

USPS-T-27

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

POSTAL RATE AND FEE CHANGES
PURSUANT TO PUBLIC LAW 108-18

Docket No. R2005-1

DIRECT TESTIMONY
OF
MAURA ROBINSON
ON BEHALF OF
THE UNITED STATES POSTAL SERVICE

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1 AUTOBIOGRAPHICAL SKETCH

2 My name is Maura Robinson. I am an Economist in Pricing and
3 Classification and have been employed by the Postal Service since March 1998.
4 During this time, I have worked on issues relating to Priority Mail, First-Class
5 Mail, rate policy, and legislative reform. I have previously testified before the
6 Postal Rate Commission in two dockets. In Docket No. R2001-1, I presented
7 testimony on First-Class Mail rate design, and in Docket No. R2000-1, I testified
8 on the Postal Service's Priority Mail rate proposal.

9 Prior to joining the Postal Service, I worked for the Baltimore Gas and
10 Electric Company from 1992 through 1998. During my last year at BGE, I held
11 the position of Pricing Analyst in the Gas Planning Department. From 1992 to
12 1997, I was a Forecaster with responsibility for preparation of the company's gas
13 system sales and peak forecast used in gas capacity planning.

14 I graduated from the University of Maryland at College Park with a
15 Master's of Arts degree in Economics and also hold Bachelor of Science in
16 Economics and a Bachelor of Arts in French from Iowa State University.

1 I. PURPOSE AND SCOPE OF TESTIMONY

2 My testimony presents the Postal Service's proposed rate and fee levels.

3 Following the precedent used by both the Postal Rate Commission and the

4 Postal Service, the proposed rate and fee levels for each subclass and special

5 service are described in terms of cost coverages (revenue divided by cost), and

6 the proposed rate and fee increases are presented as percentage changes. For

7 each subclass and special service, my testimony describes how the Postal

8 Service's proposed rate and fee levels conform to the ratemaking criteria of the

9 Postal Reorganization Act. 39 USC § 3622(b).

1 II. GUIDE TO TESTIMONY AND SUPPORTING DOCUMENTATION

2 A. Overview of Testimony

3 Section III discusses the unique nature of this filing, which is driven by the
4 Postal Service's decision to recover the escrow obligation established by Public
5 Law 108-18¹ through an across-the-board increase in rates and fees. Section IV
6 discusses, in general, the rate-making criteria set forth in section 3622(b) of the
7 Postal Reorganization Act and explains how the proposed rate and fee levels are
8 consistent with the statutory rate-making criteria.

9 B. Changes in Methodology

10 In brief, the Postal Service proposes an across-the-board rate change with
11 the proposed rates and fees generally increasing by 5.4 percent. The rationale
12 for this approach to rate and fee design is explained in the testimony of Postal
13 Service witness John E. Potter (USPS-T-1) and in Section III below. The rates
14 and fees resulting from this approach are proposed in the testimony of Postal
15 Service witness Altaf H. Taufique (USPS-T-28). Minor exceptions to the across-
16 the-board convention occur due to the imposition of rounding rules (for example,
17 Priority Mail rates are usually rounded to the nearest nickel increment) or to
18 address specific issues in rate or fee design. Witness Taufique details these
19 exceptions in his testimony. In only two instances (Within County Periodicals
20 subclass and Registered Mail), does the Postal Service propose rates or fees
21 that differ substantially from the target 5.4 percent increase.²

¹ The Postal Civil Service Retirement System Funding Reform Act of 2003.

² In addition, a minor adjustment was made to the Periodical Reentry Application fee to ensure that costs were covered.

1 Under the provisions of 39 USC § 3626, the markup for Within County
2 Periodicals is required to be one-half the markup of the Outside County
3 Periodicals subclass. To meet this statutory requirement, the Postal Service is
4 proposing a rate decrease for the Within County Periodicals subclass. See
5 Section III B below. Similarly, because of the level of volume-variable costs for
6 Registered Mail, and the need to cover these costs under the requirements of 39
7 USC § 3622(b)(3), the Postal Service is proposing approximately a 70 percent
8 increase in Registered Mail fees. See Section IV.C below.

9 The across-the-board approach proposed in this docket is in contrast to
10 the approach to rate and fee levels usually taken by the Postal Service and the
11 Postal Rate Commission in prior dockets, where different percentage changes in
12 rates and fees are proposed for the various mail subclasses and special
13 services. See, for example, Docket No. R2001-1, USPS-T-28, USPS-T-36,
14 USPS-T-37, USPS-T-38; and PRC Op. at Appendix G. Witness Potter's
15 testimony in the current docket (USPS-T-1) and Section III below explain the
16 unique circumstances that justify the across-the-board approach here.

17 C. Library References and Supporting Documentation

18 There are seven Exhibits accompanying my testimony which summarize
19 the Postal Service's financial results, both before and after the proposed rate
20 change. The Appendix to this testimony summarizes the "roadmap" referencing
21 sources used. There are no Library References associated with my testimony.

1 III. RATIONALE FOR AN ACROSS-THE-BOARD INCREASE

2 As described in the testimony of Postal Service witnesses Potter (USPS-
3 T-1) and Tayman (USPS-T-6), this filing is a result of the Congressionally-
4 imposed requirement to fund an escrow account under the provisions of Public
5 Law 108-18, the Postal Civil Service Retirement System Funding Reform Act of
6 2003. The monies required to be placed in escrow are not volume-variable or
7 attributable to any subclass or special service and are, therefore, treated as an
8 institutional cost of the Postal Service. USPS-T-13 at Section II.

9 A. Rate Making Criteria

10 While the circumstances underlying this case are unprecedented, the
11 Postal Service and the Postal Rate Commission are still bound by section
12 3622(b) of the Postal Reorganization Act, which lists the nine pricing criteria to be
13 considered in determining postal rate and fee levels. Those criteria are:

- 14 1. the establishment and maintenance of a fair and equitable schedule;
- 15 2. the value of the mail service actually provided each class or type of
16 mail service to both the sender and the recipient, including but not
17 limited to the collection, mode of transportation, and priority of delivery;
- 18 3. the requirement that each class of mail or type of mail service bear the
19 direct and indirect postal costs attributed to that class or type plus that
20 portion of all other costs of the Postal Service reasonably assignable to
21 such class or type;
- 22 4. the effect of rate increases upon the general public, business mail
23 users, and enterprises in the private sector of the economy engaged in
24 the delivery of mail matter other than letters;
- 25 5. the available alternative means of sending and receiving letters and
26 other mail matter at reasonable costs;

- 1 6. the degree of preparation of mail for delivery into the postal system
- 2 performed by the mailer and its effect upon reducing costs to the
- 3 Postal Service;
- 4 7. simplicity of structure for the entire schedule and simple, identifiable
- 5 relationships between the rates or fees charged the various classes of
- 6 mail for postal services;
- 7 8. the educational, cultural, scientific and informational value to the
- 8 recipient of mail matter; and
- 9 9. such other factors as the Commission deems appropriate.

10 39 USC § 3622(b). These criteria are discussed in further detail in Section IV
11 below.

12 As both the Postal Rate Commission and the Postal Service have
13 previously noted, the application of the pricing criteria is not an exercise through
14 which the criteria are applied either formulaically or without consideration of the
15 circumstances underlying the rate proposal.³ Only one criterion – coverage of
16 attributable costs, criterion 3 – is a requirement; all other criteria are judgmentally
17 applied and the circumstances surrounding the rate proposal are considered
18 when evaluating the appropriateness of proposed cost coverages. Most recently,
19 in Docket No. R2001-1, the Postal Rate Commission determined that “unique
20 factual circumstances” surrounding that case warranted a greater reliance on
21 criterion 9 (other factors deemed appropriate by the Commission). While I
22 certainly do not consider the Congressionally-imposed escrow requirement to be
23 equivalent to the 2001 terrorist attacks and use of the mail to transmit anthrax,
24 the escrow requirement is a unique financial circumstance that merits a different

³ See, for example, PRC Op. R2001-1 at 39 ¶ 2056, 41 ¶ 2061; PRC Op. R2000-1 at 197, ¶ 4009; PRC Op. R97-1 at 228, ¶ 4004; PRC Op. R94-1 at IV-16, ¶ 4042; PRC Op. R90-1 at IV-1 – IV-2; PRC Op. R87-1 at 360.

1 approach than has been used in prior omnibus rate cases. Therefore, it is
2 appropriate for the Commission to rely heavily on the statutorily-granted
3 discretion inherent in criterion 9 to accept an unusual pricing proposal that
4 addresses these unique financial circumstances.

5 As the Commission noted in Docket No. R87-1,

6 Proposals to change rates may flow from changes in the level of costs
7 which are found to be attributable to the particular class of mail, or from a
8 decision to alter the institutional burden borne by the subclass.

9 PRC Op. R87-1 at 366 ¶ 4022. The escrow costs that underlie this request are
10 not volume-variable and cannot be found to be “costs . . . attributable to . . . [a]
11 particular class of mail.” Moreover, while considered to be “institutional” –
12 because it is not volume-variable and cannot be ascribed to the provision of a
13 particular mail service – the escrow obligation does not serve a “postal” function.
14 USPS-T-6 at 12. And, as witness Potter explains, absent the escrow
15 requirement, the Postal Service would not currently be proposing a change in the
16 rates and fees and the associated “institutional burden[s] borne by the
17 subclass[es].” USPS-T-1 at 7.

18 Despite this, the escrow requirement cannot be ignored. In evaluating the
19 need for a rate filing, postal management was faced with the question of how to
20 most equitably recover the escrow burden in a circumstance where they would
21 not otherwise be proposing changes in rates and fees. In his testimony, witness
22 Tayman explains that the escrow requirement is unlike any other “expense” that
23 the Postal Service incurs, in that it is unrelated to the provision of postal services.
24 USPS-T-6 at 12. As some commentators have observed, the \$3.1 billion escrow
25 burden is not unlike a “tax” that has been placed on the Postal Service and,

1 ultimately, on its customers.⁴ If the escrow requirement were larger, the Postal
2 Service would be obligated to request a larger increase in rates and fees to
3 generate the larger escrow requirement. Conversely, if the escrow requirement
4 were smaller, the Postal Service would request a smaller increase in rates and
5 fees to generate the smaller escrow requirement. USPS-T-1 at 5. None of these
6 possibilities (the \$3.1 billion escrow or a larger or smaller escrow requirement)
7 would be affected by the volume or mix of mail. The additional revenue required
8 to cover the escrow requirement is, in fact, independent of the volume and mix of
9 mail. While the Postal Service incurs other institutional costs, these other costs,
10 unlike the escrow requirement, are related to the provision of mail services, in
11 that they include the costs of administering the Postal Service, some delivery and
12 network costs, and other costs incurred pursuant to the provision of mail
13 services.

14 Faced with these circumstances, Postmaster General Potter determined
15 that a very reasonable approach to fulfilling the escrow obligation was on a *pro*
16 *rata* basis through an across-the-board rate increase resulting in substantially

⁴ The “tax” metaphor has been widely used within the postal community to describe the CSRS escrow requirement. See, for example, United State Postal Service, Office of the Inspector General, “Memorandum for John E. Potter, Postmaster General, Chief Executive Officer,” Subject: Postal Service’s Funding of the Civil Service Retirement System (Product Number FT-OT-04-002), April 9, 2004 at 2; Alliance of Nonprofit Mailers website <http://www.nonprofitmailers.org/news.html>; Catholic Press Association website <http://www.catholicpress.org/story7.htm>; Coalition of Religious Press Associations website <http://www.theacp.org/PostalAdvocacy.htm>; Mailers Council website http://www.mailers.org/News_Releases/05-1_pr.html; National Association of Postmasters of the United States website http://www.napus.org/govrelations/E-NAPUS_02-11-05.pdf; and, QuadGraphics website http://www.qg.com/whatsnew/postal_news/postal_100804.asp.

1 equal percentage rate changes for all customers. USPS-T-1 at 5. Other
2 allocation methods could also be considered. For example, the escrow obligation
3 could be distributed to each subclass and special service based on the level of
4 attributable costs. However, this method would impose more of a burden on
5 those subclasses with low markups, many of which (like Periodicals or Library
6 Mail) have been granted preferred status under the statute. Conversely, the
7 escrow obligation could be distributed based on the non-escrow-related
8 institutional cost burden paid by a subclass. That would, however, impose an
9 additional burden on subclasses such as First-Class Mail Letters and Sealed
10 Parcels that already pay a substantial share of the Postal Service's institutional
11 costs. Allocating the escrow obligation *pro rata* based on revenue spreads the
12 burden of the escrow requirement equitably and, while all customers will bear the
13 burden of the rate increase, the across-the-board approach will not unduly
14 burden any individual customer or group of customers as compared to other
15 customer groups.

16 While this approach is equitable, given the nature of the escrow
17 requirement, generally an across-the-board approach to rate increases is not
18 used in postal rate requests.⁵ In the absence of the escrow requirement, the
19 Postal Service would have delayed requesting a rate increase and, when such a
20 rate increase were requested, it is likely that a comprehensive review of mail
21 classifications and product markets would have resulted in proposals for
22 classification changes and adjustments to the institutional cost burdens of

⁵ Docket No. R94-1 is the only previous case in which the Postal Service proposed an across-the-board rate change. See Docket No. R94-1, USPS-T-11.

1 individual mail subclasses and special services. While some may view the
2 decision to use an across-the-board approach as a missed opportunity to re-
3 open long-standing debates over rate design, classifications, and costing
4 proposals, this view would inaccurately characterize where we would be now if
5 the escrow obligation did not exist. In the absence of the escrow requirement,
6 there would currently be no omnibus rate case in which the Postal Service was
7 requesting any increases in rates and fees and during which some list of
8 additional rate design and classification proposals were under consideration.
9 The Postal Service currently is proposing rate and fee increases for the sole
10 purpose of raising the revenue required to meet the Congressionally-mandated
11 escrow.

12 B. Other Statutory Considerations

13 In developing this proposal, witness Taufique (USPS-T-28) and I were
14 mindful of statutory rate-making considerations outside of section 3622(b).
15 Specifically, section 3626 establishes requirements for markups, rates and rate
16 relationships between nonprofit subclasses of mail and the closest comparable
17 subclasses of commercial mail. Witness Taufique explains the development of
18 the statutorily-mandated rate relationships between (1) Regular Periodicals
19 subclass and Nonprofit Periodicals and Classroom Periodicals subclasses; (2)
20 Standard Mail Regular subclass and Nonprofit Standard Mail subclass; (3)
21 Enhanced Carrier Route Standard Mail subclass and Nonprofit Enhanced Carrier
22 Route Standard Mail subclass; and (4) Media Mail and Library Mail. USPS-T-28
23 at Sections II; VI.B; VII.B; and VIII.3.B.

1 Also, under section 3626, the Within County Periodicals subclass receives
2 preferential rate treatment through the application of a “markup rule” which
3 requires that the markup for Within County Periodicals be one-half the markup for
4 the Outside County Periodicals subclass. Based on estimated test-year
5 incremental costs, the proposed 5.4 percent reduction in Within County
6 Periodical rates results in a Within County Periodicals markup that is 50.5
7 percent of the Outside County Subclass markup.⁶ See Exhibit USPS-27G.

⁶ The Outside County Periodicals markup is calculated prior to the application of the five percent rate reduction for Nonprofit Periodicals and Classroom Periodicals.

1 IV. GENERAL DISCUSSION OF PRICING CRITERIA

2 This rate proposal is not typical of the proposals that the Postal Service
3 has filed in previous dockets; however, it is consistent with the Postal
4 Reorganization Act's statutory pricing criteria. The Commission and the Postal
5 Service have discussed the typical application of the pricing criteria at length in
6 prior cases. However, because a circumstance similar to the escrow
7 requirement has not arisen in prior omnibus rate filings, I discuss the specific
8 reasons why our across-the-board approach to rate design and the resulting cost
9 coverages are consistent with the pricing criteria below. For ease of reference,
10 the nine pricing criteria are often referred to by their statutory subsection
11 numbers or by an abbreviation, as indicated in Table 1.

Table 1
Pricing Criteria

<u>Criterion</u>	<u>Abbreviated Form</u>
1	Fairness and Equity
2	Value of Service
3	Cost
4	Effect of Rate Increases
5	Available Alternatives
6	Degree of Preparation
7	Simplicity
8	ECSI
9	Other Factors

12 A. Fairness and Equity

13 The first pricing criterion specified in section 3622(b) of the Postal
14 Reorganization Act is that the established schedule be fair and equitable. The
15 Postal Service's proposals in this case have fairness and equity as their most
16 fundamental objectives. Fairness and equity form the framework within which
17 the additional eight criteria are considered, providing a basis upon which to

1 properly balance the sometimes conflicting factors indicated by these other
2 criteria and serving as a check against undue influence by any one of the other
3 criteria.

4 Because it may embody different meanings to customers, competitors and
5 other interested parties, the fairness and equity criterion is perhaps the most
6 subjective. It is the responsibility of the Postal Service to balance the needs and
7 concerns of all parties in accordance with the policies reflected in the Postal
8 Reorganization Act.

9 Many industry observers have suggested that a Congressionally-mandated
10 escrow requirement expense that is not caused by the provision of mail services
11 is unfair and inequitable. Nevertheless, the Postal Service cannot simply ignore
12 its existence. To do so would be a breach of the financial management
13 responsibilities established under the Postal Reorganization Act. Therefore, we
14 are faced with the necessity of apportioning the escrow expense in a fair and
15 equitable manner. Because the escrow expense does not vary with mail volume,
16 and, in fact, is not related to the provision of postal services, it would be
17 unreasonable to propose that any one customer or group of customers bear a
18 disproportionate share of this expense. The proposal to distribute the escrow
19 cost to the various subclasses and special services through a substantially equal
20 across-the-board, 5.4 percent increase in rates and fees is fair and equitable.
21 This approach does not unreasonably burden any group of customers by
22 imposing a higher-than-average rate increase without corresponding changes in
23 attributable costs or other changed circumstances. Some may argue that the

1 across-the-board approach does not truly consider the possibility that
2 circumstances have changed in such a way that it would be fair and equitable to
3 re-evaluate relative cost coverages (outside the effect of the escrow
4 requirement). However, this view ignores the reality that the Postal Service
5 would not have changed rates and fees at all absent the escrow requirement.
6 USPS-T-1 at 2. While the Postal Service proposes, and the Commission
7 recommends, cost coverages based on the facts presented in a specific omnibus
8 case, generally speaking, the resulting rates and fees are not revisited on a
9 periodic basis absent a Postal Service determination that a rate change request
10 is necessary. The reality of changing input prices, productivity and other factors
11 virtually ensures that recommended cost coverages for a test year will not trace
12 precisely the cost coverages that actually result in that year or in any subsequent
13 year prior to a new rate change request.⁷ This result is expected and is not
14 inherently unfair or inequitable.

15 B. Value of Service

16 Subsection 3622(b)(2) instructs that the value of the mail service actually
17 provided to both the sender and the recipient be considered when establishing
18 rate levels, specifically mentioning the following operational aspects of mail
19 service: collection, mode of transportation, and priority of delivery. These
20 operational features provide for a general comparison of the relative levels of
21 service among mail classes and between postal and non-postal alternatives.

⁷ Compare, for example, the recommended cost coverages for test year 2001, PRC Op. R2000-1, Volume 2 at Appendix G, page 1 to actual cost coverages for fiscal year 2001 available on the PRC website under Periodic Reports Data.

1 Other aspects of service that are often considered include the level of privacy
2 afforded by the mail class, the reliability and image associated with the mail
3 class, the presence of features such as free forwarding, and the availability of
4 such ancillary services as insurance or delivery confirmation. Such
5 considerations affect postal customers' perceptions of the value of service they
6 receive from the Postal Service when they use different classes of mail and
7 contribute to what is sometimes referred to as the intrinsic value of a class of
8 mail.

9 Another way to look at value of service is by considering the degree to
10 which usage of the service declines in response to price increases, which is an
11 indicator of what has been referred to as the "economic value of service." The
12 own-price elasticity of demand can be described as the percentage decline in
13 usage (mail volume) that results from a one-percent increase in price: the lower
14 (in absolute value) the own-price elasticity, the higher the value of service.

15 If a small increase in price results in a large volume decline (i.e., demand
16 for the product is highly elastic), it can be inferred that the product has relatively
17 low value due to the ease with which its customers are willing to substitute
18 another product or forgo the use of the product altogether. A small response to a
19 price change indicates that customers value the product highly and do not pursue
20 substitutes as readily. The presence of a monopoly or the lack of reasonable
21 alternatives may reduce the measured price elasticity. Therefore, such
22 conditions should be considered when using the own-price elasticity to evaluate
23 value of service.

1 The long-run elasticities estimated by witness Thress (USPS-T-7) are
2 summarized in Table 2.

Table 2
Long-Run Own-Price Demand Elasticities

First-Class Mail Letters and Sealed Parcels	
Single-Piece	-0.175
Presorted	-0.329
First-Class Mail Cards	-0.376
Priority Mail	-1.004
Express Mail	-1.470
Periodicals	
Within County	-0.235
Nonprofit and Classroom	-0.237
Regular	-0.193
Standard Mail	
Regular	-0.267
Enhanced Carrier Route	-1.093
Nonprofit and NECR	-0.319
Package Services	
Parcel Post: Nondestination Entry	-0.382
Parcel Select	-1.351
Media and Library Mail	-0.796
Bound Printed Matter	-0.604

Source: USPS-T-7

3 An additional consideration is the availability of alternative services which
4 have features valued by customers, but which are not available in the
5 comparable postal services. For example, one postal service may be of higher
6 value than another postal service in terms of delivery standards or access to
7 collection or air transportation, but may lack the reliability or service features
8 offered by a similar service provided by a postal competitor.

1 C. Cost

2 This criterion has been considered the most objective of the nine pricing
3 criteria, specifying that each class of mail must at least bear the direct and
4 indirect postal costs attributed to that class. As in previous dockets, the Postal
5 Service is presenting information regarding the estimated incremental costs for
6 each class and subclass of mail. Witness Kay (USPS-T-18) explains in her
7 testimony that incremental costs represent an accurate measure of the total cost
8 caused by a product. Witness Kay provides estimated incremental costs which
9 are used to test whether the Postal Service's proposed rate levels result in
10 revenue that will cover incremental costs and thus, preclude cross-subsidy. See
11 Exhibit USPS-27E.

12 For Registered Mail, the criterion 3 cost coverage considerations
13 outweighed the determination that an across-the-board 5.4 percent increase was
14 appropriate.⁸ Estimated unit costs attributable to Registered Mail have increased
15 substantially since the Postal Service's Docket No. R2001-1 filing, resulting in a
16 60.6 percent cost coverage in the test-year-before rates.⁹ By any standard, this
17 increase is large and it is well outside the range of cost increases for other
18 subclasses or special services. However, criterion 3 dictates that fees be
19 proposed that at least cover attributable costs which are measured by

⁸ The proposed average fee change for Periodicals Applications Fees, in total, is also above 5.4 percent due to the need to cover costs in conjunction with a five dollar rounding constraint on the fee.

⁹ Test-year 2003 estimated unit costs for Registered Mail were \$7.70. USPS-T-36 WP 11 at 6. In this docket, estimated before rates unit costs for Registered Mail are \$17.41 (Exhibit USPS-27F at 6); this is a 126 percent increase over the Docket No. R2001-1 estimate.

1 incremental costs in the Postal Service's presentation. Accordingly, I am
2 proposing that Registered Mail fees increase approximately 70 percent to ensure
3 that the fees for Registered Mail cover their incremental costs. The resulting cost
4 coverage is 102.8 percent. Clearly, rate increases of this magnitude are
5 undesirable, even with such a clear justification as the need to cover costs.
6 Postal Service management did not reach the decision to increase Registered
7 Mail fees by over 70 percent lightly, and intends a comprehensive re-evaluation
8 of the processes and procedures used in providing Registered Mail. To facilitate
9 this review, it is my understanding that management would recommend to the
10 Board of Governors that, if a 70 percent increase in Registered Mail fees were
11 recommended by the Commission and approved by the Governors, that
12 implementation of the increased fees be deferred to facilitate operational
13 adjustments or re-design of the service if they were found to be needed. In
14 addition, deferred implementation will provide a measure of protection against a
15 large rate increase for Registered Mail customers. USPS-T-1 at 6-7. While the
16 results of any subsequent study may show that the 70 percent fee increase is
17 appropriate, a deferred implementation strategy will allow management to take a
18 second look before implementing such a large increase.

19 D. Effect of Rate Increases

20 This criterion provides for consideration of the effect of rate increases on
21 both mailers and private-sector competitors of the Postal Service. For mailers,
22 useful indicators of the effect of rate increases include comparisons of the
23 percentage rate increase for their class of mail relative to other classes of mail, to
24 the system average, to the general rate of inflation and to increases they have

1 incurred in the past. Because, in this case, the Postal Service is proposing that
2 rates and fees for all postal products and services increase by approximately the
3 same amount – 5.4 percent – the effects of the rate increase on the postage
4 rates paid by a wide range of customers will be substantially equal. However,
5 the ultimate effect on individual customers may not be the same; some may
6 adjust volume by more or less depending on the options available. Public Law
7 108-18 does not differentiate between customers in the imposition of the escrow.

8 The effect of postal rate changes on customers is also mitigated by the
9 length of time since the last rate change. Consistent with the sense of Congress
10 expressed in Public Law 108-18, the Postal Service has held rates and fees
11 constant since the Docket No. R2001-1 implementation in June, 2002. Given the
12 general rate of inflation in the economy over the subsequent period, even with
13 the proposed 5.4 percent increase, postal rates and fees will have increased by
14 less than the rate of inflation over the same period.

15 Criterion 4 also requires consideration of effect of proposed rate increases
16 on competitors, to ensure that no particular set of proposed rates or fees was
17 designed with the specific goal of harming a competitor or group of competitors.
18 This is consistent with the Postal Service’s objective to avoid unfair price
19 competition. The incremental cost test used by the Postal Service ensures that
20 rates for all products adequately cover costs and that these products or services
21 are not being cross-subsidized by other postal services or products. In addition,
22 the substantially equal rate changes mean that products with relatively more
23 competitive alternatives have received the same rate treatment as products with

1 relatively fewer competitive alternatives. While criterion 4 does not imply that
2 competitive products should always be afforded the same rate treatment as less
3 competitive products, in this case, it is an indication that the Postal Service has
4 endeavored to propose a rate change that does not unduly harm its competitors.

5 E. Available Alternatives

6 This criterion requires the consideration of the availability, at reasonable
7 cost, of alternate means of sending and receiving mail matter. For some
8 categories of mail matter or service, the alternatives may be direct substitutes for
9 postal services, such as private-sector providers of expedited or package
10 delivery services or delivery of advertising matter by alternate delivery systems.
11 For other categories of messages or materials delivered through the mail, the
12 alternatives may include other media, such as newspapers, radio, and television
13 for the delivery of advertising messages, and the various electronic alternatives
14 for First-Class Mail and some applications of Periodicals and Standard Mail.
15 Once again, Public Law 108-18 has not differentiated customers on the basis of
16 the number of available alternatives.

17 F. Degree of Preparation

18 Criterion 6 addresses the degree to which the mailer has prepared the mail
19 before entering it into the postal system and the effect of this preparation on
20 postal costs. Typically, this criterion plays an immediate and direct role at the
21 level of rate design within each subclass, with increases in the degree of
22 complexity within a rate schedule (due to the introduction of discounts for
23 customer preparation of mail) being weighed against the general preference for
24 simplicity (criterion 7).

1 The more highly-prepared the mail, the lower the postal cost attributed to
2 that category of mail. The lower the costs attributed to a category of mail, the
3 lower the cost base to which the rate level is applied. If the same cost coverage
4 is assigned to two categories of mail differing only in the degree to which the
5 mailer has prepared the mail, the more highly-prepared mail would have a lower
6 unit contribution. Thus, as the degree of preparation increases over time, all else
7 equal, the coverage required to obtain the same contribution also increases.
8 This has implications for the system-wide cost coverage, as well, given that
9 institutional costs must, nevertheless, be recovered from postage and fees
10 charged for postal services. Worksharing removes attributable costs but leaves
11 institutional costs unchanged. Thus, as the overall level of worksharing
12 increases, the percentage of total cost that is attributable can be expected to
13 shrink and the required system-average cost coverage will increase, all else
14 equal.

15 As witness Taufique (USPS-T-28) explains, the across-the-board approach
16 does not use the same approach to rate design that is traditionally employed. In
17 addition, this approach has deferred consideration of classification changes that
18 may affect customers' options to change the degree of preparation of their mail.

19 G. Simplicity

20 The seventh criterion points to the desirability both of simplicity in the rate
21 schedule as a whole and of simple, identifiable relationships between different
22 rates and fees. The implications of this criterion must be balanced both with
23 criterion 1, that the rate and fee design be fair and equitable; and with criterion 6,
24 which requires consideration of the degree of mailer preparation.

1 Over time, efforts to reflect the various degrees of mail preparation have
2 increased the complexity of rate schedules for bulk-entered mail. However,
3 technically sophisticated mailers commonly use computers and software in the
4 preparation and rating of bulk-entered mail. These mailers have been willing to
5 accept a greater degree of complexity in rate schedules to pay rates that more
6 directly reflect the worksharing they have performed. For mail classes used
7 primarily by the general public, however, simple rate schedules and
8 understandable relationships may be more important than the ability to reflect
9 complex cost structures in rate designs.

10 The seventh criterion, as was true of the sixth criterion, is most
11 immediately reflected in the rate design. It calls for simple, identifiable
12 relationships between the rates charged for various postal services. The Postal
13 Service and the Commission have adjusted rate schedules in the past to ensure
14 that, for example, the rate for a piece of Express Mail of a particular weight and
15 origin-destination pair was higher than the Priority Mail rate for a similar piece
16 and the Priority Mail rate was, in turn, higher than the Parcel Post rate for the
17 same piece. In fact, this requirement led to a minor modification in a Priority Mail
18 rate in this case, as described by witness Taufique. USPS-T-28 at Section IV.B.
19 In general, classes in which rates vary by weight or by distance exhibit increases
20 in rates as distance or weight increases, a pattern that customers without
21 knowledge of the underlying cost structure would view as reasonable. The
22 across-the-board approach does not change the degree of complexity of the rate

1 schedule and maintains the rate relationships that were previously deemed to be
2 reasonable.

3 H. ECSI

4 The final specified criterion directs that the educational, cultural, scientific,
5 and informational (ECSI) value to the recipient be considered when determining
6 rate levels for each type of mail. In the past, the Commission has acknowledged
7 the relatively high ECSI value for First-Class Mail Letters, Regular Periodicals,
8 Media Mail and, to some degree, Bound Printed Matter when setting rate levels.
9 The Commission's and the Postal Service's relative evaluations of the ECSI
10 value of various subclasses have been incorporated into the current (Docket No.
11 R2001-1) rates and fees. If maintenance of the relative ECSI relationships were
12 the only consideration in rate design, an across-the-board approach might well
13 be the simplest manner to preserve the ECSI relationships reflected in the
14 current rate design.

15 I. Other Factors

16 In addition to the eight criteria specified in the Act, a final criterion provides
17 for the consideration of any other factors not specified that may be deemed
18 appropriate by the Commission in setting rate levels. Criterion 9 grants the
19 Commission discretion to use its rate-making expertise to develop the best
20 responses to unforeseen variables that could affect postal prices. I doubt that
21 that Congress in 1970 foresaw the imposition of the escrow requirements
22 embodied in Public Law 108-18 and its potential effect on the Postal Service and,
23 ultimately, on the Postal Service's customers. However, the inclusion of criterion
24 9 indicates that Congress did foresee that, at some future time, the Postal Rate

1 Commission would be required to address factors that cannot be subsumed in
2 the other specifically enumerated ratemaking criteria. The escrow requirement is
3 such a factor. In an ideal world, we would not be before the Commission with
4 this request; however, to maintain the financial integrity of the Postal Service, the
5 Board of Governors is proposing a response to the Postal Service's escrow
6 obligation that is fair, equitable and consistent with the statutory pricing criteria.

7 In evaluating the cost coverages, rates and fees resulting from this
8 proposal, it is useful to consider them within the context of the results of prior
9 Commission recommended decisions. Over thirty years of postal rate-making
10 have resulted in the current rates and fees; therefore, these rates and fees
11 embody a cumulative evaluation of the rate-making criteria and the relative
12 weightings of each of these criteria. The Postal Service generally does not
13 support the mechanistic application of a pre-determined cost coverage or markup
14 index, regardless of whether it is based on actual results for previous years or on
15 determinations in previous omnibus cases of the appropriateness of relative
16 markups across subclasses and special services. This is in particular deference
17 to criterion 4 which requires that the effect of rate increases on mailers be
18 considered, as well as to the requirement that the proposed rate and fee levels
19 balance the full set of pricing criteria. However, markup indices can provide an
20 indication of the relative changes in cost coverages and changing institutional
21 cost burdens from docket to docket. As shown in Table 3 below, the markup
22 indices resulting from this across-the-board rate proposal are generally similar in
23 relative magnitude to those developed in Docket No. R2001-1 proposal.

**Table 3
Comparison of Markup Indices**

	R2005-1 USPS Proposed	R2001-1 USPS Proposed	R2001-1 PRC Recommended
All Mail and Special Services	1.000	1.000	1.000
First-Class Mail			
Letters	1.469	1.427	1.420
Cards	0.781	0.748	0.658
Priority Mail	0.639	0.940	0.919
Express Mail	1.014	1.645	1.296
Periodicals			
Within County	0.049	0.060	0.004
Outside County	0.100	0.109	0.021
Standard Mail			
Regular and Nonprofit	0.674	0.589	0.542
ECR and NECR	1.631	1.500	1.560
Package Services			
Parcel Post	0.287	0.199	0.218
Bound Printed Matter	0.356	0.361	0.373
Media and Library Mail	0.011	0.190	0.148
Special Services	0.747	0.676	1.019

1 As the both the cost coverages and the markup indices show, most of the relative
2 relationships resulting from the prior docket are maintained. For instance, the
3 First-Class Mail Letters subclass, which has a relatively high value of service,
4 has a high markup index and a high cost coverage as compared to Parcel Post
5 which has a lower value of service. In these unusual circumstances, and
6 keeping in mind that the Postal Service would not be changing the currently
7 effective markup indices or cost coverages absent a need to recover the escrow
8 costs, we can reasonably conclude that the proposed cost coverages are
9 consistent with the Commission's recommendations in Docket No. R2001-1.

1 **APPENDIX: ROADMAP**

2 In preparing my testimony, I relied on the results presented in the
3 testimony of the following witnesses.

4 John Potter (USPS-T-1) explains the policy rationale for the proposed rate
5 design and consequently, the proposed rate and fee level. As explained by
6 witness Potter, unlike in typical omnibus rate cases, the Postal Service is
7 proposing a 5.4 percent across-the-board rate increase. Section IV of my
8 testimony explains why this approach and the resulting cost coverages meet the
9 statutory rate making requirements.

10 William Tayman (USPS-T-6) presents the Postal Service's projected
11 revenue requirement for the test year. As shown in my Exhibit USPS-27B, the
12 revenue resulting from the proposed rate and fee levels will enable the Postal
13 Service to financially break even in the test year. In addition, witness Tayman
14 has provided estimates of other income, appropriations, and investment income.
15 USPS-LR-K-50 at Chapter X. I use these estimates in preparing the financial
16 summary in Exhibit USPS-27A and Exhibit USPS-27B.

17 Lillian Waterbury (USPS-T-10) has prepared roll-forwards of costs to the
18 test year under both the current rate and fee schedules and the proposed rate
19 and fee schedules (respectively, test-year-before-rates: TYBR and test-year-
20 after-rates: TYAR) by subclass including cost estimates for certain special
21 services. USPS-T-10, WP B and WP C. I use these test year cost estimates in
22 conjunction with witness Taufique's revenue estimates (USPS-T-28) to calculate

1 cost coverages for the test-year-before rates and the test-year-after-rates.
2 Exhibit USPS-27A and Exhibit USPS-27B.

3 Nancy Kay (USPS-T-18) presents test-year incremental costs. (USPS-T-
4 18 at Table 1A. I use these estimates to demonstrate that the Postal Service's
5 proposed rates and fees cover attributable costs as measured by incremental
6 costs. Exhibit USPS-27E.

7 Jatona Hatcher (USPS-T-22) has prepared cost estimates for Business
8 Reply Mail and Permits. USPS-LR-K-39, Section II. I used these test-year cost
9 estimates in calculating cost coverages for these products for the test-year-
10 before rates and the test-year-after-rates.

11 Ann Moser (USPS-T-23) has prepared cost estimates for Address
12 Correction Service, Caller Service, Certificate of Mailing, Mailing List Services,
13 Periodicals Application Fee, Stamped Cards and Envelopes, Restricted Delivery,
14 Insurance, and Money Orders. USPS-LR-K-59. I used these test-year cost
15 estimates in calculating cost coverages for these products for the test-year-
16 before rates and the test-year-after-rates. Exhibit USPS-27F.

17 Karl Wesner (USPS-T-24) has prepared cost estimates for Delivery
18 Confirmation, Signature Confirmation, and Return Receipts. USPS-LR-K-60. I
19 used these test-year cost estimates in calculating cost coverages for these
20 products for the test-year-before rates and the test-year-after-rates. Exhibit
21 USPS-27F.

22 Virginia Mayes (USPS-T-25) has prepared cost estimates for Bulk Parcel
23 Return Service. USPS-LR-K-89. I used these test year cost estimates in

1 calculating cost coverages for this product for the test-year-before-rates and the
2 test-year-after-rates. Exhibit USPS-27F.

3 Altaf Taufique (USPS-T-28) designed the proposed rates and fees and
4 has calculated the associated revenues for the test-year before and after rates.
5 Exhibit USPS-28A at Table 11 and 12. I use these test year revenue estimates
6 in conjunction with witness Waterbury's (USPS-T-11) test year cost estimates to
7 calculate cost coverages for both the test-year-before-rates and test-year-after-
8 rates (Exhibit USPS-27A, Exhibit USPS-27B); and to calculate the percentage
9 change in rates and fees shown in Exhibit USPS-27C.

**Summary of Estimated Test Year Before Rates Finances
Revenue and Volume Variable Cost
(Dollars in Thousands)**

Description	Volume Variable	Revenue	Revenue as	Revenue Minus
	Cost		as Percent	Volume
	(1)	(2)	(3) = (2) / (1)	(4) = (2) - (1)
First-Class Mail				
Single-Piece Letters and Sealed Parcels	11,107,160	19,736,771	177.7%	8,629,610
Presort and Automation Letters	4,720,891	14,769,430	312.9%	10,048,539
Total Letters	15,828,051	34,506,201	218.0%	18,678,150
Single-Piece Cards	536,003	612,817	114.3%	76,814
Presort and Automation Cards	191,881	561,409	292.6%	369,528
Total Cards	727,884	1,174,226	161.3%	446,342
Total First-Class Mail	16,555,935	35,680,427	215.5%	19,124,491
Priority Mail	2,947,777	4,390,595	148.9%	1,442,818
Express Mail	460,594	830,784	180.4%	370,190
Mailgrams	262	578	220.3%	316
Periodicals				
Total Within County	65,191	71,998	110.4%	6,807
Nonprofit		332,754		
Classroom		16,927		
Regular-Rate		1,772,611		
Total Outside County	2,054,221	2,122,291	103.3%	68,071
Total Periodicals	2,119,411	2,194,289	103.5%	74,878
Standard Mail				
Regular		12,266,201		
Nonprofit		1,666,581		
Total Regular and Nonprofit	9,189,021	13,932,782	151.6%	4,743,760
Enhanced Carrier Route		5,623,096		
Nonprofit Enhanced Carrier Route		308,823		
Total ECR and NECR	2,560,555	5,931,918	231.7%	3,371,363
Total Standard Mail	11,749,576	19,864,700	169.1%	8,115,123
Package Services				
Parcel Post	1,052,665	1,224,163	116.3%	171,499
Bound Printed Matter	505,779	631,499	124.9%	125,721
Media Mail		361,267		
Library Mail		31,530		
Subtotal - Media and Library	409,398	392,797	95.9%	(16,601)
Total Package Services	1,967,841	2,248,460	114.3%	280,618
Free-for-the-Blind	43,751	0	0.0%	(43,751)
Total Domestic Mail	35,845,149	65,209,832	181.9%	29,364,684
International Mail	1,440,530	1,784,312	123.9%	343,782
Total All Mail	37,285,679	66,994,144	179.7%	29,708,466
Special Services				
Registry	69,450	42,109	60.6%	(27,341)
Certified Mail	441,799	648,934	146.9%	207,135
Insurance	69,284	85,296	123.1%	16,011
COD	7,719	9,985	129.4%	2,266
Money Orders *	130,464	233,841	179.2%	103,377
Stamped Cards	1,340	1,807	134.8%	467
Stamped Envelopes	12,778	15,770	123.4%	2,992
Box/Caller Service	644,908	832,629	129.1%	187,721
Other	177,869	589,017		411,148
Total Special Services	1,555,611	2,459,388	158.1%	903,776
Total Mail & Services	38,841,290	69,453,532	178.8%	30,612,242
Other Costs	34,395,781			
Other Income		495,938		
Prior Years Loss Recovery	0			
Appropriations		222,837		
Investment Income *		22,903		
Grand Total	73,237,071	70,195,210	95.8%	(3,041,861)

* Money order revenues include interest of \$8,093 not included in investment income.

Source: Volume Variable Costs: USPS-T-10, WP B; Revenues: Exhibit USPS-28A at Table 11.

Other income, appropriations, investment income: USPS-LR-K-50 at Chapter X.

**Summary of Estimated Test Year After Rates Finances
Revenue and Volume Variable Cost
(Dollars in Thousands)**

Description	Volume Variable	Revenue	Revenue as	Revenue Minus
	Cost		Percent	Volume
	(1)	(2)	(3) = (2) / (1)	(4) = (2) - (1)
	Cost	Revenue	of Cost	Variable Cost
First-Class Mail				
Single-Piece Letters and Sealed Parcels	10,985,132	20,518,734	186.8%	9,533,601
Presort and Automation Letters	4,635,002	15,382,830	331.9%	10,747,828
Total Letters	15,620,135	35,901,564	229.8%	20,281,429
Single-Piece Cards	529,437	631,885	119.4%	102,448
Presort and Automation Cards	189,068	582,778	308.2%	393,710
Total Cards	718,505	1,214,663	169.1%	496,158
Total First-Class Mail	16,338,640	37,116,227	227.2%	20,777,587
Priority Mail	2,805,045	4,389,621	156.5%	1,584,575
Express Mail	439,794	833,853	189.6%	394,059
Mailgrams	263	609	232.0%	347
Periodicals				
Total Within County	66,175	69,044	104.3%	2,869
Nonprofit		347,683		
Classroom		17,670		
Regular-Rate		1,862,165		
Total Outside County	2,046,363	2,227,517	108.9%	181,153
Total Periodicals	2,112,538	2,296,560	108.7%	184,022
Standard Mail				
Regular		12,806,168		
Nonprofit		1,747,184		
Total Regular and Nonprofit	9,119,123	14,553,352	159.6%	5,434,229
Enhanced Carrier Route		5,732,114		
Nonprofit Enhanced Carrier Route		325,321		
Total ECR and NECR	2,481,440	6,057,435	244.1%	3,575,995
Total Standard Mail	11,600,563	20,610,787	177.7%	9,010,224
Package Services				
Parcel Post	993,929	1,245,602	125.3%	251,673
Bound Printed Matter	513,071	674,652	131.5%	161,581
Media Mail		378,525		
Library Mail		33,063		
Subtotal - Media and Library	407,495	411,587	101.0%	4,092
Total Package Services	1,914,495	2,331,842	121.8%	417,347
Free-for-the-Blind	43,829	0	0.0%	(43,829)
Total Domestic Mail	35,255,167	67,579,499	191.7%	32,324,332
International Mail	1,416,017	1,839,768	129.9%	423,752
Total All Mail	36,671,184	69,419,267	189.3%	32,748,084
Special Services				
Registry	65,313	67,126	102.8%	1,814
Certified Mail	437,028	669,146	153.1%	232,118
Insurance	68,315	87,781	128.5%	19,467
COD	7,637	10,402	136.2%	2,765
Money Orders *	129,506	240,841	186.0%	111,334
Stamped Cards	1,327	1,789	134.8%	462
Stamped Envelopes	12,789	16,488	128.9%	3,699
Box/Caller Service	639,965	850,649	132.9%	210,684
Other	<u>178,026</u>	<u>611,728</u>		<u>433,702</u>
Total Special Services	1,539,905	2,555,951	166.0%	1,016,046
Total Mail & Services	38,211,089	71,975,219	188.4%	33,764,130
Other Costs	34,400,062			
Other Income		495,418	189.7%	
Prior Years Loss Recovery	0			
Continuing Appropriations		222,837		
Investment Income *		29,699		
Grand Total	72,611,151	72,723,173	100.2%	112,021

* Money order revenues include interest of \$8,021 not included in investment income.

Source: Volume Variable Costs: USPS-T-10, WP C; Revenues: Exhibit USPS-28A at Table 12.

Other income, appropriations, investment income: USPS-LR-K-50 at Chapter X.

Summary of Revenues
Interim Year
FY 2005

Description	<u>FY 2005 Revenues</u>
First-Class Mail	
Single-Piece Letters and Sealed Parcels	20,321,005
Presort and Automation Letters	14,942,433
Total Letters	35,263,438
Single-Piece Cards	612,977
Presort and Automation Cards	549,958
Total Cards	1,162,935
Total First-Class Mail	36,426,373
Priority Mail	4,409,106
Express Mail	849,080
Mailgrams	683
Periodicals	
Total Within County	74,234
Nonprofit	338,977
Classroom	16,710
Regular-Rate	1,769,312
Total Outside County	2,124,999
Total Periodicals	2,199,234
Standard Mail	
Regular	11,702,036
Nonprofit	1,619,443
Total Regular and Nonprofit	13,321,479
Enhanced Carrier Route	5,464,700
Nonprofit Enhanced Carrier Route	324,604
Total ECR and NECR	5,789,304
Total Standard Mail	19,110,783
Package Services	
Parcel Post	1,229,541
Bound Printed Matter	603,264
Media Mail	345,667
Library Mail	30,262
Subtotal - Media and Library	375,929
Total Package Services	2,208,734
Free-for-the-Blind	0
Total Domestic Mail	65,203,994
International Mail	1,798,798
Total All Mail	67,002,792
Special Services	
Registry	46,563
Certified Mail	627,008
Insurance	101,080
COD	10,085
Money Orders *	236,795
Stamped Cards	1,695
Stamped Envelopes	15,770
Box/Caller Service	815,149
Other	567,758
Total Special Services	2,421,903
Total Mail & Services	69,424,695
Other Income	521,179
Appropriations	119,600
Investment Income *	45,577
Grand Total	70,111,052

* Money order revenues include interest of \$8,196 not included in investment income.

Exhibit USPS-27D

Summary of Percent Changes in Rates
Proposed over Current Rates

	<u>Percentage Change</u>
First-Class Mail	
Letters and Sealed Parcels	5.3%
Cards	4.9%
Priority Mail	5.4%
Express Mail	5.5%
Periodicals	
Within County	-5.4%
Outside County	5.4%
Standard Mail	
Regular	5.4%
Nonprofit	5.5%
Enhanced Carrier Route	5.5%
Nonprofit Enhanced Carrier Route	6.0%
Package Services	
Parcel Post	5.4%
Bound Printed Matter	5.5%
Media Mail	5.4%
Library Mail	5.7%
Total All Mail	5.4%

**Summary of Estimated Test Year After Rates
Revenue and Incremental Costs
(Dollars in Thousands)**

Description	Incremental Cost	Revenue	Revenue minus Incremental Costs
	(1)	(2)	(3) = (2) - (1)
First-Class Mail			
Single-Piece Letters and Sealed Parcels	11,616,985	20,518,734	8,901,748
Presort and Automation Letters	4,813,701	15,382,830	10,569,129
Total Letters	16,952,844	35,901,564	19,470,877
Single-Piece Cards	542,922	631,885	88,964
Presort and Automation Cards	189,444	582,778	393,333
Total Cards	733,387	1,214,663	481,275
Total First-Class Mail	17,925,629	37,116,227	19,190,598
Priority Mail	3,043,584	4,389,621	1,346,037
Express Mail	539,055	833,853	294,798
Mailgrams	263	609	346
Periodicals			
Total Within County	66,277	69,044	2,766
Total Outside County	2,073,270	2,227,517	154,247
Total Periodicals	2,142,642	2,296,560	153,918
Standard Mail			
Total Regular and Nonprofit	9,455,676	14,553,352	5,097,676
Total ECR and NECR	2,568,970	6,057,435	3,488,465
Total Standard Mail	12,338,647	20,610,787	8,272,141
Package Services			
Parcel Post	1,010,636	1,245,602	234,966
Bound Printed Matter	517,376	674,652	157,275
Media Mail and Library Mail	409,417	411,587	2,171
Total Package Services	1,974,294	2,331,842	357,548
International Mail	1,484,535	1,839,768	355,233
Special Services			
Registry	65,388	67,126	1,739
Certified Mail	467,772	669,146	201,374
Insurance	68,815	87,781	18,966
COD	7,639	10,402	2,763
Money Orders	192,779	240,841	48,062
Stamped Cards	1,327	1,789	462
Stamped Envelopes	12,789	16,488	3,699
Box/Caller Service	641,277	850,649	209,373
Total Special Services	1,709,869	2,555,951	846,082

Source:

Revenue: Exhibit USPS-27B

Incremental Costs: USPS-T-18 at Table 1A

SPECIAL SERVICES COST COVERAGES AND PERCENTAGE CHANGES

Exhibit USPS-27F

Service	After Rates Volume 1/ (000)	After Rates Cost Per Piece 2/ (\$)	After Rates Total Cost 3/ (\$000)	After Rates Revenue 1/ (\$000)	After Rates Cost Coverage (Col 4/Col 3)	After Rates Revenue Per Piece \$ (Col 4/Col 1)	Before Rates Revenue 1/ (\$000)	Before Rates Volume 1/ (000)	Before Rates Total Cost 4/ (\$000)	Before Rates Cost Per Piece 2/ (\$)	Before Rates Cost Coverage (Col 12/Col 2)	Before Rates Revenue Per Piece \$ (Col 7/Col 8)	After Rates Percentage Change (Col 6-12)/12
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
Address Changes to Election Boards	533	\$0.27	143	149	104.1%	\$0.28	144	533		\$0.27	100.4%	\$0.27	3.70%
Address Correction - Manual	63,123	\$0.51	31,959	47,342	148.1%	\$0.75	44,629	63,756	32,280	\$0.51	138.3%	\$0.70	7.14%
Address Correction - Automated	324,190	\$0.15	47,656	68,080	142.9%	\$0.21	65,606	328,028	48,220	\$0.15	136.1%	\$0.20	5.00%
Total Address Correction	387,312	\$0.21	79,615	115,422	145.0%	\$0.30	110,235	391,784	80,500	\$0.21	136.9%	\$0.28	5.91%
Bulk Parcel Return Service	2,533	\$1.17	2,968	4,812	162.1%	\$1.90	4,635	2,575		\$1.17	153.6%	\$1.80	5.56%
Bulk Parcel Return Service Permits	0	\$109.00	16	24	146.8%	\$160.00	23	0	17	\$109.00	137.6%	\$150.00	6.67%
Bulk Parcel Return Service Accounting Fee	0	\$347.66	16	23	143.8%	\$500.00	23	0	17	\$347.66	136.6%	\$475.00	5.26%
Total Bulk Parcel Return Non-Piece Fees	0	\$166.04	33	47	145.3%	\$241.26	45	0	33	\$166.04	137.1%	\$227.67	5.97%
Business Reply Mail													
QBRM with Quarterly Fee	156,331	\$0.004	574	1,251	218.0%	\$0.008	1,264	158,059	580	\$0.004	218.0%	\$0.008	0.00%
QBRM without Quarterly Fee	217,195	\$0.04	7,993	13,032	163.0%	\$0.06	13,176	219,595	8,081	\$0.04	163.0%	\$0.06	0.00%
Non-QBRM Advance Deposit	338,883	\$0.05	16,724	37,277	222.9%	\$0.11	34,275	342,749	16,915	\$0.05	202.6%	\$0.10	10.00%
Nonletter-Size Piece	5,733	\$0.005	31	57	182.5%	\$0.01	58	5,799	32	\$0.005	182.5%	\$0.01	0.00%
Accounting Fee	92	\$347.66	31,893	45,867	143.8%	\$500.00	44,071	93	32,256	\$347.66	136.6%	\$475.00	5.26%
Nonletter-Size Monthly Fee (annualized)	0	\$7,357.39	289	372	128.9%	\$9,480.00	357	0	292	\$7,357.39	122.3%	\$9,000.00	5.33%
QBRM Quarterly Fee (annualized)	1	\$3,254.18	3,361	7,851	233.5%	\$7,600.00	7,522	1	3,400	\$3,254.18	221.3%	\$7,200.00	5.56%
Permit Fee	164	\$109.00	17,912	26,294	146.8%	\$160.00	24,932	166	18,116	\$109.00	137.6%	\$150.00	6.67%
Nonadvance	156,283	\$0.52	81,542	101,584	124.6%	\$0.65	94,837	158,062	82,470	\$0.52	115.0%	\$0.60	8.33%
Total Business Reply Mail	874,425 5/	\$0.18	160,318	233,584	145.7%	\$0.27	220,492	884,263 5/	162,142	\$0.18	136.0%	\$0.25	7.13%
Carrier Sequencing of Address Cards	N/A	\$0.27	N/A	N/A	111.5%	\$0.30	N/A	N/A	N/A	N/A	111.5%	\$0.30	0.00%
Certificates of Mailing													
Basic	2,852	\$0.67	1,911	2,709	141.8%	\$0.95	2,597	2,885	1,933	\$0.67	134.3%	\$0.90	5.56%
Firm Book Mailing	310	\$0.23	71	93	130.4%	\$0.30	94	313	72	\$0.23	130.4%	\$0.30	0.00%
Bulk First 1,000	26	\$3.47	91	124	136.9%	\$4.75	119	27	92	\$3.47	129.7%	\$4.50	5.56%
Bulk Additional 1,000	15	\$0.34	5	8	161.8%	\$0.55	8	15	5	\$0.34	147.1%	\$0.50	10.00%
Total	3,203	\$0.65	2,078	2,935	141.2%	\$0.92	2,817	3,240	2,102	\$0.65	134.0%	\$0.87	5.38%
Certified Mail	278,811	\$1.57 6/	437,028 7/	669,146	153.1%	\$2.40	648,934	282,145	441,799 8/	\$1.57 9/	146.9%	\$2.30	4.35%

SPECIAL SERVICES COST COVERAGES AND PERCENTAGE CHANGES

Exhibit USPS-27F

Service	After Rates Volume 1/ (000)	After Rates Cost Per Piece 2/ (\$)	After Rates Total Cost 3/ (\$000)	After Rates Revenue 1/ (\$000)	After Rates Cost Coverage (Col 4/Col 3)	After Rates Revenue Per Piece \$ (Col 4/Col 1)	Before Rates Revenue 1/ (\$000)	Before Rates Volume 1/ (000)	Before Rates Total Cost 4/ (\$000)	Before Rates Cost Per Piece 2/ (\$)	Before Rates Cost Coverage (Col 12/Col 2)	Before Rates Revenue Per Piece \$ (Col 7/Col 8)	After Rates Percentage Change (Col 6-12)/12
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
Collect On Delivery													
\$0.01 to \$50	559			2,657		\$4.75	2,547	566				\$4.50	5.56%
50.01 to 100	364			2,109		\$5.80	2,024	368				\$5.50	5.45%
100.01 to 200	501			3,429		\$6.85	3,293	507				\$6.50	5.38%
200.01 to 300	149			1,178		\$7.90	1,132	151				\$7.50	5.33%
300.01 to 400	47			419		\$8.95	403	47				\$8.50	5.29%
400.01 to 500	16			156		\$10.00	150	16				\$9.50	5.26%
500.01 to 600	11			121		\$11.05	117	11				\$10.50	5.24%
600.01 to 700	7			85		\$12.10	81	7				\$11.50	5.22%
700.01 to 800	6			73		\$13.15	70	6				\$12.50	5.20%
800.01 to 900	4			54		\$14.20	52	4				\$13.50	5.19%
900.01 to 1,000	7			106		\$15.25	102	7				\$14.50	5.17%
Notice of Nondelivery	0			0		\$3.15	0	0				\$3.00	0.00%
Alteration of charges	0			0		\$3.15	0	0				\$3.00	0.00%
Registered C.O.D.	4			16		\$4.20	15	4				\$4.00	5.00%
Total C.O.D.	1,673	\$4.56 6/	7,637 7/	10,402	136.2%	\$6.22	9,985	1,693	7,719 8/	\$4.56 9/	129.4%	\$5.90	5.42%
Correction of Mailing Lists (Per Address)	333	\$0.27	90	100	111.5%	\$0.30	100	333		\$0.27	111.5%	\$0.30	0.00%
Delivery Confirmation													
First Class L&SP Manual	17,391	\$0.52	9,113	10,435	114.5%	\$0.60	9,958	18,106	9,487	\$0.52	105.0%	\$0.55	9.09%
First Class L&SP Electronic	28,256	\$0.11	3,173	3,956	124.7%	\$0.14	3,824	29,416	3,303	\$0.11	115.8%	\$0.13	7.69%
Priority Manual	79,371	\$0.41	32,685	39,686	121.4%	\$0.50	37,185	82,632	34,028	\$0.41	109.3%	\$0.45	11.11%
Priority Electronic	134,603	\$0.00	0	0	N/A	\$0.00	0	140,133	0	\$0.00	N/A	\$0.00	0.00%
Standard Mail Electronic	44,967	\$0.11	5,050	6,295	124.7%	\$0.14	6,086	46,815	5,257	\$0.11	115.8%	\$0.13	7.69%
Package Services Manual	17,951	\$0.52	9,406	10,771	114.5%	\$0.60	10,279	18,689	9,793	\$0.52	105.0%	\$0.55	9.09%
Package Services Electronic	102,321	\$0.11	11,491	14,325	124.7%	\$0.14	13,848	106,524	11,963	\$0.11	115.8%	\$0.13	7.69%
Parcel Select Electronic	261,157	\$0.00	0	0	N/A	\$0.00	0	271,886	0	\$0.00	N/A	\$0.00	0.00%
Total	290,257 10/		70,918	85,467	120.5%	\$0.29	81,180	302,182 10/	73,832	\$0.24	110.0%	\$0.27	9.61%
Parcel Select Permits	1	\$109.00	60	88	146.8%	\$160.00	83	1		\$109.00	137.6%	\$150.00	6.67%
First-Class Presort Permits	43	\$109.00	4,684	6,876	146.8%	\$160.00	6,520	43		\$109.00	137.6%	\$150.00	6.67%
Insurance													
Unnumbered up to \$50	17,203	\$0.94	16,171	23,224	143.6%	\$1.35	22,704	17,465		\$0.94	138.3%	\$1.30	3.85%
Numbered:													
Up to \$100	9,831			22,611		\$2.30	21,956	9,980				\$2.20	4.55%
Up to \$200	4,391			14,711		\$3.35	14,265	4,458				\$3.20	4.69%
Up to \$300	1,661			7,310		\$4.40	7,084	1,687				\$4.20	4.76%
Up to \$400	661			3,603		\$5.45	3,490	671				\$5.20	4.81%
Up to \$500	642			4,175		\$6.50	4,043	652				\$6.20	4.84%
Up to \$600	229			1,732		\$7.55	1,677	233				\$7.20	4.86%
Up to \$700	151			1,296		\$8.60	1,255	153				\$8.20	4.88%
Up to \$800	104			1,006		\$9.65	974	106				\$9.20	4.89%
Up to \$900	81			870		\$10.70	842	83				\$10.20	4.90%
Up to \$1,000	180			2,119		\$11.75	2,051	183				\$11.20	4.91%
Up to \$1,100	36			460		\$12.80	445	36				\$12.20	4.92%
Up to \$1,200	22			307		\$13.85	297	23				\$13.20	4.92%
Up to \$1,300	11			157		\$14.90	152	11				\$14.20	4.93%
Up to \$1,400	6			92		\$15.95	89	6				\$15.20	4.93%
Up to \$1,500	31			534		\$17.00	517	32				\$16.20	4.94%
Up to \$1,600	7			121		\$18.05	117	7				\$17.20	4.94%
Up to \$1,700	5			102		\$19.10	99	5				\$18.20	4.95%

SPECIAL SERVICES COST COVERAGES AND PERCENTAGE CHANGES

Exhibit USPS-27F

Service	After Rates Volume 1/ (000)	After Rates Cost Per Piece 2/ (\$)	After Rates Total Cost 3/ (\$000)	After Rates Revenue 1/ (\$000)	After Rates Cost Coverage (Col 4/Col 3)	After Rates Revenue Per Piece \$ (Col 4/Col 1)	Before Rates Revenue 1/ (\$000)	Before Rates Volume 1/ (000)	Before Rates Total Cost 4/ (\$000)	Before Rates Cost Per Piece 2/ (\$)	Before Rates Cost Coverage (Col 12/Col 2)	Before Rates Revenue Per Piece \$ (Col 7/Col 8)	After Rates Percentage Change (Col 6-12)/12
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
Up to \$1,800	5			96		\$20.15	93	5				\$19.20	4.95%
Up to \$1,900	3			59		\$21.20	57	3				\$20.20	4.95%
Up to \$2,000	29			654		\$22.25	632	30				\$21.20	4.95%
Up to \$2,100	10			244		\$23.30	236	11				\$22.20	4.95%
Up to \$2,200	4			85		\$24.35	83	4				\$23.20	4.96%
Up to \$2,300	1			22		\$25.40	21	1				\$24.20	4.96%
Up to \$2,400	1			29		\$26.45	28	1				\$25.20	4.96%
Up to \$2,500	19			521		\$27.50	504	19				\$26.20	4.96%
Up to \$2,600	0			5		\$28.55	5	0				\$27.20	4.96%
Up to \$2,700	0			15		\$29.60	14	0				\$28.20	4.96%
Up to \$2,800	1			30		\$30.65	29	1				\$29.20	4.97%
Up to \$2,900	0			11		\$31.70	10	0				\$30.20	4.97%
Up to \$3,000	9			296		\$32.75	286	9				\$31.20	4.97%
Up to \$3,100	1			22		\$33.80	22	1				\$32.20	4.97%
Up to \$3,200	0			10		\$34.85	9	0				\$33.20	4.97%
Up to \$3,300	2			57		\$35.90	55	2				\$34.20	4.97%
Up to \$3,400	0			9		\$36.95	8	0				\$35.20	4.97%
Up to \$3,500	4			151		\$38.00	146	4				\$36.20	4.97%
Up to \$3,600	0			8		\$39.05	8	0				\$37.20	4.97%
Up to \$3,700	0			0		\$40.10	0	0				\$38.20	4.97%
Up to \$3,800	1			31		\$41.15	30	1				\$39.20	4.97%
Up to \$3,900	1			59		\$42.20	58	1				\$40.20	4.98%
Up to \$4,000	11			492		\$43.25	476	12				\$41.20	4.98%
Up to \$4,100	0			10		\$44.30	10	0				\$42.20	4.98%
Up to \$4,200	0			5		\$45.35	5	0				\$43.20	4.98%
Up to \$4,300	0			0		\$46.40	0	0				\$44.20	4.98%
Up to \$4,400	0			0		\$47.45	0	0				\$45.20	4.98%
Up to \$4,500	0			22		\$48.50	21	0				\$46.20	4.98%
Up to \$4,600	0			11		\$49.55	11	0				\$47.20	4.98%
Up to \$4,700	0			9		\$50.60	9	0				\$48.20	4.98%
Up to \$4,800	0			0		\$51.65	0	0				\$49.20	4.98%
Up to \$4,900	0			4		\$52.70	4	0				\$50.20	4.98%
Up to \$5,000	7			385		\$53.75	372	7				\$51.20	4.98%
Total Insurance	35,366	\$1.93 6/	68,315 7/	87,781	128.5%	\$2.48	85,296	35,903	69,284 8/	\$1.93 9/	123.1%	\$2.38	4.48%

SPECIAL SERVICES COST COVERAGES AND PERCENTAGE CHANGES

Exhibit USPS-27F

Service	After Rates Volume 1/ (000)	After Rates Cost Per Piece 2/ (\$)	After Rates Total Cost 3/ (\$000)	After Rates Revenue 1/ (\$000)	After Rates Cost Coverage (Col 4/Col 3)	After Rates Revenue Per Piece \$ (Col 4/Col 1)	Before Rates Revenue 1/ (\$000)	Before Rates Volume 1/ (000)	Before Rates Total Cost 4/ (\$000)	Before Rates Cost Per Piece 2/ (\$)	Before Rates Cost Coverage (Col 12/Col 2)	Before Rates Revenue Per Piece \$ (Col 7/Col 8)	After Rates Percentage Change (Col 6-12)/12
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
Merchandise Return Permits	1	\$109.00	129	189	146.8%	\$160.00	181	1	131	\$109.00	137.6%	\$150.00	6.67%
Merchandise Return Accounting Fee	1	\$347.66	279	401	143.8%	\$500.00	387	1	283	\$347.66	136.6%	\$475.00	5.26%
Total Merchandise Return Fees	2	\$205.32	408	590	144.8%	\$297.23	568	2	415	\$205.32	136.9%	\$281.17	5.71%
Money Orders													
APO - \$0.01 to \$1,000	0			0		\$0.25	0	0				\$0.25	0.00%
Domestic - \$0.01 to \$500	159,228			151,267		\$0.95	144,602	160,669				\$0.90	5.56%
Domestic - \$500.01 to \$1,000	20,710			26,924		\$1.30	26,122	20,898				\$1.25	4.00%
Inquiry Fee	663	\$2.76		2,090	114.1%	\$3.15	2,008	669		\$2.76	108.7%	\$3.00	5.00%
Total Money Orders	179,939 11/	\$0.72 6/	129,506 7/	240,841 12/	186.0%	\$1.34	233,841 12/	181,567 12/	130,464 8/	\$0.72 9/	108.7%	\$1.29	3.93%
On-Site Meter Service													
Meter Access	1	\$28.86	37	47	128.2%	\$37.00	44	1		\$28.86	121.3%	\$35.00	5.71%
Meter Reset or Examined	32	\$5.66	179	166	92.8%	\$5.25	158	32		\$5.66	88.3%	\$5.00	5.00%
Meter Checked In or Out of Service	83	\$2.84	235	352	149.6%	\$4.25	331	83		\$2.84	140.8%	\$4.00	6.25%
Total On-Site Meter Service	116		451	565	125.3%	\$4.88	534	116				\$4.61	5.83%
Parcel Airlift Mail													
0 - 2 lbs.	3	N/A	N/A	1	N/A	\$0.45	1	3	N/A	N/A	N/A	\$0.45	0.00%
2 - 3 lbs.	3	N/A	N/A	3	N/A	\$0.90	3	3	N/A	N/A	N/A	\$0.85	5.88%
3 - 4 lbs.	0	N/A	N/A	0	N/A	\$1.30	0	0	N/A	N/A	N/A	\$1.25	4.00%
Over 4 lbs.	8	N/A	N/A	14	N/A	\$1.80	13	8	N/A	N/A	N/A	\$1.70	5.88%
Total Parcel Airlift Mail	14	N/A	N/A	18	N/A	\$1.32	17	14	N/A	N/A	N/A	\$1.25	5.46%
Periodical Mailing Applications													
Original Entry	1	\$393.03	208	209	100.5%	\$395.00	199	1		\$393.03	95.4%	\$375.00	5.33%
Re-Entry	4	\$43.80	155	160	102.7%	\$45.00	142	4		\$43.80	91.3%	\$40.00	12.50%
Additional Entry	1	\$60.03	57	61	108.3%	\$65.00	57	1		\$60.03	100.0%	\$60.00	8.33%
News Agents	0	\$30.27	9	11	132.1%	\$40.00	11	0		\$30.27	132.1%	\$40.00	0.00%
Total	5		429	442	103.0%	\$83.27	409	5				\$77.03	8.09%
Permit Imprint Permits	48	\$109.00	5,262	7,724	146.8%	\$160.00	7,241	48		\$109.00	137.6%	\$150.00	6.67%

SPECIAL SERVICES COST COVERAGES AND PERCENTAGE CHANGES

Exhibit USPS-27F

Service	After Rates Volume 1/ (000)	After Rates Cost Per Piece 2/ (\$)	After Rates Total Cost 3/ (\$000)	After Rates Revenue 1/ (\$000)	After Rates Cost Coverage (Col 4/Col 3)	After Rates Revenue Per Piece \$ (Col 4/Col 1)	Before Rates Revenue 1/ (\$000)	Before Rates Volume 1/ (000)	Before Rates Total Cost 4/ (\$000)	Before Rates Cost Per Piece 2/ (\$)	Before Rates Cost Coverage (Col 12/Col 2)	Before Rates Revenue Per Piece \$ (Col 7/Col 8)	After Rates Percentage Change (Col 6-12)/12
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
Post Office Boxes:													
Group B2/1 - Size 1	415			30,696		\$74.00	30,019	429				\$70.00	5.71%
Group B2/1 - Size 2	184			19,456		\$106.00	18,976	190				\$100.00	6.00%
Group B2/1 - Size 3	44			9,344		\$210.00	9,201	46				\$200.00	5.00%
Group B2/1 - Size 4	7			2,894		\$432.00	2,840	7				\$410.00	5.37%
Group B2/1 - Size 5	2			1,394		\$696.00	1,366	2				\$660.00	5.45%
Group C3/2 - Size 1	506			31,355		\$62.00	30,324	523				\$58.00	6.90%
Group C3/2 - Size 2	151			14,169		\$94.00	14,025	156				\$90.00	4.44%
Group C3/2 - Size 3	54			9,134		\$168.00	8,994	56				\$160.00	5.00%
Group C3/2 - Size 4	9			3,264		\$358.00	3,205	9				\$340.00	5.29%
Group C3/2 - Size 5	1			928		\$664.00	910	1				\$630.00	5.40%
Group C4/3 - Size 1	1,660			82,990		\$50.00	82,367	1,716				\$48.00	4.17%
Group C4/3 - Size 2	597			47,727		\$80.00	46,875	617				\$76.00	5.26%
Group C4/3 - Size 3	202			29,033		\$144.00	28,348	208				\$136.00	5.88%
Group C4/3 - Size 4	40			9,914		\$248.00	9,754	41				\$236.00	5.08%
Group C4/3 - Size 5	11			4,667		\$440.00	4,583	11				\$418.00	5.26%
Group C5/4 - Size 1	2,456			98,250		\$40.00	96,496	2,539				\$38.00	5.26%
Group C5/4 - Size 2	1,036			74,596		\$72.00	72,836	1,071				\$68.00	5.88%
Group C5/4 - Size 3	357			47,072		\$132.00	46,453	369				\$126.00	4.76%
Group C5/4 - Size 4	76			17,632		\$232.00	17,286	79				\$220.00	5.45%
Group C5/4 - Size 5	22			8,066		\$368.00	7,931	23				\$350.00	5.14%
Group 5 - Size 1	991			27,746		\$28.00	26,636	1,024				\$26.00	7.69%
Group 5 - Size 2	418			19,210		\$46.00	18,996	432				\$44.00	4.55%
Group 5 - Size 3	128			9,222		\$72.00	9,004	132				\$68.00	5.88%
Group 5 - Size 4	20			2,738		\$138.00	2,667	21				\$130.00	6.15%
Group 5 - Size 5	4			944		\$264.00	924	4				\$250.00	5.60%
Group D6/6 - Size 1	2,821			73,337		\$26.00	69,987	2,916				\$24.00	8.33%
Group D6/6 - Size 2	1,164			44,229		\$38.00	43,319	1,203				\$36.00	5.56%
Group D6/6 - Size 3	315			22,044		\$70.00	21,487	326				\$66.00	6.06%
Group D6/6 - Size 4	28			3,541		\$126.00	3,486	29				\$120.00	5.00%
Group D6/6 - Size 5	20			4,036		\$204.00	3,968	20				\$194.00	5.15%
Group D7/7 - Size 1	328			5,912		\$18.00	6,112	340				\$18.00	0.00%
Group D7/7 - Size 2	150			4,189		\$28.00	4,021	155				\$26.00	7.69%
Group D7/7 - Size 3	39			1,895		\$48.00	1,878	41				\$46.00	4.35%
Group D7/7 - Size 4	4			343		\$84.00	338	4				\$80.00	5.00%
Group D7/7 - Size 5	2			322		\$148.00	314	2				\$140.00	5.71%
Group E - Sizes 1 to 5	1,149			0		\$0.00	0	1,188				\$0.00	0.00%
Key Duplication or Replacement	159	\$3.45	549	740	134.8%	\$4.65	724	165	568	\$3.45	127.5%	\$4.40	5.68%
Lock Replacement	36	\$7.71	275	414	150.5%	\$11.60	405	37	284	\$7.71	142.7%	\$11.00	5.45%
Caller Service - Except Group E	99	\$689.17	68,398	86,146	125.9%	\$868.00	84,546	103			119.6%	\$824.00	5.34%
Reserve Number	65	\$19.46	1,268	2,216	174.7%	\$34.00	2,156	67			164.4%	\$32.00	6.25%
Total Boxes, Caller Service, Reserve No.	15,573	\$41.09 6/	639,965 7/	851,803	133.1%	\$54.70	833,758	16,100	644,908 8/	\$40.06 9/	129.3%	\$51.79	5.62%

SPECIAL SERVICES COST COVERAGES AND PERCENTAGE CHANGES

Exhibit USPS-27F

Service	After Rates Volume 1/ (000)	After Rates Cost Per Piece 2/ (\$)	After Rates Total Cost 3/ (\$000)	After Rates Revenue 1/ (\$000)	After Rates Cost Coverage (Col 4/Col 3)	After Rates Revenue Per Piece \$ (Col 4/Col 1)	Before Rates Revenue 1/ (\$000)	Before Rates Volume 1/ (000)	Before Rates Total Cost 4/ (\$000)	Before Rates Cost Per Piece 2/ (\$)	Before Rates Cost Coverage (Col 12/Col 2)	Before Rates Revenue Per Piece \$ (Col 7/Col 8)	After Rates Percentage Change (Col 6-12)/12
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
Registered Mail													
Covered by Postal Insurance													
\$0.00 to \$100	297			4,042		\$13.60	2,538	317				\$8.00	70.00%
100.01 to 500	378			5,688		\$15.05	3,570	403				\$8.85	70.06%
500.01 to 1000	308			5,082		\$16.50	3,189	329				\$9.70	70.10%
1000.01 to 2000	393			7,061		\$17.95	4,430	420				\$10.55	70.14%
2000.01 to 3000	218			4,239		\$19.40	2,659	233				\$11.40	70.18%
3000.01 to 4000	126			2,625		\$20.85	1,646	134				\$12.25	70.20%
4000.01 to 5000	195			4,342		\$22.30	2,723	208				\$13.10	70.23%
5000.01 to 6000	95			2,253		\$23.75	1,413	101				\$13.95	70.25%
6000.01 to 7000	37			926		\$25.20	580	39				\$14.80	70.27%
7000.01 to 8000	38			1,002		\$26.65	628	40				\$15.65	70.29%
8000.01 to 9000	40			1,138		\$28.10	713	43				\$16.50	70.30%
9000.01 to 10000	47			1,381		\$29.55	865	50				\$17.35	70.32%
10000.01 to 11000	22			688		\$31.00	431	24				\$18.20	70.33%
11000.01 to 12000	24			774		\$32.45	485	25				\$19.05	70.34%
12000.01 to 13000	15			500		\$33.90	313	16				\$19.90	70.35%
13000.01 to 14000	8			300		\$35.35	188	9				\$20.75	70.36%
14000.01 to 15000	26			971		\$36.80	608	28				\$21.60	70.37%
15000.01 to 16000	7			277		\$38.25	174	8				\$22.45	70.38%
16000.01 to 17000	6			255		\$39.70	160	7				\$23.30	70.39%
17000.01 to 18000	15			607		\$41.15	380	16				\$24.15	70.39%
18000.01 to 19000	6			235		\$42.60	147	6				\$25.00	70.40%
19000.01 to 20000	46			2,021		\$44.05	1,266	49				\$25.85	70.41%
20000.01 to 21000	3			118		\$45.50	74	3				\$26.70	70.41%
21000.01 to 22000	6			293		\$46.95	183	7				\$27.55	70.42%
22000.01 to 23000	2			113		\$48.40	71	3				\$28.40	70.42%
23000.01 to 24000	7			369		\$49.85	231	8				\$29.25	70.43%
24000.01 to 25000	77			3,954		\$51.30	2,477	82				\$30.10	70.43%
Handling per \$1000	56			82		\$1.45	51	60				\$0.85	70.59%
Not Covered By Postal Insurance													
\$0.00	1,239			15,791		\$12.75	9,915	1,322				\$7.50	70.00%
Total Registry	3,738	\$17.47 6/	65,313 7/	67,126	102.8%	\$17.96	42,109	3,990	69,450 8/	\$17.41 9/	60.6%	\$10.55	70.16%
Restricted Delivery	2,197	\$2.28	5,009	8,129	162.3%	\$3.70	7,781	2,223		\$2.28	153.5%	\$3.50	5.71%
Return Receipts													
Basic	224,222	\$1.43	321,333	414,811	129.1%	\$1.85	400,370	228,783		\$1.43	122.1%	\$1.75	5.71%
Electronic	0	\$0.89	0	0	151.8%	\$1.35	0	0		\$0.89	146.1%	\$1.30	3.85%
Merchandise	2,084	\$2.32	4,829	6,565	135.9%	\$3.15	6,379	2,126		\$2.32	129.5%	\$3.00	5.00%
After Mailing	19,664	\$2.23	43,880	67,841	154.6%	\$3.45	65,208	20,064		\$2.23	145.6%	\$3.25	6.15%
Total	245,970		370,042	489,216	132.2%	\$1.99	471,957	250,973		\$0.00		\$1.88	5.77%
Shipper-Paid Forwarding Accounting Fee	0	\$347.66	3	4	143.8%	\$500.00	4	0	3	\$347.66	136.6%	\$475.00	5.26%
Signature Confirmation													
First Class L&SP Electronic	851	\$1.31	1,116	1,149	102.9%	\$1.35	1,152	886		\$1.31	99.1%	\$1.30	3.85%
First Class L&SP Manual	842	\$1.53	1,291	1,600	123.9%	\$1.90	1,578	877		\$1.53	117.4%	\$1.80	5.56%
Priority Mail Electronic	2,386	\$1.11	2,658	3,221	121.2%	\$1.35	3,229	2,484		\$1.11	116.7%	\$1.30	3.85%
Priority Mail Manual	3,582	\$1.34	4,785	6,806	142.2%	\$1.90	6,712	3,729		\$1.34	134.7%	\$1.80	5.56%
Package Services Electronic	1,061	\$1.11	1,183	1,433	121.2%	\$1.35	1,436	1,105		\$1.11	116.7%	\$1.30	3.85%
Package Services Manual	700	\$1.34	935	1,330	142.2%	\$1.90	1,312	729		\$1.34	134.7%	\$1.80	5.56%
Total Signature Confirmation	9,422		11,969	15,538	129.8%	\$1.65	15,419	9,809				\$1.57	4.91%

SPECIAL SERVICES COST COVERAGES AND PERCENTAGE CHANGES

Exhibit USPS-27F

Service	After Rates Volume 1/ (000)	After Rates Cost Per Piece 2/ (\$)	After Rates Total Cost 3/ (\$000)	After Rates Revenue 1/ (\$000)	After Rates Cost Coverage (Col 4/Col 3)	After Rates Revenue Per Piece \$ (Col 4/Col 1)	Before Rates Revenue 1/ (\$000)	Before Rates Volume 1/ (000)	Before Rates Total Cost 4/ (\$000)	Before Rates Cost Per Piece 2/ (\$)	Before Rates Cost Coverage (Col 12/Col 2)	Before Rates Revenue Per Piece \$ (Col 7/Col 8)	After Rates Percentage Change (Col 6-12)/12
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
Special Handling													
Under 10 pounds	1,088			6,801		\$6.25	6,570	1,104				\$5.95	5.04%
Over 10 pounds	8			71		\$8.70	71	9				\$8.25	5.45%
Total Special Handling	1,096	\$2.29	2,507 7/	6,872	274.1%	\$6.27	6,640	1,113	2,526 8/	\$2.29	261.0%	\$5.97	5.04%
Stamped Cards													
Single Card		\$0.01											
Double Card		\$0.03											
Sheet of 40 Cards		\$0.56											
Total Stamped Cards	89,429	\$0.01	1,327 7/	1,789	134.8%	\$0.02	1,807	90,352	1,340 8/	\$0.01 9/	134.9%	\$0.02	0.00%
Stamped Envelopes													
Single Sale Basic	44,343	\$0.09		3,547	92.9%	\$0.08	3,547	44,343		\$0.09	92.9%	\$0.08	0.00%
Household 6 3/4	2,051	\$2.17		154	172.5%	\$3.75	144	2,051		\$2.17	161.0%	\$3.50	7.14%
Bulk Plain 6 3/4	18,077	\$7.02		470	185.1%	\$13.00	434	18,077		\$7.02	170.9%	\$12.00	8.33%
Bulk Plain 10	143,679	\$8.86		4,310	169.3%	\$15.00	4,023	143,679		\$8.86	158.0%	\$14.00	7.14%
Bulk Printed 6 3/4	8,621	\$10.07		310	178.8%	\$18.00	293	8,621		\$10.07	168.8%	\$17.00	5.88%
Bulk Printed 10	183,229	\$11.35		7,696	185.0%	\$21.00	7,329	183,229		\$11.35	176.2%	\$20.00	5.00%
Total Stamped Envelopes	400,000	\$0.03	12,789 7/	16,488	128.9%	\$20.61	15,770	400,000	12,778 8/	\$0.03 9/	123.4%	\$19.71	4.55%
Standard Mail Bulk Mailing Permit	436	\$109.00	47,547	69,796	146.8%	\$160.00	65,815	439		\$109.00	137.6%	\$150.00	6.67%
Media Mail Presort Permits	1	\$109.00	118	174	146.8%	\$160.00	164	1		\$109.00	137.6%	\$150.00	6.67%
ZIP Coding of Mailing Lists	0	\$72.85	17	24	144.1%	\$105.00	23	0		\$72.85	137.3%	\$100.00	5.00%
Total	2,822,476		2,993,947			\$1.06	2,874,322	2,861,446				\$1.00	5.60%

1/ USPS-LR-K-115.

2/ Exhibit F at 8-9.

3/ Column 2 multiplied by Column 1 unless otherwise noted.

4/ Column 9 multiplied by Column 10 unless otherwise noted.

5/ Includes piece transactions only and does not include volumes for permit and accounting fees.

6/ Column 3 divided by Column 1.

7/ Test Year After Rates volume variable cost: USPS-T-10, WP C.

8/ Test Year Before Rates volume variable cost: USPS-T-10, WP C.

9/ Column 9 divided by Column 8.

10/ Does not include Priority Mail electronic and Parcel Select electronic volumes.

11/ Inquiry fee volume not included in total volume.

12/ Includes money order float and outstanding money orders taken into revenue.

SPECIAL SERVICES COST SUMMARY
TEST YEAR 2006 BEFORE RATES
Cost Input Data

	Test Year Cost	Test Year Cost References	Test Year Cost With Contingency At 0% 1
Address Correction Service			
Manual - cost per piece	\$0.506	USPS-LR-K-59, Attachment 1	\$0.506
Automated - cost per piece	\$0.147	USPS-LR-K-59, Attachment 1	\$0.147
Bulk Parcel Return Service			
	\$1.172	USPS-LR-K-89, Attachment C	\$1.172
Business Reply Mail			
QBRM quarterly billing and rating cost	\$813.55	USPS-LR-K-69, Section II	\$813.55
QBRM cost per piece - high volume	\$0.0037	USPS-LR-K-69, Section II	\$0.0037
QBRM cost per piece - low volume	\$0.0368	USPS-LR-K-69, Section II	\$0.0368
Non-BRMAS advance deposit cost per piece	\$0.0494	USPS-LR-K-69, Section II	\$0.0494
Non-advance deposit cost per piece	\$0.522	USPS-LR-K-69, Section II	\$0.522
Annual accounting cost	\$347.66	USPS-LR-K-69, Section II	\$347.66
Non letter-size per piece cost	\$0.0055	USPS-LR-K-69, Section II	\$0.0055
Non letter-size fixed cost per month	\$613.12	USPS-LR-K-69, Section II	\$613.12
Caller Service			
Annual cost per call number	\$689.17	USPS-LR-K-59, Attachment 2	\$689.17
Annual cost per reserved number	\$19.46	USPS-LR-K-59, Attachment 2	\$19.46
Correction of Mailing Lists			
Cost per name on list	\$0.269	USPS-LR-K-59, Attachment 4	\$0.269
Permit Imprint			
Cost per application	\$109.00	USPS-LR-K-69, Section II	\$109.00
Periodicals Application			
Original entry cost	\$393.03	USPS-LR-K-59, Attachment 9	\$393.03
Additional entry cost	\$60.03	USPS-LR-K-59, Attachment 9	\$60.03
Reentry cost	\$43.80	USPS-LR-K-59, Attachment 9	\$43.80
Registration for news agents	\$30.27	USPS-LR-K-59, Attachment 9	\$30.27
ZIP Coding of Mailing Lists			
Cost per 1000 cards	\$72.85	USPS-LR-K-59, Attachment 13	\$72.85
Certificate of Mailing			
<u>INDIVIDUAL PIECES</u>			
FORM 3817, ORIGINAL (NO DUPLICATE)	\$0.67	USPS-LR-K-59, Attachment 3	\$0.67
FORM 3817, DUPLICATE	\$0.53	USPS-LR-K-59, Attachment 3	\$0.53
FORM 3877, ORIGINAL - 13 PIECES/COST PER PIECE	\$0.23	USPS-LR-K-59, Attachment 3	\$0.23
<u>BULK QUANTITIES</u>			
FORM 3606, ORIGINAL - FIRST 1000 PIECES	\$3.47	USPS-LR-K-59, Attachment 3	\$3.47
EACH ADDITIONAL 1000 PIECES	\$0.34	USPS-LR-K-59, Attachment 3	\$0.34
FORM 3606, DUPLICATE	\$0.46	USPS-LR-K-59, Attachment 3	\$0.46
Insurance			
INSURANCE-NUMBERED	\$2.34	USPS-LR-K-59, Attachment 6	\$2.34
INSURANCE-UNNUMBERED	\$0.94	USPS-LR-K-59, Attachment 6	\$0.94
INSURANCE-COMBINED	\$1.93	USPS-LR-K-59, Attachment 6	\$1.93
INSURANCE-VOLUME VARIABLE COST DIFFERENTIAL	\$1.40	USPS-LR-K-59, Attachment 6	\$1.40
BULK INSURANCE COST SAVINGS - per NUMBERED piece	\$1.39	USPS-LR-K-59, Attachment 6	\$1.39
BULK INSURANCE COST SAVINGS - per UNNUMBERED piece	\$0.97	USPS-LR-K-59, Attachment 6	\$0.97
Stamped Card Cost			
	COST PER THOUSAND	COST PER CARD	
Single Cut	\$14.00	\$0.014	USPS-LR-K-59, Attachment 12
Single Sheet	\$14.00	\$0.014	USPS-LR-K-59, Attachment 12
Reply Card	\$28.00	\$0.028	USPS-LR-K-59, Attachment 12
Banded	\$31.00	\$0.031	USPS-LR-K-59, Attachment 12

**SPECIAL SERVICES COST SUMMARY
TEST YEAR 2006 BEFORE RATES**

Exhibit USPS-27F

	Test Year Cost	Test Year Cost References	Test Year Test Year Cost With Contingency At 0% 1
On-site Meter Service			
ACCESS COST	\$28.86	USPS-LR-K-59, Attachment 8	\$28.86
EACH METER RESET OR EXAMINED	\$5.66	USPS-LR-K-59, Attachment 8	\$5.66
EACH METER CHECKED IN OR OUT OF SERVICE	\$2.84	USPS-LR-K-59, Attachment 8	\$2.84
Restricted Delivery			
	\$2.28	USPS-LR-K-59, Attachment 11	\$2.28
Return Receipts			
NON-MERCHANDISE	\$1.43	USPS-LR-K-60, RRWksht-W3	\$1.43
AFTER MAILING	\$2.23	USPS-LR-K-60, RRWksht-W7	\$2.23
MERCHANDISE	\$2.32	USPS-LR-K-60, RRWksht-W6	\$2.32
ELECTRONIC	\$0.89	USPS-LR-K-60, RRWksht-W8	\$0.89
Delivery Confirmation			
PRIORITY MAIL BASE	\$0.00	USPS-LR-K-60, DCWksht-W4C	\$0.00
PRIORITY MAIL MANUAL	\$0.41	USPS-LR-K-60, DCWksht-W4C	\$0.41
PACKAGE SERVICES ELECTRONIC	\$0.11	USPS-LR-K-60, DCWksht-W4C	\$0.11
PACKAGE SERVICES MANUAL	\$0.52	USPS-LR-K-60, DCWksht-W4C	\$0.52
PARCEL SELECT BASE	\$0.00	USPS-LR-K-60, DCWksht-W4C	\$0.00
FIRST-CLASS L&SP ELECTRONIC	\$0.11	USPS-LR-K-60, DCWksht-W4C	\$0.11
FIRST-CLASS L&SP MANUAL	\$0.52	USPS-LR-K-60, DCWksht-W4C	\$0.52
STANDARD MAIL ELECTRONIC	\$0.11	USPS-LR-K-60, DCWksht-W4C	\$0.11
Signature Confirmation			
PRIORITY MAIL ELECTRONIC	\$1.11	USPS-LR-K-60, SCWksht-W6	\$1.11
PRIORITY MAIL MANUAL	\$1.34	USPS-LR-K-60, SCWksht-W6	\$1.34
PACKAGE SERVICES ELECTRONIC	\$1.11	USPS-LR-K-60, SCWksht-W6	\$1.11
PACKAGE SERVICES MANUAL	\$1.34	USPS-LR-K-60, SCWksht-W6	\$1.34
FIRST-CLASS L&SP ELECTRONIC	\$1.31	USPS-LR-K-60, SCWksht-W6	\$1.31
FIRST-CLASS L&SP MANUAL	\$1.53	USPS-LR-K-60, SCWksht-W6	\$1.53
PO Boxes			
COST OF ORDERING NEW KEY	\$3.45	USPS-LR-K-59, Attachment 10	\$3.45
COST OF CHANGING PO BOX LOCK	\$7.71	USPS-LR-K-59, Attachment 10	\$7.71
Money Order Inquiry			
	\$2.76	USPS-LR-K-59, Attachment 7	\$2.76

	SIZE/STYLE	BOX LOT OF 500 COST	BOX LOT OF 50 COST	SINGLE ENVELOPE COST	Test Year Cost References	Test Year Cost With Contingency At 0% 1
Stamped Envelope Costs						
PLAIN 10	SIZE/STYLE					
Average	10 Regular			0.0861	USPS-LR-K-59, Attachment 12	\$0.09
Average	10 Window	\$8.86			USPS-LR-K-59, Attachment 12	\$8.86
PLAIN 6 3/4						
Average	6 Regular	\$7.02			USPS-LR-K-59, Attachment 12	\$7.02
PRINTED 10						
Average	10 Window	\$11.35			USPS-LR-K-59, Attachment 12	\$11.35
PRINTED 6 3/4						
Average	6 Window	\$10.07			USPS-LR-K-59, Attachment 12	\$10.07
PRINTED HOUSEHOLD 10						
Average	10 Window		\$2.17		USPS-LR-K-59, Attachment 12	\$2.17

**Calculation of Within County Markups Periodicals for Section 3626
(Dollars in Thousands)**

	<u>Revenue</u>	<u>Discount</u>	<u>Adjusted Revenue</u>
	(1)	(2)	(3) = (1) + (2)
Outside County Periodicals			
(a) Regular	1,862,165		1,862,165
(b) Nonprofit	347,683	16,237	363,919
(c) Classroom	17,670	850	18,520
(d) = (a) +(b) + (c) Total Outside County Periodicals	2,227,517	17,087	2,244,604

	<u>Adjusted Revenue</u>	<u>Incremental Cost</u>	<u>Markup</u>
	(4)	(5)	(6) = [(4) / (5)] - 1
(e) Outside County Periodicals	2,244,604	2,073,270	8.26%
(f) Within County Periodicals	69,044	66,277	4.17%
(g) = (6f) / (6e)		Ratio	50.5%

Sources:

- (1) Exhibit USPS-27B
- (2) USPS-LR-K-115
- (4) Col. (3) and Exhibit USPS-27B
- (5) Exhibit USPS-27E