the Commission's unlawfully low rates have been in effect. Our modification will correct this insufficiency, but the Postal Service will never

[72] *See National Easter Seal Society For Crippled Children and Adults v. United States Postal Service*, 656 F.2d 754, at 762-66 (D.C. Cir. 1981).

[73] In Docket No. R90-1, we allowed under protest and returned the Commission's Recommended Decision for reconsideration, because we believed that the Commission had made several errors in forecasting volumes and revenues. See Decision of the Governors of the United States Postal Service on the Recommended Decision of the Postal Rate Commission on Postal Rate and Fee Changes, Docket No. R90-1, at 2-6 (Jan. 22, 1991). We subsequently rejected the Commission's Second and Third Recommended Decisions in Docket No. R90-1 based on the same concerns. See Decision of the Governors of the United States Postal Service on the Recommended Decision of the Postal Rate Commission on Postal Rate and Fee Changes, Docket No. R90-1, at 1-17 (July 1, 1991); Decision of the Governors of the United States Postal Service on the Recommended Decision of the Postal Rate Commission on Postal Rate and Fee Changes, Docket No. R90-1, at 19-31 (Jan. 7, 1992).

[74] *See, e.g.*, 39 U.S.C. §§ 3628 (prohibiting suspension of rates during judicial appeal), 3681 (prohibiting reimbursements as a consequence of judicial appeal).

be able to recover the lost revenues, which will total $500 million for the 25 weeks between January 7 and July 1. Furthermore, as a consequence, the Board may be compelled to initiate the next rate proceeding sooner than otherwise.

The modification option is available in this instance, as in Docket No. R80-1, where the Commission has overstepped its authority in reducing the Postal Service's revenue requirement. We, however, categorically reject the view that the existence of our modification authority within the statutory scheme justifies the Commission's actions in this case.

Beyond these considerations, we believe that the Commission has also distorted the substantive standard for evaluating the contingency provision in this instance. Section 3621 provides that the revenue requirement shall include a "reasonable" provision for contingencies. Under the Commission's approach in the instant proceeding, this apparently means whatever contingency (percentage of total costs[75]) that the Commission determines should be incorporated, based on whatever criteria the Commission determines are relevant and probative. On the contrary, we believe that inclusion of the standard of reasonableness in the Act was intended to indicate a range of acceptable choices that are not susceptible to precise calculation by reference to a formula or set of predetermined criteria. Furthermore, if there are criteria that must be applied, they are not within the Commission's exclusive province to determine.

Semantically, the reasonableness standard at a minimum implies a rational basis.[76] In other words, selection of a provision for contingencies cannot have been random or arbitrary, but

[75] The Postal Service and the Commission have adopted this measure to express the contingency provision, as did the Kappel Commission. *See* PRC Op. R77-1, Vol. 1, at 40; Kappel Commission Report at 82.

[76] We have been unable to discover any controlling judicial or administrative precedent that would guide the interpretation of "reasonable" here. The term is so commonly used in so many different legislative and administrative contexts that no one usage or meaning emerges as authoritative. Similarly, we do not believe that other references to "reasonable" or "reasonably" in the Act provide reliable guidance, since the terms appear to have been used with different, or at least non-congruent, meanings intended. For example, section 3621 refers to "reasonable and equitable classes of mail," "reasonable and equitable rates of postage and fees for postal

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must be linked to some reason or set of relevant reasons that can be explained. By this measure, all that review really requires in this instance is an expression of what factors were considered and some explanation of why a particular level is justified by those considerations.

To the extent the Board's and our reasons are linked to matters that are exclusively within our province to decide, the Commission's review must be limited by the same deference that those considerations command on a procedural level. In other words, not only is the Commission prohibited from determining the contingency provision de novo, but it must defer to our judgment as well, and not substitute its own. In fact, this approach is consistent with the Commission's determination in Docket No. R94-1, cited above.

This leaves a relatively narrow range in which the Commission might conclude that a particular contingency provision is unreasonable. At one extreme, the Postal Service might have failed entirely to explain a rational basis for selecting a particular level of contingency. We understand that intervenors in this case, as in the past, have made this claim. In this regard, they usually mean, not that the Postal Service has failed to express any reason, but that its reasons are insufficient or that they disagree with them and believe they have "better" reasons to support a lower contingency provision. In our opinion, a conclusion that a contingency provision was unreasonable based on such claims would be inadequate, if all that was involved was a difference of opinion between the Postal Service, on one hand, and the Commission and intervenors, on the other. Apart from failure to explain, there might be a situation in which the

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services," rates and fees that are "reasonable and equitable and sufficient," and "a reasonable provision for contingencies." Section 3622(b)(3) refers to costs that are "reasonably assignable." Section 3622(b)(5) refers to "reasonable costs." While it is possible to speculate that Congress intended a common element in all of these uses, this conclusion would be difficult to justify, given the different subjects being modified by "reasonable" and the variations of usage. For example, one might infer a commonality in "reasonable ...rates and fees" and "a reasonable provision for contingencies" associated with revenue sufficiency. Yet, in the same section, the Act refers to rates and fees that are "reasonable and equitable and sufficient." There is no satisfactory basis to explain why in one use the notion of sufficiency must be separately expressed, yet in another it is telescoped into the term "reasonable." As a consequence, we find that, if there is an intended meaning of "reasonable" as it modifies "provision for contingencies," it is the broader understanding of the term denoting some reason (continued...)

Postal Service's reasoning is based on a clear error of fact. We might also conceive of a situation in which the reasons expressed to explain and support a contingency provision were unrelated to the purpose of the contingency as a cushion against unforeseen causes of a revenue imbalance. For example, an attempt to inflate the contingency provision for the express purpose of funding a known program or investment could be questioned.

Under our analysis, the predominantly subjective nature of the choice of contingency provisions tends to undermine the Commission's scope of review, since any challenge to a subjective determination is usually primarily a difference of opinion. This is no doubt why over the years the Commission has tended to gravitate towards describing an objective, and preferably a quantitative basis for evaluating the contingency. In Docket No. R77-1, the Commission introduced the concept of variance analysis. As the Commission has employed it, this technique involves measuring percentage variances between past predictions and actual results in particular segments of costs and revenues. These variances are then applied to future estimates to obtain a measure of how much they might be expected to vary from actual results in the future. The resulting ranges of variation are used to assess the reasonableness of proposed contingency provisions.

The Postal Service and we have never agreed that this technique is either a particularly relevant or an appropriate standard by which to assess the Board's endorsement of a particular contingency provision. In the first place, it has never been demonstrated to be reliable as a prediction of future need for contingency funds. This is fundamentally because the Postal Service rarely knows all the causes of variations, and they are seldom replicated at the segment level from year to year. More importantly, as the Postal Service argued in the current proceeding, the contingency provision is not a prediction or estimate of future costs. Rather, as explained above, it is a cushion against the unforeseeable future, which by definition cannot be predicted. Equally important, the Commission's quantitative approach is basically unrelated to the rational basis for the Postal Service's selection of a particular provision for contingencies.

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or reasons for electing one level of contingency over another.

Outside the context of some substantive consideration of past and future events, the variances are merely mathematical differences.

It is not surprising that the Recommended Decision in which the Commission relied most heavily and explicitly on variance analysis and quantitative prediction was rejected by the court in *Newsweek* as an arbitrary intrusion into the Board's policy domain. In Docket No. R80-1, the Commission's first Opinion and Recommended Decision spanned many pages in its derivation of a recommended 2.5 percent contingency provision.[77] The Commission's discussion consisted of a meticulous quantitative analysis, which the Commission described in its Second Recommended Decision in that docket as "a disciplined procedure based on financial analysis supplemented by judgment."[78] The Commission summarized its conclusions in its Third Recommended Decision, which we modified, as follows:

> [T]he 2.5 percent contingency provision we recommended consists of three components: (1) 1.6 percent developed through variance analysis; (2) an additional 0.6 percent, $144 million, to reflect the higher COLA than was projected by the Postal Service in its filing and : (3) a judgmental addition of 0.3 percent. The 0.3 judgmental increment was added to the contingency to provide an additional cushion against unforeseen events. This increment was added to the contingency provision despite our finding that the uncertainties of the economy, the possibility of adverse effects from labor negotiations, etc. were not substantially greater than those which existed during Docket No. R77-1 and which resulted in the 1.6 percent unfavorable variance that constituted the foundation of our contingency provision. [79]

We reacted to this recommendation by calling it arbitrary,[80] a conclusion with which the court in *Newsweek* ultimately agreed.[81] In assessing the court's *Newsweek* holding in Docket No. R84-1, however, the Commission focused on the court's observation that the Commission's

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[77] PRC Op. R80-1, Vol. 1, at 28-38.

[78] PRC Op. & R.D. upon Recon., at 26.

[79] PRC Op. & R.D. on Furth. Recon., at 24 (emphasis added).

[80] Decision of the Governors of the United States Postal Service on Rates of Postage and Fees for Special Services, Docket No. R80-1, at 12 (March 10, 1981).

[81] *Newsweek*, at 1205.

reduction of the contingency provision was to a level less than half what was approved in the previous rate case.[82] In this regard, the court's conclusion was undoubtedly based on more than the size of the reduction, or a finding that the Commission's action was simply unexplained, since the court had before it at least two Commission Recommended Decisions, each of which defended the Commission's revenue cuts in considerable detail.[83]

In retrospect, we believe that the most compelling reason that the Commission's recommendation in Docket No. R80-1 was arbitrary was that it was based almost exclusively on a variance analysis that was divorced from and inconsistent with the Board's subjective assessment and policy choice of a 3.0 percent contingency provision. As evident from the Commission's summary, above, only 0.3 percent of the recommended contingency[84] was based on subjective evaluation of the main reasons for the Board's choice. The low judgmental "increment" resulted primarily because the Commission, as a matter of opinion, differed with our conclusions. The court concluded that the reduction of the contingency provision that resulted from the Commission's analysis was "an unlawful intrusion into the policy-making domain of the Board."

We do not object to the Postal Service providing the Commission information with which to conduct its variance analysis. We must caution, however, if the Commission relies on this exercise to substitute its judgment for ours in reducing the revenue requirement, as it apparently has done in part in the instant proceeding, we will challenge the result.

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[82] PRC Op. R84-1, Vol. 1. at 18.

[83] The case was decided on November 2, 1981. The Commission's Third Recommended Decision, which the Governors' modified on September 29, 1981, was issued September 17, 1981.

[84] We found that the second component of the Commission's contingency consisted of actual costs, rather than a cushion against the unforeseen. The effective contingency was thus only 1.8 percent.

PART III MODIFICATION OF RATES AND FEES

TECHNICAL STRUCTURE OF THE MODIFICATION EXERCISE

Initially, it may be useful to outline the technical structure of the process by which the modification rates were developed. The objective of this exercise has been to use as much as possible of the Commission's own models and methodologies, and in general to limit changes to those necessary to correct the effects of the Commission's revenue requirement reductions, which we have found cause the recommended rates to fail to meet the breakeven requirement.

Of necessity, therefore, the starting point is the Commission's cost model, as presented in support of the Commission's initial rate and fee recommendations of November 13, 2000. Those rates and fees are the ones currently in effect, as a result of our December 4th allowance-under-protest Decision. The first set of adjustments to the November 13th cost model includes the two changes acknowledged by the Commission in its Opinion and Further Recommended Decision of February 9, 2001. These include additional costs of approximately $20 million relating to First-Class additional ounces, and additional Supervisor costs of approximately $97 million.

The second set of adjustments to the Commission's cost model involves the core elements of our current revenue requirement dispute with the Commission, and thus includes restoring the contingency amount to 2.5 percent, and adding the approximately $200 million Field Reserve provided on the record as part of the Order No. 1294 updates. Because the Field Reserve amount relates back to the Breakthrough Productivity Initiative programs, it has, broadly speaking, been distributed to the subclasses in the same proportions as those program savings were distributed. The Field Reserve distribution process was described by witness Patelunas at Tr. 35/16784, and summarized in the Postal Service's initial brief at pages I-19 – I-20. Increasing the contingency from 1.5 to 2.5 percent, of course, has the effect of increasing all of the cost model estimates by a uniform 1 percent.

Making these changes in the Commission's cost model yields test year cost estimates that can reasonably be described as what the Commission itself would have estimated, had the Commission heeded our requests upon reconsideration to restore all of the disputed revenue requirement elements. These results are directly comparable to the test year costs presented in the "Attributable Cost" column of Schedule 1 of Appendix G, as it appears in the Volume 2 of the Commission's First Recommended Decision.

We note that by using the Commission's cost model to develop these estimates, we are employing methodologies and assumptions that necessarily reflect the Commission's views on a variety of costing matters, with all of which we do not necessarily agree. For example, as noted in our December 4th Decision, we believe that the evidence available in the last case as well as this case shows convincingly that mail processing costs do not vary 100 percent with mail volume. Our use of the Commission's cost model, which generally continues to apply the assumption of 100 percent variability with volume of mail processing costs, does not reflect any change in our position on this issue. Rather, because it was only the revenue requirement issues we chose to return to the Commission for reconsideration, we use the Commission's cost model to ensure that our rate adjustments reflect nothing more than our correction of the revenue requirement differences. Differences on costing issues may be addressed and resolved in some future docket, but have played no role in our modification.[85]

The adjustments to the costing model described above provide one-half of the information necessary to assess the test year net revenue deficiency at current rates. The other information is test year revenue, for each subclass and service, and in total. With three exceptions, this information is exactly that shown in the "Revenue" column of Schedule 1 of Appendix G, as it appears in Volume 2 of the Commission's First Recommended Decision.

[85] Bundle breakage is another example of an area in which we have retained the approach used by the Commission, even though we believe it to be less sound than the approach advocated by the Postal Service. The Commission, rather than accepting the Postal Service's estimate that improved procedures would reduce bundle breakage in the test year by only 25 percent, instead adopted an estimate of a 50 percent reduction. We believe the Postal Service's lower estimate is probably more realistic, but we instead use the Commission's figure, which yields a lower test year expense estimate, only because it was not an item upon which we requested

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Relative to that column of Schedule 1, the three exceptions are: (1) an increase in Priority Mail revenue of approximately $12 million, associated with our rejection of the recommended flat-envelope classification change; (2) a reduction of approximately $30 million relating to errors made by the Commission in initially estimating Bound Printed Matter revenues, and (3) a consequent net decrease in total revenues of $18 million. Both component elements of these revenue adjustments were acknowledged by the Commission in its Second Recommended Decision.[86]

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reconsideration.

[86] In its Second Recommended Decision at pages 51-52, the Commission noted that in our December 4th Decision, we had described the effect of the rejection of the Priority Mail classification change as causing revenue to be understated by $55 million. Other than attributing the source of this estimate to our Decision, the Commission made no comment regarding its merit. In retrospect, however, we believe that the $55 million adjustment estimate is too high, because it is predicated on the assumption that *none* of the roughly three-quarters of flat rate envelope mailers whose pieces weigh less than one pound would avail themselves of the lower one-pound rate for which they would be eligible. In this sense, the $55 million adjustment figure actually represents what amounts to an upper bound estimate.

In presenting the Postal Service's initial proposal, which was intended to reflect the exact same structure as that which resulted from our rejection of the recommended classification change, Postal Service witness Robinson instead assumed that *all* of the flat rate mailers whose pieces weigh less than a pound would forgo use of the flat rate envelope and pay the lower one-pound rate. Adoption of that approach results in an estimate of the revenue effect of the classification rejection of approximately $12 million. It is about one-fourth of the original $55 million estimate, because it assumes that only the one-fourth of flat rate mailers whose pieces are above one pound will continue to use the flat rate envelope. In the sense that we noted above that the $55 million figure could be thought of as an upper bound estimate, the $12 million adjustment figure probably constitutes the corresponding lower bound estimate.

In its First Recommended Decision at 324, the Commission expressed some skepticism that all mailers of lower weight pieces could universally be expected to shift to the one-pound rate. We agree that, in reality, not all mailers are necessarily likely to behave in strict accordance with economic rationality, for a variety of reasons. Nevertheless, we believe that of the two choices available, the approach advocated by witness Robinson is more realistic. Most mailers will take steps to minimize their postage expenditures. The Commission reached no firm conclusions regarding her assumption, because its recommended classification change alleviated the need to do so. On the other hand, a different assumption implicit in how the Commission treated its recommended classification change -- that no mailers of 1-2 pound packages who previously did not use flat rate envelopes will start using them to take advantage of the recommended 1-
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Comparing the appropriately restated test year costs and revenues shows the test year net revenue deficiency that the record in this case indicates the Postal Service would be expected to experience at the current rates, the rates which we allowed under protest and implemented in January. That comparison is shown on Attachment One to this Decision, and it indicates a net revenue deficiency at current rates of approximately $979 million.[87] To achieve the breakeven objective, therefore, the rate changes emanating from this modification must in aggregate be sufficient to rectify that net revenue deficiency. As various rate modifications were considered,

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pound rate (a topic discussed at page 322 of the First Recommended Decision) -- is equally open to question, and may have caused the Appendix G Priority Mail revenue estimate to be overstated. This factor mitigates our concern that the $12 million adjustment figure may be somewhat understated, as ultimately it is only the accuracy of the *sum* of the Appendix G figure and the adjustment figure which remains relevant.

The approach of witness Robinson is the one which was presented and defended on the record. While a slightly higher figure (and one thus somewhere in between the two extremes) might be preferable, none was presented on the record, and we have no way to derive one now. (This entire discussion underscores the need to have these matters addressed on the record, the failure of which was why we were compelled in December to reject the Commission's classification recommendation.) Therefore, we rely on the $12 million adjustment figure, which is consistent with the testimony of witness Robinson, and add it to the Commission's Appendix G Priority Mail revenue estimate under the recommended classification structure, to reach our estimate of Priority Mail test year revenue at current rates under the existing classification structure.

[87] Under section 3625(d) of the Act, one of the requirements of modifications is that we find that the rates recommended by the Commission are not adequate to achieve breakeven. Because the Commission has, upon reconsideration, slightly amended its recommended rates and fees, the approximately $979 million test year net revenue shortfall that we have estimated at current rates (i.e., the rates *initially* recommended by the Commission) does not, strictly speaking, apply to the rates most recently recommended by the Commission. However, in its Second Recommended Decision, at 51-54, the Commission provided the estimated revenue consequences of the changes in the recommended rates for Bound Printed Matter, and in the recommended fee for Certified Mail. Those estimates were $30 million and $53 million respectively. Taken together, therefore, the amended rate and fee recommendations would increase test year revenue only by approximately $83 million. On that basis (i.e., subtracting $83 million from $979 million), we further estimate the expected test year net revenue deficit at the rates actually recommended by the Commission in the recommended decision we are modifying to be very close to $900 million. Given an estimated shortfall of this magnitude, we are compelled to find that the rates recommended by the Commission clearly are not adequate to provide sufficient total revenue to cover total costs.

they were evaluated through typical iterations of the rate design process. All aspects of that iterative process, however, employed the same methodologies used by the Commission. The Commission's spreadsheets (or functional equivalents using the same inputs) were used for rate design, the Commission's forecasting models (which are not materially different from those proposed by the Postal Service) were used to estimate the volume effects of the new rates, and the Commission's cost model was used to estimate the cost effects of the new volumes.

Following the process outlined above allowed us to identify a net test year revenue deficiency at current rates, and to develop rate modifications which would eliminate that deficiency and achieve the breakeven objective. Attachment Two to this document shows the results, in terms of costs and revenues by subclass and in total, after our modification. Our modified rates eliminate the shortfall. Understanding in broad terms the process which allows us to demonstrate that the modified rates will yield revenues sufficient to recover total cost, however, is not sufficient to explain why the particular rates and fees chosen for each subclass and service are consistent with the pricing policies of the Act. What follows, then, is our discussion of why each of the new rates and fees we have established for the various subclasses and services meet those criteria.

EXPLANATION OF SPECIFIC RATES AND FEES BY SUBCLASS AND SERVICE

We have explained above how we arrived at our estimate of the amount that the existing rates (and the relatively minor additional changes recommended by the Commission upon reconsideration) will fall short of test year breakeven. Having identified this amount, our task now is to decide what modifications to established postal rates and fees should be made to achieve statutory breakeven, in accordance with the record before us and the policies of the Act.

This undertaking could be simplified, if it were possible to allocate this additional revenue burden across-the-board as a uniform percentage increase in rates and fees for each subclass and special service. Such an approach, however, would ignore our responsibility to review the Commission's application of the § 3622(b) statutory pricing criteria in Docket No. R2000-1, and, to the extent necessary, to make our own independent assessment of those criteria. In addition to carefully considering these criteria and other policies of the Act, our modification exercise has been guided by a desire to avoid major distortions in the cost coverage relationships embodied in the Commission's November 13, 2000, Recommended Decision. We also are obliged to comply with relatively new legislation regarding rates for the preferred mail classes, Public Law 106-384. In light of the modified revenue requirement, we have reconsidered the appropriateness of some of the Postal Service's original rate proposals which the Commission declined to recommend. To the extent possible, we have tried to maintain the rate design underlying the Commission's recommendations in terms of rate relationships, discounts, and passthroughs within the various subclasses.

We have also been mindful that the original Docket No. R2000-1 rate schedule, implemented on January 7, 2001, reflects that a number of subclasses and special services received substantially higher percentage increases than others. In determining where to allocate the additional institutional cost burden, we have tried to be sensitive to the impact of the relatively high percentage rate increases already experienced by some subclasses and special services. Also, as part of the modification process, we have attempted to design rates that will, to some degree, minimize the otherwise unavoidable complexity that would be experienced by the Postal Service and its customers in implementing the changes we make today. Finally, we have tried to spread the burden of the increased revenue requirement fairly among a broad spectrum of customers. We shall discuss each affected mail class and special service in turn.

Two further attachments to this Decision should assist in review of these discussions. Attachment Three compares the cost coverages recommended by the Commission and shown in Appendix G, with the cost coverages implicit in our modification rates.[88] Attachment Four

[88] The close correspondence within Attachment Three, between the cost coverages recommended by the Commission and those associated with our modification, highlights how little we have disturbed the interrelationships between rates for the classes and subclasses believed to be appropriate by the Commission. In this respect, the circumstances in this case are not the same as the only other time we exercised our modification authority in a general rate case, Docket No. R80-1. In that instance, the reviewing court faulted the sparseness of our initial discussion on the effect of the modification on the interclass rate relationships. *See, Time v. US Postal Service*, 685 F2d 760, 771-72 (2d Cir 1982). In this case, there is very little to discuss. In those few instances in which subclasses or services have received anything

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shows the subclass percentage rate increases sought by the Postal Service in its filing, the increases recommended by the Commission, the increases we establish today, and the cumulative Docket No. R2000-1 increases.

FIRST-CLASS MAIL

Policy Considerations

First-Class Mail is the largest class of mail delivered by the Postal Service and provides the majority of postal revenues. Generally, it consists of two subclasses: letters, flats and parcels sealed against inspection and weighing 13 ounces or less; and cards that are either printed by the Postal Service with postage impressed or that are privately printed, requiring postage.

In its January 12, 2000, Docket No. R2000-1 request, the Postal Service proposed First-Class Mail rates, for the class as a whole, which resulted in a test year cost coverage of 194.5 percent over volume-variable costs, and a cost coverage of 179.2 percent over incremental costs. The cost coverage over volume variable costs proposed for Letters and Sealed Parcels was 196.3 percent; for Cards, the Postal Service proposed a 148.5 percent cost coverage. USPS-T-32, Exhibit 32B at 2. When viewed in terms of incremental costs, the cost coverages proposed for the Letters and Sealed Parcels subclass was 182.4 percent; for Cards, it was 145.3 percent. See USPS-T-32, Exhibit E. In this instance, the markup over incremental costs is more comparable to the markup the proposed rates would represent relative to attributable costs, which is the Commission's preferred costing methodology.

Based upon the record in this case and its own evaluation of the statutory pricing criteria in 39 U.S.C. § 3622(b), the Commission recommended First-Class Mail rates resulting in a cost coverage of 177.1 percent of attributable costs for the two subclasses combined.

(...continued)
approaching a material increase in their institutional cost burden relative to that recommended by the Commission, such as First-Class Cards and Money Orders, our rationale for that treatment is included within our discussion of those particular rates.

As part of its January 12, 2000, request in Docket No. R2000-1, the Postal Service proposed changes in almost all of the rate categories and rate elements within the subclass. During the administrative proceeding before the Commission, various parties introduced evidence on issues relating to the Postal Service's rate proposals for the Letters and Sealed Parcels subclass. These issues included:

- the rate for the first ounce of single-piece First-Class Mail;
- the degressive additional-ounce rate;
- the appropriate rate for the first ounce of single-piece Qualified Business Reply Mail;
- the appropriate discounts for worksharing (prebarcoding and presortation) performed by senders of bulk First-Class Mail letters;
- the nonstandard surcharge; and
- the heavyweight discount for worksharing discount pieces.

Additionally, there were various intervenor proposals for the establishment of new classifications and rate categories within First-Class Mail. We have reviewed the Commission's determination of these issues in the context of the revenue requirement upon which its rate recommendations were based. Below, we provide a detailed explanation of our resolution of these issues, to the extent that they are relevant to the rate design modifications we make today in conjunction with our restoration of the revenue requirement.

In determining which rates to modify and to what degree change should occur, we were governed principally by 39 U.S.C. § 3621 and its mandate that we establish rates that are "reasonable and equitable" and that "provide sufficient revenues so that the total estimated income and appropriations to the Postal Service will equal as nearly as practicable total estimated costs of the Postal Service . . . ." We also took into account the following factors of 39 U.S.C. § 3622(b): the value of First-Class Mail service, within the meaning of subsection 3622(b)(2); the requirement in subsection 3622(b)(3) that First-Class Mail cover its costs; the impact of rate increases on users of the service, within the meaning of subsection 3622(b)(4); the availability of alternative means of transmission, as required by subsection 3622(b)(5); the degree of preparation by mailers, as specified by subsection 3622(b)(6); and the simplicity of the rate structure, within the meaning of 3622(b)(7). As appropriate, we discuss these and other policy considerations below.

We have reviewed the Commission's application of these statutory criteria generally (First Recommended Decision, Vol. 1, at 193-221) and in First-Class Mail rate design specifically (First Recommended Decision. Vol. 1, at 222-97). We find that some deviation from the Commission's conclusions is warranted. We are faced with the task of exercising our independent review of the rate proposals in the Docket No. R2000-1 evidentiary record, as well as the recently implemented rates within First-Class Mail, and determining what changes should be made to the rates now in effect.

Docket No. R80-1 was the only other occasion in which we have been compelled to exercise our authority under § 3625(d) to modify a recommended decision of the Commission in an omnibus rate case. There, our task was simplified by the fact that the improper cuts to the revenue requirement could be restored, for the most part, by modifying only one rate element within this subclass: the basic rate charged for the first-ounce of a single-piece of First-Class Mail.

In the case before us, however, our task with respect to First-Class Mail is complicated by the higher expenses associated with our adjustments to the revenue requirement. These cannot fairly or equitably be recovered simply by modifying the current 34-cent basic First-Class Mail rate. The 34-cent rate was proposed by the Postal Service (USPS-T-33, at 21) and recommended by the Commission (First Recommended Decision, Vol. 1, at 233). As a part of our December 4, 2000, Decision, we allowed that recommended rate into effect under protest. Our review of the First-Class Mail rate design modification options available to us, and the Docket No. R2000-1 evidentiary record, leads us to conclude, as did the Commission, that the 34-cent rate for the first ounce of a First-Class Mail piece is very clearly the rate that is most consistent with the policies of the Act. Accordingly, we consider that none of the additional revenue needed to achieve financial breakeven because of the restoration of the revenue requirement should be generated by increasing the 34-cent rate. Consequently, all such revenue must be generated from other rate elements, either within the First-Class Mail Letter and Sealed Parcels subclass, or other subclasses and special services.

Within the Letters and Sealed Parcels subclass, we also have determined that two other rate elements, the nonstandard surcharges and the heavyweight discount, should likewise be excluded from consideration. As emphasized in USPS-T-33, at 27-30, the nonstandard surcharges applied to single-piece and presorted one-ounce First-Class Mail pieces are not established at levels which approach the full estimated unit cost of processing such pieces, which, by their physical characteristics, are determined to fall outside the standard for efficient processing on automated letter mail processing equipment. Instead, the surcharges are set at levels intended to provide an incentive sufficient to motivate mailers who are able to standardize their one-ounce mail pieces to do so, or to pay some of the extraordinary costs associated with the reliance upon less efficient sortation and processing methods generally applied to nonstandard one-ounce letter mail.

The nonstandard surcharges generate such little revenue relative to other First-Class Mail rate elements that nothing short of prohibitively large nonstandard surcharge increases could have a material impact on First-Class Mail revenues. Accordingly, we do not consider it worthwhile to consider changes in the surcharges for the purpose of recovering any portion of the additional First-Class Mail revenues that result from our restoration of the revenue requirement.

For similar reasons related to the magnitude of any change that could reasonably be contemplated, we have not considered any reduction in the heavyweight discount. This 4.6-cent discount applies to presorted pieces weighing more than two ounces and serves to recognize that the lower-increment additional ounces for presorted mail cost less to process than those for single-piece mail. USPS-T-33, at 30-31. As explained below, we reluctantly must recover some of the additional revenue burden from the bulk workshare rate categories. Out of a desire to limit the additional revenue burden we are imposing on bulk workshare mailers and out of recognition of the degree of preparation reflected in the mail they present to the Postal Service, we make no modification to the heavyweight piece discount.

First-Class Mail is used by members of the general public for most of their basic postal transactions. Users of First-Class Mail range from some of the most sophisticated and technologically savvy postal customers to many millions who are much less sophisticated. Under ordinary circumstances, when we are persuaded to approve the rate recommendations of the Commission, the Board of Governors is mindful of postal management's substantial responsibility for ensuring adequate public notice of the rate changes, making necessary changes to stamp inventories, updating computer software for postal window service transactions, and the myriad other tasks associated with implementing a new set of postal rates. The Board also is mindful of the sometimes technologically complex changes that sophisticated mailers must make in order to integrate postal rate changes into their everyday operations.

When faced with the responsibility for setting into motion significant changes to the current rate schedule, which was only recently implemented and is used by a wide array of mailers, we consider that we have an obligation, where we can, to minimize the disruption that could result from necessary changes to that rate schedule so soon after it was originally implemented. We would prefer to avoid having to make any changes to the First-Class Mail rate schedule. Alternatively, we would prefer to confine any necessary changes to as few rate categories and rate cells as possible. However, in order to meet our statutory responsibilities in a fair and equitable manner within First-Class Mail, we find it necessary to make changes to a number of First-Class Mail rates to which household and business mailers have only recently adjusted.

Letters and Sealed Parcels Subclass

In determining which First-Class Mail Letters and Sealed Parcels rate elements to adjust, our review of the Docket No. R2000-1 evidentiary record is influenced by the pricing criteria of the Act and the above-referenced modification policy objectives. As explained in greater detail below, our review of the Docket No. R2000-1 evidentiary record leads us to conclude that the additional Letters and Sealed Parcels subclass revenue should be recovered by:

- increasing from 21 cents to 23 cents the additional-ounce rate to the level initially proposed by the Postal Service; and

- increasing the rates for the various bulk worksharing rate categories by 0.2 cents per piece.

These modifications generate additional test year revenues of $453 million from the subclass. Overall, we consider the effects of these modifications on the subclass as a whole to be quite modest. The percentage rate increase implicit in these modifications is 1.5 percent, which is less than the modification average of 1.6 percent. Even when combining the modification increase with the increase in rates implemented in January, the percentage change in First-Class letter rates is only about half of the systemwide average. Moreover, the resulting cost coverage is 178.1 percent. This figure is slightly below the cost coverage recommended by the Commission of 178.8 percent. In terms of institutional cost allocation, therefore, the change on this subclass occasioned by our modification is so minimal as to be virtually immaterial.

1. *Additional-Ounce Rate*

The evidentiary record shows that several alternative additional-ounce proposals were considered by the Commission. When the Docket No. R2000-1 request was filed on January 12, 2000, the Postal Service proposed that the 22-cent additional-ounce rate established in Docket No. R97-1 be increased to 23 cents. USPS-T-33, at 23.

The Postal Service's First-Class Mail rate design testimony puts into perspective the importance of the additional ounce rate as an important source of First-Class Mail revenue. This rate generated approximately $4.7 billion in the base year, which was about 14 percent of all First-Class Mail revenue for that year. *Id.* The testimony emphasized the importance of this rate in helping First-Class Mail meet its cost coverage target and in helping the Postal Service meet its revenue requirement. *Id.*

In addition to revenue requirement considerations, the Postal Service's additional-ounce rate design was influenced by cost study estimates of First-Class Mail additional-ounce costs, presented at USPS-T-28, at 10-15. This cost study attempted to isolate the costs of additional ounces for both single-piece and presorted First-Class Mail. The study estimated an average additional ounce unit cost for single-piece mail of 12.5 cents, and 14.8 cents for presorted mail. *Id.* at 10, 13. Taking single-piece and presort together, the Postal Service calculated a weighted average of 12.7 cents for each First-Class Mail additional ounce. USPS-T-33, at 24, n.4. In designing its additional-ounce rate proposal, the Postal Service was careful to acknowledge that its cost study demonstrated the difficulty in measuring additional-ounce costs on an ounce-by-ounce basis. Accordingly, the results of the study were used as a basis for evaluating, in the aggregate, the alignment between the additional-ounce rate and the overall costs it is designed to cover. *Id.* at 24. In the absence of more refined data, we regard this approach to be reasonable.

Using this weighted average cost for First-Class Mail additional ounces, the Postal Service compared the cost/rate relationship of its 23-cent proposal to the cost/rate relationship of the Postal Service's First-Class Mail rate design as a whole. *Id.* at 25. The Postal Service found that the implied mark-up (ratio of institutional cost contribution to volume variable cost) for additional ounces at 23 cents would not exceed the markup for the letter subclass as a whole. More specifically, the Postal Service found that the additional-ounce mark-up implied by its rate design was below the mark-up for the First-Class Mail Letters and Sealed Parcels subclass as a whole, meaning that the proposed 23-cent additional-ounce rate served to reduce the markup for the subclass. USPS-T-33, at 25.

As all First-Class Mail users tend to generate some additional-ounce First-Class Mail, the burden of this increase will be borne by both high-volume business mailers and low-volume household mailers alike. We consider this to be a fair and equitable result and one that ensures that the impact will not be borne disproportionately by single-piece users.

The American Bankers Association & National Association of Presort Mailers presented testimony (Tr. 26/12442-56) proposing that the Commission reject the Postal Service's proposed 23-cent additional-ounce rate. ABA&NAPM's witness advocated that the Commission recommend retention of the 22-cent First-Class Mail additional-ounce rate and that it increase various Standard Mail rates as a means of bringing the relative institutional cost burdens of First-Class Mail and Standard Mail closer together. Challenging the statistical reliability of the Postal Service's additional-ounce cost data for additional-ounce costs for presorted First-Class Mail, ABA&NAPM's testimony proposed that the Commission rely upon a cost analysis presented by ABA&NAPM in Docket No. R97-1 (which the Commission declined to rely on in that proceeding). Alternatively, ABA&NAPM's testimony suggested that the Commission rely on Docket No. R2000-1 Postal Service cost data pertinent to the impact of weight on Standard Mail costs to draw conclusions about the cost impact of First-Class Mail additional ounces (which the Commission also declined to do).

The Major Mailers Association presented testimony asserting that the Commission should not rely upon the Postal Service's First-Class Mail additional-ounce cost study in recommending an additional-ounce rate. In opposition to the Postal Service's proposal to increase the 22-cent additional-ounce rate that applies to all First-Class Mail pieces weighing over an ounce, MMA's testimony proposed that the Commission grant relief only to presorted letters by expanding qualification for the 4.6-cent heavy piece deduction to letters weighing between one and two ounces. Tr. 26/12303-06.

The Commission rejected the proposals of the Postal Service, ABA&NAPM and MMA. Instead, it recommended that the additional-ounce rate be reduced from 22 to 21 cents. The Commission's rationale for its recommended reduction appears to have been two-fold. First, it reasoned that the Postal Service's average additional ounce unit cost estimates were biased upward, implying that the actual impact of weight on cost was somewhat lower than estimated. First Recommended Decision, Vol. 1, at 250. The Commission's criticism is based upon the undisputed conclusion that the Postal Service's study does not perfectly isolate the cost impact of weight. See Tr. 4/1262-64. However, we consider that the study does a reasonable job of indicating the additional costs associated with heavier pieces. Those additional costs should be reflected in the rates for heavier pieces. It is not necessary to isolate for weight because the rate functions as a proxy for other cost causing characteristics associated with pieces weighing more than one ounce. Because of the simplicity of rate design in First-Class Mail, separate rate elements are not proposed to deal with such cost-causing characteristics as are captured in Standard Mail rate design.

The Commission also indicated that the recommended additional-ounce rate reduction was a response to comments by several Docket No. R2000-1 intervenors concerning an upward trend in First-Class Mail institutional cost contribution. *Id.*

We observe that the intervenor comments to which the Commission alludes were:

- the Office of the Consumer Advocate testimony proposing the retention of the 33-cent First-Class Mail basic rate as a means of reducing the First-Class Mail cost coverage and revenue requirement (First Recommended Decision, Vol. 1, at 228-230);
- the Major Mailers Association proposal to mitigate the impact of the Postal Service's proposed increase in the basic rate to 34 cents and the additional ounce rate to 23 cents by increasing the discounts for bulk workshared First-Class Mail letters (*Id.* at 231, 233);
- the Greeting Card Association and Hallmark Cards arguments on Brief (*Id.* at 233); and
- the testimony of ABA&NAPM witness Clifton asserting that the implicit cost coverage for bulk workshared First-Class Mail is discriminatory relative to Standard (A) commercial mail and single-piece First-Class Mail. *Id.* at 231.

Not one of the above-referenced intervenor testimonies proposed a reduction in the additional ounce rate as a solution to First-Class Mail rate design. It is not our view that the Commission would still be foreclosed from considering any reduction in the additional-ounce rate, solely on the basis that no party proposed such a reduction on the record in this proceeding. However, when the revenue requirement is properly restored and we examine the evidentiary record on the issue of the additional-ounce rate and the competing proposals before us, we find the evidence presented in support of the Postal Service's 23-cent proposal sufficiently persuasive and reliable.

We consider that the modified additional-ounce rate covers the attributable costs of additional ounces. We are not persuaded that a penny increase over the 22-cent Docket No. R97-1 additional ounce rate will have an unduly negative impact on mailers, within the meaning of subsection 3622(b)(4). The modified additional-ounce rate contributes to the establishment of a rate schedule reflecting identifiable relationships between related rate elements. Its degressive nature, in relation to the first-ounce rate, is consistent with the undisputed notion that an additional ounce costs less to process than the initial ounce. The relationship between the rates for the initial and additional ounces is, therefore, consistent with subsection 3622(b)(7).

Finding that the entire share of First-Class Mail revenue to be generated to contribute toward breakeven as a result of the restoration of the revenue requirement should not be generated from the additional-ounce rate, we examined the remaining rate elements within the Letters and Sealed Parcels subclass to determine the extent to which other modifications were necessary to generate revenue.

2. *Workshare Discounts*

Within the First-Class Mail Letters and Sealed Parcels subclass, numerous bulk mailers take advantage of worksharing discounts that provide rate reductions in exchange for certain mail preparation activity. Generally, these discounts are constructed to recognize the avoided costs of the Postal Service if the mailer presorts, or prebarcodes and presorts, bulk quantities of mail before presenting it to the Postal Service. The alternative would be presenting the mail in a condition requiring the Postal Service to perform certain sortations or apply barcodes in order to process it to its destination. The First-Class Mail worksharing categories and corresponding rate differentials reflect consideration of the pricing policy in subsection 3622(b)(6) that rates reflect "*the degree of preparation of mail for delivery into the postal system performed by the mailer* and its effect upon reducing costs to the Postal Service . . .[.]"

In Docket No. R2000-1, the Commission was faced with the competing First-Class Mail bulk worksharing discount proposals of the Postal Service, ABA&NAPM, and MMA.[89] Based upon its revenue requirement determinations, which we reject above, the Commission made allocations of institutional cost to the various subclasses and designed rates consistent with those allocations. Our rejection of the Commission's treatment of the revenue requirement has the consequence of requiring that we allocate additional institutional cost burden among the various subclasses and special services, including First-Class Mail Letters and Sealed Parcels. As we have explained above, it does not seem appropriate to adjust certain rate elements within this subclass. In that conclusion, we are firm. However, we are then faced with the difficult task of determining the extent to which the remaining rate elements must bear a portion

[89] These proposals were discussed in the Commission's First Recommended Decision, Vol. 1 at 235-45 (and summarized at 240, Table 5-2).

of the additional cost burden resulting from our restoration of the revenue requirement. In the iterative process of determining what is fair and equitable, we find that we cannot avoid making a modest imposition on the various Letters and Sealed Parcels worksharing rate categories.

Unlike with single-piece mail and other First-Class Mail rate categories commonly used by members of the general public, rate design for the various bulk worksharing categories is not limited by the whole-integer constraint. Worksharing rates are commonly expressed in terms of fractions of a cent. The absence of this constraint increases flexibility in designing rates for worksharing categories and in balancing the institutional cost burden implied for the various rate categories within the subclass.

In general, the worksharing discounts "build" on one another, with the discounts increasing as the amount of additional work performed by the mailer increases. Therefore, the 3-digit automation discount is greater than the automation basic discount by the estimated amount of the costs saved due to additional work performed by the mailer. Taking this costing assumption as the premise for the modification of First-Class Mail worksharing rates, we are reluctant to alter the Commission's assessment of the relative value of the increased cost savings due to each level of worksharing. Accordingly, we have determined to leave the differential between the various discounts at the level set by the Commission in its First Recommended Decision.

With this in mind, we have elected to decrease the discounts for non-automation presort letters, and for automation basic letters and flats by 0.2 cents per piece, while maintaining the incremental discounts for deeper levels of preparation at the levels established by the Commission. Therefore, the rates we will implement upon modification result in a reduction of 0.2 cents in all worksharing discounts.

In comparing the results of our modification exercise to Table 5-2 at page 240 of the Commission's First Recommended Decision[90] and to the Commission's recommended rates, we make the following observations. The Basic Automation rate that results from our

[90] Which, as noted above, compares the Postal Service, ABA&NAPM, and MMA worksharing rate proposals.

modification matches the 28.0-cent rate initially proposed by the Postal Service. The modified 3-Digit rate (26.9 cents) falls between the rate proposed by the Postal Service (27.1 cents) and the rate recommended by the Commission (26.7 cents). The modified Carrier Route rate (24.5 cents) also falls between the rate proposed by the Postal Service (24.8 cents) and the rate recommended by the Commission (24.3 cents). In contrast, the 5-Digit rate that results from our modification (25.5 cents) is higher than the rate initially proposed by the Postal Service (25.3 cents) and recommended by the Commission. This is a consequence of our determination not to make any exception to the policy of preserving the rate relationships embodied in the Commission's recommended rate design. In any event, the overall impact of our modified rate design for the Letters and Sealed parcels subclass is the implementation of a cumulative 3.3 percent rate increase in this docket, a slight improvement over the 3.5 percent increase initially proposed by the Postal Service for this subclass.

With these modified worksharing rates that we have designed, the Letters and Sealed Parcels subclass continues to meet the requirement that the rates for the subclass, as a whole, cover its costs, as required by subsection 3622(b)(3). The modified rates retain the relatively simple structure of the First-Class Mail rate schedule and the identifiable rate and classification relationships therein, as required by subsection 3622(b)(7). We consider that these very modest rate increases continue to reflect a very high degree of consideration of the value of mailer preparation, within the meaning of subsection 3622(b)(6). We have been influenced by the relatively high, implied cost coverage for workshared First-Class Mail in keeping these increases to a minimum. Accordingly, we consider that we have demonstrated proper concern for the effect of increases upon those who engage in worksharing and the availability of alternatives, as required by subsections 3622(b)(4) and (b)(5).

3. *Cards Subclass*

The Cards subclass within First-Class Mail consists of postcards and stamped cards. Postcards are privately printed mailing cards on which the sender must affix postage before mailing. Stamped cards are produced and sold by the Postal Service with postage imprinted.

In its Request, the Postal Service proposed First-Class Mail postcard rates which resulted in a test year cost coverage of 148.5 percent over volume-variable costs, and a cost coverage of 145.3 percent over incremental costs. Exhibit USPS-32A at 2; Exhibit USPS-32E. As we have noted earlier, the markup over incremental costs is much more comparable to the markup the proposed rates would represent relative to attributable costs, which is the Commission's preferred costing methodology. Based upon the record in this case and its own evaluation of the statutory pricing criteria in 39 U.S.C. § 3622(b), the Commission recommended First-Class Mail postcard rates resulting in a cost coverage of 133.0 percent of attributable costs. First Recommended Decision, Vol. 1, Appendix G at 1.

As part of its rate filing, the Postal Service proposed rates for the various rate categories within the Cards subclass. USPS-T-33, at 38-43. During the administrative proceeding before the Commission, the parties introduced relatively little evidence on issues relating to the Postal Service's Cards subclass rate proposals. As noted at First Recommended Decision, Vol. 1, at 294, two intervenors argued in briefs to the Commission that the Docket No. R97-1 20-cent basic, single-piece postcard rate should be retained. One argued that retention of the 20-cent rate was justified on the basis of conclusions about subsection 3622(b)(2) "value of service" considerations drawn from extremely limited data from the Postal Service's External First-Class service performance data system; the other made an unsubstantiated argument about differences in stamped card and postcard costs. Our review of the Commission's opinion leads us to conclude that neither party's argument influenced the Commission's recommendation to retain the basic postcard rate at 20 cents. We also do not find either argument compelling.

The Commission's determination to retain the 20-cent postcard rate appears, instead, to have been based on its goal of acting to "ensure that there is at least one relatively inexpensive postal category that can be widely used by the general public, businesses, and organizations." First Recommended Decision, Vol. 1, at 294. Its desire to mitigate the institutional cost burden of First-Class Mail as a whole also played an important role in its determination to retain the rate at a level that has prevailed since Docket No. R94-1. *Id.* at 294-295. The Commission's recommended rates for the Cards subclass reflect an average increase of 0.4 percent, significantly lower than its recommended 1.8 percent increase for the Letters and Sealed

Parcels subclass and its recommended 4.6 percent system-wide increase. First Recommended Decision, Vol. 1, at 295. Moreover, this small increase for Cards followed an even smaller increase, 0.2 percent, in Docket No. R97-1. PRC Op. R97-1, Vol. 1, at iii. Thus, the cumulative increase for Cards over the last two rate cases has been approximately 0.6 percent, which is a relatively miniscule amount when compared with the increases experienced by the other subclasses over that period.

We have reviewed the Commission's application of the statutory pricing criteria to the First-Class Mail Cards subclass in the context of the revenue requirement upon which its rate recommendations were based. First Recommended Decision. Vol. 1, at 294-297. Below, we provide a detailed explanation of our resolution of these issues in the context of the restored revenue requirement.

We start by noting that even by the Commission's own reckoning, the 133.0 percent cost coverage it has recommended ties the lowest level ever recommended for the subclass. First Recommended Decision, Vol. 2, Appendix G at 34. Moreover, the markup index resulting from the Commission's recommended cost coverage is lower than any other in the history of the subclass. *Id.* at 35. These figures refute any possible suggestion that the mitigation of recent rate increases for the Cards subclass has been required to maintain historical cost coverage levels. Instead, it is a subclass that has received virtually no rate increase over the last two cases, and we have seen its cost coverage erode as a result. When we evaluated our options to obtain the additional revenue we need to achieve breakeven, therefore, we concluded that fundamental fairness would support an increase in the cost coverage of the Card subclass.

In considering which card rates to modify and to what degree, we were governed by the same principles that guided our modifications in the Letters and Sealed Parcels subclass. The rates for the Cards subclass of First-Class Mail that we will implement upon modification result in a cost coverage, relative to attributable costs, of 136.8 percent. At the modified cost coverage, which is higher than the 133.0 percent recommended by the Commission, but not excessively so, the subclass clearly will cover its costs and make a reasonable contribution to institutional costs, as required by subsection 3622(b)(3). We consider that rate category increases ranging from approximately 4.5 to 6.4 percent, and an overall cumulative subclass increase of 5.6

percent, are appropriate in order to allocate a fair share of institutional cost burden to the Cards subclass, in light of the system-wide Docket No. R2000-1 average rate increase of 6.3 percent after our action today.

We have decided to raise the basic single-piece postcard rate to 21 cents, the level proposed by the Postal Service. Rather than disturb the rate relationships among the various other postcard rate categories (non-automation presort, QBRM and the various bulk automation categories) by making individual adjustments to the different rates to achieve the revenue target for the subclass implied by the modified cost coverage, we have decided to retain the Commission's recommended rate differentials. Therefore, we are modifying upward by a cent the rate for each postcard rate category.

As we mentioned earlier, the Commission's desire to mitigate the institutional cost burden of First-Class Mail as a whole was a significant factor in influencing it to suppress the Cards subclass cost coverage and to recommend retention of the basic card rate at a level that has prevailed since January, 1995. Even with our modification of the basic Card rate, however, the cost coverage for all First-Class Mail implicit in our new rates (176.5 percent) is still less than that recommended by the Commission (177.1 percent) Because of the appropriateness of distributing a modest portion of the restored revenue requirement to the Cards subclass, we are unable to insulate the subclass from rate increases of a magnitude approaching (but not reaching) the increases experienced by the other subclasses, on average. We consider that the postcard rates we establish will still help to ensure the availability of a relatively inexpensive postal category that can be widely used by the general public, businesses, and organizations. Accordingly, we conclude that the impact of the modified rates will not be adverse to postcard mailers, within the meaning of subsection 3622(b)(4). Taking into account subsection 3622(b)(5), we are aware of no record basis for concluding that the modified postcard rates will diminish the ability of mail users to send messages at reasonable costs.

The modified 21-cent basic postcard rate, in conjunction with the 34-cent basic letter rate, preserves the Docket No. R97-1 13-cent card/letter rate differential. Postcards do not offer the privacy of message content afforded by sealed letters. Even as modified, the cost coverage for postcards reflects the lower value of service of the postcard medium, in relation to letters. In accordance with subsection 3622(b)(6), the rates continue to reflect appropriate recognition of worksharing by mailers who present bulk presorted or prebarcoded cards. The rate schedule remains simple, and identifiable rate relationships are preserved, within the meaning of subsection 3622(b)(7). In accordance with subsection 3622(b)(1), we consider our modification of the Cards subclass cost coverage and the resulting rates to be fair and equitable.

PRIORITY MAIL

Priority Mail consists of letters, documents, and packages weighing up to 70 pounds. For pieces weighing more than 13 ounces, Priority Mail serves, in part, as an extension of First-Class Mail. Customers also have the option to send lighter-weight pieces by Priority Mail to take advantage of service features including Delivery Confirmation and expedited handling. Priority Mail rates are unzoned for mail pieces weighing up to five pounds and zoned for mail pieces weighing more than five pounds. In addition, the Postal Service provides a flat-rate envelope mailable at a set rate, regardless of the piece's actual weight.

In its Request, the Postal Service proposed Priority Mail rates that resulted in a test-year cost coverage of 180.9 percent over volume variable costs, and a cost coverage of 162.7 percent over incremental costs. USPS-T-32 at 25; First Recommended Decision, Vol. 1, at 299. In this instance, the markup over incremental costs is much more comparable to the markup the proposed rates would represent relative to attributable costs, which is the Commission's preferred costing methodology.[91] Based on the record in this case and its own evaluation of the statutory criteria, the Commission recommended Priority Mail rates resulting in a cost coverage of 161.9 percent over attributable costs. First Recommended Decision, Vol. 2, Appendix G at 1. The Priority Mail rates we will implement upon modification result in a cost coverage, again relative to attributable costs, of 161.4 percent Clearly, our modification has no material effect on the Priority Mail cost coverage.

[91] Postal Service library reference LR-I-149 indicates that, using Commission methodologies, the cost coverage relative to attributable costs of the Postal Service's proposed Priority Mail rates was 163.5 percent.

In terms of percentage rate increases, which is a critical factor in evaluating the impact of rate changes on mailers pursuant to subsection 3622(b)(4), Priority Mail in this docket has already received a rate increase of approximately 16 percent. This is by far the largest of any of the major subclasses, and it exceeds the systemwide average rate increase implemented in January by a factor of three. Because of this, we have sought to give Priority Mail (and other subclasses to the extent that they are similarly situated) the smallest possible reasonable share of the overall increased revenue burden implicit in this modification. Therefore, we are further raising Priority Mail rates, in the aggregate, by slightly under 1 percent.

Despite the additional rate increases for Priority Mail in general, we have decided not to modify either the one-pound, or the two-pound, unzoned Priority Mail rates.[92] The one-pound rate ($3.50) and the two-pound rate ($3.95) recommended by the Commission represent 9.4 percent and 23.4 percent increases over the two-pound rate ($3.20) established in Docket No. R97-1[93]. We believe that, particularly for Priority Mail pieces paying the two-pound rate, consideration of the impact of rate changes on mail users, subsection 3622(b)(4), requires us to mitigate any further increases in these rates. This is consistent with the concerns expressed by the Postal Service, Tr. 7/2828, and its customers, Tr. 25/11538, 11564, over possible detrimental impacts on Priority Mail volume of even the smaller increases (to $3.45 and $3.85, respectively) in these rates, as proposed by the Postal Service in its Request.

Consistent with Commission precedent[94] and the rate design underlying the Commission's Recommended Decision, First Recommended Decision, Vol. 1, at 325, our modified Priority Mail rates reflect an even rate increment between each of the two- to five-pound, unzoned, rates. However, due to our concerns expressed above about the sufficiency of the

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[92] The one-pound and two-pound rates apply to Priority Mail pieces (1) weighing up to one pound, and (2) weighing over one pound and up to two pounds, respectively, that are not mailed in a flat-rate envelope. Pieces mailed in the Postal Service-provided, flat-rate envelope are charged the two-pound rate regardless of weight. DMCS § 223.5.

[93] In Docket No. R2000-1, the Postal Service proposed and the Commission recommended that the one-pound rate differ from the two-pound rate. PRC Op. at 313-315. Prior to this proceeding, all Priority Mail pieces weighing two-pounds or less paid the same postage rate.

[94] See PRC Op. R94-1, Vol. 1, at V-40 and PRC Op. R97-1, at 367.

Commission's overall recommendation to provide adequate revenue, we have increased this increment from $1.20 (as recommended by the Commission) to $1.25, which is the level initially proposed by the Postal Service. USPS-T-34 at 17.

Lastly, we have also increased the over-five-pound Priority Mail rates from the levels recommended by the Commission. In its Recommended Decision, the Commission "imposed an absolute rate increase constraint of 25 percent on all Priority Mail rates," while stating that, in order "to produce a more cost-based schedule," it did not impose a corresponding minimum rate change on Priority Mail rates. First Recommended Decision, Vol. 1, at 326. While subsection 3622(b)(3) requires that Postal Service rates reflect the costs of providing postal services, we do not believe that the Commission's rate design necessarily accomplishes that goal for heavy-weight (over five pound) Priority Mail pieces.

Consistent with established rate design methodology, the Commission employed a "target markup" in designing Priority Mail rates.[95] However, a review of the Commission's workpapers shows that the Commission used a target markup of 131.5 percent, significantly below the overall recommended cost coverage for the Priority Mail subclass of 161.9 percent.[96] This very low target markup is applied to incremental weight-related costs allocated to the rate cells as the weight of Priority Mail pieces increases. The resulting implied cost coverages for some heavy weight rate cells are significantly below the average cost coverage for the subclass as a whole. There is no justification within the Commission's Recommended Decision, and no record evidence, supporting the disparate treatment of weight-related and non-weight-related costs. The Commission's Recommended Decision implies that significant rate reductions – in some circumstances, almost 20 percent decreases relative to the rates resulting from the last rate case, Docket No. R97-1 -- are "cost-based." We find this implication troubling.

[95] A target markup is used as an input to rate design workpapers and is varied to meet the overall cost coverage desired for a mail subclass. See Tr. 7/2777.

[96] Compare PRC Library Reference 13, workpaper "LR13Pri.xls", worksheet "Input," cell B126 to PRC Op. Appendix G at 1.

In determining appropriate levels for the heavy-weight Priority Mail rates under the particular circumstances of this modification, we gave substantial weight to fairness and equity, and impact on users of the mail (subsections 3622(b)(1) and (b)(4), respectively). We believe the resulting rates are justified under the Act. Other rate cells within the same subclass bear rate increases of over 20 percent, and the overall recommended rate increase for the Priority Mail subclass was 16 percent. In the context of a modification process in which we are striving to raise revenue, it simply would not make sense to leave intact rate *decreases* of almost 20 percent for certain cells. We also recognize, however, that the unique circumstances surrounding the impact of Priority Mail cost changes – cost changes that may not persist -- have required us to focus on the relative rate structure of the Priority Mail subclass. USPS-T-34 at 12-15; Tr. 7/2781-2. Our reading of the Commission's Recommended Decision leads us to believe that the Commission shares these concerns. See, for example, First Recommended Decision, Vol. 1, at 325. Under these circumstances, in order to reflect all such considerations, each heavy-weight Priority Mail rate cell is constrained to increase no less than 5 percent over Docket No. R97-1 levels.[97]

EXPRESS MAIL

Express Mail is a premium service offering guaranteed next-day and second-day delivery nationwide. If guaranteed performance standards are not met, postage will be refunded. There are four service options: Next Day and Second Day Post Office to Addressee Service, Next Day and Second Day Post Office to Post Office Service, Custom Designed Service, and Same Day Airport Service. Same Day Airport Service is currently suspended for security reasons.

Any mailable matter weighing up to 70 pounds, but not exceeding 108 inches in length and girth, may be sent as Express Mail. In February 1992, the Postal Service initiated Computerized Tracking and Tracing, which provides customers information on the acceptance, arrival at the

[97] Thus, the objectives of our modified heavy-weight rate design are accomplished by increasing the target markup to 142 percent, and by imposing an explicit constraint requiring a five percent minimum rate increase.

destination post office, and delivery of Express Mail. Express Mail rates are unzoned and rounded to the nearest nickel. A letter rate for items weighing up to eight ounces is available. For Post Office to Addressee or Post Office to Post Office Services, an envelope rate for pieces that fit into the standardized flat-rate envelope supplied by the Postal Service is offered at the two-pound rate.

In its initial Recommended Decision, the Commission recommended a 3.6 percent rate increase in Express Mail rates over those established in Docket No. R97-1. Although this increase was slightly lower than average, the implicit cost coverage over attributable costs was 151.3 percent. This cost coverage represented a substantial increase over the Docket No. R97-1 cost coverage, which was set at only 114 percent. In explaining its cost coverage conclusions in this case, the Commission concurred with the assessment of the statutory pricing criteria presented by Postal Service witness Mayes. First Recommended Decision, Vol. 1, at 220.

In this modification, we have increased the Express Mail rates over those initially recommended by the Commission by 1.5 percent, which closely approximates the systemwide average modification increase of 1.6 percent. The higher rates we are establishing, viewed in the context of the higher costs that result from our revenue requirement adjustments, yield a cost coverage of 151.3 percent. This figure is virtually identical to the cost coverage recommended by the Commission, as quoted above, and we believe it to be appropriate for the reasons identified by the Commission and by witness Mayes.

For purposes of simplicity, each rate cell was raised by 1.5 percent, and the results were then rounded to the nearest nickel. The results of this process are Express Mail rate schedules which closely resemble those recommended by the Commission, but which also generate their fair share of the needed additional revenue. Given the minimal difference between these Express Mail rates and those recommend by the Commission, we find that they meet all of the relevant statutory criteria under the circumstances of this modification.

STANDARD MAIL

Standard Mail primarily consists of advertising mail. Regular and Enhanced Carrier Route (ECR) are commercial subclasses, while Nonprofit and Nonprofit Enhanced Carrier Route (NECR) are nonprofit subclasses whose rates are set according to the formula set forth in 39 U.S.C. § 3626, as amended by Pub. L. No. 106-384, 114 Stat. 1460 (2000). The ECR and NECR subclasses consist primarily of geographically targeted advertisements, although these subclasses include mailings with as few as ten pieces per carrier route in the basic tier. The advertisements are generally for widely used products or services. Regular and Nonprofit subclasses cater to advertising that is targeted to recipients based on factors other than, or in addition to, geographic location.

The Regular and Nonprofit subclasses are separated into presort and automation rate categories. Within the presort categories, separate rates exist for letters and nonletters. Letter rates, for pieces up to the maximum weight of 3.3 ounces, and rates for nonletters below the breakpoint weight of 3.3 ounces, are per-piece. Nonletters in excess of the breakpoint weight are subject to combined per-pound and per-piece rate elements. Within the automation categories of the Regular and Nonprofit subclasses, letters and flats are subject to separate piece rates. In both Regular and Nonprofit subclasses, discounts are available for more finely presorted mail. Discounts are available for letters and nonletters presorted to 3/5-digit destinations for presort categories. Automation letter categories offer separate 3-digit and 5-digit rate levels, while a combined 3/5-digit rate level is available for more finely presorted automation flats.

ECR and NECR are split into letter and nonletter rates. Nonletter rates below the breakpoint weight are per-piece, while nonletters above the breakpoint weight are subject to combined piece/pound rates. For both letters and nonletters, pieces are organized into three density tiers: basic, high-density, and saturation. In addition, both ECR and NECR offer a discount for automation carrier route letters.

Residual shapes, such as parcels, in all Standard Mail subclasses are subject to a surcharge. In addition, destination entry discounts are available for bulk Standard Mail entered at designated locations proximate to the addresses of delivery.

The rate design for Standard Mail employs a device known as a "presort tree", which determines rates for shape (e.g., letters and nonletters) and presort tier (e.g., basic or 3/5-digit tier) based on the selection of passthrough percentages for calculated cost differences between shapes or presort categories. For instance, in the ECR subclass, the presort tree begins with a rate for basic nonletters. Applying a percentage passthrough to the difference in calculated cost between basic tier nonletters and basic tier letters determines the rate for basic tier letters. The rates for high-density and saturation letters are also based on passthrough percentages applied to calculated cost differences, while high-density and saturation nonletter rates are determined by shape passthroughs at each tier. Thus, the selection of the letter presort passthroughs and the shape passthroughs at the high-density and saturation tiers determines the rates for high-density and saturation nonletters. In the Regular subclass, the presort tree begins with basic nonletters. The letter presort passthrough (i.e., the passthrough applied to the cost difference between basic and 3/5-digit tier letters) and the letter-flat passthrough at the 3/5 digit tier determine the 3/5-digit tier presort passthrough for nonletters. Automation discounts are based on passthroughs applied to cost differentials between presort and automation categories for each rate category, *i.e.*, basic letters, basic nonletters, 3/5-digit letters, and 3/5-digit nonletters.

Rate Design

Our modification results in fairly modest increases in the rates for Standard Mail subclasses over the Commission's recommended rates. At the outset, we emphasize that our modification of Standard Mail rates is intended to enable us to satisfy revenue objectives, and thus is confined to modest increases in Standard Mail categories. Our modification preserves the Commission's recommended rate design structure and methodology, with one minor exception. Consistent with the requirements of Pub. L. No. 106-384, 114 Stat. 1460 (2000), our rate design for nonprofit categories uses before-rates volumes, rather than after-rates volumes. Other than this exception, we employ the exact same percentage passthroughs, and underlying avoided cost differentials, in the presort tree. Under our modification decision, we increase the rates for all categories in the Regular subclass, and its Nonprofit counterpart, by 3/10ths of a penny. We increase all categories in the ECR subclass, and its NECR counterpart, by 2/10ths of a penny.[98] These measures promote simplicity, and preserve existing rate relationships between categories within the respective subclasses.

The rate design we employ also adopts the classifications recommended by the Commission, with one exception. In particular, our decision today preserves our rejection of the Commission's recommended classification changes pertaining to the maximum weight of Standard Mail letters and breakpoint weights. This result is addressed in our Decision issued on December 5, 2000. Since the classification changes at issue in that decision were assumed to be revenue neutral, they should have no impact on our modification decision.

The aggregate percentage increases for Standard Mail subclasses are above those recommended by the Commission, and slightly greater than those proposed by the Postal Service. For the Regular subclass, the Commission recommended a rate increase of 8.8 percent. For ECR, the Commission recommended a rate increase of 4.5 percent. We have modified the Standard Mail rates upward, increasing Regular and ECR by 1.4 percent and 1.3 percent, respectively, over the Commission's recommended rates. This results in a combined increase of 10.3 percent and 5.8 percent for Regular and ECR, respectively. Nonprofit and NECR are modified to rise by 2.5 and 2.0 percent, respectively, over the Commission's recommended rates, although these increases are driven in part by the use of before-rates volumes, as the new legislation requires. The rate changes are summarized in the table below.

[98] The equivalency of the per-piece increases in the commercial and nonprofit counterparts is not necessarily the goal of the rate formula in 39 U.S.C. § 3626; however, in this instance, such rate changes yield the required revenue relationship between the commercial and nonprofit counterparts.

SUMMARY OF RATE CHANGES FOR STANDARD MAIL SUBCLASSES			
Subclass	PRC recommended	Governors' Modification	Combined Increase
Regular	8.8%	1.4%	10.3%
ECR	4.5%	1.3%	5.8%
Nonprofit	4.8%	2.5%	7.4%
NECR	18.3%	2.0%	20.6%

Statutory Criteria

We find that the modified rate increases are modest, and comply with the statutory criteria in 39 U.S.C. § 3622. In particular, the modified rates satisfy the subsection (b)(3) criterion that rates cover attributable costs and provide reasonable contribution to institutional costs. The resulting cost coverages for all subclasses are all well over the statutory price floor, and all subclasses continue to make handsome contribution to institutional costs. Our modification also promotes fairness and equity, in that all categories within each subclass in Standard Mail receive a modest, uniform per-piece increase. We recognize that the uniformity of the increase results in higher percentage changes for lower-priced categories, since the increase is on a lower base; however, the range of these percentage changes is narrow. A simple per-piece change is easy to understand and administer, and in this instance it outweighs the alternative of attempting to achieve uniformity of percentage increases within categories.

The modified rates also satisfy the subsection (b)(2) criterion, as the changes do not result in substantial changes to the cost coverages embodied in the Commission's Recommended Decision. In addition, the subsection (b)(4) criterion, which requires evaluation of the effect on users, competition, and the general public, is satisfied because the overall incremental increases for the commercial Standard Mail subclasses are less than or equal to 1.4 percent, so commercial users should not experience rate shock over the Commission's recommended rates. The resulting percentage changes for the nonprofit subclasses are higher than those for the commercial subclasses; however, they are driven by the formula used to set the rates for these preferred subclasses. The percentage changes are higher because the Commission's recommended rates were too low.[99] In addition, with respect to the competition element of subsection (b)(4) and the availability of alternatives required to be evaluated by subsection (b)(5), no decreases are proposed for categories likely to have more alternatives, or a greater variety of alternatives, thereby precluding claims that the modified rates will steer volumes away from alternative providers of advertising media. Our rate adjustments are therefore in accord with these criteria. The subsection (b)(6) criterion, which requires evaluation of the degree of preparation, is also met by preserving the Commission's passthroughs and avoided cost differentials. This measure ensures that the modified rates will still offer mailers meaningful incentives to engage in worksharing, thereby reducing costs to the Postal Service. The subsection (b)(7) criterion, which requires evaluation of the simplicity of structure and identifiable relationships, is also easily satisfied here, given the uniformity of the increase across all Standard Mail categories, and the preservation of the existing Standard Mail rate structure. Since all of the major rate subclasses are incurring rate increases of magnitudes that do not vary significantly, the resulting relative cost coverages are not changed significantly, and therefore continue to satisfy the subsection (b)(8) criterion.

Recent Amendments to 39 U.S.C. § 3626

During the pendency of the Postal Service's Request, Congress enacted legislation to amend 39 U.S.C. § 3626, which establishes reduced rates for nonprofit subclasses. The new legislation provides that the rates for nonprofit subclasses should be equal, as nearly as practicable, to 60 percent of the estimated average revenue per piece to be received from the most closely corresponding commercial counterpart. The new legislation further provides that in calculating the estimated average revenue per piece, the before-rates volumes and mix should be used. The Commission, however, initially derived the rates for nonprofit Standard Mail subclasses by using the after-rates volumes, rather than before-rates volumes, for both

[99] See First Governors' Decision at 14. As explained in the following section, the Commission used after-rates volumes to calculate compliance with the formula for nonprofit rates rather than before-rates volumes. In this instance, such use of the after-rates volumes led to rates that were too low. The cumulative rate change for Nonprofit is still below that for its commercial counterpart, Regular. The NECR cumulative rate change is significantly higher than the ECR change, just as it was in the Commission's Recommended Decision.

commercial and nonprofit counterparts. Our modification calculates Standard Mail nonprofit rates in light of an average revenue per piece differential based on the before-rates volumes and mix, which we understand to be the intent of the legislation. On page 49 of its second opinion, issued on February 9, 2001, the Commission also accepted this interpretation of the new statutory language. Our modification therefore promotes consistency with the statutory requirements. As discussed above, had the Commission used the before-rates volume as prescribed, the incremental percentage increases in this modification would not be as large.

Other Commission Recommendations

Our modification does not affect the Commission's other recommendations for Standard Mail. Specifically, these are the Enhanced Carrier Route pound rate, the residual shape surcharge, the parcel barcode discount, and destination-entry discounts.

1. *ECR Pound Rate.*

The Commission recommended a 2.5-cent reduction in the ECR pound rate, from 66.3 to 63.8 cents. The Commission cited a number of factors favoring the reduction in the ECR pound rate element, including (i) the illogic under the current rate, where the rate nearly doubles with weight; (ii) the fact that reclassification has reduced the need for the pound rate to act as a proxy for revenue for the changing shape mix as weight increases, and (iii) the demonstration that the pound rate recovers too much as a consequence of shape, because the letter/flat differential reflects differences due to shape. The Commission further stated that, while the Postal Service's cost information was not dispositive, it addressed some of the Commission's prior concerns, and it was sufficient to give the Commission enough confidence to recommend a pound rate reduction at the recommended level. First Recommended Decision, Vol. 1, at 377. The Commission also stated that the recommended reduction will not "unduly interfere with competition," and agreed with the Postal Service's testimony that the reduction will "foster competition." First Recommended Decision, Vol. 1, at 366, 389. We do not modify this rate element. Given the small volume of heavy Standard Mail, modification would provide little in the way of additional revenue. Moreover, the 2.5 cent reduction implemented in January is much smaller than that initially proposed by the Postal Service, and we firmly believe that, notwithstanding our modification, the record would have supported the 12 percent reduction proposed by the Postal Service.

Furthermore, we note that, simply because the pound rate element remains unchanged, ECR pieces subject to the pound rate calculation will still experience a rate increase. This is because the pound rate is merely an element in the calculation of the price of pound rated pieces. The other element, the per-piece rate, is proposed to increase by 2/10th of a cent, which is fairly sizable in relation to the piece rates recommended by the Commission.

2. Residual Shape Surcharge.

The Commission recommended the Postal Service's proposed 18-cent residual shape surcharge for Regular and Nonprofit, and the 15-cent residual shape surcharge for ECR and NECR. The Commission acknowledged that the increase in this rate element was substantial, but found that this concern was essentially outweighed by fairness and equity, as well as the need to recognize costs-based differences in rates. We do not modify the residual shape surcharges in our modification, but we recognize that future proceedings may provide further opportunities to address the cost situation for residual shapes.

3. Parcel Barcode Discount.

The Commission recommended the proposed 3-cent parcel barcode discount, as well as the corresponding classification language. The Commission adopted the underlying cost study, as well as the Postal Service's analysis that the proposal satisfied the classification criteria of the Act. This proposal represents a logical extension of existing automation discounts for Package Services parcels to Standard Mail. We see no reason to modify this classification and rate.

4. Destination Entry.

The Commission recommended discounts based on slightly higher passthroughs. Specifically, the Commission recommended a passthrough of 84 percent for BMC entry, 84 percent for SCF entry, and 82 percent for SCF entry. The Commission's passthroughs result in discounts of 1.9, 2.4 and 2.9 cents for BMC, SCF, and DDU entry. The Commission states, however, that its slightly increased passthroughs are based on updated costs and its costing methodology. These discounts, while not fully reflecting the Postal Service's reasons for moderating them, are reasonable. We therefore do not modify these discounts.

PACKAGE SERVICES MAIL

Package Services mail consists of mailable matter that is neither mailed nor required to be mailed as First-Class Mail, nor entered as Periodicals. It is generally a parcel class that consists of four subclasses: Parcel Post (including Parcel Select), Bound Printed Matter, Media Mail and Library Mail. These subclasses are briefly described as follows:

- Parcel Post—This is Package Services mail that is not mailed as Bound Printed Matter, Media Mail or Library Mail. Any Package Services mail may be mailed at Parcel Post rates. Parcel Post generally consists of merchandise.
- Bound Printed Matter—This consists of advertising, promotional, directory or editorial matter that is permanently bound and weighs not more than 15 pounds.
- Media Mail—This subclass consists generally of books, sound and video recordings, certain films, printed music, prerecorded computer-readable media and certain educational materials.
- Library Mail—This subclass consists generally of books, sound recordings, certain films, museum materials and specimens, and certain educational materials. Library Mail may only be used for materials sent to or from schools, libraries, and certain nonprofit organizations, or by publishers fulfilling orders for materials by such institutions.

We have generally adopted the rate design elements recommended by the Commission for Package Services subclasses, but have increased the rate levels in all four subclasses to obtain the Postal Service's revenue requirement.

Parcel Post.

The basic rates for Parcel Post consist of a per-piece and a zoned per-pound charge. The per-piece charge is designed generally to recover the costs of handling and processing a piece of mail. The per-pound charge is designed generally to recover the cost of transporting the mail and varies according to the zone to which the mail will travel. The per-pound charge also includes an element intended to reflect the effect of weight on non-transportation costs.

In addition to these basic rate elements, Parcel Post rates contain several worksharing discounts and surcharges. Mailers who properly prepare, transport and enter their mail at the destination Bulk Mail Center (BMC), destination Sectional Center Facility, or destination delivery unit are eligible for discounts that reflect the mail processing and transportation costs avoided by these entry practices. Discounts are also available for barcoding machinable parcels, for presorting mail to the BMC, and for transporting this BMC-presorted mail to the origin BMC. Parcel Post rates include surcharges for mailing oversize parcels, for mailing high cubic volume/low weight parcels ("balloon parcels"), and for mailing pieces that cannot be processed on Postal Service sorting equipment.

In our modification we adopted the Commission's rate design as contained in its workpapers, but raised the contingency and markup to achieve the revenue necessary to cover Parcel Post's share of the Postal Service's test year revenue requirement.[100] The impact of our modification was to raise Parcel Post's average rate by approximately 1.6 percent. This matches the overall increase in rates of approximately 1.6 percent. Combining the January rate increase with the current rate increase, moreover, Parcel Post mailers are still receiving an aggregate percentage rate increase somewhat below the system average.

The resulting Parcel Post cost coverage is approximately 115 percent, and is virtually the same cost coverage as that proposed by Postal Service witness Mayes and that recommended by the Commission. We believe that the evaluations of the pricing factors presented by witness Mayes and the Commission (e.g., First Recommended Decision, Vol. 1, at 468-473) continue to

[100] The Commission's workpapers were corrected to remove several minor errors before the increased contingency and markup were applied. The underlying costs were adjusted to incorporate the cost elements supporting the Field Reserve and higher Supervisor costs, which were then allowed to flow through the Commission's formulas into rates. In the Commission's original workpapers, certain rate cells were constrained to increase by no more than 6 percent. This constraint was eased to 8.5 percent to allow the increased contingency and markup and higher costs to flow through into rates.

support that level of cost coverage as reflective of an appropriate balancing of the statutory factors.

By using the Commission's workpapers to produce our modified rates, we have preserved the Commission's overall rate design and the relative size of discounts and surcharges it recommended in its decision in Docket No. R2000-1. We agree with the Commission (First Recommended Decision, Vol. 1, at 474-91) that this rate design is fair and equitable, and that it otherwise complies with the factors of section 3622(b) of the Act. The effects of our modification do not alter these conclusions.

Media Mail and Library Mail.

Media Mail and Library Mail share identical rate structures. Recent legislation requires Media Mail's and Library Mail's rates to be jointly determined. The basic rate design for Media Mail and Library Mail consists of a per-piece and a per-pound charge. The Act requires that Media Mail and Library Mail rates not vary with the distance transported, hence the rates are unzoned.

The rate structure consists of a rate for the first pound, a lower rate for the second through seventh pounds, and a lower rate for all subsequent pounds. The first pound rate is the highest, since it is designed generally to recover the costs of handling and processing a piece of mail. The charges for subsequent pounds are designed generally to reflect the impact of weight on costs. In addition, the Media Mail/Library Mail rate design offers two presort discounts for mailers who enter their mail properly presorted to BMCs or to 5-digit Zip Codes. A discount is also available for barcoding machinable parcels mailed at the single piece rate or presorted to BMCs.

We modified the Media Mail and Library Mail rates to achieve more revenue. We used the Commission's rate design model contained in its workpapers, after first correcting several errors. We then raised the contingency to 2.5 percent, and adjusted the markup to achieve the revenue necessary to cover Media Mail's and Library Mail's share of the test year revenue requirement.[101] Our modification raised Media Mail's average rate by approximately 1.8 percent

[101] The underlying costs in the Commission's workpapers were adjusted to incorporate the cost
(continued...)

and Library Mail's rate by 1.7 percent.[102] These increases are quite close to the overall increase in rates across all classes of mail of 1.6 percent. With respect to contribution to institutional costs, there are no material differences between the cost coverages for these subclasses implicit in our rates, and the cost coverages adopted by the Commission (First Recommended Decision, Vol. 1, at 517-521) and shown in Appendix G to the Recommended Decision.

We have preserved the overall rate design and the relative size of discounts the Commission recommended for Media Mail and Library Mail in their decision in Docket No. R2000-1. We agree with the Commission that this rate design is fair and equitable, and that it is otherwise consistent with the factors of section 3622(b) of the Postal Reorganization Act. Because we are modifying the Commission's recommended rates to achieve adequate revenue without changing the underlying rate design, we endorse the Commission's explanations of why that rate structure is appropriate.

Bound Printed Matter.

Basic Bound Printed Matter rates consist of a per-piece and a zoned per-pound charge. The per-piece charge is designed generally to recover the costs of handling and processing a piece of mail. The per-pound charge is designed generally to recover the cost of transporting the mail and varies according to the zone to which the mail will travel. The per-pound charge also includes an element intended to reflect the effect of weight on non-transportation costs.

Bound Printed Matter rates have several worksharing discounts. Mailers who properly prepare, transport and enter their mail at the destination Bulk Mail Center, destination Sectional Center

(...continued)
elements supporting the Field Reserve and higher Supervisor costs, which were then allowed to flow through the Commission's rate design formulas into rates.

[102] Media Mail and Library Mail rates are constrained to whole-cent increments. Since most mail in these subclasses occurs in a relatively few rate cells, maintaining whole-cent rate increments causes the actual average rate increases to differ slightly from each other and from the target rate increase for these subclasses.

Facility, or destination delivery unit are eligible for discounts that reflect the mail processing and transportation costs saved. Discounts are also available for barcoding machinable parcels and for presorting mail. Single Piece Bound Printed Matter rates, like those for Parcel Post, Media Mail and Library Mail, are defined by rate cells. For mail weighing from one pound to five pounds, the rate changes every half-pound. For mail weighing over five pounds, the rates increase in one pound increments. Presorted Bound Printed Matter rates are based on the actual weight of the mail pieces and do not use rate cells.

In reviewing the workpapers supporting the Commission's November 13, 2000 Opinion and Recommended Decision, several errors were discovered that had caused the Commission to overstate the revenue that would be produced by its recommended Bound Printed Matter rates. We asked the Commission to reconsider its Bound Printed Matter rates in our December 4th Decision on the Commission's first Recommended Decision. In its Second Recommended Decision, the Commission recommended a new set of rates for Bound Printed Matter and published a new set of workpapers that corrected the principal error leading to the overstatement of revenue.

For our modification, we have adopted the Commission's rate design as contained in its corrected workpapers, but raised the contingency and markup to cover Bound Printed Matter's share of the Postal Service's test year revenue requirement.[103] Our modification raises Bound Printed Matter's average rate by approximately 0.8 percent above the rates recommended by the Commission in its Second Recommended Decision (and also included in their Third Recommended Decision). While this is somewhat lower than the average rate increase within this modification of 1.6 percent, we note that the Bound Printed Matter rate increase implicit in the more recent rates recommended by the Commission (to which this increase conceptually would be added) is already 17.4 percent. Relative to the rates which mailers are currently paying, artificially reduced by the error in the initial Commission recommendations, the new

[103] *The Commission's corrected workpapers were corrected further by the Postal Service to* remove a remaining minor error before the increased contingency and markup were applied. The underlying costs were adjusted to incorporate the cost elements supporting the Field Reserve and higher Supervisor costs, which were then allowed to flow through the

(continued...)

rates will represent an increase of approximately 9 percent. As noted above, however, the amount of the increase that is due to the modification is less than 1 percent.

In terms of cost coverage, our new rates for Bound Printed Matter will yield a cost coverage over attributable costs of approximately 113 percent. By comparison, the Commission's recommendation was a cost coverage of approximately 114 percent. Our modification does not disturb the applicability of the reasoning offered by the Commission (First Recommended Decision, Vol. 1, at 501-05) to support this approximate level of cost coverage.

By using the Commission's corrected workpapers to produce our modified rates, we have preserved the Commission's overall rate design and the relative size of discounts recommended in the Commission's Second Recommended Decision. We agree with the Commission's Opinions in this docket that this rate design is fair and equitable, and that it otherwise complies with the applicable factors of the Act. Modifying the Commission's recommended rates to achieve adequate revenue without changing its underlying rate design allows us to rely on the same conclusions as those advanced by the Commission (First Recommended Decision, Vol. 1, at 505-11) to justify its treatment of Bound Printed Matter rate design issues.

PERIODICALS

At the outset of this proceeding, Periodicals consisted of four separate subclasses: Regular, Nonprofit, Classroom, and Within County. The Nonprofit, Classroom, and Within County subclasses received preferred treatment in the form of reduced rates under the Act.[104] The Postal Service, anticipating the passage of new legislation, proposed merging Regular, Nonprofit, and Classroom into a single "Outside County" category for ratemaking purposes, with one rate schedule. Under this proposal, Nonprofit and Classroom become eligible for

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(...continued)
Commission's formulas into rates.

[104] Science of Agriculture publications in the Regular subclass also received preferred treatment.

legislatively-mandated discounted rates. Within County maintains its current status. The legislation, Public Law 106-384, was enacted prior to issuance of the Commission's initial recommended decision and the Commission thus accepted the merger proposal, finding it "consistent with the newly-enacted legislation." First Recommended Decision, Vol. 1, at 433.

The rate structures for the subclasses are based on per-piece and per-pound charges. Worksharing discounts from the piece charges are available for presorting, prebarcoding, and dropshipping. The pound charges for the Outside County subclass reflect advertising and editorial content. The advertising pound charge varies with zone and entry point; the editorial pound charge does not. The pound charges for the Within County subclass make no distinction between advertising and editorial content, and are unzoned.

Cost Reductions and Costing Methodologies

An intensive joint effort was undertaken by the Periodicals mailers and the Postal Service after the initial filing of Docket No. R2000-1 to identify ways to mitigate the proposed Periodicals rate increase. It is our understanding that the goal of this effort was to attempt to keep the average Periodicals rate increase at the single-digit level. See Tr. 43/18775-77. The result of this effort was a variety of test year cost reductions and costing methodology changes in addition to those already contained in the Postal Service's original filing. In other words, an entire "package" of proposals from the initial Postal Service filing and the later proposed changes were designed in an attempt to achieve the single-digit goal. This package also was presented in the context of the Postal Service's proposals prior to the update required by Order No. 1294. An integral part of the package was the lower mail processing volume variabilities proposed by the Postal Service. The Commission, however, did not adopt the entire package. Most notably, it rejected the Postal Service's mail processing variability proposals, instead adopting an assumption that mail processing labor costs vary 100 percent with volume, the effect of which was to raise the Periodicals cost base. The Commission also relied upon updated costs, the effect of which again was to increase Periodicals costs.

Once the Commission determined to reject the Postal Service's mail processing volume variability proposal and to rely on updated costs, the only path remaining for the Commission to minimize the Periodicals rate increase was to improperly cut the revenue requirement. It must be noted that had the Commission properly applied the Field Reserve and the full 2.5 percent contingency to the higher Periodicals costs (resulting from its higher mail processing variabilities and its updated cost estimates), a single-digit increase would not have been feasible.

We now find ourselves locked in by the Commission's actions. In our earlier decision allowing under protest the initial rates recommended by the Commission, we expressed our serious reservations concerning the Commission's adherence, in the face of all credible evidence, to the assumption that mail processing labor costs vary 100 percent with volume. Nonetheless, we concluded that the Commission determination in this regard was one which was unlikely to change upon reconsideration. We thus did not return the mail processing variability issue for reconsideration, voicing our hope that this issue might be resolved in the future. Our allocation of higher Supervisor costs, the Field Reserve and the full contingency to the Commission's updated costs and higher mail processing variabilities thus has forced an overall increase to Periodicals rates above the single-digit level and of greater magnitude than we would like. We still attempted to mitigate the increase, to the extent possible, by reflecting those cost reductions and costing methodology changes accepted by the Commission in the costs upon which our Periodicals rates are based, even in those instances where the Postal Service's positions differed from those of the Commission.

The cost base for Periodicals thus includes mail preparation cost reductions for (1) preparation of presorted carrier route Periodicals in line-of-travel sequence, (2) preparation of mail in accordance with the L-001 requirement, (3) elimination of skin sacks for carrier route mailings, (4) combined automation and presort mailings, and (5) reduction in bundle breakage. As noted above, we have accepted the Commission's quantification of those cost reductions, even where the Commission's position differed from the Postal Service's. For example, the Commission's cost reduction for bundle breakage assumes a 50 percent reduction in bundle breakage by the test year, whereas the Postal Service had estimated a 25 percent reduction. Our cost base for Periodicals also reflects test year cost reductions in mail processing operations for (1) a work methods change embodied in a Memorandum of Understanding with the National Association of Letter Carriers, (2) increased manual productivity, (3) improved AFSM 100 performance and

(4) FSM 1000 equipment enhancements (addition of optical character readers and automatic feeders). It should be noted that we have implemented the "breakthrough productivity" cost reductions for Periodicals contained in the Commission's cost model, as adjusted for the field reserve.

We also have adopted those costing methodology changes that were recommended by the Commission and designed to mitigate the Periodicals cost increase. They include (1) a different distribution of mail processing mixed mail costs, (2) a rural carrier mail shape adjustment based on annual volume data, (3) a zero variability for loop/dismount costs on city park-and-loop routes, (4) a new distribution key for Roadrailer transportation costs and (5) a revised distribution key for empty rail equipment costs. Again, we emphasize that we have adopted the Commission's recommendations, even where, as with the mail processing cost *distributions, the Postal Service disagreed with the Commission's treatment.*

We recognize, as did the Commission, an additional $10 million in Periodicals revenue based on "ride-along" attachments and enclosures, and what the Commission has termed a final adjustment for hybrid test year worksharing. As would be expected, the amount of our final adjustment differs somewhat from the amount recommended by the Commission because our test year after rates reflects changed volumes.

Share of Costs

Our Periodicals rates reflect Periodicals' appropriate share of higher Supervisor costs, the field reserve, and the same additional contingency percentage as the other classes and subclasses of mail. The rates we are adopting for Periodicals result in an average increase of 2.6 percent for Outside County Periodicals and 1.6 percent for Within County Periodicals. These rates, as explained above, incorporate the cost savings and costing methodology changes designed to mitigate the Periodicals rate increase, which were accepted by the Commission. Nonetheless, our rates for Periodicals have increased over those we allowed into effect under protest, because they reflect, as do our rates and fees for all subclasses and special services, the restoration of the field reserve and the full contingency initially requested by the Postal Service, as well as higher Supervisor costs.[105] Addition of these elements to the Periodicals cost base necessitates a rate increase simply to cover costs and provide a minimal cost coverage.

The restoration of the $200 million field reserve is discussed in detail in the section of our decision dealing with the revenue requirement, above. With respect to Periodicals' costs, however, we wish to note that the appropriate share of the field reserve is allocated to Periodicals under the methodology referenced in the section on our cost model and explained more fully in the Initial Brief of the United States Postal Service, at I-19-20. There was never any intent to excuse Periodicals or any other subclass or service from bearing the relevant share of the field reserve, had it been properly applied in the first instance.

Also, Periodicals receive the same additional one percent contingency as do all of the other classes and subclasses of mail and special services. Although various proposals have been made to give Periodicals a special exemption from either all or part of the contingency, we find that these suggestions lack merit. As the Postal Service stated in its Reply Brief, the purpose of the contingency "is to protect the *entire* postal system and *all* mailers against unexpected and unplanned for adverse events." Reply Brief of the United States Postal Service, at II-38 (emphasis in original). We agree that there is simply no basis, within this framework, to treat classes and subclasses differently. The Commission in its initial recommended decision also agreed, stating that it rejected "the suggestion that the contingency should be applied selectively among subclasses." First Recommended Decision, Vol. 1, at 426. We find selective application of the contingency would be inconsistent with the spirit of section 3621 of the Act, which provides that the total estimated costs of the Postal Service "shall include . . . a reasonable provision for contingencies" while also authorizing us to "establish *reasonable and equitable* rates of postage and fees for postal services." 39 U.S.C. § 3621 (emphasis added). The Postal Service also has pointed out other, more appropriate and more practical ways of affording rate relief, such as use of markups and identification of cost savings opportunities – both of which we have applied in deriving our Periodicals rates. Reply Brief of the United States Postal Service, at II-39. In addition, we agree with the Postal Service's assessment that

[105] In its February 9, 2001 Opinion and Recommended Decision, the Commission had restored (continued...)

there are formidable difficulties inherent in trying to implement a scheme of selective application of the contingency. *Id.* In sum, we can find no basis for exempting Periodicals mailers from application of the additional contingency percentage that we have concluded is required in order for the Postal Service to break even, as required by the Act.

Cost Coverage

We have set the lowest possible cost coverage for Periodicals in order to mitigate the effects of our rates. Due to application of both the field reserve and the additional contingency amount to Periodicals, as well as increased Supervisor costs, an average rate increase over current rates of 2.6 percent has resulted for Outside County Periodicals and a 1.6 percent average rate increase over current rates has resulted for Within County Periodicals. This increase for Outside County Periodicals is higher than the average increase resulting from this modification, and, as indicated earlier, the aggregate increase (i.e., that implemented in January, plus the instant increase) is not the single-digit increase which Postal Service witness Taufique testified that he believed was possible and would be supported by the Postal Service, given a package of costing proposals and adjustments. Tr. 43/18775-77. We note, however, that we have set a cost coverage for Outside County Periodicals of only 100.7 percent, prior to application of the 5 percent preferred rate discounts, in order to keep Periodicals rates as low as possible. Consistent with the statutory requirement, the Within County cost coverage of 100.4 percent remains at approximately one-half that of the Outside County subclass.

We believe that these low cost coverages are fully warranted under the criteria of the Act. As in the Commission's earlier recommendation, the cost coverage is constrained to moderate the impact of rate increases on Periodicals mailers (criterion 4). The coverage is high enough to ensure consistency with the requirement that rates cover attributable costs (criterion 3). Even with a low cost coverage, Outside County Periodicals mailers are facing a relatively higher increase than other mail classes, both when combined with the earlier increase we accepted under protest, and also when considering just this rate modification. Additionally, the Postal

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(...continued)
the Supervisor costs that it previously had eliminated.

Service agrees with the Commission's reasons when it recommended a similarly low cost coverage. First Recommended Decision, Vol. 1, at 445.

We have attempted, as much as practicable, to follow the Commission's rate design for purposes of developing the modified rates, while trying to avoid undue impact on any particular group of Periodicals mailers. As we noted above, the overall additional increase for Outside County Periodicals resulting from modification is somewhat higher than that for other classes of mail. Simply increasing each rate cell by a flat amount would burden some rate cells with relatively large increases. We also are mindful that Periodicals mailers cooperated with each other, as well as the Postal Service, in trying to mitigate rate increases in this proceeding. With this in mind, we have designed Periodicals rates with equal percentage increases in all rate cells, compared to the rates we accepted under protest.[106] To achieve this result, we have increased worksharing discounts by the same percentage. We consider the resulting cost savings passthroughs for workshared mail to be appropriate and justified, and note that they are not much different from those recommended by the Commission.

As a final note, we stress that the overall cost coverage for Outside County Periodicals, after the 5 percent discount is recognized for the preferred categories, is only 100.3 percent. Thus, we were constrained from mitigating the rate increases any further.

SPECIAL SERVICES

The Commission recommended the Postal Service's proposed special service fees in every instance, except for the following special services: address changes for election boards, bulk parcel return service, business reply mail, certified mail, Delivery Confirmation, insurance, and money orders. For the remaining services, we believe that fee adjustments to recover an approximate additional one percent in costs are neither necessary nor desirable. Fee changes for many of these services would impose administrative challenges throughout the nation.

[106] We therefore base rates on a proportionate increase in transportation cost and the per piece editorial discount. Both of these adjustments are made to maintain the rate relationships recommended by the Commission.

Changes in the semiannual or annual fees for post office box fees and permit fees would involve timing issues that raise additional administrative concerns, and delay any revenue gains. Finally, special service fee rounding constraints, which are often at least in 5-cent increments, mean that in many cases a small increase in costs would not increase fees at all.

We also do not modify the fees for most of the special services for which our proposed fees were not implemented. We do not adjust the fee for address changes for election boards, because we agree with the Commission that the fee should remain as low as possible, and we do not find the small revenue gain enough to justify any new hardship on election boards. For several services, the Commission's fees differed from the Postal Service's proposals in large part because of costing adjustments, either presented by the Postal Service (for Delivery Confirmation and insurance), or developed by the Commission based on intervenor testimony (for bulk parcel return service and business reply mail). In these circumstances, we do not choose to change these fees.

We modify the fees for the two remaining special services. The certified mail fee is increased to $2.10, as proposed by witness Mayo. USPS-T-39 at 40. We agree with the reasoning of the Commission in its February 9th Further Recommended Decision justifying this same increase. Second Recommended Decision, at 52-54. In particular, we believe the resulting cost coverage of 129.7 percent is appropriate, if not low, for certified mail, and consistent with the statutory ratemaking criteria.

We believe that the domestic money order fee should be increased to 90 cents, as proposed by the Postal Service. We disagree with the Commission's reduction of this fee to 75 cents. The Postal Service justified a 90-cent fee through witness Mayo's testimony, which showed that a 90-cent fee is consistent with the pricing criteria, in particular noting that the money order market is expanding to Internet users. USPS-T-39 at 77-79. The 90-cent fee represents a 12.5 percent increase from the Docket No. R97-1 fee. While the resulting average increase for money order service is somewhat higher than average, it is not out of line with the average price increase resulting from Docket No. R2000-1. In contrast, the 75-cent fee recommended by the Commission represented a fee *decrease* of over 6 percent. We believe that the impact of a moderate increase on money order customers will not be severe, and note that the domestic fee is no higher than it was 25 years ago, and lower than the majority of domestic money order fees from 1978 to 1991. USPS-RT-22 at 31. We also find that the Postal Service demonstrated a high value for money order service in its testimony during this case, justifying the new cost coverage of 173.1 percent. USPS-RT-22 at 24-33. For simplicity, and because little revenue is at stake, we are not modifying the other money order fees.

ESTIMATE OF ANTICIPATED REVENUE

In this portion of our Decisions, we customarily provide the estimate of anticipated revenue required by section 3625(e). In the context of this modification, however, we expand the purpose of the section to allow us to address not only that requirement of the statute, but also that portion of section 3625(e) which requires us to expressly find that "the rates recommended by the Commission are not adequate to provide sufficient total revenues so that total estimated income and appropriations will equal as nearly as practicable estimated total costs." We therefore summarize here those portions of our Decision which allow us to comply with these two requirements.

As explained in the "Technical Structure of the Modification Exercise" section, above, we estimate that at the rates currently in effect, test year expenses (i.e., the total test year revenue requirement) would $69.8 million, and test year total income would be $68.8 million, yielding a test year deficit of approximately $1 billion. The rates currently in effect, however, are the rates which we allowed under protest in December, and which were implemented in January. They are not identical with the rates most recently recommended by the Commission in its third Recommended Decision of April 10, 2001, the Recommended Decision which we today modify.

As also explained in the "Technical Structure of the Modification Exercise" section, however, the differences between the rates currently in effect and those most recently recommended by the Commission are relatively minor. By the Commission's own estimate, its new recommendations for Bound Printed Matter and Certified Mail would only increase revenue by approximately $80 million in total. Therefore, we estimate that at "the rates recommended by the Commission," as that term is used in section 3625(d) as quoted above, the total test year revenue requirement would remain at $68.8 million, and total test year income would become approximately $68.9 billion. Obviously, a very sizeable test year deficit remains, albeit one that has been reduced from approximately $1 billion to approximately $900 million. This analysis provides the basis for our express finding under section 3625(d) that "the rates recommended by the Commission are not adequate to provide sufficient total revenues so that total estimated income and appropriations will equal as nearly as practicable estimated total costs."

The deficit identified above is eliminated by the rates which we today establish. Our estimate, consistent with the figures set forth in Attachment Two, is that at our modification rates, both the total test year revenue requirement and total test year revenue will be at $69.6 million. Attachment Two shows a balance of revenue and expenses within several million dollars. Therefore, unlike the Commission's recommendations, our modification is clearly in accord with the requirement of section 3621 that rates be set to provide sufficient total revenue to equal total estimated costs as nearly as practicable.

ORDER

In accordance with the foregoing Decision of the Governors, the changes in postal rates and fees and in mail classification attached hereto and incorporated herein are hereby approved *and ordered into effect. In accordance with Resolution 01-8 of the Board of Governors dated* May 7, 2001, the changes will take effect at 12:01 a.m. on July 1, 2001.

By The Governors:

Robert F. Rider, Chairman

S. David Fineman, Vice-Chairman

Ernesta Ballard

LeGree S. Daniels

Tirso del Junco, M.D.

Einar V. Dyhrkopp

Alan C. Kessler

Ned R. McWherter

John F. Walsh

RESOLUTION OF THE BOARD OF GOVERNORS

OF THE

UNITED STATES POSTAL SERVICE

Resolution No. 01-8

Effective Date of New Rates of Postage and Fees

RESOLVED:

Pursuant to section 3625(f) of Title 39, United States Code, the Board of Governors determines that the rates of postage and fees that were ordered to be placed into effect by the Decision of the Governors of the United States Postal Service on the Recommended Decision on Further Reconsideration of the Postal Rate Commission on Postal Rate and Fee Changes, Docket No. R2000-1, adopted on May 7, 2001, shall become effective at 12:01 a.m. on July 1, 2001.

The foregoing Resolution was adopted by the Board of Governors on May 7, 2001.

Secretary

Attachment A To The Decision Of The Governors Of The United States Postal Service On The Recommended Decision On Further Reconsideration Of The Postal Rate Commission On Postal Rate And Fee Changes, Docket No. R2000-1

MODIFIED RATE AND FEE SCHEDULES

**ATTACHMENT A TO THE DECISION OF THE GOVERNORS
OF THE UNITED STATES POSTAL SERVICE ON THE
RECOMMENDED DECISION ON FURTHER RECONSIDERATION
OF THE POSTAL RATE COMMISSION
ON POSTAL RATE AND FEE CHANGES, DOCKET NO. R2000-1**

MODIFIED RATE AND FEE SCHEDULES

EXPRESS MAIL
SCHEDULES 121, 122 AND 123

(Dollars)

Weight not Exceeding (Pounds)	Schedule 121 Same Day Airport Service	Schedule 122 Custom Designed	Schedule 123 Next Day and Second Day PO to PO	Schedule 123 Next Day and Second Day PO to Addressee
1/2		9.40	9.55	12.45
1		13.95	14.10	16.25
2		14.00	14.10	16.25
3		16.90	17.05	19.15
4		19.75	19.90	22.05
5		22.60	22.75	24.85
6		25.45	25.60	27.70
7		28.15	28.30	30.45
8		29.40	29.55	31.65
9		30.65	30.80	32.95
10		31.85	32.00	34.15
11		33.40	33.55	35.70
12		35.85	36.00	38.10
13		37.10	37.25	39.85
14		38.50	38.65	40.80
15		39.75	39.90	42.00
16		41.10	41.25	43.40
17		42.50	42.65	44.75
18		43.75	43.90	46.05
19		45.05	45.20	47.35
20		46.45	46.60	48.70
21		47.70	47.90	50.00
22		49.00	49.20	51.30
23		50.40	50.60	52.70
24		51.65	51.80	53.95
25		53.00	53.20	55.25
26		54.30	54.45	56.60
27		55.65	55.85	57.90
28		56.95	57.10	59.25
29		58.30	58.45	60.55
30		59.65	59.80	61.90
31		60.95	61.10	63.20
32		62.25	62.40	64.55
33		63.60	63.75	65.80
34		64.90	65.05	67.20
35		66.25	66.40	68.45
36		67.55	67.70	69.85
37		68.80	68.95	71.35
38		70.40	70.35	73.00
39		72.00	71.65	74.60
40		73.65	73.10	76.25
41		75.25	74.70	77.85
42		76.90	76.35	79.55
43		78.50	77.95	81.10
44		80.15	79.60	82.70

45	81.75	81.20	84.15
46	83.10	82.75	85.40
47	84.50	84.45	86.90
48	85.85	86.00	88.20
49	87.20	87.35	89.50
50	88.50	88.65	90.85

EXPRESS MAIL
SCHEDULES 121, 122 AND 123 (CONTINUED)

(Dollars)

Weight not Exceeding (Pounds)	Schedule 121 Same Day Airport Service	Schedule 122 Custom Designed	Schedule 123 Next Day and Second Day PO to PO	Schedule 123 Next Day and Second Day PO to Addressee
51		89.95	90.15	92.30
52		91.25	91.40	93.60
53		92.65	92.80	95.00
54		94.00	94.15	96.30
55		95.30	95.50	97.70
56		96.80	96.95	99.10
57		98.05	98.20	100.40
58		99.40	99.55	101.80
59		100.95	101.10	103.30
60		102.50	102.65	104.85
61		104.25	104.40	106.60
62		105.80	105.95	108.20
63		107.45	107.60	109.75
64		109.10	109.30	111.50
65		110.75	110.90	113.05
66		112.45	112.60	114.80
67		114.05	114.20	116.35
68		115.75	115.90	118.10
69		117.35	117.50	119.65
70		118.95	119.10	121.30

SCHEDULES 121, 122 AND 123 NOTES

1 The applicable 2-pound rate is charged for matter sent in a 'flat rate' envelope provided by the Postal Service.

2 Add $10.25 for each pickup stop.

3 Add $10.25 for each Custom Designed delivery stop.

FIRST-CLASS MAIL
RATE SCHEDULE 221

LETTERS AND SEALED PARCELS

	Rate (cents)
Regular	
Single Piece: First Ounce	34.0
Presort[1]	32.2
Qualified Business Reply Mail	31.0
Additional Ounce[2]	23.0
Nonstandard Surcharge	
Single Piece	11.0
Presort	5.0
Automation-Presort[1]	
Letters[3]	
Basic Presort[4]	28.0
3-Digit Presort[5]	26.9
5-Digit Presort[6]	25.5
Carrier Route Presort[7]	24.5
Flats[8]	
Basic Presort[9]	31.2
3-Digit Presort[10]	29.7
5-Digit Presort[11]	27.7
Additional Ounce[2]	23.0
Nonstandard Surcharge	5.0

SCHEDULE 221 NOTES

1 A mailing fee of $125.00 must be paid once each year at each office of mailing by any person who mails other than Single Piece First-Class Mail. Payment of the fee allows the mailer to mail at any First-Class rate. For presorted mailings weighing more than 2 ounces, subtract 4.6 cents per piece.

2 Rate applies through 13 ounces. Heavier pieces are subject to Priority Mail rates.

3 Rates apply to bulk-entered mailings of at least 500 letter-size pieces, which must be delivery point barcoded and meet other preparation requirements specified by the Postal Service and, for the Basic Presort rate, documents provided for entry as mail using Mailing Online or a functionally equivalent service, pursuant to section 981.

4 Rate applies to letter-size Automation-Presort category mail not mailed at 3-Digit, 5-Digit, or Carrier Route rates.

5 Rate applies to letter-size Automation-Presort category mail presorted to single or multiple three-digit ZIP Code destinations specified by the Postal Service.

6 Rate applies to letter-size Automation-Presort category mail presorted to single or multiple five-digit ZIP Code destinations specified by the Postal Service.

7 Rate applies to letter-size Automation-Presort category mail presorted to carrier routes specified by the Postal Service.

8 Rates apply to bulk-entered mailings of at least 500 flat-size pieces, each of which must be delivery point barcoded or bear a ZIP+4 barcode, and must meet other preparation requirements specified by the Postal Service, and, for the Basic Presort rate, to documents provided for entry as mail using *Mailing Online or a functionally equivalent service, pursuant to section 981.*

9 Rate applies to flat-size Automation-Presort category mail not mailed at the 3-Digit or 5-Digit rate.

10 Rate applies to flat-size Automation-Presort category mail presorted to single or multiple three-digit ZIP Code destinations specified by the Postal Service.

11 Rate applies to flat-size Automation-Presort category mail presorted to single or multiple five-digit ZIP Code destinations specified by the Postal Service.

FIRST-CLASS MAIL
RATE SCHEDULE 222

CARDS

	Rate (cents)
Regular	
Single Piece	21.0
Presort[1]	19.0
Qualified Business Reply Mail	18.0
Automation-Presort[1, 2]	
Basic Presort[3]	17.4
3-Digit Presort[4]	16.8
5-Digit Presort[5]	16.1
Carrier Route Presort[6]	15.0

SCHEDULE 222 NOTES

1 A mailing fee of $125.00 must be paid once each year at each office of mailing by any person who mails other than Single Piece First-Class Mail. Payment of the fee allows the mailer to mail at any First- Class rate.

2. Rates apply to bulk-entered mailings of at least 500 pieces, which must be barcoded and meet other preparation requirements specified by the Postal Service and, for the Basic Presort rate, to documents provided for entry as mail using Mailing Online or a functionally equivalent service, pursuant to section 981.

3. Rate applies to Automation-Presort category mail not mailed at 3-Digit, 5-Digit, or Carrier Route rates.

4. Rate applies to Automation-Presort category mail presorted to single or multiple three-digit ZIP Code destinations as specified by the Postal Service.

5. Rate applies to Automation-Presort category mail presorted to single or multiple five-digit ZIP Code destinations as specified by the Postal Service.

6. Rate applies to Automation-Presort category mail presorted to carrier routes specified by the Postal Service.

FIRST-CLASS MAIL
SCHEDULE 223

PRIORITY MAIL SUBCLASS (CONTINUED)

(dollars)

Weight not Exceeding (Pounds)	Zones L,1,2,3	Zone 4	Zone 5	Zone 6	Zone 7	Zone 8
1	3.50	3.50	3.50	3.50	3.50	3.50
2	3.95	3.95	3.95	3.95	3.95	3.95
3	5.20	5.20	5.20	5.20	5.20	5.20
4	6.45	6.45	6.45	6.45	6.45	6.45
5	7.70	7.70	7.70	7.70	7.70	7.70
6	8.10	8.30	8.35	8.50	9.55	10.40
7	8.40	8.90	9.00	9.30	10.60	11.85
8	8.50	9.50	9.65	10.10	11.65	13.30
9	8.65	10.10	10.30	10.90	12.70	14.75
10	8.75	10.65	10.95	11.80	13.75	16.20
11	9.00	11.25	11.60	12.80	14.80	17.65
12	9.25	11.85	12.25	13.75	15.85	19.10
13	9.65	12.45	12.90	14.75	16.90	20.55
14	10.05	13.05	13.55	15.70	17.95	22.00
15	10.45	13.65	14.20	16.65	19.00	23.45
16	10.85	14.25	14.85	17.60	20.05	24.90
17	11.25	14.85	15.50	18.60	21.10	26.35
18	11.65	15.45	16.30	19.55	22.15	27.80
19	12.05	16.05	17.05	20.50	23.20	29.25
20	12.45	16.65	17.85	21.40	24.25	30.70
21	12.85	17.25	18.60	22.40	25.30	32.15
22	13.25	17.85	19.35	23.35	26.35	33.60
23	13.65	18.45	20.15	24.30	27.40	35.05
24	14.05	19.05	20.95	25.25	28.45	36.50
25	14.45	19.65	21.75	26.25	29.50	37.95
26	14.85	20.25	22.45	27.20	30.55	39.40
27	15.25	20.85	23.25	28.15	31.60	40.85
28	15.65	21.45	24.05	29.10	32.65	42.30
29	16.05	22.05	24.85	30.05	33.70	43.75
30	16.45	22.65	25.60	31.05	34.75	45.20
31	16.85	23.25	26.35	31.95	35.80	46.65
32	17.25	23.85	27.15	32.90	36.85	48.10
33	17.65	24.45	27.95	33.85	37.90	49.55
34	18.05	25.05	28.70	34.80	38.95	51.00
35	18.45	25.65	29.50	35.80	40.00	52.45
36	18.85	26.25	30.25	36.75	41.05	53.90
37	19.25	26.95	31.05	37.70	42.10	55.35
38	19.65	27.55	31.80	38.70	43.15	56.80
39	20.05	28.25	32.60	39.65	44.20	58.25
40	20.45	28.95	33.40	40.60	45.25	59.70
41	20.85	29.55	34.15	41.55	46.30	61.15
42	21.25	30.25	34.90	42.45	47.40	62.60
43	21.65	30.90	35.70	43.45	48.45	64.05
44	22.05	31.55	36.50	44.40	49.55	65.50
45	22.45	32.25	37.25	45.35	50.60	66.95

46	22.85	32.90	38.00	46.30	51.65	68.40
47	23.25	33.55	38.80	47.30	52.75	69.85
48	23.65	34.25	39.60	48.25	53.80	71.30
49	24.05	34.90	40.35	49.20	54.90	72.75
50	24.45	35.55	41.15	50.15	55.95	74.20
51	24.85	36.25	41.90	51.10	57.00	75.65
52	25.25	36.90	42.70	52.10	58.05	77.10
53	25.65	37.55	43.45	53.05	59.10	78.55
54	26.05	38.20	44.25	53.95	60.15	80.00
55	26.45	38.90	45.05	54.90	61.20	81.45
56	26.85	39.55	45.80	55.90	62.25	82.90
57	27.25	40.20	46.55	56.85	63.30	84.35
58	27.65	40.90	47.35	57.80	64.35	85.80
59	28.05	41.55	48.15	58.75	65.40	87.25
60	28.45	42.20	48.95	59.75	66.45	88.70
61	28.85	42.90	49.65	60.70	67.50	90.15
62	29.25	43.50	50.45	61.65	68.55	91.60
63	29.65	44.20	51.25	62.60	69.60	93.05
64	30.05	44.90	52.05	63.60	70.65	94.50
65	30.45	45.50	52.75	64.50	71.70	95.95
66	30.85	46.20	53.55	65.45	72.75	97.40
67	31.25	46.90	54.35	66.40	73.80	98.85
68	31.65	47.50	55.15	67.35	74.85	100.30
69	32.05	48.20	55.90	68.35	75.90	101.75
70	32.45	48.90	56.65	69.30	76.95	103.20

SCHEDULE 223 NOTES

1 The 2-pound rate is charged for matter sent in a 'flat rate' envelope provided by the Postal Service.

2 Add $10.25 for each pickup stop.

3 EXCEPTION: *Parcels weighing less than 15 pounds, measuring over 84 inches in length and girth* combined, are chargeable with a minimum rate equal to that for a 15-pound parcel for the zone to which addressed.

STANDARD MAIL
RATE SCHEDULE 321A

REGULAR SUBCLASS
PRESORT CATEGORIES[1]

	Rate (cents)
Letter Size	
Piece Rate	
Basic	25.3
3/5-Digit	23.3
Destination Entry Discount per Piece	
BMC	1.9
SCF	2.4
Non-Letter Size[2]	
Piece Rate	
Minimum per Piece[3]	
Basic	32.2
3/5 Digit	26.6
Destination Entry Discount per Piece	
BMC	1.9
SCF	2.4
Pound Rate[3]	66.8
Plus per Piece Rate	
Basic	18.4
3/5-Digit	12.8
Destination Entry Discount per Pound	
BMC	9.3
SCF	11.4

SCHEDULE 321A NOTES

1 A fee of $125.00 must be paid each 12-month period for each bulk mailing permit.

2 Residual shape pieces are subject to a surcharge of $0.18 per piece. For parcel barcode discount, deduct $0.03 per piece.

3 Mailer pays either the minimum piece rate or the pound rate, whichever is higher.

STANDARD MAIL
RATE SCHEDULE 321B

REGULAR SUBCLASS
AUTOMATION CATEGORIES[1]

	Rate (cents)
Letter Size[2]	
Piece Rate	
Basic Letter[3]	20.0
3-Digit Letter[4]	19.0
5-Digit Letter[5]	17.7
Destination Entry Discount per Piece	
BMC	1.9
SCF	2.4
Flat Size[6]	
Piece Rate	
Minimum per Piece[7]	
Basic Flat[8]	27.8
3/5-Digit Flat[9]	23.9
Destination Entry Discount per Piece	
BMC	1.9
SCF	2.4
Pound Rate[7]	66.8
Plus per piece Rate	
Basic Flat[8]	14.0
3/5-Digit Flat[9]	10.1
Destination Entry Discount per Pound	
BMC	9.3
SCF	11.4

SCHEDULE 321B NOTES

1 A fee of $125.00 must be paid once each 12-month period for each bulk mailing permit.

2 For letter-size automation pieces meeting applicable Postal Service regulations.

3 Rate applies to letter-size automation mail not mailed at 3-digit, 5-digit or carrier route rates.

4 Rate applies to letter-size automation mail presorted to single or multiple three-digit ZIP Code destinations as specified by the Postal Service.

5 Rate applies to letter-size automation mail presorted to single or multiple five-digit ZIP Code destinations as specified by the Postal Service.

6 For flat-size automation mail meeting applicable Postal Service regulations.

7 Mailer pays either the minimum piece rate or the pound rate, whichever is higher.

8 Rate applies to flat-size automation mail not mailed at 3/5-digit rate.

9 Rate applies to flat-size automation mail presorted to single or multiple three- and five-digit ZIP Code destinations as specified by the Postal Service.

STANDARD MAIL
RATE SCHEDULE 322

ENHANCED CARRIER ROUTE SUBCLASS[1]

	Rate (cents)
Letter Size	
Piece Rate	
Basic	17.8
Basic Automated Letter[2]	15.7
High Density	15.3
Saturation	14.5
Destination Entry Discount per Piece	
BMC	1.9
SCF	2.4
DDU	2.9
Non-Letter Size[3]	
Piece Rate	
Minimum per Piece[4]	
Basic	17.8
High Density	15.6
Saturation	14.9
Destination Entry Discount per Piece	
BMC	1.9
SCF	2.4
DDU	2.9
Pound Rate[4]	63.8
Plus per Piece Rate	
Basic	4.6
High Density	2.4
Saturation	1.7
Destination Entry Discount per Pound	
BMC	9.3
SCF	11.4
DDU	14.0

SCHEDULE 322 NOTES

1 A fee of $125.00 must be paid each 12-month period for each bulk mailing permit.

2 Rate applies to letter-size automation mail presorted to routes specified by the Postal Service.

3 Residual shape pieces are subject to a surcharge of $0.15 per piece.

4 Mailer pays either the minimum piece rate or the pound rate, whichever is higher.

STANDARD MAIL
RATE SCHEDULE 323A

NONPROFIT SUBCLASS
PRESORT CATEGORIES[1]

	Rates (cents)
Letter Size	
Piece Rate	
Basic	15.8
3/5-Digit	14.6
Destination Entry Discount per Piece	
BMC	1.9
SCF	2.4
Non-Letter Size[2]	
Piece Rate	
Minimum per Piece[3]	
Basic	22.0
3/5-Digit	17.1
Destination Entry Discount per Piece	
BMC	1.9
SCF	2.4
Pound Rate[3]	55.0
Plus per Piece Rate	
Basic	10.7
3/5-Digit	5.8
Destination Entry Discount per Pound	
BMC	9.3
SCF	11.4

SCHEDULE 323A NOTES

1 A fee of $125.00 must be paid once each 12-month period for each bulk mailing permit.

2 Residual shape pieces are subject to a surcharge of $0.18 per piece. For parcel barcode discount, deduct $0.03 per piece.

3 Mailer pays either the minimum piece rate or the pound rate, whichever is higher.

STANDARD MAIL
RATE SCHEDULE 323B

NONPROFIT SUBCLASS
AUTOMATION CATEGORIES[1]

	Rate (cents)
Letter Size[2]	
Piece Rate	
Basic Letter[3]	13.3
3-Digit Letter[4]	12.3
5-Digit Letter[5]	10.8
Destination Entry Discount per Piece	
BMC	1.9
SCF	2.4
Flat Size[6]	
Piece Rate	
Minimum per Piece[7]	
Basic Flat[8]	17.9
3/5-Digit Flat[9]	15.4
Destination Entry Discount per Piece	
BMC	1.9
SCF	2.4
Pound Rate[7]	55.0
Plus per Piece Rate	
Basic Flat[8]	6.6
3/5-Digit Flat[9]	4.1
Destination Entry Discount per Pound	
BMC	9.3
SCF	11.4

SCHEDULE 323B NOTES

1 *A fee of $125.00 must be paid once each 12-month period for each bulk mailing permit.*

2 For letter-size automation pieces meeting applicable Postal Service regulations.

3 Rate applies to letter-size automation mail not mailed at 3-digit, 5-digit or carrier route rates.

4 Rate applies to letter-size automation mail presorted to single or multiple three-digit ZIP Code destinations as specified by the Postal Service.

5 Rate applies to letter-size automation mail presorted to single or multiple five-digit ZIP Code *destinations as specified by the Postal Service.*

6 For flat-size automation mail meeting applicable Postal Service regulations.

7 Mailer pays either the minimum piece rate or the pound rate, whichever is higher.

8 Rate applies to flat-size automation mail not mailed at 3/5-digit rate.

9 Rate applies to flat-size automation mail presorted to single or multiple three- and five-digit ZIP Code destinations as specified by the Postal Service.

STANDARD MAIL
RATE SCHEDULE 324

NONPROFIT ENHANCED CARRIER ROUTE SUBCLASS[1]

	Rate (cents)
Letter Size	
Piece Rate	
Basic	11.8
Basic Automated Letter[2]	10.5
High Density	9.5
Saturation	8.9
Destination Entry Discount per Piece	
BMC	1.9
SCF	2.4
DDU	2.9
Non-Letter Size[3]	
Piece Rate	
Minimum per Piece[4]	
Basic	11.8
High Density	10.2
Saturation	9.7
Destination Entry Discount per Piece	
BMC	1.9
SCF	2.4
DDU	2.9
Pound Rate[4]	37.0
Plus per Piece Rate	
Basic	4.2
High Density	2.6
Saturation	2.1
Destination Entry Discount per Pound	
BMC	9.3
SCF	11.4
DDU	14.0

SCHEDULE 324 NOTES

1 A fee of $125.00 must be paid each 12-month period for each bulk mailing permit.

2 Rate applies to letter-size automation mail presorted to routes specified by the Postal Service.

3 Residual shape pieces are subject to a surcharge of $0.15 per piece.

4 Mailer pays either the minimum piece rate or the pound rate, whichever is higher.

PERIODICALS
RATE SCHEDULE 421

OUTSIDE COUNTY SUBCLASS[1, 2, 12]

	Postage Rate Unit	Rate[3] (cents)
Per Pound		
Nonadvertising Portion:	Pound	17.9
Advertising Portion:11		
Delivery Office4	Pound	15.3
SCF5	Pound	19.5
1&2	Pound	23.8
3	Pound	25.3
4	Pound	29.2
5	Pound	35.1
6	Pound	41.3
7	Pound	48.8
8	Pound	55.2
Science of Agriculture		
Delivery Office	Pound	11.5
SCF	Pound	14.6
Zones 1&2	Pound	17.9
Per Piece		
Less Nonadvertising Factor6		6.7
Required Preparation[7]	Piece	33.3
Presorted to 3-digit	Piece	28.3
Presorted to 5-digit	Piece	21.9
Presorted to Carrier Route	Piece	13.9
Discounts:		
Prepared to Delivery Office[4]	Piece	1.7
Prepared to SCF[5]	Piece	0.8
High Density[8]	Piece	2.6
Saturation[9]	Piece	4.4
Automation Discounts for Automation Compatible Mail[10]		
From Required:		
Prebarcoded letter size	Piece	6.7
Prebarcoded flats	Piece	4.2
From 3-Digit:		
Prebarcoded letter size	Piece	5.2
Prebarcoded flats	Piece	3.5
From 5-Digit:		
Prebarcoded letter size	Piece	4.1
Prebarcoded flats	Piece	2.5

SCHEDULE 421 NOTES

1 The rates in this schedule also apply to Nonprofit (DMCS Section 422.2) and Classroom rate categories. These categories receive a 5 percent discount on all components of postage except advertising pounds. Moreover, the 5 percent discount does not apply to commingled nonsubscriber, nonrequestor, complimentary, and sample copies in excess of the 10 percent allowance under DMCS

sections 412.34 and 413.42, or to Science of Agriculture mail.

2 Rates do not apply to otherwise Outside County mail that qualifies for the Within County rates in Schedule 423.

3 Charges are computed by adding the appropriate per-piece charge to the sum of the nonadvertising portion and the advertising portion, as applicable.

4 Applies to carrier route (including high density and saturation) mail delivered within the delivery area of the originating post office.

5 Applies to mail delivered within the SCF area of the originating SCF office.

6 For postage calculations, multiply the proportion of nonadvertising content by this factor and subtract from the applicable piece rate.

7 Mail not eligible for carrier-route, 5-digit or 3-digit rates.

8 Applicable to high density mail, deducted from carrier route presort rate.

9 Applicable to saturation mail, deducted from carrier route presort rate.

10 For automation compatible mail meeting applicable Postal Service regulations.

11 Not applicable to qualifying Nonprofit and Classroom publications containing 10 percent or less advertising content.

12 For a "Ride-Along" item enclosed with or attached to a periodical, add $0.10 per copy (experimental).

PERIODICALS
RATE SCHEDULE 423[5]

WITHIN COUNTY

	Rate (cents)
Per Pound	
General	14.6
Delivery Office[1]	11.5
Per Piece	
Required Presort	10.1
Presorted to 3-digit	9.3
Presorted to 5-digit	8.4
Carrier Route Presort	4.8
Per Piece Discount	
Delivery Office[2]	0.5
High Density (formerly 125 piece)[3]	1.5
Saturation	2.1
Automation Discounts for Automation Compatible Mail[4]	
From Required:	
Prebarcoded Letter size	5.2
Prebarcoded Flat size	2.7
From 3-digit:	
Prebarcoded Letter size	4.6
Prebarcoded Flat size	2.4
From 5-digit:	
Prebarcoded Letter size	3.9
Prebarcoded Flat size	2.1

SCHEDULE 432 NOTES

1 Applicable only to carrier route (including high density and saturation) presorted pieces to be delivered within the delivery area of the originating post office.

2 Applicable only to carrier presorted pieces to be delivered within the delivery area of the originating post office.

3 Applicable to high density mail, deducted from carrier route presort rate. Mailers also may qualify for this discount on an alternative basis as provided in DMCS section 423.83.

4 For automation compatible pieces meeting applicable Postal Service regulations.

5 For a "Ride-Along" item enclosed with or attached to a periodical, add $0.10 per copy (experimental).

PACKAGE SERVICES
RATE SCHEDULE 521.2A

PARCEL POST SUBCLASS
INTER-BMC RATES (CONTINUED)

(dollars)

Weight not Exceeding (Pounds)	Zone 1&2	Zone 3	Zone 4	Zone 5	Zone 6	Zone 7	Zone 8
1	3.42	3.45	3.45	3.45	3.45	3.45	3.45
2	3.42	3.45	3.45	3.45	3.45	3.45	3.45
3	3.90	4.23	4.66	4.71	4.76	4.81	4.86
4	4.05	4.51	5.33	5.80	5.95	6.00	6.05
5	4.19	4.76	5.78	7.00	7.15	7.20	7.25
6	4.33	5.01	6.20	7.70	8.03	8.25	8.84
7	4.46	5.23	6.59	8.38	8.90	9.49	10.69
8	4.60	5.44	6.92	8.96	9.60	10.74	12.53
9	4.70	5.63	7.28	9.50	10.30	11.99	14.20
10	4.83	5.82	7.58	10.01	11.00	13.24	15.26
11	4.93	6.00	7.89	10.48	11.70	14.20	16.14
12	5.03	6.16	8.17	10.92	12.40	15.15	16.98
13	5.13	6.30	8.43	11.33	13.10	16.10	17.79
14	5.23	6.48	8.69	11.72	13.80	17.05	18.57
15	5.32	6.62	8.94	12.08	14.44	17.66	19.33
16	5.40	6.76	9.17	12.42	14.86	18.20	20.05
17	5.50	6.88	9.40	12.74	15.28	18.72	20.76
18	5.58	7.01	9.60	13.04	15.65	19.19	21.44
19	5.67	7.14	9.81	13.33	16.01	19.66	22.10
20	5.74	7.25	9.98	13.61	16.35	20.09	22.74
21	5.82	7.38	10.17	13.88	16.69	20.51	23.36
22	5.89	7.48	10.35	14.13	16.99	20.90	23.97
23	5.97	7.61	10.54	14.35	17.28	21.27	24.56
24	6.02	7.70	10.69	14.59	17.57	21.63	25.14
25	6.10	7.80	10.86	14.80	17.84	21.96	25.70
26	6.16	7.90	11.01	15.02	18.10	22.29	26.25
27	6.24	8.00	11.15	15.21	18.34	22.59	26.79
28	6.29	8.09	11.32	15.41	18.58	22.88	27.31
29	6.36	8.19	11.46	15.58	18.80	23.16	27.83
30	6.42	8.28	11.58	15.75	19.01	23.44	28.33
31	6.49	8.35	11.72	15.92	19.23	23.71	28.82
32	6.54	8.45	11.85	16.08	19.42	23.96	29.30
33	6.60	8.54	11.98	16.24	19.61	24.20	29.78
34	6.66	8.60	12.09	16.39	19.79	24.42	30.24
35	6.72	8.69	12.22	16.54	19.96	24.64	30.70
36	6.77	8.76	12.35	16.68	20.14	24.85	31.14
37	6.82	8.83	12.44	16.82	20.30	25.06	31.58
38	6.88	8.92	12.56	16.94	20.45	25.25	32.01
39	6.94	8.98	12.66	17.06	20.60	25.43	32.43
40	6.99	9.06	12.77	17.19	20.76	25.63	32.85
41	7.05	9.14	12.87	17.31	20.90	25.80	33.26
42	7.10	9.20	12.97	17.41	21.03	25.96	33.66
43	7.14	9.27	13.07	17.52	21.17	26.13	34.05

44	7.19	9.32	13.16	17.62	21.29	26.28	34.44
45	7.24	9.40	13.26	17.73	21.42	26.43	34.74
46	7.29	9.46	13.35	17.84	21.54	26.58	34.93
47	7.35	9.53	13.43	17.92	21.66	26.72	35.12
48	7.39	9.59	13.53	18.02	21.75	26.85	35.30
49	7.43	9.65	13.62	18.11	21.87	26.99	35.46
50	7.48	9.70	13.68	18.20	21.98	27.13	35.63
51	7.53	9.77	13.78	18.28	22.08	27.24	35.78
52	7.57	9.83	13.86	18.37	22.18	27.36	35.94
53	7.62	9.88	13.92	18.45	22.28	27.48	36.10
54	7.66	9.95	14.01	18.53	22.37	27.60	36.24
55	7.70	9.98	14.09	18.60	22.45	27.70	36.38
56	7.76	10.06	14.16	18.68	22.55	27.81	36.52
57	7.80	10.11	14.24	18.75	22.63	27.92	36.64
58	7.84	10.16	14.30	18.82	22.71	28.01	36.77
59	7.89	10.21	14.38	18.89	22.80	28.10	36.89
60	7.93	10.26	14.46	18.95	22.86	28.20	37.02
61	7.99	10.33	14.52	19.02	22.95	28.30	37.18
62	8.03	10.37	14.58	19.09	23.01	28.37	37.33
63	8.05	10.43	14.66	19.14	23.09	28.46	37.49
64	8.09	10.47	14.72	19.19	23.15	28.54	37.63
65	8.14	10.52	14.78	19.26	23.23	28.62	37.77
66	8.19	10.58	14.84	19.31	23.28	28.70	37.90
67	8.24	10.62	14.91	19.38	23.36	28.77	38.04
68	8.27	10.67	14.98	19.43	23.41	28.85	38.18
69	8.31	10.71	15.04	19.48	23.48	28.93	38.29
70	8.35	10.77	15.10	19.54	23.53	28.99	38.43
Oversize parcels[5]	34.75	38.94	45.10	54.87	66.41	82.14	106.31

SCHEDULE 521.2A NOTES

1 For Origin Bulk Mail Center Discount, deduct $0.90 per piece.

2 For BMC Presort, deduct $0.23 per piece.

3 For barcode discount, deduct $0.03 per piece.

4 For nonmachinable Inter-BMC parcels, add $2.00 per piece.

5 *See* DMCS section 521.61 for oversize Parcel Post.

6 Parcel Post pieces exceeding 84 inches in length and girth combined and weighing less than 15 pounds are subject to a rate equal to that for a 15 pound parcel for the zone to which the parcel is addressed.

7 For each pickup stop, add $10.25.

PACKAGE SERVICES
RATE SCHEDULE 521.2B

PARCEL POST SUBCLASS
INTRA-BMC RATES (CONTINUED)

(dollars)

Weight not Exceeding (Pounds)	Local	Zone 1&2	Zone 3	Zone 4	Zone 5
1	2.74	3.04	3.04	3.04	3.04
2	2.74	3.04	3.04	3.04	3.04
3	2.98	3.44	3.47	3.47	3.47
4	3.20	3.60	3.86	3.86	3.93
5	3.40	3.74	4.18	4.21	4.40
6	3.56	3.88	4.48	4.50	4.83
7	3.63	4.00	4.74	4.77	5.23
8	3.72	4.14	4.98	5.02	5.61
9	3.80	4.24	5.18	5.27	5.96
10	3.88	4.37	5.44	5.51	6.29
11	3.95	4.47	5.62	5.72	6.59
12	4.03	4.59	5.78	5.93	6.90
13	4.10	4.69	5.92	6.13	7.16
14	4.17	4.78	6.02	6.33	7.43
15	4.23	4.87	6.16	6.50	7.68
16	4.31	4.95	6.30	6.67	7.91
17	4.36	5.05	6.43	6.85	8.13
18	4.42	5.12	6.56	7.00	8.36
19	4.47	5.22	6.68	7.15	8.56
20	4.55	5.29	6.80	7.28	8.75
21	4.59	5.36	6.92	7.40	8.94
22	4.64	5.45	7.02	7.52	9.12
23	4.70	5.51	7.15	7.63	9.30
24	4.75	5.58	7.25	7.73	9.46
25	4.81	5.64	7.35	7.83	9.62
26	4.85	5.72	7.44	7.93	9.78
27	4.90	5.78	7.55	8.02	9.92
28	4.95	5.84	7.65	8.10	10.06
29	5.01	5.91	7.75	8.19	10.20
30	5.07	5.97	7.83	8.27	10.35
31	5.11	6.03	7.90	8.34	10.47
32	5.15	6.10	8.00	8.42	10.59
33	5.21	6.15	8.08	8.49	10.73
34	5.25	6.21	8.15	8.55	10.83
35	5.29	6.26	8.24	8.62	10.94
36	5.33	6.31	8.31	8.68	11.07
37	5.37	6.38	8.38	8.74	11.17
38	5.41	6.43	8.46	8.80	11.28
39	5.47	6.49	8.54	8.85	11.37
40	5.51	6.53	8.60	8.90	11.48
41	5.56	6.60	8.69	8.95	11.57
42	5.60	6.64	8.75	9.00	11.66
43	5.64	6.68	8.82	9.05	11.76

44	5.70	6.74	8.88	9.10	11.84
45	5.73	6.78	8.94	9.23	11.93
46	5.77	6.85	9.02	9.27	12.01
47	5.82	6.90	9.07	9.31	12.09
48	5.86	6.94	9.14	9.35	12.19
49	5.89	6.99	9.20	9.39	12.26
50	5.93	7.02	9.26	9.42	12.34
51	5.98	7.09	9.31	9.46	12.41
52	6.01	7.13	9.39	9.49	12.48
53	6.05	7.16	9.43	9.52	12.55
54	6.10	7.20	9.47	9.56	12.63
55	6.14	7.25	9.50	9.60	12.69
56	6.17	7.30	9.53	9.63	12.75
57	6.21	7.35	9.55	9.65	12.83
58	6.25	7.39	9.58	9.68	12.89
59	6.29	7.43	9.61	9.71	12.95
60	6.31	7.48	9.63	9.73	13.02
61	6.38	7.53	9.66	9.76	13.08
62	6.40	7.57	9.68	9.81	13.13
63	6.44	7.61	9.70	9.87	13.19
64	6.48	7.65	9.72	9.91	13.25
65	6.52	7.69	9.75	9.96	13.30
66	6.54	7.75	9.77	10.02	13.37
67	6.60	7.79	9.79	10.07	13.41
68	6.63	7.81	9.80	10.11	13.46
69	6.64	7.86	9.82	10.16	13.52
70	6.65	7.90	9.84	10.21	13.57
Oversize parcels[3]	19.82	28.99	28.99	28.99	28.99

SCHEDULE 521.2B NOTES

1 For barcode discount, deduct $0.03 per piece.

2 For nonmachinable Intra-BMC parcels, add $1.35 per piece.

3 *See* DMCS section 521.61 for oversize Parcel Post.

4 Parcel Post pieces exceeding 84 inches in length and girth combined and weighing less than 15 pounds are subject to a rate equal to that for a 15 pound parcel for the zone to which the parcel is addressed.

5 For each pickup stop, add $10.25.

PACKAGE SERVICES
RATE SCHEDULE 521.2C

PARCEL POST SUBCLASS
PARCEL SELECT – DESTINATION BMC RATES (CONTINUED)

(dollars)

Weight not Exceeding (Pounds)	Zone 1&2	Zone 3	Zone 4	Zone 5	Weight not Exceeding (Pounds)	Zone 1&2	Zone 3	Zone 4	Zone 5
1	2.13	2.48	2.75	2.99	36	6.18	8.26	8.63	11.02
2	2.13	2.48	2.75	2.99	37	6.25	8.33	8.69	11.12
3	2.36	2.89	3.31	3.42	38	6.31	8.41	8.75	11.23
4	2.57	3.27	3.81	3.88	39	6.37	8.49	8.80	11.32
5	2.78	3.63	4.16	4.35	40	6.44	8.55	8.85	11.43
6	2.96	3.97	4.45	4.78	41	6.50	8.64	8.90	11.52
7	3.14	4.28	4.72	5.18	42	6.56	8.70	8.95	11.61
8	3.31	4.59	4.97	5.56	43	6.62	8.77	9.00	11.71
9	3.47	4.87	5.22	5.91	44	6.67	8.83	9.05	11.79
10	3.63	5.15	5.46	6.24	45	6.73	8.89	9.18	11.88
11	3.77	5.41	5.67	6.54	46	6.79	8.97	9.22	11.96
12	3.91	5.66	5.88	6.85	47	6.84	9.02	9.26	12.04
13	4.05	5.87	6.08	7.11	48	6.89	9.09	9.30	12.14
14	4.18	5.97	6.28	7.38	49	6.94	9.15	9.34	12.21
15	4.30	6.11	6.45	7.63	50	6.97	9.21	9.37	12.29
16	4.42	6.25	6.62	7.86	51	7.04	9.26	9.41	12.36
17	4.53	6.38	6.80	8.08	52	7.08	9.34	9.44	12.43
18	4.65	6.51	6.95	8.31	53	7.11	9.38	9.47	12.50
19	4.75	6.63	7.10	8.51	54	7.15	9.42	9.51	12.58
20	4.86	6.75	7.23	8.70	55	7.20	9.45	9.55	12.64
21	4.96	6.87	7.35	8.89	56	7.25	9.48	9.58	12.70
22	5.06	6.97	7.47	9.07	57	7.30	9.50	9.60	12.78
23	5.15	7.10	7.58	9.25	58	7.34	9.53	9.63	12.84
24	5.24	7.20	7.68	9.41	59	7.38	9.56	9.66	12.90
25	5.33	7.30	7.78	9.57	60	7.43	9.58	9.78	12.97
26	5.42	7.39	7.88	9.73	61	7.48	9.61	9.71	13.03
27	5.50	7.50	7.97	9.87	62	7.52	9.63	9.76	13.08
28	5.59	7.60	8.05	10.01	63	7.56	9.65	9.82	13.14
29	5.67	7.70	8.14	10.15	64	7.60	9.67	9.86	13.20
30	5.75	7.78	8.22	10.30	65	7.64	9.70	9.91	13.25
31	5.82	7.85	8.29	10.42	66	7.70	9.72	9.97	13.32
32	5.90	7.95	8.37	10.54	67	7.74	9.74	10.02	13.36
33	5.97	8.03	8.44	10.68	68	7.76	9.75	10.06	13.41
34	6.04	8.10	8.50	10.78	69	7.81	9.77	10.11	13.47
35	6.11	8.19	8.57	10.89	70	7.85	9.79	10.16	13.52
					Oversize parcels[3]	18.85	20.65	27.84	28.94

SCHEDULE 521.2C NOTES

1 For barcode discount, deduct $0.03 per piece. Barcode discount is not available for DBMC mail entered at an ASF, except at the Phoenix, AZ ASF.

2 For nonmachinable DBMC parcels, add $1.45 per piece.

3 *See* DMCS section 521.61 for oversize Parcel Post.

4 Parcel Post pieces exceeding 84 inches in length and girth combined and weighing less than 15 pounds are subject to a rate equal to that for a 15 pound parcel for the zone to which the parcel is addressed.

5 A mailing fee of $125.00 must be paid once each 12-month period for Parcel Select.

PACKAGE SERVICES
RATE SCHEDULE 521.2D

PARCEL POST SUBCLASS
PARCEL SELECT – DESTINATION SCF RATES (CONTINUED)

(dollars)

Weight not Exceeding (Pounds)		Weight not Exceeding (Pounds)	
1	1.71	36	4.26
2	1.71	37	4.30
3	1.85	38	4.34
4	1.99	39	4.38
5	2.12	40	4.42
6	2.24	41	4.46
7	2.35	42	4.50
8	2.45	43	4.53
9	2.56	44	4.57
10	2.65	45	4.61
11	2.74	46	4.64
12	2.83	47	4.67
13	2.92	48	4.71
14	3.00	49	4.74
15	3.08	50	4.77
16	3.15	51	4.80
17	3.22	52	4.84
18	3.29	53	4.87
19	3.36	54	4.90
20	3.43	55	4.93
21	3.49	56	4.96
22	3.55	57	4.98
23	3.61	58	5.01
24	3.67	59	5.04
25	3.73	60	5.07
26	3.78	61	5.10
27	3.83	62	5.12
28	3.89	63	5.15
29	3.94	64	5.17
30	3.99	65	5.20
31	4.03	66	5.22
32	4.08	67	5.25
33	4.13	68	5.27
34	4.17	69	5.30
35	4.21	70	5.32
		Oversize parcels[1]	11.35

SCHEDULE 521.2D NOTES

1 *See* DMCS *section* 521.61 *for oversize* Parcel Post.

2 Parcel Post pieces exceeding 84 inches in length and girth combined and weighing less than 15 pounds are subject to a rate equal to that for a 15 pound parcel for the zone to which the parcel is addressed.

3 A mailing fee of $125.00 must be paid once each 12-month period for Parcel Select.

PACKAGE SERVICES
RATE SCHEDULE 521.2E

PARCEL POST SUBCLASS
PARCEL SELECT – DESTINATION DELIVERY UNIT RATES (CONTINUED)

(dollars)

Weight not Exceeding (Pounds)		Weight not Exceeding (Pounds)	
1	1.28	36	2.15
2	1.28	37	2.16
3	1.33	38	2.17
4	1.38	39	2.18
5	1.43	40	2.19
6	1.47	41	2.20
7	1.51	42	2.21
8	1.55	43	2.22
9	1.58	44	2.23
10	1.62	45	2.24
11	1.65	46	2.25
12	1.68	47	2.26
13	1.71	48	2.27
14	1.74	49	2.28
15	1.77	50	2.29
16	1.79	51	2.30
17	1.82	52	2.31
18	1.85	53	2.32
19	1.87	54	2.33
20	1.89	55	2.34
21	1.92	56	2.35
22	1.94	57	2.36
23	1.96	58	2.37
24	1.98	59	2.38
25	2.00	60	2.39
26	2.02	61	2.40
27	2.04	62	2.41
28	2.06	63	2.42
29	2.07	64	2.43
30	2.09	65	2.44
31	2.10	66	2.45
32	2.11	67	2.46
33	2.12	68	2.47
34	2.13	69	2.48
35	2.14	70	2.49
		Oversize parcels[1]	6.98

SCHEDULE 521.2E NOTES

1 *See* DMCS section 521.61 for oversize Parcel Post.

2 Parcel Post pieces exceeding 84 inches in length and girth combined and weighing less than 15 pounds are subject to a rate equal to that for a 15 pound parcel for the zone to which the parcel is addressed.

3 A mailing fee of $125.00 must be paid once year 12-month period for Parcel Select.

PACKAGE SERVICES
RATE SCHEDULE 522A

BOUND PRINTED MATTER SUBCLASS
SINGLE PIECE RATES (CONTINUED)

(dollars)

Weight not Exceeding (Pounds)	Zones						
	1&2	3	4	5	6	7	8
1	1.82	1.85	1.89	1.95	2.02	2.09	2.23
1.5	1.82	1.85	1.89	1.95	2.02	2.09	2.23
2	1.87	1.91	1.96	2.04	2.12	2.22	2.41
2.5	1.92	1.97	2.02	2.14	2.23	2.36	2.60
3	1.96	2.02	2.10	2.22	2.35	2.49	2.78
3.5	2.01	2.08	2.17	2.32	2.46	2.64	2.97
4	2.06	2.14	2.23	2.39	2.57	2.76	3.15
4.5	2.10	2.20	2.32	2.50	2.68	2.91	3.34
5	2.15	2.25	2.38	2.58	2.80	3.04	3.52
6	2.25	2.38	2.51	2.77	3.02	3.30	3.87
7	2.33	2.48	2.65	2.95	3.25	3.58	4.24
8	2.43	2.60	2.81	3.14	3.47	3.86	4.61
9	2.53	2.72	2.94	3.31	3.70	4.12	4.98
10	2.63	2.83	3.08	3.49	3.91	4.40	5.34
11	2.72	2.95	3.22	3.67	4.14	4.67	5.71
12	2.81	3.06	3.36	3.86	4.36	4.94	6.08
13	2.91	3.18	3.50	4.04	4.59	5.22	6.44
14	3.00	3.29	3.65	4.22	4.81	5.49	6.81
15	3.10	3.41	3.79	4.40	5.04	5.76	7.18

SCHEDULE 522A NOTES

1 For barcode discount, deduct $0.03 per piece.

PACKAGE SERVICES
RATE SCHEDULE 522B

BOUND PRINTED MATTER SUBCLASS
BASIC PRESORT AND CARRIER ROUTE PRESORT RATES

(dollars)

Zone	Per Piece: Basic[1]	Per Piece: Carrier Route[2]	Per Pound
1&2	0.98	0.88	0.07
3	0.98	0.88	0.09
4	0.98	0.88	0.12
5	0.98	0.88	0.16
6	0.98	0.88	0.20
7	0.98	0.88	0.25
8	0.98	0.88	0.35

SCHEDULE 522B NOTES

1 *For barcode discount, deduct $0.03 per piece.*

2 Applies to mailings of at least 300 pieces presorted to carrier route as specified by the Postal Service.

PACKAGE SERVICES
RATE SCHEDULE 522C

BOUND PRINTED MATTER SUBCLASS
DESTINATION ENTRY BASIC PRESORT (CONTINUED)

(dollars)

	DBMC Zone 1&2	DBMC Zone 3	DBMC Zone 4	DBMC Zone 5	DSCF	DDU
Per Piece Rate	0.84	0.84	0.84	0.84	0.70	0.63
Per Pound Rate	0.06	0.09	0.12	0.16	0.06	0.03

SCHEDULE 522C NOTES

1 For barcode discount, deduct $0.03 per piece. Barcode discount is not available for DDU and DSCF rates and DBMC mail entered at an ASF (except Phoenix, Arizona ASF).

2 A mailing fee of $125.00 must be paid once each 12-month period to mail at any destination entry Bound Printed Matter rate.

PACKAGE SERVICES
RATE SCHEDULE 522D

BOUND PRINTED MATTER SUBCLASS
DESTINATION ENTRY CARRIER ROUTE PRESORT (CONTINUED)

(dollars)

	DBMC Zone 1&2	DBMC Zone 3	DBMC Zone 4	DBMC Zone 5	DSCF	DDU
Per Piece Rate	0.74	0.74	0.74	0.74	0.60	0.53
Per Pound Rate	0.06	0.09	0.12	0.16	0.06	0.03

SCHEDULE 522D NOTES

1 A mailing fee of $125.00 must be paid once each 12-month period to mail at any destination entry Bound Printed Matter rate.

PACKAGE SERVICES
RATE SCHEDULE 523

MEDIA MAIL SUBCLASS

		Rates (dollars)
First Pound	Not presorted[4]	1.33
	Level A Presort (5-digits)[1,2]	0.73
	Level B Presort (BMC)[1,3,4]	1.03
Each additional pound through 7 pounds		0.45
Each additional pound over 7 pounds		0.30

SCHEDULE 523 NOTES

1 A mailing fee of $125.00 must be paid once each 12-month period for each permit.

2 For mailings of 500 or more pieces properly prepared and presorted to five-digit destination ZIP Codes.

3 For mailings of 500 or more pieces properly prepared and presorted to Bulk Mail Centers.

4 For barcode discount, deduct $0.03 per piece.

PACKAGE SERVICES
RATE SCHEDULE 524

LIBRARY MAIL SUBCLASS

		Rates (dollars)
First Pound	Not presorted[4]	1.26
	Level A Presort (5-digits)[1, 2]	0.69
	Level B Presort (BMC)[1, 3, 4]	0.98
Each additional pound through 7 pounds		0.43
Each additional pound over 7 pounds		0.29

SCHEDULE 524

1 A mailing fee of $125.00 must be paid once each 12-month period for each permit.

2 For mailings of 500 or more pieces properly prepared and presorted to five-digit destination ZIP Codes.

3 For mailings of 500 or more pieces properly prepared and presorted to Bulk Mail Centers.

4 *For barcode discount, deduct $0.03 per piece.*

FEE SCHEDULE 911

ADDRESS CORRECTIONS

Description	Fee
Per manual correction	$0.60
Per automated correction	$0.20

FEE SCHEDULE 912

ZIP CODING OF MAILING LISTS

Description	Fee
Per thousand addresses	$73.00

CORRECTION OF MAILING LISTS

Description	Fee
Per submitted address	$0.25
Minimum charge per list corrected	$7.50

ADDRESS CHANGES FOR ELECTION BOARDS AND REGISTRATION COMMISSIONS

Description	Fee
Per change of address	$0.23

SEQUENCING OF ADDRESS CARDS

Description	Fee
Per correction	$0.25

SCHEDULE 912 NOTES

When rural routes have been consolidated or changed to another post office, no charge will be made for correction if the list contains only names of persons residing on the route or routes involved.

FEE SCHEDULE 921

POST OFFICE BOXES AND CALLER SERVICE

II. Post Office Boxes

Semi-annual Box Fees[1]

	Fee Group						
Box Size[2]	**B2**	**C3**	**C4**	**C5**	**D6**	**D7**	**E**
1	$30.00	$27.50	$22.50	$19.00	$10.00	$8.50	$0.00
2	45.00	40.00	32.50	27.50	16.00	13.00	0.00
3	85.00	75.00	60.00	50.00	25.00	22.50	0.00
4	170.00	150.00	125.00	87.50	50.00	40.00	0.00
5	300.00	250.00	212.50	150.00	90.00	65.00	0.00

1 A customer ineligible for carrier delivery may obtain a post office box at Group E fees, subject to administrative decisions regarding customer's proximity to post office.

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

I. Key Duplication and Lock Charges

Description	**Fee**
Key duplication or replacement	$4.00
Post office box lock replacement	$10.00

I. Semi-annual Caller Service Fee $375.00

I. Annual Call Number Reservation Fee

(All applicable Fee Groups)	$30.00

FEE SCHEDULE 931

BUSINESS REPLY MAIL

Description	Fee
Active business reply advance deposit account:	
Per piece	
Qualified (without optional Quarterly fee)	$0.05
Qualified (with optional Quarterly fee)	$0.01
Nonletter-size, using weight averaging	$0.01
Other	$0.10
Payment of postage due charges if active business reply mail advance deposit account not used:	
Per piece	$0.35
Monthly Fees for customers using weight averaging for nonletter-size business reply	$600.00
Optional Qualified BRM Quarterly Fee	$1,800.00
Accounting fee for advance deposit account (*see* Fee Schedule 1000)	
Permit fee (with or without advance deposit account) (*see* Fee Schedule 1000)	

FEE SCHEDULE 932

MERCHANDISE RETURN

Description	Fee
Accounting fee for advance deposit account (*see* Fee Schedule 1000)	
Permit fee (*see* Fee Schedule 1000)	

FEE SCHEDULE 933

ON-SITE METER SERVICE

Description	Fee
Meter Service (per employee)	$31.00
Meters reset and/or examined (per meter)	$4.00
Checking meter in or out of service (per meter)	$4.00[1]

SCHEDULE 933 NOTES

1 Fee does not apply to Secured Postage meters.

FEE SCHEDULE 934

[RESERVED]

FEE SCHEDULE 935

BULK PARCEL RETURN SERVICE

Description	**Fee**
Per Returned Piece	$1.62
Accounting fee for advance deposit account (*see* Fee Schedule 1000)	
Permit fee (*see* Fee Schedule 1000)	

FEE SCHEDULE 936

SHIPPER PAID FORWARDING

Description	Fee
Accounting fee for advance deposit account (*see* Fee Schedule 1000)	

FEE SCHEDULE 941

CERTIFIED MAIL

Description	Fee (in addition to postage)
Per piece	$2.10

FEE SCHEDULE 942

REGISTERED MAIL

Declared Value of Article[1]			Fee (in addition to postage)	Handling Charge
$ 0.00		....	$7.25	None
0.01	to	100	7.50	
100.01	to	500	8.25	
500.01	to	1,000	9.00	
1,000.01	to	2,000	9.75	
2,000.01	to	3,000	10.50	
3,000.01	to	4,000	11.25	
4,000.01	to	5,000	12.00	
5,000.01	to	6,000	12.75	
6,000.01	to	7,000	13.50	
7,000.01	to	8,000	14.25	
8,000.01	to	9,000	15.00	
9,000.01	to	10,000.............	15.75	
10,000.01	to	11,000	16.50	
11,000.01	to	12,000	17.25	
12,000.01	to	13,000.............	18.00	
13,000.01	to	14,000.............	18.75	
14,000.01	to	15,000.............	19.50	
15,000.01	to	16,000.............	20.25	
16,000.01	to	17,000.............	21.00	
17,000.01	to	18,000	21.75	
18,000.01	to	19,000.............	22.50	
19,000.01	to	20,000.............	23.25	
20,000.01	to	21,000	24.00	
21,000.01	to	22,000	24.75	
22,000.01	to	23,000	25.50	
23,000.01	to	24,000.............	26.25	
24,000.01	to	25,000.............	27.00	
25,000.01	to	$1 million	27.00	plus 75 cents for each $1,000 (or fraction thereof) over $25,000
Over $1 million	to	$15 million	758.25	plus 75 cents for each $1,000 (or fraction thereof) over $1 million
Over $15 million			11258.25	plus amount determined by the Postal Service based on weight, space and value

SCHEDULE 942 NOTES

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

FEE SCHEDULE 943

INSURANCE

Express Mail Insurance

Document Reconstruction

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

Merchandise

Coverage	Fee (in addition to postage)
\$0.01 To \$ 500	no charge
\$500.01 to 5000	\$1.00 for each \$100 (or fraction thereof) over \$500 in value

General Insurance

Coverage	Fee[1] (in addition to postage)
\$0.01 to\$ \$50	\$1.10
\$50.01 to \$100	\$2.00
\$100.01 to \$5000	\$2.00 plus \$1.00 for each \$100 (or fraction thereof) over \$100 in coverage

SCHEDULE 943 NOTES

1 For bulk insurance coverage between \$0.01 to \$50.00, deduct \$0.60 per piece. For bulk insurance coverage between \$50.01 to \$5,000.00, deduct \$0.80 per piece.

FEE SCHEDULE 944

COLLECT ON DELIVERY

Description Amount to be collected, or Insurance Coverage Desired			Fee (in addition to postage)
$0.01	to	$50	$4.50
50.01	to	100	$5.50
100.01	to	200	$6 .50
200.01	to	300	$7.50
300.01	to	400	$8.50
400.01	to	500	$9.50
500.01	to	600	$10.50
600.01	to	700	$11.50
700.01	to	800	$12.50
800.01	to	900	$13.50
900.01	to	1000	$14.50
Notice of nondelivery of COD			$3.00
Alteration of COD charges or designation of new addressee			$3.00
Registered COD			$4.00

FEE SCHEDULE 945

RETURN RECEIPTS

Description	Fee (in addition to postage)
Receipt requested at time of mailing[1]	
Items other than merchandise	$1.50
Merchandise (without another special service)	$2.35
Receipt requested after mailing[2]	$3.50

SCHEDULE 945 NOTES

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

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

FEE SCHEDULE 946

RESTRICTED DELIVERY

Description	Fee (in addition to postage)
Per Piece	$3.20

FEE SCHEDULE 947

CERTIFICATE OF MAILING

Description	Fee (in addition to postage)
Individual Pieces	
Original certificate of mailing for listed pieces of all classes of ordinary mail (per piece)	$0.75
Three or more pieces individually listed in a firm mailing book or an approved customer provided manifest (per piece)	$0.25
Each additional copy of original certificate of mailing or original mailing receipt for registered, insured, certified, and COD mail (each copy)	$0.75
Bulk Pieces	
Identical pieces of First-Class and Standard Mail paid with ordinary stamps, precanceled stamps, or meter stamps are subject to the following fees:	
Up to 1,000 pieces (one certificate for total number)	$3.50
Each additional 1,000 pieces or fraction	$0.40
Duplicate copy	$0.75

FEE SCHEDULE 948

DELIVERY CONFIRMATION

Description	Fee (in addition to postage)
Used in Conjunction with Priority Mail	
Electronic	$0.00
Manual	$0.40
Used in Conjunction with Parcel Post, Bound Printed Matter, Library Mail, and Media Mail	
Electronic	$0.12
Manual	$0.50
Used in Conjunction with Regular and Nonprofit Standard Mail	
Electronic	$0.12

FEE SCHEDULE 949

SIGNATURE CONFIRMATION

Description	Fee (in addition to postage)
Used in Conjunction with Priority Mail	
Electronic	$1.25
Manual	$1.75
Used in Conjunction with Parcel Post, Bound Printed Matter, Library Mail, and Media Mail	
Electronic	$1.25
Manual	$1.75

FEE SCHEDULE 951

PARCEL AIR LIFT

Description	Fee (in addition to Parcel Post postage)
Up to 2 pounds	$0.40
Over 2 up to 3 pounds	$0.75
Over 3 up to 4 pounds	$1.15
Over 4 pounds	$1.55

FEE SCHEDULE 952

SPECIAL HANDLING

Description	Fee (in addition to postage)
Not more than 10 pounds	$5.40
More than 10 pounds	$7.50

FEE SCHEDULE 961

STAMPED ENVELOPES

Description	Fee (in addition to postage)
Single Sale: #6-3/4 size and #10 size	
Basic	$0.08
Special	$0.09
Household (50): #6-3/4 size through #10 size	
Basic	$3.50
Special	$4.50
Bulk (500): #6-3/4 size	
Plain Basic	$12.00
Printed Basic	$17.00
Bulk (500): >#6-3/4 size through #10 size	
Plain Basic[1, 2]	$14.00
Printed Basic	$20.00
Plain Special	$19.00
Printed Special	$25.00

SCHEDULE 961 NOTES

"Basic" envelopes include "regular" (no window), "window" (single window), "pre-cancelled regular", and "pre-cancelled window" styles. "Special" envelopes include all envelopes with patched in indicia. "Printed" envelopes are available with multi-color printing.

1 Available in "double window" style.

2 Available in "savings bond" style.

FEE SCHEDULE 962

STAMPED CARDS

Description	Fee (in addition to postage)
Stamped Card	$0.02
Double Stamped Card	$0.04

FEE SCHEDULE 971

MONEY ORDERS

Description		Fee
Domestic	$0.01 to $700	$0.90
APO-FPO	$0.01 to $700	$0.25
Inquiry Fee, which includes the issuance of copy of a paid money order		$2.75

FEE SCHEDULE 981

MAILING ONLINE

Description	Fee
Fees are calculated by multiplying 1.52 times the sum of printer contractual costs for the particular mailing and 0.5 cents per impression for other Postal Service costs. P = Printer Contractual Costs I = Number of Impressions	1.52x(P+0.5xI)
Certification of a system as functionally equivalent to Mailing Online (*see* Fee Schedule 1000)	

This provision expires the later of:

a. three years after the implementation date specified by the Postal Service Board of Governors, or

b. if, by the expiration date specified in (a), a proposal to make Mailing Online permanent is pending before the Postal Rate Commission, the later of:

1. three months after the Commission takes action on such proposal under section 3624 of Title 39, or

2. —*if applicable—on the implementation date for a permanent Mailing Online.*

FEE SCHEDULE 1000

Description	Fee[1]
First-Class Presorted Mailing	$125.00
Regular, Enhanced Carrier Route, Nonprofit, and NonprofitEnhanced Carrier Route Standard Mail Bulk Mailing	$125.00
Periodicals	
A. Original Entry	$350.00
B. Additional Entry	$50.00
C. Re-entry	$40.00
D. Registration for News Agents	$40.00
Parcel Select	$125.00
Bound Printed Matter: Destination BMC, SCF, and DDU	$125.00
Media Mail Presorted Mailing	$125.00
Library Mail Presorted Mailing	$125.00
Authorization to Use Permit Imprint	$125.00
Special Services	
Bulk Parcel Return Service	
A. Permit	$125.00
B. Accounting Fee (advance deposit account)	$375.00
Business Reply Mail	
A. Permit (with or without advance deposit account)	$125.00
B. Accounting Fee (advance deposit account)	$375.00
Mailing Online[2]	
A. Certification of a system as functionally equivalent to Mailing Online	$125.00
Merchandise Return	
A. Permit	$125.00
B. Accounting Fee (advance deposit account)	$375.00
Shipper Paid Forwarding	
A. Accounting Fee (advance deposit account)	$375.00

SCHEDULE 1000 NOTES

1 Fees must be paid once each 12-month period.

2 This provision expires the later of:

a. three years after the Mailing Online implementation date specified by the Postal Service Board of Governors, or

b. if, by the expiration date specified in (a), a proposal to make Mailing Online permanent is pending before the Postal Rate Commission, the later of:

   1. three months after the Commission takes action on such proposal under section 3624 of Title 39, or

   2. —if applicable—on the implemenation date for a permanent Mailing Online.

Attachment One	TEST YEAR BEFORE MODIFICATION
Attachment Two	TEST YEAR AFTER MODIFICATION
Attachment Three	COST COVERAGE COMPARISONS
Attachment Four	PERCENTAGE RATE CHANGES

TEST YEAR BEFORE MODIFICATION

(Dollars in Thousands)

	Total Attributable 1/ (I)	Final Adjustments 2/ (II)	Adjusted Attributable Costs 3/ (III)	Contingency 4/ (IV)	Total Including Contingency 5/ (V)	Appendix G Revenue	Revenue Adjustments	Adjusted Appendix G Revnue	Cost Cov.
First-Class Mail:									
Letters & Parcels	14,519,067	79,049	14,598,116	364,953	14,963,069				
Presort Ltr & Pcl	5,513,312	-254,857	5,258,455	131,461	5,389,916				
Total Letters	20,032,379	-175,808	19,856,571	496,414	20,352,985	35,749,605		35,749,605	175.6
Single Piece Cards	592,919	0	592,919	14,823	607,742				
Presort Prvt P Cs	182,588	-4,534	178,054	4,451	182,505				
Total Cards					790,247	1,032,472		1,032,472	130.7
Total First	20,807,886	-180,342	20,627,544	515,689	21,143,233				
Priority Mail	3,361,353	103,182	3,464,535	86,613	3,551,148	5,680,265	12,000	5,692,265	160.3
Express Mail	691,673	0	691,673	17,292	708,965	1,058,875		1,058,875	149.4
Mailgrams	857	0	857	21	878	1,136		1,136	129.3
Periodicals									
Within County	81,656	0	81,656	2,041	83,697	82,709		82,709	98.8
Outside County:					2,350,165	2,295,034		2,295,034	97.7
Reg Rate Pub	1,937,920	-30,065	1,907,855	47,696	1,955,551				
Nonprofit Pub	379,944	-8,892	371,052	9,276	380,328				
Classroom Pub	13,937	0	13,937	348	14,285				
Total Second	2,413,457	-38,957	2,374,500	59,363	2,433,863				
Standard Mail (A)									
Single Piece Rate	0	0	0	0	0				
Commercial Standard									
Enhance Carr Rte	2,546,903	8,429	2,555,332	63,883	2,619,215	5,156,258		5,156,258	196.9
Regular	6,800,069	-229,482	6,570,587	164,265	6,734,852	9,075,572		9,075,572	134.8
Total Commercial	9,346,972	-221,053	9,125,919	228,148	9,354,067				
Aggregate Nonprofit									
Enhance Carr Rte	192,475	1,440	193,915	4,848	198,763	266,550		266,550	134.1
Nonprofit	1,420,403	-13,283	1,407,120	35,178	1,442,298	1,520,815		1,520,815	105.4
Total Aggregate Nonprofit	1,612,878	-11,843	1,601,035	40,026	1,641,061				
Total Standard (A)	10,959,850	-232,896	10,726,954	268,174	10,995,128				
Standard Mail (B)									
Parcels Zone Rate	1,139,837	-118,368	1,021,469	25,537	1,047,006	1,189,645		1,189,645	113.6
Bound Prnt Matter	486,191	0	486,191	12,155	498,346	560,714	-30,000	530,714	106.5
Spc 4th-Cl. Rate	322,882	0	322,882	8,072	330,954	333,087		333,087	100.6
Library Rate	51,472	0	51,472	1,287	52,759	49,804		49,804	94.4
Total Standard (B)	2,000,382	-118,368	1,882,014	47,050	1,929,064				
U S Postal Service	309,985	-309,985	0	0	0				
Free Mail–Blind & Hndc & Servicemen	32,883	0	32,883	822	33,705				
Internationl Mail	1,653,743	0	1,653,743	41,344	1,695,087	1,778,959		1,778,959	104.9
Special Services:									
Registry	72,788	-149	72,639	1,816	74,455	96,301		96,301	129.3
Certified	438,368	3,397	441,765	11,044	452,809	531,859		531,859	117.5
Insurance	76,640	-350	76,290	1,907	78,197	97,204		97,204	124.3
COD	16,893	-48	16,845	416	17,061	19,981		19,981	117.1
Special Delivery	0	0	0	0	0				
Money Orders	180,930	0	180,930	4,523	185,453	282,180		282,180	152.2
Stamped Cards	2,971	0	2,971	74	3,045	8,606		8,606	282.6
Stamped Envelopes	10,687	0	10,687	267	10,954	16,041		16,041	146.4
Special Handling	1,126	0	1,126	28	1,154				
Post Office Box	567,350	0	567,350	14,184	581,534	800,777		800,777	137.7
Other	176,289	-512	175,777	4,394	180,171	417,676		417,676	
Total Spc Svcs	1,543,842	2,338	1,546,180	38,655	1,584,835				
Attributable	43,775,911	-775,028	43,000,883	1,076,022	44,076,905				
Other	24,480,543	309,985	24,790,528	619,763	25,410,291	687,847		687,847	
Total Costs	68,256,454	-465,043	67,791,411	1,694,785	69,486,196	68,789,972	-18,000	68,771,972	
									156.0
Appropriations						67,093		67,093	
Investment Income						-20,168		-20,168	
Prior Year Loss Recovery					311,709				
Total Revenue Requirement					69,797,905				
Total Revenue						68,836,897		68,818,897	
Test Year Before Modification Deficit								979,008	

1/ PRC rollforward less Supervisor cost reduction adjustment and field reserve

2/ PRC Appendix J, pages 5 and 6 of 7; and PRC-LR-21 (2/9/01)

3/ Column (III) = column (I) + column (II)

4/ Contingency 2.5% of column (III)

5/ Column (V) = column (III) + column (IV)

TEST YEAR AFTER MODIFICATION

(Dollars in Thousands)

	Total Attributable 1/ (I)	Final Adjustments 2/ (II)	Adjusted Attributable Costs 3/ (III)	Contingency 4/ (IV)	Total Including Contingency 5/ (V)	Modification Revenue	Cost Coverage
First-Class Mail:							
Letters & Parcels	14,533,221	75,462	14,608,683	365,217	14,973,900		
Presort Ltr & Pcl	5,489,955	-261,773	5,228,182	130,705	5,358,887		
Total Letters	20,023,176	-186,311	19,836,865	495,922	20,332,787	36,202,695	178.1
Single Piece Cards	579,781	0	579,781	14,495	594,276		
Presort Prvt P Cs	177,127	-4,370	172,757	4,319	177,076		
Total Cards					771,351	1,055,400	136.8
Total First	20,780,064	-190,681	20,589,403	514,735	21,104,138		
Priority Mail	3,348,383	106,325	3,454,708	86,368	3,541,076	5,715,658	161.4
Express Mail	683,467	0	683,467	17,087	700,554	1,060,183	151.3
Mailgrams	857	0	857	21	878	1,136	129.3
Periodicals							
Within County	81,508	0	81,508	2,038	83,546	83,860	100.4
Outside County:					2,342,682	2,349,081	100.3
Reg Rate Pub	1,934,878	-29,306	1,905,572	47,639	1,953,211		
Nonprofit Pub	378,238	-12,137	366,101	9,153	375,254		
Classroom Pub	13,870	0	13,870	347	14,217		
Total Second	2,408,494	-41,443	2,367,051	59,176	2,426,227		
Standard Mail (A)							
Single Piece Rate	0	0	0	0	0		
Commercial Standard							
Enhance Carr Rte	2,533,269	10,934	2,544,203	63,605	2,607,808	5,190,340	199.0
Regular	6,757,998	-250,135	6,507,863	162,697	6,670,560	9,140,285	137.0
Total Commercial	9,291,267	-239,201	9,052,066	226,302	9,278,368		
Aggregate Nonprofit							
Enhance Carr Rte	192,074	1,476	193,550	4,839	198,389	270,995	136.6
Nonprofit	1,416,858	-15,436	1,401,422	35,036	1,436,458	1,554,067	108.2
Total Aggregate Nonprofit	1,608,932	-13,960	1,594,972	39,874	1,634,846		
Total Standard (A)	10,900,199	-253,161	10,647,038	266,176	10,913,214		
Standard Mail (B)							
Parcels Zone Rate	1,123,377	-117,363	1,006,014	25,150	1,031,164	1,190,601	115.5
Bound Prnt Matter	479,838	0	479,838	11,996	491,834	556,307	113.1
Spc 4th-Cl. Rate	321,563	0	321,563	8,039	329,602	337,398	102.4
Library Rate	51,133	0	51,133	1,278	52,411	50,260	95.9
Total Standard (B)	1,975,911	-117,363	1,858,548	46,464	1,905,012		
U S Postal Service	310,179	-310,179	0	0	0		
Free Mail–Blind & Hndc *& Servicemen*	32,885	0	32,885	822	33,707		
Internationl Mail	1,654,027	0	1,654,027	41,351	1,695,378	1,778,972	104.9
Special Services:							
Registry	72,881	-167	72,714	1,818	74,532	94,993	127.5
Certified	431,236	3,183	434,419	10,860	445,280	577,361	129.7
Insurance	76,395	-390	76,005	1,900	77,905	98,689	126.7
COD	16,708	-54	16,654	416	17,070	19,968	117.0
Special Delivery	0	0	0	0	0		
Money Orders	172,055	0	172,055	4,301	176,356	305,333	173.1
Stamped Cards	2,972	0	2,972	74	3,046	8,317	273.0
Stamped Envelopes	10,691	0	10,691	267	10,958	16,041	146.4
Special Handling	1,126	0	1,126	28	1,154		0.0
Post Office Box	568,819	0	568,819	14,220	583,039	800,777	137.3
Other	176,427	-535	175,892	4,397	180,289	419,378	
Total Spc Svcs	1,529,310	2,037	1,531,347	38,284	1,569,631		
Attributable	43,623,796	-804,465	42,819,331	1,070,483	43,889,814		
Other	24,485,993	310,179	24,796,172	619,904	25,416,076	687,847	
Total Costs	68,109,789	-494,286	67,615,503	1,690,388	69,305,890	69,565,932	158.5
Appropriations						67,093	
Investment Income						-20,168	
Prior Year Loss Recovery					311,709		
Total Revenue Requirement					**69,617,599**		
Total Revenue						**69,612,857**	
Test Year After Modification Deficit						**4,742**	

1/ PRC rollforward less Supervisor cost reduction adjustment and field reserve, with new TYAR volumes
2/ PRC Final Adjustments, with new TYAR volumes
3/ *Column (III) = column (I) + column (II)*
4/ Contingency 2.5% of column (III)
5/ Column (V) = column (III) + column (IV)

COST COVERAGE COMPARISONS
(Over Attributable Costs)

	Commission Appendix G	Modification
First-Class Mail		
Total Letters	178.8%	178.1%
Total Cards	133.0%	136.8%
Priority Mail	161.9%	161.4%
Express Mail	151.3%	151.3%
Mailgrams	133.3%	129.3%
Periodicals		
Within County	100.3%	100.4%
Outside County	100.1%	100.3%
Standard Mail		
Regular	137.4%	137.0%
Enhanced Carrier Route	199.4%	199.0%
Nonprofit	107.4%	108.2%
Nonprofit ECR	136.1%	136.6%
Package Services		
Parcel Post	114.9%	115.5%
Bound Printed Matter	113.9%	113.1%
Media Mail	101.9%	102.4%
Library Rate	95.5%	95.9%
International Mail	106.3%	104.9%
Total All Mail	157.6%	157.2%
Special Services		
Registry	131.0%	127.5%
Certified Mail	118.7%	129.7%
Insurance	125.5%	126.7%
COD	118.4%	117.0%
Money Orders	153.4%	173.1%
Stamped Cards	285.0%	273.0%
Stamped Envelopes	147.9%	146.4%
Box/Caller Service	138.6%	137.3%
Total Mail & Services	158.7%	158.5%

ATTACHMENT FOUR

PERCENTAGE RATE CHANGES

	USPS Proposed	PRC Recommended	Governors Modification	Combined Increase
First Class Letters	3.5%	1.8%	1.5%	3.3%
First-Class Cards	5.3%	0.4%	5.1%	5.6%
Priority	15.0%	16.2%	0.9%	17.2%
Express Mail	3.9%	3.6%	1.5%	5.2%
Periodicals				
Within County	8.6%	6.8%	1.6%	8.6%
Regular Rate	13.5%	9.9%	2.6%	12.8%
Nonprofit	11.7%	7.2%	2.4%	9.7%
Classroom	13.8%	9.6%	2.6%	12.5%
Standard Mail				
Regular	9.4%	8.8%	1.4%	10.3%
ECR	4.9%	4.5%	1.3%	5.8%
Nonprofit	6.6%	4.8%	2.5%	7.4%
Nonprofit ECR	14.8%	18.3%	2.0%	20.6%
Package Services				
Parcel Post	2.7%	2.7%	1.6%	4.4%
Bound Printed Matter	17.5%	17.4% 1/	0.8%	18.4%
Media Mail	5.0%	6.3%	1.8%	8.2%
Library Rate	5.0%	4.9%	1.7%	6.6%
Special Services				
Certified	50.0%	35.7% 2/	10.5%	50.0%
Money Orders	8.3%	-4.1%	12.0%	8.3%
Systemwide	6.0%	4.6%	1.6%	6.3%

1/ This figure represents the BPM increase intended to be recommended by the Commission in its first Recommended Decision, and actually recommeded in its second and third Recommended Decision. The rates actually implemented in January represented an approximate increase of 9 percent, and the modification rates represent an approximate actual increase of another 9 percent.

2/ This figure represents the Certified increase initially recommended by the Commission, and actually implemented in January. The fees recommended by the Commission its its second and third Recommended Decisions, the same fees to which we modify, would reflect the 50.0 percent figure.