

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

EXPERIMENTAL PERIODICALS
CO-PALLETIZATION DROPSHIP
DISCOUNTS FOR HIGH EDITORIAL
PUBLICATIONS, 2004

Docket No. MC2004-1

**REQUEST OF THE UNITED STATES POSTAL SERVICE
FOR A RECOMMENDED DECISION ON EXPERIMENTAL
PERIODICALS CO-PALLETIZATION DROPSHIP DISCOUNTS
FOR HIGH-EDITORIAL, HEAVY-WEIGHT, SMALL-CIRCULATION PUBLICATIONS**

UNITED STATES POSTAL SERVICE

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February 25, 2004

Documents relating to this request may be served upon Mr. Foucheaux at the above address.

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(February 25, 2004)**

Pursuant to chapter 36 of title 39, United States Code, the United States Postal Service has determined that an experimental change in the Domestic Mail Classification Schedule (DMCS) would be in the public interest and in accordance with the policies and applicable criteria of that title. The experiment would establish rate categories and discounts for high-editorial, heavy-weight, small-circulation Periodicals mail that is co-palletized and dropshipped. Accordingly, the Postal Service requests the Postal Rate Commission to submit to the Governors of the Postal Service a recommended decision supporting the implementation of the experimental change, as herein requested.

Docket No. MC2002-3 established co-palletization dropship per-piece discounts for Periodicals. This experimental classification was designed to provide an additional incentive for publishers, printers, and consolidators to combine different publications or

print runs on pallets. The objective was to induce Periodicals mail to be moved from sacks to pallets and dropshipped closer to its destination.

These discounts have begun to generate a significant amount of co-palletization. See November 21, 2003 Copalletization Data Collection Report, filed at www.prc.gov under Docket No. MC2002-3. They do not, however, provide an effective incentive for high-editorial publications that are heavy and have low circulation. Such publications get only a small benefit from a per-piece discount, in offsetting the costs of co-palletization (for example, mail handling) and transportation. Moreover, those publications receive little or no benefit from the zone differentials in Periodicals rates, because those differentials apply only to the advertising portion of a publication.

The Postal Service therefore is proposing alternative discounts. These discounts would be available only as an alternative to the existing co-palletization discounts. They would be limited to Periodicals mail that has, at most, 15 percent advertising matter, that weighs at least 9 ounces per copy, that has a mailed circulation of not more than 75,000 copies, and that lacks the density to prepare single-publication pallets. See Direct Testimony of Altaf H. Taufique on Behalf of United States Postal Service (USPS-T-1). The goal is to drive costs out of the Periodicals class by encouraging low-density publications to combine with other publications. Through such combinations, Periodicals mail will migrate from more costly sacks to less costly pallets, and will be dropshipped, saving additional costs.

The proposed discounts are based on the zones skipped as a result of co-palletization and dropshipping. Two levels of discount are proposed, distinguished by depth of container sort and destination entry: ADC (Area Distribution Center) and SCF

(Sectional Center Facility). The proposed discounts are as follows:

<u>Zones Avoided</u>	<u>DADC</u>	<u>DSCF</u>
1 & 2	\$0.008	\$0.014
3	\$0.013	\$0.019
4	\$0.028	\$0.034
5	\$0.050	\$0.056
6	\$0.073	\$0.079
7	\$0.101	\$0.107
8	\$0.125	\$0.131

These discounts reflect conservatively the estimated costs avoided by the amount of worksharing performed by the mailer. The proposed discounted rate categories would be additional options offered to mailers; existing Periodicals classifications and rates, including the current experimental co-palletization discounts, would remain unchanged.¹

In order to maintain consistency with the rates currently in effect, the cost avoidance measures underlying these proposals are estimated using the same cost base, including Test Year, as that underlying the Commission's Periodicals rate recommendations in Docket No. R2001-1. For purposes of this proceeding, the Postal Service's proposals employ the Commission's costing methods, and are supported by the record in Docket No. R2001-1.² The cost avoidance calculations are shown in the

¹ Either the per-piece or the per-pound co-palletization discounts would be available for a particular publication, but not both.

² The Postal Service's use, in this proceeding, of costing methods employed by the Commission in the most recent omnibus rate case is not intended to imply the Postal Service's agreement that the Commission's methods generate the most accurate cost estimates possible. The Postal Service reserves the right to contest particular costing methods in future cases and will continue to advocate improvements in the Commission's methods. For purposes of this case, however, the Commission's current methods are employed in order to place the proposed discounts on a consistent footing

testimony of witness Taufique, who also determines the proposed discounts based upon appropriate passthrough percentages. USPS-T-1 at 12-16; Exhibit USPS-1A.

As demonstrated in the testimony of witness Taufique, the Postal Service's overall revenue position will not be affected materially under the proposed experiment. USPS-T-1 at 18. The Postal Service does not need to make a capital investment to initiate the experiment. The discounts selected are based on conservative cost avoidance estimates, and employ less than full passthroughs. Thus, the proposed experiment creates no appreciable risk of significant, negative financial results or harm to the Postal Service, mailers using the discounts, or other mailers.

By designating this request as an experiment, the Postal Service intends for the Commission to apply its expedited rules of practice and procedure for experimental changes, §§ 3001.67 - 3001.67d of Title 39, Code of Federal Regulations. Among other purposes, the rules pertaining to experimental filings are designed to facilitate the Postal Service's compliance with its statutory duty to "plan, develop, promote, and provide adequate and efficient postal services," 39 U.S.C. § 403(a), by allowing it to expeditiously change classifications and rates as an experiment to test operational feasibility or customer response or other appropriate goals. The experimental rules also contemplate review of proposed experiments in the absence of historical cost, volume, revenue and other data that normally would underlie a request for a permanent change in mail classifications.

This filing is consistent with the logic of the experimental rules. The Postal

with the Periodicals rates currently in effect, and to segregate from this proceeding costing inquiries that would better be pursued in a proceeding of greater scope.

Service lacks data about how much response there will be to a rate incentive for co-palletization focused on high editorial, heavy weight, small circulation publications. During the term of the experiment, more complete data would be gathered, with the potential for supporting a request to establish the proposed or a similar change on a permanent basis. The cost, volume, and revenue analysis used to prepare this filing, and the Postal Service's plans for the collection of additional data, are described in witness Taufique's testimony. USPS-T-1 at 18-20; Exhibit USPS-1A.

The Postal Service proposes that this experimental classification be in effect for two years, which should allow mailers sufficient time to adjust their mailing practices to use the classification. Moreover, this period will provide the Postal Service adequate time to aggregate and fully analyze data collected under the experiment, so that a request for a permanent change in mail classification can be prepared, if the data are determined to support such a request. If such a request is made within the experimental period, the Postal Service asks that the experiment continue until action on that request can be completed, thus avoiding disruption to both mailers and the Postal Service.

The Postal Service also proposes to establish one expiration point for both the per-piece and per-pound experimental co-palletization discounts. This single expiration point is intended to provide the Postal Service enough time to evaluate the effectiveness of both sets of discounts, and make a unified decision whether to make permanent, modify, or terminate both discounts. The proposed expiration point would have the effect of extending the co-palletization discounts resulting from Docket No. MC2002-3.

Finally, in a matter unrelated to the experimental co-palletization proposal, the Postal Service proposes to add a minor clarification to DMCS § 511 to allow sample copies of periodicals to be mailed with parcels using Parcel Post or Bound Printed Matter rates.

The Postal Service believes that the classifications embodied in these proposals will be attractive to mailers and will contribute to the long-term viability of the postal system. The proposed classifications will further the general policies of efficient postal operations and reasonable rates and fees enunciated in the Postal Reorganization Act. *See* 39 U.S.C. §§ 101(a), 403(a), and 403(b). The requested changes also conform to the criteria of 39 U.S.C. §§ 3622(b) and 3623(c). USPS-T-1 at 20-23.

The more flexible and expedited procedures afforded by the experimental rules are appropriate for this proposal. Both the Postal Service and Periodicals mailers share a strong interest in promoting efficiency in Periodicals operations as soon as possible. Flexibility is required because the detailed, conventional data necessary to support a request for a permanent classification change currently are unavailable. The unavailability of these data and the Postal Service's plans for collecting them are further explained in its testimony, its data collection plan (USPS-T-1 at 19-20), its Compliance Statement (Attachment F to this Request), and Statement of the United States Postal Service Concerning Compliance with Filing Requirements and Conditional Motion for Waiver, which accompanies this Request.

In accordance with the Commission's Rules of Practice and Procedure, the Postal Service submits herewith information and data which explain the nature and scope, significance, and effect of the proposed changes. The Postal Service's direct

testimony accompanies this Request. The testimony and exhibit have been marked for identification as shown in Attachment E to this Request.

The instant filing incorporates by reference materials submitted with the Postal Service's Request in Docket No. R2001-1. The Postal Service believes that its submissions comply with the Commission's filing requirements in Rules 54 and 64 of the Rules of Practice and Procedure (39 C.F.R. §§ 3001.54 and 64). Since the Commission may conclude otherwise, the Postal Service is today filing a separate conditional motion for a waiver of the pertinent filing requirements in Rules 54 and 64.

WHEREFORE, the Postal Service requests that the Commission submit a recommended decision in accordance with this Request.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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INDEX OF ATTACHMENTS TO REQUEST, MC2004-1
Experimental Periodicals Co-palletization Dropship Discounts
for High Editorial Publications

Attachment A: Domestic Mail Classification Schedule Language

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Attachment D: Certification

Attachment E: Index of Testimony, Exhibit Title, and Associated Attorney

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**REQUESTED CHANGES IN THE DOMESTIC MAIL CLASSIFICATION
SCHEDULE**

In this Request, the Postal Service asks the Commission to recommend certain changes in the Domestic Mail Classification Schedule (DMCS). The DMCS currently in effect is published on the Postal Rate Commission's website (www.prc.gov). The most recent version is dated October 19, 2003; it includes changes that resulted from the September 11, 2003 Governors' Decision in Docket No. MC2003-2, Experimental Parcel Return Services and those changes arising from the September 1, 2003 expiration of the NetPost Mailing Online experiment. As such, the October 19 version of the DMCS contains all previous changes, including those that arose from the Decision of the Governors of the United States Postal Service on the Opinion and Recommended Decision of the Postal Rate Commission Approving Stipulation and Agreement on Experimental Periodicals Co-Palletization Dropship Discounts, Docket No. MC2002-3 (December 20, 2002).

New changes to the DMCS proposed in this docket are underlined, while language deletions are marked with ~~strike-through~~.

PERIODICALS
CLASSIFICATION SCHEDULE

[Revised Section for Co-palletization Dropship Discounts:]

- 421.50 **Co-palletization Dropship Discounts.** Either a per-piece or a per-pound co-palletization dropship discount (but not both) applies to Outside County subclass nonletter mail qualifying under section 421.49, that is presented on sectional center facility (SCF) or area distribution center (ADC) pallets containing more than one publication, as specified by the Postal Service. The discount is limited to those pieces which could not be prepared on a qualifying pallet under section 421.48 or 421.49, if the mail had been prepared without such combining. The per-pound discounts apply only to editorial pounds, and are also limited to publications that weigh 9 ounces or more, which contain no more than 15 percent advertising matter, and which have a mailed circulation of no more than 75,000 copies per issue. A participating mailer or consolidator must provide pre-consolidation and post-consolidation documentation for all qualifying pieces, as specified by the Postal Service. This section expires the later of:
- a. two years after the implementation date for the revisions to this section specified by the Board of Governors, or
 - b. if, by the expiration date specified in (a), a proposal for a permanent replacement for the co-palletization dropship discounts is pending before the Postal Rate Commission:
 - i. three months after the Commission takes action on such request under 39 U.S.C. § 3624 or, if applicable,
 - ii. on the implementation data for a permanent replacement for the co-palletization dropship discounts.

PACKAGE SERVICES
CLASSIFICATION SCHEDULE

[Revised Section for Sample Periodical in Package Services:]

510 DEFINITION

511 General

Any mailable matter may be mailed as Package Services mail except:

- a. Matter required to be mailed as First-Class Mail;
- b. Regular and Nonprofit Presort category mail entered as Customized Market Mail under section 321.22 and 323.22; and
- c. Copies of a publication that is entered as Periodicals class mail, except:
 - i. copies sent by a printer to a publisher, ~~and except~~
 - ii. copies that would have traveled at the former second-class transient rate. (The transient rate applied to individual copies of second-class mail (currently Periodicals class mail) forwarded and mailed by the public, as well as to certain sample copies mailed by publishers.); and
 - iii. sample copies enclosed or attached with merchandise sent at Parcel Post or Bound Printed Matter rates.

**PERIODICALS
RATE SCHEDULE 421**

OUTSIDE COUNTY (INCLUDING SCIENCE OF AGRICULTURE)

	Postage Rate Unit	Rate
Outside County		
Advertising		
Destinating delivery unit	Pound	\$ 0.158
Destinating SCF	Pound	0.203
Destinating ADC	Pound	0.223
Zones 1 & 2	Pound	0.248
Zone 3	Pound	0.267
Zone 4	Pound	0.315
Zone 5	Pound	0.389
Zone 6	Pound	0.466
Zone 7	Pound	0.559
Zone 8	Pound	0.638
Nonadvertising	Pound	0.193
Science of Agriculture		
Advertising		
Delivery unit	Pound	0.119
SCF	Pound	0.152
DADC	Pound	0.167
Zones 1 & 2	Pound	0.186
Zone 3	Pound	0.267
Zone 4	Pound	0.315
Zone 5	Pound	0.389
Zone 6	Pound	0.466
Zone 7	Pound	0.559
Zone 8	Pound	0.638
Nonadvertising	Pound	0.193
Outside County and Science of Agriculture		
Basic		
Nonautomation	Piece	0.373
Automation letter	Piece	0.281
Automation flat	Piece	0.325
3-Digit		
Nonautomation	Piece	0.324
Automation letter	Piece	0.249
Automation flat	Piece	0.283
5-Digit		
Nonautomation	Piece	0.256
Automation letter	Piece	0.195
Automation flat	Piece	0.226

(Proposed new language is underlined.)

Carrier Route			
Basic	Piece		0.163
High density	Piece		0.131
Saturation	Piece		0.112
Discounts			
Percentage editorial discount	Piece		0.00074
Worksharing discount DDU	Piece		0.018
Worksharing discount DSCF	Piece		0.008
Worksharing discount DADC	Piece		0.002
Worksharing discount pallets	Piece		0.005
Worksharing dropship pallet discount	Piece		0.010
Experimental Discounts			
Co-palletization discounts DSCF			
	Piece		0.010
<u>Zones 1&2 Avoided</u>	<u>Pound</u>		<u>0.014</u>
<u>Zone 3 Avoided</u>	<u>Pound</u>		<u>0.019</u>
<u>Zone 4 Avoided</u>	<u>Pound</u>		<u>0.034</u>
<u>Zone 5 Avoided</u>	<u>Pound</u>		<u>0.056</u>
<u>Zone 6 Avoided</u>	<u>Pound</u>		<u>0.079</u>
<u>Zone 7 Avoided</u>	<u>Pound</u>		<u>0.107</u>
<u>Zone 8 Avoided</u>	<u>Pound</u>		<u>0.131</u>
Co-palletization discounts DADC			
	Piece		0.007
<u>Zones 1&2 Avoided</u>	<u>Pound</u>		<u>0.008</u>
<u>Zone 3 Avoided</u>	<u>Pound</u>		<u>0.013</u>
<u>Zone 4 Avoided</u>	<u>Pound</u>		<u>0.028</u>
<u>Zone 5 Avoided</u>	<u>Pound</u>		<u>0.050</u>
<u>Zone 6 Avoided</u>	<u>Pound</u>		<u>0.073</u>
<u>Zone 7 Avoided</u>	<u>Pound</u>		<u>0.101</u>
<u>Zone 8 Avoided</u>	<u>Pound</u>		<u>0.125</u>

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 pound portion and the advertising pound portion, as applicable.
4. For postage calculations, multiply the proportion of nonadvertising content by this factor and subtract from the applicable piece rate.
5. Advertising pound rate is not applicable to qualifying Nonprofit and Classroom publications containing 10 percent or less advertising content.
6. For a Ride-Along item enclosed with or attached to a periodical, add \$0.124 per copy.

(Proposed new language is underlined.)

7. Experimental discounts expire the later of a) two years after the implementation date for the revisions to DMCS section 421.50 specified by the Board of Governors, or b) if, by the expiration date specified in (a), a proposal for a permanent replacement for the co-palletization dropship discounts is pending before the Postal Rate Commission, then 1) three months after the Commission takes action on such request under 39 U.S.C. § 3624 or, if applicable, 2) on the implementation date for a permanent replacement for the co-palletization dropship discounts.

CERTIFIED FINANCIAL STATEMENTS

The United States Postal Service Certified Financial Statement for the Years Ended September 30, 2003 and September 30, 2002, with reports of independent auditors Ernst and Young, are reprinted in the following pages.

CERTIFICATION

I, William P. Tayman, Jr., Manager, Corporate Financial Planning, United States Postal Service, am familiar with the attached Request of the United States Postal Service for a Recommended Decision on Experimental Periodicals Co-Palletization Dropship Discounts For High-Editorial, Heavy-Weight, Small-Circulation Publications, together with the accompanying direct testimony and exhibit.

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

William P. Tayman, Jr.

INDEX OF TESTIMONIES: DOCKET NO. MC2002-3

WITNESS	TESTIMONY	EXHIBIT		WORKPAPERS	ATTORNEY
		TITLE	NO.		
Mr. Taufique	USPS-T-1	Calculation Of Discounts and Revenue/ Cost Impacts	A	None	David H. Rubin 202-268-2986

Docket No. MC2004-1 Request

ATTACHMENT F

COMPLIANCE STATEMENT

This Attachment contains a statement of the manner in which the Postal Service has supplied the information requested in sections 54, 64, and 67 of the Commission's Rules of Practice and Procedure (39 CFR §§3001.54, 3001.64, and 3001.67). Where information required by these rules is not included in direct testimony or exhibits of the Postal Service's witness, it is contained in the Request or its attachments, or has been incorporated by reference in the Request, testimony, exhibits, or attachments made available to the Commission in Docket No. R2001-1. Alternatively, the pertinent filing requirements should be waived in accordance with the accompanying Statement of the United States Postal Service Concerning Compliance with Filing Requirements and Conditional Motion for Waiver, also filed today.

RULE: 54(a)(1)

REQUIREMENT: This rule requires a description of any changes proposed by the Postal Service in the attribution procedures applied by the Commission in the most recent general rate proceeding in which its recommended rates or fees were adopted. If a request proposes to change the cost attribution principles applied by the Commission in the most recent general rate proceeding in which its recommended rates were adopted, the Postal Service's request shall include an alternate cost presentation satisfying Rule 54(h) that shows what the effect on the Postal Service's request would be if it did not propose changes in attribution principles. If the required information is set forth in the Postal Service's prepared direct evidence, it shall be deemed to be part of the formal request without statement.

Insofar as they apply, the Postal Service incorporates by reference the testimonies and costing presentations submitted with its Request in Docket No. R2001-1.¹ Costing principles and their specific application to the proposed experimental Periodicals co-palletization dropship discounts are discussed in the testimony and supporting documentation of witness Taufique (USPS-T-1).

¹ See Request of the United States Postal Service for a Recommended Decision on Changes in Rates of Postage and Fees for Postal Services and Request for Expedition, Docket No. R2001-1, Attachment G (Sept. 24, 2001). The Compliance Statement in that case provides direction to pertinent testimony and documentation.

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

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

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

1. Present and Proposed Rates, Fee and Classification Schedule Provisions.

Attachment A to this Request includes the proposed changes to Domestic Mail Classification Schedule § 421 for the Periodicals co-palletization dropship discounts.

Attachment B sets forth the proposed additions to Fee Schedule 421 for the Periodicals co-palletization dropship discounts.

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

The rules, regulations, and practices that establish conditions of mailability and standards of service generally are published in the Domestic Mail Manual and are incorporated by reference in 39 C.F.R. § 111.1. The practices of the Postal Service regarding, and the conditions for, the Periodicals co-palletization dropship discounts are

discussed in the testimony of witness Taufique (USPS-T-1). The Postal Service's response to Rule 54(b)(2) should not be construed to admit that the Commission's jurisdiction extends to any of the specified rules, regulations, or practices.

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

With regard to classes of mail and special services generally, and identification of nonpostal services, the Postal Service incorporates by reference the testimony and supporting documentation filed with its Request in Docket No. R2001-1. Substantial information relevant to economic substitutability was included in the testimonies of witnesses Tolley, Thress, and Musgrave (USPS-T-7-9).

The proposed implementation of an experimental classification and fees for the Periodicals co-palletization dropship per-pound discounts is not expected to cause substitution among mail classes or rate categories, or have a significant impact on mail volumes.

If the information and materials cited and incorporated above are deemed insufficient under the Commission's filing requirements, the Postal Service requests that this provision be waived.²

4. Identification of Nonpostal Services

There are no nonpostal services in this request.

² See Statement of the United States Postal Service Concerning Compliance with Filing Requirements and Conditional Motion for Waiver, also filed today.

RULE:54(c)

INFORMATION REQUESTED:

This rule requires "an identification of the characteristics of the mailer and recipient, and a description of the contents of items mailed within the various classes and subclasses of mail and service."

With regard to classes of mail and special services generally, the Postal Service incorporates by reference testimony and supporting documentation submitted with its Request in Docket No. R2001-1. With regard to the proposed experimental Periodicals co-palletization dropship discounts, information responsive to this rule may be found in the testimony of witness Taufique (USPS-T-1).

If the information and materials cited and incorporated above are deemed insufficient under the Commission's filing requirements, the Postal Service requests that this provision be waived.

RULE: 54(d)

INFORMATION REQUESTED:

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

With regard to classes of mail and special services generally, the Postal Service incorporates by reference testimony and supporting documentation submitted with its Request in Docket No. R2001-1. The operations involved in offering the experimental Periodicals co-palletization dropship discounts, including a description of the types of mail affected, are described in the testimony of witness Taufique (USPS-T-1).

If the information and materials cited and incorporated above are deemed insufficient under the Commission's filing requirements, the Postal Service requests that this provision be waived.

RULE:54(e)

INFORMATION REQUESTED:

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

Information responsive to this rule is contained in the Request and supporting materials filed in Docket No. R2001-1 (see Compliance Statement, Rule 54(e)), which are incorporated by reference here. The requirements for the Periodicals co-palletization dropship discounts are described in the testimony of witness Taufique (USPS-T-1) and in the DMM, which is referenced in response to Rule 54(b).

If the information and materials cited and incorporated above are deemed insufficient under the Commission's filing requirements, the Postal Service requests that this provision be waived.

RULE:54(f)(1)

INFORMATION REQUESTED:

This rule requests the submission of "the total actual accrued costs during the most recent fiscal year for which they are reasonably available."

The total actual accrued costs for FY 2002 are presented in the Cost & Revenue Analysis (CRA) Report, on file with the Commission. Operating and other expenses for FY 2002 are contained in the United States Postal Service Annual Report for FY 2002. Operating and other expenses for FY 2003 are contained in the United States Postal Service Annual Report for FY 2003. Copies of these Annual Reports have been filed with the Commission.

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

INFORMATION REQUESTED:

This rule requests:

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

With regard to classes of mail and special services generally, the Postal Service incorporates by reference testimony and supporting documentation submitted with its Request in Docket No. R2001-1. Because of the experimental nature of the discounts being proposed, the Postal Service has not prepared a full analysis of the effects on the Postal Service's total costs in the present fiscal year, or a rollforward analysis in a future test year. Moreover, in light of the relative magnitudes of any costs for the proposed experimental Periodicals co-palletization dropship discounts compared to total costs, estimates for all other mail categories and services will not be materially affected if it is recommended and approved.

If the information and materials cited and incorporated above are deemed insufficient under the Commission's filing requirements, the Postal Service requests that this provision be waived.

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

INFORMATION REQUESTED:

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

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

With regard to estimates pertaining to classes of mail and special services generally, the Postal Service incorporates by reference testimony and supporting documentation submitted with its Request in Docket No. R2001-1. Because of the experimental nature of the discounts being proposed, the Postal Service has not prepared a full analysis of the effects on the Postal Service's total costs and total volumes in the present fiscal year, or a rollforward analysis in a future test year.

If the information and materials cited and incorporated above are deemed insufficient under the Commission's filing requirements, the Postal Service requests that this provision be waived.

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

INFORMATION REQUESTED:

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

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

The Postal Service incorporates by reference the testimony and supporting documentation of witness Tayman submitted with the Postal Service's Request in Docket No. R2001-1. Witness Tayman's testimony presents operating costs and other financial expenses with regard to all existing mail categories and services. Because of the experimental nature of the discounts being proposed, the Postal Service has not prepared a full analysis of the effects on the Postal Service's total costs and total volumes in the present fiscal year, or a rollforward analysis in a future test year.

If the information and materials cited and incorporated above are deemed insufficient under the Commission's filing requirements, the Postal Service requests that this provision be waived.

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

INFORMATION REQUESTED:

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

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

With regard to estimates pertaining to classes of mail and special services generally, the Postal Service incorporates by reference testimony and supporting documentation submitted with its Request in Docket No. R2001-1. Because of the experimental nature of the discounts being proposed, the Postal Service has not prepared a full analysis of the effects on the Postal Service's total costs and total volumes in the present fiscal year, or a rollforward analysis in a future test year.

If the information and materials cited and incorporated above are deemed insufficient under the Commission's filing requirements, the Postal Service requests that this provision be waived.

RULE:54(g)

INFORMATION REQUESTED:

This rule requests historical costs for "each fiscal year since the last filing pursuant to this section" to be submitted "in a form as nearly consistent as possible with the filing under [rule 54(f)], together with explanations of any departures from such form and the effect of such departures."

Operating and other expenses for FY 2002 are contained in the United States Postal Service Annual Report from FY 2002, which has been filed with the Commission. Total and distributed costs for FY 2002 are presented in the Cost & Revenue Analysis (CRA) Report, also on file with the Commission.

RULE:54(h)(1)

INFORMATION REQUESTED:

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

With regard to estimates pertaining to classes of mail and special services generally, the Postal Service incorporates by reference testimony and supporting documentation submitted with its Request in Docket No. R2001-1. These materials discuss separation of costs among domestic, international, and nonpostal services (see Compliance Statement, Rule 54(h)(1)). Because of the experimental nature of the discounts being proposed, the Postal Service has not prepared a full analysis of the effects on the Postal Service's total costs and total volumes in the present fiscal year, or a rollforward analysis in a future test year.

If the information and materials cited and incorporated above are deemed insufficient under the Commission's filing requirements, the Postal Service requests that this provision be waived.

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

INFORMATION REQUESTED:

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

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

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

With regard to estimates pertaining to classes of mail and special services generally, the Postal Service incorporates by reference testimony and supporting documentation submitted with its Request in Docket No. R2001-1. Because of the experimental nature of the discounts being proposed, the Postal Service has not prepared a full analysis of the effects on the Postal Service's total costs and total volumes in the present fiscal year, or a rollforward analysis in a future test year.

If the information and materials cited and incorporated above are deemed insufficient under the Commission's filing requirements, the Postal Service requests that this provision be waived.

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

INFORMATION REQUESTED:

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

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

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

With regard to estimates pertaining to classes of mail and special services generally, the Postal Service incorporates by reference testimony and supporting documentation submitted with its Request in Docket No. R2001-1 (see Compliance Statement, Rule 54(h)(4), (12)). Because of the experimental nature of the discounts being proposed, the Postal Service has not prepared a full analysis of the effects on the Postal Service's total costs and total volumes in the present fiscal year, or a rollforward analysis in a future test year.

If the information and materials cited and incorporated above are deemed

insufficient under the Commission's filing requirements, the Postal Service requests that this provision be waived.

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

INFORMATION REQUESTED:

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

With regard to estimates pertaining to classes of mail and special services generally, the Postal Service incorporates by reference testimony and supporting documentation submitted with its Request in Docket No. R2001-1. Cost estimates for the proposed Periodicals co-palletization dropship discounts have not been developed through the roll-forward process described in those materials. Because of the experimental nature of the discounts being proposed, the Postal Service has not prepared a full analysis of the effects on the Postal Service's total costs and total volumes in the present fiscal year, or a rollforward analysis in a future test year.

If the information and materials cited and incorporated above are deemed insufficient under the Commission's filing requirements, the Postal Service requests that this provision be waived.

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

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

With regard to estimates pertaining to classes of mail and special services generally, the Postal Service incorporates by reference testimony and supporting documentation submitted with its Request in Docket No. R2001-1. The Compliance Statement therein (Rule 54(h)(11)) discusses nonattributed costs generally, and the extent to which they benefit more than one class of mail. Because of the experimental nature of the discounts being proposed, the Postal Service has not prepared a full analysis of the effects on the Postal Service's total costs and total volumes in the present fiscal year, or a rollforward analysis in a future test year.

If the information and materials cited and incorporated above are deemed insufficient under the Commission's filing requirements, the Postal Service requests that this provision be waived.

RULE:54(i)

REQUIREMENT:

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

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

The instant Request proposes only the establishment of experimental discounts for Periodicals co-palletization and dropshipping. The testimonies and exhibits of witness Taufique (USPS-T-1) respond to this Rule. Because of the experimental nature of the discounts being proposed, the Postal Service has not prepared a full analysis of the effects on the Postal Service's total costs and total volumes in the present fiscal year, or a rollforward analysis in a future test year.

If the information and materials cited and incorporated above are deemed insufficient under the Commission's filing requirements, the Postal Service requests that this provision be waived.

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

INFORMATION REQUESTED:

These rules request specification of revenues for certain fiscal years, including the test year. Revenues are to be submitted for

- test year (FY 2003), assuming prefiling (existing) rates and fees;
- test year (FY 2003), assuming proposed rates and fees.

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

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

With regard to estimates pertaining to classes of mail and special services generally, the Postal Service incorporates by reference testimony and supporting documentation submitted with its Request in Docket No. R2001-1. Because of the experimental nature of the discounts being proposed, the Postal Service has not prepared a full analysis of the effects on the Postal Service's total costs and total volumes in the present fiscal year, or a rollforward analysis in a future test year.

If the information and materials cited and incorporated above are deemed insufficient under the Commission's filing requirements, the Postal Service requests that this provision be waived.

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

REQUIREMENT:

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

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

With regard to estimates pertaining to classes of mail and special services generally, the Postal Service incorporates by reference testimony and supporting documentation submitted with its Request in Docket No. R2001-1. Because of the experimental nature of the discounts being proposed, the Postal Service has not prepared a full analysis of the effects on the Postal Service's total costs and total volumes in the present fiscal year, or a rollforward analysis in a future test year.

If the information and materials cited and incorporated above are deemed insufficient under the Commission's filing requirements, the Postal Service requests that this provision be waived.

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

REQUIREMENT:

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

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

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

- alternative values of any parameters with assigned values that are based upon unverifiable judgments.

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

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

With regard to volume projections generally and estimates pertaining to classes of mail and special services, the Postal Service incorporates by reference testimony and supporting documentation submitted with its Request in Docket No. R2001-1. Because of the experimental nature of the discounts being proposed, the Postal Service has not prepared a full analysis of the effects on the Postal Service's total costs and total volumes in the present fiscal year, or a rollforward analysis in a future test year.

If the information and materials cited and incorporated above are deemed insufficient under the Commission's filing requirements, the Postal Service requests that this provision be waived.

RULE:54(k)

INFORMATION REQUESTED:

This rule requests that the Postal Service provide, for FY 2002 and FY 2003 (the two fiscal years immediately preceding the year in which the request is filed), the Balance Sheet, the Statement of Income and Expense, basic statistical information, and the Statement of Income and Expense by budget category. This includes data with respect to the following:

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

In addition, this rule requires that the Postal Service provide a reconciliation of the budgetary information with the actual accrued costs for the most recent fiscal year (FY 2003). If the fiscal information for the immediately preceding fiscal year is not fully available on the date of filing, the Postal Service is required to make a preliminary or pro forma submittal, and file an updated report once the fiscal information is completed.

Financial information for FY 2000 was provided in connection with the Postal Service's Request in Docket No. R2001-1 and is incorporated here. Financial information for FYs 2002 and 2003 has been provided to the Commission in the United States Postal Service Annual Report for FY 2002, and the United States Postal Service Annual Report for FY 2003, both of which have been filed with the Commission. In addition, Cost and Revenue Analysis Reports for FY 2000, FY 2001, and FY 2002 are on file with the Commission.

RULE: 54(l)(i)

REQUIREMENT:

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

With regard to billing determinants pertaining to classes of mail and special services in general, the Postal Service incorporates by reference testimony and supporting documentation submitted with its Request in Docket No. R2001-1. Billing determinants for FY 2002 are on file with the Commission. An explanation regarding the proposed changes in rate design is provided in the testimony of witness Taufique (USPS-T-1).

RULE:54(l)(ii)

REQUIREMENT:

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

The Postal Service incorporates by reference testimony and supporting documentation submitted with its Request in Docket No. R2001-1. This information is not affected by the proposed experimental Periodicals co-palletization dropship discounts.

RULE:54(m)

REQUIREMENT:

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

With regard to mail categories and special services in general, the Postal Service incorporates by reference the materials submitted with its Request in Docket No.

R2001-1. This rule is not applicable to the instant Request, since there are no changes proposed to any preferred subclasses of mail.

Rule: 54(n)

REQUIREMENT:

This Rule requires identification of any performance goals which have been established for the classes and subclasses of mail. The Request is to identify the achieved levels of service for those classes and subclasses of mail and mail services for which performance goals have been set.

The Postal Service incorporates by reference the material filed with the Request in Docket No. R2001-1 (see Compliance Statement, Rule 54(n)).

Rule: 54(o)

REQUIREMENT:

This Rule requires seven sets of workpapers to be filed with the Request.

The required workpapers or their equivalents are supplied as an exhibit to the testimony of the Postal Service witness Taufique (USPS-T-1). Workpapers for testimony filed in Docket No. R2001-1 are on file with the Commission.

Rule: 54(p)

INFORMATION REQUESTED:

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

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

Rule: 54(q)

INFORMATION REQUESTED:

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

An opinion by the independent accounting firm of Ernst & Young covering Fiscal Years 2002 Audited Financial Statements is contained in Attachment C to the Request in Docket No. MC2003-2, and is incorporated here by reference.

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

INFORMATION REQUESTED:

These subsections request, for every classification change proposed:

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

See response to Rule 54(b).

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

INFORMATION REQUESTED:

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

- (1) an identification of the characteristics of the mailer and the recipient, and a description the contents of items mailed within each class and subclass;
- (2) identification of the physical attributes of the items mailed by class and subclass, including shape, weight and distance; and
- (3) to the extent it is not provided under paragraph (b)(2), a summary statement that describes special service arrangements provided to, or requested or required of, mailers by the Postal Service that affect the cost of service or its value to the mailer or recipient.

See response to Rule 54(c), (d) and (e).

Rule: 64(d)

INFORMATION REQUESTED:

This Rule requests that effects of the changes on cost assignments, total costs, and total revenues be provided, on a before and after change basis.

See response to Rule 54(f)(1)-(3), 54(h), and 54(j).

Rule: 64(e)

INFORMATION REQUESTED:

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

This proposal does not involve the reassignment of part of an existing class or subclass of mail.

Rule: 64(f)

INFORMATION REQUESTED:

This Rule requests a complete statement of the reasons and bases for the proposed changes.

The testimony of witness Taufique (USPS-T-1) provides the reasons and bases for the proposed changes.

Rule: 64(g)

INFORMATION REQUESTED:

This Rule sets forth the requested format and filing requisites for workpapers.

See response to Rule 54(o).

Rule: 64(h)

INFORMATION REQUESTED:

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

Compliance with pertinent parts of Rule 54 is explained above in this Compliance Statement. Other pertinent information is provided in the response to this rule in Docket No. R2001-1 and in the testimony and supporting materials filed in that docket. These materials are incorporated by reference. A statement and conditional motion setting forth grounds for waiver of portions of Rule 54, if necessary, accompanies this Request.

In addition to the information required by Rules 54 and 64, Rule 67 establishes specific requirements for experiments. Each requirement is listed below, followed by the response.

RULE: 67(b)(4)

INFORMATION REQUESTED:

The desired duration of the experiment as indicated by the Postal Service in its request and, specifically, in its proposed Domestic Mail Classification Schedule language.

Proposed classification provisions, including the desired duration of the experiment, are provided in Attachment A to the instant Request.

RULE: 67c

INFORMATION REQUESTED:

A plan for data collection including designation of unavailable data called for by ' 3001.64.

A proposed data collection plan for the experiment is addressed in the testimony of witness Taufique (USPS-T-1).