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

MAILING ONLINE SERVICE

Docket No. MC98-1

REQUEST OF THE UNITED STATES POSTAL SERVICE FOR A RECOMMENDED  
DECISION ON A MARKET TEST CLASSIFICATION AND FEE SCHEDULE, AND A  
RECOMMENDED DECISION ON AN EXPERIMENTAL CLASSIFICATION AND FEE  
SCHEDULE MAILING ONLINE SERVICE

UNITED STATES POSTAL SERVICE

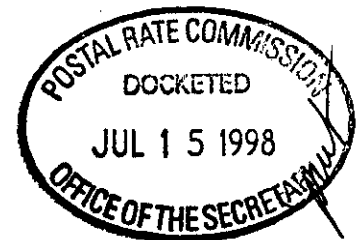
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Documents relating to this request may be served upon Mr. Foucheaux at the address above.

BEFORE THE  
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**REQUEST OF THE UNITED STATES POSTAL SERVICE FOR  
A RECOMMENDED DECISION ON A MARKET TEST  
CLASSIFICATION AND FEE SCHEDULE, AND  
A RECOMMENDED DECISION ON AN EXPERIMENTAL  
CLASSIFICATION AND FEE SCHEDULE FOR MAILING ONLINE SERVICE**

**Introduction.** Pursuant to chapter 36 of Title 39, United States Code, the United States Postal Service has determined that the creation for Mailing Online service of a market test classification and fee schedule, followed by an experimental classification and fee schedule, is in the public interest and in accordance with the policies and applicable criteria of that Title. Accordingly, the Postal Service requests that the Postal Rate Commission submit to the Governors of the Postal Service recommendations enabling the establishment of a Mailing Online market test service, later supplanted by Mailing Online experimental service, as described below and in the accompanying testimony and materials.

**Description.** The proposed Mailing Online service is designed to combine recent advances in electronic communications through the internet, state of the art printing technologies, and conventional postal functions to create a new integrated service for the production, processing and delivery of mail. In its fundamental form, it would enhance the capabilities of individuals and small businesses to enter First-Class Mail and Standard Mail into the mailstream using a personal computer with internet access

and a Web browser. A typical mailer would compose a document using conventional desktop publishing or word processing software; access a postal Web site and select various printing, finishing, and payment options; submit a mailing list for standardization, and complete submission of the job by sending the electronic version of the document to the Web site. The Postal Service would then batch all submitted jobs and send them via dedicated lines to one or more digital printing contractors, who would print the document, finish and place it in a letter or flat envelope, and enter it as mail at a local postal facility.

Currently, the Postal Service is conducting an operations test of Mailing Online with one postal Web server, one printer contractor, and customers in two cities. Test customers pay the single-piece First-Class Mail rate, but no additional fee for pre-mail processing.<sup>1</sup>

In early September, 1998, the Postal Service proposes to end the operations test and begin a market test. The market test will differ from the operations test in that a new, scalable hardware and software platform<sup>2</sup> will be used while printing services will be provided by what is planned to be the first of a group of approximately 25 printers that will be necessary to eventual provision of permanent Mailing Online service. Also, while the operations test is limited to a maximum of 200 customers, all located in the Tampa, Florida and Hartford, Connecticut areas with a single print site in Texas, the market test will involve up to 5000 simultaneous customers in a northeast corridor that

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<sup>1</sup> The term "pre-mail" processing is used purely in a descriptive, rather than technical, sense to refer to the processing of documents and mailing lists – primarily printing – that occurs prior to the induction of matter as mail.

<sup>2</sup> A scalable platform is one whose capacity can be increased in response to additional demand. The operations test (discussed below) server, for example, was not scalable; it can only accommodate a maximum of 200 customers and could not be increased beyond that limit without re-engineering.

stretches from Philadelphia to Boston. All market test Mailing Online mail would be entered in this corridor, although destinations could be anywhere nationwide. The Postal Service is requesting, pursuant to the market test rules, that the Commission recommend market test fees for use beginning in early September, 1998.

The market test fees should remain in effect until supplanted, pursuant to the experimental rules, by experimental fees recommended by the Commission and, if possible, implemented together with the new rates and fees that the Postal Service Governors have determined shall be placed in effect on January 10, 1999.<sup>3</sup>

The experiment is planned to differ from the market test in several key respects. The primary distinction, however would be one of scale, with increases in the geographic distribution and number of customers, who could be anywhere in the country, and the number of printers. At first, printing and entry of Mailing Online pieces would continue to occur within the northeast corridor, but as demand grows additional print sites would be added in other locations. By the conclusion of the experiment, the Postal Service plans to be nearing the goal of 25 nationwide print sites.<sup>4</sup> The experiment would also differ from the market test by the availability of nonprofit rates, the ongoing addition or modification of available features and ancillary services, the type of fee schedule, and the nature of information collected by the test plan.<sup>5</sup>

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<sup>3</sup> Accordingly, while the proposed DMCS and fee schedule for the market test are based on the current DMCS, those for the experiment are instead based on the DMCS and fee schedules expected to be implemented on that date.

<sup>4</sup> A "print site" is actually a geographic area in which it is conceivable there could be multiple print contractors; each contractor could also conceivably have more than one physical location. Of significance here is the loose correlation between the 25 print sites and the network of 21 bulk mail centers, since the goal is to induct mail where it can be delivered promptly.

<sup>5</sup> The capability to enter international mail via Mailing Online service may also arise as part of the experimental phase.

The Postal Service Request for two Commission recommendations regarding Mailing Online service recognizes this progression of four distinct phases in product development: operations test, market test, experiment, and permanent service. The ultimate goal, of course, is to develop proof of the concept in a context that permits the gathering of information suitable for the Postal Service to request, the Commission to recommend, and the Governors to direct the implementation of a permanent Mailing Online service.

In seeking to arrive at a permanent form of service, the experimental phase is the most critical in terms of Commission involvement because of the need to collect comprehensive cost, volume and revenue information that can support a request for, recommendation of, and implementation of permanent Mailing Online service. In particular, the Postal Service seeks to test the addition of customers, features, and printers, and the use of automation mail categories that simulate conditions expected for a permanent service.

As indicated above, the Postal Service expects that any permanent form of Mailing Online service would involve approximately 25 geographically-dispersed areas, each served by one or more local printers. Printers would accept jobs originating from anywhere in the country for local entry and subsequent delivery. Accordingly, a job destinating outside a single area could ultimately be printed by two or more printers and physically entered in two or more postal facilities.

Mailing Online would provide smaller customers – even mailers of individual pieces – access to the benefits of automation. Many of these customers are expected to be drawn largely from the small office/home office (SOHO) market, who have expressed strong interest in Mailing Online based on convenience and ease-of-use.

Such customers typically mail today either not at all, or in small mailings entered at single-piece rates.

**Market Test Service.** Mailing Online service qualifies for consideration under the Commission's rules applicable to market tests, 39 C.F.R. §§ 3001.161 - 166 because the requested test would be quite modest in scope, scale, duration, and potential impact, and because the market test is being conducted as a stepping stone to a more permanent service offering.<sup>6</sup> The purpose of the market test is to permit testing of Mailing Online service under conditions that approximate those sought for the experimental service. The salient conditions include: 1) use of the scalable hardware and software platform together with a printer (or printers) whose contract constitutes the model for all expected Mailing Online printing contractors;<sup>7</sup> 2) use of automation presort, rather than single-piece, First-Class and Standard Mail categories; and 3) payment by customers of a fee for pre-mail services. Under the operations test customers obtain these without any payment. The technology supporting the current operations test will be supplanted in September, 1998 with a newly-developed and scalable platform, and with a printing contractor who is planned to be the first of what eventually should be 25 printers offering permanent Mailing Online service. The Postal Service accordingly seeks a recommendation of the market test contemporaneously with implementation of the new technology, using basic presort categories and with pre-mail fees based

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<sup>6</sup> The Rules of Practice identify a market test as a prelude to a request for permanent DMCS changes. 39 C.F.R. § 3001.61. The Postal Service certainly hopes that is true in this instance, but the concomitant request in this instance is for experimental rather than permanent service. To the extent this does not comport perfectly with the Commission's understanding of the rules, the Postal Service requests a waiver, a motion for which is filed herewith.

<sup>7</sup> Unlike the experimental service, market test service would not involve the testing of various printing enhancements.

directly upon the actual printer contract that will be awarded in August, with printing services to begin in September.

***Experimental Service.*** Mailing Online service also qualifies for consideration as an experiment under the Commission's applicable Rules of Practice, 39 C.F.R. § 3001.67(b).<sup>8</sup> First, it is novel in that no other completely electronic means of presenting documents for entry as mail is currently offered by the Postal Service.<sup>9</sup> Moreover, the magnitude of Mailing Online service, as measured by impacts upon postal costs and revenues, and the costs and practices of mailers, is quite modest, which makes it well suited to an experiment.

The challenge of preparing information suitable to support a request for permanent classification changes is a critical reason for the Postal Service's determination to proceed under the experimental rules. This lack of information is common for new initiatives of this type.<sup>10</sup>

Previous experimental cases requested two-year experiments, and the Postal Service requests the same herein. A two-year test should provide sufficient information to demonstrate the presence, or absence, of a suitable business case to support permanent classification changes. Projections indicate that volume sufficient to warrant contracts with 25 print sites will only occur after conclusion of the experiment. The

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<sup>8</sup> This is the fourth time the Postal Service has filed a case designated as experimental pursuant to 39 C.F.R. § 3001.67. See PRC Docket Nos. MC97-1, MC96-1, and MC86-1.

<sup>9</sup> The Postal Service previously offered a service called E-COM, which then shared the novel attribute of pure electronic mail induction. As evidenced by this request and supporting materials, E-COM and Mailing Online differ markedly with respect to technology, postal purpose and policy, target market, and financial risk.

<sup>10</sup> The operations test discussed above is too limited in scope and duration to provide data that would satisfy the Commission's filing requirements for a permanent classification change. To a lesser extent, the same is true of the market test.

Postal Service accordingly requests a recommendation of experimental Mailing Online service to determine the likely costs and volumes of a permanent service.

**Request.** In accordance with the Commission's Rules of Practice and Procedure (39 C.F.R. §§ 3001.54, 3001.64, 3001.67 - 67d, and 3001.161-166), the Postal Service files with this Request the prepared direct evidence on which it proposes to rely, which consists of eight pieces of testimony, including exhibits.<sup>11</sup> The page following this Request is an index of Attachments. The testimony and exhibits of each witness have been marked for identification as shown in Attachment E, which also lists the name and phone number of the attorney assigned to each witness. Further data submitted for informational purposes or in response to specific sections of the Rules of Practice are included in the other Attachments. The Postal Service is also filing under separate cover associated library references that are too voluminous or inappropriate for inclusion in the testimony. The Postal Service may schedule technical conferences as appropriate for specific witnesses. Requests for technical conferences (or any other informal discovery) should be addressed to the attorney assigned to the respective witness listed in Attachment E.

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<sup>11</sup> The substance of two pieces of testimony, USPS-T-3 and USPS-T-4, is being filed as library references, LR-1/MC98-1 and LR-2/MC98-1, with the testimonies themselves consisting of autobiographical sketches, purpose statements, and sponsorships of the respective library references. This approach, while comporting with the one applied by the Postal Service in Docket No. R97-1, is justified by the technical and voluminous nature of the studies reported therein and their supporting Rule 31(k) documentation, as well as recognition that a critical means of evaluating those testimonies arises through review of their electronic versions. Notwithstanding, hard copy versions of those library references (without attachments) are included in the service packages provided to participants.



WHEREFORE, the United States Postal Service, pursuant to 39 U.S.C. §§ 3622(a) and 3623(b), hereby requests that the Postal Rate Commission make and submit two recommended decisions to the Governors recommending the proposed revisions to the Domestic Mail Classification Schedule and the attendant fee schedules set forth in Attachments A and B to this Request.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux (per CVH)

Daniel J. Foucheaux, Jr.  
Chief Counsel, Ratemaking

Kenneth N. Hollies  
Scott L. Reiter  
David H. Rubin

**CERTIFICATE OF SERVICE**

Pursuant to 39 C.F.R. 3001.173(c), I hereby certify that the foregoing document, and all related documents filed today, are being hand delivered or mailed by Express Mail to all persons registered under 39 C.F.R. 3001.173(b) and to participants of record in Docket No. MC97-1.

Kenneth N. Hollies  
Kenneth N. Hollies

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July 15, 1998

INDEX OF ATTACHMENTS TO REQUEST, MC98-1

- Attachment A:     Market Test and Experimental Domestic Mail Classification  
                            Schedule Language
- Attachment B:     Market Test and Experimental Rate and Fee Schedules
- Attachment C:     Certification
- Attachment D:     USPS Audited Financial Statement
- Attachment E:     Index of Testimonies, Exhibit Titles, and Associated Attorneys
- Attachment F:     Compliance Statement

***Attachment A***

## REQUESTED CHANGES IN THE DOMESTIC MAIL CLASSIFICATION SCHEDULE

In this Request, the Postal Service asks the Commission to recommend two sets of changes in the Domestic Mail Classification Schedule (DMCS). The first set, presented in Attachment A1, reflects the Postal Service's proposal for a market test of Mailing Online service. Since the market test, as proposed, would commence well before the planned Docket No. R97-1 changes on January 10, 1999, the first set of changes is proposed to the current DMCS.

The second set of changes, presented in Attachment A2, reflects the Postal Service's proposal for an experimental classification for Mailing Online service. Since the Postal Service does not intend to implement such an experimental classification prior to the January 10, 1999, implementation of Docket No. R97-1, the proposed changes are made to the DMCS as it will be amended on January 10, 1999.

Proposed additions to text of the classification schedule are underlined; proposed deletions are enclosed in brackets. The changes in the DMCS requested by the Postal Service are as follows:

**FIRST-CLASS MAIL  
CLASSIFICATION SCHEDULE**

\* \* \* \* \*

- 221.31 a. Is prepared in a mailing of at least 500 pieces, or is provided for entry using Mailing Online service, pursuant to schedule SS-7;

\* \* \* \* \*

- 260 [First-Class Mail, except as otherwise noted, will receive the following additional services upon payment of the fees prescribed in the corresponding schedule:] The following services may be obtained in conjunction with mail sent under this classification schedule upon payment of applicable fees:

\* \* \* \* \*

- |    |                       |             |
|----|-----------------------|-------------|
| j. | <u>Reserved</u>       |             |
| k. | <u>Reserved</u>       |             |
| l. | <u>Mailing Online</u> | <u>SS-7</u> |

---

**STANDARD MAIL  
CLASSIFICATION SCHEDULE**

\* \* \* \* \*

- 321.231 a. Is prepared in a mailing of at least 200 addressed pieces or 50 pounds of addressed pieces, or is provided for entry using Mailing Online service, pursuant to schedule SS-7;

\* \* \* \* \*

- 321.24 **Destination Entry Discounts.** The destination entry discounts apply to Regular subclass mail prepared as prescribed by the Postal Service and addressed for delivery within the service area of the BMC (or auxiliary; service facility, or sectional center facility (SCF), at which it is entered, as defined by the Postal Service. The destination BMC discount also applies to Regular subclass mail provided for entry using Mailing Online service, pursuant to schedule SS-7.

# **FIRST-CLASS MAIL CLASSIFICATION SCHEDULE**

\* \* \* \* \*

221.31 a. Is prepared in a mailing of at least 500 pieces, or is provided for entry using Mailing Online service, pursuant to schedule SS-7;

\* \* \* \* \*

260 [First-Class Mail, except as otherwise noted, will receive the following additional services upon payment of the fees prescribed in the corresponding schedule:] The following services may be obtained in conjunction with mail sent under this classification schedule upon payment of applicable fees:

\* \* \* \* \*

j.	<u>Reserved</u>	
k.	<u>Reserved</u>	
l.	<u>Mailing Online</u>	<u>SS-7</u>

---

# **STANDARD MAIL CLASSIFICATION SCHEDULE**

\* \* \* \* \*

321.231 a. Is prepared in a mailing of at least 200 addressed pieces or 50 pounds of addressed pieces, or is provided for entry using Mailing Online service, pursuant to schedule SS-7;

\* \* \* \* \*

321.24 **Destination Entry Discounts.** The destination entry discounts apply to Regular subclass mail prepared as specified by the Postal Service and addressed for delivery within the service area of the BMC (or auxiliary; service facility, or sectional center facility (SCF), at which it is entered, as defined by the Postal Service. The destination BMC discount also applies to Regular subclass mail provided for entry using Mailing Online service, pursuant to schedule SS-7.

\* \* \* \* \*

364**Regular**

The following service may be obtained in conjunction with mail sent under this classification schedule upon payment of the appropriate fees:

<u>Service</u>	<u>Schedule</u>
a. <u>Mailing Online</u>	<u>SS-7</u>

---

## SPECIAL SERVICES

\* \* \* \* \*

## CLASSIFICATION SCHEDULE SS-7 - MAILING ONLINE

**7.01 Definition**

7.010 Mailing Online is a service that allows mailers to submit electronic documents, with address lists, for subsequent conversion into hard copy form, entry as mail, and delivery.

**7.02 Description of Service**

7.020 Mailing Online is available for documents submitted in an electronic form, along with an address list, to be entered under the following classification schedules:

- a. First-Class Mail;
- b. Regular subclass of Standard Mail.

7.021 Documents presented through Mailing Online are eligible for only the following rate categories:

- a. First-Class Mail Letters and Sealed Parcels Automation Letters Basic
- b. First-Class Mail Letters and Sealed Parcels Automation Flats Basic
- c. First-Class Mail Cards Automation Basic
- d. Standard Mail Regular Automation Basic Letter Destination BMC
- e. Standard Mail Regular Automation Basic Flat Destination BMC



\* \* \* \* \*

364**Regular**

The following service may be obtained in conjunction with mail sent under this classification schedule upon payment of the appropriate fees:

<u>Service</u>	<u>Schedule</u>
a. <u>Mailing Online</u>	<u>SS-7</u>

---

SPECIAL SERVICES

\* \* \* \* \*

## CLASSIFICATION SCHEDULE SS-7 - MAILING ONLINE

**7.01 Definition**

7.010 Mailing Online is a service that allows mailers to submit electronic documents, with address lists, for subsequent conversion into hard copy form, entry as mail, and delivery.

**7.02 Description of Service**

7.020 Mailing Online is available for documents submitted in an electronic form, along with an address list, to be entered under the following classification schedules:

- a. First-Class Mail;
- b. Regular subclass of Standard Mail.

7.021 Documents presented through Mailing Online are eligible for only the following rate categories:

- a. First-Class Mail Letters and Sealed Parcels Automation Letters Basic
- b. First-Class Mail Letters and Sealed Parcels Automation Flats Basic
- c. Standard Mail Regular Automation Basic Letter Destination BMC
- d. Standard Mail Regular Automation Basic Flat Destination BMC

**7.03 Requirements of the Mailer**

**7.031 Documents and address lists must be presented in electronic form, as specified by the Postal Service, through the Postal Service's Mailing Online internet site. Documents must be prepared using application software approved by the Postal Service.**

**7.04 Fees**

**7.041 The fees for Mailing Online service are described in Fee Schedule SS-7.**

**7.05 Duration of Market Test**

**7.051 The provisions of schedule SS-7 expire no later than the implementation of an experimental Mailing Online service based upon a recommended decision by the Postal Rate Commission followed by acceptance or allowance by the Postal Service's Governors, or within 3 months of the issuance of a recommended decision by the Commission which rejects the Postal Service's request for an experimental Mailing Online service, or within 3 months of a Postal Service Governors Decision rejecting a Commission recommended decision on Mailing Online service.**

**FIRST-CLASS MAIL  
CLASSIFICATION SCHEDULE**

\* \* \* \* \*

- 221.31** a. Is prepared in a mailing of at least 500 pieces, or is provided for entry using Mailing Online service, pursuant to section 981;

\* \* \* \* \*

- 222.41** a. Is prepared in a mailing of at least 500 pieces, or is provided for entry using Mailing Online service, pursuant to section 981;

\* \* \* \* \*

- 260** [First-Class Mail, except as otherwise noted, will receive the following additional services upon payment of the fees prescribed in the corresponding schedule:] The following services may be obtained in conjunction with mail sent under this classification schedule upon payment of applicable fees:

\* \* \* \* \*

- k. Mailing Online 981

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**STANDARD MAIL  
CLASSIFICATION SCHEDULE**

\* \* \* \* \*

- 321.231** a. Is prepared in a mailing of at least 200 addressed pieces or 50 pounds of addressed pieces, or is provided for entry using Mailing Online service, pursuant to section 981;

\* \* \* \* \*

- 321.24** **Destination Entry Discounts.** The destination entry discounts apply to Regular subclass mail prepared as specified by the Postal Service and addressed for delivery within the service area of the BMC (or auxiliary; service facility, or sectional center facility (SCF), at which it is entered, as defined by the Postal Service. The destination BMC discount also applies to Regular subclass mail provided for entry using Mailing Online service, pursuant to section 981.

# **FIRST-CLASS MAIL CLASSIFICATION SCHEDULE**

\* \* \* \* \*

**221.31** a. Is prepared in a mailing of at least 500 pieces, or is provided for entry using Mailing Online service, pursuant to section 981;

\* \* \* \* \*

**222.41** a. Is prepared in a mailing of at least 500 pieces, or is provided for entry using Mailing Online service, pursuant to section 981;

\* \* \* \* \*

**260** [First-Class Mail, except as otherwise noted, will receive the following additional services upon payment of the fees prescribed in the corresponding schedule:] The following services may be obtained in conjunction with mail sent under this classification schedule upon payment of applicable fees:

\* \* \* \* \*

k. Mailing Online 981

---

## **STANDARD MAIL CLASSIFICATION SCHEDULE**

\* \* \* \* \*

**321.231** a. Is prepared in a mailing of at least 200 addressed pieces or 50 pounds of addressed pieces, or is provided for entry using Mailing Online service, pursuant to section 981;

\* \* \* \* \*

**321.24** **Destination Entry Discounts.** The destination entry discounts apply to Regular subclass mail prepared as prescribed by the Postal Service and addressed for delivery within the service area of the BMC (or auxiliary; service facility, or sectional center facility (SCF), at which it is entered, as defined by the Postal Service. The destination BMC discount also applies to Regular subclass mail provided for entry using Mailing Online service, pursuant to section 981.

\* \* \* \* \*

- 321.431 a. Is prepared in a mailing of at least 200 addressed pieces or 50 pounds of addressed pieces, or is provided for entry using Mailing Online service, pursuant to section 981;

\* \* \* \* \*

- 321.44 **Destination Entry Discounts.** The destination entry discounts apply to Nonprofit subclass mail prepared as prescribed by the Postal Service and addressed for delivery within the service area of the BMC (or auxiliary; service facility, or sectional center facility (SCF), at which it is entered, as defined by the Postal Service. The destination BMC discount also applies to Nonprofit subclass mail provided for entry using Mailing Online service, pursuant to section 981.

\* \* \* \* \*

363 **Regular and Nonprofit**

[Regular and Nonprofit subclass mail will receive the following additional services upon payment of the appropriate fees.] The following services may be obtained in conjunction with mail sent under this classification schedule upon payment of applicable fees.

\* \* \* \* \*

c.	<u>Mailing Online</u>	<u>981</u>
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**SPECIAL SERVICES  
CLASSIFICATION SCHEDULES**

\* \* \* \* \*

980 ACCEPTANCE ALTERNATIVES

981 MAILING ONLINE

981.1 Definition

## Mailing Online Service - Experiment

\*\*\*\*\*

- 321.431 a.** Is prepared in a mailing of at least 200 addressed pieces or 50 pounds of addressed pieces, or is provided for entry using Mailing Online service, pursuant to section 981;

\*\*\*\*\*

- 321.44** **Destination Entry Discounts.** The destination entry discounts apply to Nonprofit subclass mail prepared as specified by the Postal Service and addressed for delivery within the service area of the BMC (or auxiliary; service facility, or sectional center facility (SCF), at which it is entered, as defined by the Postal Service. The destination BMC discount also applies to Nonprofit subclass mail provided for entry using Mailing Online service, pursuant to section 981.

\*\*\*\*\*

**363** **Regular and Nonprofit**

[Regular and Nonprofit subclass mail will receive the following additional services upon payment of the appropriate fees.] The following services may be obtained in conjunction with mail sent under this classification schedule upon payment of applicable fees.

\*\*\*\*\*

c. Mailing Online 981

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**SPECIAL SERVICES  
CLASSIFICATION SCHEDULES**

\*\*\*\*\*

- 980 ACCEPTANCE ALTERNATIVES
- 981 MAILING ONLINE
- 981.1 Definition

981.1 Mailing Online is a service that allows mailers to submit electronic documents, with address lists, for subsequent conversion into hard copy form, entry as mail, and delivery.

**981.2 Description of Service**

981.21 Mailing Online is available for documents submitted in an electronic form, along with an address list, to be entered under the following classification schedules:

- a. First-Class Mail;
- b. Regular and Nonprofit subclasses of Standard Mail.

981.22 Documents presented through Mailing Online are eligible for only the following rate categories:

- a. First-Class Mail Letters and Sealed Parcels Automation Letters Basic
- b. First-Class Mail Letters and Sealed Parcels Automation Flats Basic
- c. First-Class Mail Cards Automation Basic
- d. Standard Mail Regular Automation Basic Letter Destination BMC
- e. Standard Mail Regular Automation Basic Flat Destination BMC
- f. Standard Mail Nonprofit Automation Basic Letter Destination BMC
- g. Standard Mail Nonprofit Automation Basic Flat Destination BMC

**981.3 Requirements of the Mailer**

981.31 Documents and address lists must be presented in electronic form, as specified by the Postal Service, through the Postal Service's Mailing Online internet site. Documents must be prepared using application software approved by the Postal Service.

**981.4 Fees**

981.41 The fees for Mailing Online service are described in Fee Schedule 981.

**981.5 Duration of Experimental Service Period**

981.51 The provisions of schedule 981 expire no later than <insert date corresponding to two years after their effective date>

000909

***Attachment B***



**REQUESTED CHANGES IN RATE AND FEE SCHEDULES**

In conjunction with the requested changes in the Domestic Mail Classification Schedule (DMCS) set forth in Attachment A, the Postal Service also is requesting that the Commission recommend corresponding changes in the attendant rate and fee schedules. The Postal Service asks the Commission to recommend two sets of changes in the rate and fee schedules. The first set, presented in Attachment B1, reflects the Postal Service's proposal for a market test of Mailing Online service. Since the market test, as proposed, would commence well before the planned Docket No. R97-1 changes on January 10, 1999, the first set of changes is proposed to the current rate and fee schedules.

The second set of changes, presented in Attachment B2, reflects the Postal Service's proposal for an experimental classification for Mailing Online service. Since the Postal Service does not intend to implement such an experimental classification prior to the January 10, 1999, implementation of Docket No. R97-1, the proposed changes are made to the rate and fee schedules as they will be amended on January 10, 1999.

Proposed additions to text of the classification schedule are underlined. The changes in the rate and fee schedules requested by the Postal Service are as follows:

**FIRST-CLASS MAIL  
SCHEDULE 221 NOTES**

\* \* \* \* \*

- 3 Rates apply to bulk-entered mailings of at least 500 letter-size pieces, which must be delivery point barcoded and meet other preparation requirements prescribed by the Postal Service, and, for the Basic Presort rate, documents provided for entry using Mailing Online service, pursuant to classification schedule SS-7.

\* \* \* \* \*

- 8 Rates apply to bulk-entered mailings of at least 500 flat-size pieces, each of which must be delivery point barcoded or bear a ZIP+4 barcode, and must meet other preparation requirements prescribed by the Postal Service, and, for the Basic Presort rate, documents provided for entry using Mailing Online service, pursuant to schedule SS-7.

**FIRST-CLASS MAIL  
SCHEDULE 221 NOTES**

\* \* \* \* \*

- 3 Rate applies to bulk-entered mailings of at least 500 letter-size pieces, which must be delivery point barcoded and meet other preparation requirements prescribed by the Postal Service, and documents provided for entry using Mailing Online service, pursuant to classification schedule SS-7.

\* \* \* \* \*

- 8 Rate applies to bulk-entered mailings of at least 500 flat-size pieces, each of which must be delivery point barcoded or bear a ZIP+4 barcode, and must meet other preparation requirements prescribed by the Postal Service, and documents provided for entry using Mailing Online service, pursuant to schedule SS-7.

**SPECIAL SERVICES**

\* \* \* \* \*

**SCHEDULE SS-7 -- Mailing Online**

<u>Feature</u>	<u>Fee</u>
<u>Paper (per sheet)</u>	
<u>8½ x 11</u>	<u>1.25 * P<sub>1</sub></u>
<u>8½ x 14</u>	<u>1.25 * P<sub>2</sub></u>
<u>11 x 17</u>	<u>1.25 * P<sub>3</sub></u>
<u>Printing (per impression)</u>	
<u>Simplex (8½ x 11)</u>	<u>1.25 * (P<sub>4</sub> + 0.1¢)</u>
<u>Simplex (8½ x 14)</u>	<u>1.25 * (P<sub>5</sub> + 0.1¢)</u>
<u>Duplex (8½ x 11)</u>	<u>1.25 * (P<sub>6</sub> + 0.1¢)</u>
<u>Duplex (8½ x 14)</u>	<u>1.25 * (P<sub>7</sub> + 0.1¢)</u>
<u>Spot Color (per impression)</u>	<u>1.25 * P<sub>8</sub></u>
<u>Finishing</u>	
<u>Folding (per fold)</u>	<u>1.25 * P<sub>9</sub></u>
<u>Stapling (per staple)</u>	<u>1.25 * P<sub>10</sub></u>
<u>Saddle Stitch (per finished piece)</u>	<u>1.25 * P<sub>11</sub></u>
<u>Tape Binding (8½ x 11) (per finished piece)</u>	<u>1.25 * P<sub>12</sub></u>
<u>Tape Binding (8½ x 14) (per finished piece)</u>	<u>1.25 * P<sub>13</sub></u>
<u>Applying Tabs to Self Mailer</u>	<u>1.25 * P<sub>14</sub></u>
<u>Envelopes</u>	
<u>#10 envelope</u>	<u>1.25 * P<sub>15</sub></u>
<u>Flat envelope</u>	<u>1.25 * P<sub>16</sub></u>
<u>Inserting (per envelope)</u>	
<u>#10 envelope</u>	<u>1.25 * P<sub>17</sub></u>
<u>Flat envelope</u>	<u>1.25 * P<sub>18</sub></u>

Note: P<sub>x</sub> represents contractual costs, for printing feature x, that the Postal Service will pay based on the Mailing Online printer contract to be awarded during August, 1998.

**FIRST-CLASS MAIL  
SCHEDULE 221 NOTES**

\* \* \* \* \*

- 3 Rates apply to bulk-entered mailings of at least 500 letter-size pieces, which must be delivery point barcoded and meet other preparation requirements specified by the Postal Service, and, for the Basic Presort rate, documents provided for entry using Mailing Online service, pursuant to section 981.
- 8 Rates apply to bulk-entered mailings of at least 500 flat-size pieces, each of which must be delivery point barcoded or bear a ZIP+4 barcode, and must meet other preparation requirements specified by the Postal Service, and, for the Basic Presort rate, documents provided for entry using Mailing Online service, pursuant to section 981.

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**FIRST-CLASS MAIL  
SCHEDULE 222 NOTES**

\* \* \* \* \*

- 2 Rates apply to bulk-entered mailings of at least 500 pieces, which must be barcoded and meet other preparation requirements specified by the Postal Service, and, for the Basic Presort rate, documents provided for entry using Mailing Online service, pursuant to section 981.

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**SPECIAL SERVICES**

\* \* \* \* \*

**FEE SCHEDULE 981**

**MAILING ONLINE**

Fees are calculated by multiplying the Mailing Online cost coverage of 125 percent times the sum of printer contractual costs for the particular mailing and 0.1 cents per impression for other Postal Service costs. This provision expires <2 years from date of its effective date.>

**FIRST-CLASS MAIL  
SCHEDULE 221 NOTES**

\* \* \* \* \*

- 3 Rate applies to bulk-entered mailings of at least 500 letter-size pieces, which must be delivery point barcoded and meet other preparation requirements specified by the Postal Service, and documents provided for entry using Mailing Online service, pursuant to section 981.
- 8 Rate applies to bulk-entered mailings of at least 500 flat-size pieces, each of which must be delivery point barcoded or bear a ZIP+4 barcode, and must meet other preparation requirements specified by the Postal Service, and documents provided for entry using Mailing Online service, pursuant to section 981.

---

**SPECIAL SERVICES**

\* \* \* \* \*

**FEE SCHEDULE 981**

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***Attachment C***

Attachment C

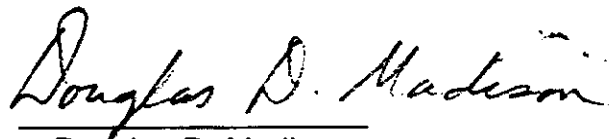
**CERTIFICATION**

I, Douglas D. Madison, Manager, Product Cost Studies, Finance, United States Postal Service, am familiar with the attached Request of the United States Postal Service for A Recommended Decision On A Market Test Classification and Fee Schedule, and a Recommended Decision On an Experimental Classification and Fee Schedule for Mailing Online Service, together with the accompanying direct testimony and exhibits.

Pursuant to Rule 54(p) of the Postal Rate Commission's Rules of Practice and Procedure, 39 C.F.R. 3001.54(p) (1997), I hereby certify that I have read the Request, that the cost statements and supporting data submitted as part of the Request, as well as the accompanying workpapers, which purport to set forth the books of the Postal Service, accurately set forth the results shown by such books, and that, to the best of my knowledge, information, and belief, every statement contained in the Request is proper.

7/14/98

Date

  
\_\_\_\_\_  
Douglas D. Madison



**000916**

***Attachment D***

000917

ATTACHMENT D

Financial Statements

United States Postal Service

*Years ended September 30, 1997 and 1996  
with Report of Independent Auditors*

## United States Postal Service

## Financial Statements

Years ended September 30, 1997 and 1996

## Contents

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**000919**

## Report of Independent Auditors

Board of Governors  
United States Postal Service

We have audited the accompanying balance sheets of the United States Postal Service as of September 30, 1997 and 1996, and the related statements of operations, changes in net capital deficiency and cash flows for each of the three years in the period ended September 30, 1997. These financial statements are the responsibility of the United States Postal Service's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the United States Postal Service at September 30, 1997 and 1996, and the results of its operations and its cash flows for each of the three years in the period ended September 30, 1997, in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 7, 1997, on our consideration of the United States Postal Service's internal control and a report dated November 7, 1997, on its compliance with applicable laws and regulations.

*Ernst & Young LLP*

November 7, 1997

## United States Postal Service

000920

## Balance Sheets

	September 30,	
	1997	1996
	<i>(dollars in millions)</i>	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 403	\$ 310
Receivables:		
Foreign countries	441	547
U.S. Government	101	109
Consignment	48	38
Other	159	116
	<u>749</u>	<u>810</u>
Less allowances	77	83
Total receivables, net	<u>672</u>	<u>727</u>
Supplies, advances and prepayments	<u>388</u>	<u>410</u>
Total current assets	<u>1,463</u>	<u>1,447</u>
Other assets, principally revenue forgone appropriations receivable <i>(Note 8)</i>	372	354
Property and equipment, at cost:		
Buildings	13,911	12,923
Equipment	10,328	9,738
Land	2,178	2,107
Leasehold improvements	797	696
	<u>27,214</u>	<u>25,464</u>
Less allowances for depreciation and amortization	<u>9,702</u>	<u>9,158</u>
	<u>17,512</u>	<u>16,306</u>
Construction in progress	<u>1,862</u>	<u>1,552</u>
Total property and equipment, net	<u>19,374</u>	<u>17,858</u>
Deferred retirement costs <i>(Note 6)</i>	<u>31,929</u>	<u>31,944</u>
	<u>\$53,138</u>	<u>\$51,603</u>

See accompanying notes.

000921

	September 30,	
	1997	1996
	<i>(dollars in millions)</i>	
<b>Liabilities and net capital deficiency</b>		
Current liabilities:		
Compensation and benefits	\$ 5,056	\$ 4,743
Estimated prepaid postage	1,743	1,723
Payables and accrued expenses:		
Foreign countries	703	721
U.S. Government	181	226
Other	940	878
Total payables and accrued expenses	1,824	1,825
Prepaid box rentals, permit and metered mail	1,924	1,592
Outstanding postal money orders	640	680
Current portion of debt	2,647	2,010
Total current liabilities	13,834	12,573
Long-term debt, less current portion <i>(Note 5)</i>	3,225	3,909
Other liabilities:		
Amounts payable for deferred retirement benefits <i>(Note 6)</i>	30,343	30,459
Workers' compensation <i>(Note 2)</i>	4,749	4,890
Retroactive assessments payable to the U.S. Government <i>(Note 4)</i>	-	331
Employees' accumulated leave	1,858	1,622
Other	489	443
	37,439	37,745
Commitments and contingencies <i>(Notes 9 and 12)</i>		
Net capital deficiency:		
Capital contributions of the U.S. Government	3,034	3,034
Deficit since reorganization	(4,394)	(5,658)
Total net capital deficiency	(1,360)	(2,624)
	<u>\$53,138</u>	<u>\$51,603</u>

See accompanying notes.

## United States Postal Service

## Statements of Operations

	Years ended September 30,		
	1997	1996	1995
	<i>(dollars in millions)</i>		
Operating revenue <i>(Note 8)</i>	\$58,216	\$56,402	\$54,293
Operating expenses:			
Compensation and benefits <i>(Notes 2, 6, and 7)</i>	43,835	42,676	41,931
Transportation	4,026	3,736	3,476
Other	7,012	6,701	5,323
Total operating expenses	54,873	53,113	50,730
Income from operations	3,343	3,289	3,563
POD workers' compensation expense <i>(Note 3)</i>	(258)	-	-
Interest and investment income	115	142	216
Interest expense on deferred retirement liabilities <i>(Note 6)</i>	(1,597)	(1,449)	(1,364)
Interest expense on borrowings	(307)	(368)	(566)
Imputed interest on OBRA 1990 and OBRA 1993 retroactive assessments for employee benefits <i>(Note 4)</i>	(32)	(47)	(79)
Net income	\$ 1,264	\$ 1,567	\$ 1,770

*See accompanying notes.*

## United States Postal Service

## Statements of Changes in Net Capital Deficiency

Years Ended September 30, 1997, 1996 and 1995

	Capital Contributions of U.S. Government	Deficit Since Reorganization	Total Net Capital Deficiency
	<i>(dollars in millions)</i>		
Balance, September 30, 1994	\$3,034	\$(8,995)	\$(5,961)
Net Income	—	1,770	1,770
Balance, September 30, 1995	3,034	(7,225)	(4,191)
Net Income	—	1,567	1,567
Balance, September 30, 1996	3,034	(5,658)	(2,624)
Net Income	—	1,264	1,264
Balance, September 30, 1997	<b>\$3,034</b>	<b>\$(4,394)</b>	<b>\$(1,360)</b>

*See accompanying notes.*



## United States Postal Service

## Statements of Cash Flows

	Years ended September 30,		
	1997	1996	1995
	<i>(dollars in millions)</i>		
<b>Cash flows from operating activities:</b>			
Net income (loss)	\$ 1,264	\$ 1,567	\$ 1,770
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	1,673	1,333	1,141
Gain on sales of investments, net	-	-	(2)
Loss on disposals of property and equipment, net	19	15	8
Increase in other assets, principally revenue forgone appropriations receivable	(18)	(37)	(52)
Decrease in accrued restructuring costs	-	-	(26)
(Decrease) increase in USPS workers' compensation costs	(332)	205	359
Increase in Post Office Department workers' compensation costs	258	-	-
Decrease in retroactive assessments payable to the U.S. Government	(315)	(300)	(626)
Increase in employees' accumulated leave	236	67	42
Increase in other liabilities	46	100	111
Changes in current assets and liabilities:			
Decrease in receivables, net	55	151	3
Decrease (increase) in supplies, advances and prepayments	22	(31)	(19)
Increase (decrease) in compensation and benefits	128	(562)	976
Increase in estimated prepaid postage	20	26	130
Decrease in payables and accrued expenses	(1)	(190)	(211)
Increase in prepaid box rentals, permit and metered mail	332	162	111
Decrease in outstanding postal money orders	(40)	(17)	(134)
Net cash provided by operating activities	3,347	2,489	3,581
<b>Cash flows from investing activities:</b>			
Purchase of U.S. Government securities, available-for-sale	(300)	(799)	(6,350)
Proceeds from sale of U.S. Government securities, available-for-sale	300	800	6,368
Purchase of property and equipment	(3,233)	(2,340)	(1,808)
Proceeds from sale of property and equipment	26	4	13
Net cash used in investing activities	(3,207)	(2,335)	(1,777)
<b>Cash flows from financing activities:</b>			
Issuance of debt	1,964	1,500	1,300
Payments on debt	(2,011)	(2,861)	(3,008)
Net cash used in financing activities	(47)	(1,361)	(1,708)
Net increase (decrease) in cash and cash equivalents	93	(1,207)	96
Cash and cash equivalents at beginning of year	310	1,517	1,421
Cash and cash equivalents at end of year	\$ 403	\$ 310	\$ 1,517

## Notes to Financial Statements

**1. Description of Business****Nature of Operations**

The United States Postal Service (Postal Service) provides mail service to the public, offering a variety of classes of mail services without discrimination among its many customers. This means that within each class of mail our price does not vary by customer for the levels of service we provide. This fulfills our legal mandate to offer universal services at a fair price. Our primary lines of business are First Class Mail, Standard Mail (A), and Priority Mail. The principal markets for these services are the communications, distribution and delivery, advertising, and retail markets. Our products are distributed through our more than 38,000 post offices and a large network of consignees. As in the past, we continue to conduct our significant operations primarily in the domestic market, with our international operations representing less than 3 percent of our total revenue.

Our labor force is primarily represented by the American Postal Workers Union, National Association of Letter Carriers, National Postal Mail Handlers Union, and National Rural Letter Carriers Association. Almost 90 percent of our career employees are covered by collective bargaining agreements. No agreement expires in Fiscal Year 1998. However, three of our largest contracts expire November 20, 1998.

**Postal Reorganization**

The Postal Service commenced operations on July 1, 1971, in accordance with the provisions of the Postal Reorganization Act (the Act). The equity that the U.S. Government held in the former Post Office Department became the initial capital of the Postal Service. The Postal Service valued the assets of the former Post Office Department at original cost less accumulated depreciation. The U.S. Government remained responsible for all the liabilities attributable to operations of the former Post Office Department.

The Balanced Budget Act of 1997 charged the Postal Service with certain liabilities attributable to operations of the former Post Office Department for the first time since postal reorganization. Our 1997 financial statements contain a \$258 million reduction to net income as a result (Note 3).

Notes to Financial Statements (continued)

**1. Description of Business (continued)**

**Price Setting Process**

Since 1971, the Act has required the Postal Service to establish prices that cover the costs of operating the postal system. The Act established the independent Postal Rate Commission with oversight responsibility for mail prices, subject to approval by the Governors. The Act provides for the recovery of operating losses through future rate increases.

**2. Summary of Significant Accounting Policies**

**Basis of Accounting and Use of Estimates**

The Postal Service maintains its accounting records and prepares its financial statements on the accrual basis of accounting. This basis conforms with generally accepted accounting principles. Following these principles, we made estimates and assumptions that affect the amounts we report in the financial statements and notes. Actual results may differ from our estimates.

**Cash Equivalents**

Cash equivalents are securities which mature within 90 days or less from the date we buy them.

**Current Values of Financial Instruments**

We determine the current value of our investments in non-marketable U.S. Government securities based on the current value of equivalent marketable U.S. Government securities. We determine the current value of our debt on what we estimate it would cost us to pay off the debt if we used the current yield on equivalent U.S. Treasury debt.

**Supplies, Advances and Prepayments**

Supplies, advances and prepayments are primarily composed of our inventories of supplies, motor vehicle parts, repairable parts for mail processing equipment, and advances to employees for annual leave. We value our inventories at the lower of average cost or current market price. Total inventories amounted to \$187 million at the end of 1997 and \$211 million at the end of 1996.

## United States Postal Service

## Notes to Financial Statements (continued)

**2. Accounting Policies (continued)****Property and Equipment**

We record property and equipment at what it cost us to acquire the assets, including the interest we pay on the money we borrow to pay for the construction of major capital additions. This interest amounted to \$22 million in 1997, \$29 million in 1996, and \$47 million in 1995. We depreciate buildings and equipment over their estimated useful lives using the straight-line method. We amortize leasehold improvements over the period of the lease or the useful life of the improvement, whichever time is shorter.

During the year we changed our policy of expensing minor asset purchases. We increased the limit from \$2,000 to \$3,000. As a result, we expensed \$83 million of assets that were under the new limit.

**Estimated Prepaid Postage**

This is the amount of cash we estimate that we collected by the end of the year for services that we will perform in the following year.

**Compensation and Benefits Payable**

This is the salaries and benefits we owe to current and retired employees, including the amounts employees have earned but have not yet been paid, current workers' compensation, unemployment costs, health benefits, and the current portion of the amounts payable for retirement benefits.

**Deferred Retirement Benefits**

This is the present value of our estimated legal obligation to the Civil Service Retirement and Disability Fund for the amount of retirement benefits payable in the future for our current employees' retirement and our present retirees and their survivors. The present value of our benefits payable for our current employees increases when management increases basic pay. We expense and pay this portion of the liability over 30 years at 5 percent interest. The present value of our benefits payable also increases when Cost of Living Adjustments (COLAs) are granted to our retirees or their survivors. We expense and pay this portion of the liability over 15 years at 5 percent interest. We capitalize as deferred retirement costs the amounts due and payable in future years. We account for our participation in the U.S. Government sponsored retirement plans as a participation in a multi-employer plan arrangement.

## United States Postal Service

## Notes to Financial Statements (continued)

**2. Accounting Policies (continued)****Post-Retirement Health Benefits**

Retiree health benefits costs are our obligation to pay a portion of the health insurance premiums of those retirees and their survivors who participate in the Federal Employees Health Benefits Program (FEHBP). We account for our participation in FEHBP as a participation in a multi-employer plan arrangement. Therefore, we expense the costs of our retiree health benefits as we incur them.

**Workers' Compensation Costs**

We are self-insured for workers' compensation costs, under a program administered by the Department of Labor (DOL). We record these costs, which include the employees' medical expenses and payment for continuation of wages, as an operating expense. At the end of the year, our liability represents our estimated present value of the total amount we expect to pay for outstanding claims. We base our estimate of the total costs of a claim upon the severity of the injury, the age of the injured employee, the assumed life expectancy of the employee, the trend of our experience with such an injury, and other factors. In our calculation of present value, we use a net discount rate of 0.1 percent for medical claims and 3.0 percent for compensation claims.

In 1996 we changed one of the assumptions we use to estimate our workers' compensation liability. As part of our calculation, we use the trends in our claims for the current year and the claims from previous years to estimate the length of time an employee will receive workers' compensation. Beginning in 1996 we placed greater emphasis on our experience with prior years' claims to estimate this liability. As a result, we had an increase in expense of \$113 million in 1996.

At the end of 1997, we estimate our total liability for future workers' compensation costs at \$5,092 million excluding Post Office Department (POD) liability (Note 3). At the end of 1996, this liability was \$5,424 million. In 1997, we recorded \$206 million in workers' compensation expense, compared to the \$737 million we recorded in 1996 and the \$877 million we recorded in 1995. This does not include (POD) workers' compensation (Note 3).

**Research and Development Costs**

We record research and development costs as expenses when we incur them. These costs were \$68 million in 1997, \$56 million in 1996, and \$52 million in 1995.

## United States Postal Service

## Notes to Financial Statements (continued)

**2. Accounting Policies (continued)****Advertising**

We record advertising costs as expenses when we incur them. These costs were \$266 million in 1997, \$236 million in 1996, and \$99 million in 1995.

**Reclassifications**

We have reclassified certain previously reported financial statement amounts in order to conform to this year's presentation.

**3. Balanced Budget Act of 1997**

Under the Postal Reorganization Act of 1971, the U.S. Government remained responsible for payment of all Post Office Department (POD) workers' compensation claims incurred before July 1, 1971. This Act required that the newly created Postal Service be responsible only for its own workers' compensation claims. However, under the Balanced Budget Act of 1997, the remaining liability for these POD claims costs has now been transferred to the Postal Service. We estimate that the present value of the liability for these claims is \$258 million. We have recorded this amount as an expense for 1997. In our calculation we use a net discount rate of 3.0 percent.

**4. Retroactive Assessments for Employee Benefits****Omnibus Budget Reconciliation Act of 1990**

The Omnibus Budget Reconciliation Act of 1990 (OBRA) requires us to pay our portion of our retirees' cost of living adjustments (COLAs) (Note 6) and health benefits (Note 7). This Act also retroactively assessed us \$2.14 billion as our portion of our retirees' health benefits and cost of living adjustments that the U.S. Government had paid from July 1, 1971 through September 30, 1986. We paid this assessment over a five-year period with the last installment in 1995. We expensed \$34 million in 1995 as interest related to OBRA 1990 retroactive assessments.

## Notes to Financial Statements (continued)

**4. Retroactive Assessments for Employee Benefits (continued)****Omnibus Budget Reconciliation Act of 1993**

Under the Omnibus Budget Reconciliation Act (OBRA) of 1993, we must pay 5 percent interest on the \$2.14 billion retroactive assessment from the Omnibus Budget Reconciliation Act of 1990. We pay this interest in three equal annual installments totaling \$1.041 billion. We made the first payment in 1996 and the second in 1997 for a total of \$694 million.

The amounts we must pay in the future under this OBRA, on a present value basis, are as follows (dollars in millions):

<u>Year</u>	<u>Health Benefits</u>	<u>COLAs</u>	<u>Total</u>
1998	116	231	\$347
Less amount representing imputed interest at 5 percent			<u>16</u>
Principal portion to be paid in 1998 classified as a current liability in compensation and benefits			<u>\$331</u>

## Notes to Financial Statements (continued)

**5. Debt and Related Interest Costs**

Under the Postal Reorganization Act, as amended by Public Law 101-227, we can issue debt obligations. However, we are limited to net annual increases of \$2 billion in our debt for capital improvements and to \$1 billion for operating expenses. Our total debt cannot exceed \$15 billion.

Debt is due as follows (dollars in millions):

<u>Year</u>	<u>Amount</u>
1998	\$2,647
1999	87
2000	84
2001	52
2002	1,501
After 2002	1,501

We paid in cash \$336 million in interest in 1997, \$473 million in 1996 and \$576 million in 1995.

The current estimated value of debt is \$6,102 million in 1997 and \$6,078 million in 1996.



## United States Postal Service

## Notes to Financial Statements (continued)

## 5. Debt and Related Interest Costs (continued)

Our debt consists of the following (dollars in millions):

Interest Rate %	Terms	September 30, 1997 1996	
<b>Notes payable to the Federal Financing Bank (FFB):</b>			
8.075	Payable \$32 million each year to May 31, 2000	\$ 96	\$ 128
7.800	Payable \$15 million each year to May 31, 2001	60	75
7.591	Payable \$50 million each year to June 1, 1997 and \$23 million due on June 1, 1998	23	73
8.474	Payable \$30 million each year to June 1, 1998	30	60
8.908	Payable \$35 million each year to June 1, 1998	35	71
9.074	Payable \$60 million each year to June 1, 1998	60	120
9.081	Payable \$12 million on June 2, 1997	-	12
8.764*	Payable \$24 million on June 2, 1997; payments of \$36 million each year on June 1, 1998-1999; and payments of \$36 million each year thereafter through May 31, 2001	144	168
7.786	Payable on September 30, 1998	450	450
7.230	Payable on September 30, 1997 (retired \$950 million in year 1995; original maturity was \$800 million payable on October 2, 1995, and \$400 million on September 30, 1997)	-	250
7.367	Payable on August 15, 2002; callable November 30, 1997	1,500	1,500
7.615	Payable on November 30, 2007; callable November 30, 1997	1,000	1,000
6.274	Payable on May 16, 2005	500	500
Variable**	Payable on November 15, 2025; callable November 15, 1996	-	500
5.395	Overnight revolving credit facility; final maturity date January 15, 1997	-	300
5.163***	Short-term revolving credit facility; final maturity date January 15, 1998	-	700
5.312****	Overnight revolving credit facility; final maturity date January 31, 1998	164	-
5.198*****	Short-term revolving credit facility; final maturity date September 30, 1998	1,800	-
		<u>5,862</u>	<u>5,907</u>
<b>Mortgage Notes Payable:</b>			
5.00 to 9.75	Maturing from years 1998 through 2039, secured by land, buildings and equipment with a carrying amount of \$42 million (aggregate annual installments approximate \$1 million)	10	12
		<u>5,872</u>	<u>5,919</u>
Less current portion of debt		<u>2,647</u>	<u>2,010</u>
		<u>\$3,225</u>	<u>\$3,909</u>

\* Weighted average interest rate; prior year's weighted average interest rate was 8.768%.

\*\* Retired November 15, 1996.

\*\*\* Retired December 4, 1996.

\*\*\*\* Total available amount is \$300 million; unused balance is \$136 million.

\*\*\*\*\* Total available amount is \$2.7 billion; unused balance is \$900 million.

## Notes to Financial Statements (continued)

**6. Retirement Programs**

With certain exceptions, employees participate in one of the following three retirement programs based upon the starting date of their employment with the Postal Service. Employee and employer contributions are made to the Civil Service Retirement and Disability Fund (CSRDF), which is administered by the Office of Personnel Management. Employees may also participate in the Thrift Savings Plan, which is a defined contribution retirement savings and investment plan. Postal Service employees are authorized to participate in the Thrift Savings Plan by the Federal Employees Retirement System Act of 1986. The Plan is administered by the Federal Retirement Thrift Investment Board.

**Civil Service Retirement System (CSRS)**

Under the Postal Reorganization Act, officers and career employees are covered by the Civil Service Retirement System, which provides a basic annuity and Medicare coverage. CSRS covers substantially all employees hired prior to January 1, 1984. We and the participating employee each contribute 7 percent of the employee's basic pay to CSRDF. We and the employee also contribute to Medicare at the rate prescribed by law. We do not match contributions to the Thrift Savings Plan for employees who participate in the CSRS.

**Dual Civil Service Retirement System (Dual CSRS)/Social Security System**

Employees with prior U.S. Government service who were hired between January 1, 1984 and January 1, 1987 are covered by the Dual Civil Service Retirement and System/Social Security System. We contribute 7 percent of the employee's basic pay to the CSRDF. The employee contributes 0.8 percent of basic pay. We and the employee also contribute to Social Security and Medicare at the rates prescribed by law. We do not match contributions to the Thrift Savings Plan for employees who participate in the Dual System.

**Federal Employees Retirement System (FERS)**

Effective January 1, 1987, officers and career employees hired since January 1, 1984, except for those covered by the Dual System, are covered by the Federal Employees Retirement System Act of 1986. In addition, employees hired before January 1, 1984 could choose during certain periods in 1987 and 1988 to participate in the FERS. This System consists of Social Security, a basic annuity plan, and a Thrift Savings Plan.

## United States Postal Service

## Notes to Financial Statements (continued)

**6. Retirement Programs (continued)****Federal Employees Retirement System (FERS) (continued)**

We contributed to the basic annuity plan 11.4 percent of each employee's basic pay in 1997, 1996, and 1995. Employees contributed 0.8 percent of their basic pay in these years. We and the employee also contribute to Social Security and Medicare at the rates prescribed by law. In addition, we are required to contribute to the Thrift Savings Plan a minimum of 1 percent per year of the basic pay of employees covered by this System. We also match a voluntary employee contribution up to 3 percent of the employee's basic pay, and 50 percent of a contribution between 3 percent and 5 percent of basic pay.

The number of employees enrolled in each of the retirement plans at the end of 1997, 1996 and 1995 is as follows:

	<u>1997</u>	<u>1996</u>	<u>1995</u>
CSRS	314,068	328,270	340,309
Dual CSRS/Social Security	13,900	14,320	14,634
FERS	436,735	417,948	398,048

**Deferred Retirement Costs**

Deferred retirement costs consist of the following (dollars in millions):

	<u>1997</u>	<u>1996</u>
CSRS basic pay increases	\$26,133	\$26,637
CSRS retirees' and survivors' cost of living adjustments	5,796	5,307
Total	<u>\$31,929</u>	<u>\$31,944</u>

There are no deferred retirement costs associated with FERS.

## United States Postal Service

## Notes to Financial Statements (continued)

**6. Retirement Programs (continued)****Deferred Retirement Liability - Civil Service Retirement System**

When we raise our employees' current basic pay, we are liable for the additional deferred retirement liability. The liability results from the increase in our employees' retirement benefits which are based on this pay increase. The Office of Personnel Management determines the estimated increase in our deferred liability. We amortize and pay this amount in 30 equal annual installments, which include interest computed at a rate of 5 percent per year. We make the first payment at the end of the year in which employees receive their pay increase.

The increase in our deferred liability for retirement benefits under the CSRS as a result of basic pay increases was \$560 million in 1997, \$3,696 million in 1996, and \$2,200 million in 1995.

**Deferred Retirement Liability - Retirees' and their Survivors' Cost of Living Adjustments (COLAs)**

Congress determines the COLAs granted to our retirees. Under the Omnibus Budget Reconciliation Act of 1990, we are liable for our share of the cost of living adjustments granted to those retirees, and their survivors, retiring on or after July 1, 1971. We are not responsible for any costs due to Federal civilian service before that date.

Each year the Office of Personnel Management determines the estimated increase in our liability under this law for the current year. We amortize and pay each year's amount in 15 equal annual installments, which include interest computed at a rate of 5 percent per year.

The increase in our deferred liability for our retirees' COLAs was \$1,041 million in 1997, \$951 million in 1996, and \$972 million in 1995.

## United States Postal Service

## Notes to Financial Statements (continued)

## 6. Retirement Programs (continued)

## Future Minimum Payments

We estimate the future minimum payments we have to make in order to fund CSRS benefits and retirees' cost of living adjustments as of September 30, 1997, are as follows (dollars in millions):

<u>Year</u>	<u>Amount</u>
1998	\$ 3,183
1999	3,177
2000	3,157
2001	3,150
2002	3,079
After 2002	<u>33,642</u>
	\$49,388
Less amount representing interest	<u>17,459</u>
Total future minimum payments	31,929
Less: Portion classified as a current liability in compensation and benefits	<u>1,586</u>
Long-term portion of future minimum payments	<u>\$30,343</u>

## Notes to Financial Statements (continued)

**6. Retirement Programs (continued)****Expense Components**

Listed below are the components of our total retirement expenses that are included in our compensation and benefits expense and related interest expense in the Statements of Operations for 1997, 1996, and 1995 (dollars in millions):

	1997	1996	1995
CSRS	\$ 870	\$ 877	\$ 843
FERS	1,590	1,473	1,270
FERS - Thrift Savings Plan	552	489	400
Dual CSRS/Social Security	36	36	34
Social Security	1,162	1,082	1,008
Amortization of deferred cost:			
CSRS	1,064	1,157	988
Annuitant COLAs	552	507	471
Interest expenses on deferred liabilities	1,597	1,449	1,364
Imputed interest on OBRAs	32	47	79
<b>Total Retirement Expense</b>	<b>\$7,455</b>	<b>\$7,117</b>	<b>\$6,457</b>

**7. Post-Retirement Health Benefit Programs**

Employees of the Postal Service who participate in the Federal Employees Health Benefits Program (FEHBP) for at least the five years immediately before their retirement may participate in the FEHBP during their retirement. Under the FEHBP, we pay a portion of the health insurance premiums of participating retirees and their survivors. This Program is administered by the Office of Personnel Management.

The Omnibus Budget Reconciliation Act of 1990 requires us to pay the employer's share of health insurance premiums for all employees, and their survivors, who participate in the FEHBP and who retire on or after July 1, 1971. However, we do not include the costs attributable to Federal civilian service before that date. Our FEHBP costs amounted to \$548 million in 1997, \$497 million in 1996, and \$513 million in 1995. We include these costs in our compensation and benefits expense.

## United States Postal Service

## Notes to Financial Statements (continued)

**8. Revenue Forgone**

Our operating revenue includes accruals for revenue forgone. Revenue is forgone when Congress mandates that we provide free or reduced mail rates for certain mailers. The difference between the price Congress has mandated and the price we would have charged the mailer determines the amount of forgone revenue. Congress appropriates money to reimburse us for only a portion of the revenue forgone that we have incurred in past years. In our operating revenue, we have included as revenue the amounts appropriated by Congress for revenue forgone of \$83 million for 1997, \$93 million for 1996, and \$117 million for 1995.

Under the Revenue Forgone Reform Act of 1993, Congress is required to reimburse us \$29 million annually through 2035 (42 years). This reimbursement is for two purposes: services we performed in 1991, 1992 and 1993 and for which we have not yet been fully paid; and for shortfalls in the reimbursement for the costs we incurred or will incur for processing and delivering certain non-profit mail from 1994 through 1998. If Congress doesn't pay us for the services we have already provided, we can by law make up that lost income by adjusting our rates on all mailers through the postal rate-making process.

The Revenue Forgone Act of 1993 authorized a total of \$1.218 billion in payments. We calculate the present value of these future reimbursements at 7 percent interest to be approximately \$390 million. At the end of 1997, we have recognized cumulative revenues of approximately \$380 million. The amount receivable as of September 30, 1997 is \$372 million. We recorded receivables of \$353 million as of year-end 1996. We recognized revenue of \$22 million in 1997, \$37 million in 1996, and \$54 million in 1995.

## Notes to Financial Statements (continued)

**9. Commitments**

At September 30, 1997, we estimate the cost to complete approved Postal Service capital projects in progress is approximately \$2.793 billion.

Our total rental expense for the years ended September 30 is summarized as follows (dollars in millions):

	<u>1997</u>	<u>1996</u>	<u>1995</u>
Noncancellable real estate leases including related taxes	\$659	\$616	\$580
Facilities leased from General Services Administration subject to 120-day notice of cancellation	34	36	35
Equipment and other short-term rentals	154	153	150
Total	<u>\$847</u>	<u>\$805</u>	<u>\$765</u>

At September 30, 1997, our future minimum lease payments for all noncancellable leases are as follows (dollars in millions):

<u>Year</u>	<u>Operating</u>	<u>Capital</u>
1998	\$ 523	\$ 42
1999	480	42
2000	403	42
2001	314	42
2002	227	42
After 2002	973	144
	<u>\$2,920</u>	<u>\$354</u>
Less: Interest at 6.5%		82
Total capital lease obligations		<u>\$272</u>
Less: Short-term portion of capital lease obligations		25
Long-term portion of capital lease obligations		<u>\$247</u>



## Notes to Financial Statements (continued)

**9. Commitments (continued)**

Most of these leases contain renewal options for periods ranging from 3 to 20 years. Certain noncancellable real estate leases give us the option to purchase the facilities at prices specified in the leases.

Capital leases included in buildings were \$272 million in 1997 and \$157 million in 1996. Total accumulated amortization is \$54 million in 1997 and \$27 million in 1996. Amortization expense for assets recorded under capital leases is included in depreciation expense.

**10. Impaired Assets**

This year we began to record losses on long-lived assets when events and circumstances indicate that the assets might be impaired. In accordance with Financial Accounting Standards Board Statement No. 121, Accounting for the Impairment of Long Lived Assets and for Long-lived Assets to Be Disposed Of, we have written down our impaired assets to lower of cost or fair value. We have identified several properties that qualify due to either obsolescence or earthquake damage. The loss reported this year for these impaired assets is \$57 million which has been included in other operating expense in the 1997 Statement of Operations.

**11. Year 2000 Disclosure**

We are currently evaluating all our systems, including our computer systems, to ensure that they are Year 2000 ready. During 1997 we spent \$4 million upgrading our systems for readiness. We are also developing contingency plans so that any failure to convert will not adversely affect ability to perform.

**12. Contingent Liabilities**

Each quarter we review litigation pending against us. As a result of this review, we classify and adjust our contingencies for claims which we think it is probable that we will lose and for which we can reasonably estimate the amount of the unfavorable outcome. These claims cover labor, equal employment opportunity, environmental issues, traffic accidents, injuries on postal properties, personal claims and property damages, and suits and claims arising from postal contracts. We also recognize the settlement of claims and lawsuits and revisions of other estimates.

## Notes to Financial Statements (continued)

**12. Contingent Liabilities (continued)**

Our General Counsel continues to actively litigate and resolve the remaining appeals that resulted from the 1993 Merit Systems Protection Board ruling that our 1992 restructuring constituted a reduction-in-force. This estimated liability has declined each year and we believe it has not been material since 1995.

As a part of our continuing evaluation of estimates required in the preparation of our financial statements, we recorded approximately \$26 million in decreased liabilities in 1997, increased liabilities by approximately \$120 million in 1996, and reduced liabilities by approximately \$360 million in 1995. We recognized settlement of claims and lawsuits and revised other estimates in our changes in contingent liabilities.

Management and General Counsel believe that we have made adequate provision for the amounts which may become due under the suits, claims, and proceedings we have discussed here.

**13. Subsequent Event (Unaudited)**

On our balance sheet we have classified our debt into two categories, current and long term. Note 5 and the Debt Chart which follows Note 5 give details as to the composition of our debt. On December 1, 1997, we exercised call options at par on two long-term notes payable to the Federal Financing Bank. The first note for \$1.5 billion carried an interest rate of 7.367 percent, payable on August 15, 2002. The second note for \$1.0 billion carried an interest rate of 7.615 percent, payable on November 30, 2007. We financed both notes using a combination of our overnight revolving credit facility, which had an interest rate of 5.52 percent, and our short-term revolving credit facility and our new floating rate note, each of which had a 5.34 percent interest rate. We are currently evaluating refinancing alternatives.

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***Attachment E***

# INDEX OF TESTIMONIES/DOCKET NO. MC98-1

WITNESS	TESTIMONY	EXHIBITS		ATTORNEY
		TITLE	NUMBER	
Mr. Garvey	USPS-T-1	Mailing Online Process Diagram	USPS-1A	Kenneth Hollies (202) 268-3083
		Timeline for Mailing Online Tests and Roll-Out	USPS-1B	
Mr. Seckar	USPS-T-2	Mailing Online Cost Analysis	USPS-2A	David Rubin (202) 268-2986
Mr. Stirewalt	USPS-T-3			Kenneth Hollies (202) 268-3083
Ms. Rothschild	USPS-T-4			Kenneth Hollies (202) 268-3083
Mr. Plunkett	USPS-T-5	Mailing Online Sample Prices	USPS-5A	David Rubin (202) 268-2986
		Mailing Online Projected Revenue	USPS-5B	
		Volatility of Paper Prices	USPS-5C	
		Projected Mailing Online Postage Revenues	USPS-5D	
		Pricing Matrix	USPS-5E	
Mr. Hamm	USPS-T-6			Scott Reiter (202) 286-2999
Ms. Wilcox	USPS-T-7			
Mr. Campanelli	USPS-T-8			

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***Attachment F***

**COMPLIANCE STATEMENT**

This Attachment contains a statement of the manner in which the Postal Service has supplied the information requested in sections 54, 64, 67, and 161 of the Commission's Rules of Practice and Procedure, 39 C.F.R. §§ 3001.54, 3001.64, 3001.67, and 3001.161. Where requested information is not included in direct testimony or exhibits of the Postal Service's witnesses, it is contained in the Request or in other Attachments to the Request, or has been incorporated by reference in the testimony, exhibits, Request, or attachments made available to the Commission in the instant docket or in Docket No. R97-1.

INFORMATION REQUESTED:

These subsections request, for every classification change proposed:

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

1. *Present and Proposed Classification Schedule And Rate and Fee Schedule Provisions.*

The currently-effective Domestic Mail Classification Schedule (DMCS) is published at 39 C.F.R. § 3001, subpart C, appendix A, as amended by Commission Order Nos. 1212 and 1214. The DMCS effective on January 10, 1999, which was approved by the Governors of the Postal Service on June 29, 1998, is contained in their Decision of that date. These documents are incorporated here by reference.

Attachment A1 contains the changes to the currently-effective DMCS proposed by the Postal Service for the market test. Attachment A2 contains the changes to the DMCS effective January 10, 1999, proposed by the Postal Service for the experimental service.

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

The Postal Service's current rules and regulations that specifically govern the

provision of domestic mail services are published in the Domestic Mail Manual, which is incorporated by reference in the Code of Federal Regulations, 39 C.F.R. § 111, and incorporated here by reference. The Postal Service will promulgate rules and regulations consistent with the proposed experimental and market test classification and rate and fee schedule changes pursuant to its statutory authority. See 39 U.S.C. § 401(2).

*3. Degrees of Economic Substitutability.*

The proposed implementation of the Mailing Online service is expected to cause a very minor degree of substitution between the Regular Single-Piece and Automation Basic Presort rate categories of First-Class Mail, and between the Regular Presort Basic and Regular Automation Basic DBMC rate categories of Regular and Nonprofit Standard Mail. Information pertinent to this rule is addressed in the testimony of witness Plunkett (USPS-T-5) with respect to the Mailing Online service. For other information, a motion to waive the requirements of this rule, insofar as they apply to this proposal, has been filed with the Request. Data are not available to develop elasticity estimates.

*4. Identification of nonpostal services*

Nonpostal services include: alien registration, sale of philatelic products, sale of food stamps, sale of passports, sale of migratory-bird hunting and conservation stamps,



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sale of miscellaneous products, Mailgram,<sup>1</sup> photocopy service, vending stands and vending machines, postmasters in Alaska serving as notaries public, and post office assistance to the Office of Personnel Management and the Selective Service System. From time to time, the Postal Service may offer other nonpostal services. Some of these nonpostal services may be provided on a limited or trial basis.

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<sup>1</sup> Although not a service, Mailgram is included here in recognition of its nonpostal nature.

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

INFORMATION REQUESTED:

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

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

*1. Characteristics of the mailer, recipient, and the content of items mailed.*

The testimonies of witnesses Garvey (USPS-T-1), Rothschild (USPS-T-4), and Plunkett (USPS-T-5) provide information responsive to this subsection with respect to the Mailing Online service. Information pertinent to other subclasses is provided in the response to this rule in Docket No. R97-1 and in the Commission's Opinion and Recommended Decision in Docket No. R97-1, incorporated here by reference.

*2. Physical attributes of the items mailed by class and subclass.*

Information pertaining to the physical attributes of the Mailing Online service is provided in the testimonies of witnesses Garvey (USPS-T-1), Seckar (USPS-T-2), and Plunkett (USPS-T-5). Information pertinent to other subclasses is provided in the response to this rule in Docket No. R97-1 and in the Commission's Opinion and Recommended Decision in Docket No. R97-1, incorporated here by reference.

3. *Summary statement of special service arrangements.*

The requirements for qualifying for the Mailing Online service are described in the testimonies of witnesses Garvey (USPS-T-1) and Plunkett (USPS-T-5). Information pertinent to other subclasses is provided in the response to this rule in Docket No. R97-1 and in the Commission's Opinion and Recommended Decision in Docket No. R97-1, incorporated here by reference.

RULE: 64(d)

INFORMATION REQUESTED:

This rule requests that the effects of the change on cost assignments, total costs, and total revenues be provided, both before and after the change.

The testimonies of witnesses Seckar (USPS-T-2), Stirewalt (USPS-T-3), and Plunkett (USPS-T-5) provide information responsive to this subsection with respect to the Mailing Online service. With respect to the effects of changes on cost assignments, total costs and total revenues, however, a motion to waive the requirements of this rule, insofar as they apply to this proposal, has been filed with the Request. Because of the experimental and market test nature of the service being proposed, the Postal Service has not prepared a full analysis of its effects on the Postal Service's cost assignments, total costs and total revenues, either in the present fiscal year or a "rollforward" analysis in a future test year.

RULE: 64(e)

000952

INFORMATION REQUESTED:

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

This rule does not apply to this request because the Postal Service is not proposing that a portion of one existing class or subclass of mail or service be reassigned to another existing class or subclass of mail or service.

RULE: 64(f)

000953

INFORMATION REQUESTED:

This rule requires that the Postal Service provide a complete statement of the reasons and bases for the proposed changes.

The testimonies of witnesses Garvey (USPS-T-1), Plunkett (USPS-T-5), Hamm (USPS-T-6), Wilcox (USPS-T-7), and Campanelli (USPS-T-8) provide the reasons and bases for the proposed experimental and market test classifications.

RULE: 64(g)

000954

INFORMATION REQUESTED:

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

Calculations of costs and revenues with respect to the Mailing Online service are in the testimonies and exhibits of witnesses Seckar (USPS-T-2) and Plunkett (USPS-T-5) in the instant docket.

RULE: 64(h)

000955

INFORMATION REQUESTED:

This rule calls for compliance with subsections (b) through (h), (j) through (l) and (o) through (p) of Rule 54, together with statements responsive to paragraphs (q) and (r) of Rule 54, when the Postal Service proposes a change in the mail classification schedule having a rate, fee or total cost change implication.

The Rule 54 compliance statements, which include the response to this requirement, are incorporated here by reference. A motion setting forth grounds for waiver of portions of Rule 54 accompanies this request. See Motion of the United States Postal Service for Expedition, and for Waiver of Certain Provisions of Rule 161 and Certain Provisions of Rule 64(h). The criteria of section 3622 are addressed in the testimony of witness Plunkett (USPS-T-5).



INFORMATION REQUESTED:

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

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

The generally relevant current rates are shown in Attachment B to the Postal Service's Request in Docket No. R97-1, filed on July 10, 1997. Current rates will be superseded on January 10, 1999, by the rates approved by the Governors of the Postal Service on June 29, 1998, and contained in their Decision of that date. Those documents are incorporated here by reference.

Attachment B1 contains the changes to the current rate and fee schedule proposed for the market test. Attachment B2 contains the changes to the rate schedule effective January 10, 1999, proposed for the experiment. Other information responsive to this rule is provided in response to Rule 64(b), incorporated here by reference.

000957

RULE: 54(c)

INFORMATION REQUESTED:

This rule requires that each request identify the characteristics of the mailer and the recipient, and describe the contents of items mailed within each class and subclass.

Information pertinent to this rule is identified in response to Rule 64(c)(1),  
incorporated here by reference.

RULE: 54(d)

000958

INFORMATION REQUESTED:

This rule requires that requests identify physical attributes of items mailed by class and subclass, including the shape, weight and distance.

Information pertinent to this rule is identified in the response to Rule 64(c)(2), incorporated here by reference.

RULE: 54(e)

INFORMATION REQUESTED:

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

The requirements for qualifying for the Mailing Online service are described in the testimonies of witnesses Garvey (USPS-T-1) and Plunkett (USPS-T-5). Information pertinent to other subclasses is provided in the response to this rule in Docket No. R97-1 and in the Commission's Opinion and Recommended Decision in Docket No. R97-1, incorporated here by reference.

000960

RULE: 54(f)(1)

INFORMATION REQUESTED:

This rule requires that the Postal Service provide in each request "the total actual accrued costs during the most recent fiscal year for which they are reasonably available."

Actual accrued costs for FY 1997 are presented in the Cost and Revenue Analysis (CRA) Report on file with the Commission.

RULE: 54(f)(2)

INFORMATION REQUESTED:

This rule requires that the Postal Service provide the following in each request:

- (1) the Postal Service's estimated total accrued costs for the fiscal year in which the filing is made, assuming existing rates and fees;
- (2) the Postal Service's estimated total accrued costs for the fiscal year in which the filing is made, assuming the proposed rates and fees;
- (3) the Postal Service's estimated total accrued costs for a fiscal year beginning not more than 24 months subsequent to the filing date of the formal request, assuming existing rates and fees; and
- (4) the Postal Service's estimated total accrued costs for a fiscal year beginning not more than 24 months subsequent to the filing date of the formal request, assuming the proposed rates and fees.

The testimonies of witnesses Seckar (USPS-T-2), Stirewalt (USPS-T-3), and Plunkett (USPS-T-5) provide information responsive to this subsection with respect to the Mailing Online service. With respect to the effects of changes on total costs, however, a motion to waive the requirements of this rule, insofar as they apply to this proposal, has been filed with the Request. Because of the experimental and market test nature of the service being proposed, the Postal Service has not prepared a full analysis of its effects on the Postal Service's total costs, either in the present fiscal year or a "rollforward" analysis in a future test year.

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

REQUIREMENT:

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

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

The testimonies of witnesses Seckar (USPS-T-2), Rothschild (USPS-T-4), and Plunkett (USPS-T-5) provide information responsive to this subsection with respect to the Mailing Online service. With respect to the effects of changes on total costs and total volumes, however, a motion to waive the requirements of this rule, insofar as they apply to this proposal, has been filed with the Request. Because of the experimental and market test nature of the service being proposed, the Postal Service has not prepared a full analysis of its effects on the Postal Service's total costs and total volumes, either in the present fiscal year or a "rollforward" analysis in a future test year.

INFORMATION REQUESTED:

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

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

The testimonies of witnesses Seckar (USPS-T-2), Stirewalt (USPS-T-3), and Plunkett (USPS-T-5), provide information responsive to this subsection with respect to the Mailing Online service. With respect to the effects of changes on operating and depreciation costs, however, a motion to waive the requirements of this rule, insofar as they apply to this proposal, has been filed with the Request. Because of the experimental and market test nature of the service being proposed, the Postal Service has not prepared a full analysis of its effects on the Postal Service's operating and depreciation costs, either in the present fiscal year or a "rollforward" analysis in a future test year.



REQUIREMENT:

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

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

The testimonies of witnesses Seckar (USPS-T-2), Stirewalt (USPS-T-3), and Plunkett (USPS-T-5) provide information responsive to this subsection with respect to the Mailing Online service. With respect to the effects of changes on functional costs, however, a motion to waive the requirements of this rule, insofar as they apply to this proposal, has been filed with the Request. Because of the experimental and market test nature of the service being proposed, the Postal Service has not prepared a full analysis of its effects on the Postal Service's functional costs, either in the present fiscal year or a "rollforward" analysis in a future test year.

RULE: 54(g)

INFORMATION REQUESTED:

This rule requires that the each request for changes in rates and fees provide, in a form consistent with the filing required by Rule 54(f), "the total actual accrued costs for each fiscal year since the last filing pursuant to this section."

Actual accrued costs for FY 1997 are presented in the Cost and Revenue Analysis (CRA) Report on file with the Commission.

RULE: 54(h)(1)

REQUIREMENT:

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

The testimonies of witnesses Seckar (USPS-T-2), Stirewalt (USPS-T-3), and Plunkett (USPS-T-5) provide information responsive to this subsection with respect to the Mailing OnLine service. With respect to the effects of changes on total costs, however, a motion to waive the requirements of this rule, insofar as they apply to this proposal, has been filed with the Request. Because of the experimental and market test nature of the service being proposed, the Postal Service has not prepared a full analysis of its effects on the Postal Service's total costs, either in the present fiscal year or a "rollforward" analysis in a future test year.

REQUIREMENT

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

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

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

The testimonies of witnesses Seckar (USPS-T-2) and Stirewalt (USPS-T-3) provide information responsive to this subsection with respect to the Mailing OnLine service. With respect to the effects of changes on total costs, however, a motion to waive the requirements of this rule, insofar as they apply to this proposal, has been filed with the Request. Because of the experimental and market test nature of the service being proposed, the Postal Service has not prepared a full analysis of its effects on the Postal Service's total costs, either in the present fiscal year or a "rollforward" analysis in a future test year.

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

REQUIREMENT:

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

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

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

The testimonies of witnesses Seckar (USPS-T-2), Stirewalt (USPS-T-3), and Plunkett (USPS-T-5) provide information responsive to this subsection with respect to the Mailing Online service. With respect to the effects of changes on total costs, however, a motion to waive the requirements of this rule, insofar as they apply to this proposal, has been filed with the Request. Because of the experimental and market test nature of the service being proposed, the Postal Service has not prepared a full analysis of its effects on the Postal Service's total costs, either in the present fiscal year or a "rollforward" analysis in a future test year.

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

REQUIREMENT:

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

The testimonies of witnesses Seckar (USPS-T-2) and Plunkett (USPS-T-5) provide information responsive to this subsection with respect to the Mailing Online service. With respect to the effects of changes on total costs, however, a motion to waive the requirements of this rule, insofar as they apply to this proposal, has been filed with the Request. Because of the experimental and market test nature of the service being proposed, the Postal Service has not prepared a full analysis of its effects on the Postal Service's total costs, either in the present fiscal year or a "rollforward" analysis in a future test year.

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

000970

REQUIREMENT:

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

The testimonies of witnesses Seckar (USPS-T-2) and Plunkett (USPS-T-5) provide information responsive to this subsection with respect to the Mailing Online service.

With respect to the effects of changes on total costs, however, a motion to waive the requirements of this rule, insofar as they apply to this proposal, has been filed with the Request. Because of the experimental and market test nature of the service being proposed, the Postal Service has not prepared a full analysis of its effects on the Postal Service's total costs, either in the present fiscal year or a "rollforward" analysis in a future test year.

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

REQUIREMENT:

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

- FY 1997, assuming prefiling (existing) rates and fees;
- FY 1998, assuming prefiling (existing) rates and fees;
- the portions of FY 1999-01 that are contemporaneous with the experimental period, assuming prefiling (existing) rates and fees;
- the portions of FY 1999-01 that are contemporaneous with the experimental period, assuming proposed rates and fees.

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

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

The testimony of witness Plunkett (USPS-T-5) provides information responsive to this subsection with respect to the Mailing Online service. With respect to the effect of the changes on total revenues, however, a motion to waive the requirements of this rule, insofar as they apply to this proposal, has been filed with the Request. Because of the experimental and market test nature of the service being proposed, the Postal Service has not prepared a full analysis of its effects on the Postal Service's total revenues, either in the present fiscal year or a "rollforward" analysis in a future test year.



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

000972

REQUIREMENT:

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

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

The testimonies of witnesses Rothschild (USPS-T-4) and Plunkett (USPS-T-5) provides information responsive to this subsection with respect to the Mailing Online service, although quarterly data are not provided. With respect to the effect of the changes on total volumes, however, a motion to waive the requirements of this rule, insofar as they apply to this proposal, has been filed with the Request. Because of the experimental and market test nature of the service being proposed, the Postal Service has not prepared a full analysis of its effects on the Postal Service's total volumes, either in the present fiscal year or a "rollforward" analysis in a future test year.

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

REQUIREMENT:

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

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

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

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

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

The testimonies of witnesses Rothschild (USPS-T-4) and Plunkett (USPS-T-5) provide information pertinent to this subsection with respect to the Mailing Online service. With respect to a demand study, however, a motion to waive the requirements of this rule, insofar as they apply to this proposal, has been filed with the Request. Because of the experimental and market test nature of the service being proposed, the Postal Service has not prepared a full analysis of its effects on the Postal Service's total volumes, either in the present fiscal year or a "rollforward" analysis in a future test year.

RULE: 54(k)

INFORMATION REQUESTED:

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

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

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

Financial information for FY 1996 and 1997 is included in Attachment D to this Request.

RULE: 54(I)

INFORMATION REQUESTED:

This rule requires that the Postal Service provide

- (1) a statement that shows for each class and subclass of mail and postal service the relevant billing determinants (the volume of mail related to each rate element in determining revenues) separately for the current rates and the proposed rates. The proposed changes in rate design and the related adjustments of billing determinants should be explained in detail.
- (2) for third-class bulk mail, this rule requires that every formal request must set forth separately for regular and preferred, by presort level, the base year volume by ounce increment for each shape (letter-size, flat, irregular parcels, parcels).

To the extent that Information on the billing determinants relating to Mailing Online is available, it is provided in the testimonies and exhibits of witnesses Rothschild (USPS-T-4) and Plunkett (USPS-T-5). Billing determinants for FY 1997, the most recent available, were filed with the Commission on July 9, 1998. In all other respects, a motion to waive the requirements of this rule, insofar as they apply to this proposal, has been filed with the Request.

RULE: 54(o)

INFORMATION REQUESTED:

This rule sets forth the requirements for filing workpapers with the Commission, including their format, and the number to be filed.

Information pertinent to this rule is identified in response to Rule 64(g), incorporated here by reference.

RULE: 54(p)

INFORMATION REQUESTED:

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

The requested certification is submitted as Attachment C to the instant Request.

RULE: 54(q)

INFORMATION REQUESTED:

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

An opinion from the independent accounting firm of Ernst & Young covering Fiscal Years 1995 and 1996 was submitted as Attachment E in Docket No. R97-1. An opinion from the independent accounting firm of Ernst & Young covering Fiscal Year 1997 is included with Attachment D to this Request.



In addition to the information required by Rules 54 and 64, Rules 67 and 162 establishes specific requirements for experiments and market tests. Each requirement is listed below, followed by the response.

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RULE: 67(b)(4)

INFORMATION REQUESTED:

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

Proposed classification provisions, including a desired termination date for the experiment, are provided in Attachment A to the instant Request.

RULE: 67c

INFORMATION REQUESTED:

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

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

RULE: 162(a)

INFORMATION REQUESTED:

A description of the services to be provided in the market test, and the relationship between the services to be provided and the permanent change or changes in the mail classification schedule requested by the Postal Service.

Information pertinent to this rule is provided in the testimonies of witnesses Garvey (USPS-T-1) and Plunkett (USPS-T-5) and in Attachment A to this Request. A motion for waiver of the requirement that the market test be conducted in the context of a request for a permanent change in mail classification has been filed with the Request. The Postal Service is requesting permission to conduct a market test in the context of an experiment authorized under Rule 67.

RULE: 162(b)

000983

INFORMATION REQUESTED:

A statement of each rate or fee to be charged for each service to be provided during the market test, together with all information relied upon to establish consistency of those rates and fees with the factors specified in section 3622(b).

Information pertinent to this rule is provided in the testimonies of witnesses Garvey (USPS-T-1) and Plunkett (USPS-T-5) and in Attachments A and B to this Request.

000984

RULE: 162(c)

INFORMATION REQUESTED:

A description of the number and extent of the service areas in which the market test will be conducted, including the number and type of postal facilities which will be used.

Information pertinent to this rule is provided in the testimonies of witnesses Garvey (USPS-T-1) and Plunkett (USPS-T-5) and in Attachment A to this Request.

RULE: 162(d)

000985

INFORMATION REQUESTED:

A statement of the planned duration of the market test.

Information pertinent to this requirement is provided in the testimonies of witnesses Garvey (USPS-T-1) and Plunkett (USPS-T-5) and in Attachment A to this Request.

RULE: 162(e)

000986

INFORMATION REQUESTED:

Proposed Domestic Mail Classification Schedule provisions which incorporate the information required in paragraphs (a) through (d) of this section.

Attachment A includes proposed Domestic Mail Classification Schedule language responsive to this rule.

RULE: 162(f)

INFORMATION REQUESTED:

A statement of the goals and objectives of the proposed market test, supported by quantitative projections of anticipated results to the extent practicable.

Information responsive to this requirement is provided in the testimonies of witnesses Garvey (USPS-T-1) and Plunkett (USPS-T-5).



RULE: 162(g)

INFORMATION REQUESTED:

A statement of those features of the proposed market test that, in the opinion of the Postal Service, cannot be modified without significantly impairing the value of the test.

None of the features of the market test which the Postal Service is requesting the Commission to recommend are sought to be insulated from modification under this provision.<sup>2</sup>

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<sup>2</sup> The basic approach and product design of the Mailing Online proposal, including the Postal Service's role and key relationships among the operational elements of the proposed service, embody strategic policy choices by the Board of Governors, pursuant to their authorities and responsibilities under the Postal Reorganization Act. While the Postal Service does not believe that operational features of its proposal, including specific technological configurations, are beyond the scope of inquiry in connection with evaluation of relevant rate and classification criteria, it firmly believes that fundamental redesign of the service is beyond the scope of its Request. As a practical matter, any recommendation constituting an election among competing product designs would tend to undermine the Board's policy judgments on a variety of operations, capital investment, and other matters. As an example, the Postal Service determined that it will contract for printing services, rather than obtaining its own printing capacity and performing the printing itself. In this regard, we note that there is nothing about Mailing Online service that would preclude those customers who wish to choose other means of internet-based mail generation from doing so.

000989

RULE: 162(h)

INFORMATION REQUESTED:

An estimate of the number of customers who will participate in the market test, to the extent that such an estimate is practicable, together with a description of the means by which the Postal Service plans to provide equal access to all potential users in the test market service areas.

Information responsive to this rule is provided in the testimonies of witnesses Garvey (USPS-T-1), Rothschild (USPS-T-4), and Plunkett (USPS-T-5).

RULE: 162(i)

000990

INFORMATION REQUESTED:

A plan for testing the proposed change or changes in the market, including a plan for gathering the data needed to support a permanent change in mail classification and for reporting the test data to the Commission. If periodic reporting of the test data would be harmful to the purposes of the test, such as by revealing information that might encourage competitors or mailers to take actions that would affect the test results, the plan may provide for presentation of the test data as part of the subsequent filing of data supporting a permanent mail classification change.

A motion for waiver of the requirement that the market test be conducted in the context of a request for a permanent change in mail classification has been filed with this Request. The Postal Service is requesting permission to conduct a market test in the context of an experiment authorized under Rule 67. The information requested in this rule is covered by the data collection plan contained in the testimony of witness Garvey (USPS-T-1), which addresses data collected for both the market test and the experiment. Periodic reporting of data collected during both the market test and the experiment will be made, as discussed in the testimony of witness Garvey (USPS-T-1).