

ORDER NO. 1464

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

Before Commissioners:

George Omas, Chairman;
Dawn A. Tisdale, Vice Chairman;
Ruth Y. Goldway; and
Tony L. Hammond

Postal Rate and Fee Changes

Docket No. R2006-1

NOTICE AND ORDER
ON OMNIBUS POSTAL RATE AND CLASSIFICATION CASE

(Issued May 5, 2006)

I. Introduction

Public notice. This order provides notice to the public that on May 3, 2006, the United States Postal Service (Postal Service or Service) filed a formal Request with the Postal Rate Commission (Commission) for a recommended decision on proposed changes in domestic postage rates, fees and classifications.¹ The Request was accompanied by several contemporaneous notices and motions.

The Service filed the Request pursuant to chapter 36 of title 39, United States Code, based on its determination that such changes would be in the public interest and in accordance with policies of that title. The filing of the Request triggers a statutory process mandated by 39 U.S.C. § 3624. This process involves an opportunity for public hearings on the Service's proposals. It also requires issuance of the Commission's recommended decision within 10 months of the date of the Service's filing.

¹ Request of the United States Postal Service for a Recommended Decision on Changes in Rates of Postage and Fees for Postal Services, May 3, 2006 (Request).

II. Establishment of Formal Docket

Establishment of formal docket. The Commission hereby institutes a proceeding under 39 U.S.C. §§ 3622 and 3623, designated as Docket No. R2006-1, Postal Rate and Fee Changes, to consider the instant Request. In the course of consideration, participants may propose alternatives to the Service's proposals, the Commission may propose certain classification changes, and the Service may revise, supplement, or amend its filing. The Commission's review of the Request, including any revisions or alternatives (including full or partial settlement proposals), may result in recommendations that differ from proposed rates, fees and classification changes.

This notice apprises the public of the Service's Request, of the overall magnitude and scope of the Request, and of the institution of a formal proceeding. It does not address or review all aspects of the filing, which is comprehensive and complex; therefore, interested persons are urged to carefully review the filing to determine its impact on aspects of postal rates, fees and classifications that may be of interest to them.

Availability; web site posting. The Commission has posted the Service's Request and most related or supporting material on its web site at <http://www.prc.gov>. Additional Postal Service filings in this case and participants' submissions also will be posted on the web site, if provided in electronic format or amenable to conversion, and not subject to a valid protective order. Information on how to use the Commission's web site is available online or by contacting the Commission's webmaster via telephone at 202-789-6873 or via electronic mail at prc-webmaster@prc.gov.

The Service's Request and related documents are also available for public inspection in the Commission's docket section. Docket section hours are 8 a.m. to 4:30 p.m., Monday through Friday, except on federal government holidays. Docket section personnel may be contacted via electronic mail at prc-dockets@prc.gov or via telephone at 202-789-6846.

Paper copies. Intervenors' options for obtaining paper copies of the Docket No. 2006-1 filing from the Postal Service are described in the Notice of the United States

Postal Service Regarding Availability and Distribution of Paper Copies of the Postal Service's Direct Case, May 3, 2006.

III. Overview of the Service's Filing

Contents. The Service's Docket No. R2006-1 filing includes its formal Request (with seven attachments); 47 pieces of testimony (along with related exhibits) presented by 41 witnesses; and 133 library references.² The Service notes that it anticipates supplementing its Request during the course of this proceeding with testimony on a proposal referred to as the "Forever Stamp," which mainly affects senders of single-piece one-ounce First-Class Mail. See Motion of the United States Postal Service for Partial Waiver or Suspension of Commission Rules Specifying Materials to be Filed in Support of its Request for Changes in Postal Rates and Classifications, May 3, 2006 (Motion Concerning Forever Stamp).

Test year; contingency; key projections. The Postal Service operates under a breakeven constraint pursuant to controlling law and, under Commission rules, generally relies on a future test year for ratemaking purposes. The Service proposes using fiscal year 2008 as the test year in its Request, and makes various projections based on that choice. In particular, it projects that it will incur a net revenue deficiency of \$5.874 billion in the test year under existing rates. It projects that its proposed set of rates and fees would generate additional revenues of \$3.983 billion, resulting in a test year revenue deficiency of \$0.8 million. USPS-T-47 at 9. The filing assumes a contingency of 1 percent. USPS-T-6 at 62.

System-wide average increase. The Service's Request reflects a system-wide average increase of 8.5%. *Id.* at 9. In certain instances, percentage increases for

² The Service has prepared, but withheld, one library reference (USPS-LR-L-35) pending resolution of a request for protective conditions. See Motion of United States Postal Service for Waiver and for Protective Conditions for Library Reference that Includes Costs and Other Data Associated with the FedEx Transportation Agreement, May 3, 2006 (FedEx Waiver Motion). See also USPS-LR-L-133 (Redacted Addendum to FedEx Transportation Contract.) *Note:* The Service's library reference count includes some library references that have been reserved by number, with contents expected to be filed later.

individual classes and subclasses of mail and Special Services vary considerably from that average. These departures from the system-wide average are often due to rate design changes, such as the proposed introduction of shape-based rates.

First-Class stamp price. The price of the First-Class stamp for a single-piece one-ounce letter — traditionally the Postal Service’s flagship offering and the product most familiar to the general public — increases by 3 cents under the Service’s proposal, thereby going from the current rate of 39 cents to 42 cents. The rate for each additional ounce of single-piece First-Class Mail (through 13 ounces) *decreases* by 4 cents, going from the current rate of 24 cents to 20 cents.

Defining features. The Service’s Request is marked by two defining features. One is a return to the traditional approach to postal ratemaking, which entails a process which results in the percentage increase for any given class or service being arrived at as a result of application of the factors of 39 U.S.C. 3622, rather than through application of a generally uniform “across the board” percentage.³ The other feature is the incorporation of extensive proposed rate design and classification changes based on new (or substantially updated) cost studies; other new data and information; policy considerations; and important assumptions about the mailing environment, including the evolving postal network.

The Service’s summary of percentage changes in proposed rates relative to current rates provides the following information:

³ The “across the board” approach was used in the two most recent omnibus cases.

First-Class Mail

Letters and Sealed Parcels.....	7.0%
Cards.....	10.6%

Priority Mail.....13.8%

Express Mail12.5%

Periodicals

Within-County	24.4%
Outside County.....	11.4%

Standard Mail

Regular.....	9.6%
Nonprofit.....	9.5%
Enhanced Carrier Route	8.6%
Nonprofit Enhanced Carrier Route	9.1%

Package Services

Parcel Post	13.7%
Bound Printed Matter.....	11.9%
Media Mail	18.0%
Library Rate.....	18.4%

Total All Mail.....**8.5%**

USPS-T-31, Exh. USPS-31D.

Special Services. Percentage changes vary widely for Special Services. A summary of proposed cost coverages for Special Services appears at USPS-T-31, Exh. USPS-31B. Detailed development of the proposed fee levels and discussion of other aspects of the filing affecting Special Services is provided in USPS-T-39; USPS-T-40; and USPS-T-41.

IV. “Roadmap” Testimony and Master List of Library References

Witness Davis (USPS-T-47) presents “roadmap” testimony in compliance with Commission rule 53(b), that provides an overview of the Service’s filing. It describes the subject matter of each witness’s testimony; explains the inter-relationship between

and among the testimonies; describes changes in cost methodology, volume estimation, and rate design relative to the Commission's approach in Docket No. R2005-1; and identifies each witness who addresses any material methodological change. Witness Davis's testimony also includes two attachments: Roadmap Testimony Quick Reference Guide (Attachment 1) and Postal Testimony Flowchart (Attachment 2). A master list of library references appears in Notice of the United States Postal Service of Filing of Master List of Library References, May 3, 2006.

Witness O'Hara (USPS-T-31) addresses rate policy. His testimony presents proposed cost coverages (rate levels) for each subclass and addresses the consistency of these coverages with applicable Postal Reorganization Act criteria.

V. Attachments to the Request

Attachment A, Requested Changes in Rates and Fees, and Attachment B, Proposed Changes to Domestic Mail Classification Schedule, identify changes that would be required if the Service's proposals are adopted. Attachment C, Specification of the Rules, Regulations, and Practices that Establish Standards of Service and Conditions of Mailability, addresses Commission rule 54(b)(2), by designating the contents of the Domestic Mail Manual (DMM) as the source of such rules, regulations and practices, and provides a copy of the table of contents of the DMM (updated as of April 13, 2006). The DMM in its entirety is available for review on the Postal Service's web site at <http://www.USPS.gov>.

Attachment D is a certification, filed pursuant to Commission rule 54(p), attesting to the accuracy of cost statements and other documentation submitted with the Request. Attachment E presents the Audited Financial Statements for Fiscal Year 2005, as filed with the Commission on February 15, 2006 as part of the United States Postal Service Annual Report. Attachment F is an index that identifies witnesses, the numerical designation of each piece of testimony, related exhibits and library references, and attorney contacts. Attachment G is a compliance statement addressing pertinent provisions of rules 53, 54 and 64.

VI. Nature and Impact of the Proposed Changes

The following summary identifies some central elements of the Service's Request, focusing mainly on changes relative to existing rate design and classification. Interested persons are urged to review the filing in its entirety for other important aspects of the filing.

A. Mail Classes, Subclasses and Categories

First-Class Mail. The Service proposes introducing the shape of a mailpiece (in terms of being presented as a letter, flat or parcel) as a factor in developing rates, along with elimination of the heavy piece discount and limitations on the application of the nonmachinable surcharge. A piece would have to weigh 3.5 ounces or less to be eligible for letter rates. USPS-T-32 at 19. The Service also proposes altering the approach to additional-ounce rates, which apply through 13 ounces. Additional proposals affecting First-Class Mail, among others, include separating the workshared mail rate design from the single-piece rate design; eliminating the Automation Carrier Route rate categories; and introducing a Forever Stamp. The Forever Stamp proposal, in brief, would allow a First-Class stamp to continue to be accepted as valid payment of postage for single-piece First-Class Mail weighing less than one ounce following a rate change, thereby avoiding the need to add a relatively small amount of incremental "makeup" postage.

Priority Mail. The Service proposes, among other things, the introduction of a dimensional-weight price structure to recognize the role of cubic volume as a cost driver in Priority Mail; a permanent classification for the Priority Mail flat-rate box; and a fee for on-call and scheduled Priority Mail, Express Mail, and Parcel Post pick-up service. See USPS-T-33 (witness Scherer) and references cited therein for additional details related to Priority Mail.

Express Mail. The Service proposes a new one-pound Express Mail flat rate. See USPS-T-34 (witness Berkeley) and references cited therein for additional details.

Periodicals. The Service proposes the introduction of a container charge of 85 cents for each sack and pallet used by senders of Outside County Periodicals mail

(including Science of Agriculture publications). This charge would replace existing co-palletization discounts, including an experimental co-pallet discount. USPS-T-35 at 4; *id.* at 16. The Service proposes raising 37 percent of revenue from pounds and 63 percent from pieces, reflecting a slight alteration in the existing 40/60 split. *Id.* at 6. It also proposes separate editorial pound dropship rates for destinating ADC, SCF and DDU mail. *Id.* at 7. These proposed rate design and classification changes do not apply to mail that qualifies for Within County subclass rates. The proposed Ride-Along rate is 15.5 cents. *Id.* at 14. See witness Tang's testimony (USPS-T-35) and references cited therein for additional details about the Service's Periodicals proposals.

Standard Mail. The Service proposes several nomenclature changes; a new rate category for "hybrid" pieces that share characteristics of both flats and parcels; changes to better align rate design with mail processing categories; and certain shape-related changes. It proposes expanded dropshipping incentives, often linked to postal facilities where certain automated sorting equipment is available in Standard Mail; a separate charge (of 1.5 cents) for the use of detached address labels in connection with Saturation mailings; and a new rate category for parcels and pieces that are not commonly processed on the Service's flat sorting machines. See USPS-T-36.

The Service also proposes de-averaging worksharing rates for non-automation letters and for automation and non-automation non-letters. The Service proposes separate rate structures for parcels and "hybrid" pieces. USPS-T-47 at 45. See USPS-T-36 (witness Kiefer) and references cited therein for additional details.

Package Services. In the Parcel Post subclass, the Service proposes one rate design change, which it characterizes as minor. This entails requiring all Parcel Select DBMC machinable parcels to be barcoded. Cost savings from barcoding would be reflected in rates, instead of being separately stated. Pieces without appropriate barcodes would pay the applicable retail rate. USPS-T-37 at 7. The Service also proposes raising the weight for balloon parcels from 15 pounds to 20 pounds. *Ibid.* See USPS-T-37 (witness Kiefer) and references cited therein for additional details. The Service is not proposing any fundamental changes to the rate designs for Bound Printed

Matter, Media Mail or Library Mail. USPS-T-38 at 15 and 16-17. See USPS-T-38 (witness Yeh) and references cited therein for additional details.

B. Special Services

For electronic Address Correction Service, the Service proposes a distinction between the fee for First-Class Mail and other classes, with First-Class Mail having a lower price. USPS-T-40 at 8. It also proposes a new automated option limited to letters, given that only letters are processed through the Postal Automation Redirection System. *Ibid.* For Confirm, the Service proposes classification changes, a new pricing structure based on the concept of purchasing units, and new fees. *Id.* at 14. The Service states that the use of a unit-based approach will provide, among other benefits, a mechanism to expand the types of data available without creating multiple subscriptions or accounts. *Id.* at 17. The Service proposes several fee, classification and operational changes for Insurance. These include, among others, elimination of the signature requirement for items insured for \$50.01 to \$200; use of a barcode for all insured items, which will be scanned at delivery; lower fees for Express Mail insurance; and a cap of \$15 on the Service's regular insurance liability for negotiable items, currency or bullion, which would match the Express Mail insurance limit. *Id.* at 24.

The Service proposes classification changes affecting the account maintenance fee for special services, limited in many instances to changes in DMCS language and nomenclature. USPS-T-39 at 1. For post office boxes, the Service proposes changes that include new box fees and caller service fees that vary in relation to location space cost. The planned fee design is characterized as a continuation of the progress toward increased cost homogeneity in the post office fee groups. USPS-T-41 at 1. Interested persons are encouraged to review the testimony of witness Berkeley (USPS-T-39), witness Mitchum (USPS-T-40) and witness Kaneer (USPS-T-41) for further details about these changes and for information on proposed fees, rate design and classification for other Special Services.

VII. Motion Pertaining to FedEx Contract Material

In a motion filed with its Request, the Postal Service states that it has prepared, but not yet filed, USPS-LR-L-35, Calculation of FedEx Day Turn Variability Factors, which it identifies as a category 2 library reference sponsored by witness Kelley (USPS-T-15).⁴ FedEx Waiver Motion at 1. The Service's stated reason for withholding this document is its interest in application of protective conditions. The proposed conditions appear as Attachment A to the FedEx Waiver Motion. The Service also seeks waiver of relevant portions of Commission rules 31(k) and 54 for this document.

In support of its interest in protective conditions, the Service states the FedEx agreement contains commercially sensitive information, given that it includes cost data for fuel charges, non-fuel charges, and handling charges (all on a daily basis), as well as applicable contract prices, along with volume information on a daily basis. *Id.* at 1. Among other things, it asserts that the volume-related information is proprietary to both the Postal Service and FedEx. It also notes that similar conditions were granted by the Postal Rate Commission for FedEx data in two previous rate case (Docket Nos. R2001-1 and R2005-1), *Id.* at 2, citing Presiding Officer's Ruling No. R2001-1/5 (October 31, 2001) and Presiding Officer's Ruling No. R2005-1/4 (May 4, 2005).

Answers to the FedEx Waiver Motion are due no later than May 31, 2006.

VIII. Motion Pertaining to Forever Stamp Proposal

Witness Taufique outlines the Service's interest in incorporating a Forever Stamp proposal in the instant Request. USPS-T-32 at 26-27. In a related motion, the Service seeks waiver or suspension of certain Commission rules to accommodate the anticipated filing of material supporting this proposal. Motion of the United States Postal Service for Partial Waiver or Suspension of Commission Rules Specifying Materials to be Filed in Support of its Request for Changes in Postal Rates and Classifications, May

⁴ Notice of the United States Postal Service of Filing of Master List of Library References (May 3, 2006)

3, 2006 (Motion Concerning Forever Stamp Proposal). Answers to the Motion Concerning Forever Stamp Proposal are due no later than June 5, 2006.

IX. Motions for Waiver of Various Commission Rules on Category 1, 2, 3 and 5 Library References

The Service seeks waiver, to the extent deemed necessary, of the Commission's rules on library references for documents in the following categories: Category 1 (Data Reporting Systems); Category 2 (Witness Foundational Material); Category 3 (Reference Material); and Category 5 (Disassociated Material).⁵ The motion clearly identifies the library references proposed to be covered by the waiver request and provides a detailed explanation of the Service's rationale for seeking waiver. See Motion of the United States Postal Service Requesting Waiver of the Commission Rules with Respect to Category 1, 2, 3 and 5 Library References, May 3, 2006 (Waiver Motion). Answers to the referenced Waiver Motion are due no later than June 5, 2006.

X. Participation

The Commission invites both formal participation in this case and informal expression of views. Interested persons may elect full, limited or commenter status (under rules 20, 20a, and 20b, respectively). Those electing full or limited status shall file notices of intervention conforming to Commission rules no later than May 31, 2006. Notices of intervention and other documents generally should be submitted electronically via the Commission's Filing Online system at <http://www.prc.gov>. Persons seeking to intervene on a full or limited basis after May 31, 2006 must file a motion for intervention.

Commenters are not required to file intervention notices or motions; instead, they may direct their comments to the attention of Steven W. Williams, Secretary of the Commission, 901 New York Avenue, NW, Suite 200, Washington, DC 20268-0001.

⁵ Library reference categories are identified in Commission rule 31(b)(2).

Commenters may also submit their views via electronic mail by addressing them to prc-admin@prc.gov.

Persons unsure of their intervention status under Commission rules or seeking more information on how to participate in this case should contact Shelley S. Dreifuss, Director of the Commission's Office of the Consumer Advocate, by telephone at 202-789-6837 or via electronic mail at shelley.dreifuss@prc.gov.

XI. Representation of the Interests of the General Public

The Commission designates Shelley S. Dreifuss, Director of the Commission's Office of the Consumer Advocate, to represent the interests of the general public in this proceeding, pursuant to 39 U.S.C. 3624(a). Ms. Dreifuss shall direct the activities of Commission personnel assigned to assist her and, at an appropriate time, provide the names of these employees for the record. Neither Ms. Dreifuss nor the assigned personnel shall participate in or advise as to any Commission decision in this proceeding, other than in their designated capacity.

XII. Prehearing Conference

The Commission will hold a prehearing conference on June 16, 2006, beginning at 10 a.m. in the Commission's hearing room, 901 New York Avenue, NW, Suite 200, Washington, DC 20268-0001. The Presiding Officer will discuss initial scheduling matters at the conference. Participants may propose schedule dates or offer additional topics for discussion at the prehearing conference by filing a statement identifying such topics no later than June 7, 2006.

It is ordered:

1. The Commission hereby institutes Docket No. R2006-1, Postal Rate and Fee Changes, for consideration of the Service's request for omnibus rate, fee and classification changes.
2. The Commission will sit *en banc* in this proceeding.
3. Notices of intervention shall be filed no later than May 31, 2006.
4. Shelley S. Dreifuss, Director of the Commission's Office of the Consumer Advocate, is designated to represent the interests of the general public in this proceeding.
5. A prehearing conference will be held on June 16, 2006, at 10 a.m. in the Commission's hearing room.
6. Statements identifying topics for discussion at the preheating conference shall be filed no later than June 7, 2006.
7. Answers to the Motion of the United States Postal Service for Waiver and for Protective Conditions for Library Reference that Includes Costs and Other Data Associated with the FedEx Transportation Agreement, filed May 3, 2006, are due no later than May 31, 2006.
8. Answers to the Motion of the United States Postal Service Requesting Waiver of the Commission Rules with Respect to Category 1, 2, 3 and 5 Library References, filed May 3, 2006, are due no later than June 5, 2006.

9. Answers to the Motion of the United States Postal Service for Partial Waiver or Suspension of Commission Rules Specifying Materials to be filed in Support of its Request for Changes in Postal Rates and Classifications, filed May 3, 2006, are due no later than June 5, 2006.

10. The Secretary shall cause this Notice and Order to be published in the *Federal Register*.

By the Commission.

(SEAL)

Steven W. Williams
Secretary