Revised June 21, 2006

USPS-T-36

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

POSTAL RATE AND FEE CHANGES	Docket No. R2006-1

TESTIMONY
OF
JAMES M. KIEFER
ON BEHALF OF
THE UNITED STATES POSTAL SERVICE

CONTENTS

Page

AUTOBIOGRAPHICAL SKETCH

My name is James M. Kiefer. I am an Economist in Pricing and Classification, United States Postal Service. Since joining the Postal Service in 1998, I have worked on issues related to Package Services, Special Services, nonletter-size Business Reply Mail, and other pricing issues.

Prior to joining the Postal Service I worked for the Vermont Department of Public Service, first as a Power Cost Analyst, and later as a Planning Econometrician, where I investigated utility costs, rates, load forecasts and long-term plans. I also developed long range electric generation expansion plans for the State, performed economic impact studies, and contributed to a long-term energy use plan for Vermont. I have testified as an expert witness before the Vermont Public Service Board on many occasions on economic issues involving cost of power, generation expansion plans, least cost integrated planning, load forecasts, and electric utility rates.

Before working in Vermont, I was a Principal Analyst with the Congressional Budget Office. My past work experience also includes work with the U.S. Department of Commerce and work in production management in private industry.

I earned a BA in Chemistry from the Johns Hopkins University, an MBA from Rutgers University, and an MA degree in International Relations from the Nitze School of Advanced International Studies. I then returned to Johns Hopkins in Baltimore to study Economics where I earned further graduate degrees in 1983 and 1986.

I have provided testimony before the Postal Rate Commission previously in Docket No. MC99-1, Docket No. MC99-2, Docket No. R2000-1, Docket No. R2001-1, Docket No. MC2002-1, Docket No. MC2003-2 and Docket No. R2005-1.

I. PURPOSE AND SCOPE OF TESTIMONY

My testimony proposes the rates for the four subclasses of Standard Mail. I also propose several changes in rate design, particularly in the Regular and Nonprofit Regular subclasses. My testimony and workpapers present the proposed rates and percentage changes for each subclass and the before- and after-rates revenues for each subclass.

II. GUIDE TO TESTIMONY

Accompanying my testimony are my rate design spreadsheets (library reference USPS-LR-L-36) which consist of two Excel workbooks, (WP-STDREG.XLS and WP-STDECR.XLS). Workbook WP-STDREG.XLS contains the workpapers for Standard Mail Regular and Nonprofit Regular. Workbook WP-STDECR.XLS contains my workpapers for Standard Mail Enhanced Carrier Route and Nonprofit Enhanced Carrier Route mail.

Witness O'Hara (USPS-T-31) uses my revenue projections in his testimony and workpapers. Witness Berkeley (USPS-T-39) uses my analysis to calculate fee revenue for Standard Mail.

In developing my proposed rates I have made use of volume forecasts from witness Thress (USPS-T-7), mail characteristics data from witness Loetscher (USPS-T-28), volume variable cost data from witness Waterbury (USPS-T-10), mail processing cost studies from witnesses Miller (USPS-T-20 and USPS-T-21), Abdirahman (USPS-T-22) and Talmo (USPS-T-27), destination entry cost studies from witness Mayes (USPS-T-25), and delivery cost studies from witness Kelley (USPS-T-30). I have also used the average proposed rate increases for First-Class Mail from witness Taufique (USPS-T-32) and for Priority Mail from witness Scherer (USPS-T-33) to estimate the revenue from Standard Mail paying First-Class Mail or Priority Mail postage. I obtained Standard Mail fees from witness Berkeley (USPS-T-39). My workpapers provide specific citations to the work of these witnesses as well as to common data sources like billing determinants and rate tables.

III. LIBRARY REFERENCES

I am sponsoring the following two Category 2 library references:

USPS-LR-L-36. Standard Mail Rate Design Spreadsheets (Kiefer). This library reference consists of two Excel workbooks which contain spreadsheets showing how I developed my pricing proposals.

USPS-LR-L-68. Allocation of Volumes in Standard Mail Forecast Categories to New Rate Categories (Kiefer). This library reference distributes base year volumes in the categories forecast by witness Thress (USPS-T-7) to the new rate categories I am proposing. It is based on billing determinants and mail characteristics data provided by witness Loetscher (USPS-T-28). This library reference is used by witness Thress in preparing his after-rates volume forecasts for Regular and Nonprofit Regular Standard Mail.

IV. SUMMARY OF PROPOSED RATE AND CLASSIFICATION CHANGES

A. Nomenclature

I propose that the Standard Mail Nonprofit subclass be renamed Standard Mail Nonprofit Regular. This name change will make apparent the parallel relationship between the Nonprofit Regular and the commercial Regular subclass. A similar parallel naming convention already exists between the Enhanced Carrier Route (ECR) and Nonprofit Enhanced Carrier Route (NECR) subclasses. Renaming will remove potential confusion whether the word "nonprofit" is being used as a subclass name or merely as a descriptor.

I am also proposing that the rate categories now known as "Presorted" be renamed "Nonautomation." The change will make the name more descriptive of the non-barcoded mail in these categories. Again, the name change avoids potential confusion since all Standard Mail must be presorted.

In my testimony I introduce a new rate category for pieces that share characteristics of both flats and parcels. I will refer to them in my testimony and workpapers as "hybrid" prices. The terms "hybrid" or "hybrids" (with or without the quotation marks) are intended as descriptors rather than names.[1]

B. Standard Mail Regular and Nonprofit Regular

I am proposing several rate design and classification changes for Standard Mail Regular and Standard Mail Nonprofit Regular subclasses. The most salient feature of the proposed changes is that rate designs have been revised to better align with mail processing categories. The following summarizes the key changes I am proposing.

[1] The DMCS refers to these pieces as "Not Flat-Machinable" pieces (or NFMs). This name highlights the fact that these pieces are not commonly processed on the Postal Service's flat sorting machines.

1. Letters
   - Nonautomation (formerly Presorted) letters will have a de-averaged rate structure that mirrors the rate design for automation letters.
   - Nonmachinable letters will have separate rate structures instead of paying a fixed surcharge over the nonautomation but machinable letters rate.
   - There will no longer be 3-digit or 5-digit presort rate categories for nonautomation machinable letters.

2. Flats
   - Automation and nonautomation flats will have fully deaveraged rate designs parallel to the current automation letter rate structure.
   - The definitions for flats will be changed and certain rigid and thick pieces will no longer qualify as automation flats. These pieces will become either “hybrid” flats or parcels with their own rate designs.

3. Parcels
   - Parcels will have their own rate design and will no longer be priced simply as surcharged nonletters. There will be separate rate structures for machinable and nonmachinable parcels with different presort categories.
   - Parcels will be required to bear a parcel barcode; nonbarcoded parcels will be surcharged.
   - Parcels rates will increase significantly from current rates, particularly for pieces with minimal presorting or that are entered at origin facilities. To help offset some of the increases, parcels will be eligible to receive larger destination entry discounts than other nonletters and a new Destination Delivery Unit (DDU) entry option will also be available.

4. “Hybrid” Flats and Parcels

- Pieces that no longer qualify as flats because of rigidity or size will be eligible for “hybrid” flats rates. These pieces will comprise a separate new rate category within Standard Mail with its own rate design. Pieces that are too thick or too large to be cased will become “hybrid” parcels. Hybrid flats and “hybrid” parcels will pay the “hybrid” flats rates.
- “Hybrid” flats and “hybrid” parcels will have separate presort and makeup requirements but there will be a unified rate structure. “Hybrid” pieces will be eligible for DDU entry discounts.
- “Hybrid” pieces will be required to bear a barcode. The kind of barcode will depend on whether the piece is a “hybrid” flat or “hybrid” parcel; nonbarcoded pieces will be surcharged.

5. CMM Pieces

- CMM pieces will no longer pay the highest per-piece rate since that rate is now exclusively for parcels. A new, more appropriate rate for CMM has been proposed in light of the changed nonletters rate design.

C. Standard Mail ECR and Nonprofit ECR

I am proposing relatively fewer rate design changes for Standard Mail Enhanced Carrier Route and Standard Mail Nonprofit Enhanced Carrier Route subclasses. The following summarizes the changes I am proposing.

- The Automation Basic rate category will be eliminated. I am assuming that these pieces will migrate to the Regular subclasses and pay the Automation 5-digit letter rates.
- The DDU destination entry discount will be eliminated for all letters.

- Detached address labels (DALs) will still be permitted for certain flats, but mail addressed with DALs will have to pay a per-piece surcharge.
- Eligibility requirements for flats rates will follow the same revised definitions used for the Standard Mail Regular subclasses. Pieces not meeting these revised eligibility requirements will pay parcel rates.

V. STANDARD MAIL REGULAR AND NONPROFIT REGULAR SUBCLASSES

A. Product Description

Standard Mail is bulk-entered mail that weighs less than 16 ounces. Any mailable matter may be sent as Standard Mail except matter that is required to be sent as First-Class Mail or copies of publications that qualify for Periodicals rates. Items frequently sent as Standard Mail include advertising circulars, catalogs, fund raising appeals, and light-weight parcels. To qualify for Standard Mail rates, pieces must be presorted and entered in minimum quantities of 200 pieces or exceed 50 pounds cumulatively. Standard Mail receives deferred handling.

The Standard Mail Regular and Nonprofit Regular subclasses have parallel rate structures. Both subclasses have two Nonautomation rate categories for letter-shaped and nonletter-shaped mail, four Automation rate categories for letter-shaped mail, and two Automation rate categories for flat-shaped mail. Both subclasses offer drop shipment discounts for mail that is entered at the destination Sectional Center Facility (DSCF) or destination Bulk Mail Center (DBMC). Mail pieces weighing 3.3 ounces or less pay only a minimum rate per piece. Pieces weighing over 3.3 ounces pay both piece and pound rates. Standard Mail Regular and Nonprofit Regular rates are unzoned.

In addition to this general rate structure, certain letter-shaped Standard Mail Regular and Nonprofit Regular pieces are subject to nonmachinability surcharges, and certain pieces that are parcel-shaped (or prepared as parcels) are subject to a residual shape surcharge (RSS). Machinable parcel-shaped pieces paying the RSS are also eligible for a discount, if barcoded.

By law (PL 106-384), Nonprofit Regular Standard Mail must have an average revenue per piece that is 60 percent of commercial Regular Standard

Mail's average revenue per piece. The Postal Service's proposals in this case are consistent with the statute.

B. Volume and Revenue

Following the introduction of Standard Mail worksharing discounts in 1979, volume has grown steadily with only brief pauses in the late 1980s to early 1990s and in the 2000 to 2002 period. Standard Mail's continued volume growth has made it the largest class of mail today, surpassing First-Class Mail for the first time in FY 2005.

Standard Mail Regular and Nonprofit Regular mail currently account for approximately 65 percent of total Standard Mail volumes. In FY 2005 there were 53.9 billion commercial Regular pieces and 12.0 billion Nonprofit Regular pieces. The great majority of Standard Mail Regular and Nonprofit Regular mail is automation compatible. See USPS-LR-L-74 for Standard Mail's complete volume history.

Standard Mail's share of domestic mail revenues has also grown since postal reorganization, from 14 percent in FY 1971 to 29 percent in FY 2005. Currently Standard Mail Regular and Nonprofit Regular subclasses account for $13.2 billion, or 70 percent of total Standard Mail revenue. For further details, see USPS-LR-L-74.

C. Proposed Classification Changes

In this rate case I am proposing several rate design changes to further the de-averaging of the nonletters rate category that was begun with the introduction of the RSS in Docket No. R97-1. The changes will align pricing better with the way nonletter mail pieces are processed and delivered. They will also help further the Postal Service's goal of establishing a more shape-based mail processing and delivery system.

At present, the flats rate category contains significant numbers of parcel-shaped pieces that, because of the UFSM 1000 automation flats standards and the lack of an appropriate recognition of rigidity in the standards, qualify for automation flats rates. It is my understanding that these pieces are commonly processed in the parcels mail stream and infrequently end up in the automation flats mail stream (see the testimony of witness McCrery USPS-T-42, Section II, Part B). Furthermore, because of their shape (small, thick and rigid), these pieces may be unsuitable for collating into the flats bundle taken out by carriers, and so must be held out separately for delivery (see the testimony of witness Coombs (USPS-T-44), Section 3.2).

In general, both the mail processing and delivery of these pieces require procedures that are more costly than the procedures followed for typical automation flats.

For this reason, I propose to separate Standard Mail nonletters into three shape-based rate groups: flats, parcels and “hybrid” flat pieces. Eligibility for Standard Mail flats rates will be updated to correspond to those pieces that the Postal Service now and in the future will process and deliver as flats.

Nonletter-shaped pieces that do not qualify as flats will be categorized as either “hybrid” flats or parcels. “Hybrid” flats are pieces that meet certain shape criteria (see, for example, the testimonies of witnesses McCrery (USPS-T-42) and Coombs (USPS-T-44, Section 3.2)) that share some of the characteristics of flats in mail processing and/or delivery, but lack either the flexibility or dimensions needed to qualify for flats rates. These limitations commonly cause “hybrid” flats to receive additional handling compared to flats meeting the revised definitions.

Most of the pieces that will qualify as “hybrid” flats currently qualify as UFSM 1000 automation flats (though certain smaller rigid items may qualify as AFSM 100 automation flats). The separate UFSM 1000 eligibility for flats rate

treatment will be eliminated under my proposed changes. Current UFSM 1000 automation flats will either qualify as Standard Mail flats under the revised definitions, qualify as "hybrid" flats, or become parcels.

To mitigate the rate change impacts on former UFSM 1000 automation flats that cannot qualify as "hybrid" flats (and so become Standard Mail parcels), I am proposing that these pieces be temporarily granted access to "hybrid" flats rates. I am not proposing a permanent two-tiered classification for Standard Mail parcels. After a short transition period,[2] parcels that cannot be reconfigured to qualify either as flats or "hybrid" flats will be classified as parcels and will pay Standard Mail parcel rates.[3] In my testimony and workpapers I have referred to these parcels that temporarily pay "hybrid" flats rates for rate change mitigation purposes as "hybrid" parcels to distinguish them from other parcels paying parcels rates.[4]

At present Standard Mail parcels pay nonletter rates plus a surcharge. I am proposing a new rate design for these pieces that will more closely mirror the parcel rate designs in parcel subclasses. For example, I am proposing destination delivery unit (DDU) drop-ship rates for Standard Mail Regular and Nonprofit Regular parcels. I am also proposing a rate design that better reflects the different mail processing, transportation and other cost characteristics of parcels compared to flats.

In addition to the shape-based de-averaging of the Standard Mail rate design, I am also proposing a further de-averaging of the rate design by presort

[2] The Postal Service is not proposing phased rates for "hybrid" parcels in this case. It is expected that the transition of "hybrid" parcels to the parcels rates categories will be accomplished as the result of one or more subsequent rate filings.

[3] Although some pieces are expected to migrate, it is also expected that many mailers will reconfigure their non-eligible pieces to meet the new flats definition and thereby avoid being pushed into the "hybrid" flats or parcels categories. The rate differentials are designed, in part, to encourage such reconfiguration.

[4] While the "hybrid" flats rate category is expected to continue beyond the temporary transition period for "hybrid" parcels, "hybrid" flats will have size restrictions (such as to ensure caseability). It is anticipated that these restrictions will make "hybrid" flats a rather small category.

level. My proposals continue the process begun in Dockets Nos. MC95-1 and R2001-1 with the de-averaging of the automation letter rates into separate Mixed AADC, AADC, 3-digit and 5-digit rate categories. I propose to similarly de-average nonautomation (formerly Presorted) rates for both letters and flats and extend the rate de-averaging for automation mail from letters to flats. The new rate designs for parcels and "hybrid" flats will also reflect similarly appropriate de-averaging by presort level.

The further de-averaging of rates by presort levels will give the greatest benefits to those pieces that avoid the most mail processing costs. It is hoped that the new rate designs will encourage more finely presorted mail, restraining the growth in the average costs for processing Standard Mail pieces.

The classification changes are desirable from the Postal Service's view. They should lead to rates that better reflect the costs of the mail streams in which each piece is likely to be processed and delivered. In turn, this should encourage mailers to adopt practices that are more efficient from the mail processing and delivery perspectives and lead to lower overall costs for Standard Mail—a desirable result from the point of view of the users of Standard Mail. Furthermore, my proposed changes include mechanisms that will allow mailers to offset some of the rate-increasing impacts of the realignment—another feature that is desirable from the perspectives of both the Postal Service and users of Standard Mail. Overall, my proposed changes are fair and equitable since they will better align rates with the way mail is processed and costs are caused.

D. Rate Design for Standard Mail Regular

To achieve the Postal Service's goals of having more finely disaggregated and flexible rate structures for Standard Mail, I have developed a rate design methodology that differs from the "formula" approach in use (with modifications)

since Docket No. R90-1. The following sections will describe the methodology with respect to each of the major shape-based rate categories that the Postal Service is proposing to adopt for Standard Mail Regular.

1. Letters

The rate structure for automation letters will not change in this proposal. Rates will still be based on one of four presort and three entry levels. I am proposing expanded rate categories for nonautomation letters depending on presort levels, mirroring those for automation letters. I am also proposing distinct rate designs for machinable and nonmachinable nonautomation letters.

Nonautomation Machinable Letters

Machinable letters that are not eligible for automation rates will have two presort rate options based on whether they are presorted to the Mixed AADC or AADC level (in addition to the same entry level discounts as automation letters). Because the Postal Service barcodes machinable letters at the AADC, a finer level of presort has little or no value. For this reason, no discount will be offered for finer presorting.

Nonautomation Nonmachinable Letters

Nonmachinable (manual) letters will have their own rate structure with the same four presort options as automation letters. In the current rate structure, nonmachinable letters pay a fixed surcharge over the rate paid by machinable nonautomation letters. Because the total costs of manually sorting letters varies significantly depending on how finely presorted the letters are when presented to the Postal Service, I am proposing a rate structure that has significant increases in rates for the least finely presorted manual letters and more moderate increases for highly presorted pieces. This rate design will encourage mailers to make their

letters machinable, if possible; and it will encourage mailers to present nonmachinable letters as finely presorted as possible.

I developed rates for each grouping of letters by selecting rate elements for the least workshared piece and developed other prices to reflect worksharing, point of entry and other relevant factors.[5] In the case of the machinable letters group (which includes automation letters) the base piece was a Mixed AADC nonautomation letter entered at an origin facility. The piece rate for such a Mixed AADC letter is $0.140 and the pound rate is $0.739. For a piece-rated letter (weighing from 0 to 3.3 ounces) these rate elements produce a minimum per-piece rate of $0.292. This base rate is reduced to reflect worksharing (sorting to a finer level than Mixed AADC), entry at the DBMC or DSCF, and automation (automation pieces reflect a further $0.040 discount off nonautomation prices). Details of the development of rates for machinable letters are shown in my workpapers (USPS-LR-L-36) in the Proposed Rates worksheet. For all letters, only a portion of the destination entry savings reported by witness Mayes (USPS-T-25, USPS-LR-L-88) was passed through in discounts, and passthroughs for presort savings estimates from witness Abdirahman (USPS-T-25, USPS-LR-L-48) were adjusted as needed to maintain reasonable rate relationships between the different rate categories.[6]

Heavy automation letters (those between 3.3 ounces and 3.5 ounces) will pay discounted pound-rated automation flats rates using the same formula in use today to calculate heavy letter rates.

---

[5] The starting piece and pound rates for letters (as well as for flats, parcels and “hybrid” pieces) were originally selected based upon the approximate rate increase required to achieve the cost coverage targets provided to me by witness O’Hara (USPS-T-31). The base piece rate elements were then adjusted iteratively to achieve revenue targets while keeping other rate design goals such as appropriate rate relationships in mind.

[6] The less than 100% passthrough for the destination entry savings reflects, in part, the fact that piece-rated pieces (of all shapes) are given discounts for drop shipping as if they weighed 3.3 ounces, regardless of their actual weight. Despite this reduced passthrough, I have increased all destination entry discounts from current levels in my rate proposals. The drop-ship passthroughs selected are shown in my Proposed Rates worksheet in workbook WP-STREG.XLS (USPS-T-LR-36).

I followed a similar approach to develop the base rate for the nonmachinable letter group. Then I adjusted the base rate for each presort level, reflecting witness Abdirahman's estimates of the additional costs of nonmachinability at each presort level. Recognizing the full additional costs of manually processing nonmachinable letters would have led to excessive rate increases in my view, so I tempered the passthroughs for some of these additional costs. I then adjusted the base rates for nonmachinable letters to reflect finer presorting and drop shipping. The details of these calculations and adjustments are in the Proposed Rates worksheet of my workbook WP-STDREG.XLS (USPS-LR-L-36).

Letter-shaped pieces weighing over 3.3 ounces that are not machinable as letters (and so cannot avail themselves of the automation heavy letter discount) will pay the applicable pound-rated flats rates if they meet the new eligibility criteria for flats. If these pieces cannot qualify as machinable flats, they will pay the rates for "hybrid" pieces (see section D.4 below).

2. Flats

Under my proposals, the current broad nonletters shape category in Standard Mail will be replaced by three new categories that better reflect how each type of mail is processed. Most nonletters will continue to be processed in the flats mail stream and will be recognized for rate treatment purposes in a separate flats shape category. Two other new shape-based categories being proposed are parcels and "hybrid" pieces. These will be discussed further in sections D.3 and D.4 below.

Eligibility for flats rate treatment will be tightened under the Postal Service's proposal. For example, pieces whose thickness exceeds 0.75 inch will no longer qualify for automation flats rates. Also, certain rigid pieces will also become

ineligible for flats rates. With the separation of nonletters into flats and other shape-based categories, it will be easier for the rate designs for pieces in different mail streams to evolve toward more rational structures and relationships. My proposals in this case begin this evolutionary process.

As part of the rate design changes for flats, I am proposing to de-average the presort rate categories for automation and nonautomation flats. These finer presort discount categories will allow deeper discounts for the most highly workshared mail and, conversely, higher rates for the most costly, least workshared flats.

I have developed my rates for automation and nonautomation flats similar to how I developed the rates for letters: I chose the piece rate and pound rate for the least workshared flats and then took discounts off this base rate, again to reflect additional presorting, deeper entry, and automation. The pound rate, $0.739, is slightly below today's pound rate. This recognizes that the pound rate, in part, reflects that Standard Mail nonletters includes parcels today; and that the higher pound rate was designed to recover relatively more revenue from heavier parcels. The piece rate for the base flat (a Mixed ADC nonautomation flat entered at an origin facility) is 27.9 cents and is then discounted for drop shipping, and for barcoding and presorting beyond the Mixed ADC level, based on cost difference information from witnesses Mayes (USPS-T-25, USPS-LR-L-88, for destination entry savings) and Miller (USPS-T-20, USPS-LR-L-43, for presorting and automation savings).

In my flats rate design, I have selected the passthroughs for the various presort levels to mitigate somewhat the effects of de-averaging on rates. Without these adjustments the Mixed ADC and 3-digit presort rates would have been at even higher levels than I am proposing. As a consequence, the ADC and 5-digit presort levels will receive higher increases than if I had not mitigated the effects of

de-averaging. Nevertheless, the rates for the ADC and 5-digit presort categories do increase significantly less than comparable Mixed ADC or 3-digit pieces. My rate design also gives flats the same per-pound drop ship discounts as letters. Details of these calculations and adjustments, including passthrough adjustments, are in the Proposed Rates worksheet of my workbook WP-STDREG.XLS (USPS-LR-L-36).

3. Parcels

In the current rate design, parcels are simply surcharged nonletters. Parcels' presort and drop-ship options are the same as those that pertain to flats. My proposals in this case split parcels away from flats for rate purposes. Having a separate rate design for Standard Mail parcels permits several outcomes:

- It facilitates adjusting prices for Standard Mail parcels to increase their cost coverage and facilitate a long run merger of these parcels into a general parcel class.
- It permits rate distinctions reflecting and encouraging worksharing and machinability in ways that are not readily achievable in the current nonletters rate design.
- It permits offering options, such as expanded drop ship discounts, that are not currently available, or that may not make sense for the majority of today's nonletters. Appropriate expanded worksharing options may also offer parcel mailers opportunities to mitigate the rate impacts of the proposed rate increases.
- It gains visibility for these parcels in the Postal Service's cost and volume reporting systems. Because of this enhanced visibility, we will expect to have much better information on which to base pricing decisions for parcels in the future.

Machinable Parcels

I have developed separate rate structures for machinable and nonmachinable parcels. For parcels that are machinable on the BMC parcel sorting machines (PSMs), I started with the least workshared piece, in this case, a Mixed BMC parcel. I chose a piece rate and pound rate based on cost information I received from witnesses Kelley (USPS-T-30, USPS-LR-L-67) and Miller (USPS-T-21, USPS-LR-L-45). Witness Miller provided cost estimates using the Parcel Post model for a piece having the average size of a Standard Mail parcel that was sorted through both an originating and a destinating BMC (i.e. two BMC sorts). He also provided a cost estimate for a piece receiving only one BMC sort. I used the former to arrive at estimates of the mail processing cost of a Mixed BMC machinable piece (i.e. receiving two machine sorts) and the latter for a BMC-presorted machinable piece (i.e. receiving one machine sort). Witness Miller also provided me with modeled costs for mail processing operations after the piece had been sorted to 5 digits. I used this to arrive at an estimate for the costs of a 5-digit presorted parcel.

I used these costs as guides in selecting appropriate pricing rather than as precise estimates of cost differences for setting presort discounts. I also selected the rate elements to limit the impact of rate increases on parcels that currently pay only flats rates plus the residual shape surcharge.

While one goal of my parcel pricing is to increase the coverage on Standard Mail parcels, it is also designed to encourage cost-saving behavior.[7] To further this end, I have increased the discounts for drop-shipping parcels above what is being offered to letters and flats. Higher destination entry discounts recognize the fact

[7] Billing determinants data clearly show that, for example, Standard Mail parcels are drop shipped relatively less frequently than other Standard Mail nonletters.

that parcels generally are more costly to transport and move about due to their larger size, so avoiding these operations would be expected to result in larger postal savings. I am also proposing that parcels entered at the Destination Delivery Unit (DDU) be eligible for an additional discount that is not available to flats.

My rate design proposes significant presort discounts for workshared parcels—significantly higher than the discounts for presorting machinable letters and flats—in recognition of the higher costs of sorting parcels. Because I have strongly mitigated the base rate (the rate for a Mixed BMC piece), I have reduced the passthroughs for the presort savings suggested by witness Miller's cost estimates. The result is a rate design that offers reasonable incentives for additional presorting, but still recovers reasonable revenue from more highly workshared pieces.

The effect of these adjustments is a strong incentive for mailers to give the Postal Service lower-cost workshared parcels. The workshare discounts also offer mailers a way to significantly offset a large portion of the rate increases: machinable parcels sorted to 5-digit ZIP Codes and presented at the DSCF (or DDU) will see only moderate rate increases, despite what may appear to be large increases for non-workshared, non drop-shipped parcels.

Nonmachinable Parcels

The rate design for nonmachinable parcels is similar to the machinable parcels design, although it differs in several important aspects. First, unlike machinable parcels, there are rates for piece-rated parcels.[8] Also, the presort categories differ, reflecting the differing mail processing paths for machinable and nonmachinable parcels.

[8] Piece-rated parcels must weigh less than 3.3 ounces. Since a parcel must weigh at least six ounces to be considered machinable on the PSM, no piece-rated parcels will qualify for machinable parcels rates.

I received cost information from witnesses Kelley (USPS-T-30, USPS-LR-L-67) and Miller (USPS-T-21, USPS-LR-L-45). Witness Miller's cost data suggest a high mail processing cost for pieces requiring manual distribution. I used witness Miller's estimates of the costs of an Irregular Piece and Parcel (IPP) manually processed through two BMCs to estimate the costs of mail processing for a Mixed ADC-sorted nonmachinable parcel (i.e. two manual sorts before 3-digits). He also provided me with modeled costs of manually processing an IPP after the piece had been sorted to 3 digits. I used this to estimate the costs of a 3-digit presorted parcel and estimated the cost of an ADC-presorted parcel as the mean between the Mixed ADC and 3-digit presorted parcels costs. I assumed that 5-digit presorted nonmachinable pieces would have the same unit mail processing costs as 5-digit presorted machinable pieces.

Since my proposal already gives nonworkshared machinable parcels a significant increase, I strongly mitigated the rate impact suggested by witnesses Kelley's and Miller's cost information. I selected the same pound rate for nonmachinable parcels as I proposed for machinable parcels and imposed a modest nonmachinability differential. This differential effectively passes through only a small fraction of the cost differential between machinable and nonmachinable parcels, yet it should provide some incentive for mailers to make their pieces machinable where possible. I expect that this differential will increase significantly in the future.

Nonmachinable parcels are eligible for the same enhanced destination entry discounts as machinable parcels and also receive significant presort incentives. Nonmachinable parcels presorted to 5-digit ZIP Codes should follow approximately the same mail processing path as machinable parcels that have been presorted (or sorted on a PSM) to 5-digit ZIP Codes. For this reason I have proposed the same rates for nonmachinable 5-digit presorted parcels as their machinable counterparts

would pay. Mailers of nonmachinable parcels also have the option of presenting their parcels at the DDU for an additional discount.

As with machinable parcels, my rate design offers mailers significant opportunities to offset much of the proposed rate increases if they can presort their pieces and bring them to destination facilities, particularly DSCFs and DDUs.

Barcoding

The Postal Service believes that there is significant value to having a barcode on as many parcels as possible.[9] In recognition of this operating environment, I am proposing that eligibility for machinable and nonmachinable parcels rates require the piece to bear a Postal Service-approved barcode. Pieces that do not bear the appropriate barcode will be assessed a surcharge of $0.050 per piece.[10] This surcharge should encourage mailers to barcode all their pieces, enabling the Postal Service to process Standard Mail parcels flexibly, using efficient machine sorting wherever possible.

4. "Hybrid" Pieces

The current nonletters rate structure does not differentiate mail pieces well by mail processing path. Of significant concern to the Postal Service are certain pieces that are somewhat flat shaped, but rigid, or that are between 0.75 and 1.25 inches in thickness. Many of these pieces currently pay postage as automation flats under the UFSM 1000 (formerly FSM 1000) exception. As I described in Section C of this chapter, our experience has shown that these parcel-shaped pieces are commonly processed, not in the automation flats mail stream, but in the

[9] Many parcels, while not machinable on PSMs, may still be able to be processed on APPS machines. I understand that, while normal mail processing procedures may not call for putting "nonmachinable" parcels on APPS machines, these pieces may end up on APPS machines from time to time, depending on local factors, like schedules, workloads, etc. A barcode therefore has some potential value, even on a nonmachinable parcel. See USPS-T-42, Section II, Part C1b for further discussion of the value of barcoding parcels.

[10] The surcharge will not apply to unbarcoded parcels sorted to 5-digit ZIP Codes.

parcels mail stream.[11] One of the consequences of this mismatch is that many pieces are counted as parcels for cost allocation purposes but are counted as flats for volume purposes. This leads to difficulties in getting an accurate estimate of the unit cost of Standard Mail parcels.

While these pieces are commonly processed as parcels, many do have characteristics that may allow them to be merged into the flats mail stream at some point. For example, small rigid flat-shaped pieces that are thin enough could be cased by the carrier, and do not always have to be held out as parcels. As described in Section A of Chapter IV, I refer to them in my testimony and workpapers as "hybrid" pieces.

The Postal Service has decided to address the "hybrid" piece issue in this case. The proposed solution has the following features:

- The definition of what qualifies as a flat for rate purposes will be tightened; pieces that are inflexible or too thick will no longer be afforded flats rate treatment. The current UFSM 1000 exception will be eliminated.
- A separate rate design will be established for "hybrid" flats. These are small, flat-shaped pieces that no longer qualify as flats because of their rigidity, but that could, for example, be cased along with flats for delivery purposes.
- Pieces that are currently eligible to pay flats rates but that will no longer qualify either as flats or as "hybrid" flats will be eligible for "hybrid" flats rate treatment for rate mitigation purposes. These "hybrid" parcels properly belong in the parcels shape category, but the Postal Service will mitigate the effects of migrating from automation flats rates to parcels rates by allowing these pieces temporarily to qualify for "hybrid" flats rates. An example of a "hybrid" parcel is a piece that meets the current UFSM 1000

[11] Witness McCrery also testifies that UFSM 1000 machines are migrating to plants without any flat sorting machines. As these machines disappear from the larger, high volume plants, the rationale for offering the rate exception also disappears.

automation flats eligibility standard, but that is too thick or too large to be cased.

As with parcels, establishing separate rate categories will allow “hybrid” flats and “hybrid” parcels to be better tracked in the Postal Service’s cost and volume reporting systems. Because of this enhanced visibility, we will expect to have better information on which to base pricing decisions for “hybrid” pieces in the future.

My rate design for “hybrid” flats was based upon my understanding that these pieces are typically small and that they have similar cost characteristics to parcels that are too small to be machined on the parcel sorting machines at BMCs. Since the Postal Service currently has no specific cost models for these “hybrid” flats, I believed it appropriate to use the same cost data developed for nonmachinable parcels and strongly mitigated the rate impacts arising from using these cost data. I based my “hybrid” flats rate design on a piece rate that was below the rate for machinable parcels and used the same pound rate I used for parcels. These rate elements represent heavy mitigation of the costs of processing in the manual mail stream which, I understand, would be the typical path for these pieces. I also propose generally higher discounts for “hybrid” flats than for parcels so as to lower the piece rates further. The destination entry discounts for hybrid pieces are the same as I am proposing for letters and flats. To provide a way for mailers to reduce their postage costs further, I also have proposed a DDU discount for “hybrid” pieces.

The net impact of my rate proposals will be a significant rate increase for “hybrid” pieces, particularly for those pieces that have little or no worksharing. These higher prices will begin the process of raising the cost coverage for these parcel-shaped pieces. At the same time, my proposed rates offer mailers major

opportunities for worksharing to mitigate the impacts of the rate increases and give mailers incentives to reconfigure "hybrid" pieces to meet the new flats requirements.

Barcoding

The Postal Service believes that there is value in having an appropriate barcode on each "hybrid" flat or parcel. I propose that eligibility for "hybrid" flats rates require each "hybrid" piece to bear a Postal Service-approved barcode. Pieces that do not bear the appropriate barcode will be assessed a surcharge of $0.050 per piece.[12] This surcharge should encourage mailers to barcode all their pieces and help the Postal Service to process Standard Mail "hybrid" flats and "hybrid" parcels flexibly, using efficient machine sorting wherever possible. (See, USPS-T-42, Section II, C1b for additional discussion of the value of barcodes).

5. Recategorizing Letters and Nonletters

My rate proposals introduce several new rate categories with their own rate designs. Parcels (both machinable and nonmachinable) and "hybrid" flats and "hybrid" parcels are all categorized, along with flats, as nonletters today. In addition, I am proposing to deaverage the flats and nonautomation letters categories by introducing different rates for finer presort levels.

To estimate the revenue impacts of my rate proposals I have made use of several mail studies sponsored by witness Loetscher (USPS-T-28). I used his mail characteristics study (see USPS-LR-L-92) for letters and flats to disaggregate volumes in composite presort categories into finer presort levels. For example, I used shares from the study to convert Basic nonautomation letter volumes into separate volumes of Mixed AADC and AADC letters. Similarly I used volume shares from the study to separate 3/5 nonautomation letter volumes into 3-digit

[12] The surcharge will not apply to 5-digit presorted hybrid pieces without barcodes.

letter volumes and 5-digit letter volumes. The mail characteristics study also provided the basis for disaggregating the presort volumes for automation and nonautomation flats. The details of these volume recategorizations are shown in my workpapers (see USPS-LR-L-36, Reclassified Comm. Pcs. & Lbs. and Reclassified NP Pcs. & Lbs., and supporting worksheets; see also USPS-LR-L-68, pages 13, 14, and supporting worksheets).

Witness Loetscher also provided me with the results of a second mail characteristics study of Standard Mail nonletters that showed how current nonletter categories (automation flats, nonautomation flats and RSS parcels) would be recategorized into automation flats, nonautomation flats, “hybrid” flats, “hybrid” parcels and parcels using reasonable definitions for each category (see USPS-LR-L-33). I used this study to recategorize test year nonletter volumes into my proposed rate categories.

Since witness Loetscher’s nonletters recategorization study gave me volume shares for parcels and “hybrid” pieces in the aggregate, I used further information from witness Loetscher (USPS-T-28, library reference USPS-LR-L-33) to apportion these total volumes to presort levels, entry levels and (for parcels) machinable and nonmachinable pieces. Details for all of these recategorization calculations are shown in my workpapers (USPS-LR-L-36, Reclassified Comm. Pcs. & Lbs. and Reclassified NP Pcs. & Lbs., and supporting worksheets; see also USPS-LR-L-68, pages 13, 14, and supporting worksheets).

6. Customized MarketMail (CMM)

CMM is a relatively new product that, since its inception, has been priced as a piece-rated origin-entered Nonautomation Basic Nonletter plus the residual shape surcharge. This is the highest rate for a piece-rated Standard Mail piece charged by the Postal Service. With my proposed changes to the Standard Mail

rate design, the residual shape surcharge will be eliminated. Moreover, the maximum piece-rated rate will rise significantly and, in my view, will no longer be appropriate as the benchmark for CMM, which is drop-shipped to the DDU and undergoes no upstream mail processing.

I am proposing a new rate for CMM of $0.489 per piece. This price is comparable to the rate paid by a similarly presorted piece-rated "hybrid" flat, yet is higher than a comparable Nonautomation flat. I believe my proposed pricing appropriately reflects CMM's non-standard shape which effectively excludes CMM pieces from processing within the normal flats mail stream.

E. Rate Design for Standard Mail Nonprofit Regular

My proposed rate design gives Standard Mail Nonprofit Regular the same rate structure as its commercial counterpart. By law the average rate (revenue per piece) for nonprofit pieces must be 60% of the average rate for commercial pieces.[13] In practice, this constraint has not been applied by arithmetically reducing each and every commercial rate element by 40% to obtain the corresponding nonprofit rate element. For example, the destination entry discounts (as well as residual shape surcharge and barcode discount) have been the same for both commercial and nonprofit pieces. I have retained this practice for destination entry discounts in my current rate design.[14]

To achieve the statutory average rate relationship, I adjusted the commercial per-piece and per-pound rate elements and automation/machinability differentials to develop the corresponding nonprofit piece and pound rate

[13] In Docket No. R2005-1, the Commission interpreted the law to require a tighter band around 60% than the Postal Service had argued was acceptable. In practice, the Commission's rates produced nonprofit to commercial average rate ratios of 59.7% for Standard Mail Regular and 59.8% for Standard Mail ECR. The Commission's practice indicates that deviations of a few tenths of a percent from 60% are acceptable. My ratios fall within the Commission's window of acceptability.

[14] The residual shape surcharge and barcode discount no longer exist in my rate design, although the latter has an analog in my proposed nonbarcoded surcharge, which is the same for both commercial and nonprofit pieces.

elements. In some instances I had to further adjust the per-piece elements by presort level to achieve reasonable rate changes and rate relationships, given the constraints I faced. The adjustments to the commercial rate elements for nonprofit pieces are shown in my workpapers (USPS-LR-L-36) in the lower half of the Proposed Rates worksheet. The adjustments are indicated by blue bold italic type.

In developing test year volumes for the new Nonprofit Regular rate categories, I also made use of the studies sponsored by witness Loetscher (USPS-T-28, USPS-LR-L-92, USPS-LR-L-33) in the same way described for commercial Regular mail in section D.5., of this chapter.

Nonprofit Customized MarketMail

For the reasons mentioned in my discussion of Standard Mail Regular pricing, I also developed new pricing for nonprofit CMM that decouples CMM's price from the maximum price for a piece-rated nonprofit piece. My CMM rate proposal results in a rate reduction compared to today's nonprofit CMM price.

VI. STANDARD MAIL ENHANCED CARRIER ROUTE AND NONPROFIT ENHANCED CARRIER ROUTE SUBCLASSES

A. Product Description

Standard Mail ECR and Standard Mail Nonprofit ECR must meet all the general requirements for Standard Mail described in Chapter V. In addition, ECR and Nonprofit ECR mailings must contain a minimum number of pieces sorted to each carrier route in the mailing and must be sequenced, either in line of travel or in walk sequence.

Separate subclasses were established in Standard Mail to recognize that Standard Mail serves at least two distinct types of advertisers. One set of advertisers wants to reach demographically homogeneous groups of customers, gardening enthusiasts, for example. Standard Mail Regular and Nonprofit Regular subclasses serve this market segment. Another set of advertisers seeks to reach customers who are geographically concentrated, such as potential customers for a newly opened supermarket. ECR and Nonprofit ECR subclasses serve this latter segment.

The Standard Mail ECR and Nonprofit ECR subclasses have parallel rate designs. Both subclasses have four rate categories for letter-shaped mail and three for nonletter-shaped mail. One of the rate categories for letters is an automation rate and another of the letter categories has prices identical to the piece-rated nonletters category. Both subclasses offer drop shipment discounts for mail that is entered at the DDU, DSCF or DBMC. Like the Standard Mail Regular and Nonprofit Regular subclass rate designs, ECR and Nonprofit ECR mail pieces weighing 3.3 ounces or less pay only a minimum rate per piece. Pieces weighing over 3.3 ounces pay both piece and pound rates. Parcel-shaped pieces (or pieces

prepared as parcels) are subject to a residual shape surcharge. Standard Mail ECR and Nonprofit ECR rates are unzoned.

B. Volume and Revenue

The first Standard Mail workshare discount, offered in 1979, was for carrier route presorting. After that discount was introduced, carrier route sorted mail grew rapidly, and in Docket No. MC95-1 the Postal Service and the Commission created a separate subclass for commercial carrier route sorted Standard Mail (Enhanced Carrier Route). This was followed shortly by a parallel subclass for Nonprofit Enhanced Carrier Route Standard Mail. In FY 2005 total ECR volumes (commercial plus nonprofit) stood at 35.0 billion pieces, approximately 35 percent of total Standard Mail volumes. About 32.0 billion pieces were sent as commercial ECR mail in FY 2005, the rest as Nonprofit ECR mail. See USPS-LR-L-74 for Standard Mail's complete volume history.

Commercial ECR and Nonprofit ECR Standard Mail account for $5.6 billion, or 30% of total Standard Mail revenue. For further details, see USPS-LR-L-74. Revenue per piece is smaller for ECR and Nonprofit ECR than for Regular and Nonprofit Regular Standard Mail owing to the higher average degree of worksharing in ECR and Nonprofit ECR mail.

The statutory requirement to set nonprofit rates so that nonprofit mail average revenue per piece is 60 percent of commercial average revenue per piece applies to Nonprofit ECR as well as Nonprofit Regular mail. The Postal Service's proposals in this case are consistent with the statute.

C. Proposed Changes to Rate Design

I am proposing the following changes to the ECR and NECR rate designs in this case:

- Elimination of the DDU discount for letters.

- Elimination of the Automation Basic rate for letters.
- Establishing a surcharge for all Saturation nonletters addressed using detached address labels (DALs).

Each of these proposed changes will be discussed in the following section on Rate Design.

D. Rate Design

My pricing proposals for ECR and NECR follow the same basic rate design. With few exceptions, it is the same as the current rate design. The following sections will discuss my proposed rate designs for each major shape category.

1. Letters

Letters will experience the most significant rate structure changes in ECR and NECR. First, I propose to eliminate the DDU discount for letters. The Postal Service intends to delivery point sequence (DPS) as many letters as possible by machine, and since DPS equipment is mostly located at plants, entering letters at delivery units no longer makes operational sense. See witness McCrery's testimony (USPS-T-42, Section II, Part A) for additional discussion of this issue. Ending the DDU discount will remove the economic incentive to deposit letters at delivery units when the letters are subsequently transported back to plants at added costs. The Postal Service is not proposing to prohibit entering ECR and NECR letters at delivery units, of particular importance to local mailers. I am proposing only to eliminate the discount for DDU entry. It is expected that, given the extra cost to mailers of dropping mail at DDUs, few mailers will continue to do so.

My proposed rate design will also eliminate the Automation Basic rate category for letters. This rate is currently available only for mail sent to sites that do

not receive letters from the plant in delivery point sequence. I understand that the Postal Service intends to further centralize the sequencing operations in plants to the greatest extent possible, reducing the dependence on automated or manual sorting in delivery units. (See witness McCrery, USPS-T-42, Section II, Part A, discussion of CSBCS equipment). In this light a two-track pricing scheme for automation letter mail is not warranted. With elimination of this rate I assume, for purposes of revenue estimation, that ECR and NECR Basic Automation letters will migrate to the Regular and Nonprofit Regular subclasses and pay the applicable Automation 5-digit rates. This is the likely rate paid by those letters that are addressed to areas for which the plant delivery point sequences letter mail.

I developed my rates for ECR letters by selecting rate elements for the base piece reflecting current rates, unit mail processing cost information from witness Talmo (USPS-T-27, USPS-LR-L-84), and unit delivery cost information from witness Kelley (USPS-T-30, USPS-LR-L-67). Details are presented in my workpapers (USPS-LR-L-36 in the Proposed Rates worksheet). I then adjusted the rates based on cost differences due to density (from witness Talmo, USPS-T-27, USPS-LR-L-84) and entry point (from witness Mayes USPS-T-25, USPS-LR-L-88). As has been the practice in the past, I maintained the same rate differentials for drop-shipping in both Standard Mail Regular and ECR. I also continued the practice of setting the Basic letter rates equal to the corresponding flats rates.

For Nonprofit ECR rates I adjusted the corresponding commercial ECR piece and pound rates as well as the density differentials to achieve the required 60% ratio between the average NECR rate and the average ECR rate, while maintaining reasonable rate relationships and rate changes.

2. Flats

The eligibility qualifications for flats rates will be the same in ECR and NECR as in the Regular and Nonprofit Regular subclasses. Pieces that do not meet flats rate eligibility will become parcels and pay parcels rates. Because there is no UFSM 1000 exception in ECR/NECR today, the number of pieces that will lose eligibility for flats rate treatment is expected to be relatively small.

I am proposing only one change to the rate design for ECR and NECR flats. The Postal Service has determined that it wants to encourage on-piece addressing for all mail in furtherance of its goals of improving efficiency (see the discussion of DALs by witness Coombs (USPS-T-44), Section 3.1). To further that policy decision, I am proposing that all mail that uses detached address labels (DALs) pay a surcharge of $0.015 per piece. This rate incentive should strongly encourage mailers to put addresses directly on their mail pieces.[15]

As with letters, I selected piece and pound rates for the base piece (an origin-entered Basic flat) based on current rates and cost information from witnesses Talmo (USPS-T-27, USPS-LR-L-84) and Kelley (USPS-T-30, USPS-LR-L-67). The proposed piece rate is $0.101 and pound rate is $0.641 for this piece. I adjusted these base rates for different density levels based on density cost differentials from witness Talmo (USPS-LR-L-84) and for different entry points based on information from witness Mayes (USPS-T-25, USPS-LR-L-88). I further adjusted some density cost passthroughs to maintain reasonable rate relationships and rate changes. Details of these rate elements and adjustments are in my workpapers (USPS-LR-L-36, workbook WP-STDECR.XLS, Proposed Rates worksheet).

[15] However, to be consistent with rollforward cost projections, for net revenue calculation purposes, I have assumed that in the test year all of current DAL mail will pay the surcharge.

For Nonprofit ECR flats, I adjusted the corresponding commercial ECR flats piece and pound rates as well as the density differentials as needed to achieve the required 60% overall average rate ratio, while maintaining reasonable rate relationships and rate changes for NECR flats. My workpapers (USPS-LR-L-36, workbook, WP-STDECR.XLS, Proposed Rates worksheet) detail how I adjusted the commercial ECR piece and pound rate elements to develop my NECR flats rates.

3. Parcels

All nonletter-shaped pieces that do not meet the qualifications for flats rates eligibility will pay the ECR or NECR parcels rates. It is believed that this change in the flats rates eligibility requirements will affect a relatively small number of non-RSS nonletters, one reason being that the ECR and NECR rates do not have the UFSM 1000 exception that currently permits significant numbers of parcel-shaped pieces in the Regular and Nonprofit Regular subclasses to pay flats rates. Currently only a small number of pieces pay the RSS (parcels) rates in ECR or NECR. Moreover, the number of parcels has been declining.

I have developed the rate design for ECR and NECR parcels based on the assumption that, in the future, ECR and NECR parcels categories will largely reflect pieces migrating from flats rates rather than pieces currently paying the RSS. For this reason, I selected piece and pound rates for ECR and NECR parcels that represent a fixed increment over the prices these pieces would have paid, had they remained in the flats rate categories. This approach will help to mitigate the impact of moving from flats-rate treatment to parcels-rate treatment.[16] The rate differential, $0.200 per piece, is slightly less than the current ECR and Nonprofit

[16] As with Standard Mail Regular flats, it is also expected that many ECR mailers will reconfigure their non-eligible pieces to meet the new flats definition and thereby avoid being pushed into the parcels category. The rate differential is designed, in part, to encourage such reconfiguration.

ECR residual shape surcharge. My proposals have the same parcels-flats rate differential for both commercial and nonprofit pieces. Despite the consistent rate differential in my current proposal, the parcels rate design may evolve into one that is more independent of the flats rate structure as future conditions warrant. Like flats, saturation parcels that address using DALs will pay the $0.015 per piece surcharge. For net revenue estimation purposes, I am assuming that all saturation parcels currently using DALs will continue to do so in the test year.

VII. FINANCIAL SUMMARY

A. Standard Mail Regular

My proposals produce an average increase in Standard Mail Regular revenue per piece of 9.6% and in Standard Mail Nonprofit Regular of 8.9%. The overall increase for the Regular subclasses is 9.8%. Measured using constant (TYBR) volumes the average rate changes are 10.8% for Regular, 10.0% for Nonprofit Regular and 10.8% overall. My rates produce test year after rates revenues of $15.525 billion for the commercial subclass and $1.833 billion for nonprofit mail. Together the Regular subclasses generate $17.358 billion in postage and fee revenue in the test year.[17]

Witness Waterbury (USPS-T-10, Exhibit USPS-10M) reports TYAR volume variable costs for the combined Regular subclasses of $9.836 billion. The resulting cost coverage is 176.5%.

B. Standard Mail Enhanced Carrier Route

My proposed rates result in an average revenue per piece increase of 8.1% for Standard Mail ECR and 8.2% for Standard Mail Nonprofit ECR. Combined, the two subclasses have an average rate increase of 7.9%. Using constant (TYBR) volumes, the average rate changes are 8.4% for ECR, 8.1% for Nonprofit ECR and 8.4% overall. My rates generate TYAR revenues of $5.663 billion for ECR and $293 million for NECR. Combined these two subclasses produce $5.956 billion in postage and fee revenue.[18]

[17] These financial results include the effects of my assumption that mail formerly paying piece rated ECR and NECR Automation Basic rates will migrate to the Regular and Nonprofit Regular subclasses and pay 5-digit Automation rates.

[18] ECR and NECR financial results exclude former Automation Basic letters that are assumed to migrate to Regular subclasses.

Witness Waterbury (USPS-T-10, Exhibit USPS-10M) reports TYAR volume variable costs for the combined ECR and NECR subclasses of $2.781 billion, producing a cost coverage of 214.2%.