

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

EXPERIMENTAL PREMIUM
FORWARDING SERVICE

Docket No. MC2005-1

**REQUEST OF THE UNITED STATES POSTAL SERVICE
FOR A RECOMMENDED DECISION ON EXPERIMENTAL
PREMIUM FORWARDING SERVICE**
(November 19, 2004)

UNITED STATES POSTAL SERVICE

By its attorneys:

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November 19, 2004

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

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Pursuant to chapter 36 of title 39, United States Code, the United States Postal Service has determined that an experimental change in the Domestic Mail Classification Schedule (DMCS) would be in the public interest and in accordance with the policies and applicable criteria of that title. The experiment would establish a new classification and fee for the provision of Premium Forwarding Service (PFS), under which the Postal Service will reship all the mail of a customer who has temporarily relocated; such PFS shipments will be sent via Priority Mail[®] once a week to the customer's temporary address. The Postal Service requests that the Postal Rate Commission submit to the Governors of the Postal Service a recommended decision supporting implementation of the experimental change, as herein requested.

The Postal Service anticipates that PFS will be an attractive supplement to existing options for customers who temporarily relocate because it meets customer demand for service features not currently available through those options. Unlike

Temporary Forwarding, under which certain types of mail are forwarded to a temporary address on a piece-by-piece basis, PFS will reship all of a customer's mail in a weekly Priority Mail package. Unlike hold mail, under which the mail of an entire household is held at the post office for a period up to 30 days, PFS will provide reshipping service for up to 12 months, and will allow customers to specify whether to include the mail of the entire household or merely that of an individual addressee. Overall, PFS will provide a level of service that complements and expands upon the current options offered by the Postal Service for customers who relocate temporarily.¹ The features of PFS, and the rationale for providing the service, are presented in detail by witnesses Cobb (USPS-T-1) and Koroma (USPS-T-4).

The Postal Service proposes that PFS customers be charged a \$10.00 enrollment fee plus a fixed per-shipment charge of \$10.00. This straightforward structure should encourage customer understanding and ease of use, while providing a basic platform on which PFS' vitality can be tested experimentally. The per-shipment charge represents the sum of a fixed postage rate (\$7.15) and a fixed re-packaging fee (\$2.85). The postage rate is drawn from the current Priority Mail three-pound, zone 6 rate, which is the projected average weight and distance of PFS shipments, while the re-packaging fee is based on the estimated costs of preparing a PFS shipment and entering it into the mailstream. The one-time, nonrefundable enrollment fee includes the estimated costs of setting-up one PFS customer (\$5.01), with an appropriate mark-up designed to ensure cost coverage while keeping the per-shipment fee low. The pricing of the proposed enrollment and per-shipment fees is explained in the testimony

¹ Individuals may temporarily relocate for any number of reasons, including a temporary job assignment, school, extended family care, or vacation.

of witness Koroma (USPS-T-4), who relies upon estimated set-up and re-packaging costs analyzed by witness Abdirahman (USPS-T-3) and demand market research sponsored by witness Rothschild (USPS-T-2). For purposes of this proceeding, the Postal Service's proposals employ the Commission's costing methods, and are supported by the record in Docket No. R2001-1.²

As demonstrated in the testimony of witness Koroma (USPS-T-4), the Postal Service's overall revenue position will not be affected materially under the proposed experiment. The Postal Service does not need to make any capital investment to initiate or conduct the experiment, and the rate and fees selected are based on conservative costing and pricing methods. In addition, the effect of the experiment on forwarding options is not expected to be significant. Overall, the proposed experiment creates no appreciable risk of significant, negative financial results or harm to the Postal Service, mailers using PFS, or other mailers.

By designating this request as an experiment, the Postal Service intends for the Commission to apply its expedited rules of practice and procedure for experimental changes, §§ 3001.67 - 3001.67d of Title 39, Code of Federal Regulations. Among other purposes, the rules pertaining to experimental filings are designed to facilitate the Postal Service's compliance with its statutory duty to "plan, develop, promote, and provide

² The Postal Service's implicit use, in this proceeding, of costing methods employed by the Commission in the most recent omnibus rate case is not intended to imply the Postal Service's agreement that the Commission's methods generate the most accurate cost estimates possible. The Postal Service reserves the right to contest particular costing methods in future cases and will continue to advocate improvements in the Commission's methods. For purposes of this case, however, the Commission's current methods are employed as a baseline, thus placing the proposed rate on a consistent footing with the Priority Mail rates currently in effect, and segregating from this proceeding costing inquiries that would better be pursued in a proceeding of greater scope.

adequate and efficient postal services," 39 U.S.C. § 403(a), by allowing it to change classifications and rates expeditiously as an experiment to test operational feasibility or customer response, or other appropriate goals. The experimental rules also contemplate review of proposed experiments in the absence of historical cost, volume, revenue and other data that normally would underlie a request for a permanent change in mail classifications.

This filing is consistent with the logic of the experimental rules. Flexibility is required because the data conventionally needed to support a request for a permanent classification change currently are unavailable. For example, the Postal Service needs to collect data that test its assumptions about the projected average weight and distance of PFS shipments, as well as its estimates of demand for the service. The unavailability of these data and the Postal Service's plans for collecting them are further explained in testimony (USPS-T-4), the Compliance Statement (Attachment E to this Request), and the Conditional Motion for Waiver, which accompany this Request. During the term of the experiment, more complete data would be gathered, with the potential for supporting a request to establish the proposed or a similar change on a permanent basis.

The Postal Service proposes that this experimental classification be in effect for two years, which should allow customers sufficient time to determine whether PFS suits them. Moreover, this period will provide the Postal Service adequate time to aggregate and analyze data collected under the experiment, so that a request for a permanent classification change can be prepared if the data support such a request. If such a request is made within the experimental period, the Postal Service asks that the

experiment continue until action on that request can be completed, thus avoiding disruption to both mailers and the Postal Service.

The Postal Service files this proposal with the expectation that the fees and classification embodied in it will be attractive to customers and will contribute to the long-term viability of the postal system. The proposed classification will further the general policies of the Postal Reorganization Act in that it will create an additional means by which delivery customers derive value from their use of the mail. See 39 U.S.C. § 403(b). The requested changes also conform to the criteria of 39 U.S.C. §§ 3622(b) and 3623(c). USPS-T-4.

In accordance with the Commission's Rules of Practice and Procedure, the Postal Service submits herewith information and data which explain the nature and scope, significance, and effect of the proposed changes. The Postal Service's direct testimonies accompany this Request. The testimony and exhibits have been marked for identification as shown in Attachment D to this Request.

The instant filing incorporates by reference materials submitted with the Postal Service's Request in Docket No. R2001-1, as well as other materials routinely provided to the Commission by the Postal Service. The Postal Service believes that its submissions comply with the Commission's filing requirements in Rules 54 and 64 of the Rules of Practice and Procedure (39 C.F.R. §§ 3001.54 and 64). Since the Commission may conclude otherwise, the Postal Service is today filing a separate conditional motion for a waiver of certain filing requirements in Rules 54 and 64.

WHEREFORE, the Postal Service requests that the Commission submit a recommended decision in accordance with this Request.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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REQUESTED CHANGES IN THE DOMESTIC MAIL CLASSIFICATION SCHEDULE

In this Request, the Postal Service asks the Commission to recommend certain changes in the Domestic Mail Classification Schedule (DMCS). The DMCS currently in effect is published on the Postal Rate Commission website (www.prc.gov). The most recent version is dated October 3, 2004; it includes changes that resulted from the July 22, 2004 Governors' Decision in Docket No. MC2004-1, Experimental Periodicals Co-Palletization Dropship Discounts for High Editorial Publications and those changes arising from the July 14, 2003 expiration of provisions relating to Docket No. MC2001-1, Experimental Presorted Priority Mail Rate Categories.

Proposed additions to text are underlined; no deletions are proposed.

* * * * *

Special Services Classification Schedule

* * *

937 PREMIUM FORWARDING SERVICE**937.1 Definition**

937.11 Premium Forwarding Service provides a delivery customer the option to receive substantially all classes of mail addressed to a primary address instead at a temporary address by means of a weekly Priority Mail shipment. In addition, mail pieces that require a scan upon delivery, plus larger Priority Mail pieces, are promptly relabeled with the temporary address and included in outgoing mail from the delivery unit serving the primary address. Any other parcels too large for the weekly reshipment are sent to the customer's temporary address via Priority Mail, postage due. Mail sent to a primary address for which an addressee has activated Premium Forwarding Service is not treated as undeliverable-as-addressed.

937.2 Availability

937.21 Premium Forwarding Service is available for a period of at least two weeks and not more than twelve months, as specified by the Postal Service. Customers may not use Premium Forwarding Service simultaneously with temporary or permanent forwarding orders. Premium Forwarding Service is not available to customers whose primary address consists of a size three, four or five post office box, subject to exceptions allowed by the Postal Service, or a centralized delivery point.

937.3 Customer Requirements

937.31 A customer must complete and submit a Premium Forwarding Service application together with all postage and fees for the full duration of service to the post office responsible for delivery to that customer's primary address, as specified by the Postal Service.

937.4 Other Services

937.41 Premium Forwarding Service may not be combined with any ancillary or special services beyond those purchased by the original mailer.

937.5 **Rates and Fees**

937.51 The postage rate for mail reshipped by Premium Forwarding Service consists of the rate specified in Rate Schedule 223 for a three-pound parcel mailed to zone 6 on the enrollment date.

937.52 Fees for Premium Forwarding Service are specified in Fee Schedule 937.

937.6 **Duration of the Premium Forwarding Service Experiment**

937.61 The provisions of section 937 expire the later of:

- a. two years after the implementation date specified by the Postal Service Board of Governors, or
- b. if, by the expiration date specified above, a request for the establishment of a permanent Premium Forwarding Service is pending before the Postal Rate Commission, the later of :
 - (1) three months after t he Commission takes action on such proposal under section 3624 of title 39, or, if applicable,
 - (2) the implementation date for a permanent Premium Forwarding Service classification.

FEE SCHEDULE 937

PREMIUM FORWARDING SERVICE

<u>Description</u>	<u>Fee (\$)</u>
<u>Enrollment fee</u>	<u>10.00</u>
<u>Weekly reshipment fee</u>	<u>2.85*</u>

* This fee is in addition to the postage applicable to a 3-pound parcel mailed to zone 6, as stated in Rate Schedule 223 (Priority Mail).

CERTIFICATION

I, William P. Tayman, Jr., Manager, Corporate Financial Planning, United States Postal Service, am familiar with the attached Request of the United States Postal Service for a Recommended Decision on an Experimental Premium Forwarding Service, together with the accompanying direct testimony.

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

William P. Tayman, Jr.

INDEX OF TESTIMONIES: DOCKET NO. MC2004-6

WITNESS	TESTIMONY	EXHIBIT		WORKPAPERS	ATTORNEY
		TITLE	NO.		
Ms. Cobb	USPS-T-1	***	***		Keith E. Weidner 202-268-6252
Ms. Rothschild	USPS-T-2	***	***		Kenneth N. Hollies 202-268-3083
Mr. Abdirahman	USPS-T-3	***	***		Sheela Portonovo 202-268-3012
Mr. Koroma	USPS-T-4	***	***		David H. Rubin 202-268-2986

Docket No. MC2005-1 Request

ATTACHMENT E

COMPLIANCE STATEMENT

This Attachment contains a statement of the manner in which the Postal Service has supplied the information requested in sections 54, 64, and 67 of the Commission's Rules of Practice and Procedure (39 CFR §§3001.54, 3001.64, and 3001.67). Where information required by these rules is not included in direct testimony or exhibits of the Postal Service's witnesses, it is contained in the Request or its attachments, or has been incorporated by reference in the Request, testimony, exhibits, or attachments made available to the Commission in Docket No. R2001-1. Alternatively, the pertinent filing requirements should be waived in accordance with the accompanying Statement of the United States Postal Service Concerning Compliance with Filing Requirements and Conditional Motion for Waiver, also filed today.

RULE: 54(a)(1)

REQUIREMENT: This rule requires a description of any changes proposed by the Postal Service in the attribution procedures applied by the Commission in the most recent general rate proceeding in which its recommended rates or fees were adopted. If a request proposes to change the cost attribution principles applied by the Commission in the most recent general rate proceeding in which its recommended rates were adopted, the Postal Service's request shall include an alternate cost presentation satisfying Rule 54(h) that shows what the effect on the Postal Service's request would be if it did not propose changes in attribution principles. If the required information is set forth in the Postal Service's prepared direct evidence, it shall be deemed to be part of the formal request without statement.

No changes in cost attribution principles applied by the Commission in Docket No. R2001-1 are proposed. Insofar as they may apply, the Postal Service incorporates by reference the testimonies and costing presentations submitted with its Request in Docket No. R2001-1.¹

¹ See Request of the United States Postal Service for a Recommended Decision on Changes in Rates of Postage and Fees for Postal Services and Request for Expedition, Docket No. R2001-1, Attachment G (Sept. 24, 2001). The Compliance Statement in that case provides direction to pertinent testimony and documentation.

RULE: 54(b)(1), (2), (3), (4)

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

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

1. Present and Proposed Rates, Fee and Classification Schedule Provisions.

Attachment A to this Request sets forth the proposed new addition to the Domestic Mail Classification Schedule: § 937 for Premium Forwarding Service.

Attachment B to this Request sets forth the proposed Rate Schedule 937 for Premium Forwarding Service.

No alteration of existing rates, fees, or classifications is proposed.

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

The rules, regulations, and practices that establish conditions of mailability and standards of service generally are published in the Domestic Mail Manual (DMM[®]) and are incorporated by reference in 39 C.F.R. § 111.1. The practices of the Postal Service

regarding, and the conditions for, Premium Forwarding Service are discussed in the testimony of witnesses Cobb (USPS-T-1) and Koroma (USPS-T-4). The Postal Service's response to Rule 54(b)(2) should not be construed to admit that the Commission's jurisdiction extends to any of the specified rules, regulations, or practices.

3. Degree of Economic Substitutability and Identification of Nonpostal Services.

With regard to classes of mail and special services generally, and identification of nonpostal services, the Postal Service incorporates by reference the testimony and supporting documentation filed with its Request in Docket No. R2001-1. Substantial information relevant to economic substitutability was included in the testimonies of witnesses Tolley, Thress, and Musgrave (USPS-T-7-9).

The proposed implementation of an experimental Premium Forwarding Service is not expected to cause significant substitution among mail classes, subclasses or rate categories, or have a significant impact on mail volumes.

If the information and materials cited and incorporated above are deemed insufficient under the Commission's filing requirements, the Postal Service requests that this provision be waived.²

4. Identification of Nonpostal Services

There are no nonpostal services in this request.

² See Statement of the United States Postal Service Concerning Compliance with Filing Requirements and Conditional Motion for Waiver, also filed today.

RULE: 54(c)

INFORMATION REQUESTED:

This rule requires "an identification of the characteristics of the mailer and recipient, and a description of the contents of items mailed within the various classes and subclasses of mail and service."

With regard to classes of mail and special services generally, the Postal Service incorporates by reference testimony and supporting documentation submitted with its Request in Docket No. R2001-1. With regard to the proposed experimental Premium Forwarding Service, information responsive to this rule may be found in the testimony of witnesses Cobb (USPS-T-1) and Koroma (USPS-T-4).

If the information and materials cited and incorporated above are deemed insufficient under the Commission's filing requirements, the Postal Service requests that this provision be waived.

RULE: 54(d)

INFORMATION REQUESTED:

This rule requests "an identification of the physical attributes of the items mailed by class and subclass, including shape, weight, and distance."

With regard to classes of mail and special services generally, the Postal Service incorporates by reference testimony and supporting documentation submitted with its Request in Docket No. R2001-1. Specific information regarding the physical attributes of items to be re-shipped under the proposed Premium Forwarding Service is provided in the testimony of witnesses Cobb (USPS-T-1) and Koroma (USPS-T-4). Additional information will also be collected using the proposed data collection plan.

If the information and materials cited and incorporated above are deemed insufficient under the Commission's filing requirements, the Postal Service requests that this provision be waived.

RULE: 54(e)

INFORMATION REQUESTED:

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

Information responsive to this rule is contained in the Request and supporting materials filed in Docket No. R2001-1 (see Docket No. R2001-1 Compliance Statement, Rule 54(e)), which are incorporated by reference here. The requirements for the proposed Premium Forwarding Service are described in the testimony of witnesses Cobb (USPS-T-1) and Koroma (USPS-T-4), and in the DMM, which is referenced in response to Rule 54(b).

If the information and materials cited and incorporated above are deemed insufficient under the Commission's filing requirements, the Postal Service requests that this provision be waived.

RULE: 54(f)(1)

INFORMATION REQUESTED:

This rule requests the submission of "the total actual accrued costs during the most recent fiscal year for which they are reasonably available."

The total actual accrued costs for FY 2003 are presented in the Cost & Revenue Analysis (CRA) Report, on file with the Commission. Operating and other expenses for FY 2003 are contained in the United States Postal Service Annual Report for FY 2003. A copy of this Annual Report has been filed with the Commission.

RULE: 54(f)(2) (Basic Submissions)

INFORMATION REQUESTED:

This rule requests:

- for the year in which the filing is made, estimates of the total actual accrued costs of the Postal Service, assuming the pre-filing (existing) rates and fees;
- for the year in which the filing is made, estimates of the total actual accrued costs of the Postal Service, assuming the proposed rates and fees;
- for a year which forms the basis for the proposed rates and fees, beginning not more than 24 months after the filing date of the Request, estimates of the total actual accrued costs of the Postal Service, assuming the pre-filing (existing) rates and fees;
- for a year which forms the basis for the proposed rates and fees, estimates of the total actual accrued costs of the Postal Service, assuming the proposed rates and fees.

With regard to classes of mail and special services generally, the Postal Service incorporates by reference testimony and supporting documentation submitted with its Request in Docket No. R2001-1. Because of the experimental nature of the service being proposed, and its expected limited impact on Postal Service revenues and costs, the Postal Service has not prepared a full analysis of the effects on the Postal Service's total costs in the present fiscal year, or a rollforward analysis in a future test year. Such a full analysis of overall revenues and costs is unnecessary and inappropriate in the context of the proposed limited experiment. As explained in the testimony of witnesses Cobb (USPS-T-1) and Koroma (USPS-T-4), the premise of the proposed experiment is that currently-existing rates and classifications will remain unchanged, while an additional option is introduced. By maintaining the status quo in all respects while

adding one option, the Postal Service expects to acquire reliable information regarding customer reactions to that single new offering.

However, if the information and materials cited and incorporated above are deemed insufficient under the Commission's filing requirements, the Postal Service requests that this provision be waived.

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

INFORMATION REQUESTED:

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

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

With regard to estimates pertaining to classes of mail and special services generally, the Postal Service incorporates by reference testimony and supporting documentation submitted with its Request in Docket No. R2001-1. Because of the experimental nature of the service being proposed, and its expected limited financial impact, the Postal Service has not prepared a full analysis of the effects on the Postal Service's total costs and total volumes in the present fiscal year, or a rollforward analysis in a future test year.

If the information and materials cited and incorporated above are deemed insufficient under the Commission's filing requirements, the Postal Service requests that this provision be waived.

RULE: 54(f)(3)(i) and (ii) (Operating Costs)

INFORMATION REQUESTED:

This rule requires that the cost presentations prepared in response to paragraphs (f)(1) and (f)(2) of Rule 54 must show the following:

- the Postal Service's operating costs, described in "sufficient detail as to the accounting and functional classifications and with such reasonable explanation so that the actual or estimated amount for each item of expense may be readily understood"; and
- full explanations for the amounts included for depreciation on capital facilities and equipment, debt service, contingencies, and extraordinary or nonrecurring expenses.

The Postal Service incorporates by reference the testimony and supporting documentation of witness Tayman submitted in connection with the Postal Service's Request in Docket No. R2001-1. Witness Tayman's testimony presents operating costs and other financial expenses with regard to all existing mail categories and services. Because of the experimental nature of the service being proposed, the Postal Service has not prepared a full analysis of the effects on the Postal Service's total costs and total volumes in the present fiscal year, or a rollforward analysis in a future test year.

If the information and materials cited and incorporated above are deemed insufficient under the Commission's filing requirements, the Postal Service requests that this provision be waived.

RULE: 54(f)(3)(iii) (Cost Assignment and Distribution)

INFORMATION REQUESTED:

This rule requires that the cost presentations prepared in response to paragraphs (f)(1) and (f)(2) of Rule 54 must show the assignment and distribution of costs to each of the functions "comprising the mail process," including,

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

With regard to estimates pertaining to classes of mail and special services generally, the Postal Service incorporates by reference testimony and supporting documentation submitted with its Request in Docket No. R2001-1. (See Docket No. R2001-1 Compliance Statement, Rule 54(f)(3)(iii)). Because of the experimental nature of the service being proposed, the Postal Service has not prepared a full analysis of the effects on the Postal Service's total costs and total volumes in the present fiscal year, or a rollforward analysis in a future test year.

If the information and materials cited and incorporated above are deemed insufficient under the Commission's filing requirements, the Postal Service requests that this provision be waived.

RULE: 54(g)

INFORMATION REQUESTED:

This rule requests historical costs for "each fiscal year since the last filing pursuant to this section" to be submitted "in a form as nearly consistent as possible with the filing under [rule 54(f)], together with explanations of any departures from such form and the effect of such departures."

Operating and other expenses for FY 2003 are contained in the United States Postal Service Annual Report from FY 2003, which has been filed with the Commission. Total and distributed costs for FY 2003 are presented in the Cost & Revenue Analysis (CRA) Report, also on file with the Commission.

RULE: 54(h)(1)

INFORMATION REQUESTED:

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

With regard to estimates pertaining to classes of mail and special services generally, the Postal Service incorporates by reference testimony and supporting documentation submitted with its Request in Docket No. R2001-1. These materials discuss separation of costs among domestic, international, and nonpostal services (see Docket No. R2001-1 Compliance Statement, Rule 54(h)(1)). Because of the experimental nature of the service being proposed, the Postal Service has not prepared a full analysis of the effects on the Postal Service's total costs and total volumes in the present fiscal year, or a rollforward analysis in a future test year.

If the information and materials cited and incorporated above are deemed insufficient under the Commission's filing requirements, the Postal Service requests that this provision be waived.

RULE: 54(h)(2) and (3) (Separation of costs by functions)

INFORMATION REQUESTED:

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

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

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

With regard to estimates pertaining to classes of mail and special services generally, the Postal Service incorporates by reference testimony and supporting documentation submitted with its Request in Docket No. R2001-1. Because of the experimental nature of the service being proposed, the Postal Service has not prepared a full analysis of the effects on the Postal Service's total costs and total volumes in the present fiscal year, or a rollforward analysis in a future test year.

If the information and materials cited and incorporated above are deemed insufficient under the Commission's filing requirements, the Postal Service requests that this provision be waived.

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

INFORMATION REQUESTED:

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

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

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

With regard to estimates pertaining to classes of mail and special services generally, the Postal Service incorporates by reference testimony and supporting documentation submitted with its Request in Docket No. R2001-1 (see Docket No. 2001-1 Compliance Statement, Rule 54(h)(4), (12)). Because of the experimental nature of the service being proposed, the Postal Service has not prepared a full analysis of the effects on the Postal Service's total costs and total volumes in the present fiscal year, or a rollforward analysis in a future test year.

If the information and materials cited and incorporated above are deemed

insufficient under the Commission's filing requirements, the Postal Service requests that these provisions be waived.

RULE: 54(h)(5) - (h)(10) (Rollforward model)

INFORMATION REQUESTED:

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

With regard to estimates pertaining to classes of mail and special services generally, the Postal Service incorporates by reference testimony and supporting documentation submitted with its Request in Docket No. R2001-1. Cost estimates for the proposed Premium Forwarding Service have not been developed through the rollforward process described in those materials. Because of the experimental nature of the service being proposed, the Postal Service has not prepared a full analysis of the effects on the Postal Service's total costs and total volumes in the present fiscal year, or a rollforward analysis in a future test year.

If the information and materials cited and incorporated above are deemed insufficient under the Commission's filing requirements, the Postal Service requests that these provisions be waived.

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

REQUIREMENT:

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

With regard to estimates pertaining to classes of mail and special services generally, the Postal Service incorporates by reference testimony and supporting documentation submitted with its Request in Docket No. R2001-1. The Compliance Statement therein (Rule 54(h)(11)) discusses nonattributed costs generally, and the extent to which they benefit more than one class of mail. Because of the experimental nature of the service being proposed, the Postal Service has not prepared a full analysis of the effects on the Postal Service's total costs and total volumes in the present fiscal year, or a rollforward analysis in a future test year.

If the information and materials cited and incorporated above are deemed insufficient under the Commission's filing requirements, the Postal Service requests that this provision be waived.

RULE: 54(i)

REQUIREMENT:

This rule requires a statement of the criteria employed by the Postal Service in construction of the proposed rate schedule. The statement is to include:

- the identification of the relationship between the revenues derived from the rates and fees for a particular class and subclass of mail or service and the costs attributed and assigned to that class or subclass of service;
- the identification of the procedures and methods used to apportion (to postal services) that part of the total revenue requirement, which is in excess of costs attributed;
- such other studies, information and data relevant to the criteria established by section 3622 of title 39, U.S.C., with appropriate explanations as will assist the Commission in determining whether or not the proposed rates or fees are in accordance with such criteria.

The instant Request proposes only the establishment of an experimental Premium Forwarding Service. Because of the experimental nature of the service being proposed, the Postal Service has not prepared a full analysis of the effects on the Postal Service's total costs and total volumes in the present fiscal year, or a rollforward analysis in a future test year. The proposed experimental fees are expected to have a limited financial impact, and are not based on considerations affecting a revenue requirement. As such, it should not be necessary to develop detailed revenue/cost analyses or analyses of institutional cost contributions. The testimony and exhibits of witness Koroma (USPS-T-4) discuss the criteria established by section 3622 of Title 39.

If the information and materials cited and incorporated above are deemed insufficient under the Commission's filing requirements, the Postal Service requests that this provision be waived.

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

INFORMATION REQUESTED:

These rules request specification of revenues for certain fiscal years, including the test year. Revenues are to be submitted for

- test year (FY 2005), assuming prefiling (existing) rates and fees;
- test year (FY 2005), assuming proposed rates and fees.

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

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

With regard to estimates pertaining to classes of mail and special services generally, the Postal Service incorporates by reference testimony and supporting documentation submitted with its Request in Docket No. R2001-1. Because of the experimental nature of the service being proposed, the Postal Service has not prepared a full analysis of the effects on the Postal Service's total costs and total volumes in the present fiscal year, or a rollforward analysis in a future test year.

If the information and materials cited and incorporated above are deemed insufficient under the Commission's filing requirements, the Postal Service requests that this provision be waived.

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

REQUIREMENT:

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

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

With regard to estimates pertaining to classes of mail and special services generally, the Postal Service incorporates by reference testimony and supporting documentation submitted with its Request in Docket No. R2001-1. Because of the experimental nature of the service being proposed, the Postal Service has not prepared a full analysis of the effects on the Postal Service's total costs and total volumes in the present fiscal year, or a rollforward analysis in a future test year.

If the information and materials cited and incorporated above are deemed insufficient under the Commission's filing requirements, the Postal Service requests that this provision be waived.

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

REQUIREMENT:

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

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

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

- alternative values of any parameters with assigned values that are based upon unverifiable judgments.

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

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

With regard to volume projections generally and estimates pertaining to classes of mail and special services, the Postal Service incorporates by reference testimony and supporting documentation submitted with its Request in Docket No. R2001-1. Because of the experimental nature of the service being proposed, the Postal Service has not prepared a full analysis of the effects on the Postal Service's total costs and total volumes in the present fiscal year, or a rollforward analysis in a future test year.

With respect to the proposed Premium Forwarding Service (PFS) experiment, witness Rothschild's testimony (USPS-T-2) sponsors a demand study for PFS on which witness Koroma relies for his estimates of volume and revenues for PFS in the first year of the experiment. Witness Rothchild's study is documented in accordance with the requirements of Rule 31(k)(3).

If the information and materials cited and incorporated above are deemed insufficient under the Commission's filing requirements, the Postal Service requests that this provision be waived.

RULE: 54(k)

INFORMATION REQUESTED:

This rule requests that the Postal Service provide, for FY 2003 and FY 2004 (the two fiscal years immediately preceding the year in which the request is filed), the Balance Sheet, the Statement of Income and Expense, basic statistical information, and the Statement of Income and Expense by budget category. This includes data with respect to the following:

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

In addition, this rule requires that the Postal Service provide a reconciliation of the budgetary information with the actual accrued costs for the most recent fiscal year (FY 2003). If the fiscal information for the immediately preceding fiscal year is not fully available on the date of filing, the Postal Service is required to make a preliminary or pro forma submittal, and file an updated report once the fiscal information is completed.

Financial information for FY2004 is not yet available. Financial information for FYs 2002 and 2003 has been provided to the Commission in the United States Postal Service Annual Report for FY 2002, and the United States Postal Service Annual Report for FY 2003, both of which have been filed with the Commission. In addition, Cost and Revenue Analysis Reports for FY 2002 and FY 2003 are on file with the Commission. See *also*, Attachment C to the Postal Service's Request in Docket No. MC2004-1 (Certified Financial Statements for years ending September 30, 2003, and September 30, 2002).

RULE: 54(l)(i)

REQUIREMENT:

This rule requires a statement (which can be in workpaper form) indicating for each class and subclass of mail and postal service the relevant billing determinants (e.g., the volume of mail related to each rate element in determining revenues) separately for the current rates and the proposed rates. Proposed changes in rate design and the related adjustments are to be explained in detail.

With regard to billing determinants pertaining to classes of mail and special services in general, the Postal Service incorporates by reference testimony and supporting documentation submitted with its Request in Docket No. R2001-1. Billing determinants for FY 2003 are on file with the Commission. Additional information pertaining to the proposed express reliance of Premium Forwarding Service on the zone 6, 3-pound Priority Mail[®] rate is presented in the testimony of witness Koroma (USPS-T-4).

RULE: 54(l)(ii)

REQUIREMENT:

This rule requires, subject to subsection (a)(2), the base year volume of third-class bulk mail by ounce increment for each shape (letter-size, flat, irregular parcels, and parcels), submitted separately for regular and preferred, by presort level.

The Postal Service incorporates by reference testimony and supporting documentation submitted with its Request in Docket No. R2001-1. This information is not affected by the proposed experiment.

RULE: 54(m)

REQUIREMENT:

This Rule requires a statement, which can be in workpaper form, presenting detailed calculations of continuing appropriations according to 39 U.S.C. § 2401(c), phasing appropriations under 39 U.S.C. § 3626, and any proposed adjustment to such phased rates under 39 U.S.C. '§3627 indicated by circumstances known at the time of the filing. Calculation of all the phased rates for the entire applicable phasing period are to be explained in detail.

With regard to mail categories and special services in general, the Postal Service incorporates by reference the materials submitted with its Request in Docket No. R2001-1. This rule is not applicable to the instant Request, since no changes are proposed for any preferred subclasses of mail.

Rule: 54(n)

REQUIREMENT:

This Rule requires identification of any performance goals which have been established for the classes and subclasses of mail. The Request is to identify the achieved levels of service for those classes and subclasses of mail and mail services for which performance goals have been set.

The Postal Service incorporates by reference the material filed with the Request in Docket No. R2001-1 (see Docket No. R2001-1 Compliance Statement, Rule 54(n)).

This rule is not applicable to the instant Request, since no changes are proposed for any performance goals or subclasses of mail.

Rule: 54(o)

REQUIREMENT:

This Rule requires seven sets of workpapers to be filed with the Request.

There are no workpapers in this case.

Workpapers for testimony filed in Docket No. R2001-1 are on file with the Commission.

Rule: 54(p)

INFORMATION REQUESTED:

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

The requested certification is submitted as Attachment C to this Request.

Rule: 54(q)

INFORMATION REQUESTED:

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

An opinion by the independent accounting firm of Ernst & Young covering Fiscal Year 2003 can be found in the United States Postal Service Annual Report for FY 2003, which has been filed with the Commission.

Rule: 64(b)(1), (2), (3), (4)

INFORMATION REQUESTED:

These subsections request, for every classification change proposed:

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

See response to Rule 54(b).

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

INFORMATION REQUESTED:

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

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

See response to Rules 54(c), (d) and (e).

Rule: 64(d)

INFORMATION REQUESTED:

This Rule requests that effects of the changes on cost assignments, total costs, and total revenues be provided, on a before and after change basis.

See response to Rules 54(f)(1)-(3), 54(h), and 54(j).

Rule: 64(e)

INFORMATION REQUESTED:

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

This proposal does not involve the reassignment of part of an existing class or subclass of mail to another existing class or subclass.

Rule: 64(f)

INFORMATION REQUESTED:

This Rule requests a complete statement of the reasons and bases for the proposed changes.

The testimony of witnesses Cobb (USPS-T-1) and Koroma (USPS-T-4) provide the reasons and bases for the proposed new classifications and fees. No changes to existing clarifications, rates, and fees are proposed.

Rule: 64(g)

INFORMATION REQUESTED:

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

See response to Rule 54(o).

Rule: 64(h)

INFORMATION REQUESTED:

This Rule calls for compliance with specified subsections of Rule 54 when the Postal Service proposes a change in the mail classification schedule having a rate, fee or total cost change implication.

Compliance with pertinent parts of Rule 54 is explained above in this Compliance Statement. Other pertinent information is provided in the response to this rule in Docket No. R2001-1 and in the testimony and supporting materials filed in that docket. These materials are incorporated by reference. A statement and conditional motion setting forth grounds for waiver of portions of Rule 54, if necessary, accompanies this Request.

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

RULE: 67(b)(4)

INFORMATION REQUESTED:

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

Proposed classification provisions, including the desired duration of the experiment, are provided in Attachment A to the instant Request.

RULE: 67c

INFORMATION REQUESTED:

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

A proposed data collection plan for the experiment is addressed in the testimony of witness Koroma (USPS-T-4).