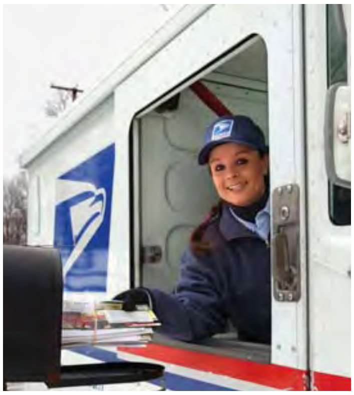

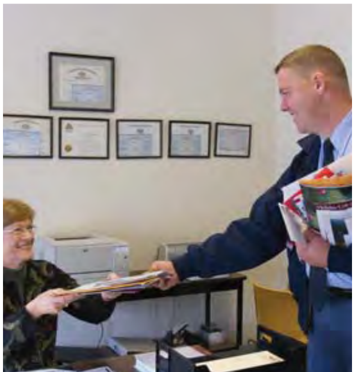

Postal Regulatory Commission

Annual Compliance Determination

of U.S. Postal Service Performance

FISCAL YEAR 2009

March 29, 2010

Ruth Y. Goldway
Chairman

On behalf of the Commission, I am pleased to present the Annual Compliance Determination (ACD) of the performance of the U.S. Postal Service for Fiscal Year (FY) 2009, pursuant to the Postal Accountability and Enhancement Act (PAEA).

Section 101 of the PAEA requires the Postal Service to provide a channel of communications and commerce that is sufficiently prompt, reliable, efficient and ubiquitous to constitute a "basic and fundamental service" that will "bind the Nation together." The Commission has determined that the Postal Service remained at levels that met this mandate in FY 2009. However, the financial results for FY 2009 make its future ability to continue to provide fundamental services uncertain.

Despite receiving $4 billion in legislative relief from its requirement to prepay retiree healthcare benefits, the Postal Service ended FY 2009 with a $3.8 billion loss. The economic recession and Internet substitution caused significant volume declines, but losses resulting from the rates charged for certain major classes of mail are indicative of structural problems as well. The Postal Service anticipates a loss of approximately $7 billion in FY 2010.

On March 2, 2010, the Postal Service unveiled a thoughtful and comprehensive ten-year plan to address what would otherwise be ever-growing deficits. The plan, however, focuses on predictions and solutions through 2020. It does not address the immediate crisis, nor what the Postal Service might reasonably be expected to do to avoid insolvency by the beginning of FY 2011 without Congressional intervention.

The Commission's findings in the ACD present a detailed analysis of the Postal Service's current operations, in particular, where it is benefitting from or being hurt by rates and discounts. Several instances are identified where the Postal Service's rates and discounts do not satisfy the provisions of the law. The ACD also assesses, to the extent possible, the actual service levels provided by the Postal Service with regard to delivery of all classes of mail, access to the network and customer satisfaction. It enumerates specific actions the Postal Service should undertake immediately or in the near future to better balance revenues and costs and to improve service. As the Postal Service has indicated it will be proposing to raise rates early in 2011, many of these matters are likely to be considered in the coming months.

The ACD enhances the transparency and accountability of the Postal Service. It provides customers, stakeholders, the Postal Service and the average citizen with valuable information and an understanding of what may be needed in the future. The Commission looks forward to participating actively with the public and Congress in the exploration of the Postal Service's retiree healthcare benefit funding, pension funding, strategies to reduce costs and improve customer service, and opportunities to expand products and services. We will also continue to provide regulatory oversight of the Postal Service on a monthly, quarterly and annual basis.

I appreciate and acknowledge the Postal Service for providing the fundamental data and documents necessary for our work. I thank Vice Chairman Tony Hammond and Commissioners Dan Blair, Nanci Langley and Mark Acton for their valuable work in preparation of this report. On behalf the Commissioners, I also recognize and commend the Commission's Public Representative and our expert staff for their tireless and thoughtful work in analyzing considerable amounts of complex data under stringent deadlines to assure a full and accurate assessment of Postal Service compliance with the PAEA.

Ruth Y. Goldway

TABLE OF CONTENTS

CHAPTER I — EXECUTIVE SUMMARY

This report reviews the Postal Service's performance in Fiscal Year 2009, fulfilling the Commission's responsibilities to produce an annual assessment of Postal Service rates and service. 39 U.S.C. 3653. It is based on information the Postal Service is required to provide within 90 days after the close of its most recent fiscal year and on comments the Commission has obtained subsequently from the public.

Principal Findings

In FY 2009, the Postal Service's financial situation deteriorated, and called into question its future ability to continue to provide fundamental postal services to the nation as required by 39 U.S.C. 101. As the fiscal year drew to an end, the Postal Service faced a $7.8 billion loss with only $89 million in cash on hand. Congress, on the last day of the fiscal year, temporarily averted a crisis by passing Pub. L. 111-68, 123 Stat. 2053 (2009) that deferred $4 billion of statutorily mandated payments to the Retiree Health Benefits Fund. This stopgap action provides interim relief, effectively giving the Postal Service a year to effect major changes or face the prospects of a worse financial crisis at the end of FY 2010.

The basic causes of the Postal Service's financial problems remain. First-Class Mail volumes and revenues have declined sharply as a result of both the economic recession that started in the mail-intensive banking and real estate industries, and the continuing substitution of electronic for hardcopy communications. The funding of retiree health benefit costs are absorbing an increasing proportion of Postal Service revenues and their funding in 2010 will present a significant challenge.

On March 2, 2010, the Postal Service announced a new 10-year plan to reduce costs and increase revenue through various legislative, service, and pricing initiatives including price adjustments in FY 2011. The Postal Service should continue to raise these issues with Congress, so that a comprehensive solution consistent with public policy can be developed.

In this compliance determination, the Commission identifies and reports on certain rate and service problems, and directs the Postal Service to address them in its next general market dominate price adjustment filing. In instances where a problem cannot be fully resolved at that time, the Postal Service is to provide a detailed plan for future resolution.

This report, along with the public comments received on postal finances and with other Commission reports, presents information relevant to issues that may require legislative action. Of most immediate concern, mailers have detailed the financial problems created by the current schedule of payments to the Retiree Health Benefits Fund and the need for adjustment. A Commission study prepared in June 2009 for Chairman Stephen F. Lynch, House of Representatives Subcommittee on Federal Workforce, Postal Service and the District of Columbia, identifies opportunities for adjusting those payments. The Commission will, where appropriate, continue to help clarify proper funding of retiree health benefits and pension obligations and to resolve potential barriers to the financial stability of the Postal Service.

Financial and Pricing Results

The Postal Service lost $3.8 billion in FY 2009, even after being relieved by Congress of $4 billion in expenses by Congress. Contributing factors to this loss include:

- A decrease in mail volume of 25.6 billion pieces, or 13.5 percent, from FY 2008, the largest percent decrease since the Great Depression;
- A second consecutive year of decline in Total Factor Productivity despite eliminating 115.3 million workhours;

- A decrease of 9.5 percent, $6.8 billion, in operating revenue despite price increases in May 2009;
- Fourteen market dominant products and services failed to cover attributable costs, losing in the aggregate $1.7 billion, including:
  - $642 million from Periodicals which used nearly all of the cap limited price increase authority in May 2009;
  - $616 million from Standard Mail Flats which, for the second year in a row, had a below average price increase in May 2009; and
  - $205 million from Standard Mail Not-Flat Machinables and Parcels despite a 16 percent price increase in May 2009.
- Thirty workshare discounts exceed avoided costs:
  - Seventeen are justified by exceptions in the statute; and
  - Thirteen are not justified and must be realigned in the next general market dominant price adjustment filing.
- Competitive products, as a whole, made a profit for the Postal Service:
  - They cover attributable costs, made the required 5.5 percent contribution to institutional costs, generated $371 million in net profit, and paid an imputed tax of $130 million to the Postal Fund;
  - Five competitive products did not cover attributable costs, but remedial actions have already been taken through the January 2010 price adjustments;
  - Sixty-six competitive NSAs were approved in FY 2009, each with an expected positive contribution to institutional costs; and
  - The first experiment under the PAEA, involving selling space on less-than-full trucks, was initiated in FY 2009 and generated revenue of $53 thousand.
- A variety of market dominant pricing initiatives were underway in FY 2009:
  - Two volume-based market dominant NSAs generated net revenues of less than $25 thousand;
  - The performance-based NSA with Bank of America lost $25 million and has been canceled; and
  - A volume-based seasonal price incentive was available to large Standard Class mailers from July 2009 through September 2009. Preliminary analysis of the data related to the incentive yields a range of results regarding the profitability of the program. The Commission will initiate a rulemaking to examine methodologies to measure mailers' response to short-term price changes.

Service Performance

Speed of Delivery

Reliable speed of delivery results are still limited to 20 percent of the mail, based on the EXFC measurement system, which measures Single-Piece First-Class Mail service. The Postal Service must stay on track to begin production in FY 2010 of reliable measurements for First-Class Presort Mail and Standard Mail from the IMb-based measurement system. The reports that have been generated by an IMb pilot study, while not necessarily reliable, indicate that service targets have not been met. Service problems may exist in these important sectors of the mail.

- The EXFC measurement system expanded to cover all parts of the nation in FY 2009. Initial results demonstrated a 13.5 percent lower achievement of on-time delivery in previously unmeasured areas. The gap was nearly eliminated by the end of the year;
- Single-Piece First-Class Mail on-time delivery was somewhat below its targets and less than last year, possibly related to the expansion of the EXFC system;
- Periodicals on-time delivery was 73.7 percent, below its target of 91 percent; and

- Package Services on-time delivery was 73.4 percent, below its target of 90 percent. The percentage of on-time delivery increased each quarter.

Access to Postal Services

The Commission finds areas of concern in customer access to fundamental postal services.

- The Postal Service began an initiative to close retail outlets. A Commission Advisory Opinion has identified needed improvements to that process.
- The practice of suspending indefinitely rather than closing post offices led the Commission to initiate a public inquiry docket regarding this issue.
- In FY 2009, the Postal Service removed over 10 percent of collection boxes, which was a little more than 24,000.

Customer Satisfaction

The Postal Service is using a new survey contractor and approach in FY 2010 designed to provide more detailed information on customer experiences. Its customer satisfaction survey instruments will then have changed in 3 consecutive years, making trend analysis questionable. The Commission expects the Postal Service to develop techniques that will permit a reliable comparison of customer satisfaction from year to year.

The Commission initiated a docket in FY 2009 to develop performance measurement rules detailing the reporting requirements concerning service performance and customer satisfaction. A final set of rules will be issued in FY 2010.

CHAPTER II — BACKGROUND

Introduction

Statutory context. The PAEA includes two provisions that form the framework for ongoing, systematic reporting and assessment of the financial and operational performance of the Postal Service under the PAEA. Section 3652 of title 39 requires the Postal Service to file various reports annually with the Commission, including what is referred to as the Annual Compliance Report. *See* 39 U.S.C. 3652(a) and 3652(g). Section 3653, in turn, provides for the Commission's review of these annual reports, which includes determination of compliance or non-compliance with respect to rates and service standards, which is referred to as the Annual Compliance Determination. *See* 39 U.S.C. 3653(b); *see also* 39 U.S.C. 3653(d). Together, these provisions establish the ACD and the ACR as integrated mechanisms for achieving the PAEA's objective of ongoing accountability, transparency, and oversight.[1]

Timing of the report and review. The ACR is to be filed no later than 90 days after the end of each fiscal year, which ends September 30. The ACD is to be issued no later than 90 days after receipt of the ACR. The Postal Service filed its 2009 ACR on December 29, 2009. Accordingly, the Commission's ACD must be issued by March 29, 2010.

Focus of the ACR. The ACR must provide analyses of costs, revenues, rates, and quality of service sufficient to demonstrate that all products complied, during the reporting year, with all applicable requirements of title 39. In addition, for market dominant products, the ACR must report product information, mail volumes, and measures of quality of service, including speed of delivery and reliability and degree of customer satisfaction. For market dominant products with workshare discounts, the ACR must report the per-item cost avoided by the Postal Service by virtue of such discount, the percentage of such per-item cost avoided that the per-item workshare discount represents, and the per-item contribution to institutional costs. 39 U.S.C. 3652(a) and (b).

The ACR is to be accompanied by the Postal Service's most recent comprehensive statement on Postal operations and, pursuant to sections 2803 and 2804 of title 39, its performance plan and program performance reports. 39 U.S.C. 3652(g).

Commission responsibilities. Under section 3653, the Commission's corresponding responsibilities include providing an opportunity for comment on the Postal Service's submission, making a written determination as to whether any rates or fees were not in compliance with applicable provisions of chapter 36 of title 39 or related regulations, and whether any service standards were not met. If no instance of non-compliance is found, the written determination is to be to that effect. 39 U.S.C. 3653(a)-(c). If a determination of non-compliance is made, the Commission is instructed to take such action as it considers appropriate. The Commission is also to evaluate whether the Postal Service has met the goals established under sections 2803 and 2804, and may make recommendations to the Postal Service related to the protection or promotion of title 39's public policy objectives. 39 U.S.C. 3653(d).

Procedural History

On October 28, 2009, the Commission appointed a public representative to represent the interests of the general public.[2] By making the appointment 2 months before the Postal Service submits its section 3652 reports, the Commission provided the Public Representative with additional time to review salient issues and prepare focused comments.

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[1] Common abbreviations and acronyms are identified in Appendix D.

[2] Notice of Appointment of Public Representative, October 28, 2009.

On November 30, 2009, the Postal Service filed a request to defer filing portions of the 2009 ACR documentation for a period of up to 2 weeks.[3] 39 CFR 3050.2(d). Those portions included documentation for the incremental cost model and mail processing cost pools in Cost Segment 3. The Commission granted this request.[4]

On December 29, 2009, the Postal Service filed its 2009 ACR. The report covers the period October 1, 2008 through September 30, 2009. In accordance with section 3652(g), on December 29, 2009, the Postal Service also filed its FY 2009 Comprehensive Statement on Postal Operations.[5]

The ACR includes an extensive narrative discussion and a substantial amount of detailed public and non-public appendices. The appendices cover the Cost and Revenue Analysis, the International Cost and Revenue Analysis, cost models supporting workshare discount analysis, and billing determinant information. Library Reference USPS-FY09-9 serves as a roadmap that summarizes other materials in the submission and discusses methodology changes.

On January 5, 2010, the Commission issued an order providing notice of the Postal Service's filing, establishing Docket No. ACR2009 as a formal docket to consider the filing, and inviting public comment.[6] It set February 1, 2010 as the deadline for comments and February 16, 2010 as the deadline for reply comments.

On February 10, 2010, the Commission changed the deadline for reply comments to February 23, 2010 to allow respondents to incorporate views on information and ideas presented at the public forum. The public forum was rescheduled from February 10, 2010 to February 17, 2010 due to inclement weather in the Washington, D.C. area.

On January 20, 2010, the Commission issued an information request for the Postal Service's current plans to achieve financial stability in FY 2010 and beyond under the PAEA.[7] Concurrently, it issued a notice convening a public forum in the Commission's hearing room to allow interested persons an opportunity to address the issues raised in this information request. The public forum was held on February 17, 2010 in the Commission's hearing room and was webcast live for those unable to attend in person. The Commission published a transcript of the proceeding on its website on February 19, 2010. The Postal Service filed its response to CIR No. 1 on January 29, 2010, citing that it had already provided the requested information in the Integrated Fiscal Year 2010 Financial Plan, its Form 10-K for FY 2009, the 2009 ACR, and the 2009 Comprehensive Statement.[8] On March 5, 2010, the Postal Service filed a more comprehensive document entitled *Ensuring a Viable Postal Service for America: An Action Plan for the Future*.

Methodology changes. In anticipation of filing its 2009 ACR, the Postal Service filed 30 petitions (proposals) with the Commission from June 2009 through December 2009 seeking consideration of a number of proposed changes in costing methodologies and data collection methods. These proposals led to a series of rulemakings. The Commission accepted 27 of the proposed methodology changes, accepted one with one exception, and rejected one. In addition, the Postal Service withdrew one proposal, which was dismissed as moot by the Commission.[9] Details concerning these proposals are discussed in Appendix C. The adopted changes are reflected in the results report in this ACD.

Docket No. RM2009-3 is currently examining the methodologies that should be used to estimate the Postal Service's costs avoided from worksharing activities performed by the mailer. A major issue in this docket is the proper type of mail and rate, commonly called the benchmark, from which avoided costs should be measured. Until a decision in this docket is issued, the cost avoidance estimation methods used in the 2009 ACR are the same as those used in the 2008 ACR.

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[3] Request of the United States Postal Service for Leave to Defer Portions of the 2009 ACR Documentation, November 30, 2009.

[4] *See* Order No. 355, Order Granting Request to Defer Filing of Data, December 10, 2009.

[5] FY 2009 Comprehensive Statement on Postal Operations, December 29, 2009 (2009 Comprehensive Statement). This document was filed as Library Reference USPS FY09-17.

[6] *See* Notice of Filing of Annual Reports to the Commission by the Postal Service and Solicitation of Public Comment, January 5, 2010 (Order No. 380); *see also* 75 FR 1658 (January 12, 2009).

[7] Commission Information Request No. 1, January 20, 2010 (CIR No. 1).

[8] Response of the United States Postal Service to Commission Information Request No. 1, January 29, 2010 (Response to CIR No. 1).

[9] *See* Docket Nos. RM2009-5; RM2009-7; RM2009-10; RM2010-1; RM2010-3; RM2010-4; RM2010-5; RM2010-6; and RM2010-7 and related orders.

Confidentiality. In FY 2009, the Commission adopted rules governing the treatment of commercially sensitive information.[10] These rules require the Postal Service to apply for non-public treatment when it considers information required in periodic reports to be commercially sensitive. Its application must specify reasons for concluding the particular information is commercially sensitive and in need of non-public treatment, and describe with particularity the nature of the competitive harm that public disclosure is likely to cause. Accordingly, the Postal Service accompanied its 2009 ACR with an application for non-public treatment of certain competitive product information, including its supporting rationale.

Requests for additional information. The Commission issued three formal information requests to the Postal Service during the course of this proceeding. The Chairman issued nine formal information requests. The Commission also directed several informal inquiries to Postal Service staff seeking clarification of minor points. In addition to filing responses to the information requests, the Postal Service filed a series of notices revising and supplementing its original submission to reflect its responses. The Commission appreciates the Postal Service's responsiveness to its information requests and informal inquiries.

[10] *See* Order No. 225, Docket No. RM2008-1, Final Rule Establishing Appropriate Confidentiality Procedures, June 19, 2009.

CHAPTER III — JURISDICTION ISSUES

Introduction

Section 3653(b) provides, in part, that, in making determinations of compliance or non-compliance, the Commission shall make a written determination on "whether any rates or fees in effect during such year (for products individually or collectively) were not in compliance with applicable provisions of this chapter (or regulations promulgated thereunder)[.]" 39 U.S.C. 3653(b)(1). One commenter, Time Warner, argues that the statutory provisions regarding rates, namely sections 3622 and 3633, are addressed to the Commission and, therefore, any finding of *non-compliance* may only be based on a determination that the rates or fees are inconsistent with the Commission's regulations.[1] In addition, Time Warner contends that no determination of non-compliance with the objectives and factors listed in sections 3622(b) and (c), respectively, is possible because they "are not conceptually susceptible to a 'determination of noncompliance.'"[2]

Several commenters, including GCA, Valpak, and the Public Representative, take issue with Time Warner's interpretation.[3] In general, each of these commenters argues that the Commission's regulations incorporate the factors, objectives, and requirements of section 3622 and that the Commission may utilize the objectives and factors, as deemed appropriate, to support determinations of non-compliance.

[1] Time Warner Comments at 5; *see also* Response to CIR No. 1 at 1-2. Although Time Warner's interpretation would appear to encompass section 3633 as well because its argument focuses exclusively on section 3622, this discussion will be limited to the latter.
[2] Time Warner Additional Comments at 3.
[3] GCA Reply Comments at 8-9; Valpak Reply Comments at 11-15; Public Representative Reply Comments at 3-5.

Ex Ante and *Ex Post* Review of Rates

The PAEA ushered in a new two-part system of rate regulation. Pursuant to section 3622, there is limited before-the-fact review of planned rate increases. Pursuant to section 3653, there is a thorough after-the-fact annual review of whether rates and fees complied with statutory policies. The regulations promulgated pursuant to section 3622 incorporate each requirement, objective, and factor listed therein, and direct, among other things, that the Postal Service demonstrate that its planned market dominant price changes achieve the objectives listed in section 3622(b) and properly take into account the factors enumerated in section 3622(c). 39 CFR 3010.14(b)(7).[4]

In its most recent notice regarding general market dominant rate changes, the Postal Service specifically recognized the scope of section 3622(b). After identifying each of the nine objectives, the Postal Service noted that "[t]hese objectives underlie Congress' mandate that there be a new, 'modern system for regulating rates and classes for market-dominant products,' to replace the prior system of the Postal Reorganization Act. These principles are largely achieved through the design of the new regulatory system itself, rather than through the particulars of any one pricing change made pursuant to that system."[5]

The Postal Service goes on to discuss how its proposal in Docket No. R2009-2 achieves the objectives of section 3622(b), specifically mentioning several, including maximizing incentives to reduce costs and increase efficiency (Objective 1), increasing prices on an annual, predictable basis, (Objective 2), and maintaining a just and reasonable schedule of rates and classifications (Objective 8). *Id.* at 8-9.

Similarly, the Postal Service identifies the 14 factors enumerated in section 3622(c) with specific reference

[4] The regulations also require detailed price cap and workshare discount support. *See* 39 CFR 3010.14(b)(1)-(6).
[5] Docket No. R2009-2 Notice at 8.

to most factors in its discussion of planned rate changes by product. *Id. passim*; *see, e.g., id.* at 19 ("The Periodicals class has been challenged in terms of cost coverage. It is the only mail class that did not cover its attributable costs in FY 2008 (Factor 2, Objective 8). The Postal Service is cognizant of the special situation of Periodicals in terms of both the class' value to the public (Factor 8, Factor 11), and its failure to cover costs.")

Moreover, in recognition of the accelerated 45-day review period, the rules specifically provide, with limited exceptions, that Commission findings in Type I rate adjustments (applicable to usual adjustments to rates of general applicability and adjustments involving unused rate authority) are "provisional and subject to subsequent review." 39 CFR 3010.13(j). This proviso clarifies, for purposes of *ex ante* review under section 3622, that planned rates were not shown to be unlawful based upon the record in that proceeding, but leaves open the possibility that a subsequent review, under either section 3653 or 3662, may demonstrate otherwise.

Section 3653 provides for after the fact annual compliance determinations that includes a determination of whether rates or fees for products (individually or collectively) were not in compliance with the applicable provisions of chapter 36 or regulations promulgated thereunder. The regulations applicable to this annual review were promulgated by the Commission pursuant to section 3652,[6] which requires the Postal Service, using such methodologies as the Commission may prescribe, "to demonstrate that all products during such year *complied with all applicable requirements of this title*." 39 U.S.C. 3652(a)(1) (emphasis added). The regulations governing the Postal Service's annual report submitted under section 3652(a) require it to submit cost, revenue, volume, and service information "in sufficient detail to demonstrate that all products during such year comply with all applicable provisions of title 39 of the United State Code." 39 CFR 3050.21(a); *see also* 39 CFR 3050.20(a). As noted by GCA, Valpak, and the Public Representative, these regulations incorporate policies enunciated in section 3622, including the objectives and factors listed therein. GCA Reply Comments at 8-9;[7] Valpak Reply Comments at 13-15; and Public Representative Reply Comments at 3-5.

Section 3622 is Subject to Review Under Section 3653

Given that Time Warner concedes that regulations adopted under chapter 36 could form the basis of determinations of non-compliance, its contention that the provisions of section 3622 themselves are inapplicable would appear to be largely academic.[8] Semantically, Time Warner's argument that section 3622(a) is directed at the Commission may have some appeal, but viewed more holistically in the context of the PAEA's underlying principles the argument loses its force.[9]

In amending the Postal Reorganization Act, the PAEA, among other things, fundamentally altered the manner in which rates are established and reviewed. It replaced lengthy hearings on the record for prospective rate changes with a notice and comment procedure, complemented, significantly, by after the fact annual compliance determinations and enhanced complaint authority. Section 3622 directs the Commission to establish a system for regulating rates for market dominant products that incorporates numerous specified requirements, objectives, and factors. These policies are reflected in the Commission's regulations.

Under Time Warner's interpretation, the phrase "not in compliance with applicable provisions of [chapter 36]" in section 3653(b)(1) would not apply to the policies enumerated in section 3622 and would apply only to relatively minor holdover provisions from the PRA, namely sections 3626 (regarding preferential rates), 3627 (rates for the blind), and 3629 (voter registration). Stated otherwise, the principal provisions in section 3622 governing rates and fees for market dominant products and representing approximately 88 percent of Postal Service total revenues and over

[6] *See* Order No. 203, Docket No. RM2008-4, Notice of Final Rule Prescribing Form and Content of Periodic Reports, April 16, 2009.

[7] GCA observes, "[s]ection 3010.14(b) is of course a regulation promulgated under ch. 36, for purposes of 39 U.S.C. 3653(b)(1), so that noncompliance with it would ground a remedy." *Id.* at 9, n.14.

[8] Time Warner Additional Comments at 9. Noticeably absent from Time Warner's discussion is any mention of the existing Commission regulations promulgated under chapter 36 of title 39.

[9] As GCA commented, syntax alone is not dispositive. GCA Reply Comments at 8; *see also* Valpak Reply Comments at 12.

99 percent of total volumes would be irrelevant for purposes of the Commission's annual compliance determination under section 3653. Plainly, that is not what the PAEA intended. *See, e.g.,* Sen. Rep. 108-318 at 20. ("The reporting requirements are intended to provide an opportunity for the Postal Regulatory Commission to review and evaluate the compliance with *the rate-making provisions of this title* and to evaluate the level of service provided to customers.") (Emphasis added.) Notably, the bill considered in Sen. Rep. 108-318 contained the same language as adopted by the PAEA in section 3653(b)(1), *i.e.,* "not in compliance with applicable provisions of this chapter (or regulations promulgated thereunder)[.]"

Section 3652(a)(1) requires the Postal Service "to demonstrate [in its annual compliance report] that all products during such year complied with all applicable requirements of this title[.]" Under Time Warner's theory, this provision would be inapplicable to statutory provisions governing rates and fees for market dominant and competitive products, a reading that cannot be reconciled with the PAEA's regulatory restructuring. In practice, the Postal Service reads the requirement in section 3652(a)(1) consistent with its plain language. In its 2009 ACR, the Postal Service discusses its compliance with the objectives and factors of section 3622. It states, for example, that "any evaluation of the statutory appropriateness of passthroughs needs to be made in the context not only of the calculated cost avoidance, but also *considering all of the statutory criteria*, such as the objective that prices be predictable and stable." 2009 ACR at 60-61 (emphasis added); *see also id.* at 67, 71, 73 (referencing "the predictability and stability in prices (Objective 2)"; and at 47 regarding "pricing flexibility"). Similarly, it discusses section 3622(c)(2) extensively in terms of cost coverage (*id. passim*), along with numerous references to educational, cultural, scientific, and informational value (ECSI value, section 3622(c)(11)). *Id.* at 39, 50, 69, 73.

The phrase in section 3653(b)(1) "compliance with applicable provisions from [chapter 36]" is consistent with the Postal Service's concomitant obligation to demonstrate compliance with "all applicable requirements of this title" because section 3622(c)(14) encompasses "the policies of this title[.]" This reading harmonizes the various provisions of the PAEA, giving effect to each and adhering to Congress's intent in enacting it. "A statute should be construed so that effect is given to all its provisions, so that no part will be inoperative or superfluous, void or insignificant." *Pennsylvania Medical Society v. Snider*, 29 F.3d 886, 895 (3d Cir. 1994); *see also FDA v. Brown and Williamson Tobacco Corp.*, 529 U.S. 120, 133 (2000).

Determinations of Compliance or Non-compliance

In its Additional Comments, Time Warner contends that the objectives and factors listed in sections 3622(b) and (c), respectively, "are not conceptually susceptible to a 'determination of noncompliance….'" Time Warner Additional Comments at 3. It argues that "the concept of *compliance* has [no] rational or nonarbitrary application to *objectives or factors*[.]" Id. at 5-6 (emphasis in original) (footnote omitted).

Time Warner's contention that the objectives and factors of section 3622 are not susceptible to a determination of non-compliance is too sweeping. To be sure, some of the objectives and factors individually do not easily lend themselves to a quantifiable measure of compliance. Some, such as Objective 1 (maximizing incentives to reduce costs and increase efficiency), Objective 2 (predictability and stability in rates), Factor 6 (simplicity of rate structure), and Factor 9 (different types of classifications), are matters of degree, and would have to be developed over time through the application of the discretion of the Commission as part of its before the fact and after the fact rate reviews. On the other hand, some objectives can be measured against financial standards, accounting principles, and historical results, *e.g.,* Objective 5 (assuring adequate revenues to maintain financial stability) and Objective 9 (the allocation of institutional costs between market dominant and competitive products).

Similarly, several of the factors listed in section 3622(c) are quantifiable and provide reasonable benchmarks on which compliance could be based. These include Factor 2 (the requirement that each class or type of mail cover its attributable costs and make a reasonable contribution to overhead), Factor 3 (rate impact), and Factor 10 (whether special classification improved the Postal Service net financial position and did not cause unreasonable harm to the marketplace). The following further illustrates the point. The Postal Service is required annually to report revenue, cost, and volume data for every product. The result reported for any product is, in terms of Factor 2, unambiguous; it either satisfies Factor 2 or does not. Each of the quantifiable objectives and factors aids the Commission in both of its reviews of rates. As noted below, however, a finding that an objective or factor is not satisfied does not necessarily require a determination of non-compliance.

Under the PRA, section 3622(b)(3), the predecessor to section 3622(c)(2), was the pre-eminent pricing provision, the only requirement among the nine factors listed. As amended by the PAEA, section 3622(c)(2), along with the other factors enumerated, is to be taken into account in the rate-setting process. It remains an important consideration in evaluating rates and the only requirement among the factors. A finding that a particular factor (or objective) is not satisfied need not result in a determination that a product is not in compliance with the PAEA. In prior ACDs, the Commission noted that several products failed to satisfy one or more factor, objective, or policy of the PAEA. In those instances, the Commission found it unnecessary to formally declare that rates for certain products were noncompliant because, almost universally, the Postal Service had already taken steps to address the situation, usually in the form of prospective rate increases. Illustratively, in its 2008 ACD, the Commission found "that the rates for Media and Library Mail appear inconsistent with 39 U.S.C. 3622(c)(2), which requires each class or type of mail to bear the direct and indirect costs attributable and 39 U.S.C. 3622(b)(5) which requires the assurance of adequate revenues, including retained earnings, to maintain financial stability." 2008 ACD at 73. The Commission observed that in Docket No. R2009-2, it approved an above average rate increase for this product, thereby, implicitly, at a minimum, obviating the need for an alternative remedy.

Time Warner states that "[t]he Commission has not as yet had occasion to make a determination of noncompliance." Time Warner Comments at 2. This statement misconstrues prior ACDs. As the quoted passage indicates, the Commission determined that Media Mail/Library Mail rates did not satisfy (were not in compliance with) certain provisions of the law. Because of the Postal Service's action, the Commission found it unnecessary to prescribe a different remedy. In other instances, the Commission has noted that certain rates were inconsistent with one or more provisions of title 39, but did not require specific remedial rate changes at that time. *See* 2008 ACD at 47 and 54.

Lastly, Time Warner's argument is flawed for an additional compelling reason. Section 3653(c) provides that upon a determination of noncompliance "the Postal Regulatory Commission shall take appropriate action in accordance with [subsection c] of section 3662 (as if a complaint averring such noncompliance had been duly filed and found under such section to be justified)." Section 3662(c), in turn, authorizes the Commission to take such action as it "considers appropriate in order to achieve compliance with the applicable requirements and to remedy the effects of any noncompliance (such as ordering unlawful rates to be adjusted to lawful levels,….[and] ordering the Postal Service to discontinue providing loss-making products,….)."

Non-compliance Remedies

The Public Representative contends that the Postal Service was not in compliance with section 3622(b)(5) (assuring adequate revenues to maintain financial stability), and, therefore, suggests potential rate-based solutions. Public Representative Comments at 4-16. Several commenters respond that the price cap, section 3622(d), is pre-eminent, and precludes the Commission from acting to remedy non-compliance by directing the Postal Service to increase rates in excess of the cap. *See, e.g.*, Time Warner Reply Comments at 9-13; MPA/ANM Reply Comments at 3; and PostCom *et al.* Reply Comments at 17-18. These arguments, while similar in that they assert that, absent an exigent rate increase, the price cap may not be pierced, differ in their focus. Time Warner argues that determinations of non-compliance may not be remedied by increasing rate levels above the applicable price caps. Time Warner Reply Comments at 9-13. MPA/ANM contend that "the Commission [may not] impose rate increases that exceed the [price cap] merely because Periodicals rates would otherwise fail to cover attributable costs." MPA/ANM Comments at 3. PostCom *et al.* assert that general objectives of section 3622(b) do not trump the price cap.[10]

[10] PostCom *et al.* Reply Comments at 7-9. PostCom *et al.* also appear to contend that the Commission may not, under section 3653, remedy non-compliance by requiring increased rate levels in excess of the price cap. *Id.* at 17-18.

As a result of the dialogue at the Public Forum, the Public Representative clarified his view on the Commission's authority to increase rates in excess of the price cap upon a determination of non-compliance. The Public Representative argues that the Commission has authority, pursuant to sections 3652 and 3662, to remedy non-compliance by ordering rate adjustments in excess of the price cap. Public Representative Reply Comments at 6-8. In addition, the Public Representative argues that, in extraordinary and exceptional circumstances, the Commission may, pursuant to section 3622, order rate adjustments that exceed the price cap. *Id.* at 8-11.

GCA also addresses the relationship between section 3622(c)(2) and the price cap, distinguishing between standards applicable to before the fact review, *i.e.*, a Postal Service-initiated rate change, and after the fact review under section 3653. GCA Reply Comments at 10-11. It suggests that the Commission's remedial authority under sections 3653(c) and 3662(c) could be used to order increased rate levels in excess of the price cap. *Id.* at 11.

Section 3622 outlines the framework for a modern system for regulating rates and classes for market dominant products incorporating a hierarchy of requirements, objectives, and factors. While the Commission has characterized section 3622(d) "as the administrative cornerstone of the new rate setting system for market dominant products[,]"[11] this statement does not render the balance of section 3622 irrelevant. Furthermore, as discussed at length in chapter 4, there are other important policies set out in title 39 that must be recognized.

The foregoing comments raise important issues of first impression. The Commission concludes that it would benefit from additional public comment on these issues, and that it would be premature to resolve them on the merits in this proceeding since it finds no need to order rate level changes pursuant to section 3653.

[11] Order No. 26, Docket No. RM2007-1, Order Proposing Regulations to Establish a System of Ratemaking, August 15, 2007, at 9.

CHAPTER IV — POSTAL SERVICE FINANCIAL GOALS

Legal and Policy Implications

Section 101 of title 39 is the most fundamental expression of national policy that justifies granting the Postal Service its monopoly over letter mail. It states, in relevant part:

> (a) The United States Postal Service shall be operated as a *basic and fundamental service* provided to the people by the Government of the United States. . . .[It] shall have as its basic function the obligation to provide postal services to *bind the Nation together through the personal, educational, literary, and business correspondence of the people*. It shall provide *prompt, reliable, and efficient services* to patrons in all areas and shall render postal services to *all communities*. The *costs* of establishing and maintaining the Postal Service *shall not be apportioned to impair the overall value of such service to the people*.
>
> * * *
>
> (d) *Postal rates shall* be established to *apportion the costs of all postal operations to all users of the mail on a fair and equitable basis*.
>
> (e) In determining *all policies* for postal services, the Postal Service *shall give the highest consideration* to the *requirement for the most expeditious collection, transportation, and delivery of important letter mail*.

39 U.S.C. 101 (a), (d) and (e) (emphasis added).

The Postal Service lost $5.1 billion in FY 2007, $2.8 billion in FY 2008, and $3.8 billion in FY 2009. The financial results for FY 2009 reflected the steepest decline in postal volumes since the Great Depression. It was not until September 30, the last day of the fiscal year, that Congress reduced the required annual payment into the Postal Service Retiree Health Benefits Fund (RHBF) by $4 billion, and prevented the FY 2009 deficit from reaching $7.8 billion.

This provided a modicum of justification for maintaining that the FY 2009 financial results were consistent with section 3622(b)(5) of title 39, which mandates a postal system that "assure[s] adequate revenues, including retained earnings, to maintain financial stability." The $4 billion in cash on hand also made it possible to avoid deep and drastic cuts in service at the conclusion of FY 2009 that would have likely conflicted with the mandate of subsection 101(a). That subsection requires the Postal Service to provide a channel of communications and commerce that is sufficiently prompt, reliable, efficient, and ubiquitous to constitute a "basic and fundamental service" to "bind the Nation together through the personal, educational, literary, and business correspondence of the people." While postal service remained at levels that were consistent with that mandate in FY 2009, the financial results for that year left a legacy of great risk that the mandates of sections 101 and 3622(b)(5) will not be met as early as the end of the current fiscal year.

The Postal Service anticipates that even if it exhausts its annual borrowing authority, it will be left with reserves of $200 million by the end of FY 2010. After meeting its first payroll in FY 2011, the Postal Service, by its own estimates, will find itself unable to pay its bills.[1]

The Postal Service estimates that financial stability requires that it maintain a cash reserve equivalent to one month's operating costs (at least $6 billion). *Id.* The need for this minimum reserve is readily verified by looking at the first few weeks of FY 2011, when the Postal Service will have to meet two payrolls and make a workers' compensation payment. Together, these obligations will exceed the amount of borrowing authority that remains in the Postal Service's cumulative

[1] United States Postal Service Integrated Fiscal Year 2010 Financial Plan, November 25, 2009, at 7 (FY 2010 IFP).

$15 billion line of credit. At this point, the Postal Service will run out of cash.

One indication of the financial straits in which the Postal Service finds itself is that in FY 2009, for the first time, a wide range of major product lines have not just failed to contribute to the Postal Service's overhead costs, but have also failed to cover "attributable" costs—those costs for which the product is individually responsible. In addition to Periodicals, Standard Flats, Standard NFMs/Parcels, International First-Class Single-Piece Inbound Letters, and Single-Piece Parcel Post each failed to cover their attributable costs. Collectively, there was approximately $1.7 billion of attributable costs that market dominant products failed to cover. The problem of individual market dominant product revenues failing to cover either attributable or overhead costs was so pervasive in FY 2009 that it has become a systemic problem.

The Postal Service, unions, and most mailers emphasize the burden of the retiree health benefits payments imposed on the Postal Service by the PAEA and the precipitous decline in volume that accompanied the recession that began in FY 2008. Banking and real estate, two industries that traditionally have been major users, were particularly hard hit by the recession. Another external cause mentioned prominently is the competition provided by the Internet for correspondence and advertising mail.

The Public Representative acknowledges the contribution of these external causes to the Postal Service's deficits, but he argues that the Postal Service passed up several opportunities to mitigate their financial effects, some of which involved rate increases above the Consumer Price Index (CPI) cap.[2] The Postal Service and many mailers, however, argue that increasing prices now is unlikely to lead to financial stability. They assert that if price increases were to yield additional net revenue, they would do so only in the short run. They argue that under current economic conditions, price increases are likely to accelerate the diversion of volume from the postal system caused by structural changes in postal markets, and thereby lead to lower net revenue in the long run.[3] They maintain that price increases would not have recouped recent losses. They insist that price increases would only drive these volumes out of the postal system.[4]

It is not necessary for the Commission to reach a definitive conclusion about the relative importance of the various sources of the severe financial instability that the Postal Service now confronts. The Public Representative validly observes that many sources have contributed to the Postal Service's precarious financial condition, and all of them must be addressed if financial stability is to be restored. Public Representative Comments at 18. The fact remains that the current financial trajectory that the Postal Service is on must be altered, and soon, if the Postal Service is to continue to fulfill the various mandates of section 101. If the Postal Service is left with no alternative but to drastically curtail service, it is unlikely that service will remain ubiquitous, prompt, reliable, and efficient as section 101(a) requires. If service is no longer ubiquitous, prompt, reliable, and efficient, it is unlikely that it can remain "basic and fundamental" to the nation's cultural and economic life, or "bind the Nation together."

Because the Postal Service is on a financial path that puts fulfillment of its section 101 mandates at risk, it is imperative that the Postal Service expeditiously address those sources of financial instability that are within its control under existing law. The Postal Service has made a promising beginning with the action plan

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2 Public Representative Comments at 8. The Public Representative's observation reflects the traditional view that the volumes of most products now classified as market dominant are relatively insensitive to changes in price. To an extent, the PAEA itself reflects this view. It lists the insensitivity of product volume to changes in price as the chief criterion for classifying a product as market dominant. *See* 39 U.S.C. 3642(b)(1).

3 *See* ACMA Comments at 2; PSA Reply Comments at 4; American Media Reply Comments at 1; ESPN Reply Comments at 2; MPA/ANM Reply Comments at 8; Reader's Digest Reply Comments at 2; Valassis/SMC Reply Comments at 2. Other commenters argue that recent volume losses are, to a substantial degree, independent of the current economic cycle, and require the focus to shift to a restructuring of costs. *See* MOAA Comments.

4 This view assumes that demand for some segments of market dominant products has become price elastic. The Postal Service's most recent demand forecast models for market dominant products indicate that their price elasticities remain substantially inelastic. In addition, survey work recently completed by Postal Service consultants indicates that for the major uses of market dominant mail, the large majority of small business mailers interviewed considered their demand for market dominant mail services to be price inelastic. *See* Public Forum Transcript, February 17, 2010, at 36 (Pitney Bowes); 63-64 (DMA); 69-71 (Valassis/SMC); 76-77 (GCA). *See also* American Media Reply Comments at 1-2; GCA Reply Comments at 3; ESPN Reply Comments at 1-2; PSA Reply Comments at 4; Pitney Bowes Reply Comments at 1; Reader's Digest Reply Comments at 1-2; Postal Service Reply Comments at 3; Valassis/SMC Reply Comments at 2.

that it publicly released on March 2, 2010. That plan addresses five areas that are subject to the Postal Service's management control: product and service initiatives, productivity improvements, increased workforce flexibility, purchasing savings, and filing of a request for an exigent price increase in 2011.[5] The plan, however, focuses on the cost and revenue impacts that these initiatives are predicted to have by the year 2020. It does not address the immediate crises, nor what the Postal Service is expecting to do to head off the liquidity crisis that it concedes will arise at the beginning of FY 2011 if timely Congressional intervention is not forthcoming with respect to its retiree health benefit payment obligations and various constraints on service reductions.

Financial Crises—Overview

The reasons for the Postal Service's liquidity problems are complex. Total mail volumes declined over 25 billion pieces, or 12.7 percent in FY 2009, the largest percentage decline in volumes since the Great Depression of the 1930s. This is the third successive year of declines in volumes, with each year being worse than the previous year. The decrease in volume contributed to a decrease in overall revenues. Total revenues were 9 percent less than last year, a reduction of almost $7 billion.

These significant declines in volumes and revenues in FY 2009 led to large deficits and depleted cash balances. Without the last minute passage of Pub. L. 111-68,[6] the Postal Service's ending cash balance would have fallen to $89 million in FY 2009. This is well short of the roughly $2 billion needed to fund each bi-weekly payroll.[7] In addition, beginning in FY 2010, the Postal Service began paying the amount owed to OPM for workers' compensation in October of the following fiscal year. Previously this amount had been paid at the end of the fiscal year. This change in practice relieves some of the end-of-year financial pressure, but increases the burden early in the fiscal year.

The Postal Service indicates that it expects losses to continue in FY 2010 and beyond. This raises serious doubts about the Postal Service's continuing ability to meet its financial obligations, and fulfill its obligations to process and deliver the mail.

When cash needs exceed cash generated from operations, the Postal Service incurs debt. By statute, the Postal Service may not increase its total debt by more than $3 billion in any one year and has a $15 billion total debt ceiling. Taken together, cash balance and borrowing capability define the Postal Service's liquidity. Figure IV-1 depicts the Postal Service's liquidity from FY 2005 through FY 2011 (estimated). The cash balance at the beginning of the fiscal year is equal to the cash balance at the end of the previous fiscal year. Thus, the Congressional relief afforded by Pub. L. 111-68 is shown in FY 2010.

During FY 2009, the Postal Service increased its debt by the maximum $3 billion which increased total debt to $10.2 billion. Over the past 3 years, the Postal Service has increased its debt load by $8.1 billion, and it expects to borrow another $3 billion in 2010. *See* Figure IV-2. Under current conditions, the Postal Service will reach its statutory debt ceiling of $15 billion by FY 2011. *Id.*

Total expenses in FY 2009 were 7.5 percent less than the previous year at $71.9 billion. Most of the $5.8 billion reduction in expenses was due to the passage of Pub. L. 111-68, which reduced the scheduled payment into the RHBF by $4 billion.

An analysis of expenses can be divided into various categories: compensation and benefits, retiree health benefits, transportation, supplies and services, vehicle maintenance, other expenses, and interest expenses. There were reductions in all categories except for interest expense. Savings were achieved in compensation and benefits through the reduction of 115 million workhours. Reductions in transportation costs in part reflects lower fuel prices, and many contracts with supply and service vendors were restructured. Table IV-1 shows reductions in expense by category.

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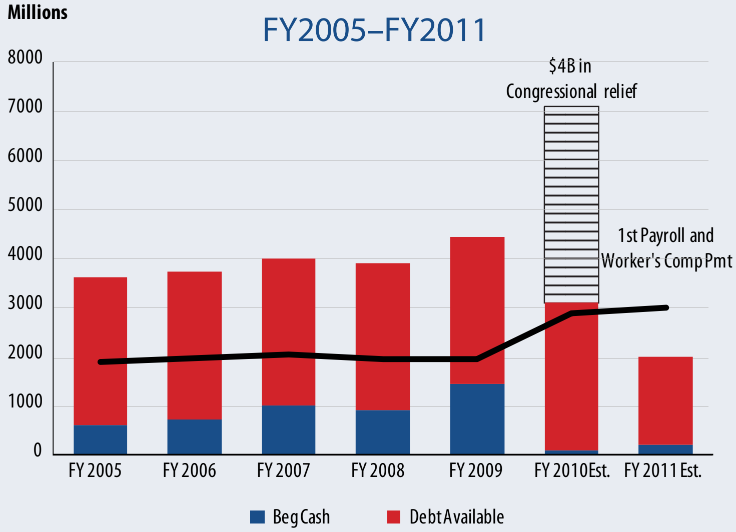
[5] *See Ensuring a Viable Postal Service for America: An Action Plan for the Future*, March 2, 2010, at 9-10, 14. *See also http://www.usps.com/communications/newsroom/2010/pr10_018.htm*.

[6] On September 30, 2009, Congress passed H.R. 2918, the Legislative Branch Appropriations Act, 2010. It was signed into law as Pub. L. 111-68 by President Obama on October 1, 2009. Section 164 of the law reduced the Postal Service's statutorily required payment to the Postal Service Retiree Health Benefits Fund from $5.4 billion to $1.4 billion.

[7] FY 2010 IFP at 7.

Figure IV-1
USPS Available Funds
FY2005–FY2011



Source: Postal Service Annual Reports.

Figure IV–2
Postal Service Cumulative Debt

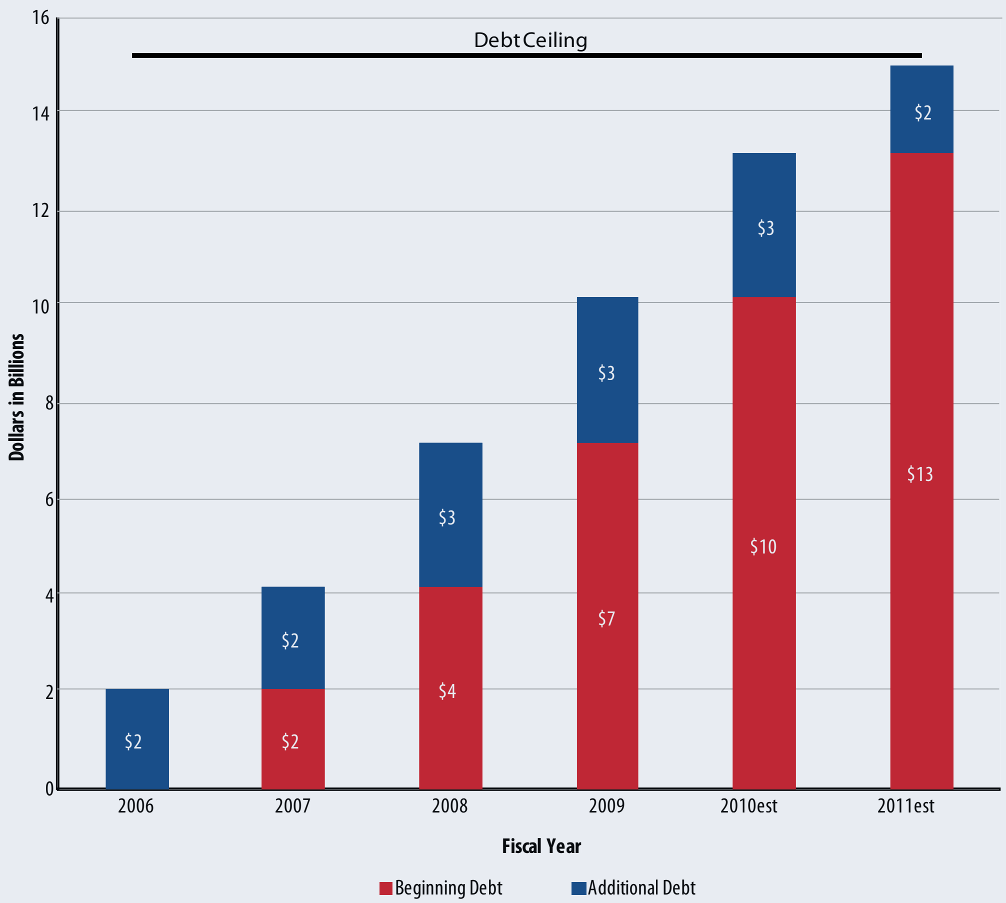


Table IV-1
Total Expenses–FY 2009
($ in Millions)

	FY 2009	FY 2008	$ Change	% Change
Compensation and Benefits	$53,154	$53,585	$(431)	-0.8%
Retiree Health Expenses	3,390	7,407	(4,017)	-54.2%
Transportation	6,026	6,961	(935)	-13.4%
Supplies & Services	2,321	2,597	(276)	-10.6%
Vehicle Maintenance Services	760	926	(166)	-17.9%
Other Expenses	6,179	6,262	(83)	-1.3%
Total Operating Expenses	**$71,830**	**$77,738**	**$(5,908)**	-7.6%
Interest Expense	80	36	44	122.2%
Total Expenses	**$71,910**	**$77,774**	**$(5,864)**	-7.5%

Source: USPS Form 10-K at 15

Retiree Health Benefits Fund

The majority of commenters at the public forum, as well as many of those providing written comments in this proceeding, have characterized the prefunding requirements of the RHBF as the major contributing cause of the Postal Service's financial problems. The GCA calls the prefunding requirements "unrealistic." GCA Comments at 2. Valpak contends that a permanent Congressional modification in the prefunding schedule is the most important factor in allowing the Postal Service to achieve financial stability, and offers suggestions as to how the prefunding requirement can be made more affordable. Valpak Comments at 21-28. Continuous one-time fixes, such as the $4 billion reduction in the payment for FY 2009, would be counterproductive to the goal of financial stability and also could foster uncertainty about the future of the Postal Service causing mailers to seek other alternatives. *Id.* at 22. Valpak also notes that without the prefunding requirement, the Postal Service would have had a net loss in FY 2009 of only $2.4 billion, and that over the 3 years since enactment of the PAEA, the Postal Service accumulated a total operating net income of $3.6 billion without including the costs of the prefunding. *Id.* at 5. The APWU calls the prefunding requirement unreasonable and unsustainable. APWU Reply Comments at 1. The Postal Service has said that the current economic climate makes the prefunding of the RHBF a near impossibility and has been actively seeking legislative relief from the funding requirements, among other legislative actions, since the beginning of FY 2009. Postal Service Reply Comments at 1.

The PAEA requires that information on the status of funding of the retiree health benefit liability be provided every year in the USPS Form 10-K statement. This information, compiled and developed by OPM, shows the obligations, costs, and funding status of the RHBF. OPM uses several assumptions regarding the future costs of medical benefits, interest rates, and demographics to develop the estimates of the funding and funding requirements of the RHBF. During the past year, the Postal Service OIG published a "white paper" which charged that the assumptions used by OPM to develop the estimates were inappropriate for the Postal Service and would result in a significant overfunding.[8] It recommended several changes which, in the estimation of the OIG, would better reflect the true costs of retiree health benefits.

In June of last year, the Commission undertook a study to evaluate both the OPM methodology and the OIG methodology and to make recommendations as to

[8] Office of Inspector General, Final Management Advisory Report—Estimates of Postal Service Liability for Retiree Health Care Benefits (Report Number ESS-MA-09-001), as revised July 22, 2009.

the efficacy of the two methodologies. The study was requested from the Commission on June 15, 2009 by Chairman Stephen Lynch, the Subcommittee on Federal Workforce, Postal Service, and the District of Columbia, Committee on Oversight and Government Reform, U.S. House of Representatives. The Commission presented its report to the Subcommittee in July 2009 with recommendations as to the best method of calculating the liability of the RHBF. In the report, the Commission recommended that the liability be estimated using a graduated medical benefits inflation factor rather than a static factor, as used by both OPM and the OIG. This recommendation would result in a lower liability than originally estimated by OPM.

In its calculation of the RHBF liability for FY 2009, OPM changed the static 7 percent medical inflation assumption it had used for the prior 2 years to a graded assumption of 8 percent to 5.5 percent, which is in line with the Commission's recommendation in its July 2009 report to Congress. The use of the graded inflation assumption should result in a lower liability for retiree health benefits in the future. As seen in Table IV-2, the unfunded liability has decreased by $1.5 billion in FY 2009.

On January 20, 2010, the OIG released a white paper claiming that the Postal Service's pension liability for CSRS employees has been overfunded by $75 billion. On March 16, 2010, in response to a Postal Service request pursuant to the PAEA section 802, the Commission issued Solicitation Number PRC_SOW_031610 seeking actuarial assistance in assessing OPM's calculation of the Postal Service's share of CSRS pension liability.

Despite aggressive cost reduction efforts, the Postal Service was not able to cut overall expenses as quickly as volume declined, leaving FY 2009 unit revenue below unit expenses for the third consecutive year. Figure IV-3 shows that unit expenses have outpaced unit revenues since FY 2006.

In total, even after the Congressional relief afforded by Pub. L. 111-68, the Postal Service had a net loss of $3.8 billion in FY 2009. The Income Statement of the Postal Service for FY 2009 is shown in Table IV-3.

In FY 2010, the decline in volumes and revenues continues. Through the first quarter of FY 2010, total volumes have declined 8.9 percent and revenues have declined 3.9 percent over the first quarter of 2009.

Table IV-2
Postal Service Retiree Health Benefits Fund Funded Status and Components of Net Periodic Costs Benefits as Calculated by OPM
($ in Millions)

	FY 2009	**FY 2008**
Beginning Acturial Liability As of October 1	86,082	80,786
Actuarial Gain	(4,593)	(1,136)
Normal Costs	2,902	3,389
Interest	5,093	4,977
Subtotal Net Periodic Costs	**89,484**	**88,016**
Premium Payments	(2,012)	(1,934)
Actuarial Liability as of September 30	87,472	86,082
Fund Balance at September 30	(35,482)	(32,610)
Unfunded Obligation at September 30	**51,990**	**53,472**

Figure IV-3
Unit Revenue and Expense
FY 1999-2009

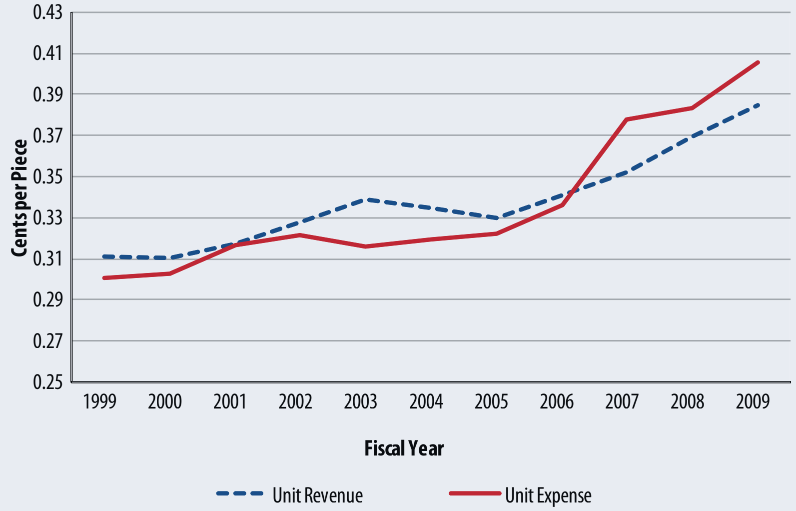


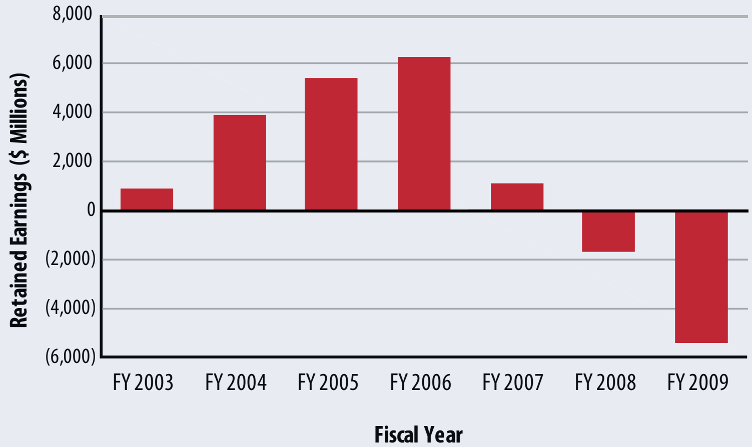
Table IV-3
USPS Income Statement
Fiscal Year 2009
($ in Millions)

	FY 2009	FY 2008	$ Var.	% Var.
Operating Revenue	$67,979	$74,768	($6,789)	-9.1%
Appropriations	111	164	(53)	-32.3%
Investment Income	26	36	(10)	-27.8%
Total Revenue	**68,116**	**74,968**	**(6,852)**	-9.1%
Personnel Comp. & Ben.	56,544	60,993	(4,449)	-7.3%
Transportation	6,026	6,961	(935)	-13.4%
Supplies & Services	2,321	2,595	(274)	-10.6%
Other Expenses [1]	6,939	7,189	(250)	-3.5%
Interest Expense	80	36	44	122.2%
Total Expenses	**71,910**	**77,774**	**(5,864)**	-7.5%
Net Income (Loss)	($3,794)	($2,806)	($988)	

[1] Other expenses includes supplies, services, depreciation, rents, fuel, utilities, vehicle maintenance, and any other non-personnel expense.

Source: USPS FY 2009 Form 10-K at 49

Figure IV–4
USPS Retained Earnings
FY 2003–2009



Despite continued aggressive cost reductions, the Postal Service is projecting a loss for FY 2010 of almost $8 billion.[9]

The recent net losses have eroded the Postal Service's total retained earnings, which consist of the cumulative sum of net incomes and net losses since FY 1972. As of the end of FY 2009, the sum of the total net incomes was $17.2 billion, and the sum of the total net losses was $25.7 billion.

Retained earnings combined with the capital contributions of the Federal government transferred to the Postal Service under the PRA equals the net equity of the Postal Service. An analysis of the Postal Service's equity provides stakeholders with a snapshot of its overall financial health. Generally, a financially healthy organization has a positive net equity position.

As shown in Figure IV-4, retained earnings have declined from a positive $6.3 billion at the end of FY 2006 to a negative $5.4 billion at the end of FY 2009.

Mail Revenues by Class

Total revenues declined $6.8 billion from last year, a 9.1 percent decline. All classes and categories of mail experienced revenue declines from last year.

First-Class and Standard Mail accounted for $5.5 billion of the total $6.8 billion in revenue declines, primarily due to the loss of volumes. This is the second consecutive year of revenue declines for the two largest classes of mail. *See* Table IV-4.

Summary by Product

Table IV-5 summarizes the Commission's analysis of the financial performance of all products (market dominant, competitive, domestic, and international) and all NSAs for FY 2009.[10] Chapter 4 presents the financial analysis and performance for each market dominant class, for market dominant NSAs, and for market dominant international products. Chapter 7 presents the analysis of the financial results for competitive products and NSAs.

Table IV-5 shows the volumes, revenues, attributable costs, contribution to institutional costs and cost coverages for postal products, reflecting the current mail classification. Table B in Appendix B presents the same financial information by subclass, reflecting the previous mail classification, and thus allowing comparison of FY 2009 with financial results from previous fiscal years. Figure IV-5 shows contribution by class.

[9] FY 2010 IFP at 2. More recent projections based on FY 2010 Quarter 1 performance still project losses in the neighborhood of $7 billion.

[10] For a detailed presentation of the financial performance, *see* public Library Reference PRC-ACR-LR1 (which covers only market dominant products and NSAs) and nonpublic Library Reference PRC-ACR-NP-LR1 (which covers both market dominant and competitive products and NSAs).

Table IV-4
Mail Revenues

	FY 2009 (in millions)	FY 2008 (in millions)	Increase or (Decrease) (in millions)	% Change
First-Class	35,873	38,179	-2,306	-6.0%
Periodicals	2,038	2,295	-257	-11.2%
Standard Mail	17,364	20,586	-3,222	-15.7%
Package Services	1,683	1,845	-162	-8.8%
Other	3,000	3,645	-645	-17.7%
Total Mailing Services	59,958	66,550	-6,592	-9.9%
Total Shipping Services	8,132	8,382	-250	-3.0%
Total Mail	68,090	74,932	-6,842	-9.1%

Source: USPS FY 2009 Form 10-K at 13

The RPW system and the billing determinants are the main sources for revenues in Table IV-5. Report B of the Postal Service's cost model is the source of the attributable (variable and product-specific) costs for domestic mail. The ICRA is the source document of the attributable costs for International Mail.[11] As in the two previous compliance determinations, the Commission has used booked revenues and expenses in the analysis of the financial results for postal products and NSAs. Thus, the revenues and expenses used in the Commission's financial analyses are consistent with the Postal Service's audited financial statements.[12]

Table IV-5 shows that in FY 2009, the Postal Service attributed to its products $43.005 billion or 59.8 percent of its total costs, leaving $28.905 billion of institutional (or overhead) costs to be recovered from product revenue contributions. Because of record volume declines and an inflation-capped may price increase of only 3.8 percent, the revenue generated from the sale of postal products contributed only $25 billion to the

[11] In the ACR proceeding for FY 2009, as in previous ACR dockets, the cost, volume, revenue, and weight figures submitted by the Postal Service were not internally consistent. As documented in Library Reference PRC-ACR2009-NP-LR-1, there are numerous instances in the Postal Service's FY 2009 CRA where volume, revenue, and weight figures do not precisely match the corresponding figures in the relevant source documents, such as the RPW system, the billing determinants, and Report B of the cost model. The lack of internally consistent figures adds to the difficulty of validating the Postal Service's numbers within the time constraints of ACR proceedings.

[12] In FY 2008, the Postal Service's CRA report relied upon imputed revenues and expenses for various International Mail products derived from the ICRA report. This reflected the Postal Service's decision to eliminate the historical "mismatch" between amounts in the ICRA and CRA and to provide greater detail on market dominant and competitive International Mail products in both the public and non-public versions of the CRA. *See* Docket No. RM2009-10, Petition of the United States Postal Service Requesting Initiation of a Proceeding to Consider Proposed Changes in Analytic Principles (Proposals Three – Nineteen), July 28, 2009, Attachment Proposal Eleven. However, the Commission determined that total revenues and expenses reported in the FY 2008 CRA did "not comport with the same items reported in the audited financial statements published in the Postal Service Annual Report." 2008 ACD at 13. In Order No. 339, the Commission approved a Postal Service proposed methodological change to use booked revenues and expenses in its FY 2009 ICRA and CRA reports. *See* Docket No. RM2009-10, Order on Analytical Principles Used in Periodic Reporting (Proposals Three Through Nineteen), November 13, 2009 (Order No. 339). This change implemented the Commission's stated policy that all revenues and expenses by product, when totaled and reported in the CRA (and ICRA), should match the revenues and expenses reported in the Postal Service's audited financial statements.

recovery of institutional costs, leaving an operating loss of $3.866 billion. The operating loss was reduced by $46 million of appropriations and $26 million of investment income, leaving the Postal Service with a net loss of $3.794 billion for FY 2009.

In 2009, 5 competitive International Mail products and 14 market dominant (domestic and international) products and services did not generate enough revenue to cover their attributable costs and thus their contribution to institutional costs was negative. The total negative contribution from the five competitive international products was $79 million. The competitive products as a group, however, contributed more than the required 5.5 percent of institutional costs, generating a net income before tax of $371 million.

The total shortfall from the 14 market dominant products with negative contribution amounted to $1.7 billion. Following is the list of market dominant products and services with the respective negative contributions to institutional costs.

The negative contributions of two of the products, Standard Mail Flats and Outside County Periodicals, amounted to $1.2 billion or about 72 percent of the total shortfall.

As in previous years, in FY 2009, First–Class Presort Letters and Cards was the most successful postal product financially. Its volume was the largest—48.2 billion pieces or 27 percent of total volume. It generated the largest amount of revenue—$16.5 billion or 24 percent of total revenue. It also made the largest contribution to institutional costs—$10.8 billion or about 43 percent of the total contribution from all mail and services. Its per-piece contribution was 22.4 cents, which is about 2.8 times higher than the per-piece contribution made by Standard Letters. Its cost coverage of 291.8 percent was second only to special service Stamped Envelopes.

It is also interesting to note in Table IV-5 that First-Class Mail Flats and Bound Printed Matter Flats made positive per-piece contributions of 48.5 cents and 37.2 cents respectively whereas Standard Flats made a negative per-piece contribution of 7.9 cents. Table IV-5 also shows that the average revenues for First-Class Mail Flats and Bound Printed Matter Flats were 3.4 and

List of Market Dominant Products and Services with Respective Negative Contributions to Institutional Costs (in Millions)

1	First-Class Inbound International Single-Piece Mail	($105.169)
2	Standard Flats	($615.572)
3	Standard Not-Flat Machinables and Parcels	($204.804)
4	Periodicals, Within County	($12.768)
5	Periodicals, Outside County	($629.071)
6	Package Services, Single-Piece Parcel Post	($61.462)
7	Package Services, Inbound Surface Parcel Post (at UPU rates)	($2.359)
8	Package Services, Bound Printed Matter Parcels	($7.241)
9	Package Services, Media Mail/Library Mail	($74.007)
10	Special Services, Registered Mail	($0.680)
11	Special Services, Stamped Cards	($0.393)
12	Special Services, Address List Services	($0.001)
13	Special Services, Confirm	($0.543)
14	Special Services, Inbound International Ancillary Services	($11.765)
Total		**($1,725.835)**

Source: Library Reference PRC-ACR2009-LR1.

Table IV-5
Fiscal Year 2009 Volume, Revenue, Cost and Cost Coverage by Class
Current Classification (Products)

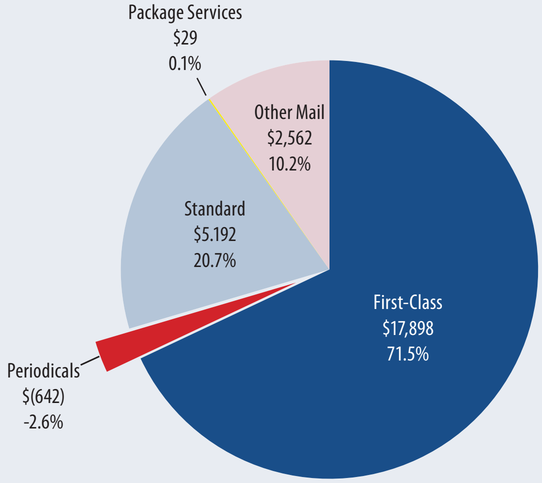
	Volume (000)	Revenue ($ 000)	Attributable Cost ($ 000)	Contribution to Institutional Cost ($ 000)	Rev./Pc. (Cents)	Cost/Pc. (Cents)	Contribution to Institutional Cost/Pc. (Cents)	Cost Coverage
Competitive Mail								
Express Mail	47,015	884,571	553,312	331,259	1,881.454	1,176.877	704.577	159.9%
Priority Mail	790,070	5,362,466	4,123,864	1,238,602	678.733	521.962	156.771	130.0%
Parcel Select and Parcel Return Service (PRS)	241,186	515,034	430,214	84,820	213.542	178.374	35.168	119.7%
Competitive International Mail	302,290	1,344,777	1,040,566	304,210	444.863	344.228	100.635	129.2%
Competitive Domestic Services	1,227	17,068	12,175	4,893	1,390.831	992.140	398.691	140.2%
Competitive International Services	1,375	8,502	11,639	(3,137)	618.516	846.775	(228.260)	73.0%
Total Competitive Mail and Services	1,380,561	8,132,417	6,171,771	1,960,646	589.066	447.048	142.018	131.8%
Market Dominant Mail								
First-Class Mail								
Single-Piece Letters and Cards	31,633,220	13,820,327	8,342,019	5,478,308	43.689	26.371	17.318	165.7%
Presort Letters and Cards	48,235,193	16,473,098	5,645,481	10,827,616	34.152	11.704	22.448	291.8%
Flats	2,864,496	3,545,827	2,157,510	1,388,317	123.785	75.319	48.466	164.3%
Parcels	580,826	1,114,988	1,095,175	19,813	191.966	188.555	3.411	101.8%
Outbound Single-Piece Mail Intl	456,449	757,062	468,134	288,928	165.859	102.560	63.299	161.7%
Inbound Single-Piece Mail Intl	439,955	161,455	266,624	(105,169)	36.698	60.603	(23.905)	60.6%
Standard Mail								
High Density & Saturation Letters	5,085,391	687,257	318,152	369,105	13.514	6.256	7.258	216.0%
High Density & Saturation Flats & Parcels	12,356,828	1,977,872	825,642	1,152,230	16.006	6.682	9.325	239.6%
Carrier Route	9,901,988	2,292,061	1,585,576	706,486	23.147	16.013	7.135	144.6%
Letters	46,867,847	8,889,801	5,105,483	3,784,317	18.968	10.893	8.074	174.1%
Flats	7,814,466	2,881,538	3,497,110	(615,572)	36.874	44.752	(7.877)	82.4%
Not-Flat Machinables and Parcels	679,041	635,196	840,001	(204,804)	93.543	123.704	(30.161)	75.6%
Inbound NSA Mail Intl	649	374		374				
Periodicals								
Within County	859,268	92,284	105,052	(12,768)	10.740	12.226	(1.486)	87.8%
Outside County	7,094,447	1,945,860	2,574,931	(629,071)	27.428	36.295	(8.867)	75.6%

Table IV-5
Fiscal Year 2009 Volume, Revenue, Cost and Cost Coverage by Class Current Classification (Products)—Continued

	Volume (000)	Revenue ($ 000)	Attributable Cost ($ 000)	Contribution to Institutional Cost ($ 000)	Rev./Pc. (Cents)	Cost/Pc. (Cents)	Contribution to Institutional Cost/Pc. (Cents)	Cost Coverage
Package Services								
Single-Piece Parcel Post	80,716	699,847	761,308	(61,462)	867.046	943.192	(76.146)	91.9%
Inbound Surface Parcel Post (at UPU Rates)	878	12,880	15,238	(2,359)	1,466.356	1,734.891	(268.534)	84.5%
Bound Printed Matter Flats	238,799	207,588	118,839	88,750	86.930	49.765	37.165	174.7%
Bound Printed Matter Parcels	270,623	363,909	371,150	(7,241)	134.471	137.146	(2.676)	98.0%
Media and Library Mail	140,139	398,354	472,361	(74,007)	284.257	337.067	(52.810)	84.3%
Inbound NSA Mail Intl	32	74		74				
U.S. Postal Service Mail	454,865							
Free Mail	61,958		54,158	(54,158)		87.411		
Total Market Dominant Mail	**175,677,241**	**56,957,650**	**34,619,945**	**22,337,705**	**32.422**	**19.707**	**12.715**	**164.5%**
Market Dominant Services								
Ancillary Services								
Certified Mail	266,491	729,813	659,480	70,334	273.861	247.468	26.392	110.7%
COD	1,015	7,564	6,596	968	745.086	649.738	95.347	114.7%
Insurance	43,767	129,069	116,869	12,200	294.898	267.023	27.874	110.4%
Registered Mail	3,182	49,906	50,586	(680)	1,568.392	1,589.753	(21.361)	98.7%
Stamped Envelopes		16,543	4,958	11,586		333.7%		
Stamped Cards		679	1,072	(393)		63.4%		
Other Ancillary Services	1,301,739	751,480	519,707	231,773		144.6%		
Money Orders	135,039	191,025	146,135	44,890	141.458	108.216	33.242	130.7%
Post Office Box Service		817,075	632,255	184,820		129.2%		
Caller Service		94,822	34,127	60,695				
Other Special Services		11,524	4,275	7,248				
International Services	1,781	25,684	37,410	(11,726)		68.7%		
Other Income		128,814		128,814				
Total Mail and Services	**177,057,802**	**68,044,065**	**43,005,185**	**25,038,880**	**38.430**	**24.289**	**14.142**	**158.2%**
Institutional Costs			28,905,371					
Appropriations: Revenue Forgone		46,429						
Investment Income		25,728						
Total Revenues		68,116,221						
Total Costs			**71,910,556**					
Net Income (Loss)		(3,794,335)						

Source: PRC-ACR2009-LR1

Figure IV-5
Fiscal Year 2009
Contribution to Instititional Costs by Class
(Dollars in Millions)



	Percent Contribution to Institutional
First Class	71.5
Standard	20.7
Periodicals	-2.6
Package Services	0.1
Other Mail	**10.2**
Total	**100.0**

2.4 times higher, respectively, than Standard Mail Flats. These findings point to the chronic under pricing of Standard Mail Flats.

Finally, the following breakdown of contributions to institutional costs is derived from Table IV-5. In FY 2009, domestic products accounted for 98.1 percent of the total contribution to institutional costs. Of this share, 91.5 percent came from market dominant products and 6.6 percent came from competitive products. International products accounted for the remaining 1.9 percent of the total contribution to institutional costs. Of the international share, 0.7 percent came from market dominant products and 1.2 percent came from competitive products.

Section 101(d) states that postal rates shall "apportion the costs of all postal operations to all users of the mail on a fair and equitable basis." The consistency of market dominant rates with this mandate is called into question when certain market dominant rates cover their attributable costs and make a contribution to overhead while others do not. Because the impact on system-wide finances is so widespread, however, it would be counterproductive to focus only on the shortfall that can be ascribed to any individual market dominant product. If this broad pattern of revenue shortfall is to be solved, it will require a re-evaluation of the entire Postal Service's business model.

Mail Volumes

Figure IV-6 shows annual mail volume changes for the past 10 years. The economic recession of last year, coupled with the ongoing electronic diversion of mail, had a significant adverse impact on mail volumes. In FY 2009, the Postal Service's total volume declined by 25.6 billion pieces or 13.5 percent. This percentage reduction was second only to 1933, during the Great Depression, when mail volume declined by 20.2 percent. This is the third successive year of declines in total volumes with each year experiencing a greater decline than the previous year.

During the past decade, the Postal Service experienced volume reductions in 6 years and volume increases in only 4 years. The volume increases in FY 2004, 2005 and 2006 coincide with a "housing bubble" which generated an unusually high demand for advertising by mail in areas such as housing financing and refinancing, and credit card issuance. For the past decade, the volume declined at an average annual rate of 1.3 percent. In contrast, the mail volume grew at an average annual rate of 2.0 percent during the 1970s, 4.9 percent during the 1980s, and 2.2 percent during the 1990s. At the end of FY 2009, mail volume was 177.1 billion pieces at about the same level as FY 1994, 16 years ago.

Figure IV-7 depicts the growth of total mail volume along with the growth of U.S. GDP over the past 40 years.

From 1970 to 1999, the growth of mail volume closely matched the pace of U.S. economic growth. In fact, during the last 30 years of the 20th century, GDP grew at an average annual rate of 3.1 percent, and mail volume increased at a rate of 3.0 percent. Since 2000,

Figure IV-6
Total Mail Volume Annual Growth Rates Fiscal Years 2000–2009

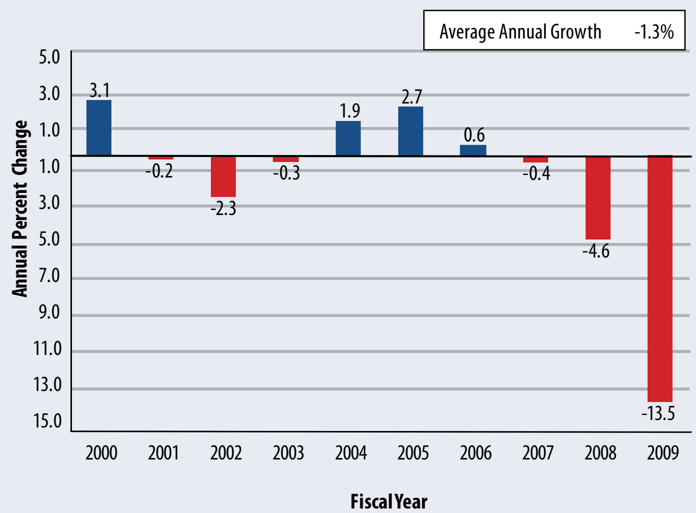
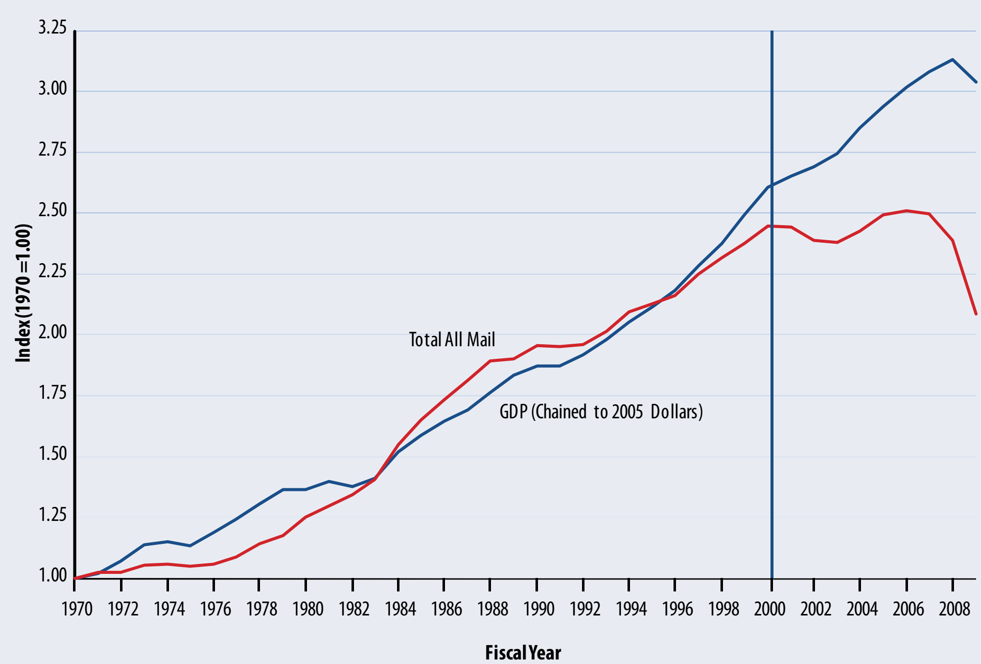


Figure IV-7
Gross Domestic Product (GDP) and Total Mail Volume Growth Fiscal Years 1970



Sources: Volume from Postal Service Revenue, Piece, and Weight (RPW) reports and GDP from Bureau of Economic Analysis (BEA).

however, this close relationship of GDP and mail volume growth has ceased to exist. During the first decade of the current century, GDP grew at an average annual rate of 2.0 percent whereas mail volume declined at an annual rate of 1.3 percent. This created a gap of 3.3 percentage points between the average changes of the two measures.[13] This gap appears to be widening. During the first 9 years of the past decade, volume grew at an average annual rate of practically zero whereas GDP grew at an average rate of 2.5 percent annually. In FY 2009, volume declined 4.6 times faster than GDP. This new and pronounced divergence in the growth patterns between mail volume and GDP makes it unlikely that mail volume will recover when the economy recovers from last year's recession, and GDP resumes its normal growth.

Single-Piece First-Class Mail

As shown in Figure IV-8, Single-Piece First-Class Mail volume continues its long and progressively increasing decline. In FY 2009, Single-Piece First-Class Mail lost 4.2 billion pieces, or 11.6 percent of its volume. Over the past 10 years, the average annual decrease in Single-Piece First-Class Mail volume was 5 percent. Single-Piece First-Class Mail lost 22.3 billion pieces in the last decade.

One of the major contributors to this decline is the increasing use of the Internet for messaging and online bill payment and banking. This mail volume appears to be permanently lost.

Presorted First-Class Mail

The volume for presorted First-Class Mail, which in the past mitigated the volume declines in single-piece, also decreased in FY 2009, losing over 3.8 billion pieces and declining 7.4 percent over the previous year. The decline in presort volume can be attributed to electronic presentment of bills and financial statements, and the economic recession, which has adversely affected advertising by the banking industry.

Total First-Class Mail

Figure IV-9 shows the annual growth rates for total First-Class Mail over the past 10 years.

In FY 2009, total First-Class Mail volume decreased an unprecedented 9.1 percent losing 8 billion pieces. The volume decline continued a downward trend that started in 2002. For the past decade, total First-Class Mail declined at an average annual rate of 2.0 percent.

[13] By comparison, during the 1930s, which includes the years of the Great Depression, GDP increased at an annual rate of 0.9 percent, and volume declined at a rate of only 0.6 percent, creating a gap of only 1.5 percentage points, less than half the present gap between the growth of GDP and the decline in mail volume.

Figure IV-8
First-Class Single-Piece Volume Annual Growth Rates
Fiscal Years 2000

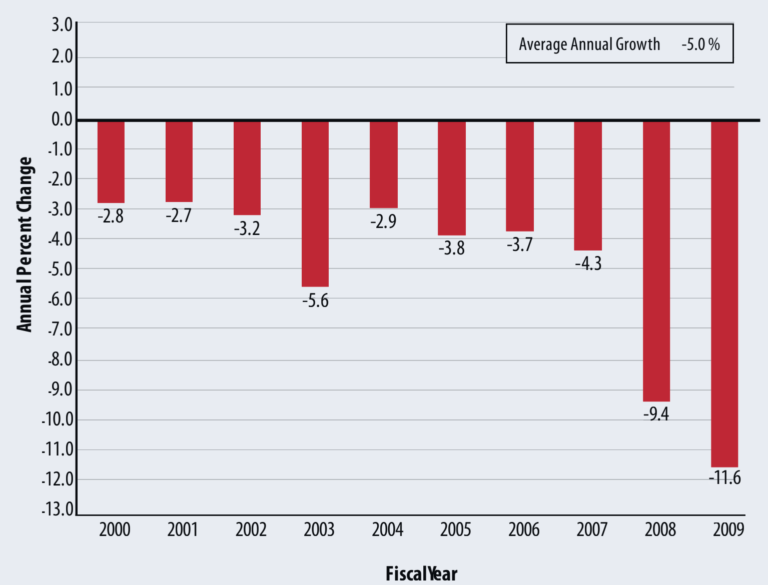
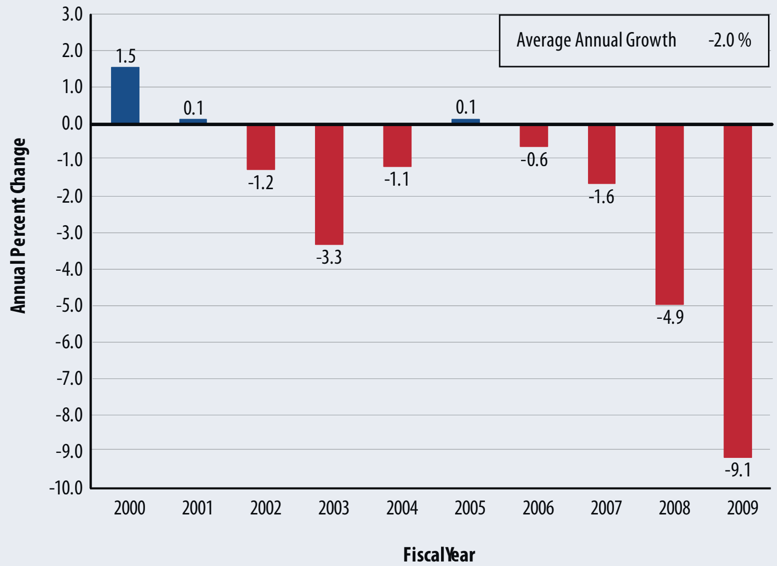


Figure IV-9
Total First Class Mail Volume Annual Growth Rates
Fiscal Years 2000-2009-Class



Source: Postal Service Revenue, Piece, and Weight (RPW) reports.

At the end of FY 2009, First-Class Mail volume was 83.3 billion pieces at about the same level as FY 1988, 22 years ago. The permanent loss of First-Class Mail is particularly important because revenue from this type of mail contributes substantially to the funding of the overhead costs of the Postal Service.

Standard Mail

Standard Mail is about equal to First-Class Mail by volume; each class carries 47 percent of all mailpieces delivered by the Postal Service. Figure IV-10 presents the annual growth rates for Standard Mail during the last decade. In FY 2009, Standard Mail volume decreased 18.1 percent or 16.4 billion pieces. This is the largest decline in Standard Mail volume ever. Over the past decade, Standard Mail volume declined at an average annual rate of 0.3 percent.

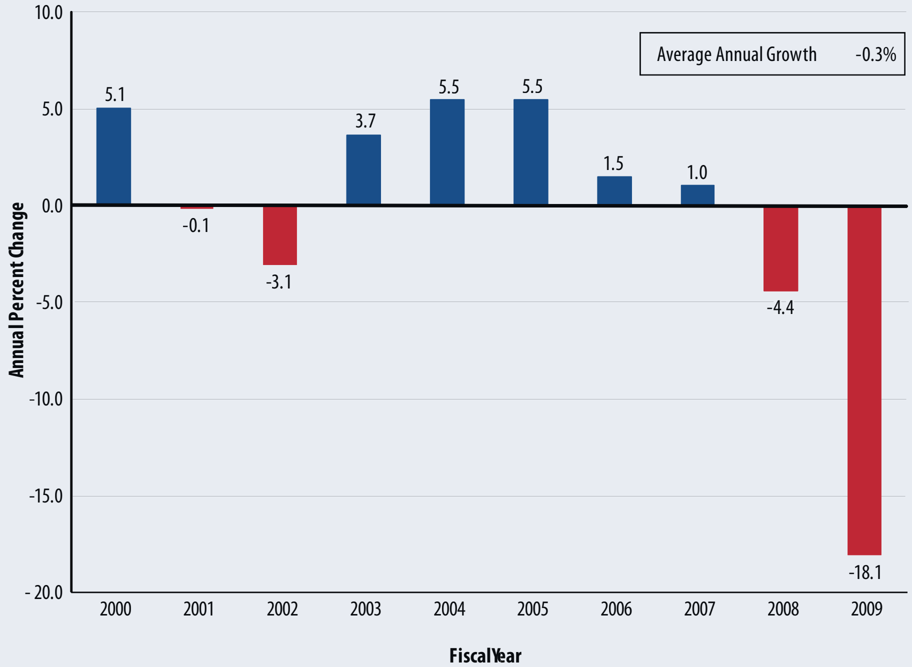
The Standard Mail volume declines in 2008 and 2009 are a direct result of adverse economic conditions, especially in the financial sector, which led to reduced spending for direct mail advertising. This volume may rebound to some degree as economic conditions improve.

Periodicals

Figure IV-11 presents the annual percent changes in Periodicals volume for the past 10 years. Trends in behavior, *e.g.*, shifts to obtaining information through electronic rather than hardcopy media, have been depressing Periodicals for years. In conjunction with the economic recession, this electronic diversion has pushed volume into a record decline. In FY 2009, Periodicals volume decreased by 7.9 percent. This is the ninth consecutive annual volume decline and the largest ever for Periodicals.

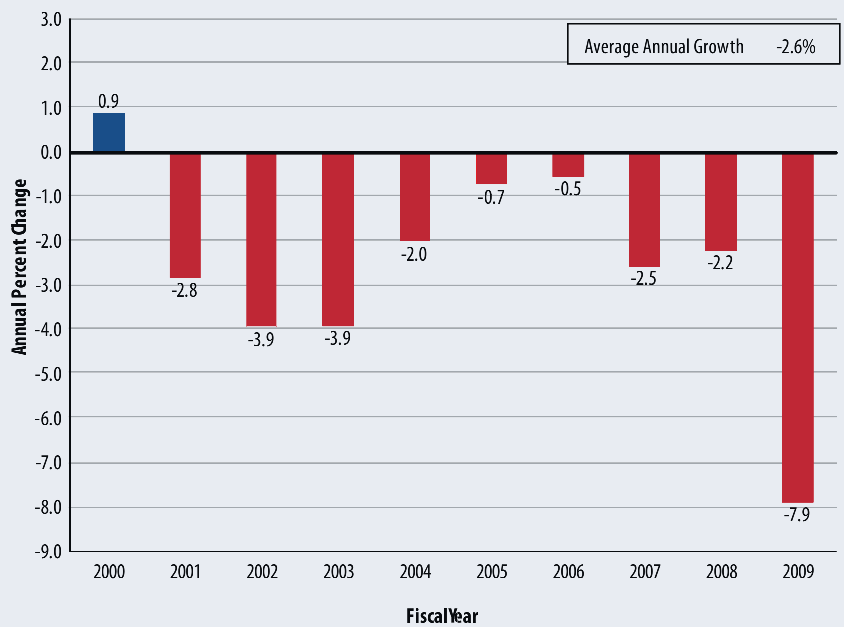
During the past decade, Periodicals lost more than one-fourth of its volume. The average annual decrease in Periodicals volume was 2.6 percent. It is expected that the Periodicals class will continue losing volume in the future.

Figure IV-10
Standard Mail Volume Annual Growth Rates
Fiscal Years 2000-2009



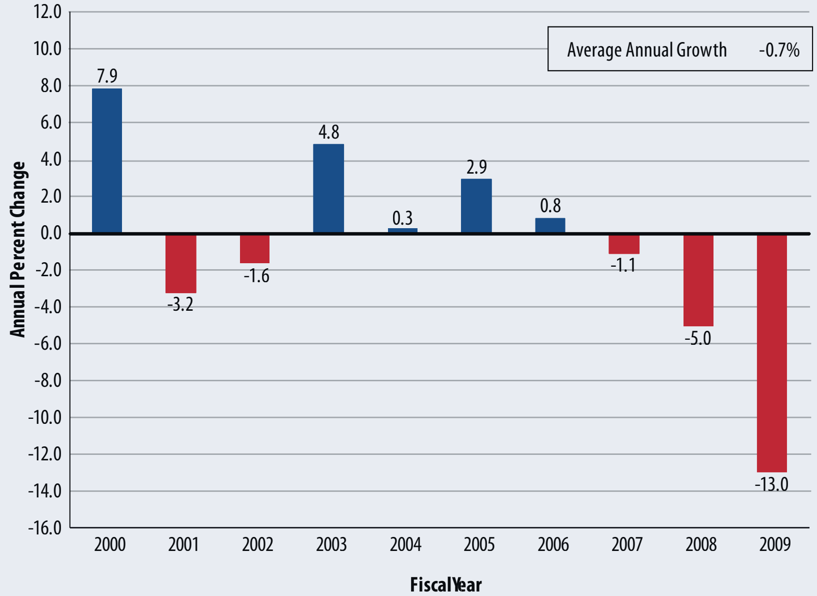
Source: Postal Service Revenue, Piece, and Weight (RPW) reports

Figure IV-11
Periodicals Volume Annual Growth Rates
Fiscal Years 2000-2009



Source: Postal Service Revenue, Piece, and Weight (RPW) reports.

Figure IV-12
Package Services Volume Annual Growth Rates
Fiscal Years 2000-2009



Source: Postal Service Revenue, Piece, and Weight (RPW) reports.

Package Services

Package Services products face considerable market competition from private parcel carriers. At the same time, they serve a growing market as consumers increasingly use the Internet for shopping online. Figure IV-12 shows the annual percent changes in Package Services volume during the past decade. In FY 2009, the economic recession pushed Package Services volume into a record decline of 13.0 percent. Some of this decline may be due to the Postal Service's efforts to increase the use of Priority Mail, which offers more expedited handling of parcels. During the decade, Package Services declined at an average annual rate of 0.7 percent.

The growth rates presented in Figure IV-11 were calculated by aggregating the volumes of 4 market dominant and 2 competitive products in order to maintain continuity with prior years. Table IV-6 presents the growth rates for FY 2009 of all 6 products included in the Package Services growth rate calculations.

All the Package Services products experienced volume declines in FY 2009, except PRS, which increased almost 50 percent in one year. The PRS significant growth is a result of the Postal Service's successful effort to develop partnerships with private parcel carriers, use aggressive pricing, and leverage the first mile pickup network.

Postal Service Workhour Savings and Changes in Efficiency

In FY 2009, the Postal Service responded to the loss in volume by reducing workhours. However, it was unable to match the workhour reduction to volume declines. This resulted in a decline in Total Factor Productivity (TFP).

Workhour Savings

In FY 2009, the Postal Service cut an unprecedented 115.3 million workhours (or 8.8 percent) and saved $5.3 billion in labor costs. This workhour decrease was equivalent to a reduction of about 65,000 full-time postal employees. Moreover, it followed a 50 million workhour reduction in FY 2008. Table IV-7 shows the reduction in the Postal Service's workhours and savings in labor compensation by craft in FY 2009.

In FY 2009, there were unparalleled reductions in the workhours of all crafts. Clerks and mail handlers experienced the greatest reduction, losing 63.7 million workhours, or 14.3 percent. The delivery route adjustments in FY 2009 made it possible for the Postal

Table IV-6
Package Services Products
FY 2009 Annual Growth Rates

	Percent Change
Market Dominant Products:	
Single-Piece Parcel Post	-10.4
BPM Flats	-19.3
BPM Parcels	-13.1
Media and Library Mail	-12.3
Market Dominant Products	-14.7
Competitive Products:	
Parcel Select	-10.6
Parcel Return Service	44.8
Competitive Products	-7.4
All Products	-13.0

Source: Postal Service Revenue, Piece, and Weight (RPW) reports

Table IV-7
Change in Workhours and and Compensation by Craft
Over Ten Years Fiscal Years 2000–2009

	Workhours		Nominal Compensation
	Change (Millions)	Percent Change	Change ($ Millions)
Supervisors	(19.7)	-25.8%	(900.5)
Clerks & Mail Handlers	(291.1)	-53.1%	(10,905.3)
City Carriers and Vehicle Drivers	(78.56)	-17.5%	(3,121.4)
Rural Carriers	21.17	12.2%	544.9
Other Employees	(15.13)	-8.0%	
Total	**(383.4)**	**-26.6%**	**(15,064.7)**

Sources: Postal Service Annual Tables, FY 2009 TFP.

Table IV-8
Change in Workhours and Labor Compensation by Decade

	Workhours		Nominal Compensation
	Change (Millions)	Percent Change	Change ($ Millions)
MARKET DOMINANT PRODUCTS:			
1970-1979	(76.5)	-6.2%	(554.1)
1980-1989	287.4	21.4%	4,971.1
1990-1999	148.7	9.5%	3,733.0
2000-2009	(383.4)	-26.6%	(15,064.7)

Sources: Postal Service Annual Tables, FY 2009 TFP.

Service to reduce significantly the workhours of both city and rural carriers. City carrier and vehicle driver hours decreased by 29.9 million or 6.4 percent, and rural carrier hours fell by 9.5 million or 5 percent. Supervisor workhours decreased by 8.9 percent.

Table IV-8 presents the change in the Postal Service's workhours and labor compensation by decade for the past 40 years.

Since FY 2000, the Postal Service has aggressively reduced workhours. Over the past decade, the Postal Service shed 383.4 million workhours or 26.6 percent, and saved about $15.1 billion in labor costs. That was an average savings of more than $1.5 billion per year, a remarkable achievement for an organization that had struggled to contain workhours in the 1980s and 1990s, despite heavy investments in automation. Figure IV-13 depicts the annual number of workhours used by the Postal Service over the past 40 years.

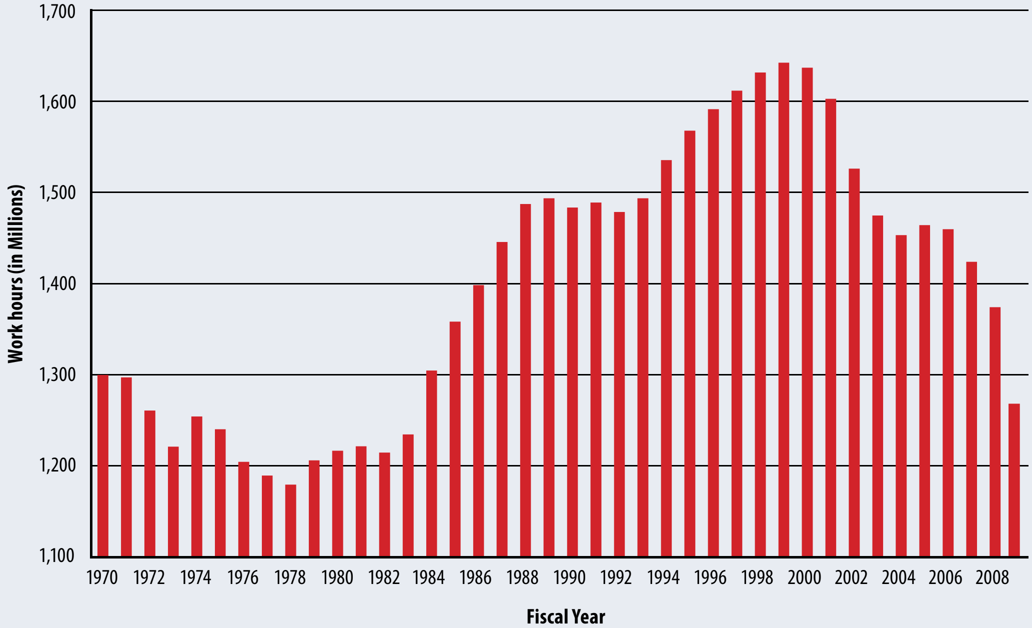
Table IV-9 presents the cumulative change in workhours and compensation by craft over the past 10 years.

Table IV-9
Change in Workhours and Labor Compensation by Decade

	Workhours		Nominal Compensation
	Change (Millions)	Percent Change	Change ($ Millions)
MARKET DOMINANT PRODUCTS:			
1970-1979	(76.5)	-6.2%	(554.1)
1980-1989	287.4	21.4%	4,971.1
1990-1999	148.7	9.5%	3,733.0
2000-2009	(383.4)	-26.6%	(15,064.7)

Source: USPS Annual Tables, FY 2009 TFP

Figure IV-13
U.S. Postal Service Workhours
Fiscal Years 1970 - 2009



Source: USPS Annual Tables, FY 2009 TFP

Productivity

The Postal Service uses TFP to measure changes in postal efficiency. TFP measures the change in the relationship between outputs (workload processed) and inputs (resource usage) over a period of time. Workload consists of weighted mail volume, miscellaneous output, and the expanding delivery network. Resources consist of labor, materials (including purchased transportation), and deployed capital assets. Workload growth minus the growth of resources used equals TFP growth.

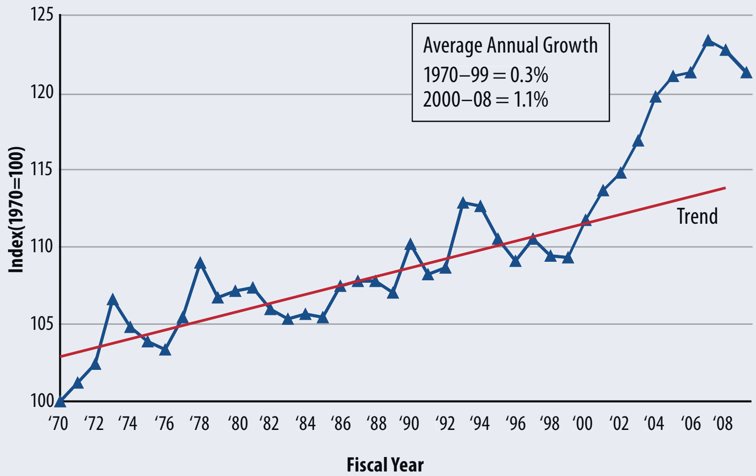
Figure IV-14 presents the TFP growth over the past 40 years.

The Postal Service is a labor intensive organization, with 77 percent of its inputs consisting of labor.[14] From 1970 to 1999, the Postal Service was unable to restrain the growth of its labor input despite heavy capital investments in automation. As a result, over this period, TFP growth fluctuated between short periods of productivity increases and productivity declines, creating a trend of insignificant gains in postal efficiency. During the last 30 years of the previous century, the Postal Service accumulated a productivity increase of only 9.3 percent. The average annual TFP growth was only 0.3 percent. By decade, the average annual TFP growth rates were 0.7 percent during the 1970s; 0.0 percent during the 1980s; and 0.2 percent during the 1990s.

From 2000 to 2009, the Postal Service managed to cut its labor force aggressively as its workload remained flat or declined. As a result, the Postal Service's efficiency improved dramatically from 2000 through 2007. During this 8-year period, TFP grew at an average annual rate of 1.5 percent, five times faster than during the previous 30 years. After achieving 8 consecutive years of productivity increase, the Postal Service registered TFP declines for FY 2008 and FY 2009. The large drop in mail volume in FY 2008 and the record decline in FY 2009 made it difficult for the Postal Service to achieve productivity growth. The Postal Service's cuts in workhours were not large enough to offset the unprecedented declines in workload during those years.

[14] Source: Postal Service Annual Tables, FY 2009 TFP. Labor includes all wages and benefits for all employees and retirees, including craft employees, professional, administrative, and technical personnel.

Figure IV-14
U.S. Postal Service Total Factor Productivity (TFP)
Fiscal Years 1970-2009



Source: USPS Annual Tables, FY 2009 TFP

Specifically, in FY 2008, even though the Postal Service cut 50 million workhours, TFP declined by 0.5 percent. Similarly, although the Postal Service was able to shed a record of 115 million workhours (or 8.8 percent) in FY 2009, TFP declined by 0.9 percent. Over the past decade, TFP grew at an average rate of 1.1 percent annually.

Financial Reporting Requirements

The Postal Service must file with the Commission certain reports that conform to the SEC regulations. The SEC-type reports to be filed with the Commission are Form 10-K, Form 10-Q, and Form 8-K.

Form 10-K is an annual report which contains a comprehensive summary of a company's performance, including the audited financial statements. The report also includes information regarding the executive compensation policies of the company, and detailed information of the compensation and benefits packages of all senior executive officers. This report is due to the Commission within 60 days of the end of the reportable fiscal year.

Form 10-Q is a similar report to the Form 10-K, but filed on a quarterly basis. The Form 10-Q provides quarterly financial reports and a management discussion on operations and finances, including management's assessment of the outlook for the rest of the year. The Form 10-Q is required to be filed with the Commission within 40 days of the end of the fiscal quarter.

Form 8-K is a report which includes major public announcements which could materially affect the financial status of the Postal Service. This would include public releases of financial information within a press release, public speech, or presentations by operating managers to Congress. It would also include any updates of significant events which would affect the financial standing of the Postal Service occurring between filings of the Form 10-K and/or the Form 10-Q.

The Postal Service filed the required FY 2009 Forms 10-Q in February 2009 (Quarter 1), May 2009 (Quarter 2), and August 2009 (Quarter 3). All filings were within the specified 40-day time frame. The Form 10-K for FY 2009 was filed on November 16, 2009, well within the 60-day filing requirement.

CHAPTER V - PERFORMANCE PLANS AND PROGRAM PERFORMANCE REPORTS

Introduction

Section 3653(d) requires the Commission to evaluate annually whether the Postal Service has met its goals established under sections 2803 and 2804.[1] The Commission may provide recommendations related to the protection or promotion of public policy objectives set out in title 39. As the Commission requested in the 2008 ACD, and as described in detail below, the Postal Service should produce reports which adhere more closely to the requirements of 39 U.S.C. sections 2803 and 2804.

Statutory Requirements

Section 2803 requires the Postal Service to include an "annual performance plan covering each program activity set forth in the Postal Service budget" in its 2009 Comprehensive Statement. Section 2803(a) requires the performance plan to establish goals for each program activity, express such goals in an objective and quantifiable manner, describe the resources needed to meet the goals, establish performance indicators to measure the relevant outputs from each program activity, provide a basis for comparing actual program results with goals, and describe the means used to validate measured values. Section 2803(b), however, allows the Postal Service to express performance goals for a particular program activity in an alternative form if it is not feasible to express performance goals in an objective and quantifiable manner. Subsections 2803(b) and (c) set out that an alternative form must describe a "minimally effective program" and a "successful program," but may aggregate or consolidate program activities.

Section 2804 requires the Postal Service to prepare a report on program performance for each fiscal year to include in its Comprehensive Statement. Section 2804(b) requires that the program performance report include a statement of the performance indicators, along with the actual performance achieved compared to the performance goals. However, section 2804(b) also requires that if the Postal Service specifies performance goals in an alternative form, a description of what constitutes a "minimally effective program" and a "successful program," the program results must be provided and described in relation to those two descriptions.

The performance plans and the program performance reports required under sections 2803 and 2804, respectively, are components of the Comprehensive Statement submitted annually by the Postal Service to Congress pursuant to section 2401(e). Among other things, the Comprehensive Statement must address postal operations, generally, including data on the speed and reliability of service provided for the various classes of mail and types of mail service, mail volume, productivity, trends in postal operations, and analysis of the impact of internal and external factors upon the Postal Service.

Comments

In Order No. 380, the Commission solicited comments from the parties concerning the Postal Service's reporting of performance plans and program performance reports. Order No. 380 at 3. The Public Representative submitted comments providing a general critique on the sufficiency of the Postal Service's review of its program plans and program

[1] Pursuant to section 3652(g), the Postal Service is required to provide the Commission with copies of its most recent comprehensive statement under section 2401(e), performance plans under section 2803, and program performance reports under section 2804. Chapter 28, which includes sections 2803 and 2804, was added to title 39 pursuant to the Government Performance Results Act of 1993 (GPRA), Pub L. 103-62, 107 stat. 285 (1993).

performance reports. Public Representative Comments at 47-51. Noting the three "overarching" goals identified in the 2009 Comprehensive Statement and the information reported on those goals, the Public Representative asserts that the goals "are simply *too aggregated*."[2] The Public Representative explains that these goals "are the result of, or at least partially the result of, a multitude of individual program activities. There are many program activities (once referred to as "sub-goals") identified and described in earlier chapters of the Comprehensive Statement which could also be compared—actual to plan—over time as well and displayed in a tabular format as was sometimes done in the past." *Id.* (footnote omitted).

The Public Representative points out that the then General Accounting Office (GAO), in an audit conducted in 2000, expressed concerns about the utility of Postal Service reports under sections 2803 and 2804.[3] GAO identified several concerns with the details being reported by the Postal Service, including:

> instances where (1) without detailed explanation, several prior years' sub-goals—and their associated indicators and targets–were not carried forward into the next fiscal year (2001) preliminary performance plan; (2) the criteria the Postal Service used to measure its success toward achieving certain goals were unclear; (3) the description of strategies to accomplish certain results were incomplete; (4) information contained in prior years' plans were carried forward into the current year's plan without always being updated to reflect known or anticipated changes; and (5) little or no explanation was given on why the plan lacked baseline data for some quantitative indicators.

Id. citing GAO Report at 3.

The Public Representative points out that the 2009 Comprehensive Statement identifies "sub-goals" that could "be compared—actual to plan—over time" and presented in a tabular format. *Id.* at 49. He suggests that a reporting format be devised to "elicit and display information by *program activity* in a more detailed user-friendly manner." *Id.* at 51 (emphasis in original).

Postal Service Submission Under Sections 2803 and 2804

The Postal Service's response to the GPRA is set forth principally in chapter 6 of its 2009 Comprehensive Statement at 59-63. At the outset, the Postal Service outlines the philosophy behind its performance management system as being "based on focusing on a limited number of key goals, developing valid measurement systems that provide timely, reliable information, and establishing effective accountability systems for programs and individuals." *Id.* at 59.

The Postal Service identifies three corporate goals: improved service, improved financial viability, and improved employee engagement. *Id.* It reports results for each of these goals, divided into nine categories: improve service (First-Class Mail overnight, two-day, three-to-five-day, Priority Mail, and Express Mail); improve financial viability (total national revenue and total factor productivity); and improve employee engagement (Occupational Safety and Health Administration (OSHA) illness and injury rate, and voice of the employee survey rate). *Id.* at 60-62.

The 2009 Comprehensive Statement also provides a high level overview of various aspects of postal operations, customer programs, and workforce issues. For example, the discussion on postal operations touches on, among other things, standardization and network optimization, mail processing and delivery, and transportation. *Id.* at 23-43. That discussion, however, does not include details or comparisons of goals, targets, and results by year or over time. It also does not describe a minimally effective or successful program.

Commission Information Request No. 3

Upon review of the 2009 Comprehensive Statement, the Commission issued an information request seeking greater detail on the Postal Service's performance plans and program performance reports.[4] CIR No. 3 paraphrased the requirements of sections 2803 and 2804 and requested clarification regarding the Postal Service's response to these provisions.

[2] *Id.* at 49 (emphasis in original). The three goals identified by the Postal Service are improve service, improve financial viability, and increase employee engagement. *Id.*; *see also* 2009 Comprehensive Statement at 59-60.

[3] *Id.* at 50, citing *U.S. Postal Service, Enhancements Needed in Performance Planning and Reporting* (GAO –GAO/GCD-00-207), September 2000 (GAO Report).

[4] Commission Information Request No. 3, February 4, 2010 (CIR No. 3).

While, as a general matter, it does not address the specific requirements of sections 2803 and 2804,[5] the Postal Service, nonetheless, contends it has complied with the requirements of GPRA, asserting that "[c]orporate goals are expressed in objective, quantifiable form. Performance indicators are established for each goal; measurement systems are described; and targets are compared with actual results. The processes and resources required to meet the goals are briefly discussed in the performance plan and report, but operating processes, technologies, and resources are discussed in extensive detail throughout the balance of the *Comprehensive Statement on Postal Operations*."[6]

The Postal Service indicates that its corporate goals are balanced across three criteria, namely, Voice of the Customer, Voice of the Business, and Voice of the Employee.[7] As noted above, these goals are divided into nine categories[8]. The Postal Service also states that "[c]orporate goals are expressed in objective, quantifiable form…measurement systems are described; and targets are compared with actual results." *Id.* at 6, question 1. It further notes that "[t]he processes and resources required to meet the goals are briefly discussed in the performance plan and report…." *Id.*

Commission Analysis

Section 2803(a) requires the Postal Service to "prepare an annual performance plan covering each program activity set forth in the Postal Service budget, which shall be included in the comprehensive statement presented under section 2401(e) of [title 39]."[9] The Postal Service apparently reads this requirement as limited to appropriations to provide free or reduced rate mail. Thus, it asserts that "the budget alone does not provide adequate or relevant context for managing performance." Response to CIR No. 3, question 1 at 1-2. This Postal Service reading of the statute is unsupported. It is inconsistent with prior Postal Service performance plans and performance reports where it identified many programs other than "free or reduced-rate mail" and described them in greater detail than it currently does. *Id.*

The predicate for the Postal Service's conclusion is misplaced. It argues that the GPRA was "implemented at a time when roughly a quarter of the Postal Service's operating expenses came from appropriations" and now appropriations are limited to refund mandated free and reduced rate mail. *Id.* In fact, when GPRA was first applied to the Postal Service in FY 1994, appropriations totaled $130.2 million compared to total operating expenses of $48.5 billion; thus, FY 1994 appropriations represented 0.3 percent of total operating expenses.

Under the Postal Service's reading, section 2803 becomes entirely irrelevant for measuring performance and, for that matter, inapplicable to the Postal Service other than for minor appropriations' matters. While section 2803 requires the Postal Service to prepare annual performance plans for each program activity in its budget, there is nothing that suggests the limitation the Postal Service attempts to read into the term. Rather, it is plain from the scope of sections 2803 and 2804 that the budget referred to is the Postal Service operating budget, not some variation of it limited to appropriations.

The performance plans and program performance reports referenced in sections 2803 and 2804 are to be included in the Comprehensive Statement submitted under section 2401(e). The latter, in turn, directs the Postal Service to submit its annual Comprehensive Statement to Congress at the same time it makes its Congressional budget submission for the next fiscal year. The Comprehensive Statement, however, has virtually no connection to the budget submission, but rather is designed to provide a complete ("comprehensive") report on, among other things, adherence of plans, policies, and procedures to section 101 and on postal operations, *e.g.*, data on speed and reliability of service, mail volumes, and productivity.

The information detailed extensively in sections 2803 and 2804 is to be included in the Comprehensive Statement. The Postal Service represents that it has

[5] The one exception to this is its response to question 4 which inquired about program performance reports mandated by section 2804(a). The Postal Service cites its 2009 Comprehensive Statement as satisfying this requirement. Responses of the United States Postal Service to Questions 1-6 of Commission Information Request No. 3, February 10, 2010, question 4 (Response to CIR No. 3).
[6] *Id.*, question 1 at 1; *see also id.*, question 5 ("All corporate goals and results are shown in the performance plan and report. The body of the Comprehensive Statement also reports progress on multiple high-level efforts within the organization.").
[7] *Id.*, question 1 at 2.
[8] *Id.* The Postal Service excludes targets for Priority Mail and Express Mail because they are competitive products.
[9] Program activity is defined as "a specific activity related to the mission of the Postal Service[.]" 39 U.S.C. 2801(5).

complied with this requirement, citing chapter 6 of the Comprehensive Statement.[10] The Commission is not persuaded.

The GPRA was intended to enhance transparency and accountability of Postal Service (and other Federal agencies) finances and operations. The GPRA as it applies to the Postal Service requires under section 2803 detailed performance plans (to, *inter alia*, establish performance goals, express them in objective, quantifiable fashion, establish performance indicators, and compare actual results with established performance goals), and under section 2804 comprehensive program performance reports (to, *inter alia*, report actual program performance results compared to performance goals). The Postal Service's 2009 Comprehensive Statement does not address the details of any performance plan and supplies only limited results achieved to established performance goals. While the Postal Service does identify three corporate goals, and with respect to those goals presents some results for a three-year period, the results are not complete.[11]

The precursor to section 3653(d) was introduced in H.R. 4970 in 2002. The timing is telling because it was introduced on the heels of four GAO reports which examined the Postal Service's performance plan submitted pursuant to the GPRA. The reports covered FYs 1998 through 2001. While taking a measured tone, GAO was, in general, critical of the Postal Service's efforts. The following comments from GAO reports are illustrative. First, after noting that the GPRA requires the Postal Service to prepare an annual performance plan for each program activity (defined as a specific activity related to its mission), GAO states: "Although we recognize that developing meaningful linkages between performance goals, program activities, and budgetary resources is a difficult task, these linkages are incomplete in the Postal Service's preliminary performance plan for fiscal year 2000."[12]

[10] See *id.*, question 4; *see also* 2009 Comprehensive Statement at 59.
[11] *See* 2009 Comprehensive Statement at 60.
[12] The Results Act: Observations on the Postal Service's Preliminary Performance Plans for Fiscal Year 2000, April 30, 1999, GAO/GGD-99-72R at 6. *See also* GAO Report, *supra,* at 2 ("Our assessments of the Service's fiscal year 1999 performance report and its fiscal year 2001 preliminary performance plan are not as positive as our prior years' assessments of the Service's efforts under GPRA.").

Second, in its most recent report, GAO tempered its assessment of the Postal Service's performance plans, stating:

> More specifically, we believe that some aspects of the Service's fiscal year 1999 performance report were not as straightforward and clearly stated as intended by GPRA, and some aspects of the Service's fiscal year 2001 preliminary performance plan were not as comprehensive as they had been in prior plans. We also have concerns about other aspects that may limit the plan's usefulness.

GAO Report, *supra,* at 2.

In sum, shortcomings identified a decade ago by GAO on the level of detail reported by the Postal Service under sections 2803 and 2804 persist.

The discussion in the chapters preceding chapter 6 of the Comprehensive Statement appears to provide information related to the Postal Service's three corporate goals and would, if detailed more fully, address the requirements of sections 2803 and 2804. Chapter 3 discusses various facets of Postal Service operations, including standardization and network optimization, mail processing, and delivery to information technology. Chapter 4 discusses customer programs. Both relate to the corporate goal of improving service. While some results are provided, these discussions are far from complete. Instead, the discussion mentions various functions, activities, or sub-goals, but without any reference to targets, performance plans, or means of validation. The foregoing observation applies equally to the two other corporate goals identified by the Postal Service, namely, improve financial viability, and increase employee engagement.

The Commission's responsibility is to evaluate annually whether the Postal Service has met the goals established under sections 2803 and 2804. 39 U.S.C. 3653(d). As the foregoing discussion makes evident, the Postal Service's review of its performance plans and program performance reports makes meaningful evaluation problematic. This is not to suggest that the Postal Service has not provided some relevant information. Rather, what is provided does not allow the Commission to complete the evaluation Congress assigned in section 3653(d). For example, Intelligent Mail barcode, Flats Sequencing System, and Network Distribution Centers, all major Postal Service initiatives that could be fairly characterized as program activities, are either not detailed fully, lack specificity as to performance goals and a basis for comparing results with goals, or are not addressed at all in terms of performance plans.

The discussion of FSS is illustrative. Among other things, the Postal Service notes the facilities where FSS has been installed, that the goal is to complete Phase I in 2011, and the effect of declining volume on deployment of the machines. It states that "[a]ll major FSS preparation milestones are closely monitored to ensure successful implementation." *Id.* at 31. No information is provided quantifying the intended benefits of FSS or the progress made towards achieving those intended benefits. According to section 2803, in the absence of quantification or measurement, a description of a minimally effective or successful program is to be provided. No such description by which an assessment of the FSS program can be made is offered. Even at high level categories such as processing, transportation, or delivery there is no quantification or method for measurement.

Based on the information provided in the 2009 Comprehensive Statement, the Commission has attempted to identify a connection between the Postal Service's three high-level corporate goals and the items mentioned throughout the 2009 Comprehensive Statement.

In accordance with section 2803(a), the Commission attempted to link the high level goals to objective, quantifiable, and measurable forms, describe the resources required to meet the goals, identify the performance indicators and/or basis for comparing actual to plan, and the means to be used to verify and validate the measures. Figures V-1, V-2, and V-3 are graphical illustrations of possible links between the Postal Service's three corporate goals, improve service, improve financial viability, and increase employee engagement, and requirements set out in section 2803. Blue boxes indicate performance goals and red boxes indicate operational processes or activities. Yellow boxes depict programs intended to achieve the performance goals. White boxes indicate a means of measurement. No quantification of the performance goals or means of validating measurements were found.

Further Action

Section 3653(d) is designed to be a useful tool to enhance accountability and transparency. The Postal Service's response to CIR No. 3 suggests that it believes its current review of performance plans and program performance reports is satisfactory. Having reviewed the Postal Service's submissions in this and prior ACDs, the Commission is not persuaded that the Postal Service's review is sufficient to enable the Commission to fulfill its responsibilities under section 3653(d). It is not the Commission's intent to impose extraneous reporting requirements on the Postal Service. *See* 39 U.S.C. 3652(e)(1)(B). The directive of section 3653 however, is clear. The Commission is charged with evaluating whether the Postal Service has met the goals established under sections 2803 and 2804.

The Commission has considered various options to address this matter and concludes that, under the circumstances, the most prudent course of action is to direct Commission staff to engage the Postal Service in a dialogue on the form and content of rules that would best implement section 3653(d). While the Commission has no preconceived outcome in mind, it would appear likely that the Postal Service is already undertaking efforts, perhaps something akin to Decision Analysis Reports, that would enable it to provide more detailed and constructive information without undue effort or expense. It is the Commission's hope that such dialogue will be fruitful. At the conclusion of those efforts, assuming the Postal Service does not petition for a rulemaking, the Commission may, *sua sponte,* initiate a rulemaking on this issue affording all interested persons an opportunity to comment.

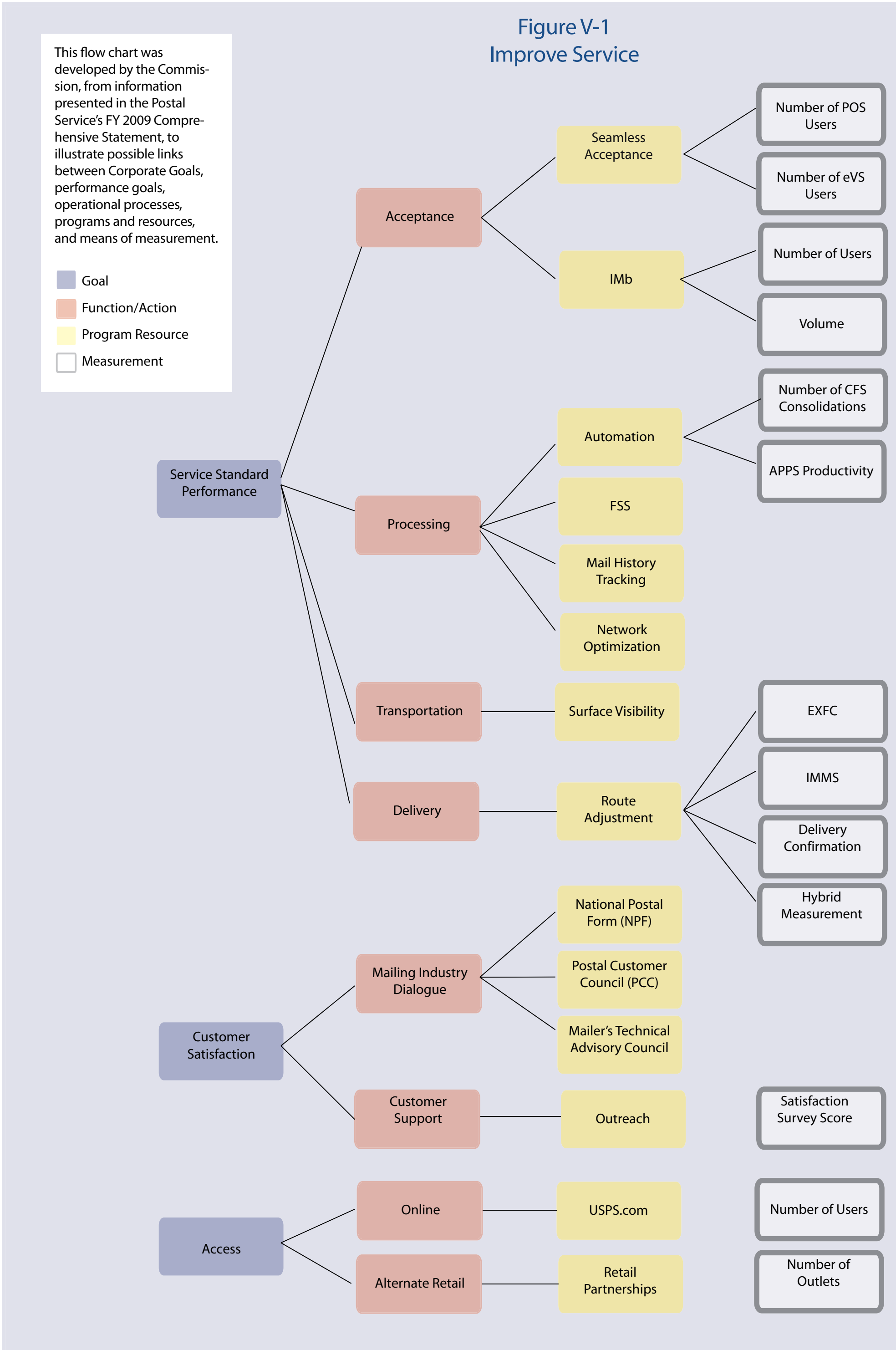


Figure V-1
Improve Service
This flow chart was developed by the Commission, from information presented in the Postal Service's FY 2009 Comprehensive Statement, to illustrate possible links between Corporate Goals, performance goals, operational processes, programs and resources, and means of measurement.
Goal
Function/Action
Program Resource
Measurement
Service Standard Performance
Acceptance
Seamless Acceptance
Number of POS Users
Number of eVS Users
IMb
Number of Users
Volume
Processing
Automation
Number of CFS Consolidations
APPS Productivity
FSS
Mail History Tracking
Network Optimization
Transportation
Surface Visibility
EXFC
Delivery
Route Adjustment
IMMS
Delivery Confirmation
Hybrid Measurement
Customer Satisfaction
Mailing Industry Dialogue
National Postal Form (NPF)
Postal Customer Council (PCC)
Mailer's Technical Advisory Council
Customer Support
Outreach
Satisfaction Survey Score
Access
Online
USPS.com
Number of Users
Alternate Retail
Retail Partnerships
Number of Outlets

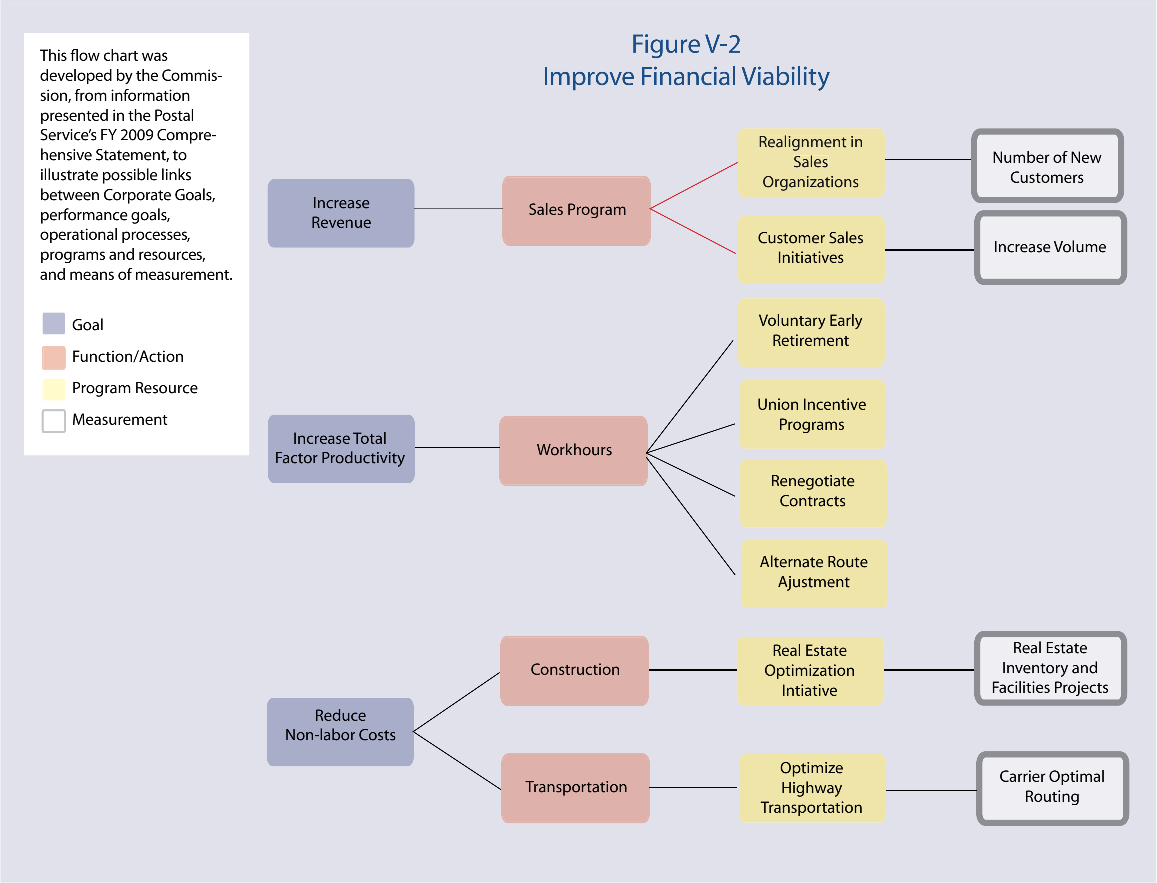
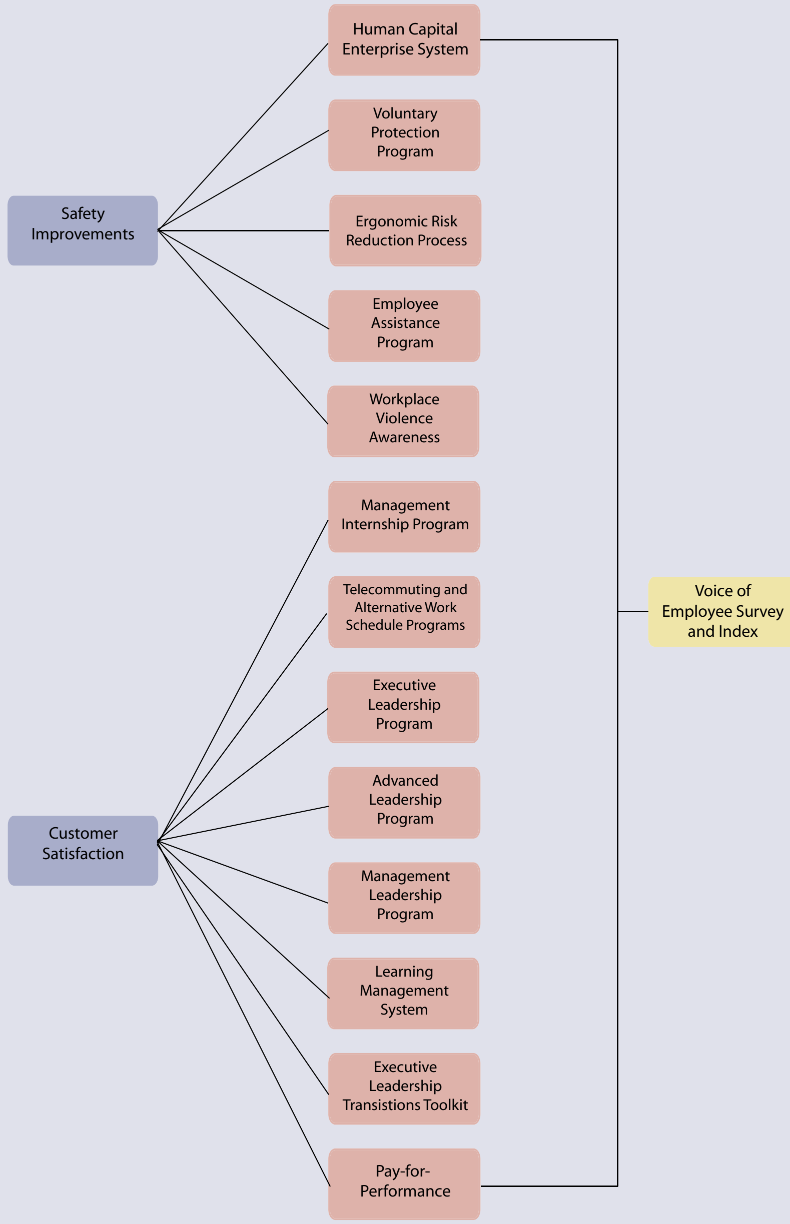


Figure V-2
Improve Financial Viability
This flow chart was developed by the Commission, from information presented in the Postal Service's FY 2009 Comprehensive Statement, to illustrate possible links between Corporate Goals, performance goals, operational processes, programs and resources, and means of measurement.
Goal
Function/Action
Program Resource
Measurement
Increase Revenue
Sales Program
Realignment in Sales Organizations
Number of New Customers
Customer Sales Initiatives
Increase Volume
Increase Total Factor Productivity
Workhours
Voluntary Early Retirement
Union Incentive Programs
Renegotiate Contracts
Alternate Route Ajustment
Reduce Non-labor Costs
Construction
Real Estate Optimization Intiative
Real Estate Inventory and Facilities Projects
Transportation
Optimize Highway Transportation
Carrier Optimal Routing

This flow chart was developed by the Commission, from information presented in the Postal Service's FY 2009 Comprehensive Statement, to illustrate possible links between Corporate Goals, performance goals, operational processes, programs and resources, and means of measurement.

- Goal
- Function/Action
- Program Resource
- Measurement

Figure V-3
Increase Employee Engagement



CHAPTER VI — SERVICE STANDARD PERFORMANCE

Introduction

Under the PAEA, the Commission is tasked with reviewing the Postal Service's performance in the areas of speed of delivery and customer satisfaction. The purpose of this review is to ensure that service does not deteriorate under the CPI cap rate system. With a rate cap in place, there may be incentive to cut costs by reducing service. Some troubling trends have been identified in the following discussion. The Commission's review encompasses delivery, access, and customer satisfaction.

Delivery

The Postal Service provides several service performance measurement systems that can be used to measure the speed of delivery and reliability of market dominant mail products.[1] For First-Class Mail, the Postal Service uses the EXFC measurement system for Single-Piece First-Class Mail; pilot data from the IMb program for presort First-Class Mail; and the IMMS for Inbound and Outbound First-Class Mail International. Standard Mail's delivery performance can be measured using pilot data from the IMb system. Periodical mail delivery performance is measured using data from two external measurement systems, the Red Tag Monitoring Service and the Del-Trak System. The ancillary Delivery Confirmation service is used to measure Package Services delivery performance.[2] The EXFC and IMMS are the only systems that are fully operational and reliable.[3]

Single-Piece First-Class Mail

EXFC measurement. The EXFC measurement system is a destination-based system providing quarterly service performance measurement scores at both the postal area and district level and is managed by an independent contractor, IBM. Delivery performance is measured from the street collection box to the delivery mailbox. When evaluating delivery performance, test mailers record the time they place a Single-Piece First-Class mailpiece in the collection box. Those test mailpieces are sent to a nationwide panel of receivers that record when the mailpiece was delivered to their mailbox.[4] 2009 ACR at 10. Delivery performance is recorded on the basis of 3-digit ZIP Code pairs. The Postal Service also reports the percentage of mail delivered on time by 3-digit ZIP Code pair. Quarterly, the Postal Service provides the most recent results on its website at the area, district, and national level.[5] The annual service performance score is provided at the national level.

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[1] Actual quarterly performance is located on the Postal Service's website *http://www.usps.com/serviceperformance/*.

[2] Package Services delivery performance is a composite score that includes Single-Piece Parcel Post, Bound Printed Matter, and Media Mail/Library Mail.

[3] Although Delivery Confirmation has also been in use for a number of years, there is some question as to how representative it is of the performance of the products it is used to measure.

[4] IBM uses mail droppers to report the date and time test mailpieces are deposited into the mailstream. Mail reporters report on the date they receive the mailpieces. Order No. 140, Docket No. PI2008-1, Order Concerning Proposals for International Service Standards Measurement Systems, November 25, 2008.

[5] Postal Service website *http://www.usps.com/serviceperformance/*.

Determining the number of EXFC mailpieces sent to each location requires that the number of EXFC origin mailpieces be proportionate to the actual Single-Piece First-Class Mail volume estimates from ODIS-RPW data. For example, if ODIS-RPW data indicates that 10.0 percent of the overnight mail going to Northern Virginia originates in Richmond, Virginia, the number of EXFC test mailings between these postal areas will correspond to that proportion.[6]

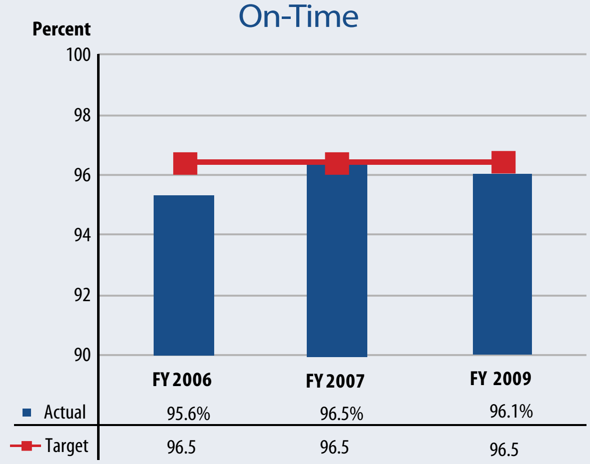
In FY 2009, several changes were made to the EXFC measurement system. Most important, the number of 3-digit ZIP Code pairs measured increased from 463 to 892. 2009 ACR at 12. The expansion allows the Postal Service to measure virtually all 3-digit ZIP Code areas in the United States and its territories, including Guam, Puerto Rico, and the U.S. Virgin Islands. *Id.* Both the EXFC and IMMS measurement systems were impacted by the 3-digit ZIP Code pair expansion.

The EXFC system design was also changed to more closely reflect proportions of Single-Piece First-Class Mail Letters, Cards, Flats, and Parcels with Delivery Confirmation rather than total First-Class Mail. *Id.*, Note 1. The change was made because presort First-Class Mail performance is now measured using IMb. An ODIS-RPW study was undertaken to facilitate the EXFC system design change.[7] Response to CHIR No. 3, February 5, 2010, question 14; 2009 ACR at 13. After the study analysis was completed, additional Single-Piece First-Class Mail characteristics were included in the EXFC system redesign and proportionately incorporated into the Postal Service's FY 2009 EXFC Mail Characteristics Refresh "kits" used in measuring delivery performance. *The Commission finds expanding the measurement and redesigning the system beneficial.*

Single-Piece First-Class Mail service performance. For FY 2009, Single-Piece First-Class Mail service performance scores fell short of the national targets.

Figure VI-1 provides the national Single-Piece First-Class Mail overnight delivery performance scores for FY 2007 to FY 2009 as well as the FY 2009 national target of 96.5 percent.[8] In FY 2009, the Postal Service's national on-time performance for Single-Piece First-Class Mail overnight delivery was 96.1 percent, below both the stated target and the FY 2008 score.

Figure VI-1
National Single-Piece First-Class Mail
Percentage of Overnight Mail Delivered
On-Time



Sources: 2008 ACD at 42, 2009 ACR at 12, FY 2009 target from the RIBBS website.

Figure VI-2 provides the national Single-Piece First-Class Mail two-day delivery performance scores for FY 2007 to FY 2009 as well as the FY 2009 national target of 94.0 percent. The FY 2009 score for two-day delivery also was marginally below the target and FY 2008 performance.

Figure VI-3 provides the national Single-Piece First-Class Mail three-to-five-day delivery performance scores for FY 2007 to FY 2009 as well as the FY 2009 national target of 92.7 percent. In FY 2009, the Postal Service's national three-to-five-day on-time performance for Single-Piece First-Class Mail was 90.8 percent. Again, this score was below the target and lower than the score achieved in FY 2008.

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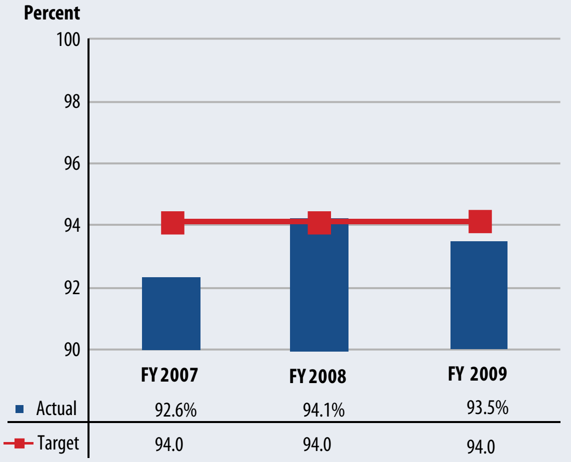
[6] Responses of the United States Postal Service to Questions 1-4, 6-11, and 14-25 of Chairman's Information Request No. 3, February 5, 2010 (Response to CHIR No. 3, February 5, 2010).

[7] The ODIS-RPW collects information on sample mailpieces to estimate the elapsed mail processing time from entry at the "originating" mail processing facility to its exit at a destination mail processing facility.

[8] Postal Service national targets are found on the RIBBS website, *http://ribbs.usps.gov*. Valpak notes the website only provides the current year's national targets. Valpak Comments at 3-4.

Figure VI-2
National Single-Piece First-Class Mail
Percentage of Two-Day Mail Delivered On-Time



Sources: 2008 ACD at 42, 2009 ACR at 12, FY 2009 national target from the RIBBS website.

Table VI-1 provides a detailed comparison of the Single-Piece First-Class Mail actual delivery performance from FY 2007 to FY 2009.[9]

The Postal Service indicated that the system redesign and the increase in the number of 3-digit ZIP Code pairs measured impacted the on-time delivery performance results. Initially, the on-time delivery performance scores for the expansion 3-digit ZIP Code pairs lagged behind the performance of the original 463 3-digit ZIP Code pairs by 13.5 percent. The Postal Service worked with its field managers to close the performance gap. At the conclusion of FY 2009, there was only a 0.7 percent difference.[10] The Postal Service states that it will continue "to focus on service improvement and [bring] the performance in the expansion [3-digit ZIP Code pair] areas up to the high levels of performance previously experienced in the core ZIP Code areas." 2009 ACR at 13-14.

The FY 2009 performance scores for overnight, two-day, and three-to-five day delivery all are lower than in FY 2008. However, a true comparison is difficult to make because the FY 2009 scores reflect a substantial part of nationwide service that was not reflected in the FY 2008 scores. Indeed, expanding the measurement system appears to have improved service for those 3-digit ZIP Code pairs that were not previously measured. In addition, the performance scores are all higher than the FY 2007 scores. *The Commission recommends that the Postal Service closely monitor these scores to ensure that service is not actually declining.*

Single-Piece First-Class Mail International

IMMS measurement. Single-Piece First-Class Mail International delivery service performance is measured by the IMMS[11] and is subject to the same 3-digit ZIP Code pair expansion discussed earlier for the EXFC measurement system. The Postal Service reports quarterly service delivery performance on a postal area

[9] In its FY 2009 Comprehensive Statement, the Postal Service indicates that target plan and actual calculations differ slightly for Single-Piece First-Class Mail two-day and three-to-five-day delivery performance because the target is used by the Postal Service in its pay-for-performance system and thus excludes approximately 2 weeks in December when service is affected by commercial transportation issues outside of a manager's control. No time period is excluded from actual performance values. 2009 Comprehensive Statement at 60.

[10] Response of the United States Postal Service to Question 5 of Chairman's Information Request No. 3, February 22, 2010, question 5 (Response to CHIR No. 3, February 22, 2010); 2009 ACR at 13.

[11] The UNEX International Mail measurement system is used to evaluate delivery performance for tariff purposes.

Table VI-1
Single-Piece First-Class Mail Delivery Performance Comparison

EXFC Measurement Plan	Actual FY 09	Actual FY 08	Actual FY 07	FY 2009 Difference from FY 08	FY 2009 Difference from FY 07
Overnight	96.1%	96.5%	95.6%	(0.4) pts	0.5 pts
Two-Day	93.5%	94.1%	92.4%	(0.6) pts	1.1 pts
Three-to-Five- Day	90.8%	91.7%	89.6%	(0.9) pts	1.2 pts

Sources: 2009 ACR at 12; 2008 ACD at 42; and FY 2009 Targets from RIBBS website.

basis. The annual measurement is a composite value that includes inbound and outbound mail.

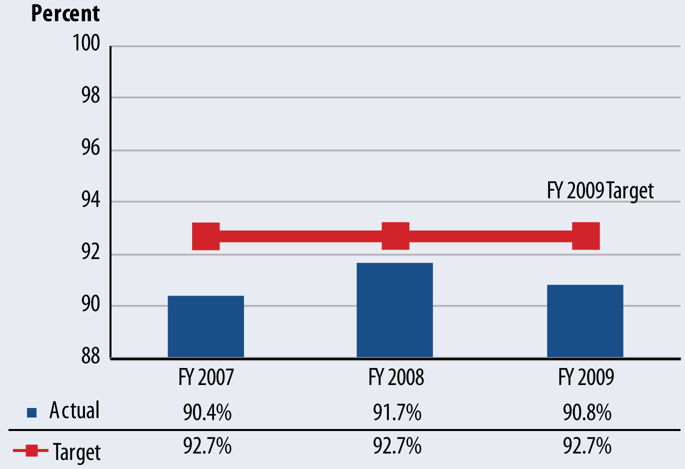
IMMS uses an independent (third-party) external sampling system to measure performance for the domestic leg of the transit time for Inbound and Outbound Single-Piece First-Class Mail International Letters. Inbound Single-Piece First-Class Mail International measurement begins when the mailpiece arrives at the International Mail processing center and ends when it is delivered. Outbound Single-Piece First-Class Mail International is measured from the collection box or mail chute to the destinating International Mail Service Center (ISC) in the United States. Areas measured conform to the areas tested in the EXFC measurement system. On-time service performance is measured using the same set of service standards as domestic Single-Piece First-Class Mail because the focus is on the domestic leg of transit.

Table VI-2 provides the FY 2009 performance scores for both the combined Single-Piece First-Class Mail International and the individual inbound and outbound performance scores.

Single-Piece First-Class Mail International delivery performance scores for FY 2009 were below both the FY 2008 scores and the FY 2009 targets. In addition to the 3-digit ZIP Code pair expansion previously mentioned, the Postal Service identified delivery delays occurring as a result of the consolidation of Outbound International Mail processing locations. 2009 ACR at 10.

In Quarter 1 of FY 2009, the San Francisco ISC ceased processing outbound mail and transferred that responsibility to the New York JFK ISC. The Los Angeles

Figure VI-3
National Single-Piece First-Class Mail Percentage of Three- to-Five-Day Mail Delivered On-Time



Sources: 2008 ACD at 42, 2009 ACR at 12, FY 2009 national target from the RIBBS website.

Table VI-2
Single-Piece First-Class Mail International On-Time Service Performance (Inbound and Outbound)

	FY 2009 Actual On-Time	FY 2009 Target	FY 2008 Actual On-Time	FY 2009 Variance from FY 08	FY 2009 Actual Variance from FY 2009 Target
Combined In/Outbound	89.7%	94.0%	93.4%	(3.7) pts	(4.3) pts
Inbound:					
Overnight	93.4%	96.5%	94.6%	(1.2) pts	(3.1) pts
Two-Day	87.2%	94.0%	90.3%	(3.1) pts	(6.8) pts
Three-to-Five-Day	86.6%	92.7%	89.1%	(2.5) pts	(6.1) pts
Outbound:					
Overnight	94.9%	96.5%	96.3%	(1.4) pts	(1.6) pts
Two-Day	92.7%	94.0%	96.1%	(3.4) pts	(1.3) pts
Three-Day	86.4%	92.7%	92.1%	(5.7) pts	(6.3) pts

Sources: 2008 ACD at 42; 2009 ACR at 12; Response to CHIR No. 3, February 5, 2010, Question 11.

ISC transferred its processing of outbound letters and flats to the New York JFK ISC. However, the Los Angeles ISC continues to process outbound Express Mail Service and air parcels.[12]

For Inbound Single-Piece First-Class Mail International, the New York JFK ISC is the sole processor of letter post mail. The other four ISCs do not process inbound letter post mail; rather, they receive the mail and pass it on to the nearby domestic plants for downstream processing. *Id.* For example, the Miami ISC passes on inbound letter post mail to the Miami processing and distribution center. *Id.* The changes in the outbound processing of International Mail resulted in "significant modifications to processing transportation schemes, and had initial negative impacts on the on-time performance of International mail." 2009 ACR at 10-11.

The Postal Service must carefully monitor the impact network changes have on delivery performance. The Postal Service needs to improve service standard performance for Single-Piece First Class Mail International.

UNEX measurement system. A separate measurement system also exists to measure the service performance of some International Mail. The UNEX system, managed by the International Postal Corporation, measures the time in transit of test mailpieces posted in one country until delivered in the destination country.[13] Currently, the postal administrations of 43 countries are participants in the UNEX system. *Id*.

In the case of the Postal Service, the UNEX system provides service performance achievement scores relative to a UPU established annual performance "target."[14] For both calendar years 2008 and 2009, the UPU established target was 88.0 percent. Measurement of Postal Service handling and delivery of inbound test pieces occurs from the point of entry until receipt by a designated addressee in the U.S. The resulting UNEX system service performance scores are used to adjust terminal dues payments for inbound letter post from certain foreign postal administrations to the Postal Service pursuant to the UPU's QLMS.[15]

As discussed previously in this analysis, the IMMS-reported FY 2009 service performance of Inbound First-Class Mail International decreased compared to FY 2008. *See* Table VI-2. By contrast, the UNEX-reported preliminary CY 2009 annual service performance score suggests an improvement relative to the CY 2008 annual service performance score. Response to CHIR No. 2—Errata, questions 14(a) and (c). In this regard, the Postal Service notes that "performance scores improved steadily throughout CY 2009...," [16] although not enough to cause the preliminary CY 2009 annual performance score to exceed the targets for calendar year 2008 or 2009.

Nevertheless, the Commission notes the comparatively higher service performance reported by IMMS relative to the UNEX system scores. The UNEX system preliminary CY 2009 annual performance score is less than the composite FY 2009 annual overnight, two-day, and three-to-five-day service performance reported by IMMS for Inbound First-Class Mail International.

Despite the contrasting results in year-over-year comparisons, both systems reveal service performance for Inbound First-Class Mail International that is less than optimal. *The Commission recommends the Postal Service identify and correct the cause(s) of the gap in service performance for Inbound First-Class Mail International in order to achieve continued improvement in service performance.*

Bulk Presort First-Class and Standard Mail

IMb measurement. The PAEA mandates that external measurement systems be used for measuring service performance unless alternate systems are approved by the Commission. The Commission approved the Postal Service's proposal to use IMb as a hybrid measurement

[12] Responses of the United States Postal Service to Questions 1-25 of Chairman's Information Request No. 2, February 2, 2010, question 22 (Response to CHIR No. 2).

[13] For a more complete description of the UNEX system, see *http://www.ipc.be/en/Services/Technical%20_Platforms/UNEX/UNEX%20Europe.aspx*.

[14] In response to a CHIR No. 2, the Postal Service provided (under seal) its UNEX system preliminary and final service performance scores for CY 2008 and CY 2009, respectively. Notice of the United States Postal Service of Revised Response to Question 14 of Chairman's Information Request No. 2—Errata, March 5, 2010 (Response to CHIR No. 2—Errata).

[15] A more complete discussion of the QLMS and quality of service link to terminal dues payments to the Postal Service can be found in the Chapter 7 analysis of market dominant International Mail products.

[16] Responses of the United States Postal Service to Questions 1-2, 5-9 of Chairman's Information Request No. 5, February 23, 2010, question 5 (Response to CHIR No. 5).

system that consists of (1) the time it takes a mailpiece to get through the mail processing system, and (2) the time it takes from the last mail processing scan to delivery.

The Postal Service's IMb service performance measurement system begins measuring performance when the start time (start-the-clock) or the documented arrival time at a designated postal facility is recorded, and ends (stop-the-clock) with the IMb delivery scan at delivery. The delivery scan is performed by an external, third-party reporter using an IMb scanner. The Postal Service's data is provided to an independent contractor who calculates the service performance measurements and prepares reports.

During FY 2009 Quarter 4, a pilot test collected data from a limited number of presort First-Class and Standard Mail mailings to evaluate aspects of the Full Service Intelligent Mail systems.[17] As stated on the Postal Service website, during the pilot test, the validity of the start-the-clock event and the scope of system coverage did not meet the rigor intended when the Full Service Intelligent Mail system becomes fully operational. The Postal Service's start-the-clock event was based on the first read on mail processing equipment for a piece of mail within a given mailing rather than on the documented arrival time. For a mailpiece to be included in the measurement test, the first read must have occurred at the expected origin processing facility.[18] While the stop-the-clock event was provided by independent contractors as intended, the low volume of IMb pieces made it difficult to correctly identify IMb pieces.

For presorted First-Class Mail, existing systems did not adequately measure the service performance for presort First-Class Mail Parcels—less than 0.05 percent of total presort First-Class Mail. Similarly, limited mailer participation and limited automated processing of Standard Mail Flats, impacted the reliability of reported results. *Id.* Data from EXFC for Single-Piece First-Class Mail Flats is used as a proxy for estimating the service performance for presort First-Class Mail Flats. Delivery Confirmation data for domestic Single-Piece First-Class Mail Parcels serves as a proxy for presort parcels. *Id.*

Service performance. The First-Class presort and Standard Mail service performance scores are provided in Table VI-3. Presort First-Class Mail performance scores were lower than the corresponding targets. Overnight performance was below the target by 2.2 percentage points; two-day performance was below the target by 3.9 percentage points; and, three-to-five-day performance was below the target by 7.7 percentage points. Standard Mail was below the target by 7.0 percentage points. A review of the Quarter 4, FY 2009 Standard Mail unweighted performance results shows that the on-time performance for origin entered Standard Mail was 58.2 percent and destination entry was 89.0 percent.[19] *The Commission recommends that the Postal Service determine the cause of the low performance scores for origin entered mail and work to correct service problems*.

Both presorted First-Class and Standard Mail's variance may be impacted by the limited pilot test data. Response to CHIR No. 3, February 5, 2010, question 8; FY 2009 RIBBS posting of the targets.

In November 2008, the Commission agreed with mailers that it would be necessary to monitor the IMb adoption rates to ensure reasonably representative and unbiased service performance estimates. Order No. 140 at 4. To date, the adoption and successful completion of Full Service IMb testing is limited, as evidenced by the limited pilot test data used to evaluate both presort First-Class and Standard Mail. Given limited data availability, the IMb service delivery performance measurement is not representative of all presort First-Class and Standard Mail. *See* Appendix A for a discussion of how IMb adoption rates affect the CPI cap calculation.

The Commission continues to be concerned about the level of mailer participation in the IMb program and its effect on service performance measurement. The participation rate will be closely monitored by the Commission. If the mailer adoption of Full Service IMb continues to be minimal, an alternative measurement system to capture delivery performance data for presort First-Class and Standard Mail may need to be explored.

[17] Only data from 45 postal districts are represented.

[18] Response to CHIR No. 3, February 5, 2010, question 8; Postal Service website, *http://www.usps.com/serviceperformance/*.

[19] Quarter 4, FY 2009 Standard Mail unweighted performance results are found at *http://www.usps.com/serviceperformance/_pdf/StandardMailQuarterlyPerformanceFY09Q4unweightedonly.pdf*.

Table VI-3
FY 2009 Bulk Mail On-Time Service Performance (Actual vs. Targets)

Mail Class	FY 2009 Actuals	FY 2009 Targets	Variance from Target
Presorted at First-Class Mail			
Overnight	94.3%	96.5%	(2.2) pts
Two-Day	90.1%	94.0%	(3.9) pts
Three-to-Five-Day	85.0%	92.7%	(7.7) pts
Standard Mail	83.0%	90.0%	(7.0) pts

Sources: Response to CHIR No. 3, question 8, February 5, 2010; and FY 2009 Targets from RIBBS website.

The Postal Service needs to facilitate customer adoption of IMb in order to get more reliable data.

Periodicals

The Periodical service performance score is based on combined data from two external measurement systems, the Red Tag Monitoring Service and the Del-Trak System. In March 2010, the Postal Service will begin to measure Periodicals performance using IMb. The FY 2009 actual service performance score was 73.7 percent. The target was 91.0 percent. Actual performance was below the target by 17.3 percentage points. *The Commission is concerned about the disparity between actual performance and the target. The PAEA section 708 provided a study of Periodicals conducted jointly by the Commission and the Postal Service. That study will be published this spring and will, among other things, address service issues of Periodicals mail.*

Package Services

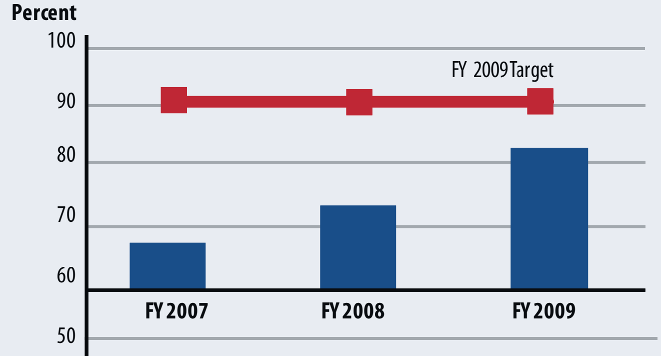
Delivery Confirmation measurement. Delivery Confirmation is used to measure the on-time delivery performance for retail package services. When retail clerks receive parcels using ancillary Delivery Confirmation service, the Delivery Confirmation barcode is scanned at a point-of-sale terminal or with an Intelligent Mail handheld scanning device to "start-the-clock." At the delivery point or attempted delivery, the barcode is scanned again which serves to "stop-the-clock." If either of these scans is missing, the mailpiece is not included in the service performance measurement. This measurement is treated as representative of service performance for Single-Piece Parcel Post, Bound Printed Matter, and Media Mail/Library Mail. 2009 ACR at 12.

Valpak remarks that using Delivery Confirmation as a service performance measurement tool may result in biased results because of the practice the Postal Service uses in ignoring scans that do not have both an entry and final scan in the service performance calculation. Valpak Comments at 58. The Commission will address those concerns in the forthcoming service performance measurement rules.

Service performance. Figure VI-4 provides the national Single-Piece Package Services delivery performance scores for FY 2007 to FY 2009 as well as the FY 2009 national target of 90.0 percent. Package Services delivery performance is based on retail Package Services. In FY 2009, the Postal Service's retail Package Service delivery performance score of 73.4 percent was 16.6 percentage points below the target.[20]

[20] Notice of the United States Postal Service of Revised Page to FY2009 Annual Compliance Report—Errata, March 9, 2010.

Figure VI-4
National Retail Single-Piece Package Services
Delivery Performance (Ground)



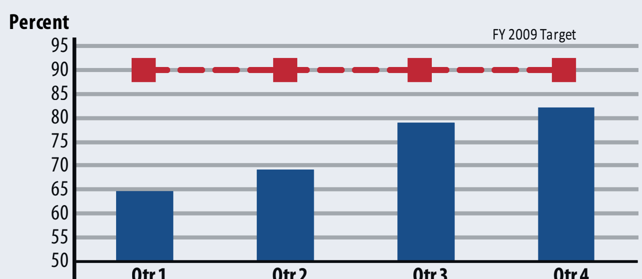
	FY 2007	FY 2008	FY 2009
Actual	57.7%	63.9%	73.4%
Target	90.0%	90.0%	90.0%

Sources: 2008 ACD at 43; 2009 ACR at 12; and FY 2009 target from the RIBBS website.

A review of the FY 2009 Package Services quarterly data shows that Package Services delivery performance has improved from Quarter 1 to Quarter 4 of FY 2009. *See* Figure IV-5.

Although it appears that the Postal Service is making improvements to Package Services performance, it is still well below its target. The Postal Service must continue to improve service standard performance for Package Services.

Figure VI-5
FY 2009 National Quarterly Package
Service Performance



	Qtr 1	Qtr 2	Qtr 3	Qtr 4
Actual	64.7%	69.3%	79.0%	82.2%
Target	90.0%	90.0%	90.0%	90.0%

Sources: Postal Service website for quarterly service performance reporting.

Tail of the Mail

In the 2007 and 2008 ACD, the Commission suggested that the Postal Service provide days-to-delivery data on the tail of the mail in its subsequent filings, reflecting the number of days-to-delivery until 99.0 percent delivery was achieved. The Postal Service did not provide the data in the 2009 ACR. Valpak Comments at 52. This issue will be addressed in the forthcoming service performance rules.

Mailer comments. The availability of service performance data is important to mailers. Valpak states that the Postal Service's service performance data is located in several different places. For example, quarterly service performance data is on one Postal Service website[21] and annual targets are located on a different website. Valpak suggests that the Postal Service consolidate all service performance data into one comprehensive report.[22] *Id.* at 59. In addition, Valpak remarks that the Postal Service has removed the FY 2009 performance targets from the RIBBS website. Consequently, the mailing community cannot compare targets from one year to the next.[23]

[21] *See http://www.usps.com/serviceperformance/.*
[22] *See http://ribbs.usps.gov/index.cfm?page=targets.*
[23] *Id.* at 48-55; Valpak Reply Comments at 4-5. *See also* Public Representative Comments at 38.

The Commission suggests that consolidation of service performance information into one report would facilitate transparency and improve mailers' understanding of postal practices. The Commission recommends that, at a minimum, the Postal Service's quarterly service performance reports[24] provide a link to the RIBBS target website[25] and vice versa. Additionally, the Commission recommends that the Postal Service maintain both the present and previous year's annual service performance targets on its website.

Three-digit ZIP Code upgrades and downgrades. During FY 2009, the Postal Service made changes to the number of days-to-delivery by mail class and by 3-digit ZIP Code pairs. Fifteen 3-digit ZIP Code pairs for First-Class Mail were upgraded from a delivery standard of two days to overnight, and 47 3-digit pairs were downgraded from two-day delivery to three days. Table VI-4 shows the total 3-digit ZIP Code pair upgrades and downgrades by mail class. Overall, the number of 3-digit ZIP Code pairs upgraded exceeded the number of downgrades.

[24] Quarterly service performance data is provided at *http://www.usps.com/serviceperformance/*.
[25] Postal Service targets are provided at http://www.ribbs.usps.gov/.

CUSTOMER ACCESS

Introduction

Customer access is an important measure of overall service. In response to volume losses and changing consumer behavior, the Postal Service has made a number of changes to its retail access network. It has removed collection boxes, cut hours at retail locations, expanded alternative access channels, and begun a review of opportunities to consolidate retail stations and branches.

Retail Facilities

As seen in Table VI-5, the overall number of retail facilities has remained relatively stable.

On July 2, 2009, the Postal Service filed a request for an advisory opinion on its plans to consolidate the operations of some of its retail stations and branches. The Commission found that while it was appropriate for the Postal Service to adjust its retail network to reflect changing customer needs, the Postal Service should improve its customer outreach efforts during the process. In particular, the Commission recommended that the Postal Service establish an adequate notice and comment period during which affected customers could provide input. For further information, see Docket No. N2009-1, Advisory Opinion Concerning the Process for Evaluating Closing Stations and Branches, March 10, 2010.

Table VI-4
3-Digit ZIP Code Pair Upgrades and Downgrades

Mail Class	Upgrades	Downgrades	Total
First-Class Mail	**15**	**47**	**62**
Standard Mail			
Origin Entered	3,122	863	3,985
Dropshipped	3	99	102
Periodicals			
Origin Entered	819	350	1,169
Dropshipped	14	69	83
Package Services			
Origin Entered	596	241	837
Dropshipped	3	99	102
Total	**4,572**	**1,768**	**6,340**

Source: Responses to CHIR 3, questions 1-4.

Table VI-5
Postal Service Delivery Points

Post Office, Stations & Branches	FY 2009	FY 2008	FY 2007	Change from FY 08
Post Offices	27,161	27,232	27,276	(71)
Classified Stations, Branches and Carrier Annexes	5,501	5,509	5,419	(8)
Contract Postal Units	3,037	3,148	3,131	(111)
Community Post Offices	797	834	895	(37)
Total Post Offices	36,496	36,723	36,721	(227)
Residential Delivery Points				
City Delivery	80,187,505	79,848,415	79,470,894	339,090
Rural	38,264,946	37,684,158	37,022,488	580,788
P.O. Box	15,601,883	15,639,031	15,635,480	(37,148)
Highway Contract	2,576,166	2,516,783	2,473,323	59,383
Total Residential Delivery	**136,630,500**	**135,688,387**	**134,602,185**	**942,113**
Business Delivery Points				
City Delivery	7,483,461	7,436,965	7,411,582	46,496
Rural	1,439,266	1,407,942	1,360,478	31,324
P.O. Box	4,489,688	4,587,454	4,548,973	(97,766)
Highway Contract	72,966	71,538	69,304	1,428
Total Business Delivery	13,485,381	13,503,899	13,390,337	(18,518)
Total Delivery Points	**150,115,881**	**149,192,286**	**147,992,522**	**923,595**

Source: Annual Report 2009 of the Postal Service at 76.

Post Office Suspensions

In March 1998, the Postal Service instituted a moratorium on management-initiated post office closings or consolidations. The moratorium was instituted to draw attention to a backlog of post office operations that were suspended and to provide a more rigorous process for timely evaluation of post offices whose operations were suspended. In February 2000, the Postal Service, with assistance from postmaster organizations, finalized a consensus for a process to address the backlog of suspensions to either re-open or formally close the post offices. The moratorium was lifted in April 2002. Table VI-6 summarizes emergency suspensions as of February 2010. Table VI-6 indicates that the number of emergency suspensions has grown by 68 post offices from FY 2008 to February 2010. Table VI-7 provides the duration of the pending suspensions by post office status.

The Commission is concerned that all post office customers throughout the nation do not have access to local post offices and their services. It is evident that several post offices have been suspended for a number of years, and the Postal Service apparently has taken no effective action to re-open or close such offices, pursuant to 39 U.S.C. 404(a)(3), which establishes the process the Postal Service must follow when closing or consolidating post offices. It is not sufficient to simply suspend operations at a post office without promptly developing a plan to re-open or close the existing office. In November 2009, the Commission initiated a public inquiry to develop further information on the status of suspended post offices and the Postal Service practice of suspending post offices for extended periods.

Table VI-6[1]
Summary Comparison of Emergency Suspension of Post Offices February 2010 and FY September 2008

Area	February 2010 Suspensions	September 2008 Suspensions	Increase (Decrease)
Capital Metro	23	19	4
Eastern	85	62	23
Great Lakes	23	21	2
New York Metro	0	1	(1)
Northeast	7	4	3
Pacific	5	1	4
Southeast	31	28	3
Southwest	28	14	14
Western	52	36	16
Total Suspensions	**254**	**186**	**68**

Source: Response to CHIR No. 3, February 5, 2010, question 9. [2]

[1] Response to CHIR No. 3, February 5, 2010, question 9.
[2] The FY 2010 suspensions are the total number of suspensions reported less the number of offices closed and less the number of offices where service was restored.

Table VI-7[1]
Summary of the Duration of Emergency Post Office Suspensions

Status of Decision	Number of Offices	Years and Months on Suspension List
Decision Approved. Pending Announcement in Postal Bulletin	11	1 yr 5 months to 11 yrs 5 months
Decision Approved. Pending Final Decision Posting	16	10 months to 10 yrs 1 month
Pending Final HQ Decision	27	10 months to 20 yrs 1 month
Pending Field Discontinuance Study	194	2 months to – 28 yrs 8 months
Total	**248**[2]	

Source: Response to CHIR 3 Excel file (ChIR.3.Q1t4.Attach.xls) dated February 5, 2010.

[1] Response to CHIR No. 3, February 5, 2010, question 9.
[2] Table VI-7 total varies from Table VI-6 due to potential duplicates in Table VI-6.

As noted in its 2008 ACD, and reiterated here, the Commission expects the Postal Service to follow its published procedures and allow communities impacted by a suspension and/or closing to voice their opinions and concerns. The Commission recommends that the Postal Service provide updates on the disposition of any emergency suspensions as well as post office closings.

Wait Time in Line

In response to CHIR No. 3, the Postal Service stated that wait time in line does not bear a relationship to the Commission's responsibilities under section 3653 "because the wait time in line data…do not relate to the level of service for individual market dominant products." *See* Response to CHIR No. 3, February 5, 2010. Customer satisfaction is related to wait time in line.[26] The report required by section 3652(a) is to provide "measures of the quality of service afforded by the Postal Service in connection with such product including (i) the level of service...provided; and (ii) the degree of customer satisfaction with the service provided." The Commission's interest in wait time in line stems from its responsibilities under section 3653.

Table VI-8 provides the average wait time in line for the nation and by postal areas. By postal area, the average wait time in line ranged from a low of 2.27 minutes in the Great Lakes area to a high of 3.34 minutes in the Southwest area. For FY 2009, the Postal Service established a national wait time in line performance goal that 88.0 percent of the time customers would spend less than 5 minutes waiting in line. The actual national average, 83.8 percent, fell significantly short of that goal.

The current method of measuring wait time in line may not be representative of actual customer experience.

Table VI-8
FY 2009 Average Wait Time in Line (National and Area)[1]

Area	Average WTIL (minutes)
National	3:05
Capital Metro	2:53
Eastern	2:32
Great Lakes	2:27
Northeast	3:16
Pacific	3:16
Southeast	3:24
Southwest	3:34
Western	3:15

Source: Response to CHIR No. 3, February 5, 2010; and Excel file (ChIR.3.Q1t4.Attach.xls).

[1] This table represents the average wait time, across all postal shops. The measurement clock starts when the shopper enters the line and the clock stops when the postal clerk calls the shopper to a window. The average score for wait time is the percentage of time shoppers were served in five minutes or less. In FY 2009, 8,725 shops were measured. The shopped facilities were evaluated twice a quarter for approximately 64,972 measurements.

Collection Boxes

The PAEA specifically includes the review of the collection function in mail service. The first factor in section 3622 discusses the collection, mode of transportation, and priority of delivery. Section 403(b) requires the maintenance of an efficient system of collection. Collection boxes are an important access channel for Single-Piece First-Class Mail. The Commission's Universal Service Obligation report affirms the importance of collection as an essential part of postal service. The Postal Service removed 24,105 blue collection boxes from the postal system in FY 2009.[27] At the end of FY 2009, approximately 182,000 collection boxes remain.[28]

CUSTOMER SATISFACTION

Introduction

During FY 2009, the Customer Knowledge Management group, in the Consumer Affairs office at Postal Headquarters, used the Gallup Organization to conduct two online customer satisfaction surveys on behalf of the Postal Service.[29] At the same time, the

[26] FY 2010 Postal Service survey, question 11, and the former (Gallup Organization) customer satisfaction survey, question 9.

[27] Response to CHIR No. 3, February 5, 2010, question 6.

[28] Docket No. N2009-1, Tr. 2/228. At the end of June 2009, approximately 227,600 collection points existed and approximately 80.0 percent of the total collection points represent total collection boxes.

[29] FY 2009 is the final year the Gallup Organization will provide contracted supplier services. 2009 ACR at 15.

Postal Service began transitioning from a customer satisfaction-based measurement system to a customer experience-based measure. *Id.*

In the 2008 ACD, the Commission recommended that the Postal Service gather more information from small business and residential customers. In FY 2009, the Postal Service increased the frequency of surveying its residential and small business customers from a one-time panel study to a POS receipt invitation survey. The Postal Service has indicated that the FY 2010 Customer Experience Measurement will expand gathering data on these important customers.

The Postal Service's 2009 surveys were based on self-identified usage of market dominant mailing services. One survey evaluated residential and small businesses (RSBM)[30] satisfaction, and the other measured large commercial business customers.[31] Participants indicated they had used a specific market dominant product and evaluated their experience with that product.[32] All surveys consisted of questions addressing client satisfaction with First-Class Mail, First-Class Mail International, Standard Mail, Periodicals, Single-Piece Parcel Post, Media Mail, Bound Printed Matter, and Media Mail/Library Mail. *Id*.

In contrast to the past survey practice of relying on a one-time telephone panel study of RSBM customers, the Gallup Poll conducted quarterly, online customer surveys to capture satisfaction ratings. *Id*. at 16. One reason for using the online surveys versus telephone surveys was that online surveys were less expensive than telephone surveys. *Id*. at 16-18.

The Postal Service did not include its FY 2009 customer satisfaction service targets in its 2009 ACR. *The Postal Service must provide the targets it strives to achieve with regard to its customer satisfaction survey results in Annual Compliance Reports.*

Survey Results

In general, survey results for large business customers reflected opinions on the reliability and value of market dominant products. RSBM customers indicated that their survey responses were impacted most strongly by the reliability of the service, followed by accuracy of delivery, speed of delivery, and product value. 2009 ACR at 17.

A summary of the market dominant products surveyed and their satisfaction scores are provided in Table VI-9. Customer satisfaction scores are a

Table VI-9
FY 2009 Customer Satisfaction with Market Dominant Products

Mailing Services	Residential and Small Business Customer Ratings (E/VG/G)	Large Business Customer Ratings (E/VG/G)	Combined FY 2009 Survey Results (E/VG/G)
First-Class Mail	77.4%	94.1%	85.7%
Standard Mail	76.5%	90.8%	83.7%
Periodicals	83.6%	87.1%	85.4%
Single-Piece Parcel Post	76.6%	90.8%	83.7%
Media Mail	83.4%	91.3%	87.3%
Bound Printed Matter	84.9%	88.0%	86.4%
Single-Piece First-Class Mail International	78.0%	92.0%	85.0%
Library Mail	86.7%	93.9%	90.3%

Sources: 2009 ACR; and Library Reference USPS-FY09-38.

[30] A small business consists of 1 to 19 employees. The Postal Service indicated that the residential and small business customer surveys included medium-sized businesses.
[31] Large (commercial) businesses consist of 500 or more employees.
[32] The FY 2009 survey data collected indicated that approximately 81 percent of residential customers and 82 percent of small business customers visit a post office at least once a month. Approximately 25 percent of residential and small business customers visit a post office three to five times per month. *Id*.

Table VI-10
Residential and Small Business Survey Results

Product Type	Percent Excellent	Percent Very Good	Percent Good	Percent (E/VG/G)
First-Class Mail	31.3%	27.5%	18.6%	77.4%
Standard Mail	19.2%	24.3%	33.0%	76.5%
Periodicals	21.7%	32.7%	29.2%	83.6%
Single-Piece Parcel Post	23.9%	27.9%	24.8%	76.6%
Media Mail	27.8%	30.8%	24.7%	83.4%
Bound Printed Matter	21.4%	30.8%	32.7%	84.9%
Single-Piece First-Class Mail International	26.2%	27.0%	24.8%	78.0%
Library Mail	25.7%	31.6%	29.4%	86.7%

Source: 2009 ACR; and Library Reference USPS-FY09-38

composite of three categories: Excellent, Very Good and Good. Individual performance scores of Excellent, Very Good and Good scores for RSBM customers and large business customers are provided in Tables VI-10 and VI-11.

Overall, large business customers appear to be more satisfied with market dominant products than are RSBM customers. In FY 2009, RSBM customer ratings ranged from a low of 76.5 percent to a high of 83.6 percent. Large business customer ratings ranged from a low of 87.1 percent to a high of 94.1 percent. Similar results occurred in FY 2008. *Id.* at 18.

The continuing disparity in customer satisfaction between RSBM customers and large business customers may indicate that the Postal Service is meeting large business customer needs at the expense of the RSBM customers. Consequently, the Commission recommends the Postal Service evaluate why satisfaction differs by customer and by product. In addition, separate composite scores of Excellent, Very Good and Good should be provided for residential, small and medium-sized businesses, and commercial (large) accounts.

Table VI-12 provides a comparison of the customer satisfaction survey results for FY 2009 and FY 2008. Customer satisfaction has dropped in all mail classes. For example, the FY 2008 customer satisfaction for First-Class Mail was 94.1 percent; however, in FY 2009, the score was 85.7 percent, or a decline of 8.4 percentage points.

The Postal Service attributes the difference to the survey methodology and mode. "For example, the telephone survey mode used for most of the large commercial business customer interviews in FY 2008 may be contrasted with the online survey mode that was adopted in FY 2009 to reduce cost and optimize the final year of the CSM survey operations." *Id.* at 18, 19. In addition, the Postal Service states that "[i]ndustry research indicates that surveys conducted by telephone interview tend to yield more favorable results than online or paper surveys." *Id.* The Postal Service points out that the FY 2009 interim customer satisfaction measurement approach is evolving. The new surveys are expected to expand outreach and measurement frequency for the Postal Service's entire customer base. *Id.* at 19. *The Commission recognizes that the Postal Service is transitioning to a new customer satisfaction measurement system. However, the Commission is concerned about the apparent overall decline in customer satisfaction with market dominant products. The Postal Service should continue efforts to improve customer satisfaction.*

Table VI-11
Large Business Customer Survey Results

Product Type	Percent Excellent	Percent Very Good	Percent Good	Percent (E/VG/G)
First-Class Mail	22.8%	43.5%	27.8%	94.1%
Standard Mail	17.2%	40.4%	33.2%	90.8%
Periodicals	14.2%	35.7%	37.3%	87.1%
Single-Piece Parcel Post	16.0%	36.0%	38.8%	90.8%
Media Mail	17.2%	36.2%	37.8%	91.3%
Bound Printed Matter	16.0%	34.7%	37.3%	88.0%
Single-Piece First-Class Mail International	15.1%	37.5%	39.4%	92.0%
Library Mail	21.5%	36.8%	35.6%	93.9%

Source: 2009 ACR, Postal Service Library Reference USPS-FY09-38.

Table VI-12
Combined Customer Satisfaction with Market Dominant Products for FY 2009 and FY 2008

Mailing Services	FY 09 Combined Survey Results (E/VG/G)	FY 08 Combined Survey Results (E/VG/G)	Difference from FY 09–FY 08
First-Class Mail	85.7%	94.1%	(8.4) pts
Standard Mail	83.7%	85.7%	(2.0) pts
Periodicals	85.4%	89.1%	(3.7) pts
Single-Piece Parcel Post	83.7%	92.1%	(8.4) pts
Media Mail	87.3%	93.0%	(5.7) pts
Bound Printed Matter	86.4%	91.8%	(5.4) pts
Single-Piece First-Class Mail International	85.0%	90.2%	(5.2) pts
Library Mail	90.3%	94.4%	(4.1) pts

Source: 2009 ACR; Library Reference USPS-FY09-38; and ACD 2008 at 31.

Ancillary Services

Total market dominant and ancillary service revenues for FY 2009 are $59.8 billion. Special Services represents approximately 5.0 percent of those revenues. The Postal Service does not separately evaluate the Special Services products in its customer satisfaction surveys. As mentioned in the 2008 ACD, the Postal Service is losing an opportunity to determine whether or not the Postal Service may grow those products' revenues. While Special Services revenues are low in comparison to other classes of mail, the Postal Service is relying on Delivery Confirmation to evaluate service performance for parcel-shaped mail. *The Commission defers commenting on the service performance evaluation of Special Services until the forthcoming service performance rules are published.*

CHAPTER VII — MARKET DOMINANT PRODUCTS

Introduction

This chapter presents the Commission's analysis of the financial results and rates for each market dominant class, for market dominant NSAs, and for market dominant international products. The financial analysis focuses on cost coverage and pricing issues, including whether the class and its products generate adequate revenue to cover attributable costs.

Each class section also contains a discussion of worksharing and other rate issues. Methodological issues affecting the development of estimates of worksharing-related cost avoidances are addressed, the resulting cost avoidances are compared with the corresponding discounts, and the discounts and other rate relationships are analyzed for consistency with the applicable statutory provisions. Based on the analysis of the FY 2009 financial and worksharing data, a determination of the appropriate action pursuant to section 3653(c), if any, is made.

The major findings are summarized below:

- The Commission identified 14 products and services which generate insufficient revenues in FY 2009 to cover attributable costs. The total shortfall from these products is $1.7 billion. This only represents the amount necessary to equate revenue and attributable cost.
- Of the 14 products making no contribution, three account for $1.5 billion of the loss: Standard Flats ($616 million), Standard NFMs/Parcels ($205 million), and Periodicals ($642 million). The Commission is requiring the Postal Service to develop and present a plan explaining how the Postal Service expects to increase cost coverage on these products to a level where each makes a reasonable contribution to institutional cost. The plan shall be included in the next Annual Compliance Report or the next general market dominant price adjustment, if it precedes the ACR.
- The Commission identified 30 workshare discounts that exceed avoidable cost in FY 2009. Of the 30 discounts, the Commission finds that 13 are not justified by an exception under section 3622(e). Consequently, the Commission expects the Postal Service to bring these discounts into alignment with avoidable cost when it initiates its next general market dominant price adjustment.

In the interim since the 2008 ACD, the Postal Service petitioned the Commission to consider 30 distinct methodological changes. *See, e.g.,* Docket No. RM2010-5. Many of the changes addressed concerns raised in previous ACDs. The Commission commends the Postal Service for its attention to these issues. The methodological changes which affect cost attribution, the development of group-specific costs, and the models used to estimate avoidable cost are discussed in Appendix C.

It should be noted that some issues with the billing determinants volumes provided by the Postal Service create difficulties for the Commission's review. As filed, the billing determinants do not reconcile with the volumes in the Mail Characteristics Study.[1] In response

[1] When there are 2 or more figures purporting to represent the same item, for example, a mail category volume, it may not be apparent which figure is correct. In such instances, only the Postal Service can resolve the discrepancy and therefore the Chairman or the Commission must issue information requests which may lead to additional information requests if the response is not clear. Thus, the lack of internally consistent figures adds to the difficulty of validating the Postal Service's numbers within the time constraints of ACR proceedings.

to further inquiry, the Postal Service explained that the billing determinants volumes for some rate categories exclude volumes sent under NSAs.[2]

The Postal Service should improve its data systems and the presentation of its reports so that numbers that appear in multiple reports can be easily reconciled. To facilitate the use of billing determinants volumes for price cap calculations in accordance with 39 CFR 3010.24(a) without the need for adjustments, rate category volumes for each class that include volumes sent under NSAs should be presented. Where rate category volumes that exclude NSA volumes are presented, they should be clearly labeled as such.

For the first time this year, data are available to conduct a retrospective analysis of the application of the price cap mechanism. The results of this analysis are presented and discussed in Appendix A.

FIRST-CLASS MAIL

Introduction

First-Class Mail consists of six products, Single-Piece Letters and Cards, Presort Letters and Cards, Flats, Parcels, Outbound Single-Piece First-Class Mail International, and Inbound Single-Piece First-Class Mail International. The class had a volume of 83.8 billion pieces in FY 2009. First-Class Mail accounts for 47 percent of total volume and 71 percent of total contribution.

The level of workshare discounts remains the most controversial issue in First-Class Mail. The discount for automation mixed AADC letters continues to exceed the costs avoided. In the ongoing worksharing docket (Docket No. RM2009-3), the Commission is considering several proposals to modify the method of estimating the cost avoidance associated with this and other discounts. For the most part, comments on the ACR appropriately focus on the results of accepted methodologies. This is consistent with previous guidance by the Commission that methodological issues are more appropriately discussed in proceedings separate from the annual compliance review. *See* 2008 ACD at 46.

[2] *See* Response of the United States Postal Service to Questions 1-2, 4-5, 7-17, 19, 21-23, and 25 of Chairman's Information Request No. 4, February 16, 2010, question 2 (Response to CHIR No. 4).

The primary FY 2009 findings for First-Class Mail are:

- First-Class Mail contributed $17.9 billion to institutional costs.
- Revenues did not cover the attributable costs of presort parcels producing a cost coverage of 92 percent and a loss of $1.9 million.
- The cost coverage for all First-Class Mail Parcels was 102 percent.
- The year-end discounts for automation mixed AADC and AADC presort letters, automation ADC presort flats, and automation 3-digit and 5-digit presort cards exceeded the corresponding avoided costs and are not justified by any of the enumerated exceptions of 39 U.S.C. 3622(e).
- *The Postal Service should develop benchmarks and cost avoidance estimates for the least-workshared categories of First-Class Mail Flats and Parcels, and the current proxies (flats bundle costs) for presort parcel cost avoidance calculations should be replaced with parcel-specific costs.*

Financial Analysis

Table VII-1 presents selected First-Class Mail financial data. First-Class Mail rates recovered 199.6 percent of attributable costs in FY 2009. Last year, the Postal Service reconfigured its data systems to enable the reporting of financial results by product; therefore, trends in unit costs can now be calculated at the product level. These calculations show a unit cost increase for single-piece letters and cards of 4.9 percent; for presort letters and cards unit cost, an increase of 6.2 percent; for flats, a unit cost decrease of 1.0 percent; and for parcels, a unit cost increase of 5.7 percent in FY 2009. With the exception of flats, these increases are greater than the 0.324 percent decrease in the CPI-U for the fiscal year.[3]

Parcels have a cost coverage of 102 percent, and presort parcels fail to recover attributable costs with a cost coverage of 92 percent.[4] While the cost coverage of presort parcels has improved slightly from last year's level of 88 percent, the overall coverage

[3] The -0.324 percent change in CPI-U for FY 2009 is calculated using the same method that determines the amount of the rate cap under rule 3010.21.

[4] Each of these types of mail received a below average rate increase as a result of the Docket No. R2009-2 rate case.

Table VII-1
First-Class Mail
Fiscal Year 2009 Volume, Revenue, Cost, Contribution, and Cost Coverage by Product

	Volume (000)	Total Revenue ($ 000)	Attributable Cost ($ 000)	Contribution to Institutional Cost ($ 000)	Rev./Pc. (Cents)	Cost/Pc. (Cents)	Contribution to Institutional Costs/Pc. (Cents	Cost Coverage
First-Class Mail								
Single-Piece Letters	30,016,465	13,362,722	7,902,016	5,460,706	44.518	26.326	18.192	169.1%
Single-Piece Cards	1,616,755	457,605	440,003	17,602	28.304	27.215	1.089	104.0%
Total Single-Piece Letters and Cards	31,633,220	13,820,327	8,342,019	5,478,308	43.689	26.371	17.318	165.7%
Presort Letters	45,109,177	15,801,339	5,404,526	10,396,814	35.029	11.981	23.048	292.4%
Presort Cards	3,126,016	671,758	240,956	430,803	21.489	7.708	13.781	278.8%
Total Presort Letters and Cards	48,235,193	16,473,098	5,645,481	10,827,616	34.152	11.704	22.448	291.8%
Single-Piece Flats	2,147,859	2,951,171	1,706,978	1,244,193	137.401	79.473	57.927	172.9%
Presort Flats	716,637	594,655	450,532	144,124	82.979	62.868	20.111	132.0%
Total Flats	2,864,496	3,545,827	2,157,510	1,388,317	123.785	75.319	48.466	164.3%
Single-Piece Parcels	565,737	1,092,688	1,070,963	21,725	193.144	189.304	3.840	102.0%
Presort Parcels	15,089	22,300	24,212	(1,912)	147.791	160.462	(12.670)	92.1%
Total Parcels	580,826	1,114,988	1,095,175	19,813	191.966	188.555	3.411	101.8%
Total Domestic First-Class Mail	**83,313,734**	**34,954,240**	**17,240,185**	**17,714,054**	**41.955**	**20.693**	**21.262**	**202.7%**
Total International First-Class Mail	456,449	918,516	734,758	183,758	201.231	160.973	40.258	125.0%
Total First-Class Mail	**83,770,183**	**35,872,756**	**17,974,944**	**17,897,812**	**42.823**	**21.457**	**21.365**	**199.6%**

of the product has decreased from 104 percent. In the 2008 ACD, the Commission expressed concern about these cost coverages and instructed the Postal Service to "strive for cost reductions and future rate adjustments to ensure consistency with" relevant statutory requirements. 2008 ACD at 47. The Postal Service should address this issue during its next market dominant price adjustment.

Section 3622(c)(2) requires each class or type of mail service to cover its attributable costs and make a reasonable contribution to institutional costs.[5] The Commission finds that the appropriate action is for the Postal Service to raise the contribution for presort parcels through cost reductions and future rate adjustments so that they satisfy this requirement. The Commission anticipates that the Postal Service will be able to achieve this when it files its next proposal for a general market dominant price adjustment. If, at that time, other relevant statutory requirements prevent it from doing so, it may present such an argument along with a description of its plans to ultimately fulfill the requirement. The discussion of international First-Class Mail appears in the section on International Mail.

Worksharing and Rates

Methodology Issues

The Postal Service and some commenters argue for methodological changes or make arguments based on the results of unapproved methodologies, including many of the proposals under consideration in Docket No. RM2009-3. *See, e.g.*, 2009 ACR at 58-65, Pitney Bowes Comments at 4, APWU Comments at 1-2, Burrus Reply Comments, GCA Reply Comments at 22-25, NPPC/NAPM Reply Comments at 5-9.

Pitney Bowes criticizes both the Postal Service and APWU for employing analysis that depends on unapproved methodological changes. It argues that, despite being labeled as an alternative analysis, "the filing of unapproved cost models as part of the Annual Compliance Report only contributes to confusion…" Pitney Bowes Comments at 4, n.4; *see also* Pitney Bowes Reply at 2-3.

As it has stated in previous ACDs, the Commission believes that the annual compliance review process is not the proper forum for the consideration of proposed changes to the accepted methodologies. The Commission's rules allow for separate rulemaking procedures for the proposal of methodological changes, and instruct the Postal Service to employ accepted analytical principles in its periodic reports to the Commission (including the ACR).[6] *See* 39 CFR 3050.10 and 3050.11. The Commission's analysis in this docket relies on accepted methods and analytical principles.

Rate Issues

Pitney Bowes discusses the cost avoidance and discount for automation 5-digit presort letters. It argues that because the discount is below the amount of avoided costs, it "distort[s] pricing signals to mailers and, thus, [is] inconsistent with the efficient component pricing rule (ECPR)." Pitney Bowes Comments at 2. Pitney Bowes expresses concern that the discount is trending further away from ECPR discounts, which it asserts are strongly supported by provisions in the PAEA. *Id.* at 2-4.

The Commission finds that while the cost avoidance of automation 5-digit letters could justify a larger discount, discounts that are less than avoided costs do not violate the restrictions of section 3622(e).

Pitney Bowes also urges the Postal Service to continue to exercise its pricing flexibility to stem mail volume declines and increase revenues. It identifies NSAs and initiatives like the Summer Sale as positive examples of the use of pricing flexibility. *See id.* at 6-7. In its comments, Pitney Bowes discusses unit contributions of presort letters and cards and single-piece letters and cards and the Postal Service's demand data. It concludes that to preserve mail volumes and contribution, "the Postal Service should exercise restraint in future pricing increases for First-Class Mail Presort letters." Pitney Bowes Comments at 1-2. Pitney Bowes also points out that, unlike many flats in other classes, First-Class Mail Flats are profitable. It, therefore, urges the Postal Service to be cautious when

[5] The desirability of rates that recover attributable costs and make reasonable contributions to institutional costs is also supported by sections 101(d), 3622(b)(1), and 3622(b)(5).

[6] 39 CFR 3050.1(a) defines accepted analytical principles as those applied by the Commission in its most recent Annual Compliance Determination unless a different analytical principle subsequently was accepted by the Commission in a final rule.

adjusting discounts for presorted flats to avoid causing a migration from this product. *Id.* at 6.

Stamps.com reiterates its proposal from the 2008 ACR and Docket No. RM2009-3 for a new discount for single-piece mail that uses CASS-certified software, meets the requirements for Basic IMb service, and has cleansed addresses. It further argues that the Postal Service's decision to forgo a price adjustment this year is tantamount to a "cap-neutral, across-the-board increase of zero." Stamps.com Comments at 3. As such, Stamps.com views this as a missed opportunity to implement a cap-neutral rate change that could improve the rate structure and options available to mailers. *Id.* at 2-5.

Pitney Bowes supports the concept of implementing channel-based discounts for meters, PC Postage, and other low cost postage distribution channels to promote efficient mailing practices. Pitney Bowes Reply Comments at 4.

The issue of discounts such as those proposed by Stamps.com is one of the topics under consideration in Docket No. RM2009-3. The Commission encourages the Postal Service to continue to work with mailers who seek to explore the potential for new products or discounts.

Results and Findings

Tables VII-2 and VII-3 present each First-Class Mail workshare discount, its associated cost avoidance, and the discount as a percentage of the avoided cost (passthrough).

Currently, 5 workshare discounts are greater than the costs avoided by the Postal Service as a result of the workshare activity: automation mixed AADC and AADC presort discounts for letters, automation ADC presort discount for flats, and automation 3-digit and 5-digit presort discounts for cards.

In the case of the automation ADC presort flats discount, the Postal Service asserts that, as in the Docket No. R2009-2 price adjustment, reducing the discount to 100 percent of avoided costs would create rate shock. The Postal Service intends to better reflect the cost data in future rate adjustments. *See* section 3622(e)(2)(B). With the expectation that the Postal Service will phase out the excess discount in future rate adjustments, no further action is necessary at this time.

For each of the remaining 4 discounts in question, the Postal Service claims that its "operations would be impeded considerably if prices were adjusted with every single update of cost models and subsequent changes in cost avoidances for various products." Response to the CHIR No.1, question 1. It therefore asserts that the exception in section 3622(e)(2)(D) applies. More generally, the Postal Service takes the position that the requirements of section 3622(e) are most appropriately "applied over the long-term, as a principle that should guide pricing over a series of price adjustments." *Id*. Further, it asserts that the limits on workshare discounts should be applied in combination with "all of the statutory criteria." *Id*.

For the automation mixed AADC presort letter discount, the Postal Service also argues that pricing with the price cap, the penny rounding constraint and rigid adherence to 100 percent passthrough of avoided costs impedes its efficient operation. *Id*.

NPPC/NAPM claim that the exception in section 3622(e)(3)(A) applies to the automation mixed AADC presort letter discount. In support of this claim, it refers to NPPC's comments in Docket No. RM2009-3 as demonstrating that reducing the discount "would reduce the aggregate contribution to Postal Service institutional costs from the 'category or subclass subject to the discount'—*i.e.*, First-Class letter mail." NPPC/NAPM Reply Comments at 10-11.

NPPC/NAPM and Pitney Bowes argue that, until the Commission makes a final decision on the Postal Service's proposed de-linking of mixed AADC from the Bulk Metered Mail (BMM) benchmark, no determination should be made regarding the compliance of the discount with the requirements of section 3622(e). *See id*. at 3-5, Pitney Bowes Reply Comments at 2.

APWU disagrees with the Postal Service's "invocation of supposed policies and objectives of the Act as a counterpoint to the clear statutory requirements of Section 3622...." APWU Comments at 5. It argues that the language of section 3622(e) is "clear and mandatory," requiring the Commission to ensure that discounts do not exceed avoided costs unless one of the exceptions within the section is met. *Id*. at 5-6.

APWU also finds the Postal Service's claim that reducing discounts would impede its efficient operation to be inadequately supported by specific

Table VII-2
First-Class Mail Letters, Flats, and Parcels
Workshare Discounts and Benchmarks

Type of Worksharing (Benchmark)	FY 2009 Year-End Discount (cents)	FY 2009 Unit Cost Avoidance (cents)	FY 2009 Passthrough
FIRST-CLASS MAIL AUTOMATION LETTERS			
Barcoding & Presorting			
Automation Mixed AADC Letters (Bulk Metered Mail (BMM) Letters)	5.8	4.6	126.1%
Automation AADC Letters (Automation Mixed AADC Letters)	2.2	2.0	110.0%
Automation 3-Digit Letters (Automation AADC Letters)	0.3	0.3	100.0%
Automation 5-Digit Letters (Automation 3-Digit Letters)	2.2	2.6	84.6%
FIRST-CLASS MAIL AUTOMATION FLATS			
Barcoding & Presorting			
Automation ADC Flats (Automation Mixed ADC Flats)	12.2	4.5	270.6%
Automation 3-Digit Flats (Automation ADC Flats)	6.1	6.4	95.7%
Automation 5-Digit Flats (Automation 3-Digit Flats)	16.2	16.9	96.1%
FIRST-CLASS MAIL PRESORTED/BUSINESS PARCELS			
Barcoding & Presorting			
Presort 3-Digit Parcels (Presort ADC Parcels)	8.6	59.2	14.5%
Presort 5-Digit Parcels (Presort 3-Digit Parcels)	13.2	31.6	41.7%
FIRST-CLASS MAIL NON-AUTOMATION LETTERS			
Presorting			
Non-automation Presort Letters (Bulk Metered Mail (BMM) Letters)	2.6	5.2	50.0%
QUALIFIED BUSINESS REPLY MAIL			
Barcoding			
QBRM[1] (Handwritten Reply Mail)	2.3	2.5	92.9%

Source: Library Reference PRC-ACR2009-LR3.

[1] The QBRM cost avoidance presented here is estimated using USPS methodology. The Commission found in Docket No. R2006-1 that this underestimated avoided costs, but that the alternative on the record overestimated avoided costs.

sources of inefficiency. Further, it asserts that the Postal Service has continued to depart from the Commission's instructions regarding the accepted cost avoidance methodology. *Id*. at 2-4. It asks the Commission to find that First-Class Mail workshare discounts are not in compliance with section 3622(e) and, as a remedy, to instruct the Postal Service to either submit revised rates that comply with the PAEA or submit a specific timetable for bringing the rates into compliance. *Id*. at 7-8, APWU Reply Comments at 3.

As the Commission stated in the 2008 ACD and consistent with its rules, the accepted methodology (which uses BMM as the benchmark for mixed AADC presort letters and non-automation presort letters) is to be retained unless and until "a different analytical principle subsequently [is] accepted by the Commission in a final rule." CFR 3050.1(a); *see also* 2008 ACD at 50. The issue of the benchmark is under consideration in Docket No. RM2009-3, and pending a final rule, the accepted methodology is properly retained.

The Commission does not accept the Postal Service's assertion that the application of the specific language of section 3622(e) is intended to be modified by other, more general, statutory language. Section 3622(e) identifies and explains the limited situations where exceptional consideration may be granted for discounts otherwise out of compliance. The only other part of the PAEA referenced within that section is the Commission's general authority to establish a system of regulation. *See* section 3622(a).

Similarly, the only language in section 3622(e) that suggests application over the long term is limited to the phasing out of excess discounts that qualify for the new discount and rate shock exceptions in subparts (2)(A) and (2)(B). The absence of such language elsewhere in

Table VII-3
First-Class Mail Cards Workshare Discounts and Benchmarks

Type of Worksharing (Benchmark)	FY 2009 Year-End Discount (cents)	Unit Cost Avoidance (cents)	Passthrough
First-Class Mail Automation Cards			
Barcoding & Presorting			
Automation Mixed AADC Cards (Non-automation Presort Cards)	1.5	2.4	62.5%
Automation AADC Cards (Automation Mixed AADC Cards)	1.0	1.0	100.0%
Automation 3-Digit Cards (Automation AADC Cards)	0.2	0.1	200.0%
Automation 5-Digit Cards (Automation 3-Digit Cards)	1.3	1.2	108.3%
Qualified Business Reply Mail			
Barcoding			
QBRM[1] (Handwritten Reply Cards)	2.3	2.5	92.9%

Source: Library Reference PRC-ACR2009-LR3.

[1] The QBRM cost avoidance presented here is estimated using USPS methodology. The Commission found in Docket No. R2006-1 that this underestimated avoided costs, but that the alternative on the record overestimated avoided costs.

the section strongly implies that, outside of those two exceptions, the Postal Service's proposal to apply the worksharing limits over the long term is not appropriate. Moreover, section 3653(b)(1) sets forth the Commission's obligation to determine compliance or non-compliance of "rates or fees in effect during such year[.]"

The assertion in reply comments by NPPC/NAPM that section 3622(e)(3)(A) applies to the automation mixed AADC presort letter discount rests on a flawed reading of the exception. The exception protects discounts for which reducing the discount would "reduce the aggregate contribution to the institutional costs of the Postal Service from the category or subclass *subject to the discount*…." 39 CFR 3622(e)(3)(A) (emphasis added). NPPC/NAPM's claim that First-Class letter mail is the mail "subject to the discount" incorrectly construes the exception.

Two conditions are required for section 3622(e)(3)(A) to apply: "a loss of volume in the affected category or subclass" and a reduction in aggregate contribution from "the category or subclass subject to the discount[.]" The difference between "affected category of subclass" and "category or subclass subject to the discount" implies that the section refers to two different groups of mail. The mail subject to the discount is just that—discounted mail.[7] This reading is consistent with section 3622(e)(3)(B), which excepts discounts for which a reduction would "result in a further increase in the rates paid by mailers not able to take advantage of the discount."

A long-established benefit of limiting workshare discounts to the amount of avoided costs is that it allows worksharing participants to benefit without sacrificing contribution from participants. If workshare discounts are allowed to exceed avoided costs, the resulting shortfall must be recouped through increased rates for non-participants.[8] Sections 3622(e)(3)(A) and (B) ensure that the limit on workshare discounts does not lead to the perverse outcome of reducing volumes to the point where the contribution from workshared mail is reduced, which could ultimately lead to the need to increase rates for non-workshared mail.[9] Section 3622(e)(4)(C) requires the Postal Service to certify that the establishment of workshare discounts will not adversely affect the rates or services of those mail users who will not use the discount. This section further incorporates the policy that workshare discounts should lead to Pareto improvements.[10]

The analysis of the effects of reducing the automation mixed AADC presort letter discount to which NPPC/NAPM refer indicates that the aggregate contribution of the mail subject to the discount would increase; therefore, the 3622(e)(3)(A) exception does not apply.

The Postal Service's claim that the section 3622(e)(2)(D) exception applies to automation mixed AADC and AADC presort discounts for letters, and the automation 3-digit and 5-digit presort discounts for cards is not persuasive. As the Commission explained when it rejected a claim of this exception in Docket No. R2008-1, the exception applies where there is a reasonable claim of "unusual operational circumstances" that would cause a reduction of the discount to impede the efficient operation of the Postal Service.[11] The Postal Service makes no such claim in the case of these discounts. The Postal Service's assertion in its Response to CHIR No. 1, February 2, 2010, question 1 at 4, that its efficient operation would be impeded "if prices were adjusted with every single update of cost models" does not withstand scrutiny.

The cost models in question are updated annually. Therefore, the Postal Service's argument is essentially that annual rate adjustments impede its efficient operation. This claim is belied by the structure of the PAEA, as well as the Postal Service's own past actions and stated future plans to adjust prices on a regular, annual schedule.[12]

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[7] It could reasonably be argued that mail "subject to the discount" includes mail with the potential to migrate to the discounted category. In the case of the automation mixed AADC discount, the mail "subject to the discount" would then include BMM. However, NPPC/NAPM's analysis considers all single-piece letters to be subject to the discount. Even a broad definition of mail "subject to the discount" would exclude the majority of single-piece letters that are not candidates for conversion to worksharing.

[8] The analysis cited by NPPC/NAPM results in significantly higher rates for non-workshared mail.

[9] Increasing the rate for discounted mail would increase its unit contribution. However, if the discounted mail were price elastic, then increasing the rate could cause sufficient volume losses to reduce the aggregate contribution from the discounted mail.

[10] Pareto improvements are achieved when one or more parties benefit without making any party worse off.

[11] Order No. 66, Docket No. R2008-1, Review of Postal Service Notice of Market Dominant Price Adjustment, March 17, 2008, at 34-35.

[12] *See* 39 CFR 3010.7 and United States Postal Service Filing of Schedule of Regular and Predictable Price Changes, February 11, 2008.

The Postal Service's assertion that the combined constraints of the price cap, the penny rounding constraint, and the worksharing limits of section 3622(e) create such rate design difficulties that they collectively impede the efficiency of the Postal Service is also flawed. The limits of section 3622(e) do not impose a rigid restriction of 100 percent passthrough at all times. Passthroughs less than 100 percent are permitted, as are those over 100 percent, if they satisfy one of the exceptions in the section.

Moreover, of the three constraints, two are statutory while the third (the penny constraint) is self-imposed. If, in combination, the constraints impede the Postal Service then the statutory requirements should take precedence. It should also be noted that the benchmark for automation mixed AADC presort letters is currently BMM, not single-piece letters. With adequate justification, a separate rate for BMM could be introduced, further increasing the rate design flexibility of the Postal Service.[13]

Section 3622(e) requires that workshare discounts do not exceed avoided costs, or that they qualify for at least one of the exceptions in the section. The automation mixed AADC and AADC presort discounts for letters, and the automation 3-digit and 5-digit presort discounts for cards exceed avoided costs and do not qualify for any of the exceptions. *Therefore, the Commission finds that the appropriate action is for the Postal Service to align the discounts with avoided costs when it files its next general market dominant price adjustment. If, at that time, any of the discounts are subject to one of the exceptions in section 3622(e), the Postal Service may present arguments to that effect.*

While the PAEA does not impose a minimum passthrough of avoided costs for workshare discounts, parts of the PAEA (including section 3622(b)(1) on incentives to increase efficiency and section 3622(c)(5) on reflecting the degree of mail preparation) do provide a rationale for promoting efficient mailing choices by mailers. Setting workshare discounts as close as feasible to 100 percent of avoided costs helps to promote these goals.

The Commission stated in each of the two previous ACDs that it anticipated that the Postal Service would collect actual cost data for business parcels and move discounts towards 100 percent of avoided costs. While volumes for this service are low and the rate design is relatively new, the Postal Service should ultimately develop cost avoidances that are specific to presort parcels and replace the flats bundle proxy costs currently used. A better understanding of costs would assist in developing rates that ensure that this type of mail contributes to institutional costs in the future.

PERIODICALS

Introduction

The Periodicals class includes publications such as magazines, newspapers, journals, and newsletters. Eligibility criteria include a minimum amount of editorial (non-advertising) content.[14] These requirements are intended to promote the educational, cultural, scientific, and informational (ECSI) value provided by Periodicals.

The Periodicals class is comprised of two products: Within County and Outside County. This division parallels the structure of the class before enactment of the PAEA. The Within County product is typically used by smaller circulation weekly newspapers for distribution within the county of publication. Pricing mainly reflects the number of pieces in a mailing, presort level, and total weight. The Outside County product consists of publications with a wide variety of circulation sizes, distribution patterns, and frequencies. There are three Outside County categories: Regular (including Science of Agriculture publications), Nonprofit, and Classroom. Pricing is based not only on number of pieces and weight, but also on other elements such as bundles, type of container, entry point, machinability, and automation capability.

The profiles of the two Periodicals products differ significantly in terms of volume and revenue. In FY 2009, approximately 860 million copies of Periodicals were mailed at Within County prices, and generated approximately $92 million in revenue for the Postal Service. During the same year, 7.1 billion copies of Periodicals were mailed at Outside County prices, and

[13] Comments by Stamps.com and Pitney Bowes include proposals to introduce distinct rates for single-piece mail that meets certain preparation requirements, possibly including BMM.

[14] *See* Domestic Mail Manual: 707.4.0, Basic Eligibility Standards; 707.6.0, Qualification Categories; and 707.4.13, Advertising Standards.

generated approximately $1.9 billion in revenues for the Postal Service.

In summary, the Commission finds:

- Outside County attributable costs exceed revenues by $629.1 million, producing a cost coverage of 75.6 percent.
- Within County attributable costs exceed revenues by $12.8 million, producing a cost coverage of 87.8 percent.
- Five workshare discounts exceed avoidable cost but need not be adjusted since they qualify for the ECSI exception under section 3622(e)(2)(C).

Subsequent to the 2008 ACR, the Postal Service proposed six methodological changes to the Periodicals cost model. These changes have been adopted and are reflected in the results reported herein. A detailed discussion of these (and other methodological) changes is contained in Appendix C.

Financial Analysis

Table VII-4 provides relevant financial data for Within County, Outside County, and the Periodicals class as a whole. It shows the cost coverage and contribution to institutional costs made by each Periodical product in FY 2009.[15]

The financial position of Periodicals continued to deteriorate in FY 2009. Volume decreased by 7.6 percent.

[15] Products make contributions to the recovery of institutional costs when they generate postal revenues greater than the costs attributed to them.

Tabe VII-4
Fiscal Year 2009
Periodicals Volume, Revenue, Cost, Contribution, and Cost Coverage

Periodicals	Volume (000)	Revenue ($000)	Attributable Costs ($000)	Contribution to Institutional Costs ($000)	Rev/ Pc. (¢)	Cost/ Pc. (¢)	Contribution to Institutional Cost/Pc. (¢)	Cost Coverage (%)
Within County	859.27	92.28	105.05	(12.77)	10.74	12.23	(1.49)	87.85%
Outside County								
Regular Rate	5,398.56	1,595.94			29.56			
Nonprofit	1,642.31	334.34			20.36			
Classroom	53.58	15.58			29.07			
Total Outside County	7,094.45	1,945.86	2,574.93	(629.07)	27.43	36.30	(8.87)	75.57%
Total Periodicals	7,953.72	2,038.14	2,679.98	(641.84)	25.63	33.69	(8.07)	76.05%

Source: Library Reference PRC-ACR2009-LR1.

The loss for the class widened from $437.5 million in FY 2008 to $641.8 million. This was due to unit revenues and unit attributable costs moving in opposite directions. The unit revenue decreased from 26.67 cents per piece to 25.63 cents per piece, mostly due to the recession related decrease in advertising in Periodicals. Rates for Periodicals are calculated separately for the advertising portion and for the non-advertising portion, commonly referred to as editorial content. In general, the rates for the editorial content are less than the rates for the advertising portion. Thus, a decrease in the advertising portion will cause unit revenue to decline. While unit revenue decreased, attributable unit costs grew from 31.75 cents per piece to 33.69 cents per piece, a 6 percent increase compared with a 3.9 percent decrease in unit revenue. This in turn led to a greater loss per piece, from - 5 cents in FY 2008 to - 8 cents in FY 2009.

Comments. Those commenting on Periodicals offer sharply contrasting views. Publishers Time Warner, ABM, and MPA/ANM raise legal and policy arguments in opposition to an increase in Periodicals rates above the price cap. The predicate for their legal argument is that, notwithstanding Periodicals financial results, section 3622(c)(2) is irrelevant for purposes of the Commission's review under section 3653(b), and that the Commission lacks authority to remedy a determination of non-compliance by increasing rates in excess of the price cap.[16] In addition, on policy and other grounds, these commenters argue that the cost/revenue gap is due to a variety of factors, including obligations imposed by the PAEA, mail processing issues, and whether Periodicals processing costs are 100 percent volume variable. *See, e.g.,* ABM Comments at 3, Time Warner Comments at 11-20.

In contrast, the Public Representative and Valpak argue that Periodicals rates are not in compliance with the law and therefore rates should be increased over time so that Periodicals rates will cover costs.[17]

Commission analysis. As all commenters appear to recognize, the cost/revenue gap for Periodicals has been a persistent problem for an extended period. Congress understood this and, in section 708 of the PAEA, directed the Postal Service and the Commission to jointly examine the rates for Periodicals and to report on, among other things, opportunities to improve efficiencies in the collection, processing, transportation, and delivery of Periodicals (Joint Report). Several commenters urge the Commission not to reach any conclusions about the cost coverage of Periodicals pending completion of the Joint Report. *See, e.g.*, MPA/ANM Reply Comments at 7. No commenter suggests that Periodicals rates be increased now to satisfy section 3622(c)(2).[18]

In considering various options, the Commission is persuaded that the best course, under the circumstances, is to await the issuance of the Joint Report before addressing Periodicals rates in specific detail. The Commission is hopeful that the report,

[16] *See, e.g.*, Time Warner Comments at 1-11; Time Warner Additional Comments at 1-5; MPA/ANM Reply Comments at 3-4.

[17] See Public Representative Comments at 13-16, 33-36; Valpak Comments at 14-18.

[18] Legal issues concerning Periodicals are addressed in Chapter 3, *supra*.

Table VII-5
Outside County Periodicals Workshare Discounts Exceeding Avoidable Cost in FY 2009

Worksharing Category	Discount (1)	Avoidable Unit Cost (2)	Cost Coverage (3)
1 Non-machinable Nonautomation 3D/SCF Flats	$0.074	$0.045	164%
2 Non-machinable Automation 3D/SCF Flats	$0.060	$0.037	162%
3 ADC Automation Letter	$0.04	$0.017	235%
4 3-Digit Automation Letter	$0.02	$0.002	1000%
5 5-Digit Letter	$0.06	$0.020	300%

which it anticipates will be issued shortly, will provide helpful guidance in this area. There are, as discussed below, current opportunities for the Postal Service to improve Periodicals cost coverage by modifying container and bundle passthroughs.

The Postal Service shall develop and present a plan explaining how it intends to increase Periodicals cost coverage to a reasonable level in its next notice of general price adjustments for market dominant products, or its next annual compliance report.

Workshare Discounts

No Within County workshare discount exceeds avoidable cost. However, five Outside County workshare discounts exceed their avoidable costs. These worksharing categories are listed in Table VII-5 below with the corresponding discount and avoidable costs.

Discounts in excess of avoided costs are permissible provided that one of the statutory exceptions applies. *See* 39 U.S.C. 3622(e). The Postal Service justifies these discounts relying on section 3622(e)(2)(C), which authorizes workshare discounts greater than avoided cost if provided in connection with a subclass that consists exclusively of mail matter with ECSI value.

Table VII-6
FY2009 Workshare Discounts, Avoidable Costs, and Passthroughs
Outside County Periodicals

Type of Worksharing	Discount[1]	Avoidable Costs[2,3]	Passthrough
Pre-sorting (dollars per piece)			
Machinable Non-automation ADC Flats	$0.035	0.0380	92.1%
Machinable Non-automation 3D/SCF Flats	$0.017	0.0270	63.0%
Machinable Non-automation 5D Flats	$0.097	0.1010	96.0%
CR Basic	$0.108	0.1510	71.5%
High Density	$0.027	0.0300	90.0%
Saturation	$0.019	0.0290	65.5%
Machinable Automation ADC Flats	$0.026	0.0290	89.7%
Machinable Automation 3D/SCF Flats	$0.015	0.0260	57.7%
Machinable Automation 5D Flats	$0.086	0.0890	96.6%
Non-machinable Nonauto ADC Flats	$0.115	0.1210	95.0%
Non-machinable Nonauto 3D/SCF Flats	$0.074	0.0450	164.4%
Non-machinable Nonauto 5D Flats	$0.116	0.2550	45.5%
Non-machinable Automation ADC Flats	$0.094	0.1190	79.0%
Non-machinable Automation 3D/SCF Flats	$0.060	0.0370	162.2%
Non-machinable Automation 5D Flats	$0.107	0.2160	49.5%
ADC Automation Letter	$0.040	0.0170	235.3%
3-Digit Automation Letter	$0.020	0.0020	1000.0%
5-Digit Automation Letter	$0.060	0.0200	300.0%
Pre-barcoding (dollars per piece)			
Machinable Automation MADC Flats	$0.032	0.0330	97.0%
Non-machinable Automation MADC Flats	$0.045	0.0550	81.8%

[1] Source of Discounts: Docket No. R2009-2, Notice, Schedule 1310.
[2] Periodical CR Basic unit delivery costs are equal to Standard Regular Flat unit delivery costs. Periodical High Density unit delivery costs are equal to Standard ECR High Density Flats without DAL unit delivery costs. Periodical Saturation unit delivery costs are equal to ECR Saturation Flats without DAL unit delivery costs.
[3] Standard Letter mail processing and delivery cost differences are used to calculate Periodical Letter cost differences. Standard Regular Flat, CR Basic, High Density, and Saturation delivery costs are used to calculate the delivery cost avoidances for Periodical CR Basic, High Density and Saturation rate cells. Source: Library Reference PRC-ACR2009-LR8, UDCModel.xlsx, Sheet: 1. Table 1.

Table VII-7
FY2009 Workshare Discounts, Avoidable Costs, and Passthroughs
Within County Periodicals

Type of Worksharing	Discount[1]	Avoidable Costs[2,3,4]	Passthrough[5]
Pre-sorting (dollars per piece)			
3-Digit Presort	$0.012	$0.054	22.2%
5-Digit Presort	$0.013	$0.162	8.0%
CR Basic	$0.046	$0.168	27.4%
High Density	$0.015	$0.030	50.0%
Saturation	$0.014	$0.029	48.3%
3-Digit Automation Letter	$0.009	$0.011	81.8%
5-Digit Automation Letter	$0.002	$0.020	10.0%
Pre-barcoding (dollars per piece)			
Basic Automation Flats	$0.016	$0.114	14.0%
3-Digit Automation Flats	$0.012	$0.091	13.2%
5-Digit Automation Flats	$0.006	$0.027	22.2%
Dropshipping (dollars per piece)			
DDU Dropship	$0.008	$0.029	27.6%

[1] Source of Discounts: Docket No. R2009-2, Notice of Market Dominant Price Adjustment, R08_Price_Charts.doc, Schedule 130.
[2] Postal Service cost models do not provide cost data specific to Within County. Pre-sorting and Pre-barcoding avoided costs are based upon proxies from the Outside County Periodical Cost Model.
[3] Basic Periodical Automation Letters unit cost is the volume-weighted average of MADC and ADC Standard Letter mail processing and delivery costs. Periodical 3-digit unit cost is equal to the sum of of Standard Automation 3-digit Letter unit mail processing and delivery costs. Periodical 5-digit unit cost is equal to the sum of of Standard Automation 5-digit Letter unit mail processing and delivery costs.
[4] Periodical Automation mail processing cost differences are based on Periodical mail processing costs for barcoded and non-barcoded mail processing costs, weighted by machinable and non-machinable volumes

Source: PRC-ACR2009-LR5, File: PERACR2009.xlsx, Sheet: Periodicals Within County.

Table VII-8
FY2009 Outside County Periodicals
Bundle Prices and Costs by Container Level

Container Level	Bundle Level	Price	Cost	Price as Percent of Cost
Mixed ADC				
	MADC	$0.08	$0.19	41.4%
	ADC	$0.20	$0.50	39.9%
	3-D/SCF	$0.27	$0.68	39.6%
	5-D	$0.28	$0.73	38.1%
	Firm Bundle	$0.18	$0.94	19.1%
ADC				
	ADC	$0.11	$0.28	39.5%
	3-D/SCF	$0.18	$0.46	39.9%
	5-D	$0.20	$0.51	39.0%
	CR	$0.31	$0.75	41.8%
	Firm Bundle	$0.15	$0.75	19.8%
3-D/SCF				
	3-D/SCF	$0.13	$0.28	44.6%
	5-D	$0.15	$0.33	44.3%
	CR	$0.28	$0.57	49.4%
	Firm Bundle	$0.14	$0.57	24.2%
5-D/CR				
	5-D	$0.14	$0.32	44.0%
	CR	$0.15	$0.32	46.2%
	Firm Bundle	$0.08	$0.32	24.2%

Source: PRC-ACR2009-LR5, File: PERACR2009.xlsx, Sheet: Bundle PC Ratio

Table VII-9
FY2009 Outside County Periodicals Sack Prices and Costs by Container Level

Sack Level	Entry Point	Price	Cost	Price as Percent of Cost
Mixed ADC				
	OSCF	$0.42	$2.90	14.5%
	OADC	$0.42	$2.18	19.3%
ADC				
	OSCF	$2.01	$6.22	32.3%
	OADC	$2.01	$6.06	33.2%
	OBMC	$2.01	$5.36	37.5%
	DBMC	$1.40	$3.99	35.1%
	DADC	$0.80	$2.18	36.7%
3-D/SCF				
	OSCF	$2.10	$6.661	31.5%
	OADC	$2.10	$6.356	33.0%
	OBMC	$2.10	$5.566	37.7%
	DBMC	$1.50	$4.110	36.5%
	DADC	$1.20	$3.413	35.2%
	DSCF	$0.80	$2.180	36.7%
5-D/CR				
	OSCF	$2.70	$8.53	31.7%
	OADC	$2.70	$7.86	34.4%
	OBMC	$2.70	$7.12	37.9%
	DBMC	$2.00	$5.71	35.0%
	DADC	$1.70	$4.90	34.7%
	DSCF	$1.30	$3.75	34.6%
	DDU	$0.90	$2.58	34.9%

Source: PRC-ACR2009-LR5, File: PERACR2009.xlsx, Sheet: Sack PC Ratio

Table VII-10
FY2009 Outside County Periodicals Pallet Prices and Costs by Container Level

Pallet Level	Entry Point	Price	Cost	Price as Percent of Cost
ADC				
	OSCF	$28.00	$67.92	41.2%
	OADC	$28.00	$60.86	46.0%
	OBMC	$28.00	$53.72	52.1%
	DBMC	$22.40	$45.15	49.6%
	DADC	$12.40	$25.09	49.4%
3-D/SCF				
	OSCF	$33.36	$80.50	41.4%
	OADC	$33.36	$74.83	44.6%
	OBMC	$33.36	$62.52	53.4%
	DBMC	$23.80	$48.77	48.8%
	DADC	$20.70	$42.85	48.3%
	DSCF	$11.10	$23.38	47.5%
5-D/CR				
	OSCF	$42.13	$101.74	41.4%
	OADC	$42.13	$89.31	47.2%
	OBMC	$42.13	$78.02	54.0%
	DBMC	$31.90	$65.30	48.8%
	DADC	$30.20	$61.98	48.7%
	DSCF	$20.40	$42.15	48.4%
	DDU	$1.60	$3.32	48.2%

Source: PRC-ACR2009-LR5, File: PERACR2009.xlsx, Sheet: Pallet PC Ratio

2009 ACR at 69. Because Periodicals qualify for ECSI consideration, the Commission finds workshare discounts to be consistent with section 3622(e). Tables showing the full spectrum of discounts, avoidable cost, and passthroughs are set forth at the end of this section.

Bundle and Container Charges

The price-cost ratios for bundles, sacks, and pallets are significantly below 100 percent. Passthroughs range from a low of 19.8 percent for a firm bundle in a mixed ADC sack to 54 percent for a 5-digit/Carrier Route pallet entered at an origin BMC. Bundle and container charges are set forth in tables at the end of this section.

The low passthroughs are problematic for two reasons. First, they exacerbate the Periodicals cost/revenue gap because mailers are not paying for the full cost of handling bundles and containers. Second, the combination of low and differential passthroughs may send conflicting price signals to mailers and prevent them from entering mail in a way that reduces the end-to-end cost.[19]

As noted above, current opportunities exist to improve efficiency and to offer mailers appropriate pricing incentives. The Postal Service should implement such changes as soon as practicable.

[19] *See* Docket No. R2006-1, PRC. Op. 5773. The Commission established this deficit between the prices and costs of the new rate elements in order to ensure that rates were fair and consistent in light of this substantial change in the cost structure of Periodicals. The Commission thus "tempered" the impact of the new structure of Periodical cost drivers, but expected that as prices were brought into alignment with the new cost structure, mailers would begin to receive signals that would "allow mailers to change their behavior in ways that allow them to mitigate rate increases...."

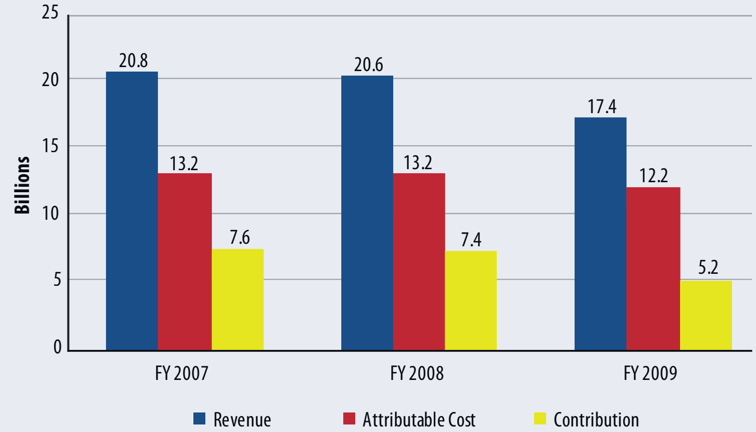
Table VII-11
Standard Mail
Fiscal Year 2009 Volume, Revenue, Cost, Contribution, and Cost Coverage by Product

	Volume (000)	Revenue ($ 000)	Attributable Cost ($ 000)	Contribution to Institutional Cost ($ 000)	Rev./Pc. (Cents)	Cost/Pc. (Cents)	Contribution to Institutional Costs/Pc. (Cents)	Cost Coverage
STANDARD MAIL								
High Density & Saturation Letters	5,085,391	687,257	318,152	369,105	13.514	6.256	7.258	216.0%
High Density & Saturation Flats & Parcels	12,356,828	1,977,872	825,642	1,152,230	16.006	6.682	9.325	239.6%
Carrier Route	9,901,988	2,292,061	1,585,576	706,486	23.147	16.013	7.135	144.6%
Letters	46,867,847	8,889,801	5,105,483	3,784,317	18.968	10.893	8.074	174.1%
Flats	7,814,466	2,881,538	3,497,110	(615,572)	36.874	44.752	(7.877)	82.4%
Not-Flat Machinables and Parcels	679,041	635,196	840,001	(204,804)	93.543	123.704	(30.161)	75.6%
Inbound Intl. Negotiated Serv. Agreement Mail[1]	649	374		374	57.565		57.565	
Total Standard Mail	**82,706,211**	**17,364,099**	**12,171,963**	**5,192,136**	**20.995**	**14.717**	**6.278**	**142.7%**

Source: Library Reference PRC-ACR2009-LR4.

[1] See Docket Nos. CP2008-14 and CP2008-15.

Figure VII-1
Standard Mail Trends



Source: 2007 ACD at 87, 2008 ACD at 59, and Table VII-11 above.

STANDARD MAIL

Introduction

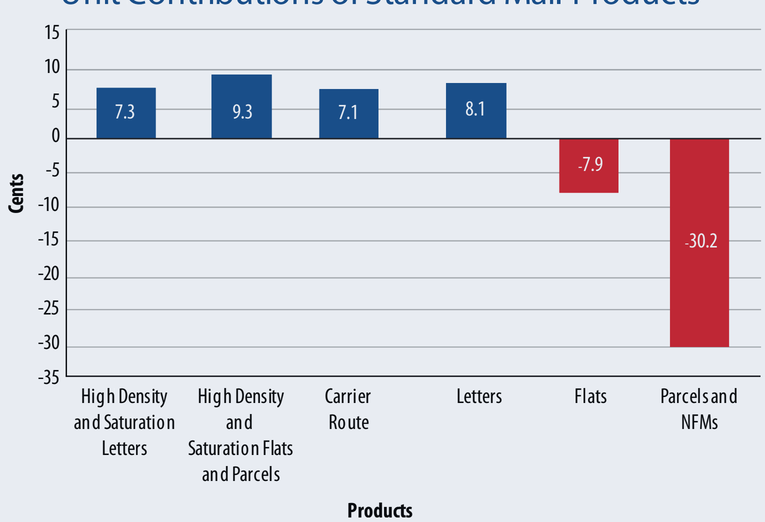
The Standard Mail class has six products: Letters; Flats; Not-Flat Machinables (NFMs)/Parcels; Carrier Route; High Density and Saturation Letters; and High Density and Saturation Flats/Parcels.

Standard Mail had a volume of 82.7 billion pieces in FY 2009. Standard Mail accounts for 47 percent of total volume and 21 percent of total contribution to institutional costs.

The FY 2009 findings for Standard Mail are:

- Standard Mail contributed $5.2 billion to institutional costs.
- Revenues do not cover the attributable cost of Standard Mail Flats by $616 million producing a cost coverage of 82 percent.

Figure VII-2
Unit Contributions of Standard Mail Products

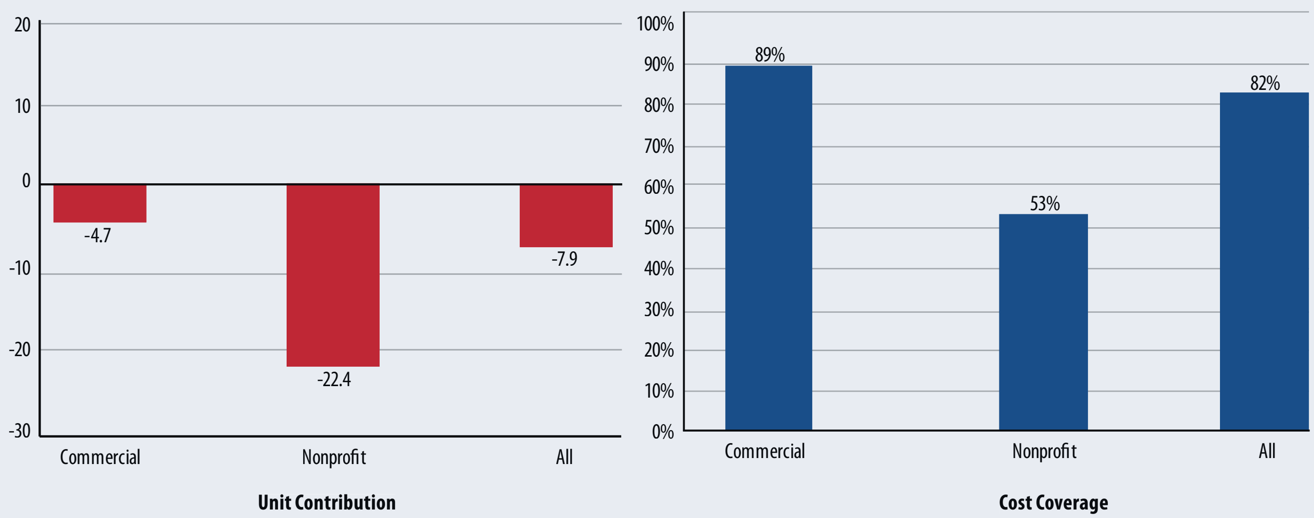


- Revenues do not cover the attributable cost of Standard Mail NFMs/Parcels by $205 million producing a cost coverage of 76 percent.
- Five workshare discounts exceed avoided costs and do not have sufficient justification for a section 3622(e) exception:
  - Non-automation 3-digit non-machinable letters;
  - Non-automation 5-digit non-machinable letters;
  - Automation ADC flats;
  - Automation 3-digit flats; and
  - 5-digit non-automation flats.
- Per-piece revenue from Standard Mail Nonprofit pieces is 61.0 percent of Standard Mail commercial per-piece revenues.
- *Carrier Route, High Density and Saturation Letters, and High Density and Saturation Flats/Parcels unit mail processing and unit delivery costs are anomalous and the Postal Service should review and improve its costing analysis for these products.*
- *The methodology for calculating the pre-barcoding cost avoidance for letters should be improved.*
- *More reliable cost data for calculating the cost avoidance associated with presort discounts for parcels should be developed.*

Financial analysis

The FY 2009 Standard Mail class cost coverage was 143 percent. As Table VII-11 shows, total Standard Mail FY 2009 revenue was $17.4 billion, which covered its

Figure VII-3
Standard Mail Flats



	Volume (000)	Total Revenue ($ 000)	Attributable Cost ($ 000)	Contribution to Institutional Cost ($ 000)
Commercial Flats	6,407,260	2,524,675	2,827,237	(302,561)
Non-profit Flats	1,385,915	349,842	660,875	(311,033)
Total Commercial and Non-profit	7,793,175	2,874,518	3,488,112	(613,594)

attributable cost of $12.2 billion and contributed $5.2 billion to institutional cost.

Standard Mail's cost coverage decreased from 156 percent in FY 2008 to 143 percent in FY 2009. Despite a period of deflation as measured by CPI-U (-0.324 percent) for FY 2009, Standard Mail unit attributable cost increased by 11 percent. Between FY 2008 and FY 2009, Standard Mail volume decreased by 17 percent and revenue decreased by 16 percent. As Figure VII-1 demonstrates, the drop in revenue has outpaced the decline in attributable cost since FY 2007, resulting in decreases in contribution.

39 U.S.C. 3626(a)(6) requires nonprofit rates to be set in relation to their commercial counterparts regardless of nonprofits' independent costs. Nonprofit rates were set to yield per-piece revenues that are 60 percent of commercial revenues at the class level. The Commission calculates that in FY 2009, the actual per-piece revenue from Standard Mail Nonprofit pieces was 61.0 percent of Standard Mail commercial per-piece revenues.

There has been an inconsistency between the calculation of the statutory percentage in market dominant price adjustment filings and previous ACDs. In the two previous ACDs, the Commission's calculation of the statutory percentage includes fees. Prior to the PAEA, this percentage also was calculated by including fees. However, the PAEA's price cap regime treats Special Services, which includes fees, as a class with its own price cap, distinct from Standard Mail. In the most recent price adjustment, Docket No. R2009-2, fees were properly included in the cap calculation for Special Services, but inadvertently excluded from the statutory calculation of the ratio of Standard Mail Nonprofit average revenue per piece to Standard Mail commercial average revenue per piece. Fees should be included in this calculation.

Section 3626(a)(6) requires that Standard Mail Nonprofit average revenue per piece equal "as nearly as practicable" 60 percent of Standard Mail commercial average revenue per piece. Exactly achieving this target is difficult, as market dominant price adjustments are based on historical billing determinants. This task has been made more difficult by the inconsistency between the price adjustment process and the ACD process. Under these circumstances, 61 percent meets the nearly as practicable criterion. In future rate adjustments, fees should be included in calculations of average revenue per piece for purposes of aligning nonprofit and commercial rates.

Figure VII-2 shows the unit contribution of each Standard Mail product.

Standard Mail Regular Letters rates recovered 174 percent of their attributable costs in FY 2009, less than the 194 percent they recovered in FY 2008. On a unit basis, Regular Letters contributed 8.1 cents per piece to the institutional cost of the Postal Service.

Standard Mail Regular Flats and NFMs/Parcels did not generate enough revenue to cover their attributable costs, and were thus unable to contribute to the institutional cost of the Postal Service. Cost coverage for Regular Flats was 82 percent, with a loss of 7.9 cents per piece. As Figure VII-3 illustrates, neither commercial flats nor nonprofit flats covered cost, resulting in a costs coverage below 100 percent for the whole product.

Valpak comments that "every piece [of mail] that fails to cover attributable costs makes it that much more difficult for the Postal Service to generate the retained earnings that are necessary for financial stability." Valpak Comments at 10. Additionally, Valpak contends that since Standard Mail Flats' prices do not generate a contribution to institutional costs, the flats product is not in compliance with 39 U.S.C. 101(d). *Id*. at 19.

ACMA comments that efforts such as last year's Standard Mail Volume Incentive Pricing Program start to address the need for more innovation in attracting and retaining mail volume, but much more is necessary to stem the volume losses from a customer group that has operated a mail dependent business model for more than a hundred years. ACMA Comments at 5.

ACMA asserts that "higher postage results in fewer prospect books[20] mailed and fewer reactivation[21] attempts in each mail drop. It also carries a high opportunity cost to the Postal Service [because as] prospects are converted to buyers, they then receive nearly all subsequent catalog mailings from that cataloger thus creating a significant multiplier effect." *Id*. (footnote added).

ACMA also discusses the added benefits from catalogers that accrue to the Postal Service. Catalogs are part of the value of mail that drives the "Mail Moment" for mail recipients. *Id*. at 7.

Additionally, ACMA asserts that catalogs on the whole are not "underwater." It claims that catalogers mail Regular Flats and Carrier Route flats in nearly equal proportions; therefore, Carrier Route flats, which have a positive cost coverage, make the combined contribution from catalogs positive. *Id*. at 5.

On reply, Valpak contends that no national policy considerations in the law point to special treatment for catalogs. Valpak Reply Comments at 33. Valpak contends that the Postal Service should send price signals that encourage growth of profitable catalog volume and discourage growth of unprofitable catalog volume. *Id*. at 35. Although Valpak advocates an increase in rates for Standard Mail Flats, Valpak suggests that "in any adjustment of prices for Carrier Route mail, some constraints on rates for flats might be warranted as a way to help those catalogs that provide the Postal Service with some positive contribution to overhead." *Id*.

The Commission is concerned about the $616 million loss for Standard Mail Flats. This loss has more than doubled from $227 million in FY 2008. As Figure VII-3 shows, commercial flats account for $305 million of the loss in contribution and Nonprofit Flats account for the remaining $311 million.

When the Postal Service adjusted prices for market dominant products in May 2009, it increased prices for Standard Mail Flats by 2.294 percent, less than the class average of 3.759 percent. This below average increase did not keep pace with the increase in unit attributable cost for flats, which grew by 15 percent from FY 2008 to FY 2009.

The revenues for Standard Mail Flats in FY 2009 failed to satisfy section 3622(c)(2), which requires that each class of mail or type of mail service cover attributable costs and make a reasonable contribution to institutional costs. For the Postal Service to benefit from additional volume, unit costs and unit revenues need to be realigned. For flats to have covered FY 2009 costs, the rates of flats would have needed to be 21 percent higher, ignoring elasticity effects. The lack of a sufficiently high cost coverage directly implicates the requirement of section 101(d), which directs the Postal Service to apportion the costs of the Postal Service on a fair and equitable basis and section 3622(b)(5), which requires that rates must be set to ensure adequate revenues to maintain financial stability.

In the 2008 ACD, the Commission expressed concern that a disproportionate share of the institutional cost burden is placed on letters. Nonetheless, the disparity between letters and flats has grown over the past fiscal year. The unit contribution made by letters was 8.1 cents in FY 2009 compared with negative 7.9 cents per piece from flats, a 16 cents per piece difference. In FY 2008, that difference was 11 cents per piece; thus, the divergence in unit contribution has grown by 5 cents.

Additionally, the Commission noted that the Postal Service should either decrease the disparity between letters and flats in future rate increases or provide the Commission with empirical evidence that the market characteristics of letters and flats or other non-cost factors justify the unequal treatment. *See* 2008 ACD at 62.

In the 2009 ACR, the Postal Service implies that letters and flats have different market characteristics, *i.e.*, different elasticities. According to the Postal Service, the "fact that Flats volume dropped more than Letters, even though Letters had the larger price increases, bolsters the argument that these groupings are indeed distinct products…." 2009 ACR at 36.

According to ACMA, the drop in volume for catalogs, the primary users of the Standard Mail Flat product, was due to the sharp increase in rates in 2007, the widespread recession with depressed consumer

[20] Catalog mailed to an individual or business as a means of acquiring a new customer as opposed to a catalog mailed to an established customer.

[21] Promotional mailing sent to inactive customers in an attempt to spur a new purchase.

confidence and retail spending, and the general lack of commercial credit availability necessary to finance the purchase of both inventory and postage. ACMA Comments at 3. It is not clear from this record to what extent differences in market characteristics for letters and flats are responsible for the differential volume trends for letters and flats.

For the reasons stated above, the Commission finds the rates for Standard Mail Flats neither recover attributable cost nor make a reasonable contribution to institutional cost. *The Commission finds that the appropriate action is for the Postal Service to devise a plan to improve the cost coverage of the Standard Mail Flats product. This plan should include any operational or mail preparation changes that the Postal Service deems necessary, as well as a specific timeline for achieving a positive contribution for the Standard Mail Flats product. The plan shall be included in the next ACR or the next general market dominant price adjustment, if it precedes the ACR.* In addition to adjusting prices and cutting costs, the Postal Service may consider changing the minimum qualifying volume for Carrier Route (from 10 to 6 piece bundles) to attract mail volume away from flats to the profitable Carrier Route flats category. The Postal Service could try a market test or a limited duration "mail preparation sale."

Like Standard Mail Flats, the rates for the NFMs/Parcels product did not produce sufficient revenues to cover attributable cost and produced a net loss of $205 million in FY 2009. In Docket No. R2009-2, the average rate increase for parcels was 16.420 percent, well over the class average of 3.759 percent. Similarly, in Docket No. R2008 1, the Postal Service increased the rates for Standard Mail NFMs/Parcels by an average of 9.7 percent. This increase was well above the average increase for all Standard Mail products of 2.838 percent. Although the Commission finds the rates and revenues for NFMs/Parcels neither recover attributable cost nor make a reasonable contribution to institutional cost, the Commission supports the Postal Service's "phasing-in" approach to increasing the rates for Standard Mail NFMs/Parcels. *The Commission finds that the appropriate action is for the Postal Service to devise a plan to improve the cost coverage of the Standard Mail NFMs/Parcels product. This plan should include any operational or mail preparation changes that the Postal Service deems necessary, as well as a timeline for achieving a positive contribution for the NFMs/Parcels product. The plan shall be included in the next ACR or the next general market dominant price adjustment, if it precedes the ACR.*

In FY 2009, the High Density and Saturation Letters product had a cost coverage of 216 percent. It contributed $369 million to the institutional cost of the Postal Service. Both the nonprofit and commercial components of the High Density and Saturation Letters product made a positive contribution to institutional cost.

Revenues for the High Density and Saturation Flats/Parcels product exceeded attributable cost which resulted in a cost coverage of 240 percent. The product as a whole contributed $1.2 billion to the institutional cost of the Postal Service. Both the nonprofit and commercial components of the High Density and Saturation Flats/Parcels product covered their attributable cost. However, both nonprofit and commercial High Density and Saturation parcels did not cover their cost. Due to the positive coverage from flats, the product as a whole made a positive contribution to institutional cost.

In its comments, Valpak argues for a "significant reduction in the coverage of High-Density/Saturation products." Valpak Comments at 49. Valpak states that categories with relatively elastic demand should have relatively low cost coverages and thus pricing of High Density and Saturation products is not optimal.

In Docket No. R2009-2, the Postal Service gave below average increases to High Density and Saturation Letters (1.248 percent) and High Density and Saturation Flats/Parcels (2.233 percent). The Postal Service explained that the below average increases were in recognition of the market characteristics of

Table VII-12
Workshare Discounts and Benchmarks
For Carrier Route, High Density, and Saturation by Shape

Line Number	FY 2009 Unit Cost (Cents)	Year-end Discount (Cents)	Passthrough
Letter Presort Cost Differentials			
1 Carrier Route Letter	14.9		
2 High Density Letter	6.0		
3 Presort Differential (L3 = L1 - L2)	8.9	6.9	78%
4 High Density Letter	6.0		
5 Saturation Letter	6.2		
6 Presort Differential (L6 = L4 - L5)	-0.2	1.1	-550%
Flat Presort Cost Differentials			
7 Carrier Route Flat	15.7		
8 High Density Flat	10.3		
9 Presort Differential (L9 = L7 - L8)	5.4	4.3	80%
10 High Density Flat	10.3		
11 Saturation Flat	6.3		
12 Presort Differential (L12 = L10 - L11)	3.9	2.5	64%
Parcel Presort Cost Differentials			
13 Carrier Route Parcel	168.1		
14 High Density Parcel	417.5		
15 Presort Differential (L15 = L13 - L14)	-249.4	12.5	-5%
16 High Density Parcel	417.5		
17 Saturation Parcel	132.4		
18 Presort Differential (L18 = L16 - L17)	285.1	0.8	0%

Source: Library Reference PRC-ACR2009-LR4.

Table VII-13
Dropship Workshare Discounts and Benchmarks
Standard Mail Carrier Route Letters, Flats, Parcels (Commercial and Nonprofit)

Type of Worksharing (Benchmark)	FY 2009 Year-end Discount (Cents)	Unit Cost Avoidance (Cents)	Passthrough
STANDARD MAIL LETTERS, FLATS, PARCELS			
Dropship (dollars/pound)			
DBMC Letters (Origin Letters)	16.3	18.6	88%
DSCF Letters (Origin Letters)	20.8	23.6	88%
DBMC Flats (Origin Flats)	16.3	18.8	87%
DSCF Flats (Origin Flats)	20.8	22.1	94%
DDU Flats (Origin Flats)	25.3	26.1	97%
DBMC Parcels (Origin Parcels)	22.1	77.0	29%
DSCF Parcels (Origin Parcels)	48.0	106.0	45%
DDU Parcels (Origin Parcels)	62.5	115.9	54%

Source: Library Reference PRC-ACR2009-LR4.

these products. Thus, it appears the Postal Service has attempted to be responsive to the concerns expressed by Valpak.

Based on FY 2009 costs, Carrier Route letters, flats, and parcels covered its attributable costs with cost coverage of 145 percent. The Carrier Route product contributed $706 million toward the Postal Service's institutional costs. The nonprofit component of the Carrier Route product failed to cover its attributable costs, which resulted in a negative contribution of $4.4 million.

Standard Mail Volume Incentive Pricing Program

The Postal Service's 2009 Standard Mail Volume Incentive Pricing Program (Incentive Program) was designed to grow incremental volume and revenue while utilizing excess capacity in its network. The Postal Service expects to understand its markets better as a result of analyzing the results of the Incentive Program. The Commission and the mailing community have supported the Postal Service's use of its pricing flexibility.

The Incentive Program offered a 30 percent discount on incremental volume above a threshold volume tailored to each mailer. The Postal Service asserts the Incentive Program was a success and generated 618 million pieces of additional Standard Mail.[22] The Commission has been unable to replicate the Postal Service's results with the data the Postal Service has provided.[23] In Order No. 219, approving

[22] Sources: Response to United States Postal Service Chairman's Information Request No. 8, March 8, 2010, Attachment; *see also* "(2010-03-05) Summer Sale Financials_as of Round 4.xls".
[23] The individual mailer thresholds submitted by the Postal Service

Table VII-14
Standard Regular and Standard Nonprofit Regular Workshare Discounts and Benchmarks

Type of Worksharing (Benchmark)	Year-End Discount (Cents)	Unit Cost Avoidance (Cents)	Passthrough
STANDARD MAIL REGULAR AUTOMATION LETTERS			
Presorting (dollars/piece)			
Automation AADC Letters (Automation Mixed AADC Letters)	1.7	1.7	100.0%
Automation 3-Digit Letters (Automation AADC Letters)	0.2	0.2	100.0%
Automation 5-Digit Letters (Automation 3-Digit Letters)	1.8	2.0	90.0%
Pre-barcoding (dollars/piece)[1]			
Automation Mixed AADC Letters (Non-automation Machinable Mixed ADC Letters)	0.3	(0.5)	-60.0%
STANDARD MAIL REGULAR NON-AUTOMATION LETTERS			
Presorting (dollars/piece)			
Non-automation AADC Machinable Letters (Non-automation Mixed AADC Machinable Letters)	1.7	See note[1]	
Non-automation ADC Non-machinable Letters (Non-automation Mixed ADC Non-machinable Letters)	8.7	11.2	77.7%
Non-automation 3-Digit Non-machinable Letters (Non-automation ADC Non-machinable Letters)	4.4	2.6	169.2%
Non-automation 5-Digit Non-machinable Letters (Non-automation 3-Digit Non-machinable Letters)	11.7	11.5	101.7%
STANDARD MAIL REGULAR LETTERS			
Dropship (dollars/pound)			
DBMC Letters (Origin Letters)	16.3	18.6	87.6%
DSCF Letters (Origin Letters)	20.8	23.6	88.1%
STANDARD MAIL REGULAR AUTOMATION FLATS			
Presorting (dollars/piece)			
Automation ADC Flats (Automation Mixed ADC Flats)	1.0	See note[2]	
Automation 3-Digit Flats (Automation ADC Flats)	6.8	6.3	107.9%
Automation 5-Digit Flats (Automation 3-Digit Flats)	7.2	13.2	54.5%
Pre-barcoding (dollars/piece)			
Automation Mixed ADC Flats (Non-automation Mixed ADC Flats)	6.2	3.1	200.0%
STANDARD MAIL REGULAR NON-AUTOMATION FLATS			
Presorting (dollars/piece)			
Non-automation ADC Flats (Non-automation Mixed ADC Flats)	4.9	5.8	84.5%
Non-automation 3-Digit Flats (Non-automation ADC Flats)	4.5	7.0	64.3%
Non-automation 5-Digit Flats (Non-automation 3-Digit Flats)	9.7	8.5	114.1%

[1] The Postal Service letters mail processing cost model only estimates costs for the combined non-automation machinable AADC and Mixed AADC categories.

Table VII-14
Standard Regular and Standard Nonprofit Regular Workshare Discounts and Benchmarks—Continued

Type of Worksharing (Benchmark)	Year-End Discount (Cents)	Unit Cost Avoidance (Cents)	Passthrough
STANDARD MAIL REGULAR FLATS			
Dropship (dollars/pound)			
DBMC Flats (Origin Flats)	16.3	18.8	86.7%
DSCF Flats (Origin Flats)	20.8	22.1	94.1%
STANDARD MAIL REGULAR PARCELS			
Presorting (dollars/piece)			
BMC Machinable Parcels (Mixed BMC Machinable Parcels)	40.0	21.8	183.5%
5-Digit Machinable Parcels (BMC Machinable Parcels)	43.9	41.3	106.3%
ADC Irregular Parcels (Mixed ADC Irregular Parcels)	47.5	98.4	48.3%
3-Digit Irregular Parcels (ADC Irregular Parcels)	40.0	98.4	40.7%
5-Digit Irregular Parcels (3-Digit Irregular Parcels)	5.9	18.2	32.4%
Pre-barcoding (dollars/piece)[2]			
Mixed BMC Machinable Barcoded Parcels[3] (Mixed BMC Machinable Non-barcoded Parcels)	7.0	3.8	184.0
Mixed ADC Irregular Barcoded Parcels[3] (Mixed ADC Irregular Non-barcoded Parcels)	7.0	3.8	184.0
STANDARD MAIL REGULAR NFMS			
Presorting (dollars/piece)			
BMC/ADC NFMs (Irregular Parcels) (Mixed BMC/ADC NFMs (Irregular Parcels))	51.9	98.4	52.7%
3-Digit NFMs (Irregular Parcels) (BMC/ADC NFMs (Irregular Parcels))	35.4	98.4	36.0%
5-Digit NFMs (Irregular Parcels) (3-Digit NFMs (Irregular Parcels))	3.3	18.2	18.1%
Pre-barcoding (dollars/piece)[2]			
Mixed ADC Barcoded NFMs[3] (Mixed ADC Non-barcoded NFMs)	7.0	3.8	184.0
STANDARD MAIL MACHINABLE PARCELS			
Dropship (dollars/pound)			
DBMC Machinable Parcels (Origin Machinable Parcels)	21.5	77.0	27.9%
DSCF Machinable Parcels (Origin Machinable Parcels)	42.4	106.0	40.0%
DDU Machinable Parcels (Origin Machinable Parcels)	62.0	115.9	53.5%
STANDARD MAIL IRREGULAR PARCELS, NFMS			
Dropship (dollars/pound)			
DBMC Irregular Parcels, NFMs (Origin Irregular Parcels, NFMs)	21.5	77.0	27.9%
DSCF Irregular Parcels, NFMs (Origin Irregular Parcels, NFMs)	46.6	106.0	44.0%
DDU Irregular Parcels, NFMs (Origin Irregular Parcels, NFMs)	70.1	115.9	60.5%

Source: Library Reference PRC-ACR2009-LR4.

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[3] The Postal Service charges a surcharge for nonbarcoded pieces.

[4] The Postal Service Standard Mail NFM/Parcel mail processing cost model does not estimate costs separately for pre-barcoded and non-barcoded pieces. The Postal Service uses a pre-barcoding avoidable cost for BPM as a proxy. *See* table VII-18, pre-barcoding workshare discounts.

the Incentive Program, the Commission required the Postal Service to submit data which could be used both to measure the success of the program, and assist in the design of future incentive programs.[24] For some mailers, the thresholds calculated using the reported volumes are adjusted by the Postal Service. While the Postal Service explains that these adjustments are documented and justified, it claims that it would be a burden to provide an audit trail for all the adjustments. Response of United States Postal Service to Chairman's Information Request No. 9, March 12, 2010, question 4.

The Postal Service utilizes a new method employing trend analysis to develop assumptions regarding mailer response to these short-term price changes. Using that method, the Incentive Program makes a positive contribution of $24.1 million. The methodology used by the Commission to test the financial results for NSAs produces a negative contribution of $36.9 million.[25] The Commission will initiate a rulemaking to fully explore the merits of these alternate methodologies in estimating the impact of this and future incentive programs. This will allow interested persons to have an opportunity to comment on evaluation methodologies.

Now You Know Media, Inc. contends that the Incentive Program was unduly discriminatory (based on the minimum volume threshold established) and anticompetitive (based on a diminished response rate to its mailings). *See* Now You Know Media Reply Comments at 1, 4. In Docket No. R2009-3, the Commission determined that the threshold was reasonable given the Postal Service's need to control administrative costs in a new initiative. The Commission finds that there is insufficient evidence in the record to support Now You Know Media's second claim.

Worksharing

This section discusses products formerly part of an Enhanced Carrier Route (ECR) subclass and Standard Mail products formerly referred to as Standard Mail Regular.

The Postal Service contends that the differences between the Carrier Route, High Density, and Saturation categories of the former ECR subclass do not meet the definition of workshare discount categories described in section 3622(e)(1) and consequently are not regulated under section 3622(e)(2). 2009 ACR at 68. In Order No. 192, the Commission established a rulemaking docket (Docket No. RM2009-3) to examine methodologies underlying the calculation of workshare discounts.[26] Until that docket is completed, the accepted methodology is the current methodology and the Postal Service used it to calculate workshare discount passthroughs.

Using the accepted methodology, the Commission presents its calculation of the passthroughs for ECR worksharing categories in Table VII-12. Two worksharing categories are problematic. The passthroughs for Saturation Letters and High Density Parcels are negative. The Postal Service believes that "[b]oth of these have anomalous estimated cost differences, where the category with the higher address density has a higher unit cost than the category with the lower address density." 2009 ACR at 69. Because the costs are anomalous, the Commission cannot determine whether the discounts are consistent with section 3622(e).

Since the 2007 ACD, the Commission has urged the Postal Service to identify the source of these anomalies. The Postal Service has not yet reported any progress towards that end. Although the issues in Docket No. RM2009-3 have not yet been resolved, the Postal Service should work towards developing better cost data for the former ECR products both to permit the calculation of passthroughs as required by 39 U.S.C. 3622(e) and to gain a better understanding of the underlying costs associated with these products.

Table VII-12 shows the passthroughs by shape for dropship Carrier Route, High Density, and Saturation categories. None of these dropship discounts exceed avoided costs for FY 2009.

The Commission has reviewed the passthrough calculations submitted by the Postal Service for the

cannot be reconciled with the monthly volumes, revenues, or discount paid provided for each eligible mailer. Using the adjusted thresholds provided by the Postal Service, the Commission verified the calculation of the contribution to institutional costs. The Postal Service provided data on the Incentive Program beginning in late February continuing through much of March 2010.

[24] *See* Docket No. R2009-3, Order Approving Standard Mail Volume Incentive Pricing Program, June 4, 2009 at 13, Appendix A.

[25] *See* Library Reference PRC-ACR2009-LR4.

[26] Order No. 192, Docket No. RM2009-3, Notice of Proposed Rulemaking on Application of Workshare Discount Rate Design Principles, March 16, 2009.

Table VII-15
Volume Distribution of Machinable Parcels

	FY 2007	FY 2008	FY 2009
Mixed BMC Machinable Parcels	5.40%	5.00%	4.40%
BMC Machinable Parcels	80.30%	69.00%	54.40%
5-Digit Machinable Parcels	14.20%	26.00%	41.20%

remaining products in Standard Mail. Table VII-13 shows the passthroughs for Letters, Flats, and NFMs/Parcels. In its discussion of excessive discounts, the Commission follows the order of Table VII-13 as closely as practicable. Accordingly, the Commission first discusses Letters, then Flats, and finally NFMs/Parcels.

Letters

The pre-barcoding discount for Standard Mail Letters exceeds avoided cost. This results from the negative FY 2009 "avoided costs" for pre-barcoding letters. Intuitively, a barcoded piece should be less costly to process than a non-barcoded piece. The discount necessary to generate a 100 percent "passthrough" would make the price of automation letters higher than the price of non-automation letters, which the Postal Service believes would impede the efficient operation of the Postal Service. The Commission finds this to be a reasonable application of the exception to discounts exceeding avoided costs in section 3622(e). Nonetheless, anomalous cost data hinders the Commission in obtaining a reliable and accurate comparison of this discount and avoided costs as required by 39 U.S.C. 3622(e). *The Postal Service should improve the methodology for calculating the avoided cost for pre-barcoding letters to allow a more meaningful determination of this discount passthrough.*

The Commission was unable to evaluate the presort discount for non-automation AADC machinable letters. The avoidable cost could not be calculated because the Postal Service's letter mail processing cost model only estimates costs for the combined non-automation machinable AADC and mixed AADC categories. *The Postal Service should work toward developing the necessary cost data to allow the Commission to conduct a meaningful analysis of this discount.*

The presort discount for non-automation 3-digit non-machinable letters and non-automation 5-digit non-machinable letters exceed 100 percent of avoided cost. In Docket No. R2009-2, each of these passthroughs equaled 100 percent. However, a decrease in avoided costs between FY 2008 and FY 2009 caused these passthroughs to surpass 100 percent. The Postal Service claims these discounts are justified under section 3622(e)(2)(D). "The Postal Service believes it would not lead to efficient operations to change price signals for mailer behavior between general price changes whenever estimated avoided costs decrease. Moreover, immediately tracking changes in avoided costs that occur between price changes would disrupt the predictability and stability in prices (Objective 2) that the current system for regulating prices was set up to achieve." 2009 ACR at 66-67.

The Postal Service makes no claim as to how its operation would be impeded if rates would be adjusted to restore 100 percent passthroughs. As the Commission explained when it rejected a claim of this exception in Docket No. R2008-1, the exception applies where there is a reasonable claim of "unusual operational circumstances" that would cause a reduction of the discount to impede the efficient operation of the Postal Service.[27] Additionally, since cost models are updated annually, the Postal Service essentially argues that annual rate adjustments impede its efficient operation. This claim is at odds with the Postal Service's price increases which have followed a regular annual schedule.

Section 3622(e) requires that workshare discounts do not exceed avoided costs, or that they qualify for at least one of the exceptions in the section. *The Commission finds the above-referenced presort discounts are not justified by any of the exceptions. The Commission finds that the appropriate action is for the Postal Service to align the discounts with avoided costs when it files its next general market dominant price adjustment. If, at that time, any of the discounts are subject to one of the exceptions in section 3622(e), the Postal Service may present arguments to that effect.*

Flats

The presort discounts for automation ADC flats, automation 3-digit flats, and 5-digit non-automation flats exceed avoided costs. In Docket No. R2009-2, each of these passthroughs equaled 100 percent. However, a decrease in avoided costs between FY 2008 and FY 2009 caused these passthroughs to surpass 100 percent. The Postal Service claims these discounts are justified under section 3622(e)(2)(D). "The Postal Service believes it would not lead to efficient operations to change price signals for mailer behavior between general price changes whenever estimated avoided costs decrease. Moreover, immediately tracking changes in avoided costs that occur between price changes would disrupt the predictability and stability in prices (Objective 2) that the current system for regulating prices was set up to achieve." 2009 ACR at 66-67.

The Postal Service makes no claim as to how its operation would be impeded if rates were adjusted to restore 100 percent passthroughs. Consequently, the Commission finds these discounts are not sufficiently justified under section 3622(e). *The Commission finds that the appropriate action is for the Postal Service to align the discounts with avoided costs when it files its next general market dominant price adjustment. If, at that time, any of the discounts are justified by one of the exceptions in section 3622(e), the Postal Service may present arguments to that effect.*

The pre-barcoding discount for Standard Mail Flats has a passthrough of 200 percent in FY 2009. In Docket No. R2009-2, the Commission approved a discount for the pre-barcoding of flats that produced a passthrough of 221 percent. The reduction in the passthrough results from an increase in the avoided costs between FY 2008 and FY 2009. As in Docket No. R2009-2, the Postal Service justifies the over 100 percent passthrough for pre-barcoding flats under section 3622(e)(2)(D). The Postal Service believes the excessive discount is necessary to encourage pre-barcoding of flats as a way to support the implementation of the Flats Sequencing System program. For these reasons, the Commission finds the discounts satisfy 39 U.S.C. 3622.

NFMs/Parcels

For Standard Mail NFMs/Parcels, the presort discount for BMC machinable parcels and 5-digit machinable parcels exceed avoided cost. In both cases, the passthroughs are lower than those that were

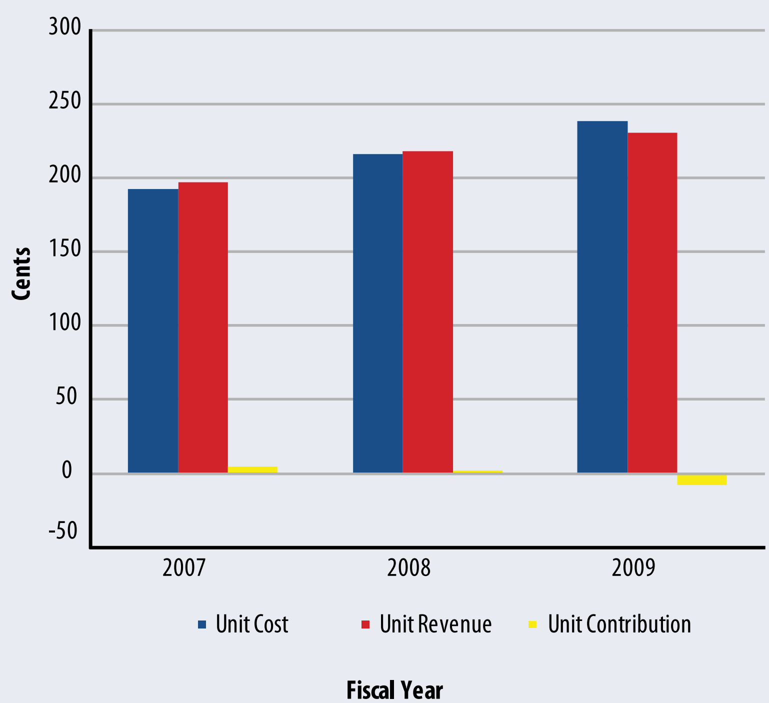
[27] Order No. 66, Docket No. R2008-1, Review of Postal Service Notice of Market Dominant Price Adjustment, March 17, 2008.

Table VII-16
Fiscal Year 2009 Volume, Revenue, Cost and Cost Coverage
Package Services

	Volume (000)	Revenue ($ 000)	Attributable Cost ($ 000)	Contribution to Institutional Cost ($ 000)	Rev./Pc. (Cents)	Cost/Pc. (Cents)	Contribution to Institutional Cost/Pc. (Cents)	Cost Coverage
Package Services								
Single-Piece Parcel Post	80,716	699,847	761,308	(61,462)	867.046	943.192	(76.146)	91.9%
Inbound Surface Parcel Post (at UPU Rates)	878	12,880	15,238	(2,359)	1,466.356	1,734.891	(268.534)	84.5%
Bound Printed Matter Flats	238,799	207,588	118,839	88,750	86.930	49.765	37.165	174.7%
Bound Printed Matter Parcels	270,623	363,909	371,150	(7,241)	134.471	137.146	(2.676)	98.0%
Media and Library Mail	140,139	398,354	472,361	(74,007)	284.257	337.067	(52.810)	84.3%
Inbound NSA Mail Intl	32	74		74				
Total Package Services	**730,309**	**1,682,651**	**1,738,897**	**(56,245)**	**230.403**	**238.104**	**(7.702)**	**96.8%**

Source: Library Reference PRC-ACR2009-LR1.

Figure VII-4
Package Services



approved by the Commission in Docket No. R2009-2. The decreases in the excessive passthroughs are due to higher estimated avoided costs in FY 2009 compared with FY 2008. In Docket No. R2009-2, the Postal Service justified giving mailers a discount in excess of avoidable costs for presorting parcels under 39 U.S.C. 3622(e)(2)(D) because of the possibility that reduction or elimination of the discount would impede the efficient operation of the Postal Service.

In the case of the presort discount for BMC machinable parcels, the Postal Service maintains that the most efficient path for Standard Mail machinable parcels is inducting machinable parcels in BMC presorted containers into the BMC secondary parcel sorting system and bypassing the primary parcel sorters. In Docket No. R2009-2, the Postal Service expressed concern that reducing the discount would slow the movement toward finer presort levels. Docket No. 2009-2 Notice at 38-39.

The Postal Service presented a similar argument for the presort 5-digit machinable parcels presort discount. The Postal Service believes that a discount which exceeds avoided cost is necessary to ensure Standard Mail parcels mailers "undertake the investments necessary to prepare parcels to avoid BMC parcel sorting and move them quicker to delivery units." *Id*. at 39.

As Table VII-15 demonstrates, the excessive discount for 5-digit machinable parcels appears to have had the desired effect of moving parcels to the 5-digit category. The share of machinable parcels entered at the 5-digit level has nearly tripled since FY 2007.

With the share of mixed BMC machinable parcels remaining relatively stable, the decrease in the share of BMC machinable parcels suggests that mailers have been able to consolidate mail allowing them to take advantage of the discount for 5-digit machinable parcels. Nonetheless, as a result of the excessive discount, mailers of BMC machinable parcels saved $2.1 million in postage. *See* Library Reference PRC-ACR2009-LR4.

For the reasons outlined above, the Commission finds the discounts for 5-digit machinable parcels and BMC machinable parcels satisfy 39 U.S.C. 3622(e). *Nonetheless, the Postal Service should closely monitor the situation to ensure that its desired objectives are achieved by these discounts.*

The Postal Service applies a non-barcoded surcharge to all Standard Mail NFMs/Parcels that do not bear a correct routing barcode. The Postal Service Standard Mail NFMs/Parcel mail processing cost model does not estimate costs separately for pre-barcoded and non-barcoded pieces. As a result, no reliable "cost avoidance" is available for the calculation of the passthroughs associated with pre-barcoding Standard Mail NFMs/Parcels. The Postal Service estimates a 184 percent of the passthrough based on cost savings using Bound Printed Matter Parcels as a proxy. Better costing is necessary to facilitate meaningful analysis of these passthroughs.

In Docket No. R2009-2, pursuant to section 3622(e)(2)(D), the Postal Service explains that the proposed discount would promote a totally pre-barcoded incoming parcel mailstream which would allow the elimination of keying stations at sorting facilities with long-run cost savings. Docket No. R2009-2 Notice at 39. Additionally, the Postal Service asserts that the barcode facilitates implementation of electronic manifesting and other product improvements. For these reasons, the Commission finds the discounts satisfy 39 U.S.C. 3622. *The Postal Service should work towards reliable cost data for these categories.*

PACKAGE SERVICES

Introduction

Package Services mail consists of the following five products: Single-Piece Parcel Post, Bound Printed Matter Flats, Bound Printed Matter Parcels, Media Mail/Library Mail, and Inbound Surface Parcel Post (at UPU rates). These products share common traits, including none is sealed against postal inspection; none receives preferential handling or transportation; and generally, each consists of parcels containing merchandise, although heavier catalogs and directories may also be mailed as Package Services mail. In FY 2009, 730 million pieces were mailed as Package Services mail. This accounts for 0.41 percent of total mail volume.

The FY 2009 findings for Package Services are:

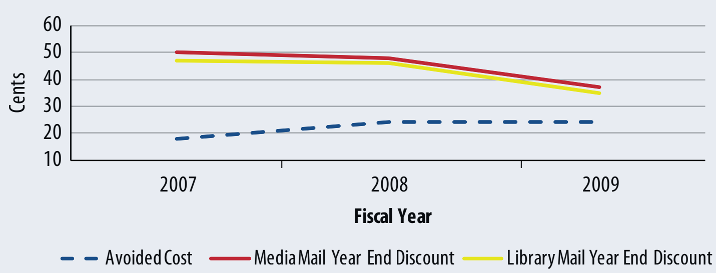
Table VII-17
Media Mail/Library Mail Workshare Discounts and Benchmarks

Type of Worksharing (Benchmark)	FY 2009 Year-End Discount (Cents)	FY 2009 Unit Cost Avoidance (Cents)	FY 2009 Passthrough[1]
MEDIA MAIL			
Presorting (cents/piece)			
Basic (Single-Piece)	39.0	37.0	105.4%
5-Digit (Basic)	37.0	24.0	154.2%
Pre-barcoding (cents/piece)			
Single-Piece Barcoded (Single-Piece Non-barcoded)	3.0	4.0	75.0%
LIBRARY MAIL			
Presorting (cents/piece)			
Basic Single-Piece)	37.0	37.0	100.0%
5-Digit (Basic)	35.0	24.0	145.8%
Pre-barcoding (cents/piece)			
Single-Piece Barcoded (Single-Piece Non-barcoded)	3.0	4.0	75.0%

[1] The calculated passthroughs are based on rounded unit avoidable costs.

Source: Library Reference PRC-ACR2009-LR6.

Figure VII-5
Media and Library Mail 5-Digit Presort
Avoided Cost and Discount Compliance with Section 3622(e)(2)(B)



Note: Library Mail Prices are set at 95 percent of Media Mail prices.

- Attributable costs for Package Services, as a class, exceed revenues by $56 million, equating to a 96.8 percent cost coverage.
- Single-Piece Parcel Post revenues do not cover attributable costs by $61 million.
- Media Mail/Library Mail revenues fail to cover attributable costs by $74 million.
- Bound Printed Matter Parcels revenues fail to cover attributable costs by $7.2 million.
- Four workshare passthroughs do not have sufficient justification with respect to 39 U.S.C. 3622(e).

Financial Analysis

Table VII-16 shows that the Package Services class had a cost coverage of 96.8 percent. Figure VII-4 shows the unit contribution shifting from being slightly positive in FY 2007 and FY 2008 to negative in FY 2009. Bound Printed Matter Flats is the only product within the class to have revenues that exceed attributable costs in FY 2009. The revenues for Single-Piece Parcel Post, Bound Printed Matter Parcels, Media Mail/Library Mail, and Inbound Surface Parcel Post (at UPU rates)[28] did not cover their attributable costs in FY 2009. This is the third ACD where the Single-Piece Parcel Post, and Media Mail/Library Mail products did not have sufficient revenues to cover attributable costs and the first ACD for Bound Printed Matter Parcels and Inbound Surface Parcel Post (at UPU rates). The losses from these products amount to $145.1 million.

Section 3622(c)(2) provides that each class or type of mail service cover its attributable costs and make a reasonable contribution to institutional costs.[29] As a result of attributable costs exceeding revenues, *the Commission finds that Single-Piece Parcel Post, Bound Printed Matter Parcels, Media Mail/Library Mail, and Inbound Surface Parcel Post (at UPU rates),[30] did not recover attributable costs or make a reasonable contribution to institutional costs.*

The Commission requests that the Postal Service file a plan at the time of the next ACR or the next general market dominant price adjustment if it precedes the ACR that outlines how it anticipates addressing the revenue shortfalls of the Package Services class and each of the products that did not produce sufficient revenues to exceed attributable costs. The plan for Single-Piece Parcel Post and Media Mail/Library Mail should expand on the Postal Service's statements in the ACR that future pricing and product actions need to be taken to improve cost coverages for underwater products. 2009 ACR at 44, 51. For Bound Printed Matter Parcels, the plan should address how this product will be monitored to ensure that revenues cover attributable costs in future years. The plan should also address, if necessary, any impact the ongoing network distribution center activation process will have, and any other information the Postal Service deems necessary to ensure adequate revenues in the future.

Single-Piece Parcel Post

The cost coverage for Single-Piece Parcel Post is 91.9 percent, which remained relatively constant from FY 2008 to FY 2009, decreasing 0.1 percentage point. The 91.9 percent cost coverage results in a $61 million loss for the product in FY 2009. Unit attributable costs increased by 7.7 percent while unit revenue increased roughly 7.8 percent, which explains the relatively constant cost coverage since FY 2008. The current prices for this product were increased 4.5 percent in Docket No. R2009-2.

Bound Printed Matter Parcels

The FY 2009 cost coverage for Bound Printed Matter Parcels is 98.0 percent. Despite deflation of -0.324 percent as measured by the CPI-U,[31] unit attributable costs increased by 6.0 percent during FY 2009. Unit revenues decreased by 3.5 percent, which led to Bound Printed Matter Parcels revenue not covering attributable costs in FY 2009. This is the first ACD where Bound Printed Matter Parcels attributable costs exceed revenues. The rates for Bound Printed Matter Parcels increased by 2.5 percent in Docket No. R2009-2. These rates went into effect on May 11, 2009. In the 2009 ACR, the Postal Service states, "[h]ad the current prices

[28] *See* the section on market dominant international products for a more detailed discussion of Inbound Surface Parcel Post (at UPU rates).

[29] Rates that recover attributable costs and make reasonable contributions to institutional costs are also consistent with 39 U.S.C. 101(d), 3622(b)(1), and 3622(b)(5).

[30] *See* the section on market dominant international products for a more detailed discussion of Inbound Surface Parcel Post (at UPU rates).

[31] *See http://www.prc.gov/PRC-DOCS/home/CPI.pdf*, September 2009 CPI-U value.

Table VII-18
Bound Printed Matter Flats
Workshare Discounts and Benchmarks

Type of Worksharing (Benchmark)	FY 2009 Year-End Discount (Cents)	FY 2009 Unit Cost Avoidance (Cents)	FY 2009 Passthrough[3]
BPM FLATS			
Basic Flats (Single-Piece Flats)	35.4	See Note [1]	
Carrier Route Flats (Basic Flats)	9.8	15.0	65.3%
Presorting (cents/pound)[1]			
Basic, Carrier Route Flats (Single-Piece Flats)			
Zones 1&2	5.2	See Note [1]	
Zone 3	6.2	See Note [1]	
Zone 4	6.0	See Note [1]	
Zone 5	6.7	See Note [1]	
Zone 6	6.9	See Note [1]	
Zone 7	6.8	See Note [1]	
Zone 8	7.8	See Note [1]	
Pre-barcoding (cents/piece)[2]			
Single-Piece Automatable Flats (Single-Piece Non-automatable Flats)	3.0	See Note [2]	
Basic Automatable Flats (Basic Non-automatable Flats)	3.0	See Note [2]	
Carrier Route Automatable Flats (Carrier Route Non-automatable Flats)	3.0	See Note [2]	
Dropship (cents/piece)			
Basic, Carrier Route DBMC Flats/IPPs (Basic Origin Flats)	22.0	21.7	101.4%
Basic, Carrier Route DSCF Flats (Basic Origin Flats	61.6	63.0	97.8%
Basic, Carrier Route DDU Flats (Basic Origin Flats)	79.5	76.1	104.5%

[1] The BPM cost model does not estimate cost differences between single-piece and presorted BPM. Single-piece BPM is a residual category with low volume and adequate data are not available. Previously, rate differences between single-piece and presorted BPM were based on an assumption that unit mail processing costs for single-piece BPM were twice that of presorted BPM. *See* Docket No R2006-1, USPS-T-38, at 8.

[2] Separate estimates of pre-barcoding cost savings are not available for BPM flats. Based on the cost savings for BPM parcels, the pre-barcoding discount for BPM flats implies a passthrough of 78.9 percent.

[3] The calculated passthroughs are based on rounded unit avoidable costs.

Source: Library Reference PRC-ACR2009-LR6.

Table VII-19
Bound Printed Matter Parcels
Workshare Discounts and Benchmarks

Type of Worksharing (Benchmark)	FY 2009 Year-End Discount (Cents)	Unit Cost Avoidance (Cents)	Passthrough[2]
BPM PARCELS/IPPs			
Presorting (cents/piece)[1]			
Basic Parcels/IPPs (Single-Piece Parcels/IPPS)	55.8	See Note[1]	
Carrier Route Parcels/IPPs (Single-Piece Parcels/IPPS)	9.8	15.0	65.3%
Presorting (cents/pound)[1]			
Basic, Carrier Route Parcels/IPPs (Single-Piece Parcels/IPPs)			
Zones 1&2	4.6	See Note[1]	
Zone 3	4.5	See Note[1]	
Zone 4	4.5	See Note[1]	
Zone 5	3.9	See Note[1]	
Zone 6	3.8	See Note[1]	
Zone 7	3.0	See Note[1]	
Zone 8	1.4	See Note[1]	
Pre-barcoding (cents/piece)			
Single-Piece Barcoded Parcels/IPPs (Single-Piece Non-barcoded Parcels/IPPs)	3.0	3.8	78.9%
Basic Barcoded Parcels/IPPs (Single-Piece Non-barcoded Parcels/IPPs)	3.0	3.8	78.9%
Carrier Route Barcoded Parcels/IPPs (Single-Piece Non-barcoded Parcels/IPPs)	3.0	3.8	78.9%
Dropship (cents/piece)			
Basic, Carrier Route DBMC Parcels/IPPs (Basic Origin Parcels/IPPs)	21.8	21.7	100.5%
Basic, Carrier Route DSCF Parcels/IPPs (Basic Origin Parcels/IPPs)	61.6	63.0	97.8%
Basic, Carrier Route DDU Parcels/IPPs (Basic Origin Parcels/IPPs)	79.5	76.1	104.5%

[1] The BPM cost model does not estimate cost differences between single-piece and presorted BPM. Single-piece BPM is a residual category with low volume and adequate data are not available. Previously, rate differences between single-piece and presorted BPM were based on an assumption that unit mail processing costs for single-piece BPM were twice that of presorted BPM. *See* Docket No R2006-1, USPS-T-38, at 8.

[2] The calculated passthroughs are based on rounded unit avoidable costs.

Source: Library Reference PRC-ACR2009-LR6.

been in effect for the full year, it is expected that Bound Printed Matter Parcels might have come closer to covering its attributable costs and might possibly even have made some contribution toward institutional costs." 2009 ACR at 49.

Bound Printed Matter Flats

Bound Printed Matter Flats is the only domestic Package Services product to produce sufficient revenues to cover attributable costs in FY 2009. Unit attributable costs decreased 8.5 percent and unit revenues decreased 4.0 percent, which lead to Bound Printed Matter Flats contributing 37.2 cents per piece to institutional costs in FY 2009. This is an increase in the contribution per piece of one cent from FY 2008 to FY 2009. Overall volume decreased by 17.6 percent from FY 2008 to FY 2009 despite a decrease in prices in Docket No. R2009-2, which took effect midway through the third quarter of FY 2009.

Media Mail/Library Mail

Despite above average rate increases in Docket Nos. R2008-1 and R2009-2, Media Mail/Library Mail's attributable costs exceed its revenue producing a net loss of $74 million, and resulting in a cost coverage of 84.3 percent. This is the third ACR where Media Mail/Library Mail's attributable costs exceed revenues. The FY 2009 volumes decreased 11.6 percent in FY 2009 on top of the 10.25 percent volume decrease in FY 2008. The Media Mail/Library Mail unit revenue increase in FY 2009 is 7.1 percent. However, unit attributable costs rose 11.6 percent, which cause the cost coverage to fall 3.6 percentage points from FY 2008 to FY 2009.

Comments. One commenter specifically addresses the Package Services class in its comments, and two commenters address Package Services in reply comments. In its comments, Valpak notes this is the first year the Package Services class revenues do not exceed costs, and urges the Commission to address the situation. Valpak Comments at 19-20.

In its reply comments, PSA states that now is not the time to raise prices for market dominant products that are not covering their costs. PSA Reply Comments at 5. PSA also contends that the Commission does not have the authority to order price increases solely because a product is not covering its attributable costs. MPA ANM concur, see MPA ANM Reply Comments at A 10-11.

Workshare Discounts

There are workshare discounts in the following Package Services products:

- Media Mail/Library Mail;
- Bound Printed Matter Flats; and
- Bound Printed Matter Parcels.

Table VII-17 presents Media/Library Mail workshare discounts, their associated cost avoidance, and the discount as a percentage of the avoided cost (passthrough). Table VII-18 presents this information for Bound Printed Matter Flats, and Table VII-19 displays it for Bound Printed Matter Parcels.

TableVII-20
Special Services Fiscal Year 2009 Volume, Cost, Revenue, and Cost Coverage by Product

	Units[1] (000)	Total Revenue ($ 000)	Attributable Cost ($ 000)	Contribution to Institutional Cost ($ 000)	Unit Revenue (Cents)	Unit Cost (Cents)	Contribution to Unit Institutional Cost/Pc. (Cents)	Cost Coverage
MARKET DOMINANT SPECIAL SERVICES								
Domestic Special Services:								
Ancillary Services:								
Certified Mail	266,490.764	729,813.026	659,479.507	70,333.519	273.861	247.468	26.392	110.67%
COD	1,015.205	7,564.147	6,596.176	967.971	745.086	649.738	95.347	114.67%
Insurance	43,767.420	129,069.205	116,869.295	12,199.910	294.898	267.023	27.874	110.44%
Registered Mail	3,181.977	49,905.881	50,585.583	(679.702)	1,568.392	1,589.753	(21.361)	98.66%
Stamped Cards[2]		678.953	1,071.572	(392.619)				63.36%
Stamped Envelopes		16,543.434	4,957.755	11,585.679				333.69%
Other Ancillary Services:[3]	1,301,738.567	751,479.542	519,706.620	231,772.922	57.729	39.924	17.805	144.60%
Total Ancillary Services	1,616,193.933	1,685,054.188	1,359,266.508	325,787.680				123.97%
"Stand-Alone" Special Services:								
Address List Services	95.093	33.971	35.009	(1.038)	35.724	36.815	(1.091)	97.04%
Caller Service[4]	181.232	94,821.754	34,127.075	60,694.679	52,320.627	18,830.594	33,490.033	277.85%
Confirm Service		2,407.600	2,950.777	(543.177)				81.59%
COA Credit Card Authentication	9,082.000	9,082.000	1,289.529	7,792.471	100.000	14.199	85.801	704.29%
Money Orders	135,039.460	191,024.595	146,134.926	44,889.669	141.458	108.216	33.242	130.72%
Post Office Box Service[4]	14,641.222	817,075.478	632,255.370	184,820.108	5,580.651	4,318.324	1,262.327	129.23%
Total "Stand-Alone" Special Services	159,039.008	1,114,445.398	816,792.686	297,652.712				136.44%
Total Domestic Special Services	1,775,232.941	2,799,499.586	2,176,059.195	623,440.392				128.65%
International Special Services[5]	17,030.052	25,684.056	37,409.858	(11,725.802)	150.816	219.670	(68.854)	68.66%
Total Market Dominant Special Services	1,792,262.993	2,825,183.6421	2,213,469.05254	611,714.590				127.64%

[1] Units refer to the amount of transactions for each service except for Stamped Envelopes and PO Boxes which refer to the amount of box purchases and box rentals, respectively.
[2] The Postal Service filed revised volume and revenue data for Stamped Cards. With the revised data, Stamped Cards covers its attributable cost. However, the Commission found discrepancies with the revised data. Thus, this table does not include the revised data.
[3] The 2008 ACR did not isolate costs for Other Ancillary Services.
[4] The Commission used the Billing Determinants' Revenue Adjustment Factors to calculate the Units for PO Boxes and Caller Service.
[5] International Special Services are found in the International Mail section.

Source: Library Reference PRC-ACR2009-NP-LR1.

Media and Library Mail

Figure VII-5 shows the FY 2009 avoided costs, discounts, and passthroughs for Media Mail/Library Mail. Five-digit presort discounts for Media Mail/Library Mail again exceed avoided costs in FY 2009. The Postal Service has reduced these passthroughs by decreasing discounts to better align with avoided costs in Docket Nos. R2008-1 and R2009-2. The Postal Service justifies these passthroughs under section 3622(e)(2)(B) as necessary to mitigate rate shock and adds that it plans to phase the discount out over time. The Postal Service also justifies these discounts as applicable to mail that is educational, cultural, scientific or informational (ECSI) under section 3622(e)(2)(C) of title 39. The Commission accepts this justification for Media Mail/Library Mail 5-digit presort discounts.

In Docket No. R2009-2, the Postal Service aligned the discount for Media Mail basic presort with avoided costs. However, in FY 2009, the costs avoided by this discount decreased resulting in the passthrough increasing to 105.4 percent. In the 2009 ACR, the Postal Service justifies this passthrough under sections 3622(e)(2)(D) and 3622(e)(2)(C). The Commission does not find the section 3622(e)(2)(D) justification satisfied in this instance because the Postal Service does not identify any specific operation that would be affected by changing discounts annually to reflect avoided costs. However, the Commission does find the section 3622(e)(2)(C) justification adequate because Media Mail/Library Mail do have ECSI value.

Bound Printed Matter Flats and Parcels

Methodology change. In the 2009 ACR, the Postal Service modified the calculation of mail processing and transportation avoided costs for Bound Printed Matter Parcels and Bound Printed Matter Flats. This change is a result of combining inter-BMC and intra-BMC Single-Piece Parcel Post into a single category called Nonpresort Single-Piece Parcel Post. *See* Docket No. R2009-2. Previously, Bound Printed Matter Flat and Parcel mail processing and transportation avoided cost models used the intra-BMC and inter-BMC volume distributions to calculate avoided costs. Because annual billing determinants are no longer reported for inter-BMC and intra-BMC, the Postal Service used FY 2008 billing determinants as a proxy in the 2009 ACR. Chairman's Information Request No. 1 sought

Figure VII-6
Stamped Cards Coverage
FY2006–FY2009

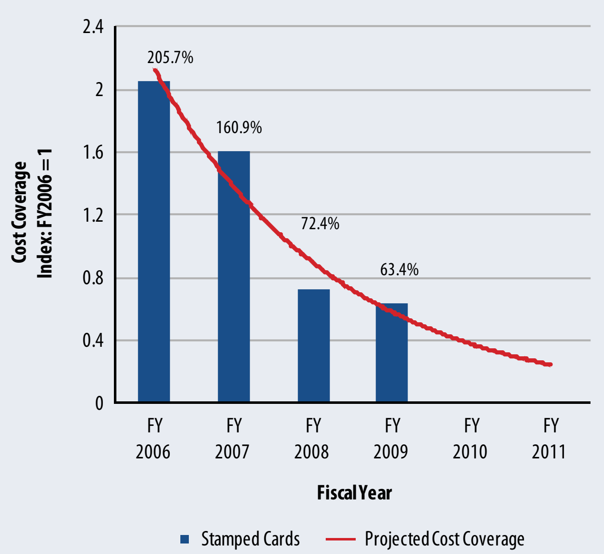


Table VII-21
Stamped Cards and Stamped Envelopes
Billing Determinants/RPW Revenue Comparison

	Revenue $(000)
Billing Determinant Worksheets	
1 Stamped Cards[1]	2,559.030
2 Stamped Envelopes[2]	15,414.860
3 Stamped Cards and Envelopes	17,973.890
4 RPW Revenue	17,222.387
5 Difference (3-4)	751.503

[1] The revenue figure is taken from Response to CHIR No. 4, question 18.
[2] The revenue figure is taken from the Response to CHIR No. 4, question 21.

additional information about this methodological change. In response, the Postal Service stated:

> This methodology and the availability of alternative cost model input data will be evaluated in the coming months. It should be pointed out that the network distribution center (NDC) activation process, which will have an impact on these subclasses of mail, is not yet completed. It is therefore possible that proxies may have to be relied upon until this process is completed.

Response to CHIR No. 1, question 18.

The change in proxy from the current year (FY 2009) to the previous year (FY 2008) is reasonable for the 2009 ACD. The Commission accepts the Postal Service's methodological change and expects the Postal Service to be forthcoming with any additional changes that will affect these avoided cost models.

Discount analysis. Tables VII-18 and VII-19 show year-end discounts, FY 2009 avoidable costs, and calculated passthroughs for Bound Printed Matter Flats and Bound Printed Matter Parcels, respectively. In Docket No. R2009-2, the Commission approved the Postal Service's alignment of DSCF and DDU dropship discounts for both Bound Printed Matter Flats and Parcels with avoided costs resulting in 99.9 percent passthrough for DSCF dropship and 100 percent passthrough for DDU dropship. Since Docket No. R2009-2, unit avoided costs for DDU dropship Bound Printed Matter Flats and Parcels have decreased resulting in the passthroughs increasing to 104.5 percent. The Postal Service justifies these passthroughs under section 3622(e)(2)(D) because it believes that "it would not lead to efficient operations to change price signals for mailer behavior between general price changes whenever estimated avoided costs decrease." 2009 ACR at 71. The Postal Service does not identify any specific operations that would be impeded if discounts were aligned with avoided costs, and thus provides no plausible rationale justifying an exception under section 3622(e)(2)(D). *The Commission finds that the appropriate action is for the Postal Service to align these discounts with avoided costs in its general market dominant price adjustment. If, at that time, any of the discounts is justified by one of the exceptions in section 3622(e), the Postal Service may present arguments to that effect.*

The passthrough for DBMC Flats decreased from 140 percent to 114 percent in Docket No. R2009-2, and the passthrough for DBMC Parcels decreased from 142 percent to 113 percent. The Postal Service previously justified these discounts under section 3622(e)(2)(B) to mitigate rate shock and added that it planned to phase out the discount over time, a rationale the Commission accepted. The avoided cost for DBMC dropship flats and parcels has increased since Docket No. R2009-2 resulting in a lower passthrough of 101.4 percent and 100.5 percent for Bound Printed Matter DBMC dropship flats and parcels, respectively. However, these passthroughs still exceed 100 percent, and the Postal Service now justifies these passthroughs under section 3622(e)(2)(D), that "adjusting these prices outside of the next general price increase would unduly disrupt its customers' businesses to achieve questionable gain." *Id.* at 73. Thus, the Postal Service contends that its customers' behavior would be disrupted, not the Postal Service's operations. However, section 3622(e)(2)(D) cites postal operations, not customers' operations. Accordingly, the Postal Service has not provided any evidence that it is subject to this exemption. For this reason, the Commission finds that the appropriate action is *for the Postal Service to align these discounts with avoided costs at the time of the next general market dominant price adjustment. If, at that time, any of the discounts are subject to one of the exceptions in section 3622(e), the Postal Service may present arguments to that effect.*

The avoided costs associated with both Bound Printed Matter Carrier Route Flats and Parcels have increased in FY 2009 causing the passthrough to decrease since the 2008 ACR and Docket No. R2009-2 where the discount was set equal to the avoided cost. Therefore, in FY 2009, the passthrough was below 100 percent.

SPECIAL SERVICES

Introduction

The Special Services class consists of 10 products that can be categorized as Ancillary Services, "stand-alone" Special Services, and international Special Services. Ancillary Services is classified as one product; stand-alone Special Services consists of six products; and international Special Services consists of three products.

The FY 2009 findings for Special Services are:

- Special Services contribute $611.7 million towards institutional costs, which is the third highest contribution among all market dominant mail classes.
- The attributable cost exceeds revenue for Address List Services, Confirm Service, International Ancillary Services, Registered Mail, and Stamped Cards.
- The cost coverages improved for Insurance, Other Ancillary Services, Registered Mail, and Stamped Envelopes.

Financial Analysis

In FY 2009, the Special Services class, including international mail services, earned $2.8 billion in revenue and incurred $2.2 billion in total attributable cost. The Special Services class produced a cost coverage of 127.6 percent. Table VII-20 displays the financial information for the Special Services mail categories.

Ancillary Services

The Ancillary Services product consists of a number of individual services that may only be used in conjunction with other mail services.[32] The Ancillary Services product earned $1.7 billion in revenue and incurred $1.4 billion in attributable cost. The product contributed $325.8 million towards the institutional costs of the Postal Service and had a cost coverage of 124.0 percent. The Postal Service distributes the revenue for some Ancillary Services to their host mail class as fee revenue and thus, such revenue is not included in the calculation of the cost coverage for Ancillary Services.[33]

Although the Ancillary Services product satisfies the applicable provisions of title 39, the revenue for Registered Mail and Stamped Cards did not satisfy 39 U.S.C. 3622(c)(2), which requires each class of mail or mail type to cover its attributable cost and to provide a reasonable contribution to institutional costs. The cost coverage for two services is 98.7 percent and 63.4 percent, respectively.

The cost coverage for Registered Mail has improved steadily since FY 2006 due to a Docket No. R2006-1 cost methodology change in the Postal Service's treatment of Cost Segment 3 mail processing costs.[34] However, each year the costs for Registered Mail continue to exceed revenues. As indicated in the Postal Service's response to CHIR No. 4, question 18, the Postal Service is "working to improve the efficiency of Registered Mail operations, with cost savings expected to improve the ability of revenues to exceed costs during FY 2010 for the Registered Mail ancillary service."[35] The Commission finds that the appropriate action is for the Postal Service to raise the contribution for Registered Mail through cost reductions and future rate adjustments so that Registered Mail satisfies 39 U.S.C. 3622(c)(2). Furthermore, the Commission recommends that the Postal Service document and assess its efforts to improve the cost coverage for Registered Mail in its 2010 ACR filing.

In contrast to Registered Mail's cost coverage, the cost coverage for Stamped Cards appears to have decreased exponentially since FY 2006. Using the billing determinants and CRA data initially filed with the 2009 ACR, the cost coverage for Stamped Cards for FY 2009 is 63.4 percent.[36] As displayed in Figure VII-6, if this trend continues, Stamped Cards cost coverage could diminish to less than 40 percent by FY 2010.

However, the projected cost coverage for Stamped Cards may not be as bleak as it appeared in the initial filing of the 2009 ACR. On February 24, 2010, the Postal Service filed updated billing determinants

[32] The Ancillary Services is a domestic product which contains 22 separate services: (1) Address Correction Service; (2) Applications and Mailing Permits; (3) Business Reply Mail; (4) Bulk Parcel Return Service; (5) Certified Mail; (6) Certificate of Mailing; (7) Collect on Delivery; (8) Delivery Confirmation; (9) Insurance; (10) Merchandise Return Service; (11) Parcel Airlift; (12) Registered Mail; (13) Return Receipts; (14) Return Receipt for Merchandise; (15) Restricted Delivery; (16) Shipper-Paid Forwarding; (17) Signature Confirmation; (18) Special Handling; (19) Stamped Envelopes; (20) Stamped Cards; (21) Premium Stamped Stationery; and (22) Premium Stamped Cards.

[33] These services are Address Correction Services, Applications and Mailing Permits, Business Reply Mail, Bulk Parcel Return Service, Certificate of Mailing, Merchandise Return Services, Parcel Airlift, Shipper-Paid Forwarding, and Special Handling.

[34] *See* PRC Op. R2006-1, Appendix C at 8.

[35] *See* Responses of the United States Postal Service to questions 6, 18, and 20 of Chairman's Information Request No. 4, February 24, 2010, question 18 (Response to CHIR No. 4, February 24, 2010).

[36] The billing determinants revenue figures match the revenue figures reported in the supporting worksheets for the RPW. *See* Library Reference USPS-FY09-NP30, Excel file "NP.30.FY2009_ RPWextractfile_ Restricted.xlsx," worksheet 'Summary Category RPW Data.'

data for Stamped Cards. In response to CHIR No. 4, which sought an explanation of the Postal Service's plan to improve the cost coverage for FY 2010, the Postal Service indicated that the "volume and revenue reported in the Billing Determinants for FY 2009 are incorrect due to a data error." With the revised volume and revenue estimates, the Postal Service explains that Stamped Cards is "adequately covering its total costs…."[37]

As shown in Table VII-21, the revised estimates do not correspond with the RPW report. The RPW supporting worksheets list revenue figures for Stamped Cards and Stamped Envelopes as $678,953 and $16,543,434, respectively, which matches the combined revenue figure $17,222,387 listed in the audited RPW report. However, in response to CHIR No. 4, the Postal Service informed the Commission that the accurate revenues for Stamped Cards and Stamped Envelopes are $15,414,860 and $2,559,030, respectively, whose sum is greater than the combined RPW figure.[38]

Therefore, the Commission concludes that the data for Stamped Cards and Stamped Envelopes provided in response to CHIR No. 4 is unsupported. As a result, the Commission will rely on the revenue figures displayed in the RPW supporting worksheets. If Stamped Cards cost coverage is in fact 63.4 percent, as shown in Figure VII-6, the cost coverage indicates a problem that should be carefully reviewed by the Postal Service in its 2010 ACR.

The Commission finds that the appropriate action is for the Postal Service to increase the contribution for Stamped Cards through cost reductions and future rate adjustments so that Stamped Cards satisfies 39 U.S.C. 3622(c)(2). Stamped Cards did not receive a price increase in the previous rate adjustment, Docket No. R2009-2. Furthermore, the Commission recommends that the Postal Service document and assess its efforts to improve the cost coverage for Stamped Cards in its 2010 ACR filing. The Commission expects the Postal Service to review its current presentation of the revenue for Stamped Cards and Stamped Envelopes in the RPW and ensure that the figures listed in the RPW matches the corresponding figures listed in the billing determinants.

Stand-Alone Special Services

The six stand-alone Special Services are Address List Services, Confirm Service, Caller Service and Reserve Number, Change-of-Address Credit Card Authentication, Money Orders, and Post Office Boxes. As separate products, each of the six stand-alone services must individually cover their attributable costs. Two products, Address List Services and Confirm Service, did not generate enough revenue to cover their attributable costs.

For FY 2009, the Postal Service's CRA reports included attributable cost data for each stand-alone Special Service for the first time. The Commission requests that the Postal Service continue to isolate cost data for all stand-alone Special Service products in subsequent ACRs.

While the CRA isolated costs for each product within the Special Services class, the RPW report did not isolate revenues and transactions for each product for Address List Services, Confirm Service, and Change-of-Address Credit Card Authentication. In order to effectively analyze all products within the Special Services class, the Commission urges the Postal Service to isolate revenue and transactions for all Special Services products in the RPW.

Address List Services. Address List Services consists of four services that enable bulk business mailers to better manage the quality of their mailing lists.[39] In

[37] *See* Response to CHIR No. 4, February 24, 2010, question 18.

[38] Response to CHIR No. 4, February 24, 2010, questions 1-2, 4-5, 7-17, 19, 21-23, and 25.

[39] Address List Services include Carrier Sequencing of Address Cards, Change-of-Address Information for Election Boards and Registration Commissions, Correction of Mailing Lists, and Zip Coding of Mailing Lists.

previous ACRs, the Postal Service did not isolate costs for Address List Services.

In FY 2009, Address List Services generated $34 thousand in revenue and incurred $35 thousand in attributable cost. As a result, the product did not generate enough revenue to cover its attributable cost and had a negative contribution of $1,038. The FY 2009 cost coverage for Address List Services is 97.0 percent.

On January 13, 2010, Order No. 391 renamed Address List Services as Address Management Services and added Customized Postage to the Market Dominant Product List as a stand-alone Special Service.[40] *The Commission expects the Postal Service to develop a cost methodology and submit the methodology prior to filing the 2010 ACR.*[41]

Section 3622(c)(2) requires each class or type of mail service to cover its attributable costs and make a reasonable contribution to institutional costs. For FY 2009, Address List Services did not cover its attributable cost nor make a reasonable contribution to institutional costs. Given the recent addition of 23 new services to the product, the Commission finds that remedial action is not necessary. Instead, the Commission will monitor the cost coverage of the newly formed Address Management Services product over subsequent ACR filings.

Caller Service. Caller Service earned $94.8 million in revenue and incurred $34.1 million in total attributable cost. The product contributed $60.7 million towards institutional costs and had cost coverage of 277.9 percent. This was the first year the CRA separated costs for Caller Service from Post Office Boxes to permit analysis of Caller Service as a stand-alone product. The Commission urges the Postal Service to continue providing this level of disaggregation in subsequent ACR filings.

Change-of-Address Credit Card Authentication. Change-of-Address Credit Card Authentication product allows customers to file change-of-address requests online and over the telephone. The Postal Service charges a $1 fee to verify the customer's identity and has a third-party agreement with a credit card vendor to manage the Change-of-Address program. This was the first year the CRA isolated cost data for the Change-of-Address Credit Card Authentication product.

In FY 2009, the Postal Service processed 9.1 million Internet and telephone change-of-address applications, collectively, which generated $9.1 million in revenue. The CRA indicates that the product incurred $1.3 million in attributable costs. However, a portion of the total revenue generated for the product is paid under the third-party vendor. 2009 ACR at 55. As a result, the Postal Service indicates that the cost coverage for Change-of-Address Credit Card Authentication product does not equal the revenue divided by the attributable cost figure. The Postal Service supplemented its filing by providing a non-public library reference that displayed detailed expenses for the product, including a portion of the revenue paid to the third-party agreement.[42] The Commission reviewed all pertinent non-public library references and concludes that the Change-of-Address Credit Card Authentication product covers its attributable cost.

In FY 2009, the Postal Service processed 13.8 percent more Internet change-of-address forms. This increase could be linked to the Postal Service's Behind the Counter Program, which requires copies of the *Mover's Guide* to be kept behind the retail counter and promotes the use of Internet change-of-address submissions over hardcopy change-of-address forms. The *Mover's Guide* contains the official hardcopy change-of-address form. Effective January 14, 2010, all post offices are now participating in the Behind the Counter program.[43] As a result of the Behind the Counter Program, the Postal Service expects to increase the revenue for Change-of-Address Credit Card Authentication product by $2 million. *Id.* at 15.

Confirm. Confirm consists of four subscription tiers that allow business mailers to receive scan (tracking) data about mailpieces.[44] This was the first year the CRA isolated cost data for the Confirm product. However, in

[40] Docket No. MC2009-19, Order Approving Addition of Postal Services to the Mail Classification Schedule Product List, January 13, 2010 (Order No. 391).

[41] Similarly, the Commission expects the Postal Service to develop and submit a cost methodology for the Customized Postage product prior to the filing of the 2010 ACR.

[42] Library Reference USPS-FY09-NP26, Excel file, "COACreditCard2009.xls" and USPS-FY09-NP32, Excel file "ChIR.4.Q.19.NonPublic.COA.Crdt.Crd.xls".

[43] Postal Bulletin 22276, January 14, 2010, at 7.

[44] Mailers can subscribe to the Bronze, Gold, Silver, and Platinum tiers and may purchase additional IDs which allow mailers to receive scan data for their clients.

previous ACRs, the Postal Service submitted a special cost study to identify costs for the product.

Confirm earned $2.4 million in revenue. However, the attributable costs for FY 2009 were $3.0 million which exceeded revenue for the Confirm product. Confirm had a negative contribution of $543.2 thousand and a cost coverage of 81.6 percent. This was the first year since the passage of the PAEA that Confirm Service did not cover its costs.

Compared to FY 2009, Confirm's cost coverage decreased by 61.9 percent. The significant decrease in cost coverage is largely a result of a 156 percent increase in Confirm's fixed cost. The Postal Service explains that approximately 90 percent of the increase in fixed costs was a one-time "contractor costs for an IT hardware upgrade (coding) and application development, so that Confirm could provide Full Service IMb data, and use updated technology."[45] The Postal Service expects Confirm Service to generate additional revenue as a result of providing Full Service IMb data.[46]

Section 3622(c)(2) requires each class or type of mail service to cover its attributable costs and make a reasonable contribution to institutional costs. The Commission finds that Confirm does not recover attributable costs. The Postal Service should implement cost reductions and/or future rate adjustments so that Confirm satisfies section 3622(c)(2). Furthermore, the Postal Service should monitor the fixed costs for Confirm service to ensure that fixed costs do not increase substantially in FY 2010.

Money Orders. Money Orders earned $191.0 million in revenue and incurred $146.1 million in attributable cost. Money Orders contributed $44.9 million towards the institutional costs of the Postal Service and had a cost coverage of 130.8 percent. The unit attributable costs for Money Orders increased by 5.62 percent; the increase is 5.95 percentage points above the CPI-U level for FY 2009.

Post Office Boxes. Post Office Boxes generated $817.1 million in revenue and incurred $632.3 million in attributable cost. Post Office Boxes contributed $184.8 million towards the institutional costs of the Postal Service and had a cost coverage of 129.2 percent.

The Post Office Boxes product consists of eight Fee Groups (1-7 and E) which are based on the market value of the postal facilities. Fee Groups determine the rate a customer must pay to rent a Post Office Box.[47] The most expensive postal locations are grouped as Fee Group 1; the least expensive are grouped as Fee Group 7.

As the market value for a postal facility changes, the Postal Service accordingly moves the facility to a new Fee Group.[48] As indicated in the Postal Service's response to CHIR No. 4, "facilities whose Post Office Box fees went to a lower numbered Fee Group in FY2009 experienced fee increases." Response to CHIR No. 4, February 16, 2010, question 25. In FY 2009, 10 postal facilities moved from a higher priced Fee Group to a lower priced one; five postal facilities moved from a lower priced Fee Group to a higher one.

Market Dominant International Products

Market dominant international mail consists of five products. The market dominant international mail products are Outbound Single-Piece First-Class Mail International, Inbound Single-Piece First-Class Mail International (at UPU rates), Inbound Single-Piece First-Class Mail International (at non-UPU rates), Inbound Surface Parcel Post (at UPU rates), and International Ancillary Services.[49] With few exceptions, rates and fees in effect during FY 2009 for market dominant international mail products were established pursuant

[45] Responses of the United States Postal Service to Questions 1-24 of Chairman's Information Request No. 1, February 2, 2010, question 20(a).

[46] In April 2009, the Postal Service issued an update to Publication 197, Confirm User Guide, which explains a policy change for Confirm Subscribers who plan to implement Full Service IMb. Confirm subscribers who want to implement Full Service IMb must purchase additional ID's to distribute IMb scans to their clients.

[47] Fee Group E is offered free of charge to customers where the Postal Service does not provide carrier delivery.

[48] Publication 431: Post Office Boxes and Caller Service Fee Groups provide a comprehensive list of each ZIP Code and its corresponding Fee Group. Revisions to Publication 431 are published in the *Postal Bulletin*.

[49] Market dominant International Ancillary Services consist of Certificate of Mailing, Registered Mail, Return Receipt, and Restricted Delivery. These services can be purchased only in conjunction with certain mail services. Other International Ancillary Services, Reply Coupon Service and Business Reply Mail Service, are classified as separate products and can be purchased on a stand-alone basis. Substantially all revenue reported for international Special Services is derived from services within the International Ancillary Services product.

to the provisions of the PAEA.[50] For outbound market dominant international mail products, the Postal Service implemented new rates and fees on May 11, 2009.

For inbound market dominant international mail products, the Postal Service receives revenues based on rates determined by international agreement through the UPU,[51] or established through bilateral negotiations with Canada. The largest category of inbound mail, referred to as "letter post,"[52] enters as Inbound Single-Piece First-Class Mail International. Most inbound letter post is subject to UPU "terminal dues" rates.[53] Such rates are non-compensatory to the Postal Service. Inbound letter post from Canada enters the U.S. at bilaterally negotiated terminal dues rates, rather than UPU rates.[54] These negotiated terminal dues rates also are not compensatory. The effect of non-compensatory terminal dues rates has predictable and negative consequences on the financial performance of inbound mail, specifically, and market dominant international mail, generally. These consequences are discussed more fully below in the Financial Analysis.

The FY 2009 findings with respect to market dominant international mail are:

- Revenues exceed attributable costs for market dominant international mail products as a whole.
- Revenues exceed attributable costs for Outbound Single-Piece First-Class Mail International.
- Revenues for market dominant Inbound Single-Piece First-Class Mail International, including inbound letter post from Canada, do not cover attributable costs by $105.2 million.
- Revenues for inbound Surface Parcel Post (at UPU rates) do not cover attributable costs by $2.4 million.
- Revenues for International Ancillary Services do not cover attributable costs.

Financial Analysis

During FY 2009, market dominant international mail products as a whole provide a net contribution to the institutional costs of the Postal Service. The contribution would have been higher but for a loss in contribution from market dominant inbound mail.

Market dominant outbound international mail products. Market dominant Outbound Single-Piece First-Class Mail International is the largest source of international mail contribution amounting to $288.9 million during FY 2009. The cost coverage for Outbound First-Class Mail International is 161.7 percent.

Market dominant inbound international mail products. The Postal Service reports financial results for the following inbound market dominant products: Inbound First-Class Mail International (at UPU rates), Inbound First-Class Mail International (at non-UPU rates) from Canada, and Inbound Surface Parcel Post (at UPU rates). However, the financial results for Inbound First-Class Mail International and Inbound First-Class Mail International from Canada are reported together. Below, financial results are presented separately for both Inbound First-Class Mail International products,

[50] According to the Postal Service, "[t]he only exceptions are a few carryover international rates." 2009 ACR at 7, n.3.
[51] The UPU is a United Nations technical agency through which international treaties governing the exchange of international mail, including rates, are negotiated among its 191 members. The United States is a member of the UPU.
[52] The term "letter post" refers to international mail that is not classified as Parcel Post or Express Mail (EMS). Also known as LC/AO mail (*i.e.*, letters and cards, and all other, including flats, small packets, bags, and containers) letter post consists of mail similar to domestic First-Class Mail, Periodicals, Standard Mail, Bound Printed Matter, and Media/Library Mail, weighing up to four pounds.
[53] Terminal dues represent payments by foreign postal administrations to the Postal Service for the processing, transportation, and delivery of inbound letter post in the U.S.
[54] *See* Docket Nos. MC2010-12 and R2010-2, Request of the United States Postal Service to Add Canada Post–United States Postal Service Contractual Bilateral Agreement for Inbound Market Dominant Services to the Market Dominant Product List, Notice of Type 2 Rate Adjustment, and Notice of Filing Agreement (Under Seal), November 19, 2009.

followed by International Ancillary Services and Inbound Surface Parcel Post (at UPU rates).

Inbound First-Class Mail International (at UPU rates). For FY 2009, revenues for Inbound First-Class Mail International do not cover attributable costs by $105.2 million. Most of the reported loss is caused by inbound letter post subject to UPU terminal dues rates. However, as noted above, the results for Inbound First-Class Mail International also include inbound letter post from Canada, which contributed to the loss. The resulting cost coverage for Inbound First-Class Mail International is 60.6 percent.[55]

For inbound letter post subject to UPU terminal dues rates, the Postal Service states that the UPU terminal dues "formula" is not cost-based and, therefore, the resulting rates do not generate sufficient revenues to cover attributable costs. 2009 ACR at 25. Moreover, the terminal dues formula (*i.e.*, methodology) is renegotiated only once every 4 years.[56] Thus, the Postal Service maintains, it "does not independently determine these rates." *Id.* Although the Commission recognizes that final rates are determined within the context of a United Nations system of one country, one vote, the Postal Service does play an active role in the UPU working group that develops these rates.

Inbound First-Class Mail International is classified as a separate market dominant product. Because the current UPU terminal dues methodology will remain in effect through 2013, it is clear that the resulting non-compensatory terminal dues rates have, and will continue to, adversely affect the financial performance of inbound letter post. For FY 2009, the Commission concludes that Inbound First-Class Mail International did not satisfy the "requirement that each class of mail or type of mail service bear the direct and indirect postal costs attributable to each class or type of mail service." *See* 39 U.S.C. 3622(c)(2). Under the circumstances, *the Commission recommends that the Postal Service pursue development of a compensatory terminal dues methodology during the next 4-year cycle as the appropriate course of action.*

The loss in contribution from Inbound First-Class Mail International during FY 2009 represents the continuation of a long-standing trend. Since enactment of the PAEA, and for a number of years preceding its enactment,[57] terminal dues revenues from foreign postal administrations have failed to cover the attributable costs of Inbound First-Class Mail International. As stated earlier, the UPU rates that determine the amount of terminal dues revenues are non-compensatory to the Postal Service, and the methodology is renegotiated once every 4 years. Moreover, the fact that UPU terminal dues rates fail to generate sufficient revenues to cover attributable costs is exacerbated by the Postal Service's likely failure to meet UPU quality-of-service targets and obtain the maximum terminal dues revenues for Inbound First-Class Mail International, as discussed below. The non-compensatory nature of inbound letter post means that domestic mailers continue to subsidize foreign mailers who use the same postal infrastructure, but bear none of the burden of contributing to its institutional cost. This appears contrary to long-standing postal policy, which requires that rates "be established to apportion the costs of all postal operations to all users of the mail on a fair and equitable basis." *See* 39 U.S.C. 101(d).

The continuing failure of revenues for inbound letter post at UPU established rates to cover attributable costs necessitates greater effort to ensure that terminal dues rates cover the attributable costs of all inbound letter post. With respect to UPU terminal dues rates, the existing methodology is currently under review by UPU-member countries, including the U.S. Under title 39, the Department of State has lead responsibility for the formulation of international postal policy. The Department of State must carry out this responsibility in close coordination with the Postal Service and other agencies, including the Commission. *See* 39 U.S.C. 407(b)(2), (c). Through such efforts, the Department of State, Postal Service, and Commission are working together with UPU-member countries to

[55] The negative contribution and resulting cost coverage for Inbound First-Class Mail International improves based upon the FY 2009 imputed, rather than the FY 2009 booked, financial results. *Compare* Library Reference USPS-FY09-NP2 (nonpublic), Excel files Reports.xls and Reports (Booked).xls, in the worksheet tab A Pages Summary in both files.

[56] Pursuant to the UPU agreement, however, terminal dues rates are adjusted each year. On January 1, 2010, new, higher terminal dues rates were implemented.

[57] Pursuant to former section 3663 of title 39, the Commission issued eight annual Reports to Congress on the revenues, volumes, and costs of international mail, covering fiscal years 1998 through 2005, which previously identified this trend. However, the content of some of these reports is not yet public. *See* Pub. L. 105-277, 2681-527 (1998).

develop a new terminal dues methodology. However, the outcome of this work will not be known until 2012.

Pursuant to the UPU agreement, the Postal Service (or any postal administration) may opt out of UPU terminal dues rates by negotiating bilateral (or multilateral) rate agreements with other countries for some or all of its inbound letter post. The Postal Service acknowledges this alternative to UPU established rates and, accordingly, is "examining the merits of… [negotiating] bilateral agreements for some of the largest…[inbound volumes] in the coming calendar year." 2009 ACR at 25.

The Commission recommends that the Postal Service pursue this alternative. Such negotiations should seek to achieve compensatory terminal dues rates and thereby improve the cost coverage for Inbound First-Class Mail International. However, revenues from terminal dues rates negotiated in the bilateral agreement with Canada Post—the only bilateral agreement for letter post concluded by the Postal Service to date—do not cover the attributable costs of inbound letter post from Canada.[58]

Inbound First-Class Mail International (at non-UPU rates). As noted previously, this product includes only inbound letter post from Canada. For FY 2009, the Postal Service suggests that the financial results for such mail were adversely affected by lower Quarter 1 rates (October-December 2008). *Id.*, n.7. The remaining three quarters (January-September 2009) of FY 2009 reflect new, higher rates implemented in January 2009.[59]

In addition, the Postal Service asserts that the financial results for inbound letter post from Canada should be analyzed using the FY 2009 imputed rather than FY 2009 booked results. The Commission relies on booked revenues and expenses when analyzing all postal products, which ensures consistency with the revenues and expenses reported in the Postal Service's audited financial statements. According to the Postal Service, an analysis based on the FY 2009 imputed results is "preferable" to the booked results because, with implementation of the new Foreign Postal Settlement (FPS) System, the FY 2009 booked results "will be an outlier when viewed over a period of years." Response to CHIR No. 2, question 17(a). Beginning with FY 2010, the FPS system will employ a methodology that reports results which are very similar to the imputed methodology historically relied upon in the ICRA to calculate and report the settlement of terminal dues between the Postal Service and foreign postal administrations. Based upon the FY 2009 imputed results, the negative contribution for inbound letter post from Canada is almost 60 percent less than the negative contribution using the FY 2009 booked results.[60]

The Postal Service also observes that higher rates for inbound letter post from Canada were implemented in January 2010, following Commission review of the Postal Service's request in Docket No. R2010-2. 2009 ACD at 25, n.7. Based upon a financial model presented in workpapers submitted to the Commission in support of those rates, the Postal Service maintains that "the financial performance for this product is estimated to be above cost for the 12 month period beginning January 2010." *Id.* As a result, the newly implemented rates "demonstrate Postal management's commitment to ensure that inbound traffic from Canada cover costs." Response to CHIR No. 2, question 17(a).

Table VII-22
MC2007-1 Bank of America
Postal Service Net Value Detail

Confirm Revenue	$113,500
Total Rebates	$(7,297,113)
Net Operating Improvements	$(3,330,244)
Administrative Cost	$(13,000,000)
Net Value	$(23,513,857)

Despite the Postal Service's comments, the fact remains that for FY 2009, the negotiated bilateral terminal dues rates did not cover the attributable costs of inbound letter post from Canada, and exacerbate

[58] Library Reference USPS-FY09-NP2 (nonpublic), Excel File Reports (Booked).xls, worksheet tab A.

[59] *See* Order No. 163, Docket No. R2009-1, Order Concerning Bilateral Agreement with Canada Post for Inbound Market Dominant Services, December 31, 2009.

[60] *Compare* Library Reference USPS-FY09-NP2 (nonpublic), Excel files Reports.xls and Reports (Booked).xls, in the worksheet tab A Pages (md), at page A-1 in both files.

the negative contribution for Inbound Single-Piece First-Class Mail International as a whole. The Postal Service's discussion of the timing difference between the calendar year implementation of new rates in January 2009 and the reporting of financial results on a fiscal year basis, which accounts for reduced revenues in Quarter 1 of FY 2009, is not persuasive. The Postal Service does not show that even if the new, higher rates implemented in January 2009 were in effect during Quarter 1 of FY 2009 that inbound letter post from Canada would cover its attributable costs. With respect to the use of FY 2009 imputed, rather than booked, results for purposes of analyzing financial performance, a comparison of the FY 2009 imputed and FY 2009 booked versions of the ICRA provided by the Postal Service reveals that imputed revenues also do not cover attributable costs for inbound letter post from Canada. According to the Postal Service, "the negative contribution is only less using imputed results." *Id.*

The Commission acknowledges that the Postal Service's financial model supporting the higher rates implemented in January 2010 estimates a positive cost coverage for inbound letter post from Canada. A

Table VII-23
Summary of NSA Net Effect on Postal Service Contribution
($ Thousands)

	FY2007	FY2008	FY2009	Total Net Benefit
Bookspan	92	(72)	–	20
Lifeline			25	25
Bradford Group			93	93
Bank of America			(23,514)	(23,514)
Total	**92**	**(72)**	**(23,395)**	**(23,375)**

CHAPTER VIII — COMPETITIVE PRODUCTS

Introduction

Section 3653(b)(1) of title 39 requires the Commission to determine "whether any rates or fees in effect during [the prior fiscal] year (for products individually or collectively) were not in compliance with applicable provisions of this chapter (or regulations promulgated there under)[.]" Section 3633(a) prescribes the legal standards, implemented through Commission regulations, governing the Commission's review of all competitive products.

Order No. 43 adopted regulations establishing standards for determining the lawfulness of competitive products' rates or prices.[1] It first established which products would be considered to be competitive. This Competitive Product List has been subsequently amended pursuant to 39 U.S.C. 3642. The list of FY 2009 competitive products of general applicability is shown in Table VIII-1. In addition, there were numerous domestic and international NSAs.

In the 2009 ACR, the Postal Service filed disaggregated revenue, cost, and volume for several groupings of competitive products. Table VIII-2 contains FY 2009 financial data for competitive products. In response to Chairman's Information Request No. 7, question 2, the Postal Service filed FY 2008 figures in the same structure provided in the 2009 ACR. Previously, the Postal Service had only publicly filed one aggregate volume, one aggregate revenue, and one aggregate attributable cost figure for all of competitive mail. The Commission commends the Postal Service for improving the transparency of competitive products.

Table VIII-1
Competitive Domestic and International Products

DOMESTIC

Express Mail;
Priority Mail;
Parcel Select;
Parcel Return Service;
Premium Forwarding Service;

INTERNATIONAL

Outbound International Expedited Services;
Inbound International Expedited Services;
Outbound Priority Mail International;
Inbound Air Parcel Post;
International Priority Airlift (IPA);
International Surface Airlift (ISAL);
International Direct Sacks M-Bags;
Inbound Surface Parcel Post (at non-UPU rates);
International Money Transfer Service;
International Ancillary Services;

For FY 2009, compared to FY 2008, competitive volumes decreased 12.3 percent, unit revenues increased 11.0 percent, and unit attributable costs increased 6.7 percent. *See* Library Reference PRC-ACR2009-LR1. The volumes for each grouping of competitive products decreased, but the unit contribution for each grouping increased between FY 2008 and FY 2009. Unit contribution from competitive products increased from $1.13 million in FY 2008 to $1.42 million in FY 2009. Specifically, unit contribution increased $0.78 for Express Mail and

[1] Docket No. RM2007-1, Order Establishing Ratemaking Regulations for Market Dominant and Competitive Products, October 29, 2007 (Order No. 43).

Table VIII-2
Fiscal Year 2009 Volume, Revenue, Cost, and Cost Coverage
Competitive Products and Categories

	Volume (000)	Revenue ($ 000)	Attributable Cost ($ 000)	Contribution to Institutional Cost ($ 000)	Cost Coverage
COMPETITIVE MAIL					
Express Mail	47,015.273	884,570.815	553,312.001	331,258.814	159.9%
Priority Mail	790,069.671	5,362,466.262	4,123,864.326	1,238,601.936	130.0%
Competitive Ground (Parcel Select and PRS)	241,186.127	515,033.951	430,214.235	84,819.716	119.7%
Competitive International Mail	302,289.894	1,344,776.507	1,040,566.061	304,210.446	129.2%
Competitive Domestic Services	1,227.174	17,067.916	12,175.278	4,892.638	140.2%
Competitive International Services	1,374.526	8,501.659	11,639.148	(3,137.489)	73.0%
Total Competitive Mail and Services	**1,380,560.965**	**8,132,417.110**	**6,171,771.049**	**1,960,646.061**	**131.8%**

Source: PRC-ACR 2009-LR1

$0.15 for Priority Mail. Because total costs decreased faster than total revenues in FY 2009, the overall cost coverage increased from 127.0 percent in FY 2008 to 131.8 percent in FY 2009 and competitive products' contribution to institutional costs increased from $1.783 million to $1.961 million.

In this chapter, the Commission reviews competitive mail products, including domestic, international and competitive NSAs, for compliance with applicable provisions of title 39 and regulations adopted thereunder. The Commission's review is guided by section 3633(a), which sets forth the legal standards applicable to rates for competitive products, directing the Commission to promulgate regulations to:

- Prohibit subsidization of competitive products by market dominant products (section 3633(a)(1));
- Ensure that each competitive product covers its attributable costs (section 3633(a)(2)); and
- Ensure that collectively competitive products cover an appropriate share of institutional costs of the Postal Service (section 3633(a)(3)).

For FY 2009, the Commission's principal findings with respect to competitive products are:

- Revenues from the Postal Service's competitive products as a whole exceeded the sum of their attributable costs, plus group-specific costs. Thus, market dominant products did not subsidize competitive products during FY 2009, and the Postal Service met the requirements of section 3633(a)(1).
- Revenues for five products and services were less than the costs attributed to them.
- The contribution from competitive products to the recovery of the Postal Service's institutional costs was 6.78 percent, which exceeds the 5.5 percent benchmark share. Consequently, the Postal Service met the requirements of section 3633(a)(3) during FY 2009.

Section 3633(a)(1).

The incremental costs of competitive products are used to test whether revenues from market dominant products cross-subsidize competitive products. In FY 2009, the Postal Service made additional steps to calculate incremental costs. In Order No. 399, the Commission approved the use of an incremental cost model to test for any cross-subsidies of competitive products by market dominant products in accordance with section 3633.[2] Additionally, Order No. 399 approved the Postal Service's methodology to produce a hybrid incremental cost model using the available incremental costs for domestic competitive mail. Order No. 399 further established that in lieu of incremental costs, international competitive mail would use attributable costs because incremental costs are not available for international products. Combining the incremental costs from domestic competitive mail and the attributable cost for international competitive mail results in a total hybrid incremental cost for competitive products of $6,306 million.

The total revenues for competitive products in FY 2009 were $8,132 million. *See* Table VIII-2. Accordingly, revenues from competitive products exceeded the hybrid incremental costs in FY 2009. *Consequently, the Commission finds that revenues from market dominant products do not subsidize competitive products.*

Section 3633(a)(2)

Section 3633(a)(2) requires revenues from each competitive product to be greater than the costs attributed to that particular product. In making this determination with respect to competitive International Mail products, the Commission relies on the booked revenues from RPW and costs reported in the CRA and the ICRA for inbound mail products.

For FY 2009, the Commission finds there were five products whose revenues did not exceed their respective attributable costs. Each is an international product.[3]

- International Money Transfer Service; and
- International Ancillary Services.

International Money Transfer Service did not cover its attributable costs in FY 2008. This is the first year where outbound International Ancillary Services revenues do not cover attributable costs. *The Commission finds that the appropriate action at this time for International Ancillary Services is for the Postal Service to monitor the product to ensure revenues exceed attributable costs in future years.*

International Money Transfer Service does not appear to recover sufficient revenues to exceed attributable costs. However, International Money Transfer Service costs are small and unreliable, *the Commission finds that the appropriate action at this time is for the Postal Service to continue to work to develop reliable cost estimates for both Inbound and Outbound International Money Transfer Service.*

The Commission finds that all other competitive products produced sufficient revenues to recover attributable costs in FY 2009.

Section 3633(a)(3)

In implementing section 3633(a)(3), the Commission established that if the contribution earned by competitive products was equal to 5.5 percent or more of the institutional costs of the Postal Service, then competitive products would be making an appropriate contribution toward the recovery of total institutional costs. Thus, the Postal Service's competitive products as a whole would meet the requirements of section 3633(a)(3) if the dollar value of the sum of their contributions were equal to or greater than 5.5 percent of the Postal Service's institutional costs.

This year, the Postal Service reports total institutional costs for all products is $28.91 billion. This means competitive products must contribute at least $1.59 billion to institutional costs to adhere to section 3633(a)(3). Institutional costs have been reduced by approximately $3.23 billion since FY 2008. This reduction is due, in part, to the congressionally mandated reduction of the contribution to the RHBF. The lower institutional cost reduces the minimum contribution by competitive products to institutional costs from $1.77 billion in FY 2008 to 1.59 billion in FY 2009. The total contribution to institutional costs from competitive products in FY 2009 was $1.961 billion, which is 6.78 percent of total institutional costs. In absolute terms, competitive products contribution to institutional costs has increased $0.179 billion from FY 2008. *The Commission finds the Postal Service competitive products satisfy the requirement that collectively they make an appropriate contribution to the recovery of total institutional costs.*

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[2] Order No. 399, January 27, 2010.

[3] The remaining competitive products whose revenue also did not cover their respective attributable cost are discussed in the NSA section at the end of this chapter.

Competitive Market Test

In FY 2009 the Postal Service established its first market test, Collaborative Logistics, under the PAEA. Section 3641 authorizes the Postal Service to "conduct market tests of experimental products in accordance with this section." A product may not be tested, however, unless it satisfies each of the following conditions:

(1) The product is significantly different from all products offered by the Postal Service within the 2-year period preceding the start of the test (section 3641(b)(1));

(2) The product will not result in undue market disruption, especially for small business concerns (section 3641(b)(2)); and

(3) The product is correctly characterized as either market dominant or competitive (section 3641(b)(3)).

Collaborative Logistics is designed to compete in the Less-than-Truckload (LTL) market. The Commission approved the market test on May 7, 2009. On October 28, 2009, the Postal Service filed its first quarterly report stating revenue of $53,276.35 for all of FY 2009 Quarter 4 and part of Quarter 3. *See* Docket No. MT2009-1, First Quarterly Data Report, October 28, 2009 at 2.

In its 2009 ACR, the Postal Service states the total revenue for Collaborative Logistics during FY 2009 was $53,000, which corresponds with the quarterly data provided on October 28, 2009. The Postal Service also provided a total cost figure under seal for the market test in Library Reference USPS-FY09-NP27. In response to Chairman's Information Request No. 4, question 10, the Postal Service filed a more detailed explanation of the actual costs it believes the Market Test incurred during FY 2009. *See* Library Reference USPS-FY09-NP32, Excel file: ChIR.4.Q.10.NP.Collaborative Logistics.xlsx. The revenue figure presented by the Postal Service is greater than the cost figure presented under seal, demonstrating that Collaborative Logistics is providing some contribution to institutional costs.

Competitive Domestic NSAs

For FY 2009, the Postal Service provided total volume, revenue, and cost data on each Domestic Competitive NSA that was in effect during the fiscal year. Rule 3050.21(g)(2) requires that the Postal Service file with the Commission data sufficient to evaluate each agreement for compliance with section 3633. For certain agreements, specific billing determinants by weight, zone, and cube were not provided because according to the Postal Service, the information was not available. Response to CHIR No. 5, question 2.

Pursuant to section 3633, each NSA product must cover its attributable costs. There were 23 Domestic Competitive NSA products in effect during FY 2009. The Postal Service provided complete information for seven agreements.[4] Each agreement satisfied the statutory requirements of section 3633(a)(2). Because the information provided for the remaining 16 agreements was incomplete, the Commission has insufficient evidence to determine whether each complies with section 3633(a)(2).[5] The Commission expects that in future proceedings, the Postal Service will collect and provide this information to enable the Commission to determine whether each product is in compliance with the statute and related regulations.

Competitive International Products

During FY 2009, rates and fees of "general applicability" for competitive international mail products were implemented by the Postal Service on January 18 and May 11, 2009.[6] With few exceptions, rates and fees in effect during FY 2009 for competitive international mail products were established pursuant to PAEA provisions.[7]

There are six competitive outbound products and one competitive inbound product offered at rates of general applicability. The outbound products are Outbound International Expedited Services, Outbound

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[4] *See* Docket Nos. CP2009-13/MC2009-11; CP2009-2/MC2009-1; CP2009-31/MC2009-25; CP2009-40/MC2009-30; CP2009-42/MC2009-31; CP2009-44/MC2009-33; and CP2009-55/MC2009-36.

[5] *See* Docket Nos. CP2008-26/MC2008-8; CP2009-14/MC2009-12; CP2009-17/MC2009-13; CP2009-21/MC2009-15; CP2009-24/MC2009-17; CP2009-25/MC2009-18; CP2009-3/MC2009-2; CP2009-30/MC2009-25; CP2009-37/MC2009-25; CP2009-38/MC2009-25; CP2009-4/MC2009-3; CP2009-45/MC2009-34; CP2009-5/MC2009-4; CP2009-56/MC2009-37; CP2009-6/MC2009-5; and MC2008-5.

[6] *See* Notice of the United States Postal Service of Changes in Rates of General Applicability for Competitive Products Established in Governors' Decision No. 08-19, November 13, 2008; *see also* Notice of the United States Postal Service of Changes in Rates of General Applicability for Competitive Products Established in Governors' Decision No. 09-01, February 10, 2009.

[7] According to the Postal Service, "[t]he only exceptions are a few carryover international rates." 2009 ACR at 7, n.3.

Priority Mail International, International Priority Airmail (IPA), International Surface Airlift (ISAL), International Direct Sacks M-Bags, and International Money Transfer Service (IMTS).[8] The one competitive inbound product is Inbound Air Parcel Post (at UPU inward land rates). Another product, International Ancillary Services, is comprised of both outbound and inbound ancillary special services. In addition, there are 41 competitive NSAs.

Competitive International Products with Rates of General Applicability

For FY 2009, competitive international mail products with rates of general applicability collectively covered their attributable costs and provided a net contribution to the institutional costs of the Postal Service.

Competitive outbound international mail products. Competitive outbound products generated sufficient revenues to cover attributable costs during FY 2009. Among competitive outbound mail products, the following provided a contribution to institutional costs: International Expedited Services, Priority Mail International, International Priority Mail (IPA), International Surface Airlift (ISAL), and International Direct Sacks M-Bags. The Commission concludes that each of the above-referenced competitive products performed satisfactorily during FY 2009 and therefore satisfies the requirements of section 3633(a)(2). However, IMTS did not cover its attributable costs.[9]

International Money Transfer Service.[10] Revenues from IMTS did not cover attributable costs during FY 2009. According to the Postal Service, product-specific costs assigned to IMTS "more than doubled" in FY 2008 compared to FY 2007, and "increased again slightly" in FY 2009 compared to FY 2008. CHIR No 2, question 18. Start-up costs associated with testing a new electronic money transfer system constitute the largest component of these increases. *Id.* The Postal Service explains that there are "no current plans to expend such resources in FY 2010." *Id.* The Postal Service also proposed, and the Commission approved, a methodological change to apply the same volume-variability factor to domestic and international money order "window acceptance" costs, thereby removing an inconsistency in the treatment of domestic and international money orders.[11] This change "decreased substantially" attributable window costs, resulting in IMTS covering its volume-variable costs for FY 2009. CIR No. 2, question 18.

The Postal Service references its "ongoing efforts to measure and estimate IMTS costs correctly." 2009 ACR at 78. In order to estimate volume-variable costs more reliably, the Postal Service observed a small number of IMTS transactions, some of which were discontinued prior to the purchase of an international money order. The Postal Service suspects these "'aborted' transactions may contribute to the relatively high" unit costs reported in the IOCS and CRA.

> If the clerk time associated with the incomplete transaction is fairly close to the time for a completed transaction, and both are included in the IOCS observations but only the completed transactions are used in the denominator to estimate unit cost, the cost per transaction may appear to be too high but may accurately reflect the cost of providing the service for that product.
>
> Response to CHIR No. 2, question 18.

As a result, "the Postal Service believes that it would be premature to adjust prices for IMTS until further analysis of the product's financial performance can be completed." 2009 ACR at 78.

The Commission supports the Postal Service's "ongoing efforts" to identify and analyze IMTS costs. However, the reported financial results remain

[8] The Postal Service reports the financial performance of outbound and inbound International Money Transfer Service together. *See* USPS-FY09-NP2 (non-public), Excel files Reports (Booked).xls, worksheet tab A Pages (c), at page A-2, Note 5. For purposes of this analysis, it is discussed as an outbound product.

[9] 2009 ACR at 77-78; *see also* United States Postal Service Notice of Filing Errata to FY 2009 Annual Compliance Report, January 6, 2010, concerning revised page 78.

[10] On March 10, 2009, the Postal Service requested the addition of IMTS to the Competitive Products List. That request also proposed the establishment of a separate IMTS-Outbound product featuring prices of "general applicability" for postal money orders cashed (and electronic transfers accessed) in foreign countries, and a separate IMTS-Inbound product, consisting of ten agreements with foreign postal administrations that govern Postal Service payment of foreign money orders presented to post offices in the U.S. *See* Docket No. MC2009-19, Request of the United States Postal Service to Add Postal Products to the Mail Classification Schedule in Response to Order No. 154, March 10, 2009.

[11] *See* Docket No. RM2010-4, Order Accepting Analytical Principles Used In Periodic Reporting (Proposals Twenty-Two through Twenty-Five) (Order No. 339), January 27, 2010, at 5-7 (Proposal Twenty-Three).

problematic. IMTS revenues not only fail to cover attributable costs, but the Postal Service is unable to separately report financial results of outbound and inbound IMTS. In Order No. 391, the Commission approved the Postal Service's request to bifurcate IMTS into an outbound product (IMTS-Outbound) and an inbound product (IMTS-Inbound). *See* Order No. 391. In this regard, the proposed methodological change concerning the volume variability of window service costs only applies to the combined inbound and outbound service, and does not address the development of separate costs for the IMTS-outbound and IMTS-inbound products. Finally, as the Postal Service's Response to CHIR No. 2, question 18 suggests, the reported IMTS unit costs, while high, may nevertheless accurately reflect the cost of providing IMTS.

Despite considerable uncertainty about the reported attributable costs of IMTS, the Commission concludes that for FY 2009, IMTS did not satisfy the requirements of section 3633(a)(2) according to the financial results presented by the Postal Service. The Commission acknowledges recent efforts by the Postal Service to control IMTS product-specific costs. However, the Commission expects the Postal Service to report financial results for IMTS-outbound and IMTS-inbound products separately. *As a result, the Commission reiterates its recommendation in Order No. 391 that the Postal Service continue its work to develop reliable cost estimates for both products.*

Competitive inbound international mail products. There is one competitive inbound international products with rates of general applicability. Air Parcel Post (at UPU inward land rates) provided a contribution to institutional costs, thus satisfying the requirements of section 3633(a)(2).

International Ancillary Services. The Postal Service reports revenues and costs for Registered Mail, Return Receipt, Insurance and Customs Clearance and Delivery Fee.[12] Registered Mail, Return Receipt, and Insurance are outbound services within the International Ancillary Services product.[13] For each of these services, attributable costs exceeded revenues, resulting in a net loss in contribution for International Ancillary Services as a whole. 2009 ACR at 77.

The Postal Service observes that these three ancillary services are "relatively small" and therefore "may exhibit annual cost variations associated with small transactional volumes." CHIR No. 2, question 19(b). The Postal Service supports its observation by noting that for FY 2008, "two of the three international ancillary services at issue here (*i.e.*, insurance and return receipt) showed positive contribution, and competitive International Ancillary Services on the whole collectively covered costs." *Id.*

The Commission gives some credence to this observation. Nevertheless, the specific cause of this change in contribution is unclear. The Commission also concurs with the Postal Service's plan to monitor the financial performance of the underlying ancillary services during FY 2010 "to determine whether [FY 2009] is an anomaly or indication of a trend." *Id.* To the extent a trend is observed, the Postal Service "would likely recommend [an] increase [in] these rates," although it notes that such increases would be "best addressed at the next available opportunity when… rate changes [for their market dominant counterparts] are in play." *Id.*

Given International Ancillary Services' financial performance, the Commission concludes that the product does not satisfy the requirements of section 3633(a)(2). However, *the Commission recommends the Postal Service's proposed monitoring plan as appropriate.*

Analysis of Competitive International Products with Rates Not of General Applicability

Competitive International Negotiated Service Agreements. The Postal Service reports volume, revenue, and cost data on each international NSA. Such agreements often require minimum volume and revenue commitments by mailers or foreign postal administrations in exchange for discounted rates from the Postal Service.

Pursuant to the Competitive Product List established by the Commission, each non-functionally

[12] Customs Clearance and Delivery Fees is one of three inbound services within the International Ancillary Services product. For FY 2009, the Postal Service reported a small amount of revenue for inbound Customs Clearance and Delivery Fees, which provided a net contribution to institutional costs. The Postal Service did not report any revenues or costs for the other two inbound services—Return Receipt and Insurance

[13] The Postal Service did not report revenues or costs for two outbound ancillary services—Certificate of Mailing and Restricted Delivery.

equivalent NSA is classified as a separate competitive product. Order No. 43, ¶¶ 2177, 3001. As such, each international NSA must be evaluated by the Commission for its consistency with section 3633(a)(2), which requires that each competitive product cover its attributable costs.

For FY 2009, the Postal Service provided data on 41 international NSAs, of which 32 relate to outbound mail and 9 involve inbound mail. Based upon the data provided, the Commission determines that all 32 outbound international NSAs covered their attributable costs. Of the 9 inbound agreements, 6 did not cover their attributable costs, including 3 related to International Expedited Services and Inbound Surface Parcel Post (at non-UPU rates). The remaining 3 generated sufficient revenues to cover attributable costs.[14]

International Expedited Services. The Postal Service has agreements with 184 foreign postal administrations for the delivery of inbound EMS. Inbound EMS volumes enter the U.S. pursuant to these agreements and a separate bilateral agreement with China Post. Rates for EMS delivery in the U.S. are established by the Postal Service through the UPU's EMS Cooperative, while rates applicable to EMS from China Post are negotiated bilaterally.[15]

The Postal Service notes that the financial results for Inbound International Expedited Services are based upon the FY 2009 booked version of the ICRA, rather than the FY 2009 imputed version. Based upon the imputed version, International Expedited Services revenues cover attributable costs. 2009 ACR at 77. The Postal Service also asserts that the "[i]mputed version of the ICRA should be used rather than the Booked version…[because it] provides a more accurate reflection of the financial performance of products."[16]

The differing financial results for Inbound Expedited Services are not a consequence of any postal management action. Rather, such results are a consequence of a Commission-mandated methodological change requiring the use of booked revenues and expenses for purposes of analyzing the financial performance of all products.[17] Nevertheless, for FY 2009, the Commission concludes that Inbound International Expedited Services did not satisfy the requirements of section 3633(b)(2). Under the circumstances, however, *the Commission recommends no additional action on the part of the Postal Service.*

Inbound Surface Parcel Post (at non-UPU rates). For FY 2009, revenues for inbound Surface Parcel Post did not cover the attributable costs.[18] The Postal Service also reports financial results showing that FY 2009 imputed revenues did not cover attributable costs. Based upon imputed revenues, the Postal Service states that the negative contribution for Inbound Surface Parcel Post is less. Response to CHIR No. 2, question 17(a).

The Postal Service observes that if the new, higher rates implemented in January 2009 had been in effect in Quarter 1 (October–December 2008) of FY 2009, the negative contribution would have been reduced by another 8 percent. *Id.*, question 17(b). Moreover, based upon a comparison of the FY 2008 and FY 2009 imputed financial results, the Postal Service reports that the higher rates implemented in January 2009 improved the cost coverage for Inbound Surface Parcel Post. *Id.*, question 17(c). The Postal Service also states that it is "once again proposing an increase in inbound surface parcel rates for Canada Post to begin in January 2010." 2009 ACR at 78.

In response to CHIR No. 2, the Postal Service provided an alternative analysis of the financial performance of inbound Surface Parcel Post.[19] That analysis relied upon a methodology similar to that presented in Library Reference ACR2009-NP-LR3, which developed IOCS attributable costs by inbound mail categories and terminal dues group. Using a special study of FY 2009 IOCS attributable costs, the Postal Service calculated a "revised unit processing cost" for inbound surface parcels from Canada. Response to

[14] For three minor NSAs, ICRA data indicate a small negative contribution. Based on the data provided by the Postal Service, the Commission has been unable to corroborate these results.

[15] Response to CHIR No. 5, question 6; *see also* United States Postal Service Response to Order No. 84 and Notice of Filing Ongoing Inbound International Expedited Services Agreements, July 23, 2008, at 2-3..

[16] Response to CHIR No. 2, question 19. A more detailed summary of the Postal Service's reasoning can be found in this ACD in the analysis of market dominant international mail products.

[17] This methodological change was adopted by the Commission for FY 2009 in Order No. 339, along with a Postal Service proposal to implement a new Foreign Postal Settlement (FPS) System for FY 2010 and beyond. *See* Order No. 339 at 19-26 (Proposal 11).

[18] 2009 ACR at 77-78. The financial results reported in the 2009 ACR are based on booked financial results.

[19] *See* Response to CHIR No. 2, question 17(c), citing Library Reference USPS-FY09-NP31 (nonpublic), Excel files ChIR.2.Q.17(c) t1Resp.xls, and ChIR.2.Q.17(c)t2.Resp.xls.

CHIR No. 2, question 17(c). According to the Postal Service, a comparison of FY 2009 imputed revenues and the revised unit processing cost in the alternative analysis "would show a cost coverage above 100 percent." *Id.*

The Postal Service's alternative analysis, while providing additional information, contained an inadvertent error. In addition to estimating a revised unit processing cost, the Postal Service also calculates the cost per kilogram for the domestic air and surface transportation of inbound surface parcels from Canada. However, the calculation of the domestic air and surface transportation cost per kilogram is based upon total kilograms of U.S. origin rather than total kilograms applicable to inbound surface parcels from Canada.[20] The effect of this calculation error is a substantial reduction in the cost per kilogram in domestic transportation costs, and a large understatement of the attributable costs of inbound surface parcels. When either FY 2009 booked or imputed revenues are compared to attributable costs based upon the correct domestic transportation cost per kilogram, the resulting cost coverage for Inbound Surface Parcel Post (at non-UPU rates) remains at less than 100 percent.

For these reasons, the Commission concludes that Inbound Surface Parcel Post (at non-UPU rates) from Canada does not satisfy the requirements of section 3633(a)(2). *The Commission recommends continued efforts to improve the cost coverage of Inbound Surface Parcel Post (at non-UPU rates).*

[20] *See* Library ReferenceUSPS-FY09-NP31 (nonpublic), Excel files ChIR.2.Q.17(c)t2.Resp.xls, worksheet tab Canada FY09 Costs, and Domestic Trans Calcs.xls, worksheet tab wcuf.

CONCURRING OPINION OF CHAIRMAN GOLDWAY

The Commission has a long and distinguished record of finding consensus when deciding matters of vital concern to the Postal Service and the mailing community. I am proud that this Annual Compliance Report follows in that tradition. In this report, all five Commissioners are unanimous and strongly supportive of the specific directions we give to the Postal Service to address operational problems, rate and service deficiencies, and plans for improvement.

However, we could not find consensus on the use of the term "in compliance." The law directs us to make a written determination as to whether any rates or discounts are "not in compliance with" chapter 36 or regulations promulgated thereunder. 39 U.S.C. 3653(b)(1). In our decision, we identify several instances where the Postal Service operations and rates did not satisfy the provisions of the law. Many of these are clearly itemized without editorial comment in our Executive Summary.

I believe that the language of the PAEA directs the Commission to make declarative findings of "not in compliance" in such situations. Transparency, clarity, and ease of understanding are principles underlying the Act. Unlike my colleagues, I am willing to use the phrase not in compliance. After all, "a rose is a rose…."

I am confident that the mailing community will not take actions that are any different if we clearly identify those rates and discounts that are not in compliance, as is called for in the Act. My fellow Commissioners are concerned that the term may result in unnecessary burdens being placed on the Postal Service at this time.

I share their concerns and understanding of the Postal Service's precarious financial condition. However, a candid acknowledgement of operational problems is both necessary and helpful in the long run.

FY 2009 Postal Service delivery scores, on average, are lower than FY 2008; FY 2009 customer satisfaction scores appear to be lower, and citizen access to mailboxes has been reduced by at least 10 percent in FY 2009.

The Congressional oversight committees, the mailing community, and the Regulatory Commission are all committed to working with the Postal Service to address its financial condition. A straightforward, clear evaluation of whether rates and service are meeting statutory standards will help ensure the Postal Service's future, not detract from it.

APPENDIX A — EMPIRICAL REVIEW OF PRICE CAP APPLICATION

The Commission's rules for the pre-implementation review of proposed rate adjustments calculate the percentage change in rates for each class by using the most recent available historical billing determinants to weight the percentage change of each rate cell. The rules also instruct the Postal Service to make reasonable adjustments to the billing determinants to account for classification changes such as the addition, elimination, or redefinition of rate categories. *See* 39 CFR 3010.23. At the time the rules were proposed, several parties expressed concern that this approach might not accurately reflect the actual change in rates. The Commission took note of these concerns and stated its intent to monitor the effectiveness of the rule. *See* Docket No. RM2007-1, Order No. 26, ¶¶ 2069-2077 (August 15, 2007).

Billing determinants are now available for the year during which the Docket No. R2008-1 rates were in effect (roughly the last 1-½ quarters of FY 2008 plus the first 2-½ quarters of FY 2009).[1] These volumes can be used in place of the historical proxies that measured compliance with the cap in the pre-implementation review of that rate adjustment. Comparing the results with the corresponding calculations from the rate case provides insight into how well the historical volumes projected the aggregate percentage change in rates for each class. Table A-1 presents a comparison of the average rate increase for each class from the pre-implementation review with those developed using actual volumes sent at the Docket No. R2008-1 rates.

The year for which the historical volumes were used (FY 2007) included the implementation of shape-based rates that were approved in Docket No. R2006-1. The volumes that preceded the implementation of those rates were adjusted to align them with the categories for which they would have qualified after the classification changes. The adjustments were based on known characteristics (*e.g.*, shape) of the mail and did not depend on projections. The Docket No. R2008-1 rate adjustment included no classification changes. Therefore, the differences shown in the table primarily reflect the shifts in volume within each class between FY 2007 and the time the rates were in effect. These volume changes are partly the result of ongoing trends and partly in response to the rate changes.

For example, First-Class single-piece letter volume decreased by about 15 percent, while automation letter volume decreased by only about 6.5 percent. Therefore, using the updated volume weights, the rate increase for automation letters (3.5 percent) accounts for a larger share of the class average increase than it did in the pre-implementation calculation. Similarly, the rate increase for single-piece letters (2.4 percent) accounts for a smaller share than it did in the original calculation. Because single-piece and automation letters combine to make up the majority of First-Class Mail volumes, these volume trends are the primary reason that the average increase is higher when the actual volumes at Docket No. R2008-1 rates are used.

Package Services presents an example where volume shifts had the opposite effect. For this class, there was a volume decline of approximately 13 percent between proxy and actual volumes. From what volume remained, the rate adjustment caused many volume shifts within Packages Services from rate categories that received high increases to rate categories that received below average rate increases, and some that received rate decreases. For example, the rate for Bound Printed Matter Parcels DDU dropship decreased by 10 percent in Docket No R2008-1, and accordingly the volume for that rate category increased by 267 percent over the FY 2007 proxy volumes.

Future ACDs will include similar analysis of subsequent rate adjustments, and some of these will reflect volume shifts resulting from classification changes, which may differ from the adjustments developed at the time of the proposals. One example of this type of adjustment is found in the Docket No. R2009-2 introduction of discounts for Full Service IMb. In that case, the Postal Service made assumptions about the percentage of automation mail that would qualify for the discounts upon implementation.[2] Based on those assumptions, it adjusted the volumes of each automation rate category containing candidates for the IMb discount by dividing the historical volumes

[1] The Postal Service did not provide international mail volumes broken out in sufficient detail to allow actual volumes at Docket No. R2008-1 rates to be used for the analysis. For international mail, the weights applied in the pre-implementation review were retained. The effect on the results is small, due to the relatively low volume in these categories.

[2] The weights for Full Service IMb rates were further adjusted to reflect the fact that their implementation date was roughly 6 months after that of the other rate changes.

Table A-1
Percentage Change in Rates

	Pre-implementation Proxy Volumes	Volumes at R2008-1 Rates	Difference
First-Class	2.886	2.916	0.030
Periodicals	2.724	2.908	0.184
Standard	2.838	2.835	-0.003
Package Services	2.875	2.631	-0.244
Special Services	2.848	2.863	0.015

between those that would be eligible for the discount and those that would remain in the existing rate category. Because the volumes in the IMb categories were eligible for a reduced rate, this pushed down the average rate increase for each class with IMb discounts.

A full year of data reflecting the implementation of the Docket No. R2009-2 rates is not yet available, but the preliminary billing determinants for the first quarter of FY 2010 provide some insight into how closely the pre-implementation assumptions about IMb adoption rates align with actual experience. Using First-Class Mail as an example, the Postal Service estimated that 54 percent of automation letters and cards and 44 percent of automation flats would qualify for Full Service IMb discounts. The FY 2010 Quarter 1 results have fallen far short of this expectation, with about 9 percent of automation letters and 0.1 percent of automation flats qualifying.[3]

Using these adoption rates, the average rate increase for First-Class Mail was 3.849 percent, whereas using the pre-implementation assumptions, the increase was estimated to be 3.770 percent. At the time of the Docket No. R2009-2 rate adjustment, the total available cap authority for First-Class Mail was 3.814 percent. *See* Docket No. R2009-2, Order No. 191, at 14. The results for the second quarter of FY 2010 must be known before a final estimate of the impact of actual IMb adoption rates can be determined. However, barring a very substantial increase in the adoption rate in the next quarter, it is likely that the overestimation of IMb adoption made the difference between a Docket No. R2009-2 rate increase that exceeded the then-available price cap and one that did not.[4]

[3] Billing determinants for Quarter 1 FY 2010 (March 3, 2010). The preliminary billing determinants do not identify the IMb volume for automation cards.

[4] The FY 2010 Quarter 1 IMb adoption rates for Standard Mail also fell significantly short of pre-implementation assumptions. The Postal Service assumed 63 percent adoption for Regular automation letters and 64 percent for Regular automation flats. Actual adoption rates were roughly 3 percent and 5 percent, respectively. Similarly, the Postal Service assumed 63 percent adoption for Carrier Route letters and High Density letters, and 64 percent for Carrier Route flats and High Density flats. For Saturation letters, the Postal Service assumed 80 percent adoption. Actual results for the former ECR category were roughly 1 percent for letters and 4 percent for flats.

APPENDIX B — FINANCIAL RESULTS UNDER PREVIOUS CLASSIFICATION

The table in this appendix presents FY 2009 volumes, revenue, costs, and contribution to institutional costs by subclass, reflecting the previous mail classification. This allows comparison of FY 2009 with the financial results from previous fiscal years.

Table B-1
Fiscal Year 2009 Volume, Revenue, Cost and Cost Coverage by Class
Previous Classification (Subclasses)

	Volume (000)	Revenue ($ 000)	Attributable Cost ($ 000)	Contribution to Institutional Cost ($ 000)	Rev./Pc. (Cents)	Cost/Pc. (Cents)	Contribution to Institutional Cost/Pc. (Cents)	Cost Coverage
COMPETITIVE MAIL								
Express Mail	47,015	884,571	553,312	331,259	1881.454	1176.877	704.577	159.9%
Priority Mail	790,070	5,379,534	4,136,040	1,243,495	680.894	523.503	157.390	130.1%
Parcel Select and Parcel Return Service (PRS)	241,186	515,034	430,214	84,820	213.542	178.374	35.168	119.7%
Competitive International Mail	302,290	1,344,777	1,040,566	304,210	444.863	344.228	100.635	129.2%
Competitive International Services	1,375	8,502	11,639	(3,137)	618.516	846.775	(228.260)	73.0%
Total Competitive Mail and Services	1,380,561	8,132,417	6,171,771	1,960,646	589.066	447.048	142.018	131.8%
MARKET DOMINANT MAIL								
First-Class Mail								
Letters, Flats & Parcels	78,570,963	33,824,876	16,559,227	17,265,650	43.050	21.076	21.975	204.3%
Cards	4,742,771	1,129,363	680,959	448,405	23.812	14.358	9.454	165.8%
Standard Mail								
Regular	43,955,776	10,794,673	7,601,019	3,193,654	24.558	17.292	7.266	142.0%
Nonprofit	11,405,578	1,611,861	1,841,574	(229,713)	14.132	16.146	(2.014)	87.5%
Regular and Nonprofit	55,361,354	12,406,535	9,442,594	2,963,941	22.410	17.056	5.354	131.4%
Enhanced Carrier Route (ECR)	25,218,732	4,718,915	2,505,724	2,213,192	18.712	9.936	8.776	188.3%
Nonprofit ECR	2,125,475	238,275	223,645	14,630	11.210	10.522	0.688	106.5%
ECR and NECR	27,344,207	4,957,191	2,729,369	2,227,821	18.129	9.982	8.147	181.6%
Periodicals								
Within County	859,268	92,284	105,052	(12,768)	10.740	12.226	(1.486)	87.8%
Outside County	7,094,447	1,945,860	2,574,931	(629,071)	27.428	36.295	(8.867)	75.6%
Package Services								
Single-Piece Parcel Post	80,716	699,847	761,308	(61,462)	867.046	943.192	(76.146)	91.9%
Bound Printed Matter	509,422	571,497	489,989	81,508	112.185	96.185	16.000	116.6%
Media Mail	131,440	375,002			285.302			
Library Rate	8,698	23,352			268.467			
Media and Library Mail	140,139	398,354	472,361	(74,007)	284.257	337.067	(52.810)	84.3%
U.S. Postal Service Mail	454,865							
Free Mail	61,958		54,158	(54,158)		87.411		
Market Dominant International Mail	457,130	931,844	749,997	181,847	203.846	164.066	39.780	124.2%
Total Market Dominant Mail	**175,677,241**	**56,957,650**	**34,619,945**	**22,337,705**	**32.422**	**19.707**	**12.715**	**164.5%**

Table B-1
Fiscal Year 2009 Volume, Revenue, Cost and Cost Coverage by Class Previous Classification (Subclasses)—Continued

	Volume (000)	Revenue ($ 000)	Attributable Cost ($ 000)	Contribution to Institutional Cost ($ 000)	Rev./Pc. (Cents)	Cost/Pc. (Cents)	Contribution to Institutional Cost/Pc. (Cents)	Cost Coverage
Market Dominant Services								
Certified Mail	266,491	729,813	659,480	70,334	273.861	247.468	26.392	110.7%
COD	1,015	7,564	6,596	968	745.086	649.738	95.347	114.7%
Insurance	43,767	129,069	116,869	12,200	294.898	267.023	27.874	110.4%
Registered Mail	3,182	49,906	50,586	(680)	1568.392	1589.753	(21.361)	98.7%
Stamped Envelopes		16,543	4,958	11,586				333.7%
Stamped Cards		679	1,072	(393)				63.4%
Money Orders	135,039	191,025	146,135	44,890	141.458	108.216	33.242	130.7%
Post Office Box Service		817,075	632,255	184,820				129.2%
Caller Service		94,822	34,127	60,695				
Other Special Services		763,003	523,982	239,021				145.6%
International Services	1,781	25,684	37,410	(11,726)				68.7%
Other Income		128,814		128,814				
Total Mail and Services	177,057,802	68,044,065	43,005,185	25,038,880	38.430	24.289	14.142	158.2%
Institutional Costs			28,905,371					
Appropriations: Revenue Forgone		46,429						
Investment Income		25,728						
Total Revenues		**68,116,221**						
Total Costs			**71,910,556**					
Net Income (Loss)		(3,794,335)						

Source: PRC-ACR2009-LR1

APPENDIX C — METHODOLOGY CHANGES

In FY 2009, the Postal Service filed 30 petitions to change analytical principles relating to the Postal Service's periodic reports. The following proposed changes to the analytical principles in periodic reporting are contained in rulemakings.

RM2009-5: Proposal One

To lower costs, the Postal Service proposed reducing by 20 percent the sample size of the probability-based sampling system that provides estimates of revenue, volume, and weight for single-piece mail (ODIS-RPW). The Postal Service stated that this reduction would have minimal impact on the precision of the estimates and that the estimates would remain unbiased. An annual savings in data collection costs of $6 million was anticipated.

Upon inquiry, including three chairman's information requests and a technical conference, the Postal Service conceded that disaggregated ODIS-RPW data would lose precision if the sample were reduced by 20 percent. According to the Postal Service, estimating the extent of the loss would require large investments of time and resources. Therefore, it did not provide such an estimate. The Commission felt that imprecision within the ODIS-RPW data was already a serious concern under the current sample size, and thus concluded that implementation of Proposal One would unreasonably impair the reliability of disaggregated ODIS-RPW data. The Commission did not accept Proposal One as proposed and the changes are not implemented in the 2009 ACR. *See* Order No. 396.

RM2009-7: Proposal Two

To reduce costs and simplify procedures, the Postal Service sought to discontinue the probability sampling portion of the Bulk Revenue, Pieces, and Weight (BRPW) subsystem of its Revenue, Pieces, and Weight (RPW) data reporting system. The sampling is done to estimate revenue, pieces, and weight for bulk mail at non-automated reporting offices. The Postal Service proposed to replace the sample data with proxy data from its automated reporting offices. The Postal Service demonstrated that for all mail, other than Within County Periodicals, the impact of the change was minimal. Within County Periodicals were disproportionately impacted because a substantial share of their total volume is processed in non-automated facilities.

The Commission found that the proposed model produced estimates of revenue, pieces, and weight that were as good, or better, than the current method for all categories of mail other than Within County Periodicals.

The Commission accepted the modeling approach for all but Within County Periodicals for which it required separate corroboration. The new approach will be employed in FY 2010. *See* Order No. 354.

RM2009-10: Proposals Three - Nineteen

Proposal Three

Proposal Three corrected a misallocation of Undeliverable-As-Addressed (UAA) Parcel Select costs. Mailpieces that originate as Parcel Select pieces but are UAA, are charged additional Single-Piece Parcel Post rates when forwarded or returned. The associated revenue is reported as Single-Piece Parcel Post revenue, but the costs are assigned to Parcel Select. Proposal Three assigned the costs to Single-Piece Parcel Post.

The Commission noted that from FY 2007 to FY 2008, IOCS Parcel Select sample tallies increased by 33.4 percent while parcel tallies as a whole increased by 14.6 percent. For the same time period, IOCS Parcel Select tallies as a portion of all parcel tallies increased by 16.24 percent. It is reasonable to assume that the number of UAA Parcel Select pieces will increase as the volume of Parcel Select increases, exacerbating this misallocation of revenue and cost.

The Commission accepted this proposed change and it is implemented in the 2009 ACR. *See* Order No. 339.

Proposal Four

To reflect established methodology, the Postal Service proposed to correct an error in the workpapers for Cost Segment 12 Motor Vehicle Service costs. In the 2008 ACR, these attributable vehicle costs were distributed in proportion to the aggregate variability and distribution factors of city letter routes and special purpose routes combined. The variability and distribution factor of city carrier letter route costs alone should be used to distribute vehicle service costs that are related to city letter routes. The impact on total attributable costs for Motor Vehicle Service was minimal, reducing those costs by slightly more than $3 million using FY 2008 data.

The Commission approved this methodology change, and it is incorporated into the 2009 ACR. *See* Order No. 339.

Proposal Five

The Postal Service proposed to expand the Detached Address Label (DAL) adjustment to include High Density and Carrier Route DALs. The DAL adjustment shifts delivery costs of letter-shaped DALs associated with flats from the letters to the flats. In FY 2008, the adjustment applied only to Saturation Mail. The impact of the proposal is to shift delivery costs from High Density and Carrier Route letters to flats.

The Commission agreed with the Postal Service that there was an inconsistency between the calculation of delivery costs for Carrier Route and High Density letters and flats and Saturation letters and flats and approved the methodology change. The change is incorporated into the 2009 ACR. *See* Order No. 339.

Proposal Six

To correct a misallocation of accountable delivery costs in insured mail, the Postal Service changed the methodology used to distribute insurance costs between pieces that require signatures and pieces that do not. In FY 2008, all insured mailpieces were assumed to require signatures and were, thus, treated as accountable mailpieces. The Postal Service maintained that this assumption was incorrect and a signature is required only for mailpieces that are insured for over $200. The proposed methodology lowers delivery costs for insurance and increases them for Certified Mail.

The Commission agreed that the over-allocation of accountable costs to insured mail should be corrected to more accurately reflect volume-variable delivery costs. Proposal Six was accepted and incorporated into the 2009 ACR. *See* Order No. 339.

Proposal Seven

To better reflect proper attribution of costs, the Postal Service proposed to reclassify costs incurred for city carrier vehicle loading and unloading from institutional to volume variable. According to the Postal Service, these vehicle-related costs vary with the number of routes, and thus should be considered variable to the same extent as total carrier costs. The proposal lowers institutional costs and slightly increases attributable costs.

The Commission agreed with the Postal Service's rationale and accepted the methodology change. The changes are incorporated into the 2009 ACR. *See* Order No. 339.

Proposal Eight

In an effort to update costs, the Postal Service proposed a methodology change in the Cost Segment 7 worksheets for FY 2009, whereby the distribution factors used to distribute relevant costs to four Special Purpose Route (SPR) cost pools would be replaced with updated distribution factors calculated from the newly constructed City Carrier Cost System – Special Purpose Routes (CCCS-SPR). The four affected SPR cost pools were the Load SPR Non-Acct Delivery, Load SPR Acct Delivery, Time at Stop SPR Deliveries, and Delivery Access SPR. The distribution factors had not been updated since Docket No. R97-1 because the Postal Service did not have a dependable sample frame from which to reliably estimate the factors. In FY 2009, the Postal Service developed a reliable frame, which in turn led to the development of a new statistical system, Carrier Cost System Special Purpose Route (CCCS-SPR), to collect data on SPRs.

The Commission accepted the new system, finding it appropriately designed and more accurate. The new changes are incorporated into the 2009 ACR. *See* Order No. 339.

Proposal Nine

To reflect new data, the Postal Service proposed specific treatment of five new evaluation items in the Rural Mail Count (RMC). These items are (1) Carrier Pickup Requests and Carrier Pickup Items; (2) Delivery Point Sequencing (DPS) Flats; (3) Scanner Setup/Retrieval/Return; (4) PARS yellow labels; and (5) Non-Signature Scan Items. The RMC is used to estimate costs for rural delivery carriers. The carrier receives a time allowance for each evaluation item, which goes into the total evaluated time for the route. The pay received by rural carriers is based on the evaluated time for the route and thus, new evaluation items should be a part of rural carrier costing.

The Commission approved the proposed treatment of the evaluated time for these new evaluation items, and they are incorporated into the 2009 ACR. *See* Order No. 339.

Proposal Ten

The Postal Service proposed to replace the separate distribution keys used to distribute the attributable costs for rural Delivery Point Sequence (DPS) letters and Sector Segment letters with a combined single distribution key for DPS and Sector Segment letters. DPS letters are sorted in walk sequence for the entire route whereas Sector Segment letters are walk sequenced for only a portion of the route. The Postal Service made this proposal for two reasons. Currently, during the Rural Mail Count, when routes are evaluated for compensation purposes, rural routes that average less than 400 DPS letters a day use the Sector Segment letter evaluation. Secondly, DPS and Sector Segment letters sometimes arrive at the carrier case commingled and it is difficult to distinguish a DPS from a Sector Segment letter. The impact of the proposal is minimal.

The Commission accepted this proposal as it is not possible to accurately identify Sector Segment letters that arrive with the DPS dispatch, and because the use of a distribution key that combines DPS and Sector Segment volumes only marginally changes the distribution of rural delivery costs. These changes are incorporated into the 2009 ACR. *See* Order No. 339.

Proposal Eleven

Proposal Eleven responded to the recommendations and findings reported in the Commission's 2008 ACD at 12-13. There, the Commission instructed the Postal Service to report FY 2009 revenues and expenses for international mail that reflect accounting methods consistent with those used in the Postal Service's audited financial statements rather than the "imputed" revenues and expenses used in the International CRA. To achieve this result, the Postal Service proposed to change its methodology for developing revenues and costs by product reported in the ICRA report.

The Postal Service proposed to use booked revenues and expenses in its FY 2009 ICRA and CRA reports, thereby making both reports consistent with its audited financial statements. The Postal Service also proposed to use this new methodology to revise the FY 2008 ICRA. In addition, the Postal Service proposed to present an "alternative version" of the ICRA for FY 2009. This "alternative version" would use imputed amounts and provide continuity in the reporting of the ICRA compared to previous years. It would also provide continuity with respect to future years.

The Commission accepted Proposal Eleven because it satisfied the Commission's directive that revenues and expenses reported in the FY 2009 CRA and ICRA conform to the Postal Service's audited financial statements. The Commission also agreed that presentation of the "alternative version" of the FY 2009 ICRA would be beneficial. The changes are incorporated into the 2009 ACR 2009. *See* Order No. 339.

Proposal Twelve

This proposal clarified the application of a methodology change accepted in FY 2008. The Postal Service proposed a mathematical formula linking three factors critical to the calculation of flats mail processing cost. At issue was the percentage of flats that actually receive a mechanized incoming secondary sort (auto/mech factor). The Postal Service showed that the auto/mech factor is related to the percentage of processing facilities with mechanized equipment and the overall percentage of flats that actually receive a mechanical sort. If one has good estimates of any two of these three factos, then the third factor can be calculated. With the Postal Service's clarification, it is incorporated into the 2009 ACR. *See* Order No. 339.

Proposal Thirteen

To improve cost avoidance calculations, the Postal Service developed separate destination entry cost avoidance estimates for Standard Mail Letters, Flats, and Non-flat Machinables (NFMs)/Parcels. With the expansion of the FY 2008 Costs and Revenue analysis (CRA) report to include letters, flats, and NFMs/Parcels, the Postal Service is capable of developing separate destination entry cost avoidance estimates for these mailpieces. Destination entry cost avoidances are used as a basis for dropship discounts. Disaggregated destination entry cost avoidance estimates provide an improved cost basis for the development of these discounts.

The Commission accepted this proposal. In the 2009 ACR, the Postal Service used the disaggregated cost avoidances as the basis for its passthrough calculations for dropship discounts. *See* Order No. 339.

Proposal Fourteen

Proposal Fourteen continues the reconfiguration of the former Parcel Post subclass by isolating transportation and mail processing costs specifically for Parcel Select and Parcel Return Service products.

The Commission approved the Postal Service's methodology, and it was incorporated into the 2009 ACR. *See* Order No. 339.

Proposal Fifteen

To increase the accuracy of its revenue, pieces, and weight data, the Postal Service replaced the ODIS-RPW sample data with Point-of-Service (POS) census data in FY 2010 for mailpieces to which postage has been affixed with a Postage Validation Imprinter (PVI) label applied at a retail unit using the POS system. This included PVI labels affixed to First-Class Mail (Domestic), Priority Mail, Parcel Post, and Media Mail/Library Mail. The Postal Service will use the POS data to report revenue, volume, weight, and any extra services associated with these mailpieces. Specifically, ODIS-RPW sample data for mailpieces of domestic First-Class Mail, Priority Mail, Parcel Post, and Media Mail/Library Mail paid will be (1) isolated through POS using the new PVI—POS indicia field, and (2) the ODIS-RPW data associated with revenue, pieces, and weight will be replaced with the census data recorded in POS. Data collected in a census system should be more reliable than data collected through sampling and will provide better revenue, pieces, and weight information for these mail categories. The impact is expected to be neutral.

The Commission accepted this methodology change for FY 2010. *See* Order No. 339.

Proposal Sixteen

To make its data more robust, the Postal Service changed the distribution key for allocating Certificate of Mailing (COM) special service fees to parent mail services. These parent services include First-Class Mail (Domestic), Priority Mail (Domestic), International (Competitive), International (Market Dominant), and Package Services. The new methodology replaces the old POS distribution key that only uses the month of November 2008 to allocate COM fees with a new POS distribution key that uses an historic 13-month average from November 2007 through November 2008. COM fees represent only a fraction of a percent of Postal Service product and total revenues and the impact will be minimal.

The Commission approved this methodology change and expects the new 13-month average COM fee distribution key to be relatively stable. The changes are incorporated into the 2009 ACR. *See* Order No. 339.

Proposal Seventeen

To increase the accuracy of its revenue, pieces, and weight data, the Postal Service proposed to change the RPW data sources used to estimate revenue, volume, and weight for Free Military Mail in FY 2010. The ODIS-RPW samples Free Military Mail at Mail Exit Points. The sampled data are aggregated and weighted to produce ODIS-RPW monthly and quarterly estimates. The Free Military Mail estimates are then adjusted to book revenue. The System for International Revenues and Volume, Inbound (SIRVI) samples inbound mail at concentrated centers of mail entry called international exchange offices or international processing centers. In these centers, Free Military Mail is isolated to a small area of the facilities where SIRVI sampling is conducted. SIRVI estimates revenue per pound and pieces per pound, and the estimates are multiplied by a known or census dispatch weight obtained from the military's Automated Military Postal System (AMPS) to estimate the revenue and piece data used to prepare an invoice to the Department of Defense. The invoice revenue appears in the Postal Service's General Ledger account 41422. The proposal specifically (1) replaces the ODIS-RPW estimated volume with the volume figure calculated as the product of SIRVI sample estimated pieces per pound times AMPS census weight, (2) replaces the ODIS-RPW estimated weight with AMPS census weight, and (3) replaces the ODIS-RPW estimated revenue with the accrued revenue in General Ledger 41422 based on the current period billing. The probability that ODIS-RPW will sample a piece of Free Military Mail is extremely small, while the SIRVI sample is larger as the mail enters the United States at less than 10 international exchange offices.

The Commission approved this methodology change for FY 2010. *See* Order No. 339.

Proposal Eighteen

To reflect differences in domestic transportation cost characteristics for Canada and other countries, the Postal Service changed the method for distributing purchased domestic transportation costs within the ICRA report. FY 2008 data collected on Inbound Surface Parcel Post revealed that pounds per piece for Canada weighed "substantially less" than for the Rest of the World (ROW). The two also greatly differed in terms of point of entry. Proposal Eighteen stated that these differing cost characteristics warranted the estimation of different distribution keys for a more accurate distribution of domestic transportation costs for Inbound Surface Parcel Post between Canada and the ROW.

Currently, an aggregate distribution factor is used for all Foreign Origin Surface CP. As a result, Foreign Origin CA and Foreign Origin ROW Surface CP have the same domestic transportation unit costs. This proposal computed different distribution factors for Foreign Origin CA and Foreign Origin ROW Surface CP based on data collected from TRACS.

This change was accepted by the Commission as a significant improvement and incorporated into the 2009 ACR. *See* Order No. 339.

Proposal Nineteen

The Postal Service requested the Commission clarify how it intended to calculate the costs of bundles in containers. The Commission inadvertently linked incorrect cells in the Bundle Passthrough Worksheet in the 2008 ACD. It did not intend to alter the method of calculating the bundle price as a percent of cost. The Postal Service should continue to calculate the price as a percent of cost column in worksheet: Bundle Passthrough, as it did in the ACR 2007 ACR. The Commission accepted the request in the proposal, and the correct method is incorporated into the 2009 ACR. *See* Order No. 339.

RM2010-1: Proposal Twenty

To reflect current operating procedures, the Postal Service updated the density factors within the TRACS Highway and Rail subsystems, which are used to develop distribution keys to assign volume-variable costs in Cost Segment 8 (Vehicle Service Driver costs) and Cost Segment 14 (purchased transportation costs) to postal products. These density factors are used to calculate cubic feet occupied by various postal products. The methodology used to estimate the density factors in FY 2009 was similar to the field data collection methods used to estimate the FY 2001 density factors, except that data collectors were instructed to select full trays and tubs which is more consistent with operations. Also, density factors are now provided for Standard and First-Class Parcels. There were relatively small changes in the density factors for FY 2009 and the Commission accepted the update. However, it was noted that since the sample size used to estimate the FY 2009 density factors was reduced, the Commission estimated that average precision declined by 3 percentage points. It was recommended that the Postal Service closely monitor impacts in future density factor updates. These changes are incorporated into the 2009 ACR. *See* Order No. 393.

RM2010-3: Proposal Twenty-One

Proposal Twenty-One sought to clarify the implementation of Generally Accepted Accounting Principles (GAAP) when legislation reducing the FY 2009 Postal Service Retiree Health Benefit Fund (RHBF) payment was enacted one day after the end of FY 2009. This proposal sought authorization to utilize alternative accounting data in the Postal Service's FY 2009 regulatory reporting to the Commission relating to this recent amendment of the law. Subsequently, the Postal Service determined that there was sufficient flexibility within the GAAP treatment of subsequent events to allow the payment reduction to be recognized in FY 2009, consistent with the bill's retroactivity provision, and withdrew its proposal. *See* Order No. 338.

RM2010-4: Proposal Twenty-Two – Twenty-Five

Proposal Twenty-Two

The Postal Service proposed to use an incremental cost model first applied by witness Kay in Docket No. R2000-1 to test for any cross-subsidies between competitive products and market dominant products in accordance with section 3633 of the PAEA. The model the Postal Service proposed is a constant elasticity (variability) cost function. The method would estimate costs using the most recent volume variabilities as the constant elasticity values for the respective cost components. These estimated costs would be summed to determine system-level incremental costs. The Commission has accepted the incremental cost test as the conceptually correct method for detecting the existence of cross-subsidies.

In the proposal the Postal Service maintains that incremental cost will exceed the corresponding attributable cost and is thus a better cost floor for a cross-subsidy test. It also states that where incremental costs cannot be computed, the sum of component level incremental and attributable costs ("hybrid" total costs) would still be greater than costs estimated using the current approach. The Postal Service would apply the proposed test only to competitive domestic products using CRA data. The ICRA data would still be used to estimate attributable costs for international products because (1) the ICRA does not distinguish between domestic and competitive international products at the cost pool level, and (2) certain costs that are treated as product-specific in the CRA are reclassified as institutional in the ICRA.

The Commission accepted this proposal, but encouraged the Postal Service to continue to investigate other methods that can be expected to provide unbiased estimates of incremental costs when evaluated over a wider range of volume. The proposed incremental cost test is applied in the 2009 ACR. *See* Order No. 399.

Proposal Twenty-Three

To achieve consistency between the treatment of window service costs between domestic and international money orders, the Postal Service proposed to (1) categorize window costs for both domestic and international money orders as "window acceptance," and (2) apply the same volume-variability factor of 64.76 percent to both.

International Money Transfer Service (IMTS) consists of two services: international hardcopy money orders and international electronic money transfers. IMTS's volume-variable costs are estimated in the "B" Workpapers. The "B" Workpapers currently categorize window costs for domestic money orders as "window acceptance," of which 64.76 percent is treated as volume variable. Unlike domestic money orders, however, all window service costs for international money orders are treated as "window non-acceptance" and assumed to be 100 percent volume variable. The Postal Service proposed to group the window service costs for international and domestic money orders together and treat them as 64.76 percent volume variable. The proposal reduces the attributable costs of IMTS by approximately one-third.

The Commission accepted Proposal Twenty-Three and the new volume-variability factor treatment is incorporated into the 2009 ACR. *See* Order No. 399.

Proposal Twenty-Four

This proposal corrected errors in formulas and cell references, removed redundant data and updated data to reflect recent changes in the CRA in Library Reference USPS-FY08-30. The unit cost model is used to estimate data needed to evaluate market dominant Negotiated Service Agreements (NSAs). The Commission approved the proposed changes, and the methodology is incorporated into the 2009 ACR. *See* Order No. 399.

Proposal Twenty-Five

In its continuing effort to refine the flats cost model, the Postal Service proposed three modifications. The first modification involved a new method of calculating the Mechanized Flats Coverage Factors. The Postal Service proposed to supplement the ODIS-RPW data it was using to calculate the factors, with MODS data and data from a national database of destinating facilities where all 3-digit zone mail is processed. The proposed method would allow the Postal Service to determine the facility where mail is processed and if mechanized bundle and piece sorting equipment were actually used. This would result in more accurate coverage factors.

The Commission accepted the proposed method, but cautioned the Postal Service that the MODS TPH data on which the method relies are piece-handling data serving as a proxy for volumes. The correspondence of piece handlings to volume is imperfect, and its validity depends on the context in which the proxy is used. Because the flats processing environment is rapidly changing, the Postal Service should periodically re-evaluate the suitability of using the MODS TPH data as a proxy for flats volume.

The second modification was to use the UFSM1000 piece density data from the 2008 ACR to update the manual operations density data introduced in Docket No. R2001-1. Piece density calculations show the percentage of mail that flows from a given sorting operation to the next downstream sorting operation. Piece densities for manual sorting operations were most recently estimated in Docket No. MC95-1. In that case, the Postal Service applied manual piece densities to the UFSM1000 because it had only recently been introduced, and the Postal Service was not able to reliably estimate its piece densities. The Postal Service reasoned that because the UFSM1000 would be used to process flats which had previously been manually sorted, it would be reasonable to apply the manual piece density estimates to the UFSM1000. In this case, it applies the UFSM1000 piece densities to manual sorting operations.

The Commission accepted the use of UFSM1000 piece densities as proxies for manual piece densities with minor refinements. It also encouraged the Postal Service to look for opportunities to include a direct estimate of manual piece densities as part of any future special flats model study that relies upon sample results.

The third modification was to calculate the cost of handling sacks entered at Origin Sectional Center Facilities by aligning L009 costs with L009 sack flows and L201 costs with L201 sack flows. The Postal Service's proposed cost calculation methodology accurately reflects the way MADC sacks are handled. Therefore, the Commission accepted the proposal.

The methodology changes are all incorporated into the 2009 ACR. *See* Order No. 399.

RM2010-5: Proposal Twenty-Six – Twenty-Eight

Proposal Twenty-Six

To reflect a shift in pricing methodology, the Postal Service proposed a change in how revenue, pieces, and weight data for Alaska Bypass mail is calculated. Due to the change in billing structure, the Postal Service no longer collects data on the census number of pieces using the Alaska Bypass mail system. Rather, it creates the assumption of the maximum number of 70 pound pieces with a remainder on each pallet, and each pallet is billed accordingly. The change allows the Postal Service to end its reliance on survey data from Alaska Bypass mail shippers when determining revenue and number of pieces for Alaska Bypass mail.

The Commission approved this methodology for FY 2010. *See* Order No. 394.

Proposal Twenty-Seven

To address concerns raised in the 2008 ACD, the Postal Service proposed to replace a MODS productivity that is no longer available, with throughput data available from Carrier Sequence Bar Code Sorter (CSBCS) machine utilization reports. The new productivity would be calculated as the product of the throughput rate (pieces per hour) multiplied by the machine runtime as a share of total work time. This modification addresses concerns raised in the 2008 ACD about the reliability of the MODS productivity data for that operation, which had been used as an input to the letter worksharing cost avoidance models for First-Class and Standard Mail.

The Commission approved this methodology change, and it is incorporated into the 2009 ACR. *See* Order No. 394.

Proposal Twenty-Eight

To reflect the current price structure of Single-Piece Parcel Post, the Postal Service proposed to eliminate the Single-Piece Parcel Post models filed in previous ACRs. The models no longer support the existing price structure for Single-Piece Parcel Post, are no longer tied to the calculation of workshare cost avoidances, and cannot be supported by data from existing data systems.

The Commission approved this methodology change, and it is incorporated into the 2009 ACR. *See* Order No. 394.

RM2010-6: Proposal Twenty-Nine

To increase the accuracy of flats costs, the Postal Service proposed two adjustments that affect the estimation of the overall percentage of flats that receive a mechanized incoming secondary sort. First, the Postal Service determined that some pieces from broken carrier route bundles receive a mechanized incoming secondary sort but are not counted in the RPW volume of flats that can potentially receive an incoming secondary sort. To remove this upward bias in the estimate of the flats In-Plant IS Coverage Factor, the Postal Service proposed to estimate the volume of carrier route flats that are broken, and therefore capable of receiving an incoming secondary sort, by multiplying the percent of broken bundles on pallets by the volume of carrier route Periodicals on non-destination containers.

Second, the Postal Service acknowledged the presence of a significant volume of letters and parcels that receive a mechanized incoming secondary sort. The Postal Service proposed to reduce the volume of mail that is assumed to receive a mechanized incoming secondary sort in flat sorting operations by the estimated volume of letters and parcels that receive an incoming secondary sort in those operations. It proposed to estimate the volume of these letters and parcels by multiplying the percentage of IOCS tallies (and therefore costs) recorded in mechanized flat sorting operations that are associated with either letters or parcels by MODS Total Piece Handlings recorded in incoming secondary mechanized flat sorting operations.

The Commission adopted both adjustments because they help correct the overstatement of the overall percentage of flats receiving a mechanized sort. The adjustments are incorporated into the 2009 ACR. *See* Order No. 400.

RM2010-7: Proposal Thirty

To reflect the new price structure for Parcel Select, the Postal Service apportioned the FY 2009 Parcel Select nonpresort billing determinant volume data between the former Inter-BMC and Intra-BMC rate categories. This data is necessary for Parcel Select and Parcel Return Service mail process and transportation cost models. In May 2009, the Postal Service eliminated the price distinction between Inter-BMC and Intra-BMC within the Parcel Select nonpresort rate structure. As a result, the Postal Service stopped collecting separate Inter-BMC and Intra-BMC volume data after the rate structure change in May. Thus, the first three quarters reflect separated price distinction data, while the subsequent data do not. However, Parcel Select/PRS mail processing and transportation cost models require the disaggregated Inter-BMC and Intra-BMC billing determinants to apportion certain costs. It is proposed that in order to apportion Quarter 4 nonpresort billing determinants to reflect the former rate structure the following method will be used: (1) Zones 6 through 8 will be assigned to Inter-BMC; (2) Zones 1 through 5 will be assigned to Inter-BMC and Intra-BMC categories in the same proportion as FY 2009 Quarters 1 through 3; and (3) OBMC and BMC presort will be assigned to Inter-BMC.

The Commission approved this methodology change, and it is incorporated into the 2009 ACR. *See* Order No. 398.

APPENDIX D — ABBREVIATIONS AND ACRONYMS

Abbreviations and Acronyms

Long Version	Abbreviation/Acronym
Annual Compliance Report	ACR
area distribution center	ADC
automated area distribution center	AADC
Automated Flat Sorting Machine	AFSM
Automated Package Processing System	APPS
Automated Tray Handling System	ATHS
bulk mail centers	BMCs
Bulk Metered Mail	BMM
City Carrier Cost System	CCCS
Civil Service Retirement System	CSRS
Collect on Delivery	COD
2009 Comprehensive Statement on Postal Operations	2009 Comprehensive Statement
Consumer Price Index for all urban consumers	CPI-U
Consumer Price Index for all workers	CPI-W
cost and revenue analysis	CRA
Cost of Living Adjustments	COLA
Customer Satisfaction Measurement	CSM
delivery point sequence	DPS
delivery point sequenced	DPS'd
Destinating Sectional Center Facilities	DSCF
destination delivery units	DDU
destination bulk mail center	DBMC
detached address label	DAL
educational, cultural, scientific or informational [value]	ECSI
enhanced carrier route	ECR
Equal Employment Opportunity	EEO
External First-Class Measurement System	EXFC
Global Express Guaranteed	GXG
Government Performance and Results Act of 1993	GPRA
Integrated Financial Plan	IFP
Intelligent Mail Barcode	IMb
International Cost and Revenue Analysis	ICRA
International Customized Mail	ICRA
International Mail Measurement System	IMMS
International Priority Airmail	IPA

Abbreviations and Acronyms—Continued

Long Version	Abbreviation/Acronym
International Surface Airlift	ISAL
irregular pieces and packages	IPPs
letter post	LC/AO
Labor Distribution Code	LDC
Mail Classification Schedule	MCS
Mailers Technology Advisory Council	MTAC
Management Operating Data System	MODS
mixed area distribution center	MADC
multiline optical character reader information service system	MLOCR-ISS
Negotiated Service Agreement	NSA
Office of Personnel Management	OPM
Occupational Safety and Health Administration	OSHA
Origin Destination Information System Revenue, Pieces, and Weight System	ODIS-RPW
personal computer software and solution	PC SAS
Postal Accountability and Enhancement Act	PAEA
Postal Reorganization Act	PRA
qualified business reply mail	QBRM
Quality Link Measurement System	QLMS
Remote Encoding Center	REC
Point of Service	POS
Postal Service Retirement Health Benefits Fund	PSRHBF
Premium Forwarding Service	PFS
Priority Mail International	PMI
Rapid Information Bulletin Board System	RIBBS
Revenue, Pieces, and Weights	RPW
Rural Carrier Cost System	RCCS
Sarbanes-Oxley Act	SOX
Small Parcel Bundle Sorter	SPBS
software and solution	SAS
Total Factor Productivity	TFP
unit delivery costs	UDC
United States Postal Service Annual Compliance Report	ACR
Universal Postal Union	UPU
Voice of the Employee	VOE

APPENDIX E — COMMENTERS—2009 ANNUAL COMPLIANCE DETERMINIATION

Commenter	Comment Citation	Citation Short Form
American Business Media	Initial Comments of American Business Media January 29, 2010	ABM Reply Comments
	Reply Comments of American Business Media February 16, 2010	ABM Reply Comments
American Media	Reply Comments of American Media, Inc. February 23, 2010	American Media Reply Comments
American Postal Workers Union, AFL-CIO	Initial Comments of American Postal Workers Union, AFL-CIO February 1, 2010	APWU Comments
	Reply Comments of American Postal Workers Union, AFL-CIO February 23, 2010	APWU Reply Comments
American Catalog Mailers	Initial Comments of the American Catalog Mailers Association February 1, 2010	ACMA Comments
	Reply Comments of the American Catalog Mailers Association February 24, 2010	ACMA Reply Comments
Association for Postal Commerce, Alliance of Nonprofit Mailers, American Business Media, Direct Marketing Association, Magazine Publishers of America, Inc., and National Postal Policy Council	Reply Comments of Association for Postal Commerce, Alliance of Nonprofit Mailers, American Business Media, Direct Marketing Association, Magazine Publishers of America, Inc., and National Postal Policy Council February 23, 2010	PostCom et al. Reply Comments
Burrus, William	Reply Comments of William Burrus February 23, 2010	Burrus Reply Comments
Direct Marketing Association	Comments of the Direct Marketing Association on Annual Compliance Report 2009 February 5, 2010	DMA Comments
ESPN The Magazine	Reply Comments of ESPN The Magazine February 22, 2010	ESPN Reply Comments
Greeting Card Association	Comments of the Greeting Card Association February 5, 2010	GCA Comments
	Reply Comments of the Greeting Card Association February 23, 2010	GCA Reply Comments
Magazine Publishers of America, Inc., and Alliance of Nonprofit Mailers	Reply Comments of Magazine Publishers of America, Inc., and Alliance of Nonprofit Mailers February 23, 2010	MPA/ANM Reply Comments

Commenter	Comment Citation	Citation Short Form
Mail Order Association of America	Comments of the Mail Order Association of America in Response to Commission Notice Dated January 20, 2010 February 12, 2010	MOAA Comments
Morris, John	Letter from John Morris regarding change of delivery February 18, 2010	Morris Comments
National Postal Mailhandlers Union	Submission by the National Postal Mailhandlers Union February 5, 2010	NPMHU Comments
National Postal Policy Council and National Association of Presort Mailers	Reply Comments of National Postal Policy Council and National Association of Presort Mailers on Worksharing Discounts for First Class Mail February 23, 2010	NPPC/NAPM
Now You Know Media, Inc.	Reply Comments of Now You Know Media, Inc. February 19, 2010	Now You Know Media Reply Comments
Parcel Shippers Association	Reply Comments of Parcel Shippers Association February 24, 2010	PSA Reply Comments
Pitney Bowes Inc.	Comments of Pitney Bowes Inc. February 1, 2010	Pitney Bowes Comments
	Reply Comments of the United States Postal Service, February 24, 2010	Pitney Bowes Reply Comments
Public Representative	Public Representative Comments on Annual Compliance Report 2009 February 2, 2010	Public Representative Comments
	Public Representative Reply Comments February 23, 2010	Public Representative Reply Comments
Reader's Digest Association, Inc.	Reply Comments of Reader's Digest Association, Inc. February 23, 2010	Reader's Digest Reply Comments
Riley, Dr. Michael J.	Reply to Public Representative Comments on Annual Compliance Report 2009 from Dr. Michael J. Riley February 16, 2010	Riley Reply Comments
Stamps.com, Inc.	Comments of Stamps.com February 1, 2010	Stamps.com Comments
Time Warner, Inc.	Initial Comments of Time Warner Inc. on ACR2009 Pursuant to Order No. 380 February 1, 2010	Time Warner Comments
	Comments of Time Warner Inc. on Issues Raised In Commission Information Request No. 1 February 8, 2010	Time Warner Additional Comments
	Reply Comments of Time Warner Inc. on ACR2009 Pursuant to Order No. 380 February 23, 2010	Time Warner Reply Comments

Commenter	Comment Citation	Citation Short Form
United States Postal Service	Reply Comments of the United States Postal Service February 23, 2010	Postal Service Reply Comments
Valassis Direct Mail, Inc., Saturation Mailers Coalition	Reply Comments of Valassis Direct Mail, Inc., Saturation Mailers Coalition Concerning Postal Service Financial Stability February 23, 2010	Valassis/SMC Reply Comments
	Reply Comments of Valassis Direct Mail, Inc., Saturation Mailers Coalition Concerning Postal Service Financial Stability February 23, 2010	Valassis/SMC Comments on USPS Financial Stability
Valpak Direct Marketing Systems, Inc., and Valpak Dealers Association, Inc.	Valpak Direct Marketing Systems, Inc., and Valpak Dealers Association, Inc., Initial Comments on the United States Postal Service FY 2009 Annual Compliance Report February 1, 2010	Valpak Comments
Valpak Direct Marketing Systems, Inc., and Valpak Dealers Association, Inc	Valpak Direct Marketing Systems, Inc., and Valpak Dealers Association, Inc., Reply Comments on the United States Postal Service FY 2009 Annual Compliance Report February 23, 2010	Valpak Reply Comments

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