OFFICE OF THE CONSUMER ADVOCATE
POSTAL RATE COMMISSION
NOVEMBER 1999

RE-THINKING FIRST CLASS RATES

The Office of the Consumer Advocate, Postal Rate Commission,[1] suggests that the United States Postal Service give consideration to adopting new approaches to setting rates for First Class mail and, in particular, for single piece First Class ("SPFC") letter and card mail. OCA recommends that the Postal Service create long-term rate stability for SPFC mail by maintaining the same SPFC rates over two rate cases.

OCA also urges the Postal Service to make First Class mail more price-competitive with alternatives available to consumers and businesses. The actual revenue contribution of First Class mail to the Postal Service's institutional costs has exceeded the target amounts in recent years and is moving out of line with historical benchmarks. Reversing this trend would enhance the ability of the Postal Service to retain First Class mail volume.

The OCA's suggestions would:

- accommodate the different interests of household mailers and major mailers on the size and timing of rate changes;
- eliminate the effect of the "integer constraint";
- make First Class mail more competitive with electronic payments and other alternatives for transaction mail; and
- realign the contribution made by First Class mail to the Postal Service's institutional costs with the historical cost coverage relationship between First Class mail and other mail classes.

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[1] The Office of the Consumer Advocate is an office within the Postal Rate Commission created to fulfill the requirement that "an officer of the Commission . . . represent the interests of the general public" in postal rate and classification cases. 39 U.S.C. § 3624(a). The views expressed herein are solely the views of the OCA and do not represent the views of the Commission, any Commissioner, or any advisory staff member of the Commission.

Introduction

For many years there has been discussion with respect to the timing of future rate case filings by the Postal Service. Many large mailers have indicated a desire for rate increases to be more predictable, that is, to occur in smaller increments, thus avoiding sharp increases in mailers' costs. To achieve rate changes in smaller increments, however, rates may have to be changed more frequently.

While "smaller, more frequent" rate adjustments may be preferable for large mailers, consumers would benefit from longer periods of stable postage rates. Frequent changes in rates are significantly more inconvenient and confusing for household mailers. These single piece First Class customers are better served if rates for SPFC letter and card mail remain stable for a longer period of time.

Meanwhile, the Postal Service maintains that First Class mail volume is under growing pressure from electronic and other substitutes, particularly for financial transaction mail. Forecasts by the Postal Service indicate that First Class mail volume will grow at a rate of only 1.8 percent annually to the year 2002, then go into an absolute decline of 2.5 percent annually thereafter. The decline in First Class mail is further forecast to result in an absolute decline in total mail volume beginning in 2007.[2] The threats of erosion of substantial First Class mail volume, and of a decline in total mail volume, raise the prospect of rising postage rates if costs cannot be reduced in tandem with reduced volume.

These issues present different challenges. To meet them, OCA suggests two complementary strategies: to offer longer periods of rate stability for SPFC mail (the primary postal product used by individuals for transactions) and to hold down the rates for First Class mail generally.

Stabilization of Rates for Single Piece First Class Mail

Rate stability for household and other very small mailers can be achieved by changing the SPFC letter and card rates only every other case. This will create a significant period of rate stability for SPFC mail—four to six years or more, depending on the frequency with which the Postal Service determines to change

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[2] *See* "Challenges to Sustaining Performance Improvements Remain Formidable on the Brink of the 21st Century," GAO Report T-GGD-00-2, p. 4 (October 21, 1999).

rates for other services. To accomplish this, the Postal Service would create on its books a "SPFC Reserve Account" in which the Postal Service would book the revenue differences—both credits and debits—between the First Class rates as determined in each case and the actual integer rates used for SPFC letter and card mail.

The SPFC first-ounce letter rate would first be determined at a more precise level, that is, to the tenth or even one-hundredth of a cent. This more precise "first-stage" First Class rate would be used to set all automation and presort discount rates. The rate actually charged for SPFC mail, however, would then be set at a whole integer. This approach would free determination of First Class rates from the impact of the "integer effect." When the integer rate is selected for SPFC mail, it would be set at a level that would permit it to remain in effect for two rate cases.

This methodology would give longer-term rate stability to the individuals and small businesses that predominantly use SPFC mail, while allowing all other mail users, including presort and automation First Class mailers, to have their rates adjusted in each rate case. In each such case, the "first-stage" SPFC rate would be determined following all normal rate case procedures, including compliance with the test year break-even requirement. Use of the Reserve Account will also permit the Postal Service to comply with the break-even criterion for the SPFC integer rates that are selected.

The following example, using hypothetical numbers, illustrates how the SPFC stability concept would work:

Assume that the "first-stage" SPFC first-ounce letter rate (based on litigated revenue requirement, cost coverage, etc.) in the next case was determined to be 34.1¢. If it were decided that the SPFC letter rate would be changed in that case but then held steady at the next following rate case, the SPFC letter rate might be set at 35.0¢. The difference between 34.1¢ and 35.0¢ (0.9¢ in this example) would then be multiplied by the SPFC mail volume in each accounting period to calculate the amount to be credited to the SPFC Reserve Account for that accounting period.

During the next following rate case, assume that application of all rate case factors results in a first-stage SPFC letter rate of 36.0¢. The rate actually charged would remain at 35.0¢, and the credit balance in the Reserve Account would be used to "make up" the revenue deficiency that would occur during the next cycle. Again, the difference (now negative 1.0¢) would be multiplied by the SPFC mail

volume to calculate amounts to be debited to the Reserve Account. In the third rate case, the balance in the Reserve Account—positive or negative—would be taken into consideration in deciding the level of change in the SPFC integer rate. A parallel set of calculations would be made for SPFC card mail.

Rates for all other First Class mail (presort and automation letter and card mail) would be determined based on the decimal first-stage SPFC rate determined in each case, *not* on the integer rate actually charged for SPFC mail. It is important to emphasize that no new subclass would be created, and cost attribution would continue to be determined for First Class mail as a whole. At the same time, however, the determination of all presort and automation rates in each rate case would be uncoupled from the integer constraint. The rates for these categories of First Class mail, used for the most part by large mailers, would therefore be adjusted more precisely in each rate case, thus achieving the goal of "smaller, more predictable" changes for large First Class mailers.

Attachment A is a spreadsheet that uses hypothetical data to illustrate how rate stability for SPFC mail would work. Case 1 shows how the SPFC Reserve Account would permit the SPFC rates to be changed only every other rate case. For illustrative purposes only, rate changes are shown every two years, with the SPFC letter and card rates increasing every four years.[3] For purposes of comparison, Case 2 illustrates the status quo, that is, changing SPFC rates in each case. Case 2 also illustrates the potential effect of the integer constraint. As can be seen, if the integer constraint has the effect of rounding the First Class rate up, it will have a cumulative effect of causing SPFC mail to overcontribute to institutional costs.

[3] It is assumed that revenue requirements will increase by approximately 1.3 percent to 2.9 percent per year from 2000 through 2022. All volume assumptions are based on the October 1999 GAO Report. In practice, the Postal Service would determine when rate cases are filed, the level of increase requested, and when rate changes take place.

Making First Class Mail More Price-Competitive

OCA's second recommendation is to make First Class mail more price-competitive with alternatives by moderating the institutional costs assigned to First Class mail. The portion of institutional costs recovered in First Class mail rates has increased in the decade since the effectiveness of rates in Docket No. R87-1, particularly since 1995. As the Commission noted in Docket No. R94-1, however, "setting target coverages [for First Class mail] reasonably near the systemwide average represents the best accommodation of the section 3622(b) factors."[4]

A review of the history of First Class revenue contribution since 1988 indicates that First Class mail has borne a greater burden of institutional costs than expected. Using the average First Class markup index for all cases from R87-1 through R97-1 as a benchmark, it can be determined that First Class mail has contributed $4.765 billion of excess revenue for the period 1988-98. This excess contribution is accelerating, and is forecast to reach $11.064 billion for the period 1988-2000.

Attachment B shows the derivation of the $11.064 billion of excess payments by First Class mail. Using actual data for each fiscal year from 1988 through 1998, and forecasting for 1999-2000,[5] this spreadsheet calculates the amount by which First Class mail has either "overpaid" or "underpaid" the revenue it was expected to contribute in each fiscal year, as measured by an average of the First Class markup indices from Docket Nos. R87-1, R90-1, R94-1, and R97-1. The time value of money is not considered in this analysis. Also provided with Attachment B are graphs illustrating the growth in the proportion of institutional costs recovered from First Class mail since 1988.

OCA's proposal is to rebalance the institutional cost burden by reducing over time the proportion of such costs paid by First Class mailers. Such a reduction

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[4] "Opinion and Recommended Decision," Docket No. R94-1, ¶ 4041 (1994). The Commission also commented that the markup relationships established in the Docket No. R90-1 proceeding are a good guide to sound ratemaking. *Id*., ¶ 4043.

[5] The data is taken from the Postal Service's annual Cost and Revenue Analysis (adjusted to account for the Commission's higher level of cost attribution) and the Postal Service's Revenue, Pieces, and Weight reports.

would benefit all First Class mailers and help the Postal Service make First Class mail more competitive with alternatives in the financial transactions market.

Summary of Benefits

The OCA's suggestions offer several benefits to the Postal Service, the mailing public, and major First Class mailers. It is important to emphasize that there would be no fundamental change in the process used by the Postal Service or the Commission to develop rates. The Postal Service would still determine its requested revenue requirement and when it should seek a rate increase. In each case, every class of mail would still be required to cover its costs and to contribute to institutional costs as determined by the Commission and the Board of Governors in their decisions. The test year revenue requirement would comply with the break-even standard.

The difference would be that the Postal Service and the Board of Governors (1) would utilize the SPFC Reserve Account to maintain the same integer rates for SPFC letter and card mail in the first case following an increase in the rates for such mail and (2) would moderate the contribution of First Class mail to the Postal Service's institutional costs.

OCA believes that its recommendations offer the following advantages:

1. The rates most commonly used by consumers and small businesses—the single piece First Class letter and card rates—would remain stable for longer periods of time, reducing the cost, inconvenience, and confusion to the general public of SPFC rate changes.

2. By moving away from the integer constraint, the Postal Service would be able to adjust the rates used by major mailers both more precisely and in smaller increments.

3. The First Class postage rates would be restrained, permitting the Postal Service to compete for transaction mail volume on price.

4. The break-even criterion is met in each rate case and the SPFC integer rate breaks even through the Reserve Account.

5. The integer constraint that is inherent in the determination of the current SPFC rate would no longer influence the level of institutional costs assigned to the various cost classes or the determination of presort and automation First Class rates in each rate case.

6. The past impact of the integer constraint and other circumstances that have led to an increased burden of institutional costs on First Class mail would be redressed.

7. It will be easy to calculate the ongoing credits and debits to the Reserve Account between rate cases; they are simply the product of the difference between the calculated "first-stage" rates and the integer rates made effect multiplied by the SPFC letter and card volumes.

8. The Postal Service retains full discretion over determining the amount of the requested revenue requirement, as well as the timing of rate filings and of rate implementation.

9. Parties retain the ability to litigate all issues in rate cases, including cost attribution and cost coverage by classes.

10. The Postal Service would be the beneficiary of positive public relations, particularly in the years when the SPFC letter and card rates are not increased.

ATTACHMENT A

PROPOSED RESERVE ACCOUNT FOR FIRST CLASS SINGLE PIECE RATE (SPFC)

CASE 1: Raise SPFC rate only every other case**

	2000	***2001***	2002	**2003**	2004	***2005***	2006	**2007**	2008	***2009***	2010	**2011**
"First-stage" Potential SPFC rate*		0.341	0.341	0.360	0.360	0.381	0.381	0.399	0.399	0.418	0.418	0.438
Potential SPFC integer rate	$0.33	$0.35	$0.35	$0.35	$0.35	$0.39	$0.39	$0.39	$0.39	$0.43	$0.43	$0.43
Difference		$0.009	$0.009	-$0.010	-$0.010	$0.009	$0.009	-$0.009	-$0.009	$0.012	$0.012	-$0.008
SPFC expected volume (millions)	54,500	55,481	56,480	55,068	53,691	52,349	51,040	49,764	48,520	47,307	46,124	44,971
SPFC Reserve Acct - Annual ($mill)		$499	$508	-$551	-$537	$471	$459	-$448	-$437	$568	$553	-$360
SPFC Reserve Acct - Cumul ($mill)		$499	$1,008	$457	-$80	$391	$851	$403	-$34	$534	$1,087	$727

Case 2: Status Quo**

	2000	***2001***	2002	***2003***	2004	***2005***	2006	***2007***	2008	***2009***	2010	***2011***
Potential SPFC rate***		0.341	0.341	0.360	0.360	0.381	0.381	0.399	0.399	0.418	0.418	0.438
Potential SPFC integer rate	$0.33	$0.35	$0.35	$0.36	$0.36	$0.39	$0.39	$0.40	$0.40	$0.42	$0.42	$0.44
Difference		$0.009	$0.009	$0.000	$0.000	$0.009	$0.009	$0.001	$0.001	$0.002	$0.002	$0.002
SPFC expected volume (millions)	54,500	55,481	56,480	55,068	53,691	52,349	51,040	49,764	48,520	47,307	46,124	44,971
SPFC over (under) payment-Annual ($mill)		$499	$508	$0	$0	$471	$459	$50	$49	$95	$92	$90
SPFC over (under) payment-Cumul ($mill)		$499	$1,008	$1,008	$1,008	$1,479	$1,938	$1,988	$2,036	$2,131	$2,223	$2,313

* Based on all rate case determinants, including cost coverage calculations, and used to set all presort and automation rates.

**** Bold -** Rate case implementation years**. *Bold and Italic's -*** Rate case implementation year where SPFC integer rate is adjusted.

*** Illustriative rate assuming no integer constraint.

PROPOSED RESERVE ACCOUNT FOR FIRST CLASS SINGLE PIECE RATE (SPFC)

CASE 1: Raise SPFC rate only every other case**

	2012	***2013***	2014	**2015**	2016	***2017***	2018	**2019**	2020	***2021***	2022
"First-stage" Potential SPFC rate*	0.438	0.454	0.454	0.469	0.469	0.491	0.491	0.509	0.509	0.522	0.522
Potential SPFC integer rate	$0.43	$0.46	$0.46	$0.46	$0.46	$0.50	$0.50	$0.50	$0.50	$0.52	$0.52
Difference	-$0.008	$0.006	$0.006	-$0.009	-$0.009	$0.009	$0.009	-$0.009	-$0.009	-$0.002	-$0.002
SPFC expected volume (millions)	43,847	42,751	41,682	40,640	39,624	38,633	37,667	36,726	35,808	34,912	34,040
SPFC Reserve Acct - Annual ($mill)	-$351	$257	$250	-$366	-$357	$348	$339	-$331	-$322	-$70	-$68
SPFC Reserve Acct - Cumul ($mill)	$377	$633	$883	$517	$161	$509	$848	$517	$195	$125	$57

Case 2: Status Quo**

	2012	***2013***	2014	***2015***	2016	***2017***	2018	***2019***	2020	***2021***	2022
Potential SPFC rate***	0.438	0.454	0.454	0.469	0.469	0.491	0.491	0.509	0.509	0.522	0.522
Potential SPFC integer rate	$0.44	$0.46	$0.46	$0.47	$0.47	$0.50	$0.50	$0.51	$0.51	$0.53	$0.53
Difference	$0.002	$0.006	$0.006	$0.001	$0.001	$0.009	$0.009	$0.001	$0.001	$0.008	$0.008
SPFC expected volume (millions)	43,847	42,751	41,682	40,640	39,624	38,633	37,667	36,726	35,808	34,912	34,040
SPFC over (under) payment-Annual ($mill)	$88	$257	$250	$41	$40	$348	$339	$37	$36	$279	$272
SPFC over (under) payment-Cumul ($mill)	$2,401	$2,657	$2,908	$2,948	$2,988	$3,335	$3,674	$3,711	$3,747	$4,026	$4,299

* Based on all rate case determinants, including cost coverage calculations, and used to set all presort and automation rates.
**** Bold -** Rate case implementation years**. *Bold and Italic's -*** Rate case implementation year where SPFC integer rate is adjusted.
*** Illustriative rate assuming no integer constraint.

ATTACHMENT B

MARK-UP INDICIES (1)

	R-71	R-74	R-76	R-77	R-80	R-84	R-87	R-90	R-94	R-97
First Class Letters	1.130	1.260	1.210	1.000	0.926	1.135	1.200	1.235	1.310	1.308
Standard A Regular	1.220	1.190	1.060	0.830	1.259	0.885	0.840	0.941	0.899	0.949
Difference (FC-StA)	-0.090	0.070	0.150	0.170	-0.333	0.250	0.360	0.294	0.411	0.359

Average Mark-ups for the following spans of Rate Cases

	R71-R97	R71-R80	R84-R97	R71-R84	R87-R97
First Class Letters	1.171	1.105	1.238	1.110	1.263
Standard A Regular	1.007	1.112	0.903	1.074	0.907
Difference (FC-StA)	0.164	-0.007	0.335	0.036	0.356

Mail Volumes and Dollars are in millions

Using the Average Mark-up Index from R-87 through R-97 of 1.263 as the basis for Calculating the appropriate First Class Contribution to Institutional Costs

FIRST CLASS LETTERS

ACTUAL FY 1988- FY 1998

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	*Projections (7) 1999*	*2000*	1988-1998 Actual Total	*1988-2000 Projected Total*
First Class Cost Coverage	149.2%	156.0%	154.8%	163.0%	169.7%	170.3%	162.2%	174.2%	180.0%	180.4%	182.3%	*185.4%*	*185.4%*		
First Class Mail Volume (2)	78,173	81,650	84,372	85,156	86,195	87,855	90,046	91,345	93,208	94,303	95,646	96,300	*98,033*		
Attributable Cost (3)	$13,401	$14,403	$14,944	$15,735	$16,083	$16,371	$17,536	$17,695	$17,779	$17,891	$18,002	*$18,125*	*$18,451*		
Cost per Piece	$0.17142	$0.17640	$0.17712	$0.18477	$0.18659	$0.18634	$0.19475	$0.19372	$0.19075	$0.18948	$0.18821	*$0.18821*	*$0.18821*		
Revenue per piece	$0.25576	$0.27521	$0.27420	$0.30114	$0.31660	$0.31733	$0.31595	$0.33742	$0.34331	$0.34186	$0.34308	$0.34894	*$0.34894*		
Actual FC Revenue (2)	$19,994	$22,471	$23,135	$25,644	$27,289	$27,879	$28,450	$30,821	$31,999	$32,238	$32,815	$33,603	*$34,208*	$302,735	*$370,546*
Adjusted Cost Coverage (4)	153.3%	145.9%	143.3%	161.3%	167.3%	168.1%	163.0%	180.3%	184.3%	176.9%	171.6%	169.9%	165.2%		
Adjusted Revenue per piece (5)	$0.26272	$0.25731	$0.25384	$0.29811	$0.31210	$0.31315	$0.31740	$0.34925	$0.35164	$0.33513	$0.32301	*$0.31985*	*$0.31085*		
Adjusted FC Revenue	$20,538 (8)	$21,009	$21,417	$25,386	$26,902	$27,512	$28,581	$31,902	$32,776	$31,604	$30,895	*$30,802*	*$30,474*	$298,520	*$359,796*
First Class Excess Contribution (6)	-$230	$1,462	$1,718	$258	$387	$367	-$131	-$1,081	-$776	$634	$1,920	*$2,801*	*$3,734*	$4,529	*$11,064*

USPS TOTAL

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	*1999*	*2000*	1988-1998 Actual Total	*1988-2000 Projected Total*
Total Cost Coverage	142.2%	136.3%	134.3%	148.6%	153.3%	153.9%	149.9%	163.6%	166.8%	160.9%	156.7%	*155.4%*	*151.6%*		
Total Mail Volume (2)	160,491	161,603	166,301	165,851	166,443	171,220	177,062	180,734	183,439	190,888	195,738	200,667	*207,690*		
Attributable Cost (3)	$25,295	$26,908	$28,241	$29,779	$30,771	$31,244	$33,127	$33,386	$33,947	$36,080	$38,212	*$40,178*	*$42,622*		
Cost per Piece	$0.15761	$0.16650	$0.16982	$0.17955	$0.18488	$0.18248	$0.18709	$0.18473	$0.18506	$0.19014	$0.19522	*$0.20022*	*$0.20522*		
Revenue per piece	$0.22407	$0.22698	$0.22807	$0.26676	$0.28334	$0.28080	$0.28039	$0.30215	$0.30865	$0.30586	$0.30592	$0.31110	*$0.31110*		
Actual Revenue (2)	$35,961	$36,680	$37,928	$44,242	$47,159	$48,078	$49,646	$54,608	$56,618	$58,385	$59,881	$62,427	*$64,612*	$529,187	*$656,226*

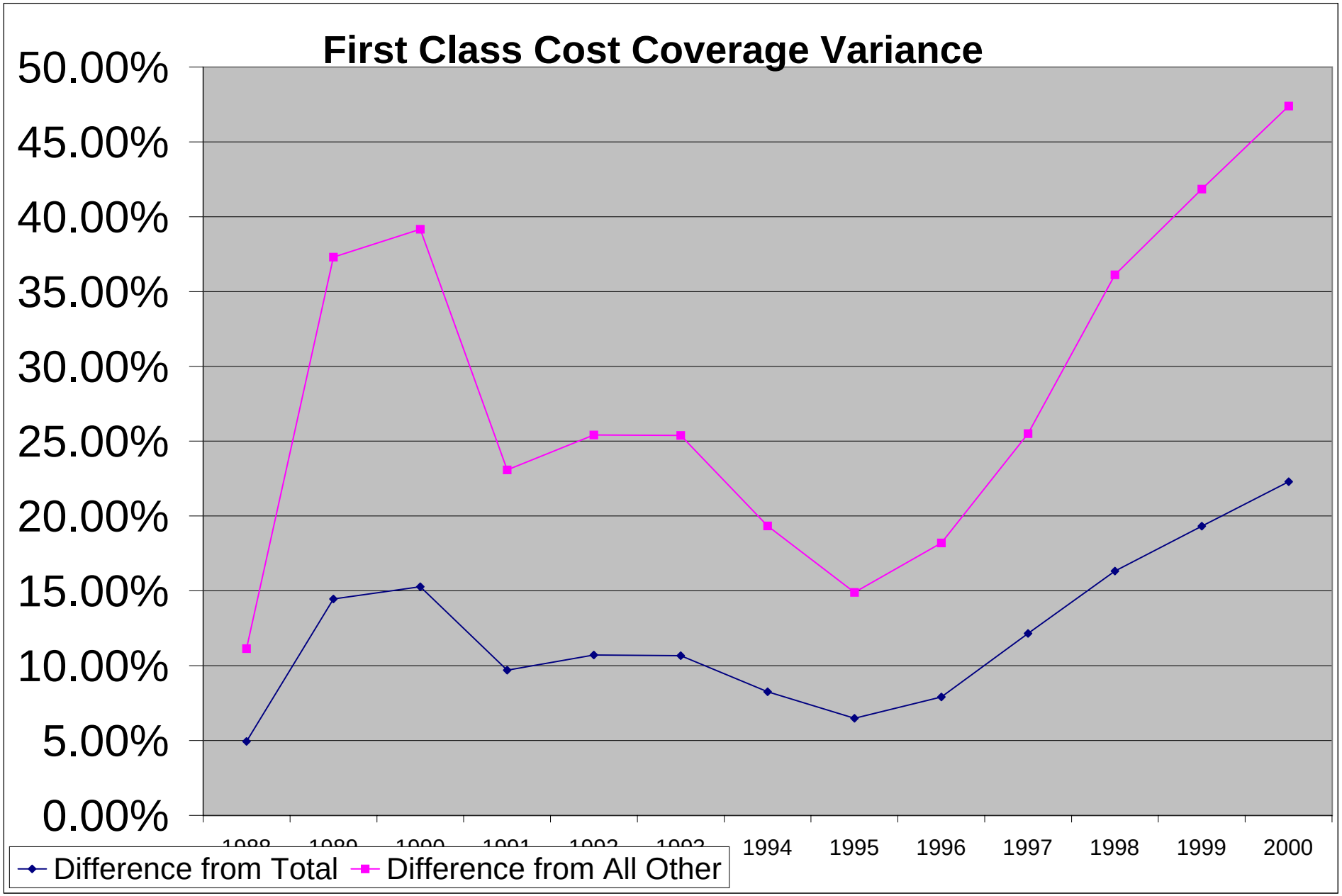
ALL OTHER MAIL

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	*1999*	*2000*	1988-1998 Actual Total	*1988-2000 Projected Total*
All Other Cost Coverage	134.2%	113.6%	111.2%	132.4%	135.3%	135.8%	136.0%	151.6%	152.3%	143.8%	133.9%	*130.7%*	*125.8%*		
Mail Volume	82,318	79,953	81,928	80,694	80,248	83,365	87,016	89,389	90,231	96,585	100,092	104,367	*109,657*		
Attributable Cost	$11,894	$12,505	$13,298	$14,044	$14,688	$14,873	$15,591	$15,691	$16,168	$18,189	$20,210	*$22,053*	*$24,171*		
Cost per Piece	$0.14449	$0.15640	$0.16231	$0.17404	$0.18303	$0.17840	$0.17917	$0.17553	$0.17918	$0.18832	$0.20192	*$0.21130*	*$0.22043*		
Revenue per piece	$0.19398	$0.17772	$0.18056	$0.23047	$0.24761	$0.24230	$0.24358	$0.26610	$0.27284	$0.27072	$0.27041	$0.27618	*$0.27726*		
Actual Revenue	$15,968	$14,209	$14,793	$18,597	$19,870	$20,199	$21,196	$23,787	$24,619	$26,147	$27,066	$28,824	*$30,404*	$226,452	*$285,680*

(1) PRC Docket R-97-1, Appendix G, page 33.
(2) USPS Annual RPW reports.
(3) USPS Annual CRA reports, revised using PRC methodology. (Cost per piece data for 1997 was calculated on an average of 1996 and 1998 data)
(4) Calculated as follows: 1 + (1.263 x (Actual System-wide cost coverage - 1)).
(5) Calculated by multiplying the Adjusted First Class Cost Coverage by the actual cost per piece.
(6) Difference between Actual First Class Revenue and Adjusted First Class revenue.
(7) FY 2000 annual volume increase 1.8% for FC and 3.5% for all mail; FC Cost per piece kept stable and total cost per piece increased at $.005 per year; revenue per piece kept stable from 1999 to 2000.
(8) 1988 amount adjusted to recognize rate implementation on April 3, 1988

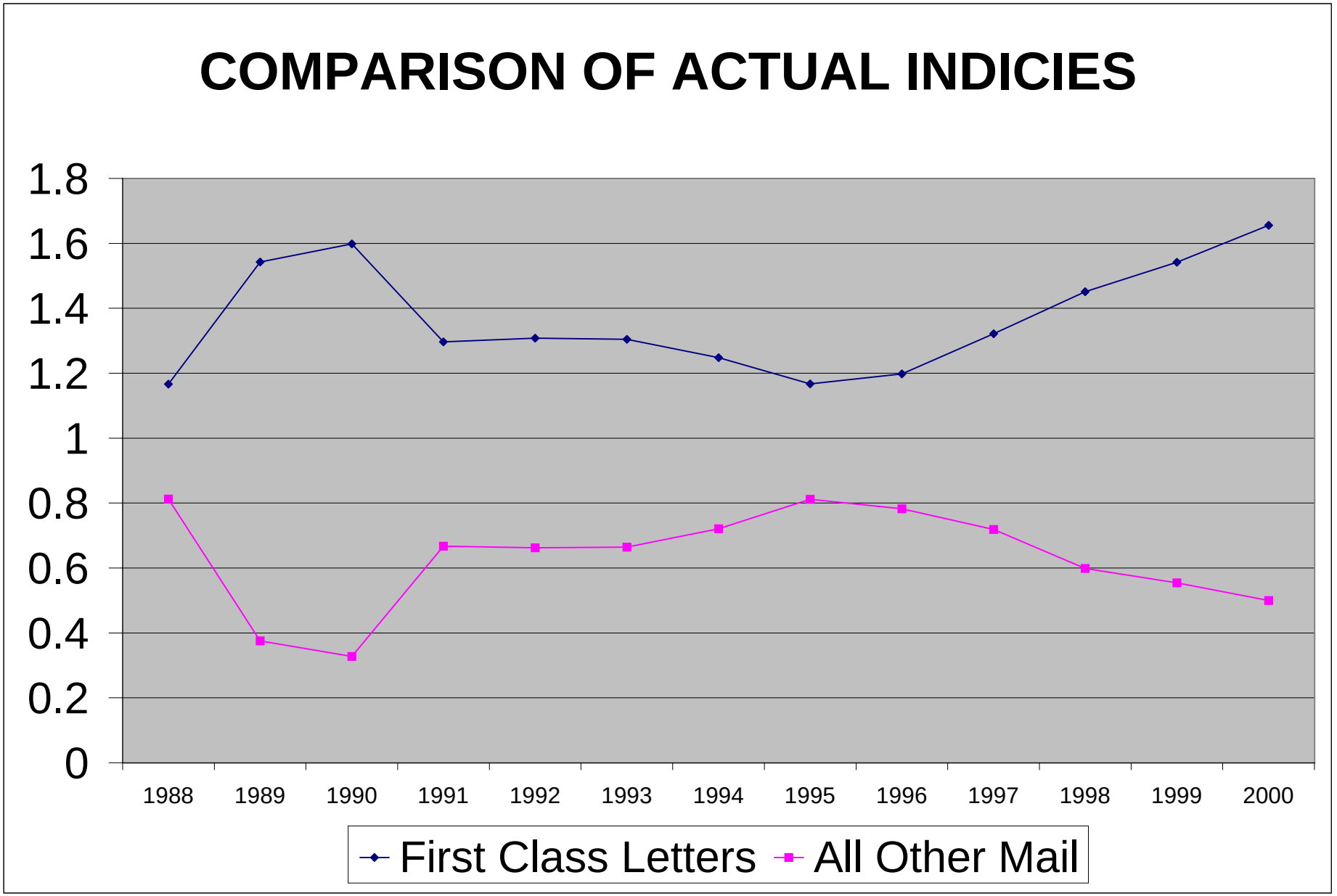
FIRST CLASS COST COVERAGE VARIANCE

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Difference from Total	4.95%	14.45%	15.28%	9.70%	10.71%	10.67%	8.25%	6.49%	7.91%	12.16%	16.32%	19.32%	22.30%
Difference from All Other	11.14%	37.31%	39.16%	23.08%	25.42%	25.39%	19.33%	14.89%	18.20%	25.51%	36.11%	41.84%	47.39%



ACTUAL CALCULATED INDICIES

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
First Class Letters	1.167	1.542	1.598	1.297	1.308	1.305	1.248	1.167	1.198	1.321	1.451	1.542	1.655
All Other Mail	0.812	0.375	0.328	0.668	0.662	0.665	0.721	0.812	0.783	0.719	0.598	0.554	0.500

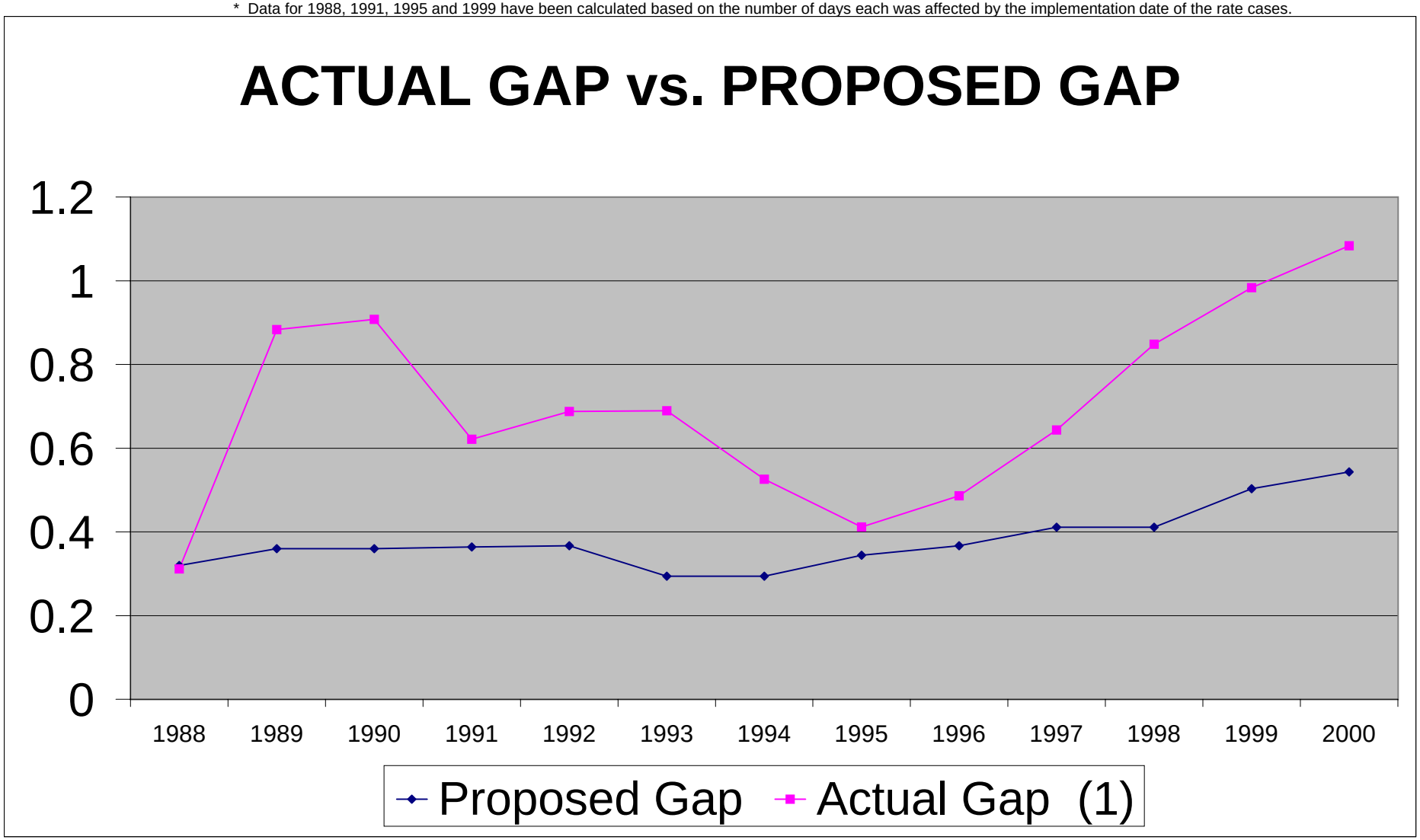


Comparison of Proposed Gap (from Rate Cases) to Actual Gap

First Class Letter mail vs. "All Other" Mail

	R-84&R-87	R-87	R-87	R-87&R-90	R-90	R-90	R-90	R-90&R-94	R-94	R-94	R-94	R-94&R-97	R-97
	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
FC Letter Mark-up Indicies*	1.173	1.200	1.200	1.221	1.235	1.235	1.235	1.287	1.310	1.310	1.310	1.309	1.308
"All Other" Mark-up Indicies*	0.853	0.833	0.833	0.819	0.810	0.810	0.810	0.778	0.763	0.763	0.763	0.764	0.765
Total System Mark-up*	48.0%	48.0%	48.0%	49.2%	50.0%	50.0%	50.0%	54.9%	57.0%	57.0%	57.0%	55.6%	55.0%
Proposed Gap	0.320	0.360	0.360	0.364	0.367	0.294	0.294	0.344	0.367	0.411	0.411	0.503	0.543
Actual Gap (1)	0.311	0.883	0.908	0.621	0.688	0.690	0.526	0.412	0.486	0.643	0.848	0.983	1.084

* Data for 1988, 1991, 1995 and 1999 have been calculated based on the number of days each was affected by the implementation date of the rate cases.



(1) Using data from table on page 1