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PUBLIC REPRESENTATIVE COMMENTS ON
ANNUAL COMPLIANCE REPORT 2009

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(February 2, 2010)

The Public Representative hereby comments on the United States Postal Service's Annual Compliance Report (ACR) FY 2009.[1] The Commission noticed the filing on January 5, 2010 and solicited public comment by February 1, 2010 on three fundamental areas of interest:[2]

1. Whether any rates or fees in effect during FY 2009 (for products individually or collectively) were not in compliance with applicable provisions of chapter 36 of title 39 (or regulations promulgated thereunder);

2. Whether any service standards in effect during FY 2009 were not met; and

3. Whether the Postal Service has met the goals established in the annual Comprehensive Statement of Postal Operations and program and performance plans included in the Comprehensive Statement, which will assist the Commission in developing appropriate recommendations to the Postal Service related to the protection or promotion of the public policy objectives of title 39.[3]

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[1] United States Postal Service FY 2009 Annual Compliance Report, December 29, 2009 (FY2009 ACR).

[2] Notice of Filing of Annual Reports to the Commission by the Postal Service and Solicitation of Public Comment, January 5, 2010 at 3. The FY 2009 Comprehensive Statement of Postal Operations is USPS-FY09-17. By separate document, a motion for extension of time to file these Comments one day late is being submitted to the Commission.

[3] Section 3652(g) of title 39 requires that the Comprehensive Statement of Postal Operations mandated by 39 U.S.C. § 2401(e) and performance and program plans mandated by sections 2803 and 2804 be included as a part of the Postal Service's annual compliance report.

I. SUMMARY OF COMMENTS

These comments discuss three distinct subjects as requested by the Commission. The Postal Service's total rates and fees (collectively) for FY 2009 again failed to recover total costs, thereby subjecting the Postal Service to virtually certain insolvency in the year ahead, and are unlawful. The Postal Accountability and Enhancement Act of 2006 (PAEA), Pub. L. 109-435, 120 Stat. 3198 (2006), provides the Commission authority to order rate level adjustments to avoid insolvency, as appropriate. Using elasticity estimates and other data filed by the Postal Service, the Commission technical staff assigned to assist the Public Representative has estimated the amount of rate level adjustments necessary under three scenarios to avoid insolvency.

Of greatest interest is the study's conclusion that if Congress accepts the recent report of the Postal Service's Office of the Inspector General's and eliminates the retiree health benefit payment in FY 2010, two relatively modest across-the-board rate increases in mid-FY 2010 and mid-FY 2011 of 3.1 percent for market dominant rates would forestall insolvency, eliminate most of the expected FY 2010 deficit, and all of the FY 2011 deficit and retain some borrowing capacity within current total debt limits. If the retiree health benefits payment is not eliminated but is reduced to the level proposed by the Commission staff of $3.4 billion, the projected deficit at the end of FY 2011 could be erased with two mid-year rate increases in FY 2010 and FY 2011 of 7.4 percent. If no relief from the retiree health benefits payments is forthcoming, two mid-year increases of 10.1 percent would be needed to eliminate the deficit by the end of FY 2011. *See* TABLE 3 at 23, *infra*.

Three individual products contributed significantly to the FY 2009 loss. Three market dominant products, combined, failed to cover attributable costs in FY 2009 by the unconscionable amount of $1.5 billion.[4] Two products covered only three-fourths of attributable costs and the third barely covered four-fifths of attributable costs, not to mention institutional costs. If ordering rate adjustments that the Postal Service is unwilling to propose in the form of an exigent rate increase, the Commission could also consider proportionately higher adjustments for these three products to remove or ameliorate the discrimination inherent in their failure to recover a large portion of attributable costs.

Comments are also provided on the Postal Service's compliance with its service standards for market dominant products. Postal Service performance measurements are in a state of transition, but a more comprehensive presentation of performance and customer satisfaction is needed to enable year-to-year comparisons and analyses of progress in this important aspect of service.

Comments are also offered on the Annual Comprehensive Statement. The limited information included in that document makes impossible a full analysis of the Postal Service's success in meeting its goals, and its program and performance plans. Several suggestions are offered to improve the Comprehensive Statement.

[4] The three products are Standard Mail Flats, Standard Mail Parcels & NFMs, and Outside County Periodicals.

II. RATES AND FEES COLLECTIVELY

A. Under Current Circumstances and in the Absence of Postal Service Plan to Adjust Market Dominant Rates Collectively for FY 2009 and for the Future, Postal Service Rates Were Not and Will Not Be in Compliance with Applicable Provisions of Chapter 36 of Title 39 and are Unlawful.[5]

1. The Postal Service suffered a net loss for FY2009 and faces an increasing net income gap leading to insolvency contrary to several objectives of the PAEA.

For the third consecutive year since passage of the PAEA, the Postal Service's Annual Compliance Report 2009 indicates total revenues again failed to cover overall costs. Net losses for FY2009 were $3.8 billion.[6] Moreover, the Postal Service's ACR also projects losses for FY2010 will be another $7.8 billion.[7] If its projections are accurate, the Postal Service will have only $200 million of cash at the end of FY 2010 after maximizing its $3 billion annual borrowing limit at the U.S. Treasury and paying $5.5 billion in retiree health benefits on September 30, 2010.[8] Even if projections are

[5] Many comments in this section are similar to arguments presented in the Public Representative's motion requesting the Commission to direct the Postal Service to provide estimates of rate increases to break even by the end of FY 2011 in order to eliminate the threat of insolvency. Public Representative Motion Requesting Commission to Direct Unites States Postal Service to Provide Estimates of Rate Adjustments Necessary to Maintain Financial Stability, December 17, 2009. The Postal Service argued it could not provide that information in a timely fashion. The Commission, viewing the motion as a discovery request, denied the request as "unwarranted." Order Denying Public Representative Motion to Compel the Postal Service to Provide Certain Estimates of Rate Adjustments, January 7, 2010. As shown below, the Public Representative, with technical assistance, has provided some of the requested rate calculations in the short time available for comment.

[6] United States Postal Service 2009 Report on Form 10-K at 71; *See also* United States Postal Service 2009 Annual Report at 2. This is not reported in the FY 2009 ACR and only obliquely noted in the Comprehensive Statement, USPS-FY09-17 at 61.

[7] United States Postal Service, Integrated Financial Plan FY 2010 at 1. *See,* Comprehensive Statement, projecting a net loss of "over 7 billion." USPS-FY09-17 at 61.

[8] 39 U.S.C. § 2005. *See also*, United States Postal Service, Integrated Financial Plan, Fiscal Year 2010 at 1.

approximately accurate, “the Postal Service would have insufficient cash to meet its obligations in October 2010” and it certainly will be unable to meet them in FY 2011.[9]

The Postal Service has incurred a loss in each year since the PAEA became law in December, 2006. The PAEA was passed in the early part of FY2007 and revenue that year was not impacted significantly by the PAEA. Nevertheless, the large net increase in retiree health benefit obligations of $6.4 billion resulted in a $5.14 billion net loss for FY2007. Yet, the Postal Service did not utilize its option of one last opportunity granted by the PAEA to file for a rate increase under the provisions of the superseded Postal Reorganization Act prior to December 19, 2007. Thereafter annual rate increases were subject to more stringent annual cost of living limitations under the PAEA. 39 U.S.C. § 3622(f).

In the second year after passage of the PAEA, FY2008, the Postal Service lost another $2.8 billion. The Commission concluded that the Postal Service’s “plans to adjust prices on May 11, 2009…ameliorate the need for the Commission to take immediate remedial action on prices and services.” FY 2008 ACD at 1. Thereafter, the Postal Service did not seek an exigent rate increase that could have become effective in early 2009, despite predicting FY2009 would also result in a significant loss.[10] In the third year after enactment of the PAEA, FY2009, in order to maintain Postal Service solvency, Congress needed to grant the Postal Service relief from retiree health benefit payments and reduced that expense by a net of $4 billion.[11] Despite that relief, the Postal Service lost another $3.8 billion in FY2009.

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[9] *Id*. at 2 and 7.

[10] A rate increase pursuant to section 3622(d)(1)(E) of the PAEA and section 3010.60 of the Commission’s Rules (rate adjustments in exigent circumstances).

[11] United States Postal Service, 2009 Report on Form 10-K, note at 71,

The Postal Service estimates another huge loss of $7.8 billion for FY2010. Despite this projection, the Postal Service announced that it plans to forego an exigent rate increase. Thus, if Congress does not waive, again, the retiree health benefits payment, and if the budget projections turn out to be only slightly optimistic, by the end of FY2010, the Postal Service will be insolvent; *i.e*. the Postal Service will reach its borrowing limit and run out of cash for operations.[12]

The projected revenue shortfall for FY2010 is further exacerbated because the annual limitation on rate changes reported by the Commission, based on the most recent 12-month average change in the CPI-U as of January 15, 2010, is currently a negative 0.356 percent. Except in extraordinary or unusual circumstances, a cost of living rate increase is precluded at this time. 39 U.S.C. § 3622. At the same time, the Postal Service is nearing its statutory annual borrowing limit of $3 billion and its overall limit of $15 billion, limits that have been in place since for many years.[13] Without significant cost cutting measures leading to the reduction of postal services currently required by law, or radical new steps to generate revenues, the Congress will be required again to bail out the Postal Service to avert insolvency by increasing the amount of taxpayer support through increased borrowing or subsidies. Given the recent public and voter response to proposals in Congress to bail out institutions that need assistance, it is by no means a certainty that Congress will be willing to provide subsidies to the Postal Service in a timely manner.

Postal Service management is taking some steps to meet the challenge. The Postal Service claims cost savings of over $6 billion during FY2009.[14] The Postal

[12] The Postal Service states the minimum acceptable level of liquidity is nearly $6 billion, one month's operating costs. United States Postal Service, Integrated Financial Plan, FY 2010 at 7.

[13] 39 U.S.C. § 2005. *See also*, United States Postal Service, 2009 Annual Report at 29.

[14] *Id*. at 22.

Service is also continuing other cost reduction programs including the possible closing of stations and branches. Unfortunately, these and other plans such as reducing retail window hours and removing more collection boxes reduce consumer access to postal services. However, the projected cost savings and productivity improvements together with current programs will not eliminate the anticipated deficit. To ameliorate the impact of this eventuality, the Postal Service has asked Congress to change the law to permit a reduction of delivery days from 6 days to 5 days. This would reduce delivery days by 17 percent in order to save only 5.3 percent of total Postal Service expenses.[15] The savings may be as low as 2.7 percent of total expenses compared to the 17 percent reduction in delivery days if the Commission's estimate of $1.93 billion of savings from that service reduction is correct.[16]

2. The Postal Service is not seeking to avoid insolvency with a rate increase in response to extraordinary or exceptional circumstances

Annual rate increases permitted by section 3622(d)(1)(A) and (C) based on a consumer price index will be insufficient to avoid insolvency. The rates for FY 2009 were not and, in the absence of new initiatives, the current rates will not be in compliance with the applicable policies of title 39.

Although market dominant rate increases are normally capped at the cost of living, because of Congressional foresight the PAEA provides that the Postal Service

[15] Savings would be $3.8 billion annually out of total FY2009 expenses of $71.9 billion. See Statement of Postmaster General/CEO, John E. Potter, before the Subcommittee on Federal Financial Management, Government Information, Federal Services and International Security of the Committee on Homeland Security and Governmental Affairs United States Senate, August 6, 2009 at 6. Even this reduction in service will not yield sufficient funds to prevent large losses and maximize borrowing limits unless the retiree benefits payments are also permanently waived.

[16] Report on Universal Postal Service and the Postal Monopoly, Postal Regulatory Commission, December 18, 2008 at 120, Table 1.

may adjust rates due to either “extraordinary or exceptional circumstances” if “necessary” to, among other things, maintain postal service of the “kind and quality adapted to the needs of the United States.” 39 U.S.C. § 3622((d)(1)(E). The Commission’s rules characterize such circumstances as exigent and provide for the Postal Service to file for a rate adjustment for market dominant products, apart from the normal annual rate adjustment. 39 CFR §§ 3010.60-3010.66.

Despite the certainty of large losses, the Postal Service announced on October 15, 2009 that it will not request an exigent rate increase for market dominant mailing services in FY2010.[17] Thus, any relief through rate adjustments could not be forthcoming sooner than early in FY2011, a period that would include all of FY2010 during which the Postal Service estimates it will lose an additional $7.8 billion, or $2.3 billion without considering the $5.5 billion FY2010 year-end retiree health benefit payment.[18]

Not surprisingly, some mailers have hailed the Postal Service’s decision not to increase rates. In fact, no mailer would welcome rate increases. However, the Commission should consider the potential impact on the service currently offered as well as on the Postal Service by foregoing the opportunity to incrementally adjust rates in a year when, otherwise, they would not be raised. In failing to install plans to ensure that revenues will equate to costs as soon as possible, the Postal Service is essentially leaving Congress no option but to permit increased Postal Service borrowing from the U.S. Treasury or to subsidize the Postal Service directly; otherwise, in the event Congress fails to act, postal services must be curtailed significantly. The Postal Service

[17] United States Postal Service, 2009 Annual Report at 27.

[18] United States Postal Service, Integrated Financial Plan, Fiscal Year 2010 at 7.

has not indicated its emergency service reduction plan in the event cash funds are not available to continue at the current level of service.

The Postal Service has declined the opportunity to file for an adjustment to rates due to extraordinary or exceptional circumstances. There can be no doubt that the severity of the current recession and the projected insolvency of the Postal Service constitute extraordinary or exceptional circumstances pursuant to section 3622(d)(1)(E). The current circumstances would warrant an exigent rate increase request pursuant to Commission rules to avoid financial embarrassment for the Postal Service and severe service reductions. If this is not an extraordinary or exceptional circumstance, then what is? The pricing flexibility accorded the Postal Service by the PAEA does not contemplate rate level stasis. The projected fiscal implosion has been foreseen for many months. Nevertheless, the Postal Service does not plan to seek a rates change to meet the extraordinary circumstances of the current economic situation in order to satisfy, as best it can, its obligations under the PAEA.

The Postal Service has not offered any detailed estimates of the actual amount of rate increases that would be needed for its products if any exigent rate increase were implemented. The Postal Service has dismissed out of hand a discussion of exigent rate increases, usually citing the recession and business conditions and the potential loss of volume to the internet.[19] More recently, in response to the Public

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[19] For instance, the Postal Service's Integrated Financial Plan, Fiscal Year 2010, does not discuss the alternative of exigent rate increases although market dominant and competitive price changes during 2008 and 2009 (and changes in product mix) increased revenue 4 percent per piece. Integrated Financial Plan at 4. Likewise, the Annual Report not only fails to mention the exigent rate increase alternative, it leaves the impression that rate increases are strictly limited to the rate of inflation when, in bold lettering, it states, "While the Postal Act of 2006 limited 90% of our price increases to the rate of inflation, our costs are not similarly limited." United States Postal Service, 2009 Annual Report at 30. The other 10 percent relates to competitive products, not exigent rate increases.

Finally, Congressional testimony by the Postal Service summarily noted the Postal Service's plan not to increase mail service prices in 2010, and they "expect that this will stimulate some level of growth for those products." Statement of Robert F. Bernstock before the Subcommittee on Federal Workforce, Representative's request for estimates, the Postal Service rejected the opportunity to offer estimates of potential rate increases to assist in policy discussions.[20]

The argument that rates should not be increased during a recession, when business is slow, lacks credibility when, at the same time, UPS and FedEx have raised rates.[21] In turn, the Postal Service raised rates in January, 2010 on many of its competitive products: At that time, Express Mail prices increased by 4.5 percent; Priority Mail prices increased by 3.3 percent overall, with average retail prices increasing by about 3.9 percent; and Parcel Select prices increased, on average, 4.7 percent, with price increases for parcels entered at destination plants and destination Bulk Mail Center (BMC) of 6.9 percent.[22] Rates for most of these services were also raised by even higher percentages in January 2009.[23] Oddly, the Postal Service has no difficulty increasing its competitive rates. Yet, where the Postal Service presumably enjoys monopoly pricing power over market dominant rates, needed exigent rate changes are not being sought or even seriously suggested by the Postal Service for Commission consideration.

Postal Service, and the District of Columbia of the Committee on Oversight and Government Reform House of Representatives, November 5, 2009 at 2. Also, the Postal Service's four-pronged effort to improve Postal Service finances does not include the potential for mail service rate increases or even any analysis of potential price increases. *Id*. at 2-9. *See also*, Response of the United States Postal Service to Commission Information Request No. 1, January 29, 2010.

[20] Response of the United States Postal Service in Opposition to Motion of the Public Representative, December 18, 2009.

[21] UPS announced on November 20, 2009 that its 2010 shipping rates would increase by an average of 4.9 percent.

[22] Docket No. CP2010-8, *Competitive Products Price Changes Rates of General Applicability*, Order Concerning Changes in Rates of General Applicability for Competitive Products, Order No. 353, December 4, 2009 at 1-3.

[23] Docket No. CP2009-8,*Competitive Products Price Changes Rates of General Applicability,* Review of Notice Concerning Changes in Rates of General Applicability for Competitive Products, Order No. 146, December 11, 2008 at 3-4.

3. Congress Intends the Postal Service to operate without significant additional taxpayer assistance.

A fundamental policy of the Postal Reorganization Act (PRA) required the Postal Service to breakeven in its operations without taxpayer funding.[24] Over a period of thirty-five years after passage of the PRA, the Postal Service operated successfully so that by the end of FY2005 it owed no debt to the U.S. Treasury.[25] The PAEA preserves the policy that the Postal Service would not be funded by taxpayers even though the specific language requiring the Postal Service to break even was eliminated.[26] One of the nine objectives of the PAEA explicitly provides that the Postal Service allocate *total* institutional costs between market dominant and competitive products. If institutional costs are fully allocated and collected with rates designed using the best available demand estimates, the Postal Service would be self-sustaining. *See* 39 U.S.C. § 3622 (b)(9). In addition, the explicitly expressed PAEA policy is that all postal rates shall be established to apportion the costs of all postal operations to all users of the mail on a fair and equitable basis. 39 U.S.C. § 101(d).

The PAEA neither authorizes nor contemplates that the Postal Service shall operate continually at a loss such that its financial stability, its ability to recover total institutional costs, and its ability to provide current services is jeopardized. No provision in the PAEA authorizes management to exceed its $3 billion annual and $15 billion total borrowing limits. Nor does the PAEA provide any other avenue of relief for

[24] The Postal Reorganization Act provided, "Postal rates and fees shall provide sufficient revenues so that the total estimated income and appropriations to the Postal Service will equal as nearly as practicable total estimated costs of the Postal Service." *See* former section 3621 of title 39.

[25] Docket No. R2006-1, Direct Testimony of Richard G. Loutsch on Behalf of United States Postal Service, USPS-T-6, filed May 3, 2006, Table 1 at 12. Table 1 covers the period FY1996-FY2005 and indicates that prior to FY 2005 total debt was in excess of $11 billion as recently as FY2001 and FY2002.

[26] In place of the section with that provision, Congress inserted provisions requiring the Commission to establish Modern rate regulation for market dominant products. 39 U.S.C. § 3621, *et seq*.

management to obtain specific taxpayer subsidies or assistance in the event of looming insolvency.

Nevertheless, the PAEA requires the Postal Service to operate in compliance with the requirements of the provisions of chapter 36 of title 39 and certain other sections of that title. 39 U.S.C. § 3662(a). The Postal Service has failed, over a period of several years since the passage of the PAEA, to maintain adequate rates to recover *total* institutional costs as well as attributable costs, most recently in FY 2009, as provided for in section 3622(b)(9). At a minimum, this deficiency also places the other following policy objectives of section 3622 at risk: predictability and stability in rates, (b)(2); the maintenance of high quality service standards, (b)(3); an increase in the transparency of the ratemaking process, (b)(6); and, maintenance of a just and reasonable rate schedule, (b)(8). In the instant case, the most important objective of modern rate regulation is, "To assure adequate revenues, including retained earnings, to maintain *financial stability*." 39 U.S.C. § 3622(b)(5). Of overarching importance must be the continued financial viability and stability of the Postal Service. Simply said, the Postal Service must ensure revenues cover the cost of operations to avoid insolvency. Thus, the Postal Service is to insure that over time, if not annually, its total rates recover its total costs of operations to avoid insolvency. The rates for FY2009 which the Postal Service has indicated it will not seek to modify with an exigent rate increase will, when continued throughout FY 2010, lead to, without Congressional or other authoritative intervention, imminent insolvency.

The view that the Postal Service must recover total operating costs is not novel. It is fundamental to institutions imbued with a responsibility to provide a public service. Numerous examples to support this proposition are found in regulatory economics literature. More to the point, this proposition is also recognized as applicable to the Postal Service. For instance, a recent statement of the Postal Service's Inspector

General unequivocally states, "The Postal Service was intended to be self-sufficient. More importantly, ratepayers should pay no less and no more than what is required to fund the Postal Service's operations."[27]

B. If, After Review, the FY 2009 Rates Are Determined Not to be in Compliance with the Policies of the PAEA, the Commission Shall Direct the Postal Service to Take Such Action as the Commission Considers Appropriate, Such as Ordering Unlawful Rates to be Adjusted to Lawful Levels.

Section 3653(b)(1) provides that after receiving the Postal Service's ACR pursuant to section 3652, the Commission shall determine, among other things, whether any rates or fees in effect during such year for products *collectively* were not in compliance with the applicable provisions of chapter 36. The Commission Notice requested comment on this question.

If the Postal Service's rates and fees did not yield sufficient revenues to recover *total* costs of its *collective* products to maintain *financial stability* and protect the Postal Service from imminent insolvency, the collective rates and fees were not in compliance with the applicable provisions of chapter 36 of title 39. *See* 39 U.S.C. § 3653(b)(5),(b)(9) .

Significantly, section 3653(c) further provides that if noncompliance is determined, the Commission shall take *appropriate* action "in accordance with subsection (c) and (e) of section 3662 (as if a complaint averring such noncompliance has been duly filed and found under such section to be justified)."

[27] Office of Inspector General, United States Postal Service, Report No: RARC-WP-10-001, The Postal Service's Share of CSRS Pension Responsibility, summary letter of David C. Williams, January 20, 2010.

If, on review of the FY 2009 ACR, the Commission finds the collective rates are not in compliance with the policies of the PAEA, the rates are unlawful. If rates are unlawful, the PAEA directs that the Commission "shall order that the Postal Service take such action as the Commission considers appropriate in order to achieve compliance with the applicable requirements *and* to remedy the effects of noncompliance." 39 U.S.C. § 3662(c), *See also,* 39 U.S.C. § 3653(c). (Emphasis supplied.) The PAEA offers specific examples of remedies available to the Commission for unlawful rates such as *ordering unlawful rates to be adjusted to lawful levels* or requiring the Postal Service to make up for revenue shortfalls in competitive products. (Emphasis supplied.) *Id.* [28]

The Postal Service has failed to comply with postal policy set forth in section 101(d) of the PAEA to apportion *all* operating costs to all users of the mail on a fair and equitable basis. Likewise, the Postal Service has not complied with the objective in section 3622(b)(9) of the PAEA requiring allocation of *total* institutional costs. The failure to design rates reflecting that allocation, has led to the current financial state of affairs.

Foremost among the other objectives under the PAEA that are impacted negatively by the financial situation is the need to insure adequate revenues to maintain financial stability of the Postal Service. 39 U.S.C. § 3622(b)(5). Unlawful rates can be ordered adjusted by the Commission as appropriate rather than risk Postal Service insolvency and significant disruption to postal services. The large loss during FY 2009,

[28] Upon finding a complaint is justified, section 3662(c) provides:

> [The Commission] shall order that the Postal Service take such action as the Commission considers appropriate in order to achieve compliance with the applicable requirements and to remedy the effects of any noncompliance (such as ordering unlawful rates to be adjusted to lawful levels, ordering the cancellation of market tests, ordering the Postal Service to discontinue providing loss-making products or requiring the Postal Service to make up for revenue shortfalls in competitive products).

the continuing pattern over several years of Postal Service decisions not to increase revenues as necessary to avoid insolvency, together with the threat of imminent insolvency, is a basis for a Commission determination that, collectively, with a net loss of $3.8 billion for FY2009 (even without the retiree health benefit payments), market dominant rates were unlawful.

The Public Representative is not recommending that the Commission order any particular rate adjustments, but is offering this study as a set of options for Commission consideration within the Commission's arsenal to meet its responsibilities to oversee the Postal Service. The PAEA suggests a remedy for unlawful rates, but it does not restrict the method of the remedy. The PAEA does not detail the process for Commission ordering adjustments to unlawful rates but requires the matter to be treated as if a complaint is found warranted.[29] Neither a full-blown rate case nor mini-rate case is required although, presumably, the Postal Service would wish to have an opportunity to offer its suggestions before any rate adjustments are ordered.

The PAEA does not dictate the time period for adjusting unlawful rates to lawful levels. Given the magnitude of the financial distress and the implications of rate shock, the PAEA does not inhibit the Commission from lawfully ordering corrective action conditionally, in steps, or temporarily, as appropriate, to remedy the effects of noncompliance. The Commission may order relief *sua sponte*. Thus, the Commission may fashion relief as it deems appropriate. For instance, given the possibility, but uncertainty, of Congressional relief, the Commission might order *conditional rates* to become effective October 1, 2010 to ensure that insolvency is avoided, with later rate adjustments to stabilize the Postal Service's finances, as necessary. In the past, the

[29] The Commission's complaint rules provide that upon finding a complaint is justified, the Commission will order the Postal Service to take such action as the Commission determines appropriate to "(1) Achieve compliance with the applicable requirements; and (2) Remedy the effects of any noncompliance." 39 CFR § 3030.50(a).

cost of printing new alternative rate stamps was expensive yet endured, but the new forever stamp eliminated the need for a large printing of alternative rate stamps for a conditional rate increase.

Alternatively, a temporary across-the-board surcharge could be ordered by the Commission, effective at the beginning of the third quarter of FY 2010, pending Congressional relief. If Congress does not act, the surcharge may remain effective indefinitely.[30]

C. Public Representative's Estimated Across-the-Board Market Dominant Rate Increases to Eliminate the Income Gap by the End of FY2011

The Public Representative with assigned technical staff has calculated alternative across-the-board rate increases for FY 2010 and FY 2011. Utilizing primarily Postal Service data, including the latest filed elasticity information, and three different retiree health benefits payments levels, the potential rate increases are designed to remedy the Postal Service's currently estimated income gap by the end of FY 2011. Because the Postal Service will be operating at or near the minimum amount of cash necessary for operations during FY 2010, and will be at or close to its borrowing limits at the end of FY 2010, it is clear that the income gap must soon be eliminated entirely to ensure financial stability.[31]

Conspicuously lacking in the debate heretofore have been specific and serious estimates, fully documented, about the size of exigent rate increases or rate level

[30] When the current emergency subsides and if the PAEA permits, to ease the impact of rate increases above the cost of living, future cost of living adjustments for 2011 might be reduced by the amount of adjustments currently ordered by the Commission.

[31] Integrated Financial Plan, FY 2010 at 6-7.[31]

adjustments that would eliminate the deficits and save services the Postal Service would curtail to avoid insolvency. Postal Service estimates of workable rate adjustments that may be necessary for the Commission to meet its responsibility to adjust unlawful rates, as appropriate, are not available to the Commission. In order to weigh policy choices, a Public Representative study for this proceeding has determined the potential across-the-board rate and fee increases for market dominant products that could help to avoid the growing outcry from the public about proposed reductions in services.[32] A case in point is the public reaction to the Postal Service's plans to close certain stations and branches nationwide.[33] In the alternative, the public faces significant loss of access to their postal services.

This study suggests the magnitude of potential across-the-board rate level adjustments for each product with reasonable accuracy. It may be used to determine whether incrementally adjusting unlawful rates would be a better alternative, or at least one facet of a package of alternative steps, than other options to forestall the Postal Service's imminent financial difficulties.[34] With this knowledge of the cost of these rate adjustment alternatives, mailers and the Commission may make better, more knowledgeable choices and decisions for the future.

[32] The study focuses on adjustments to market dominant increases, although the PAEA does not distinguish between market dominant and competitive products in the complaint section 3662 authorizing the Commission to order adjustments to unlawful rates,

[33] Docket No. N2009-1, Station and Branch Optimization and Consolidation Initiative, 2009.

[34] Of course, the PAEA does not confine Commission ordered rate adjustments pursuant to section 3662 to rates the Postal Service would propose in an exigent rate increase filing.

1. The Postal Service's current financial predicament and proposed strategy

This section of the Public Representative's comments presents three options intended to bring the Postal Service back to break even status by FY 2011 and facilitate solvency through FY 2011. All options involve two price increases, the first executed at the start of the 3rd quarter of the present fiscal year, and the second at the same time a year later in FY 2010. Because of the financial imbalance that has been brought about in large part by the latest recession, the Public Representative will demonstrate that higher across-the- board rates is a necessary component of any financial rescue package. Financial relief alone from the Congress will not be sufficient, even if legislation is enacted relieving the Postal Service of all payments for retiree health benefits for future retirees. After three years of incurring enormous losses beginning in FY2007, the situation could not be more dismal.

Before presenting these options, it is important to review the Postal Service's current financial status and whether the Postal Service's apparent strategy to deal with it appears sustainable. First, the Public Representative notes that because of recurring losses, the Postal Service is currently capitalized at a negative equity amount of $5.4B.[35] In other words, the book value of all assets is less than what creditors are owed by that amount. A private company would have never been allowed to reach this predicament by its creditors. Yet because of a liquidity crisis brought about by a lack of internally generated funds, the Postal Service continues to float more long term debt. Under current plans, the Postal Service will be only $1.8 billion short of its borrowing limit under the PAEA of $15 billion at the end of the current fiscal year. In essence, because of continuing losses, the Postal Service has used long term debt for purposes normally unintended for such funds - to subsidize on-going operational expenses. Is

[35] United States Postal Service FY2009 Form 10-K at 51, November 16, 2009.

there any doubt that in a similar situation a private company would have been unable to obtain similar financing, unless full payback was assured by a third party?

To address the severity of this situation, on January 20, 2010, the Commission requested that the Postal Service "provide Postal Service's current plans to achieve financial stability in FY 2010 and beyond."[36] In what can only be categorized as a fully unresponsive reply, the Postal Service only admitted that "moving forward, the Postal Service is considering the available options." However, they declined to provide any details, much less identify what those options might be.[37] One could read into this comment and conclude that no final decisions have been made on options under evaluation, and perhaps none will be made. Because no decisions have been made, no new plans exist to address the continuing crisis. Apparently, the Postal Service continues to believe that the requested long term financial relief from retiree health benefit payments would be sufficient, by itself, to restore financial health.

However, a quick review of current financial status and reasonable short term projections appears to indicate otherwise, as summarized by the following table. Lacking estimates from the Postal Service, the Public Representative developed net income estimates for FY 2011 to estimate cash balances.

[36] Commission Information Request No.1 at 2, January 20, 2010.

[37] Response of the United States Postal Service to Commission Information Request No.1, January 29, 2010 at 2.

TABLE 1

Cash Balance Estimates with Full Financial Relief (Billions)

	FY2010	FY2011
Beginning Cash Balance from IFP		$5.7
Net Income with Full Payment for Retiree Health Benefits		(7.9)
Ending Cash Balance	.2	(2.2)
Add back of Future Retiree Health Benefit Payments	5.5	5.5
Adjusted Year End Cash Balance	$5.7	$3.3

In its FY2010 Integrated Financial Plan, the Postal Service projects $200 million in cash at year end, after payment of $7.7 billion for retiree health benefits. Integrated Financial Plan, FY 2010 at 7. Assuming, the Congress absolves payment of the full $5.5 billion for future retiree health benefits in FY2010, the Postal Service's cash balance would increase to $5.7 billion. The Public Representative estimates a net loss of $7.9 billion for the Postal Service in the following year, inclusive of the full health benefit payment. This figure is based on a total estimated volume of 169.7 billion pieces and a 2.2 percent increase over the Postal Service's estimate for FY 2010. Despite the slight volume increase, the estimated loss for FY 2011 is virtually the same as the Postal Service's estimate of $7.8 for FY 2010, indicated in the Integrated Financial Plan. The small increase in the deficit is due to the higher interest expense from the added debt the Postal Service expects to issue in the current fiscal year.

As the table indicates, there would be insufficient cash in FY 2011 for the Postal Service to pay a full retiree health benefit amount of $7.7 billion in FY 2011. However eliminating the $5.5 billion expense a second time would leave the Postal Service with $3.3 billion in cash at year end, an amount less than the FY 2009 year-end balance of $4.1 billion.[38] This means that the Postal Service could fund operating expenses from a declining cash balance for less than a month – a razor thin margin, by any standard, which would keep getting thinner by the month under the Postal Service's favored approach to deal with its financial crisis.[39]

Clearly, the recession has created a financial imbalance between revenues and expenses which cannot be remedied under the current set of rates. This is unfortunate given the intent of the PAEA to afford the Postal Service greater pricing flexibility under a price cap system. The financial imbalance is evident in the cash "squeeze" that the Postal Service is now experiencing and will continue to experience, without rate increases. The only two ways to avoid the cash squeeze are for: a) volumes to bounce back to pre-recession levels, or b) costs to fully respond in proportion to the volume decline. Neither option singly or in combination appears likely in the short term before

[38] This assumes that funds yielded by depreciation are fully reinvested and that the remaining $1.8 billion in borrowing authority is left intact. The cash balance can be incremented by investing less than the depreciation value or by using up part or all of the remaining $1.8 billion in statutory borrowing authority that the Postal Service would be left with at FY 2010 year end. However it should be clear that this type of cash augmentation cannot be part of a sustainable strategy.

[39] Admittedly, the Postal Service can expect some unknown savings from its delivery frequency reduction initiative if approved by the PRC and the Congress. However, even with approval, the timing for execution of that initiative is unknown at this stage.

the Postal Service runs out of cash. A reality check, reflected by an immediate change in course, appears in order.

2. Options for Postal Service financial sustainability by end of FY 2011

The Public Representative, with the assistance of technical staff, has developed three price increase options involving different combinations of financial relief. The three options are geared to stop the cash leakage the Postal Service would continue to experience beyond FY 2011 under their apparent plan. In developing the options, the Public Representative relied on: a) the market dominant demand models for FY 2009, filed by the Postal Service on January 20, 2010,[40] b) the FY 2009 public version of the CRA, filed with the ACR on December 29, 2009,[41] and c) a system level demand model presented by William C. Miller, from the Commission's staff, at the November 20, 2009 conference organized by the Center for Research in Regulated Industries.[42]

Data Sources and Estimation Methodology ─ The actual FY 2009 volumes, revenues and costs for the competitive products were used as the forecasts for these products in FY 2010 and FY 2011.

The Postal Service's market dominant forecasting data, accompanying the models, were presented in a format that allowed development of product level volume forecasts only for FY 2010. It was therefore necessary to use a system level approach for the following year. Because of these circumstances, the Public Representative recommends that the Postal Service provide forecasting data in a multiple year format in the future in order to allow the same level of visibility in all years. Appendix A

[40] Market Dominant Demand Analysis Materials in Response to Rule 3050.26, January 20, 2010.

[41] Public Cost and Revenue Analysis (PCRA), USPS-09-1.

[42] *USPS in Good Times and Bad: Results from an Aggregate Economic Model*, presented by William C. Miller at The Advanced Workshop on the Future of the Postal Sector, Washington, DC, November 20, 2009.

provides a more detailed but brief explanation of the system level volume forecasting model used in FY 2011.

The Postal Service's demand models were used to estimate FY 2010 volumes at the product level according to different across-the-board percent price increases for market dominant products. Even though the same percent price increase was applied to all products, the percent volume response varied depending on the demand elasticities for each product. One important change made to the demand models from the earlier versions, is the elimination of all cross price effects, including effects from first class presort discounts on both demand for single piece first class mail and presorted mail. Thus all price effects on volume are from own product price changes.

On the cost side, the FY2009 CRA volume and volume variable cost data were used to construct unit volume variable costs by product. Then volume variable costs were developed at the product level for FY 2010 based on the product level demand estimates for that year and the calculated FY 2009 unit volume variable costs. The Public Representative also added back the $4.0 billion in financial relief obtained by the Postal Service to institutional costs for FY 2009 to obtain the FY 2011 level for these costs. The Public Representative is aware that a portion of retiree health benefits are treated as volume variable for reporting purposes. However the $5.5 billion portion of these costs is truly fixed, as mandated by the PAEA, and therefore the full add back to the institutional side was considered appropriate.

Interest expenses for FY 2010 were calculated using the schedule filed with the Postal Service's FY 2009 Form 10-K. That schedule shows the distribution of the total FY 2009 year end amount of $10.2 billion by individual issue of the Federal Financing Bank. The interest rates shown by issue were multiplied by the corresponding amounts to calculate the total FY 2010 interest expense. Any partial interest payments from new debt issue in the current fiscal year were not included in the estimate. Finally, the FY 2009 market dominant product specific costs were treated as fixed but included in the corresponding product attributable costs for FY 2010.

The Public Representative was able to construct a baseline scenario for FY 2010 using this estimation methodology, assuming no price increases in the current fiscal year. A summary of revenues and costs at the class level is shown in TABLE 2 below. The figures shown are remarkably close to the values indicated by the Postal Service in the Integrated Financial Plan. Most importantly, the Public Representative calculated a net deficit of $7.9 billion, inclusive of the full $7.7 billion dollar health benefit payment. This figure is only $100 million higher than the Postal Service’s loss estimate.

TABLE 2

Option: Baseline

**ESTIMATED FY2010 VOLUME, REVENUES AND NET INCOME
BY MAIL CLASS (000)**

Category	Volume	Revenues	Volume Variable Costs	Product Specific Costs	Attributable Costs	Contribution
First Class	78,075,984	$33,953,637	$16,516,735	$32,052	$16,548,787	$17,404,850
Standard	79,565,749	17,187,809	11,579,147	9,648	11,588,795	5,599,014
Periodicals	7,365,472	2,067,262	2,483,535	0	2,483,535	(416,273)
Package Services	674,772	1,431,180	1,487,342	0	1,487,342	(56,162)
All Other *	1,855,515	11,634,748	8,615,290	88,415	8,703,704	2,931,043
Totals	167,537,491	$66,274,636	$40,682,049	$130,115	$40,812,164	$25,462,472
Institutional Costs						33,206,834
Interest Expenses						162,859
Retiree Health Benefit Adjustment						0
Net Income						($7,907,221)

*** Includes competitive mail, special services, investment income and appropriations**

3. Summary of results

The Public Representative estimated the percent price increases required to reach breakeven in FY 2011 according to three options: a) no financial relief, b) the permanent $5.5 billion in financial relief recommended by the Office of Inspector General.[43], and c) the $2.1 billion in permanent relief recommended by the PRC in its

[43] *The Postal Service's Share of CSRS Pension Responsibility*, Office of the Inspector General, January 20, 2010.

report to Congress in FY 2009.[44] As stated previously, the Public Representative assumes equal percent across-the-board price increases are executed at the beginning of the third quarter in FY 2010 (April), and one year later at the same time. Not surprisingly, the amount of relief granted does affect the percent increase in the rates appreciably and the FY 2011 cash balances. TABLE 3 below summarizes the results obtained. All back-up tables containing class level and product level summaries for FY 2010 and system level summaries for FY 2011 are contained in the Appendix B.

TABLE 3

Summary of Percent Price Increases and FY 2011 Year End Cash Balances (Billions)

Option	Percent Price Increase	FY2010 Net Income	FY2011 Net Income	FY2011 Cash Balance
Full Payment	10.1%	($5.3)	$0	$2.7
OIG Option	3.1%	($1.6)	$0	$6.4
PRC Option	7.4%	($3.9)	$0	$4.1

If the Postal Service were required to pay the full $7.7 billion in health benefits in accordance with the original schedule contained in the PAEA, then breakeven in FY 2011 would require two across-the-board percent price increases of about 10.1 percent, according to results obtained from the analysis. Because net income is zero in FY 2011, both the beginning and ending cash balances for FY 2011 would be about $2.7

[44] Postal Regulatory Commission Review of Retiree Health Benefit Fund Liability as Calculated by Office of Personnel Management and U.S. Postal Service Office of Inspector General, July 2009 at 3.

billion. Net income can be expected to turn positive beginning in FY 2012 as minimal volume growth reappears and, consequently, cash balances can be expected to grow.

On the other hand, if the OIG recommendation were adopted, then prices would need to increase in both years by only 3.1 percent. The $3.7 billion reduction in the net deficit, compared with the full payment option, is reflected in a cash increase of the same amount in FY2011. Last, the PRC option provides an intermediate solution between these two extremes. In this case, the required percent price increases are estimated at 7.4 percent. The resulting cash balance is $4.1 billion, higher than the full payment option but lower than the OIG option. As with the first option, volumes and cash balances in these latter two cases can be expected to grow beyond FY2011 as economic recovery continues.

It is important to note that the estimated cash balances under all three options are still unacceptably low. Even the highest balance under the OIG option can only support operating expenses for one month. Therefore the across-the-board price increase estimates presented here should be viewed as lower bound estimates. They are not intended to provide precise figures, but only to open a much needed discussion for initiating a mid-course correction in the Postal Service's apparent strategy, as soon as possible.

Because of the magnitude of the income gap and the impact of rate shock, the Public Representative has posited that two annual incremental rate adjustments, starting in FY2010 (when no other market dominant rate increase is scheduled) would put the Postal Service back on the financial path of stability that Congress intended. Knowing and understanding the size and impact of all necessary rate adjustments also permits policy makers to evaluate better other factors that may mitigate or offset some of the estimated rate adjustments such as improving business conditions, limited service reductions, or other significant new business alternatives.[45] Taken together with rate adjustments, these factors could temper, or even eliminate, the need for Congressional action to scrap either the current 6 day delivery policy or the current statutory policy that the Postal Service operate within loan limits and without significant additional taxpayer subsidy.

D. The Postal Service's Plan and Other Options to Achieve Financial Stability in FY 2010 and in Later Years

1. Postal Service plan filed with Commission

The Postal Service recently filed its plan to achieve financial stability in FY 2010 and beyond in response to the Commission Information Request No. 1 in this docket.[46] A public forum to discuss those plans and alternative means of achieving financial stability is scheduled for February 10, 2010.[47] For purposes of discussion, the public Representative has suggested here viable alternatives to ease the financial instability of the Postal Service.

2. To paraphrase Mark Twain: the reports of the demise of the Postal Service appear premature.

The above paraphrase is apt as it gives pause to increased concern by some who fear a collapse of Postal Service volumes because they recently dipped precipitously due to increases in internet traffic and, coincidentally, during a major

[45] The Postal Service has estimated that it would take the profit generated by approximately $45 billion in new revenues to fill the earnings gap. Statement of Robert F. Bernstock before the Subcommittee on Federal Workforce, Postal Service, and the District of Columbia of the Committee on Oversight and Government Reform House of Representatives, November 5, 2009 at 9.

[46] Commission Information Request No. 1, January 20, 2010; Response of United States Postal Service to Commission Information Request No. 1, January 29, 2010.

[47] Notice of Public Forum and Opportunity to Comment, January 20, 2010.

business recession. Steps to remove the Postal Service's delivery service obligation from six days to 5 days initiates the potential for further dismantling daily delivery service. Actions to continue the elimination of collection boxes and to eliminate other consumer access points appear to be premature, at least by a generation, if at all. Mail volumes have fallen back, but only to the level of the mid-1990s. Signs of some revitalization in volumes have appeared. The need for most mail will continue into the indefinite future even though the internet offers new ways for instant communication. Postal Service volumes thrived in the years after the advent of the telegraph and the telephone even though they offered instant messaging in hard copy and direct voice communication in the home as alternatives to the Postal Service. Attached in Appendix C is a description of the early impact of the telegraph and the telephone on communications. With hindsight, those inventions did not spell the end of the public's demand and need for mail. Whatever lower level of volumes may result from infringement of the internet, postal operations can nevertheless continue to be conducted efficiently with rates designed to recover total operating costs at lower volumes levels without the need to dismantle immediately services clearly desired by the public.

3. Alternatives to the Postal Service plan

A simple approach to provide some immediate relief for the Postal Service's cash flow difficulties would be an increase in the statutory borrowing limits which do not reflect inflation since they were established almost 20 years ago. The current borrowing limit of $3 million annually was first effective on October 1, 1990, and the $15 billion total borrowing limit became effective for fiscal year1992.[48] Adjusting for inflation up to

[48] 39 U.S.C. § 2005(a). Pub. L. 101-227, Sec. 3(a), Dec. 12, 1989. Pub. L. 101-227 designated the maximum amount of loans then allowable. Section 3(b) of Pub. L. 101-227 provided that the amendments take effect on October 1, 1990. 39 U.S.C.A. 2005, note.

November, 2009 in today's dollars would equate to a borrowing capacity of $4.9 billion annually and $22.9 billion in total.[49] This would not be a panacea because total interest costs will increase and the increased debt must be repaid in the future. It also digresses further from the principle that all costs, including institutional costs, should be borne by users of the mail.[50]

Nevertheless, increasing the current statutory borrowing limits to reflect inflation would significantly improve the Postal Service's cash flow position while other avenues of relief are pursued such as further reducing operating costs to align them better with reduced volumes and/or increasing rate levels, as appropriate, to permit time for a proper Congressional readjustment of all retiree health benefits payments consistent with the capacity of the Postal Service and mailers to cover those costs.

E. Policy Reasons for Rate Level Adjustment

The Public Representative's rate adjustment estimates set forth above offer a basis for comparison with other public choices available. Ratcheted rate increases of several pennies for singe-piece First-Class rates amounting to a few percentage points could "save the service" currently enjoyed, in some cases demanded, by many mailers and the public, including the demand to keep post offices open. Moreover, rate adjustments that better reflect the full cost of services would more closely adhere to accepted economic principles. Price increases of this order of magnitude to maintain the benefits offered by the Postal Service may be compared to the likely impact on rates

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[49] U.S. Department of Labor, Bureau of Labor Statistics, Consumer Price index for All Urban Consumers, Series ID: CPIAUCNS.

[50] It bears noting that as of the end of FY2009 the Postal Service had negative equity of $5.4 billion. United States Postal Service 2009 Report, Form 10-K. A private company in similar circumstances would have difficulty issuing further debt.

if the alternative path of privatization being discussed in some quarters, including the Postal Service, is followed.

Another relevant factor when considering the appropriateness of rate level adjustments is the level of its First-Class Mail letter rates compared to that of other postal services around the world. The Postal Service describes the current First-Class Mail letter rate as a "Global Bargain" in comparison to the rates in six industrialized countries. In 2009, a First-Class Mail letter rate equivalent (U.S. dollars) in Great Britain was 64 cents, in Germany it was 77 cents, in France it was 78 cents, and in Japan it was 83 cents. Norway was $1.25. None of the increased calculated by the Public Representative's study would approach these levels. Canada, with a 47 cent rate, was almost 7 percent higher.[51] The First-Class Mail letter rate would remain a bargain even if significant rate level adjustments were applied to the Postal Service rates. Moreover, the rates of other nations may also ratchet-up over the next two years as well. Where Postal Service rates do not adequately reflect the total cost of service, it is not apparent why U.S. postal rates necessarily should be much lower than in most, if not all, of the industrialized world.

If another year passes, the Postal Service will lose another opportunity to incrementally increase rates without increasing the potential for one large future rate increase or for greater reliance on taxpayer subsidies or increased debt.

Ultimately, Congress may be willing to subsidize the Postal Service or authorize the U.S. Treasury to increase loans to the Postal Service, but that is not currently the law or the tradition. In the meantime, the Commission should interpret the PAEA as Congressional direction that the Commission is authorized to take appropriate measures necessary to insure that total costs are recovered to avoid insolvency.

[51] United States Postal Service, 2009 Annual Report at 1.

Rate adjustments, if appropriate, should be implemented as soon as feasible to alleviate and reduce the losses projected for FY2010. The above estimates of the Public Representative assume two consecutive mid-fiscal year rate adjustments. If rate levels are not adjusted shortly, and in the absence of other remedial actions by the Postal Service and/or Congress, year over year losses will pile up and the losses may never be made up. Once the opportunity for a rate increase to recover total costs as nearly as feasible is missed, given the projections for sustained volume reductions in the future, the losses cannot reasonably be expected to be recovered in a timely fashion.

Also relevant, rate level adjustments ordered by the Commission are to be designed to achieve compliance and to remedy the effects of non compliance. 39 U.S.C. 3662. They are not required to achieve a more precise result such as breaking even. In this emergency, a rate increase sooner than later appears preferable to delaying an increase to insure a specific result. Given the precarious financial position of the Postal Service, increasing revenues in the short run to avoid imminent insolvency can increase stakeholder options during FY 2011. However, even if Congress waives the retiree health benefits payment due September 30, 2010, without new revenue sources, as additional predicted losses mount during FY 2011, the Postal Service's cash will dwindle far below minimum cash requirements by mid-2011. Even this condition assumes the Postal Service's volume estimates are not overly optimistic,

The current state of the Postal Service can be likened to that of a ship on a heading toward a very large floating object. While the Postal Service is praying for divine intervention with relief from Congress, the helm has issued an FY 2009 ACR Report on operations focused on carefully demonstrating not only whether the cost of each deck chair is borne by the appropriate passenger class, but it focuses on *yesterday's* deck chair arrangement. More importantly, the infrastructure of the vessel needs to be reinforced with additional revenue to ensure it is seaworthy. Unless an immediate course change is ordered or the crew dramatically strengthens the ship's efficiency, the ship will smack the iceberg, become insolvent, and sink. At that point, it will be too late for fireworks in the sky to garner divine intervention. The only certain sources of salvation can come from the ship's bridge or the Commission with authority to order a change in course. It is submitted that the Commission's role is to correct the Postal Service ship when its route is out of compliance and needs a course change, not merely to review the deck chair Report.

III. RATES AND FEES FOR INDIVIDUAL PRODUCTS NOT COVERING ATTRIBUTABLE COSTS

A. Products Not Covering Attributable Costs

According to the FY 2009 ACR, each of three products fell short of covering its attributable costs by almost $1.5 billion[52] A few other products failed to cover their attributable costs by a combined $ 215.5 million.[53] The large shortage for the three products, In particular, significantly affects Postal Service finances. The three products are:

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52 The Public Representative has taken at face value the cost coverage representations of the Postal Service although some relatively minor adjustments may be necessary for updates or corrections after further Commission inquiry and review.

53 The combined total of attributable costs not recovered by the other products amounted to $215.5 billion. Those products were: First-Class Mail-Inbound Single-Piece First-Class Mail Int'l - $105 million; Periodicals, Within County $14 million; Package Services - Bound Printed Matter - $8 million, - Media Mail $75 million; Special Services – Registered Mail, Stamped Cards, Int'l Ancillary Services, and Confirm – combined $ 13.5 million. FY 2009 ACR at 22, 40, 42 and 52.

Product	Attributable Cost Shortfall (Millions) FY 2009[54]	FY 2008[55]
Standard Mail Flats	$622	$218
Standard Mail Parcels & NFMs	208	165
Outside County Periodicals	643	434
Total	1,473	817

Comparison of the FY 2009 ACR and FY 2008 ACD attributable cost shortfalls indicates an alarming increase from year to year for these three products. In the FY 2008 ACD, the Commission determined that these products failed to cover their attributable costs. In the year since the FY 2008 ACD when the Commission directed improvement, the Postal Service has almost doubled its attributable cost losses on these products. In the case of Standard Mail flats, the Commission directed the Postal Service to decrease the disparity between flats and letter rates or justify unequal treatment. FY 2008 ACD at 62. In the case of Standard Mail parcels and NFMs, the Commission similarly directed the Postal Service to continue to phase in increases in the rates to make them compensatory. In the case of Outside County Periodicals, the Commission did not specifically direct improvement in cost coverage.

The Postal Service recognizes that for Standard Mail Flats "future pricing and products actions need to take these data into consideration to ensure that its product

[54] FY 2009 ACR, tables at 26, 40, and 42

[55] FY 2008 ACD, tables at 56 and 59.

covers it costs." FY 2009 ACR at 36. The Postal Service cites the recent large drop in volume for this product and is reticent about increasing rates needed to recover attributable costs. The Postal Service recognizes that "future product and pricing actions" for Standard Mail Parcels & NFMs need "to ensure that this product covers its costs." FY 2009 ACR at 37. Outside County Periodicals have failed for several years to recover attributable costs.

B. Commission Response to Significant Losses of Attributable Costs

It is apparent that a large portion of the Postal Service's losses for FY 2009 is due to three products that did not recover their attributable costs during FY 2009. This will recur in FY 2010. Any across-the-board increase in rates as estimated by the Public Representative would not significantly alter the rate discrimination imposed upon users of the other products recovering all of their attributable costs and a fair share of institutional costs. Although the Public Representative has computed estimates of the impact with across-the-board rate level adjustments, the Commission may alternatively consider first ordering rate adjustments focused on these products to reduce the discrimination caused by their shortfall of revenues. If the Postal Service is unwilling to adjust these rates which failed to recover almost $1.5 billion of attributable costs to avoid insolvency, the Commission should consider whether, and may determine, these particular rates are contrary to objective 3622(b)(8) as unjust and unreasonable, as well as discriminatory. If so, it may order additional rate increases in incremental amounts to, at a minimum, bring into balance revenues and attributable costs for these products. Once rates are adjusted to recover attributable costs and eliminate discriminatory rates, the remaining deficit may be met with an across-the-board increase on all products.

As attributable cost shortfalls have increased significantly, the Postal Service can no longer be expected to force other mailers to pick up the large losses they represent. The rates must be significantly increased in steps with a view toward balancing revenues and attributable costs. If the customers cannot withstand the appropriate postage rates, the difficulty may lie with their underlying business models. Alternatively, those mailers may find other sources of revenue to subsidize their businesses. The PAEA does not require, nor is it fair to suggest, that the PAEA even contemplates that mailers provide such large subsidies for these products. Congress may decide that taxpayers should subsidize the periodicals product to bind the nation together and provide for lower rates, but in the meantime, this degree of discrimination in rates is unwarranted and the PAEA does not condone such unfair and lopsided rate schedules which greatly exacerbate the potential for insolvency.

IV. POSTAL SERVICE COMPLIANCE WITH SERVICE STANDARDS FOR MARKET DOMINANT PRODUCTS

A. Current Service Standards

The PAEA requires the Postal Service's ACR to provide for each market dominant product measures of the quality of service, including (1) the level of service "in terms of speed of delivery and reliability," and (2) "the degree of customer satisfaction with the service provided." 39 U.S.C. § 3652(a)(2)(B). The ACR serves to indicate the degree of compliance with the modern service standards established pursuant to section 3691 of the PAEA. A series of Commission and Postal Service initiatives have developed service standards and measurement systems.

The Postal Service is continuing to adjust its measurement systems and final Commission rules for the periodic reporting of service performance measurements and customer satisfaction are pending before the Commission.[56] Thus, the FY 2009 ACR

[56] RM2009-11, *Periodic Reporting of Service Performance Measurements and Customer Satisfaction*, Notice of Proposed Rulemaking on Periodic Reporting of Service Performance Measurements and Customer Satisfaction, Order No. 292, September 2, 2009.

reports measures of service during a state of transition. As a result, for some measures, the information provided in the FY 2009 ACR is not comparable year to year. Consistency in measurement systems will be necessary before valid comparisons of performance and customer satisfaction are useful.

The Postal Service formally established a set of modern service standards for market dominant products pursuant to 39 U.S.C. § 3691, *See* Modern Service Standards for Market-Dominant Products, December 19, 2007 (Service Standards).[57] The standards establish overnight, two day, three day, or more service standards for virtually all ZIP Code pairs and separate standards for many Special Services. The Postal Service's Service Performance Measurement plan[58] briefly explains the various measurement systems the Postal Service uses to measure standards in the Service Standards document.[59] In a second step, the Commission approved the Postal Service approach for developing internal measurement systems for various classes of mail.[60] PRC Order No. 140, Order Concerning Proposals for Internal Service Standards Measurement Systems, November 25, 2008 ("Order No. 140").

[57] 39 CFR Parts 121 and 122.

[58] The Commission published the Plan in Docket No. PI2008-1, Second Notice of Request for Comments on Service Performance Measurement Systems for Market Dominant Products, June 18, 2008 (Order No. 83).

[59] An objective in designing service performance standards is for the Postal Service to provide "a system of objective external performance measurements for each market-dominant product as a basis for measurement of Postal Service performance." 39 U.S.C. § 3691(b)(1)(D). However, "with the approval of the Postal Regulatory Commission an internal measurement system may be implemented instead of an external measurement system" for individual products. 39 U.S.C. § 3691(b)(2). In the Plan, the Postal Service proposes various internal, external, and hybrid (containing both internal and external elements) measurement systems to measure the performance of its mail products.

[60] Approval was provided with the exception of the measurement systems for several Special Services where the Commission directed the Postal Service to propose a remedial plan by June 1, 2009. The Postal Service submitted remedial proposals on May 15, 2009. *See* Letter from Thomas G. Day, Senior Vice President, Intelligent Mail and Address Quality, United States Postal Service, to Dan G. Blair, Chairman, Postal Regulatory Commission, May 15, 2009 (May 15 2009 Letter from Thomas G. Day).

As a third step in the process, in consultation with the Commission, the Postal Service established performance goals. FY 2010 targets can now be accessed at http://ribbs.usps.gov/index.cfm?page=targets. The website does not list the targets for prior periods or whether the targets have been changed.

The fourth and final step in the process is for the Commission to finalize its rules specifying the reporting of service performance. The proposed rules would add a new Part 3055 (Service Performance and Customer Satisfaction Reporting) in addition to the information already required to be included in the ACR pursuant to the Commission's rules in section 3050.21.

The Commission's current ACR reporting rules require the Postal Service to provide, as a bare minimum, "The quality of service received by each market dominant product, including the speed of delivery and the reliability of delivery." Section 3050.21(d). Current rules do not require information about the degree of customer satisfaction as specified in section 3652 of the PAEA, but proposed Commission rules would require detailed reporting of customer satisfaction. See Order No. 292, Proposed Part 3055, Subpart C-Reporting of Customer Satisfaction, Section 3055.90-93.

Some of the gaps in the FY 2009 ACR information result from delays in implementing new measurement systems. The Commission has noted the transitional situation and consequently reporting will be relaxed until the situation stabilizes:

> The Commission recognizes the transitional needs of the Postal Service and accepts its request to develop and utilize internal measurement systems relying on barcode technology. Total compliance with the reporting requirements will not be possible until the Intelligent Mail barcode (IMb)-, Red Tag/DelTrak-, and Delivery Confirmation-based measurement systems provide reliable, representative data. In some instances, new or enhanced measurement capabilities may be required.

> In the short term, the Commission accepts that the Postal Service cannot wholly comply with these reporting requirements because specific measurement systems have not been fully developed or deployed. As long as the indicators already in place demonstrate adequate service levels, the Commission will allow the Postal Service to proceed diligently to develop a plan for eventually being able to supply the required information, and periodically to demonstrate progress in implementing its plan." Order No. 292 at 2.

The Postal Service intends to redesign its Customer Satisfaction Measurement Survey to meet the requirements of the PAEA and to generate customer satisfaction data on a product-by-product basis. The Commission seeks to ensure that future consumer surveys produce reliable and meaningful information. The proposed rule, Section 3055.92, requires the Postal Service to file a copy of each type of survey instrument used in the preceding fiscal year, and to report a summary of the information obtained, on an annual basis. Where multiple choice questions are asked, the Postal Service should indicate the number of responses obtained for each possible response and include a description of the customer type targeted by each survey and statistics on the surveys and responses thereto. *Id.*

B. Whether Any Service Standards in Effect During FY 2009 Were Not Met

The Commission requests comments in this proceeding on whether any service standards in effect during FY 2009 were not met. Generally, the Postal Service reports very high compliance rates for overnight, two day and three day service. *See* FY 2009 ACR, table at 12. The Postal Service also appears to meet its service standards, limited as they are, for its special services most of the time. However, for FY 2009, the overall report is, at best, piecemeal, incomplete and confusing and fails to properly provide the information in a comprehensive manner appropriate for matters of this significance.[61]

The Commission's proposed rules in Docket No. RM2009-11 include illustrative *pro forma* charts that would present the minimum annual information in ready to read format for reporting service performance. Order No. 292 at 39-40. The Postal Service did not use those charts in its report. In addition, the Postal Service does not analyze or explain how management maintained or improved service performance during FY 2009 or its plans to improve performance or why it does not need to improve performance in the year ahead.

A better measure of compliance is to compare the percentage of on-time mail for a product this year with the prior year's performance. A decline in year over year performance might be considered as a failure to comply with the PAEA. However, the FY 2009 ACR does not compare percent on-time with prior year's performances although the Annual Comprehensive Statement offers some comparison for First-Class Mail. In fact, the changes during the year in the external measurement systems expanded the number of ZIP Code areas and had a negative effect on the performance results that may or may not reflect actual performance. FY 2009 ACR at 12-14.

A more satisfactory means of determining compliance with service standards requires comparison to the performance goals the Postal Service has established for itself. The goals for FY 2009 are not included in the ACR but are included within the Annual Comprehensive Report. USPS-FY09-17, table at 60. As noted above, performance goals are also available on the Postal Service's website. Comparison of

[61] As an initial matter, the FY 2009 ACR does not include a table of contents, contrary to Commission filing requirements for documents of 20 or more pages. 39 CFR § 3001.11(f). A Report with 87 pages, two appendices, and numerous subsections covering several issues for review and certain to be analyzed by the Commission and the public should include a table of contents.

the FY 2009 service performance with the FY 2009 goals indicates the Postal Service missed the First-Class Mail goals by 0.5 percent in two cases and by 0.3 percent for overnight mail with 96.2 percent on time versus a goal of 96.5 percent on time. However, the table also indicates the FY 2009 and FY 2010 plan goals were virtually identical to the actual FY 2008 performance. Although the overall service performance remains solid, the Postal Service performance and goals for First-Class Mail remain essentially static.

Most notably, the on-time percentage for single-piece ground package services at 63.9 percent on-time is unsatisfactory. This is an area where the Commission may conclude the performance falls far short of any reasonable goal. According to the Postal Service's website, the package services goal for parcels for FY 2010 is 90 percent. This is particularly significant because Package Services could be one of the few long-term growth areas for Postal Service volumes. The Commission should request special reports and renewed Postal Service efforts to improve the on-time performance of retail single piece ground package services.

Recognizing the transitional nature of overall service performance measurements and surveys, the Public Representative offers the following comments to improve the ACR's transparency and usefulness for Commission analyses.[62] This is consistent with the Commission's stated purpose of the proposed reporting rules "designed to maximize transparency using data sources that either exist now, or are in active development." Order No. 292 at 2.

[62] A Public Representative previously commented at length on the Commission's proposed rules in Docket No. RM2009-11. These comments are directed toward the current FY 2009 ACR and suggestions for future improvements rather than repeating prior comments on the substantive requirements of the proposed rules germane to that rulemaking.

1. The FY 2009 ACR provides only limited annual service performance information in tabular form. FY 2009 ACR at 12. The one table reports percent on-time for First-Class Mail, both domestic and International and Package Services without any comparison to prior years. The Postal Service should be required to provide comparative information in the ACR. Some comparative information is in the Comprehensive Statement of Operations, but the chart of actual 2009 performance for First-Class Mail does not reconcile with the ACR. The ACR reports First-Class Mail percent on-time for overnight, two-day and three-day as 96.1, 93.5 and 90.8 respectively. The Comprehensive Statement reports these actual FY2009 on-time performance percentages as 96.2, 93.7 and 92.2, respectively. The Commission may wish to seek a clarification of this discrepancy.

2. The FY 2009 ACR notes that the expansion of the EXFC coverage from 463 to 892 3-digit ZIP Code areas resulted in an initial lag in overnight First-Class Mail performance in the expansion ZIP Codes of 13.5 percent but that the gap has improved over the year to only 0.7 percent. FY 2009 ACR at 13. This observation raises several questions. First, the Postal Service does not provide any further details about the performance percentages and service areas impacted during the year. The Commission may wish to obtain additional and separate details for core areas and expansion areas. Second, with such a large initial performance gap, what are the several new reports that assisted field managers in closing the performance gap and improved performance so readily? *See id.* at 13. Third, if only knowledge of a performance gap and a few new reports were able to lead to such relatively quick improvements in performance, expansion of such reports to other classes that are lagging in service performance measurements may be warranted and cost effective.

3. The FY 2009 ACR discussion of service performance refers to a hybrid system for measuring performance of presort First-Class Mail and Standard Mail

4. The FY 2009 Comprehensive Statement includes a table with both FY 2009 and FY 2010 goals, but that presentation is not sufficient for the ACR. USPS-FY09-17 at 12. The table covers only First-Class products. More importantly, this information should be gathered into the ACR rather than provided in various disaggregated documents made available by the Postal Service. The purpose of the ACR is to combine information regarding postal operations for analysis. The Commission should not have to guess at the Postal Service's performance from various unrelated documents

V. CUSTOMER SATISFACTION WITH MARKET DOMINANT PRODUCTS

The Commission requests comments on whether the Postal Service has met the goals established in the annual Comprehensive Statement of Postal Operations and program and performance plans included in the Comprehensive Statement to assist the Commission in developing appropriate recommendations to the Postal Service related to the protection or promotion of the public policy objectives of title 39.

The PAEA requires the Postal Service to report the degree of customer satisfaction with the service provided by each market-dominant product. 39 U.S.C. § 3652(a)((2)(B)(ii). The Postal Service includes a table of customer satisfaction ratings that it believes conforms to the PAEA. FY 2009 ACR at 14. The table combines customer ratings for all market dominant products and does little to enlighten the

Commission about the actual customer satisfaction. It does not break down survey results by year, by customer type, or by rating level, *i.e.* good, very good, and excellent. The Postal Service does not utilize the illustrative *pro forma* charts proposed by the Commission for reporting customer satisfaction. Order No. 292 at 57-59.

A. FY 2009 Customer Satisfaction Compared to FY 2008

The library reference USPS-FY09-38 contains additional information about customer satisfaction for both commercial (large businesses) and residential/small business. It must be compared to the FY 2008 ACD. Customer satisfaction declined between FY 2008 and FY 2009. The percentage of customer satisfaction declined significantly in FY 2009. For instance, First-Class Mail rated from good to excellent declined from 91.7 percent, FY 20008 ACD at 31, to 77.4 percent. USPS-FY09-38, POS Receipt Survey. Likewise, in each product category the customer satisfaction for residential and small businesses declined. *Id.* Customer satisfaction also declined in each product category for commercial business but not as significantly. *Id*. The Postal Service explains these results as due to changes in survey mode and other circumstances. Hopefully, these results are not representative of an underlying decline in customer satisfaction.

The performance goals represent a significant part of the system to measure the quality of service. The goals should be included within the ACR as the Commission has proposed in its Order No. 292 rulemaking. Also, to be useful and provide the transparency needed for comparative purposes, the Postal Service's report should indicate prior period targets at variance with current goals. If there is no change in goals, that fact should be indicated in the ACR. The proposed rule provides that the Postal Service need only file a 30 day notice of changes in goals and other standards (proposed section 3055.5). There is no proposal that the Postal Service's ACR include both the old and the new goals and standards of performance from year to year in order to facilitate year to year performance comparisons.

B. The FY 2008 ACD Recommended Improvement in Several Areas of Customer Satisfaction Measurement and Reporting.

1. The Commission recommended that the Postal Service gather more information from residential and small business customers.

The FY 2009 survey involved a different mode (online) than the FY 2008 survey (telephone), and obtained a greater number of responses from residential and small business customers. The Commission's FY 2008 ACD recommended an adjustment to customer surveys to gather more information from small businesses and residential customers. FY 2008 ACD at 30. The FY 2009 surveys through the Gallup organization obtained over 1 million responses from residents and almost 400,000 responses from small businesses but, if extensive new information were gathered, the essential details of the results are not reported. Comprehensive Statement, USPS-FY09-17 at 45.

It appears that the FY 2009 surveys may have gathered more responses but did little or nothing to comply with the Commission's recommendation to gather *more information* from residential and small business customers. As offered to the Commission, the survey apparently only asked recent users of each of four classes of mail to rate their satisfaction with that class during the past 30 days as Excellent, Very good, Good, Fair or Poor. USPS-FY09-38. It is not clear whether there were any additional follow-up questions to measure customer satisfaction with other services. In the FY 2008 ACD, the Commission pointed out that an improvement is expected in evaluation of the "retail service experiences" and Special Services in customer satisfaction surveys. FY 2008 ACD at 32. Additional subjects should be surveyed. It they are surveyed, the detailed results are not reported. Areas of interest relate to customer satisfaction with collection box access, home delivery times, wait time in line, window service, quality of postal facilities, lobby signage, and contract unit services.. The mystery shopper program does not survey customers. The Postal Service does not indicate that its planned new approach to satisfaction measurement in FY 2010 will yield any more information from small businesses. The new approach will include three ongoing surveys of randomly selected customer segments in FY 2010. The Postal Service does not explain the planned surveys and offers no hint whether the new approach will actually obtain more information about residential and small business satisfaction with postal services.

2. The Commission recommended that the Postal Service investigate why customer satisfaction is higher for national accounts than for residential and small business customers and to explain the differences between the residential and small business survey, both domestic and international.

The FY 2009 satisfaction survey measured customer satisfaction with the same market dominant products surveyed in FY 2008.[63] In response to the Commission's recommendation in the FY 2008 ACD, at 31-32, the Postal Service undertakes to explain the differences in the surveys and cites the primary role of large business customers as senders of mail and residential/small business customers as receivers of mail. The table is barely informative and needs to be expanded. It does not compare the customer satisfaction ratings with prior periods. Shifts in sentiment over annual periods can signal potential difficulties in the future or indicate improvements.

Customer satisfaction declined notably from FY 2008. The Postal Service does not provide a clear comparison by product in its report, but only briefly discusses the decline in customer satisfaction as resulting from different measurement systems. Because the old system apparently was not continued through FY 2009 to allow reliable

[63] First-Class Mail, Standard Mail, Periodicals, Single-Piece Parcel Post, Media Mail, Bound Printed Matter, Single-Piece International Mail and Library Mail. ACD at 30, FY 2009 ACR at 15, 17-18.

year over year comparisons, it is impossible to draw comparison between the FY 2009 customer satisfaction measurement provided in the FY 2009 ACR and FY 2008 levels. Because the Postal Service is moving to yet another measurement system for FY 2010, the FY 2009 service performance measures and the FY 2010 measurements will again fail to provide sufficient information to draw conclusions about year over year service.

VI. SUCCESS IN MEETING GOALS, AND PROGRAM AND PERFORMANCE PLANS IN THE ANNUAL COMPREHENSIVE STATEMENT

Pursuant to 39 U.S.C. 3653(d), the Commission is required to evaluate annually whether the Postal Service has met goals established under sections 2803 and 2804. Section 3653(d) also states that the Commission "may provide recommendations to the Postal Service related to the protection or promotion of public policy objectives set out in this title."

Section 2803 requires the Postal Service to include an "annual performance *plan* covering each *program activity* set forth in the Postal Service budget, which shall be included in the comprehensive statement…." (Emphasis supplied.) Section 2803(a) requires the Postal Service to establish performance goals for program activities and to report them in great detail, summarized as follows. The performance plan shall express such goals in an objective, quantifiable and measurable form, describe the resources needed to meet the goals, establish performance indicators to measure the relevant outputs from each *program activity,* provide a basis for comparing program results with actual goals, and describe the means used to validate measured values. If it is not feasible to express performance goals in an objective and quantifiable manner, section 2803(b) allows the Postal Service to express performance goals for a particular *program activity in* an alternative form.

Section 2803(b) and (c) set out an alternative form that must describe a "minimally effective program" and a "successful program," but may aggregate or consolidate program activities.

Section 2804 requires the Postal Service to prepare a report on program *performance* for each fiscal year to be included in its Comprehensive Statement. Section 2804(b) requires that the *program performance report* include a statement of the performance indicators, along with the actual performance achieved compared to the performance goals. Section 2804(b) also requires that if the Postal Service specifies performance goals are in an alternative form, a description of what constitutes a "minimally effective program" and a "successful program" and the results shall be provided in relation to those categories. Section 2804(c) requires that actual results shall be provided for the three preceding fiscal years.

The performance plans and program performance reports required under sections 2803 and 2804, respectively, were each once separate reports and their publication schedules were needlessly complicated. These individual reports were consolidated into the Comprehensive Statement submitted annually by the Postal Service to Congress as of 2006. As noted by the Commission in the FY 2008 ACD, the Comprehensive Statement must address, among other things: postal operations generally, including data on the speed and reliability of service provided for the various classes of mail and the types of mail service, mail volume, productivity trends in postal operations, and analysis of the impact of internal and external factors upon the Postal Service. The Commission has solicited public comments specifically on whether the Postal Service has "met the goals established in the annual Comprehensive Statement and program and performance plans included in the Comprehensive Statement which will assist the Commission in developing appropriate recommendations to the Postal Service related to the protection or promotion of the public policy objectives of title 39."[64]

In the 2009 Comprehensive Statement, the Postal Service identifies three "overarching" goals: (1) Improve service; (2) Improve financial viability and (3) Increase Employee Engagement. The Comprehensive Statement notes that it has used these three corporate goals since implementation of the Government Performance and Results Act (GIPRA) in 1993. The Core Organizational Goals, Targets and Results are summarized in a table on page 60 of the Comprehensive Statement. The summary table lists 2007 actual, 2008 actual, 2009 plan, 2009 actual and 2010 plan data.

This type of comparison, actual vs. plan, over time can be quite useful. However, the Postal Service's goals are simply *too aggregated*. These goals, in fact, are the result of, or at least partially the result of, a multitude of individual program activities. There are many program activities (once referred to as "sub-goals") identified and described in earlier chapters of the Comprehensive Statement which could also be compared - actual to plan - over time as well and displayed in a tabular format as was sometimes done in the past.[65] For example, in an early GAO audit of the Postal Service's Performance Planning and Reporting, GAO noted:

> The Service's fiscal year 1999 performance report used a tabular format for summarizing all of the Service's goals, indicators, targets and performance results that was easy to understand. The format was the same as that used in the fiscal year 1999 performance plan to summarize the Service's performance goals, subgoals, indicators and targets except the format added a column that readily identified actual

[64] Order No. 380, Docket No. ACR2009, January 5, 2010.

[65] Cost Reduction Program information is routinely included in the Postal Service's Integrated Financial Plans for the report-year.

> performance relative to the target. This tabular format was easy to follow and very user-friendly.[66]

It would be helpful to be able to distinguish actual cost savings arising from *program activities* from cost savings arising solely from reductions in labor hours unless those labor hour reductions result from cost saving activities or technology. Also, whether investments in cost saving technology or activities actually achieved the cost savings originally projected and are implementation schedules on-track?

The Public Representative's concerns regarding reporting of performance goals and results are not new. The GAO, as noted above, audited several early Performance Plans and Performance Results. It identified several reasons why a performance plan may not have been as useful to Congress and Postal Service management as it could have been. Those reasons included "instances where (1) without detailed explanation, several prior years' sub-goals – and their associated indicators and targets - were not carried forward into the next fiscal year (2001) preliminary performance plan; (2) the criteria the Postal Service used to measure its success toward achieving certain goals were unclear; (3) the description of strategies to accomplish certain results were incomplete; (4) information contained in prior years' plans were carried forward into the current year's plan without always being updated to reflect known or anticipated changes; and (5) little or no explanation was given on why the plan lacked baseline data for some quantitative indicators."[67]

The GAO audit reports were prepared at the request of Congress but there do not seem to have been any requested by Congress and, hence performed by GAO, since 2000. However, if Congress becomes more involved with the Postal Service's finances, its interest in the Postal Service's Performance Plans and Reports may be

[66] *U.S. Postal Service, Enhancements Needed in Performance Planning and Reporting* (GAO – GAO/GCD-00-207), September 2000 at 4.
[67] *Id*. at 3.

revived. The Public Representative recommends that the Commission further study the Postal Service's Comprehensive Statements and devise a reporting format designed to elicit and display information by *program activity* in a more detailed user-friendly manner.

VII. CONCLUSION

The Public Representative respectfully submits the foregoing for the Commission's consideration.

Respectfully submitted,

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The aggregate demand model used to estimate total volumes for FY2011 was applied in the same way that the Postal Service demand models are manipulated for volume forecasting purposes. In particular, the forecast for any future time period is developed by applying a series of multiplicative projection factors to the actual volumes for the base period. The projection factors consist generally of the ratios of the forecast period to base period values for the variables raised to the power of the respective variable elasticties. The one exception to this rule in the system level model used here applies to the treatment of the coefficient to the trend variable.

The aggregate demand model estimated in log-linear form using quarterly data is the following:

$$
\begin{aligned}
\ln(VOL_t) = &\underset{(-6.84)}{-12.0998} \underset{(-2.21)}{-.2746}*[\ln(P_{t-1}/CPI_{t-1}) + \underset{(11.69)}{2.3981}*\ln(GDP_t) \underset{(-17.93)}{-.01595}*t + \\
&\underset{(14.58)}{.0910}*D_{qt1} + \underset{(4.96)}{.0287}*D_{q2t}
\end{aligned}
$$

OBS = 26

$R^2 = .9696$

where:

VOL_t = the present quarter's total postal volume

P_{t-1}/CPI_{t-1} = the previous quarter's real price index for average revenues per piece (average revenues per piece divided by the CPI).

GDP_t = the present period's real gross domestic product.

t = the present quarter's assigned period value.

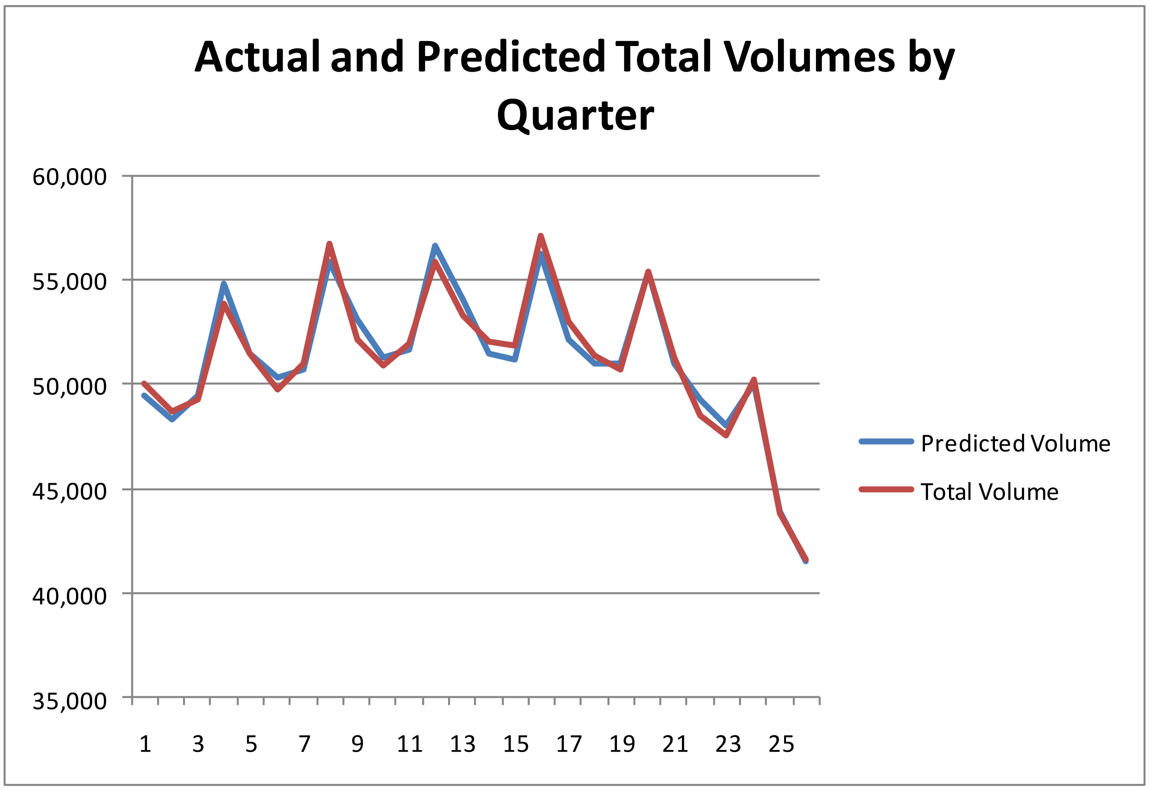
D_{q1t} = dummy variable for the first quarter of the fiscal year (equals one if data are for the first quarter; equals zero if not).

D_{q2t} = dummy variable for the second quarter of the fiscal year (equal s one if data are for the 2nd quarter; equals zero if not).

The t values shown below the variable coefficients in parenthesis indicate that all coefficients are statistically significant at the 5 percent confidence level.

The coefficients on the real price index and GDP variables are the elasticity values with respect to these variables. The coefficient on the trend variable is the quarter to quarter rate of volume decline holding all other variables constant. On an annualized basis, the trend coefficient indicates that volume is declining at a rate of 6.36 percent (4*1.595 percent), holding GDP and real postal rates constant. Therefore positive volume growth depends on a sufficiently high level of aggregate economic growth in the economy. The effect of GDP on volume growth is made clear in the following graph

FIGURE A-1



The graph shows the actual and predicted volumes from the model, starting in the second quarter of FY 2003 (t=1) and ending in the third quarter quarter of FY 2009 (t=26). The predictive power of the model, evident in the graph, is reflected by the model's high R squared value of .9696. It is clear that postal volume has been pulled down dramatically through the third quarter of FY2009 because of the decline in GDP and the separate volume diversion, captured by the trend. Before the recession, year to year volumes remained essentially stationary because the positive effect of GDP and the negative effect of the trend were largely offsetting.

The following annual growth rates for the GDP and CPI by quarter, published by the Survey of Professional Forecasters on November 16, 2009, were applied to the aggregate model to develop the FY2011 volume estimates:

TABLE A-1

	GDP	CPI
FY 2010 4th Quarter	NA	1.8%
FY 2011 1st Quarter	2.9%	1.8%
2nd Quarter	3.1%	2.1%
3rd Quarter	3.1%	2.1%
4th Quarter	3.1%	NA

The survey is available at the Philadelphia Federal Reserve Bank website www.philadelphiafed.org.

TABLE B-1

Option: Mid-Year 10.1 Percent Price Increase with No Health Benefit Adjustment

ESTIMATED FY2010 VOLUME, REVENUES AND NET INCOME
BY MAIL CLASS (000)

Category	Volume	Revenues	Volume Variable Costs	Product Specific Costs	Attributable Costs	Contribution
First Class	77,554,419	$35,329,992	$16,410,274	$32,052	$16,442,326	$18,887,666
Standard	78,804,208	17,853,015	11,472,635	9,648	11,482,283	6,370,732
Periodicals	7,333,246	2,159,076	2,472,681	0	2,472,681	(313,604)
Package Services	664,100	1,480,686	1,472,685	0	1,472,685	8,001
All Other *	1,855,515	11,766,381	8,578,159	88,415	8,666,573	3,099,808
Totals	166,211,487	$68,589,150	$40,406,432	$130,115	$40,536,547	$28,052,603
Institutional Costs						33,206,834
Interest Expenses						162,859
Retiree Health Benefit Adjustment						0
Net Income						($5,317,091)

* Includes competitive mail, special services, investment income and appropriations

TABLE B-2

Option: Mid-Year 3.1 Percent Price Increase with OIG Health Benefit Adjustment

ESTIMATED FY2010 VOLUME, REVENUES AND NET INCOME
BY MAIL CLASS (000)

Category	Volume	Revenues	Volume Variable Costs	Product Specific Costs	Attributable Costs	Contribution
First Class	77,909,717	$34,376,652	$16,482,785	$32,052	$16,514,837	$17,861,815
Standard	79,323,004	17,392,734	11,545,204	9,648	11,554,853	5,837,882
Periodicals	7,355,242	2,095,444	2,480,090	0	2,480,090	(384,645)
Package Services	671,353	1,446,439	1,482,652	0	1,482,652	(36,213)
All Other *	1,855,515	11,675,156	8,602,943	88,415	8,691,358	2,983,798
Totals	167,114,831	$66,986,425	$40,593,675	$130,115	$40,723,789	$26,262,636
Institutional Costs						33,206,834
Interest Expenses						162,859
Retiree Health Benefit Adjustment						5,500,000
Net Income						($1,607,057)

*** Includes competitive mail, special services, investment income and appropriations**

TABLE B-3

Option: Mid-Year 7.4 Percent Price Increase with PRC Health Benefit Adjustment

ESTIMATED FY2010 VOLUME, REVENUES AND NET INCOME
BY MAIL CLASS (000)

Category	Volume	Revenues	Volume Variable Costs	Product Specific Costs	Attributable Costs	Contribution
First Class	77,686,572	$34,967,288	$16,437,238	$32,052	$16,469,290	$18,497,997
Standard	78,997,183	17,678,147	11,499,633	9,648	11,509,281	6,168,866
Periodicals	7,341,450	2,134,848	2,475,444	0	2,475,444	(340,596)
Package Services	666,789	1,467,679	1,476,383	0	1,476,383	(8,704)
All Other *	1,855,515	11,731,651	8,587,138	88,415	8,675,553	3,056,099
Totals	166,547,508	$67,979,613	$40,475,836	$130,115	$40,605,951	$27,373,662
Institutional Costs						33,206,834
Interest Expenses						162,859
Retiree Health Benefit Adjustment						2,100,000
Net Income						($3,896,031)

*** Includes competitive mail, special services, investment income and appropriations**

TABLE B-4

Estimated FY2011 Breakeven Revenues and Costs by Option (000)

Category	Baseline	Price Increase Only	PRC Option	OIG Option
Volume	169,747,401	164,049,189	165,484,587	167,921,274
Revenues	$66,766,108	$73,506,420	$71,703,459	$68,808,363
Total Attributable	41,269,756	40,088,827	40,385,866	40,890,770
Institutional Costs	33,206,834	33,206,834	33,206,834	33,206,834
Total Costs	$74,476,590	$73,295,661	$73,592,700	$74,097,604
Operating Income	($7,710,483)	$210,759	($1,889,241)	($5,289,241)
Health Benefit Adjustment	0	0	2,100,000	5,500,000
Interest from Debt	210,759	210,759	210,759	210,759
Net Income	($7,921,242)	$0	$0	$0

TABLE B-5

Estimated Cash Balances
at Breakeven Income by Option (000)

Category	Price Increase Only	PRC Option	OIG Option
IFP FY2011 Beginning Cash Balance	$200,000	$200,000	$200,000
FY 2010 IFP Net Deficit	(7,800,000)	(7,800,000)	(7,800,000)
FY 2010 Deficit with Price Increase	(5,317,091)	(3,896,032)	(1,607,057)
Deficit Reduction	2,482,909	3,903,968	6,192,943
FY2011 Cash Balance with Price Increase	$2,682,909	$4,103,968	$6,392,943

TABLE B-6

FY 2010 Estimated Revenues, Costs and Contributions by Product ($000)

Scenario: Mid-Year 10.1 Percent Price Increase with PRC Health Benefit Adjustment

Mail Classes and Products	Volume	Revenues	Volume Variable Costs	Product Specific Costs	Attributable Costs	Contribution
MARKET DOMINANT PRODUCTS						
First-Class Mail:						
Single-Piece Letters..	27,102,243	12,797,239	7,125,517	10,314	7,135,831	5,661,407
Single-Piece Cards..	1,414,771	428,783	384,547	555	385,102	43,681
Total Single-Piece Letters and Cards..................	28,517,015	13,226,021	7,510,444	10,869	7,521,313	5,704,708
Presort Letters...	41,735,984	15,479,890	4,983,931	15,499	4,999,430	10,480,461
Presort Cards...	3,036,219	691,122	232,991	1,074	234,065	457,058
Total Presort Letters and Cards..........................	44,772,203	16,171,013	5,221,889	16,573	5,238,462	10,932,551
Flats..	2,605,127	3,644,305	1,961,260	985	1,962,245	1,682,060
Parcels...	526,295	1,044,004	991,716	705	992,421	51,583
Domestic First-Class (NSA) Mail..............................	278,815	98,652	32,707	2,920	35,627	63,026
Outbound First-Class Mail International..................	415,009	817,881	425,634	0	425,634	392,247
Inbound International Single-Piece Letter Post.......	439,955	161,354	266,624	0	266,624	(105,270)
Mail fees...		166,761				166,761
Total First-Class..	77,554,419	35,329,992	16,410,274	32,052	16,442,326	18,887,666
Standard Mail:						
High Density and Saturation Letters........................	4,899,184	708,516	306,146	370	306,516	402,000
High Density and Saturation Flats and Parcels........	11,972,130	2,076,378	799,067	899	799,966	1,276,412
Carrier Route...	9,342,976	2,421,445	1,495,372	721	1,496,093	925,351
Letters..	44,407,273	9,027,670	4,831,752	3,411	4,835,163	4,192,507
Flats..	7,209,121	2,806,974	3,226,163	569	3,226,732	(419,758)
Not Flat-Machinables and Parcels............................	624,413	653,804	772,333	98	772,431	(118,627)
Domestic Negotiated Serv. Agreement Mail............	348,462	69,810	41,802	3,580	45,382	24,428
Inbound Intl. Negotiated Serv. Agreement Mail........	649	0	0	0	0	0
Mail Fees..		88,419				
Total Standard Mail..	78,804,208	17,853,015	11,472,635	9,648	11,482,283	6,370,732
Periodicals:						
In County..	784,913	95,327	95,962	0	95,962	(634)
Outside County	6,548,333	2,048,306	2,376,719	0	2,376,719	(328,413)
Mail Fees..		15,443				
Total Periodicals..	7,333,246	2,159,076	2,472,681	0	2,472,681	(313,604)

Package Services:						
Single-Piece Parcel Post	61,977	500,080	584,559	0	584,559	(84,479)
Inbound Intl. Surface Parcel Post (at UPU Rates)	878	12,880	12,254	0	12,254	625
Bound Printed Matter Flats	228,315	215,738	113,622	0	113,622	102,116
Bound Printed Matter Parcels	247,484	361,296	339,416	0	339,416	21,881
Media and Library Mail	125,445	386,715	422,834	0	422,834	(36,119)
Mail Fees		3,977				
Total Package Services	664,100	1,480,686	1,472,685	0	1,472,685	8,001
U.S. Postal Service Mail	398,845	0	0	0	0	0
Free Mail - blind, handicapped & servicemen	57,199	0	49,998	0	49,998	(49,998)
Total Market Dominant Mail	164,812,016	56,822,769	31,878,272	41,700	31,919,972	24,902,796
MARKET DOMINANT SERVICES						
Ancillary Services:						
Certified Mail	257,799	768,366	637,956	15	637,971	130,394
COD	866	7,095	5,629	0	5,629	1,466
Insurance	38,618	119,320	103,116	2	103,118	16,202
Registered Mail	2,743	45,250	43,606	0	43,606	1,644
Other Ancillary Services	1,642,189	2,315,506	1,504,168	4,063	1,508,231	807,275
Total International Ancillary Services	2,747	24,115	6,083	0	6,083	18,032
Special Services:						
Money Orders	126,686	153,672	134,188	3,099	137,287	16,385
Total Market Dominant Service Transactions	2,071,648	3,433,325	2,434,748	7,179	2,441,926	991,398
COMPETITIVE PRODUCTS						
Total Express Mail	47,015	884,571	544,373	8,939	553,312	331,259
Total Priority Mail	790,070	5,362,466	4,059,104	64,760	4,123,864	1,238,602
Total Ground	241,186	515,034	430,108	0	430,108	84,926
Total Competitive International	321,200	1,345,145	1,038,534	5,016	1,043,550	301,595
Total Competitive Services	2,704	25,569	21,294	2,521	23,814	1,755
Total Competitive Mail and Services	1,402,175	8,132,786	6,093,412	81,236	6,174,648	1,958,138
Totals	166,211,487	68,388,880	40,406,432	130,115	40,536,547	27,852,333
Institutional					33,206,834	
Total Operating Expenses					73,743,381	

Miscellaneous items	**129,372**
Transit Revenue	**76**
Appropriations: Revenue Forgone	**46,429**
Total Operating Revenue	**68,564,756**
Investment Income	**24,394**
Total Income	**68,589,150**
Total Operating Expenses	**73,743,381**
Interest Expenses	**162,859**
Total Expenses	**73,906,241**
Income	**(5,317,091)**
Health Benefit Adjustment	**0**
Net Income	**(5,317,091)**

TABLE B-7

FY 2010 Estimated Revenues, Costs and Contributions by Product ($000)

Scenario: Mid-Year 3.1 Percent Price Increase with OIG Health Benefit Adjustment

Mail Classes and Products	Volume	Revenues	Volume Variable Costs	Product Specific Costs	Attributable Costs	Contribution
MARKET DOMINANT PRODUCTS						
First-Class Mail:						
Single-Piece Letters	27,194,774	12,441,234	7,149,845	10,314	7,160,159	5,281,075
Single-Piece Cards	1,429,742	419,366	388,616	555	389,171	30,195
Total Single-Piece Letters and Cards	28,624,516	12,860,600	7,538,757	10,869	7,549,626	5,310,974
Presort Letters	41,909,130	15,045,857	5,004,607	15,499	5,020,106	10,025,751
Presort Cards	3,091,778	681,261	237,254	1,074	238,328	442,933
Total Presort Letters and Cards	45,000,908	15,727,118	5,248,563	16,573	5,265,136	10,461,982
Flats	2,614,504	3,542,774	1,968,319	985	1,969,304	1,573,470
Parcels	528,102	1,014,956	995,122	705	995,827	19,129
Domestic First-Class (NSA) Mail	279,972	95,886	32,842	2,920	35,762	60,124
Outbound First-Class Mail International	421,760	807,202	432,558	0	432,558	374,644
Inbound International Single-Piece Letter Post	439,955	161,354	266,624	0	266,624	(105,270)
Mail fees		166,761				166,761
Total First-Class	77,909,717	34,376,652	16,482,785	32,052	16,514,837	17,861,815
Standard Mail:						
High Density and Saturation Letters	4,938,902	691,342	308,628	370	308,998	382,344
High Density and Saturation Flats and Parcels	12,067,554	2,026,044	805,436	899	806,335	1,219,710
Carrier Route	9,417,675	2,363,125	1,507,328	721	1,508,049	855,075
Letters	44,669,040	8,783,869	4,860,233	3,411	4,863,644	3,920,224
Flats	7,250,483	2,734,932	3,244,673	569	3,245,242	(510,311)
Not Flat-Machinables and Parcels	628,059	637,055	776,843	98	776,941	(139,885)
Domestic Negotiated Serv. Agreement Mail	350,641	67,949	42,064	3,580	45,644	22,305
Inbound Intl. Negotiated Serv. Agreement Mail	649	0	0	0	0	0
Mail Fees		88,419				
Total Standard Mail	79,323,004	17,392,734	11,545,204	9,648	11,554,853	5,837,882
Periodicals:						
In County	787,300	92,505	96,253	0	96,253	(3,749)
Outside County	6,567,942	1,987,496	2,383,836	0	2,383,836	(396,340)
Mail Fees		15,443				
Total Periodicals	7,355,242	2,095,444	2,480,090	0	2,480,090	(384,645)

Package Services:						
Single-Piece Parcel Post	62,027	485,657	585,030	0	585,030	(99,373)
Inbound Intl. Surface Parcel Post (at UPU Rates)	878	12,880	12,254	0	12,254	625
Bound Printed Matter Flats	231,254	211,513	115,084	0	115,084	96,428
Bound Printed Matter Parcels	250,654	354,254	343,763	0	343,763	10,491
Media and Library Mail	126,539	378,159	426,520	0	426,520	(48,362)
Mail Fees		3,977				
Total Package Services	671,353	1,446,439	1,482,652	0	1,482,652	(36,213)
U.S. Postal Service Mail	398,845	0	0	0	0	0
Free Mail - blind, handicapped & servicemen	57,199	0	49,998	0	49,998	(49,998)
Total Market Dominant Mail	165,715,361	55,311,269	32,040,729	41,700	32,082,430	23,228,840
MARKET DOMINANT SERVICES						
Ancillary Services:						
Certified Mail	258,785	745,637	640,396	15	640,411	105,226
COD	905	7,183	5,882	0	5,882	1,301
Insurance	38,618	115,845	103,116	2	103,118	12,727
Registered Mail	2,757	44,065	43,827	0	43,827	237
Other Ancillary Services	1,665,376	2,256,494	1,525,407	4,063	1,529,469	727,024
Total International Ancillary Services	2,757	23,475	6,106	0	6,106	17,369
Special Services:						
Money Orders	127,263	149,402	134,799	3,099	137,898	11,503
Total Market Dominant Service Transactions	2,096,461	3,342,099	2,459,533	7,179	2,466,711	875,388
COMPETITIVE PRODUCTS						
Total Express Mail	47,015	884,571	544,373	8,939	553,312	331,259
Total Priority Mail	790,070	5,362,466	4,059,104	64,760	4,123,864	1,238,602
Total Ground	241,186	515,034	430,108	0	430,108	84,926
Total Competitive International	321,200	1,345,145	1,038,534	5,016	1,043,550	301,595
Total Competitive Services	2,704	25,569	21,294	2,521	23,814	1,755
Total Competitive Mail and Services	1,402,175	8,132,786	6,093,412	81,236	6,174,648	1,958,138
Totals	167,114,831	66,786,155	40,593,675	130,115	40,723,789	26,062,366
Institutional					33,206,834	
Total Operating Expenses					73,930,623	

Miscellaneous items	**129,372**
Transit Revenue	**76**
Appropriations: Revenue Forgone	**46,429**
Total Operating Revenue	**66,962,032**
Investment Income	**24,394**
Total Income	**66,986,425**
Total Operating Expenses	**73,930,623**
Interest Expenses	**162,859**
Total Expenses	**74,093,483**
Income	**(7,107,057)**
Health Benefit Adjustment	**5,500,000**
Net Income	**(1,607,057)**

TABLE B-8

FY 2010 Estimated Revenues, Costs and Contributions by Product ($000)

Scenario: Mid-Year 7.4 Percent Price Increase with PRC Health Benefit Adjustment

Mail Classes and Products	Volume	Revenues	Volume Variable Costs	Product Specific Costs	Attributable Costs	Contribution
MARKET DOMINANT PRODUCTS						
First-Class Mail:						
Single-Piece Letters..	27,136,705	12,661,727	7,134,578	10,314	7,144,892	5,516,836
Single-Piece Cards...	1,420,327	425,214	386,057	555	386,612	38,602
Total Single-Piece Letters and Cards..................	28,557,032	13,086,941	7,520,984	10,869	7,531,853	5,555,089
Presort Letters...	41,800,517	15,314,767	4,991,637	15,499	5,007,136	10,307,631
Presort Cards...	3,056,730	687,402	234,565	1,074	235,639	451,763
Total Presort Letters and Cards..........................	44,857,248	16,002,169	5,231,808	16,573	5,248,381	10,753,788
Flats..	2,608,620	3,605,661	1,963,890	985	1,964,875	1,640,787
Parcels..	526,968	1,032,947	992,985	705	993,690	39,257
Domestic First-Class (NSA) Mail..............................	279,246	97,600	32,757	2,920	35,677	61,923
Outbound First-Class Mail International..................	417,503	813,854	428,192	0	428,192	385,662
Inbound International Single-Piece Letter Post.......	439,955	161,354	266,624	0	266,624	(105,270)
Mail fees...		166,761				166,761
Total First-Class..	77,686,572	34,967,288	16,437,238	32,052	16,469,290	18,497,997
Standard Mail:						
High Density and Saturation Letters........................	4,913,944	701,998	307,068	370	307,438	394,559
High Density and Saturation Flats and Parcels........	12,007,593	2,057,273	801,434	899	802,333	1,254,940
Carrier Route...	9,370,736	2,399,309	1,499,815	721	1,500,536	898,773
Letters..	44,504,703	8,935,011	4,842,352	3,411	4,845,763	4,089,248
Flats..	7,224,515	2,779,596	3,233,052	569	3,233,621	(454,026)
Not Flat-Machinables and Parcels............................	625,770	647,439	774,011	98	774,109	(126,670)
Domestic Negotiated Serv. Agreement Mail............	349,273	69,103	41,900	3,580	45,479	23,623
Inbound Intl. Negotiated Serv. Agreement Mail........	649	0	0	0	0	0
Mail Fees..		88,419				
Total Standard Mail..	78,997,183	17,678,147	11,499,633	9,648	11,509,281	6,168,866
Periodicals:						
In County..	785,803	94,253	96,070	0	96,070	(1,818)
Outside County	6,555,646	2,025,152	2,379,373	0	2,379,373	(354,221)
Mail Fees..		15,443				
Total Periodicals..	7,341,450	2,134,848	2,475,444	0	2,475,444	(340,596)

Package Services:						
Single-Piece Parcel Post..	61,995	494,581	584,735	0	584,735	(90,154)
Inbound Intl. Surface Parcel Post (at UPU Rates)....	878	12,880	12,254	0	12,254	625
Bound Printed Matter Flats.......................................	229,405	214,139	114,164	0	114,164	99,975
Bound Printed Matter Parcels..................................	248,659	358,632	341,027	0	341,027	17,605
Media and Library Mail	125,851	383,470	424,203	0	424,203	(40,733)
Mail Fees..		3,977				
Total Package Services.......................................	666,789	1,467,679	1,476,383	0	1,476,383	(8,704)
U.S. Postal Service Mail...	398,845	0	0	0	0	0
Free Mail - blind, handicapped & servicemen............	57,199	0	49,998	0	49,998	(49,998)
Total Market Dominant Mail.................................	165,148,038	56,247,961	31,938,696	41,700	31,980,397	24,267,565
MARKET DOMINANT SERVICES						
Ancillary Services:						
Certified Mail...	258,166	759,715	638,865	15	638,880	120,835
COD...	881	7,128	5,721	0	5,721	1,407
Insurance..	38,618	117,995	103,116	2	103,118	14,876
Registered Mail...	2,748	44,799	43,688	0	43,688	1,111
Other Ancillary Services	1,650,553	2,293,039	1,511,829	4,063	1,515,892	777,147
Total International Ancillary Services	2,750	23,872	6,092	0	6,092	17,780
Special Services:						
Money Orders..	126,901	152,048	134,416	3,099	137,515	14,533
Total Market Dominant Service Transactions...........	2,080,617	3,398,595	2,443,727	7,179	2,450,906	947,689
COMPETITIVE PRODUCTS						
Total Express Mail..	47,015	884,571	544,373	8,939	553,312	331,259
Total Priority Mail...	790,070	5,362,466	4,059,104	64,760	4,123,864	1,238,602
Total Ground...	241,186	515,034	430,108	0	430,108	84,926
Total Competitive International..................................	321,200	1,345,145	1,038,534	5,016	1,043,550	301,595
Total Competitive Services..	2,704	25,569	21,294	2,521	23,814	1,755
Total Competitive Mail and Services......................	1,402,175	8,132,786	6,093,412	81,236	6,174,648	1,958,138
Totals..	166,547,508	67,779,342	40,475,836	130,115	40,605,951	27,173,392
Institutional...					33,206,834	
Total Operating Expenses					73,812,785	

Miscellaneous items	**129,372**
Transit Revenue	**76**
Appropriations: Revenue Forgone	**46,429**
Total Operating Revenue	**67,955,219**
Investment Income	**24,394**
Total Income	**67,979,613**
Total Operating Expenses	**73,812,785**
Interest Expenses	**162,859**
Total Expenses	**73,975,644**
Income	**(5,996,032)**
Health Benefit Adjustment	**2,100,000**
Net Income	**(3,896,032)**

The Telephone and Telegraph?[1]

Telecommunication literally means communication over distance. Quick and accurate communication is very important in society and to the economy, as well as to the military. The invention of the telegraph and telephone made communication faster and easier. Without the telegraph and telephone, America would most certainly not be as technologically advanced as it is today. However, slow and faulty communication was an obstacle that America had to overcome in its infancy.

The means of communication before the telegraph and telephone were primitive by today's standards. Before an official postal service was established in the United States, people relied on word of mouth, whether it was person to person or through a messenger. The town crier read the community announcements until the newspaper came along. Word of mouth and newspapers were sufficient for small towns of that time, but for long distance communication, they were impractical. As a result, a slow and unreliable mail system evolved. People who sent letters and parcels wondered when or if what they sent got to the person they were sending it to. For example, if a man in New England wanted to mail a letter to a relative in England, he had to put the letter in a satchel that was picked up by the captain of a ship that sailed to England. Town drunks and thieves often helped themselves to the bags, which had money for postage in them (TCM 124). Also, the cost of sending letters was high because it was expensive to provide a postal system to a sparsely populated area (SHMS 69). Men on horseback often carried the mail, first in the eastern half of America, then on the western side. The mail was frequently lost or forgotten, and the ride to isolated settlements was dangerous (SHMS 68). The rider risked being attached by Indians, being maimed by wild animals, or being robbed by outlaws. In 1806, the stagecoach which was used between Maryland and Tennessee, took eleven days (SHMS 67).

When people migrated west, the need for transcontinental communication increased. Railroads, the Pony Express, and steamboats made it possible to send mail from New York to San Francisco (TCM 6). It cost a lot of money to maintain the Pony Express, however, and mail was once again frequently lost or unreliable (PE 121). It took eight days for a rider to get from St. Joseph, Missouri, to Sacramental, California (PE 53). To get from New York to San Francisco (sailing around Cape Horn) the mail took four months, and it took a stagecoach twenty five days (Communication 717).

These mail delivery systems had devastating effects on merchants, the army and government, the media, and the community in general. Businesses relied on some form

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[1] http://asms.k12.ar.us/classes/humanities/amstud/97-98/telecom/telephone_and_telegraph.htm

of contact between themselves and the customer. When the mail was lost, it made the business (or the sender) look bad. For example, if a customer in Georgia ordered a product and paid along with the order but never gets what he ordered, it makes the business look bad.

The military also needed a better communication system. For example, the War of 1812 might have been prevented had communication been faster. Instead, England had to rely on a ship to send its message across the ocean. The message said that England would no longer interfere with American shipping. The message was sent two days before the United States declared war on her. Of course, by the time the ship reached the United States with the message, fighting had already broken out (Communication 717).

The newspapers also needed a faster means of communication. As it was, the editors printed outdated news. Not drastically outdated, but nonetheless, outdated. If it was news about a political uprising or a skirmish breaking out somewhere, there is a good chance that by the time the newspaper had printed the news, it was either already over or new developments had been made.

The trouble with communication in business, military, government, and the media indicated that someone needed to find a better way to communicate. At the time, America was a rapidly growing nation. Its economy and population were expanding, and the means of communication would have to expand, too, if America was to prosper.

In 1832, artist Samuel Morse traveled to Europe and heard of electrical experimental there. Morse began to look for a way to send messages electronically. As a result, he was able to contribute the Morse code and the telegraphs to communication (TTM 47).

Other inventors began to build on Morse's telegraph. Soon there came the duplex telegraph, which could send more than one message in one direction at the same time (TTM 53). Transcontinental cables allowed cross country communication, and transatlantic cables under the ocean allowed international communication.

The telegraph had many advantages. First, it allowed fast communication. Businesses used it to get in touch quickly and inexpensively with far away customers and salesmen (Telegraph 74). It created jobs, especially for women (WRBH 136). The media benefitted from quick communication with reporters. In England, a man named John Tawell poisoned a woman. She screamed, and he ran off and jumped on a train.

Someone saw him and described him to the telegraph operator, who telegraphed the policy (EIH 338). The telegraph was also used during the Civil War for military communication (Telegraph 76).

The telegraph also had is disadvantages. It created a loss of jobs by putting the Pony Express and some postal workers out of business. Since there are two kinds of Morse codes, American and International, the United States often confused herself and the countries she tried to communicate with by using American Morse. Not only was American Morse impractical for transatlantic cables, the rest of the world used International Morse. The United States switched to International Morse for international communication, and used American Morse for transcontinental communication (WRBH 137). Another disadvantage was that only a trained user could send and receive telegraph messages (TTM 37). Also a message could only be sent where there were cables. But given these disadvantages, people were satisfied with the telegraph. A magazine once states, “The function of the telegraph in our highly organized commercial and social life has come to be as general and as important as that of the mail. In some respects it is even more of a necessity….” (RIA 114).

Despite the public’s complacency with the telegraph, inventors now looked for a way to transmit sound over a distance. Philipp Reis, Elisha Gray, and Alexander Graham Bell were among the pioneers of the discovery of the telephone. In 1860, Reis invented a machine that would transmit sound over distance (EH 177). His native country, Germany, scoffed at such a machine and paid little attention to it. About fifteen years later, Elisha Gray and Alexander Graham Bell were both working on the telephone independently in America. In 1876, while Bell was working, he spilled acid on his clothes. He called his assistant, who was on another floor of the building. His assistant heard him via the telephone. Bell applied for his patent abo9ut one hour before Gray, which is why he is credited with the invention of the telephone (EH 118).

Early telephone systems were probably more trouble than they were worth. Each community was like one big party line. Each household was assigned a specific ringing pattern. When a person wanted to make a call, he had to use the specific ringing pattern of the person that he wanted to call. Everyone’s phone rang, and there were always eavesdroppers. With the invention of the switchboard, this problem was solved. Another problem was that long distance calls could not be made because there was not enough amplification. With the development of amplifiers, long distance communication via the telephone became possible (TTM 57).

With these adjustments the telephone became suitable for public use. First, anyone could use a telephone. Unlike the telegraph, the user did not have to know Morse code or go to the nearest telegraph office to send or receive a message.

Everyone could own a telephone in his home, providing there were sufficient cables nearby. Families on the east coast could call relatives on the west coast. Businesses prospered using the telephone. Like the telegraph, it provided a quick, inexpensive way to reach salesmen and customers. Salesmen worked with their clients one on one. Since information was passed through fewer people, there were fewer chances of it being incorrect. Reporters were able to communicate quickly, so news also traveled quickly. Farmers could get quick, accurate information on what the prices were for a particular type of crop. The military benefitted by being able to keep close tabs on the enemy. Spies used both the telephone and telegraph to make reports. A company with which America is very familiar with today, AT&T, stemmed from the invention of the telephone and telegraph. (The name AT&T stands for the American Telephone and Telegraph Company). AT&T and other companies like it have helped make jobs for many people (RIA 120).

The Telecommunications Revolution helped America's economy, and the telegraph and telephone were a big part of it. America would be handicapped without them. Society, business, and the military would all suffer if America was still using methods such as the Pony Express and steamboats to communicate. The telegraph and telephone changed the way people communicated and the speed with which they were able to communicate, and America is all the better for it.