

COMPLIANCE STATEMENT

As with prior rate filings, the Postal Service is submitting a detailed guide to the manner in which it has complied with the basic standards set out in the Commission's rules of practice and procedure. The statement is contained in this attachment, which is organized by each pertinent provision of Rules 53, 54 and 64. Where information required is not included in direct testimony or exhibits of the Postal Service witnesses, it is contained in this or other attachments to the Request, or has been incorporated by reference in the testimony, exhibits, foundational materials, library references, Request, or attachments, and made available to the Commission.

RULE: 53(b – c)

REQUIREMENT: This rule requires the Postal Service to provide a single piece of testimony that presents an overview of the direct case and interrelationships among other witnesses. The Postal Service shall also identify those witnesses who address changes in cost methodology, volume estimation, and rate design as compared with Commission methods in the most recent general rate proceeding.

The requirement for roadmap testimony is met by the testimony of witness Alenier, USPS-T-33. Witnesses who address actual changes in cost methodology, volume estimation and rate design since the last omnibus case are identified by the roadmap testimony, while specifics of those changes are addressed by the respective witnesses.

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

REQUIREMENTS: These Rules require the submission of the schedule of the existing effective rates of postage and fees for all postal service and those rates and fees as proposed to be changed or adjusted. The schedule must

- specify 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;
- be presented in summary fashion and tariff-like form (e.g., there shall be a specification of those rules, regulations and practices which established conditions of mailability and standards of service);
- address such functions as mail pickup and delivery, process, and other similar functions;
- be accompanied by identification of all non postal services.

Attachment A to this Request specifies the present and proposed full rates of postage and fees for postal services, and the fees for special services.

Attachment B incorporates by references the rules, regulations, and practices that establish conditions of mailability and standards of service. 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.

Nonpostal services are discussed later in this statement.

RULE: 54(b)(3)

REQUIREMENT: This Rule requires that the rate and fee schedules required by Rule 54(b)(1) "contain a statement identifying the degree of economic substitutability between the various classes and subclasses, e.g., a description of cross-elasticity of demand as between various classes of mail."

This requirement is satisfied basically by the testimonies of Mr. Thress and Mr. Bernstein. The nature of substitutability is also discussed in the testimony of Ms. Robinson, and in the rate design testimony of Mr. Taufique.

RULE: 54(c)

REQUIREMENT: 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."

The subject matter of this requirement is addressed in the testimonies of Mr. Bernstein, Mr. Thress, Ms. Robinson, and Mr. Taufique.

RULE: 54(d)

REQUIREMENT: This Rule requires "an identification of the physical attributes of the items mailed by class and subclass, including shape, weight, and distance."

This information is available in USPS-LR-K-82, *USPS Origin-Destination Information System-Revenue Pieces & Weight, Quarterly Statistics Reports, Fiscal Year 2004*. Data pertaining to weight and distance are summarized in the testimonies, exhibits and workpapers of Ms. Meehan (USPS-T-9) and Ms. Waterbury (USPS-T-10). Further information describing the various classes and subclasses of mail and special services is contained in the rate and fee design testimony of Mr. Taufique (USPS-T-28).

RULE: 54(e)

REQUIREMENT: To the extent such information is not included within material supplied under Rule 54(b)(2), this Rule requires "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."

Domestic Mail Manual provisions are incorporated by reference in Attachment B. To the extent they might exist, other arrangements and circumstances having a bearing on the cost and value of mail service would be reflected in the testimony and workpapers of Ms. Meehan, Ms. Waterbury, and Ms. Robinson, and may be mentioned in the testimonies and workpapers of witnesses listed in Attachment E for pertinent mail categories.

RULE: 54(f)(1)

REQUIREMENT: This rule requires the Request to present "the total actual accrued costs during the most recent fiscal year for which they are reasonably available."

Mr. Tayman's testimony and exhibits present total actual accrued costs for FY 2004.

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

REQUIREMENT: This rule requires:

- for the year in which the filing is made (FY2005) 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 (FY2005), 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 (FY2006), 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 (FY2006), estimates of the total actual accrued costs of the Postal Service, assuming the proposed rates and fees.

Ms. Waterbury's testimony presents FY2005 estimated total actual accrued costs assuming prefiling rates and fees ("Before-Rates"). Ms. Waterbury's testimony also presents estimated total actual accrued costs for FY 2006, the year which forms the basis for the Postal Service's proposals, assuming prefiling ("Test Year Before Rates") and proposed ("Test Year After Rates") rates and fees.

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

REQUIREMENT: For the estimated total accrued costs specified in this provision, the rule requires 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.

The testimonies of Mr. Thress and Mr. Bernstein explain the methods and procedures by which volumes were estimated. Ms. Waterbury's testimony addresses the effect of projected volume levels on estimated costs. Mr. Tayman's testimony specifies the cost savings resulting from cost reduction programs, which are incorporated in Ms. Waterbury's roll-forward projections. The presence or absence of abnormal costs is addressed in Mr. Tayman's testimony.

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

REQUIREMENT: For the basic cost submissions required in Rule 54(f)(1) and (2), this rule requires a statement and explanation of

- operating costs in detail as to their accounting and functional classifications;
- the cost amounts for depreciation on capital facilities and equipment, debt service, contingencies, and extraordinary or nonrecurring expenses.

These financial data are presented in the testimony and workpapers of Mr. Tayman.

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

REQUIREMENT: For the basic cost submissions required in Rule 54(f)(1) and (2), this rule requires, assignment and distribution of costs to each of the functions comprising "the mail process." This presentation shall include

- an itemization of costs by the major accounts as reflected by the Service's books of accounts 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 accounts are assigned and distributed to functions.

For the development of base year cost estimates, Ms. Meehan's testimony and exhibits provide the itemization, allocation, and distribution of costs for all cost segments, and by function. The costs of particular cost segments are also addressed in the testimonies of Dr. Bozzo, Ms. Van-Ty-Smith, Dr. Bradley, Mr. Nash, Mr. Smith, Mr. Kelley, and Ms. Kay. Data pertaining to "related mail volumes" associated with subfunctions are not produced by Postal Service data systems.

RULE: 54(g)

REQUIREMENT: This rule requires 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."

Actual accrued costs for FY 2001, FY 2002, FY 2003, and FY 2004 are presented in the Cost and Revenue Analysis (CRA) Reports on file with the Commission. Actual accrued costs for FY 2004 are also presented in the testimonies and exhibits of Mr. Tayman and Ms. Meehan, and Ms. Kay.

RULE: 54(h)(1)

REQUIREMENT: This rule requires 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."

International mail costs are separated in Ms. Meehan's (USPS-T-9), Ms. Kay's (USPS-T-18) and Ms. Waterbury's (USPS-T-10) testimony and exhibits.

Costs and revenues for several domestic services which could be considered nonpostal -- such as insurance, C.O.D., and money orders -- are contained in Ms. Meehan's, Ms. Kay's, Mr. Waterbury's, and Ms. Robinson's (USPS-T-27) testimony and exhibits.

The remaining domestic nonpostal services can be split into two groups. One group includes those nonpostal services which involve window clerk activity. Because of that, some of the costs associated with those services are derived from the Postal Service's traditional ratemaking data systems (e.g., IOCS). Other expenses associated with those programs, however, come from accounting data, with no sampling component. For the nonpostal services which involve window clerk activity, total expenses in FY04 were \$123 million, total revenues were \$239 million, and the total contribution to institutional costs was therefore \$116 million.

The other group of nonpostal services includes those services with no associated window clerk activity. For these programs, all of the reported costs are extracted from

¹ The word "nonpostal" is used here in a generic rather than jurisdictional sense. Some special services (such as money orders) have nonpostal aspects.

accounting data. Overall expenses for this group were \$7 million, overall revenues were \$44 million, and overall contribution was thus \$37 million.

Across both groups of nonpostal services, aggregate expenses were \$130 million, and aggregate revenues were \$283 million. Thus, for nonpostal services as a whole (but excluding those such as C.O.D., insurance, and money orders already included in the exhibits of Ms. Meehan, etc.), the difference between costs and revenues of approximately \$153 million reduced the institutional costs borne by postal services by that amount in FY 2004.

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

REQUIREMENT: For the actual and estimated total costs presented for the years specified in Rule 54(f), these rules require 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 required to be set forth in detail.

Ms. Meehan's and Ms. Kay's testimonies, exhibits, and workpapers provide the information required by this rule for FY 2004.² See also the testimonies, exhibits, and workpapers of Ms. Robinson, Ms. Kay, and Ms. Waterbury for information for FY 2004, FY 2005, and the test year.

² The Postal Service interprets this rule in accordance with National Association of Greeting Card Publications v. United States Postal Service, 462 U.S. 810 (1983).

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

REQUIREMENT: This rule applies to the costs identified in Rule 54(h)(2). It requires that these costs be separately attributed to mail classes, subclasses, and special services. It also requires 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 must also be provided.

The methodologies employed by the Postal Service to develop direct and indirect costs are addressed in the testimonies and exhibits of Ms. Meehan, Ms. Waterbury, Ms. Kay, Dr. Bozzo, Ms. Van-Ty-Smith, Dr. Bradley, Mr. Nash, and Mr. Smith. See also the testimony of Ms. Robinson. The effect of volume on costs is also indicated by these testimonies.

Factors identified in this rule in addition to volume, which influence cost incurrence, and which are recognized in the methods of cost analysis employed by the Postal Service, include the following:

- peaking patterns;

- priority of handling;
- mailer preparations;
- quality of service;
- the physical nature of the item mailed;
- cost reduction programs.

These factors are associated with Postal Service cost attributions in the following ways:

1. The cost consequences of peaking patterns in mail processing and other relevant cost segments are reflected in the testimonies of Ms. Meehan, Ms. Waterbury, Dr. Bozzo, and Ms. Van-Ty-Smith.
2. Mail entitled to priority handling often requires manual culling or other selection methods to separate it from the general mailstream. Such selection methods consume time, and the associated labor costs are charged to the affected categories. Also, to the extent priority handling involves a commitment to supply premium cost transportation, such costs are attributed to the mail so transported.
3. Mailer preparation enables the Postal Service to avoid the incurrence of certain costs in the mail processing and transportation functions. The results obtained by the In-Office Cost System (IOCS) and the Transportation Cost System (TRACS), by sampling the types of mail handled at various stages in these functions, reflect differences in costs resulting from mailer preparation. Other estimates of cost differences resulting from mailer preparation are

provided in the testimonies of Dr. Bradley, Ms. Mayes, Mr. Miller, Ms. Moser, Mr. Abdirahman, Ms. Hatcher, Mr. Wesner, Mr. Cutting and Mr. Loetscher.

4. The cost consequences of quality of service are not isolated and quantified separately. They are, nevertheless, included to some extent in the level of costs. For example, the higher costs of air transportation are allocated to the classes and subclasses that benefit from that mode of transportation. Certain other features associated with quality of service, such as freedom from inspection, have no effect on the allocation of costs.
5. The physical nature of the item mailed affects the time consumed in processing mail, the space occupied in transportation, and the facility with which carriers can sort and deliver pieces of mail. The cost consequences of physical characteristics are not isolated and quantified separately in the allocation process, except insofar as particular characteristics are largely associated with particular categories of mail, e.g., cards. These cost consequences are, however, reflected in cost distributions. For instance, incidence of time is affected by weight-density factors, and transportation costs are influenced by weight and cube.
6. The testimony of Mr. Tayman indicates the role of cost reduction programs, including programs designed to improve productive relationships, in development of the Postal Service's overall

revenue requirement. The results of these programs are carried forward in estimates of costs for the test year and attributed to the classes and subclasses of mail in the manner indicated in Ms. Waterbury's and Ms. Kay's testimonies.

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

REQUIREMENT: These provisions generally specify particular items which must 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) require an explanation of the attributable cost final adjustments and the "other services" adjustments.

The items required by this rule are found in the testimony, exhibits, and workpapers of Ms. Waterbury, Mr. Smith, Ms. Moser, and Ms. Kay.

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 requires an explanation as to why such costs cannot be attributed or assigned. It further requires 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 benefited.

Ultimately, all postal costs are either attributed or assigned. The following table identifies institutional costs which benefit more than one, but not all, classes or types of service, in accordance with the following standard: given the permissible shape, weight, method of postage payment, and other characteristics of a type of mail, would pieces of that type of mail likely appear in the operations encompassed by the cost element? If yes, the mail is "benefited."

As a practical matter, nearly all classes and services benefit to some degree from the various institutional costs. In the strict sense, therefore, there are few truly restricted institutional costs in the postal system. For example, Periodicals and Standard Regular mail are not listed as benefiting from clerk window service activities. Yet, these classes are handled by window service clerks at smaller offices. At larger offices, window service clerks may be responsible for accepting fees and trust fund payments relating to Periodicals and Standard Regular mail. Window service activities also include the sale of precanceled stamps, setting of postage meters for use on Standard Regular mail, and general delivery service for all types of mail. Consequently, the fact that a class is not listed as benefiting from a particular cost does not mean that the class is not handled at all in activities for which the particular cost is incurred.

Conversely, the fact that a class is listed as benefiting from a particular cost activity does not mean that a substantial portion of the class benefits, but only that given the characteristics of that class, some pieces of that class will of **necessity** require handlings contained within that cost component.

INSTITUTIONAL COSTS THAT BENEFIT MORE THAN
ONE TYPE OF MAIL BUT NOT ALL TYPES

<u>Type of Cost</u>	<u>Types Primarily Benefited</u>
Segments 2 and 3: Clerks-Window Service plus related supervision, primarily the institutional portion of stamps, and Express Mail.	First-Class Mail, Priority mail, Standard single piece, zone-rated parcels, non-presorted Media Mail, cards and meters rate, library rate,
Segments 6 and 7: City carriers-institutional portion of collection plus related supervision	First-Class Mail, Priority mail, Standard single piece, zone-rated parcels, non-presorted Media Mail, library rate, and Express Mail.
City carriers-institutional portion of parcel delivery plus related supervision	Package Services, free mail for the blind and handicapped, Priority Mail, Express Mail, First-Class Mail. Standard

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 must 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 testimonies and workpapers of Ms. Robinson and Mr. Taufique respond to this rule.

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

REQUIREMENT: These rules require specification of revenues for certain fiscal years, including the test year. Revenues must be submitted for

- FY 2004, assuming prefiling (existing) rates and fees;
- test year (FY 2006), assuming prefiling (existing) rates and fees;
- test year (FY 2006), assuming proposed rates and fees.

The actual and estimated revenues for these years must 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 must be supported by identification of the methods and procedures employed.

Revenues for FY 2004 are provided by Ms. Meehan. Revenues for the test year are provided by Ms. Robinson. These revenue estimates relate to volume and revenues per piece which are presented in the testimony of Mr. Taufique.

FY 2005 revenues at suggested rates and fees are not provided.

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.

Volumes for FY2004 are presented in Ms. Meehan's (USPS-T-9) exhibits.

Volumes for FY 2005 through the test year (FY2006) are provided in the testimonies of Mr. Thress (USPS-T-7) and Mr. Bernstein (USPS-T-8). For purposes of this rule, the Postal Service's forecasts of volumes through FY 2007 are shown in Attachment A to USPS-T-7.

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.

For volume and revenue estimates, and subject to Rule 54(a)(2), the Postal Service must 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
 - o any set of rates and fees within a reasonable range of the prefiled (existing) and the proposed rates,
 - o any date of implementation within the range spanned by the assumed date of implementation and the start of the test year,

- o alternative forecasts of the economic determinants of postal volumes, other than postal rates and fees, and
- o 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 required 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 required econometric demand study.

The material required by this rule is provided in the testimonies of Mr. Bernstein and Mr. Thress, and related library references.

RULE: 54(k)

REQUIREMENT: This rule covers basic financial statement information. It requires the submission, 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. The request must include data with respect to the following:

- Balance Sheet and a supporting schedule for each item appearing thereon;
- Statement of Income and Expense and a supporting schedule for each item appearing thereon;
- 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 (numbers, classes, etc.), and any other pertinent factors which have been utilized in the development of the proposed rate schedule;
- Statement of Income and Expense by cost segment.

A reconciliation of the budgetary information with actual accrued costs must be provided for the most recent fiscal year.

If the fiscal information for FY 2000 (the immediately preceding fiscal year) is not fully available, a preliminary or pro forma submittal must be made, and upon final completion an updated report must be filed.

The data called for by this rule are presented primarily in Mr. Tayman's exhibits, which include a Balance Sheet and related schedule.

Other data for revenue, pieces, weight, and distance are shown in exhibits to Ms. Meehan's testimony, and in material supported by Mr. Loetscher's testimony.

Information concerning postal employees (number, total payroll, productivity) is included in Mr. Tayman's workpapers.

Ms. Robinson's testimony and workpapers furnish other "statistical data" referred to by this rule.

RULE: 54(I)(1)

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 should be explained in detail.

The information required by this rule is found generally in the materials provided by Ms. Robinson and Mr. Taufique.

RULE: 54(I)(2)

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.

See Library Reference USPS-LR-K-87.

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) and 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 should be explained in detail.

The workpapers of Ms. Robinson and Mr. Taufique reflect preferred rate calculations, and incorporate issues related to phasing of rates. See also Attachment A.

There are no phased domestic rates.

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 must identify the achieved levels of service for those classes and subclasses of mail and mail services for which performance goals have been set.

The currently effective service standards for mail are shown below.

**UNITED STATES POSTAL SERVICE
SERVICE STANDARDS**
(ZIP Coded mail only)

Mail Class	Ove r- nigh t	2 nd Day	3 rd Day	4 th Day	5 th Day	6 th Day	7 th Day	8 th Day	9 th Day	10 th Day	Notes
Express Mail											Directories available at local post offices
Priority Mail											Primarily a 2-day product
First-Class Mail											13 ounces or less
Periodicals											Surface preferential
Standard B											See local BMC Manager for Parcel Post standards
Standard A											Mail entered at Destination P&DC has a 2&3 day standard

Achieved levels of performance are shown in the Origin-Destination Information System (ODIS) Quarterly Statistics Reports, filed at the Postal Rate Commission quarterly by

the Postal Service. Copies of the quarterly reports for FY 2004 are filed in this proceeding as USPS Library Reference K-82.

RULE: 54(o)

REQUIREMENT: This rule requires the Postal Service to file workpapers providing detailed descriptions and explanations related to the submissions supporting its Request and proposals.

The required workpapers are supplied with the testimonies of the Postal Service's witnesses.

RULE: 54(p)

REQUIREMENT: This rule requires 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 required certification must be signed by one or more representatives of the Postal Service authorized to make such certification.

The required certification is submitted as Attachment C to this Request.

RULE: 54(q)

REQUIREMENT: This rule requires 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 2003 and 2004 is submitted as Attachment D.

Rule: 64(b)

REQUIREMENT: This rule requires for every classification change proposed

- a statement of the present and proposed classification schedule provisions;
- a specification of the rules, regulations, and practices which establish the conditions of mailability and the standards of service;
- a statement identifying the degree of economic substitutability between the various classes and subclasses;
- an identification of nonpostal services.

1. Present and Proposed Classification Schedule Provisions

The classification provisions are contained in the DMCS. The Postal Service has not proposed any changes in the classifications of mail or special services or the DMCS in this proceeding.

2. Rules, Regulations and Practices

A specification of the rules, regulations, and practices which establish conditions of mailability and the standards of service is found in Attachment B. The Postal Service has not proposed any changes in the classifications of mail, special services or the DMCS in this proceeding.

3. Degree of Economic Substitutability and Identification of Nonpostal Services

The degree of substitutability is addressed and discussed in the testimonies of Ms. Robinson, Mr. Taufique, Mr. Thress, and Mr. Bernstein.

Nonpostal services are identified in the discussion of Rule 54, which is incorporated here by reference.

Rule: 64(c)

REQUIREMENT: This rule requires information on mail characteristics concerning the nature of the items and the methods of mailing, characteristics of the mailer, recipient, and contents of items mailed, physical attributes of the mail, and applicable special service arrangements.

Discussions of the mailers and recipients of mail, the contents of mail, and methods of mailing are contained in the testimonies Ms. Robinson and Mr. Taufique. Physical attributes of mail are addressed in the response to Rule 54(d), incorporated here by reference. Special service arrangements are addressed in sections of this statement responding to Rule 54(b)(2) and Rule 54(e), incorporated here by reference.

Rule: 64(d), (e)

REQUIREMENT: This rule requires that effects of the changes on cost assignments, total cost assignments, total costs and total revenues be provided, on a before and after rates basis.

The Postal Service has not proposed any changes in the classifications of mail or special services or the DMCS in this proceeding.

Rule: 64(f)

REQUIREMENT: This rule requires a complete statement of the reasons and bases for the proposed changes.

The Postal Service has not proposed any changes in the classifications of mail or special services or the DMCS in this proceeding.

Rule: 64(h)

REQUIREMENT: This rule provides that the requirements of Rule 54 apply in certain cases involving classification changes having rates, fee, or total cost change implications.

The Postal Service has not proposed any changes in the classifications of mail or special services or the DMCS in this proceeding.