

ORDER NO. 175

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

Before Commissioners:

Dan G. Blair, Chairman;  
Nanci E. Langley, Vice Chairman;  
Mark Acton;  
Ruth Y. Goldway; and  
Tony L. Hammond

Annual Compliance Report, 2008

Docket No. ACR2008

ORDER GRANTING REQUEST FOR MODIFICATION OF ORDER NO. 169

(Issued January 27, 2009)

On January 12, 2009, the Commission directed the Postal Service to file revisions to some of the materials filed by the Postal Service in support of its Annual Compliance Report.<sup>1</sup> On January 16, 2009, the Postal Service asked to be relieved of certain obligations imposed by the January 12 Order.<sup>2</sup> The Commission grants the Postal Service's Request, with the caveats that the relief applies only in Docket No. ACR2008 and does not establish any methodological precedent.

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<sup>1</sup> PRC Order No. 169, Order on Apparent Methodological Changes and Setting Date for Technical Conference, January 12, 2009 (Order No. 169).

<sup>2</sup> Request of the United States Postal Service for Modification of Commission Order No. 169, January 16, 2009 (Request).

The principal modification requested by the Postal Service concerns Item One of Order No. 169, which relates to the allocation of costs between two products in the Standard Mail class. These products are "Standard High Density and Saturation Letters" and "Standard High Density and Saturation Flats/Parcels." The Postal Service treats certain letter-shaped pieces as Flats/Parcels for revenue- and volume-reporting purposes. These letter-shaped pieces are not eligible for Letter rates—because they do not bear a barcode or they lack other characteristics—and are charged rates as if they were Flats/Parcels.

In FY 2008, the Postal Service's cost-data-collection system could not determine whether a letter-shaped piece had paid Letter rates or Flat/Parcel rates. Thus, all costs for letter-shaped pieces were allocated to the Letter product. This cost allocation produced a mismatch between costs and revenues. The Postal Service did not recognize this mismatch until "it entered the final stages of [ACR] production."<sup>3</sup> To match costs and revenues of letter-shaped pieces that paid Flat/Parcel rates, the Postal Service shifted a portion of Letter costs to Flat/Parcels. This portion was equal to the ratio of Flat-rated letter-shaped pieces to total letter-shaped pieces.<sup>4</sup>

This reallocation is both "admittedly simple"<sup>5</sup> and problematic.<sup>6</sup> Nevertheless, the Postal Service has shown that the cost coverage for both Letters and Flats/Parcels remains above 200 percent with or without the reallocation.<sup>7</sup>

For purposes of this proceeding, there appears to be no feasible approach to obtaining more accurate cost and revenue estimates for "Standard High Density and Saturation" pieces, shapes, or products. Accordingly, with respect to Item One of Order

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<sup>3</sup> Request at 6.

<sup>4</sup> See Responses of the United States Postal Service to Commission Order No. 169, January 21, 2009, item 1.

<sup>5</sup> *Id.*

<sup>6</sup> One would expect the average cost for a letter-shaped piece charged Flat/Parcel rates to be greater than the average cost of *all* letter-shaped pieces.

<sup>7</sup> Request, Attachment.

No. 169, the Postal Service is relieved of the requirement to replicate the shape-based approach of the FY 2007 Annual Compliance Determination. The Commission anticipates that this issue will be explored in a future rulemaking proceeding.

*It is Ordered:*

The Request of the United States Postal Service For Modification of Commission Order No. 169, filed January 16, 2009, is granted as set forth in the body of this Order.

By the Commission.

Steven W. Williams  
Secretary