

POSTAL REGULATORY COMMISSION

PRESS BRIEFING

POSTAL RATE AND FEE CHANGES DOCKET NO. R2006-1

**POSTAL REGULATORY COMMISSION HEARING ROOM
901 NEW YORK AVENUE, NW, SUITE 200
WASHINGTON, DC 20268
WWW.PRC.GOV**

POSTAL REGULATORY COMMISSION

PRESS PACKET

PRESS BRIEFING ON THE R2006-1 OMNIBUS RATE PROCEEDING

Commission Hearing Room
Washington, DC
February 26, 2007

11:00 AM

Press Release

Statement by Dan G. Blair, Chairman, Postal Regulatory Commission

Charts:

- Contribution to Institutional Costs
- Average Percent Rate Changes
- History of First-Class Stamp Rates
- Selected Rates Used by Households
- Selected Rates Used by Bulk and Worksharing Mailers
- Worksharing Discount Options
- First-Class Single-Piece Rate vs CPI

Biographies of Commissioners

Excerpts from Decision

- Summary
- Table of Contents
- Procedural History

POSTAL REGULATORY COMMISSION

NEWS ADVISORY

For Immediate Release
February 26, 2007

Contact: Stephen L. Sharfman
(202) 789-6820
stephen.sharfman@prc.gov

POSTAL REGULATORY COMMISSION ISSUES OPINION ON POSTAL RATE INCREASE REQUEST

The independent Postal Regulatory Commission today recommended a U.S. Postal Service rate increase, which may be implemented as early as May. The Postal Service filed the request last May explaining it would otherwise lose \$5.9 billion in 2008. The Commission found additional income necessary to satisfy the “breakeven” requirement that postal revenues match costs.

The Commission recommends that the price of a First-Class stamp rise by two cents, to 41 cents. The Postal Service had proposed a 42 cent First-Class stamp.

The Commission also approved the Postal Service’s “Forever Stamp” proposal -- specifically designed to ease the public’s transition to new single-piece letter rates. Forever Stamps will be sold in reasonably limited quantities for the price of a First-Class one-ounce letter, and continue to be worth the price of a First-Class one-ounce letter even if that price changes. “This is a prime example of the Postal Regulatory Commission working together with the Postal Service in the best interest of the citizen mailer,” said Chairman Dan G. Blair.

The decision follows an administrative proceeding involving mailers, employee organizations, consumer representatives and competitors. While the rate increase will impact numerous classes of mail to varying degrees, the average rate increase will be 7.6 percent. The rates proposed by the Postal Service equate, on average, to an 8.1 percent increase.

According to Chairman Blair, “In nearly every category of mail, including non-profits, the Commission approved rate increases equal to or below the Postal Service’s request, while still meeting the Service’s revenue requirement.”

This release, the Commission’s Opinion and a press package of information are available on the Commission’s website: www.prc.gov.

###

POSTAL REGULATORY COMMISSION

NEWS RELEASE

Statement of the Chairman

Ladies and Gentlemen, good morning. Welcome to the Postal Regulatory Commission. This is the first recommended decision of the new PRC, as well as my first case as Commissioner and Chairman.

We shared this decision with the Postal Service Board of Governors this morning. A press package is available for you as well. This package contains my statement, the Commission press release, the Decision summary and some key charts. These materials are available on the Commission website at www.prc.gov

With me this morning are my fellow Commissioners – Commissioner Mark Acton, Commissioner Tony Hammond, and Commissioner Dawn Tisdale. Commissioner Tisdale serves as the PRC vice chair. Commissioner Ruth Goldway could not attend the press briefing this morning.

Also, please let me introduce the Commission's General Counsel, Steve Sharfman and the Director of the Commission's Office of Rates, Analysis and Planning, John Waller. We will all be available after I conclude my statement to answer questions you may have regarding the case.

Last May, the Postal Service filed a request with the Commission for a recommended decision on proposed changes in postage rates. Between the time of this filing and today's decision, 60 parties participated in the case. The Commission received

139 pieces of testimony from 99 witnesses during 34 days of hearings. Current ratemaking law grants the Commission 10 months to issue its decision and the record will note we met this statutory deadline with a week to spare.

Our decision includes the recommendation that the Postal Service establish the “Forever Stamp.” This proposal is designed to give postal customers the opportunity to purchase a stamp for the price of a First-Class one-ounce letter that will continue to cover the cost of mailing a letter even if the rate should change. Adoption of this proposal is good for the Postal Service, postal customers and our postal system. It stands as an excellent example of where the Postal Service and the Commission can work collegially in benefiting our postal system. Let me commend Postal Service Board of Governors Chairman, James Miller, for his leadership in turning this good idea into reality.

Let me share with you other highlights of our decision. We determined the Postal Service will need to increase rates in order to break even next year. We also determined that the rate designs for many postal products can and should be improved. The Service sought an increase in revenues of almost \$4 billion to cover costs for the test year of FY 2008. The Commission recommends rates that will provide \$77.6 billion per year and also recommends rates which fully fund the requested contingency of \$768 million. In nearly every category of mail, including non-profits, the Commission approved rate increases equal to or below the Postal Service’s request, while still meeting the Service’s revenue requirement.

Within this framework, we recommend an increase of 2 cents – rather than 3 cents as proposed by the Postal Service – for the First-Class one ounce letter. The rate will rise from 39 cents to 41 cents. The Commission also recommends an increase of 2 cents – instead of 3 cents as proposed by the Postal Service – in the rate for postcards. That rate would rise from 24 to 26 cents. On average, First-Class Mail rates increase slightly less than 7 percent. This reflects the price of the First-Class stamp generally

tracking the increases in the cost of living since the Commission's first rate decision in 1971.

Our decision recommends changes in rates for other classes as well. Generally, we followed the principle of Efficient Component Pricing in recommending these rates. Our intent is to recommend postal rates that accurately reflect costs and send proper price signals. This results in more efficient processing and transportation practices. Our recommendation sends pricing signals to encourage efficient worksharing and changes in the treatment of the shape of mail.

For instance, the Commission adopts the Postal Service recommendations that new, separate shape-based rate schedules be added to Standard Mail to better reflect costs. On average, the Commission recommends Standard Mail rates increase by 9.3 percent.

We also propose new rate designs for Periodicals, which better reflect costs and send price signals that encourage more efficient mailing practices. The new design draws from separate proposals proffered by the Postal Service and Time Warner, Inc. These recommended rates reflect an intention to moderate impact on mailers, yet are intended to foster more efficient, less costly Periodicals mail. On average, the Commission recommends Periodicals rates increase by 11.8 percent.

The recently enacted postal reform legislation, the Postal Accountability and Enhancement Act of 2006, alters significantly the way rates will be set in the future. That law grants the Postal Service wide flexibility to set rates for its competitive products. In recognition of this, the Commission's recommendations for rate designs for the Postal Service's competitive products – Express Mail, Priority Mail and Parcel Post – largely mirror the Service's proposals.

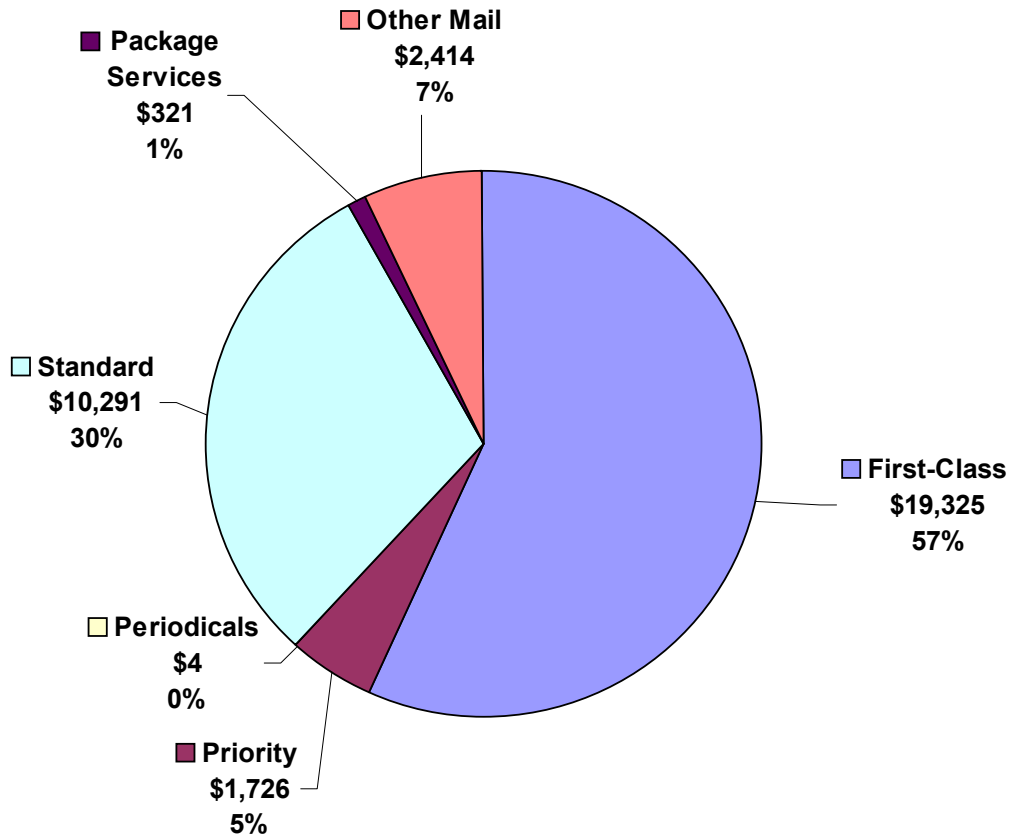
In closing, a central tenet of this case can be found in adherence to rates accurately reflecting costs. To do this, we recommend rates which reflect costs saved through worksharing and send signals that the shape of the mail piece plays an important part in controlling costs.

Our summary and decision go into much further detail. This recommendation was a unanimous decision by the Commission, and I thank the Commissioners for their hard work and efforts. They are an extraordinary group of public servants and it is my privilege to work with them. I also give special acknowledgement to the Commission staff for their excellent work product in providing support for us to make our recommendations in this complex case.

I, along with Mr. Sharfman and Dr. Waller, look forward to any questions you may have.

END

Contribution to Institutional (Overhead) Costs
PRC R2006-1
(Dollars in Millions)



| | Volume (Millions) | Percent Volume | Revenue (millions) | Percent Revenue | Contributions to Institutional Cost (millions) | Percent Contribution Institutional Cost |
|-------------------------|----------------------|-------------------|-----------------------|--------------------|---|--|
| First-Class | 91,033 | 43.0 | \$37,070 | 47.8 | \$19,325 | 56.7 |
| Priority | 829 | 0.4 | \$5,193 | 6.7 | \$1,726 | 5.1 |
| Periodicals | 8,777 | 4.2 | \$2,474 | 3.2 | \$4 | 0.0 |
| Standard | 108,101 | 51.1 | \$23,393 | 30.2 | \$10,291 | 30.2 |
| Package Services | 1,196 | 0.6 | \$2,667 | 3.4 | \$321 | 0.9 |
| Other Mail | 1,548 | 0.7 | \$6,771 | 8.7 | \$2,414 | 7.1 |
| Total | 211,485 | 100.0 | \$77,568 | 100.0 | \$34,081 | 100.0 |

Average Percent Rate Changes

| First-Class Mail: | USPS Proposed | PRC Recommendation |
|---------------------------------|--------------------------|-------------------------------|
| Letters and Cards | 6.9% | 6.9% |
| Periodicals: | | |
| Within County | 24.4 | 18.3 |
| Outside County | 11.7 | 11.7 |
| Standard Mail: | | |
| Regular | 9.6 | 9.5 |
| Nonprofit | 8.9 | 6.7 |
| ECR | 8.9 | 6.9 |
| Nonprofit ECR | 8.8 | 8.8 |
| Competitive Services: | | |
| Parcel Post | 17.4 | 16.6 |
| Priority Mail | 13.6 | 13.6 |
| Express Mail | 12.5 | 12.5 |
| Special Services: | | |
| Registered Mail | 50.2 | 20.7 |
| Certified Mail | 10.4 | 10.4 |
| Money Orders | 12.1 | 8.8 |
| P. O. Boxes | 10.1 | 10.1 |
| Overall Average Increase | 8.1 | 7.6 |

History of First-Class Stamp Rates

| Date[†] | Rate[‡] |
|--------------------------|-------------------------|
| 1885-1917 | 2¢ |
| 1917-1919 | 3 |
| 1919 | 2 |
| July 6, 1932 | 3 |
| August 1, 1958 | 4 |
| January 7, 1963 | 5 |
| January 7, 1968 | 6 |
| May 16, 1971 | 8 |
| March 2, 1974 | 10 |
| December 31, 1975 | 13 |
| May 29, 1978 | 15 |
| March 22, 1981 | 18 |
| November 1, 1981 | 20 |
| February 17, 1985 | 22 |
| April 3, 1988 | 25 |
| February 3, 1991 | 29 |
| January 1, 1995 | 32 |
| January 10, 1999 | 33 |
| January 7, 2001 | 34 |
| June 30, 2002 | 37 |
| January 8, 2006 | 39 |

† The date specified is the first day on which the rate became applicable. In some instances, the rate introduced was temporary.

‡ The rate for the first ounce of a First-Class letter. Beginning September 14, 1975, additional ounces have been charged lower than the applicable first-ounce rate.

Selected Rates Used by Households

| | Current | PRC Recommended |
|---------------------------------------|----------------|----------------------------|
| First-Class | | |
| First-Class Letter | | |
| One ounce letter | 39¢ | 41¢ |
| Two ounce letter | 63¢ | 58¢ |
| | | |
| Post Card | 24¢ | 26¢ |
| | | |
| Priority Mail | | |
| One pound | \$4.05 | \$4.60 |
| Local (5 pound) | \$6.15 | \$6.30 |
| Distant (5 pound, 2,000 miles) | \$12.80 | \$15.85 |
| Flat Rate Box | \$8.10 | \$9.15 |
| | | |
| Express Mail | | |
| 8 oz. P.O. to addressee | \$14.40 | \$16.25 |
| 2 lb. P.O. to addressee | \$18.80 | \$21.40 |
| | | |
| Parcel Post – Inter BMC | | |
| 2 lb., Zone 5 | \$4.36 | \$5.67 |
| | | |
| Certified Mail | \$2.40 | \$2.65 |
| | | |
| Return Receipt | | |
| Original Signature | \$1.85 | \$2.15 |
| Electronic | \$1.35 | \$0.85 |
| | | |
| Money Orders (up to \$500) | 95¢ | \$1.05 |
| | | |
| Delivery Confirmation | | |
| First-Class Parcels | 60¢ | 75¢ |
| Priority | 50¢ | 65¢ |
| Parcel Post (except Parcel Select) | 60¢ | 75¢ |

Selected Rates Used by Bulk/Worksharing Mailers[†]

| | Current | PRC Recommended |
|--|----------------|--------------------|
| First-Class | | |
| Bank Statement (3 oz., 3-digit, barcoded letter) | 73.9¢ | 58.4¢ |
| Department Store Bill (Nonautomation presort letter) | 37.1¢ | 37.3¢ |
| Utility Bill (5-digit, barcoded letter) | 29.3¢ | 31.2¢ |
| Postcard (3-digit, barcoded) | 19.3¢ | 20.4¢ |
| Priority Mail | | |
| 3 lbs., Zone 1 | \$5.00 | \$5.05 |
| 10 lbs., Zone 4 | \$13.30 | \$13.10 |
| Express Mail | | |
| Legal Documents (2 lbs.) | \$18.80 | \$21.40 |
| Regular Publications | | |
| Weekly News Magazine (5.8 oz., 50% adv., carrier route presort, SCF entry) | 18.5¢ | 20.6¢ |
| Journal of Opinion (3 oz., 25% adv., 5-digit presort, Zone 5 entry, barcoded) | 22.7¢ | 24.7¢ |
| National Newspaper (10 oz., 60% adv., 5-digit presort, SCF entry, barcoded, palletized) | 31.4¢ | 36.4¢ |
| Household Magazine (13.8 oz., 50% adv., carrier route presort, SCF entry, palletized) | 28.9¢ | 33.6¢ |
| Trade Publication (6.6 oz., 50% adv., 3-digit presort, ADC entry, barcoded, palletized) | 33.1¢ | 37.8¢ |
| Within County Publications | | |
| In-County Newspaper (4.5 oz., DDU entry, carrier route presort) | 5.8¢ | 7.0¢ |
| Nonprofit Publications | | |
| Small Publication (4 oz., 20% adv., Zone 5 entry, 3-digit presort, barcoded) | 28.3¢ | 32.4¢ |
| National Magazine (14 oz., 40% adv., Zone 5 entry, carrier route presort) | 36.4¢ | 41.6¢ |
| [†]See accompanying list of worksharing discount options. | | |

Selected Rates Used by Bulk/Worksharing Mailers

| | Current | PRC Recommended |
|---|---------|--------------------|
| Standard Regular Rate Mail | | |
| Highly Targeted (3-digit presort, 2 oz. letter, barcoded) | 21.4¢ | 23.3¢ |
| Targeted (5-digit presort, 9 oz. flat) | 57.0¢ | 62.9¢ |
| Local Department Store Advertisement (5-digit presort, 3 oz. flat, SCF entry) | 27.7¢ | 32.1¢ |
| Saturation Local Mail (CR walk sequence, 3 oz. flat, DDU entry) | | |
| without DAL | 13.6¢ | 13.6¢ |
| with DAL | 13.6¢ | 15.1¢ |
| Standard Nonprofit Mail | | |
| Targeted Appeal (letter) (Basic presort, 1 oz. letter) | 17.0¢ | 16.4¢ |
| Church Bulletin (5-digit presort, letter) | 18.9¢ | 12.7¢ |
| Package Service | | |
| Parcel Select (2 lbs., Zone 1, DBMC entry) | \$2.36 | \$2.68 |
| Bound Printed Matter (2.5 lbs. parcel, Zone 3, basic presort) | \$1.512 | \$1.817 |
| Bound Printed Matter (2.5 lbs. flat, Zone 3, basic presort) | \$1.431 | \$1.659 |
| Media Mail (2 lbs., basic presort) | \$1.74 | \$2.14 |
| Library Mail (3 lbs., 5-digit presort) | \$1.78 | \$1.88 |

WORKSHARING DISCOUNT OPTIONS

Mailers may obtain discounts on postage for their mail by preparing it in one or more ways to reduce the Postal Service's cost of handling.

Presort:

Basic

Automated Area Distribution Center (AADC)

Mixed AADC

ADC

3-digit zip code

5-digit zip code

Carrier route

High Density

Saturation

Automation (requires all of the following):

Barcoding

Verifying addresses

Compatible with equipment

Dropship:

Origin Bulk Mail Center (OBMC)

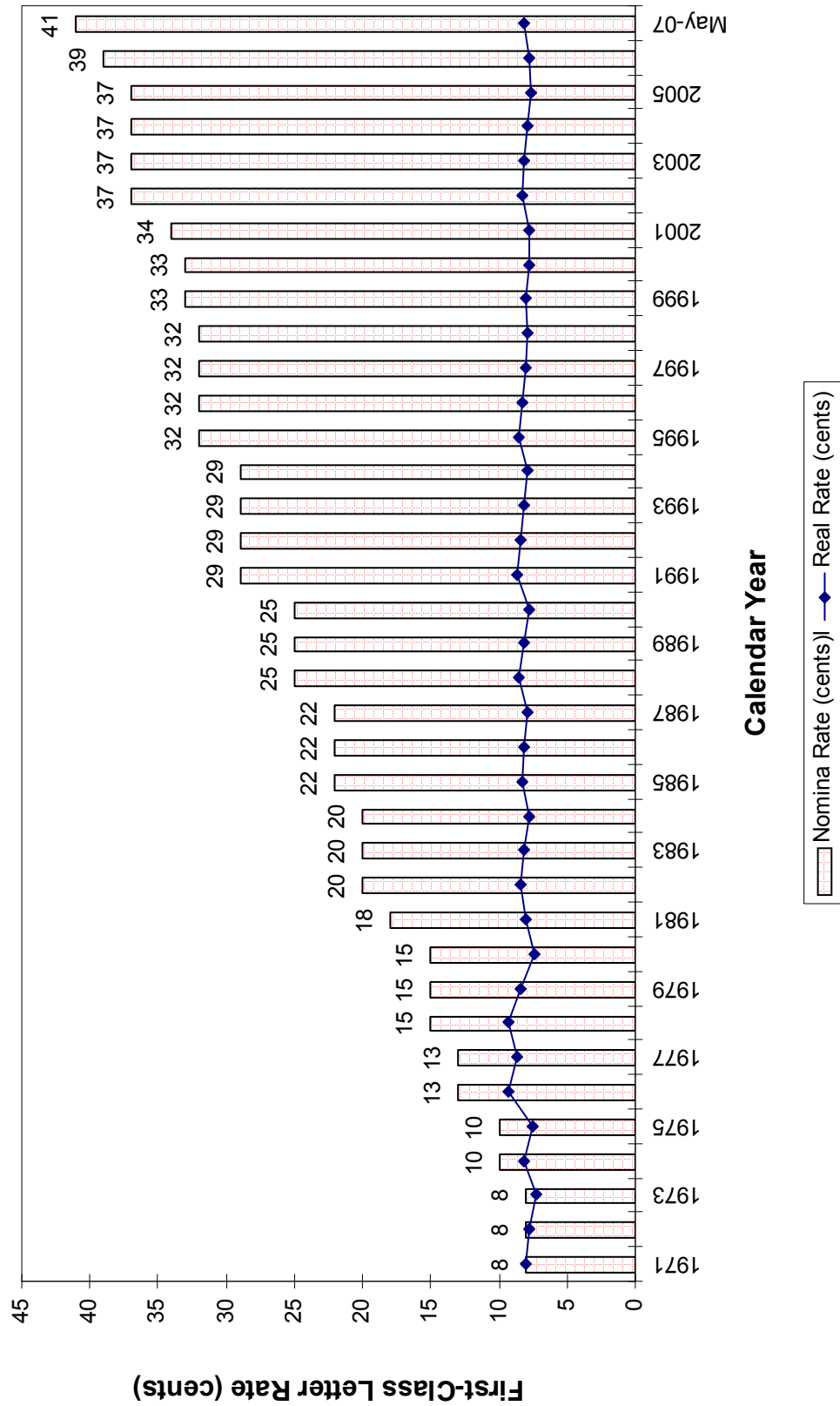
Destination Bulk Mail Center (DBMC)

Destination area distribution center (DADC)

Destination sectional center facility (DSCF)

Destination delivery unit (DDU)

**First-Class Single-Piece Letter Rate
Actual and Inflation Adjusted Values
(1971-May 2007)**



DAN BLAIR - CHAIRMAN

Mr. Blair serves as the first Chairman of the independent Postal Regulatory Commission, the successor agency to the former Postal Rate Commission. He was unanimously confirmed as a Commissioner of the former Postal Rate Commission on December 9, 2006 by the United States Senate and designated Chairman by President George W. Bush on December 15, 2006.

Prior to coming to the Commission, Mr. Blair served as Deputy Director of the U.S. Office of Personnel Management. He was nominated by President George W. Bush on December 20, 2001 and confirmed by the United States Senate on February 13, 2002. In addition to serving as Deputy Director, Mr. Blair was Acting Director of OPM for five months prior to the confirmation of Linda M. Springer as Director in July 2005.



Mr. Blair brings to the Commission extensive experience in the postal and civil service sectors. As OPM Deputy Director, Mr. Blair represented the agency on a number of important external initiatives and has been responsible for many internal reform efforts. He headed OPM's effort to "fix the hiring process" for the Federal Government and actively sought ways to provide agencies with the human resources tools necessary to streamline and reform their processes in this area. He also chaired OPM's outreach program to veterans through his work and meetings with veterans service organizations.

In addition, Mr. Blair served on the President's Council on Integrity and Efficiency, the federal council comprised of Presidentially-appointed and Senate-confirmed Inspectors General. He worked frequently with the Chief Human Capital Officers Council and federal agencies in helping implement the President's Management Agenda and in overseeing critical human capital reforms at the Department of Defense and the Department of Homeland Security. Mr. Blair represented OPM as a witness before U.S. Senate and U.S. House of Representatives committees on a variety of issues, including pension and health benefits liabilities affecting the U.S. Postal Service.

Prior to joining OPM, Mr. Blair served on Capitol Hill, having worked for nearly 17 years on the staffs of both House and Senate committees charged with postal and civil service oversight.

From 1998 through 2001, Mr. Blair served as Senior Counsel to Senator Fred Thompson (R-TN) on the Senate Committee on Governmental Affairs. Mr. Blair was responsible for review of legislation and policy affecting the federal civil service, the USPS, federal budget process, government ethics, and federal lobbying reform. Prior to joining the Committee on Governmental Affairs, Mr. Blair served as Staff Director for the House of Representatives Subcommittee on the Postal Service. Mr. Blair was responsible for directing the Subcommittee's oversight of the USPS and directed the development of comprehensive postal reform legislation. Mr. Blair also served as Minority General Counsel for the House of Representatives Committee on Post Office and Civil Service from 1985 to 1994.

Mr. Blair was born and raised in Joplin, Missouri. He received a Bachelor of Journalism degree from the School of Journalism at the University of Missouri-Columbia in 1981 and his Juris Doctor from the School of Law at the University of Missouri-Columbia in 1984. He and his wife, Michele, reside in Washington, D.C.

DAWN A. TISDALE - VICE CHAIRMAN

Commissioner Tisdale was nominated by President George W. Bush on February 11, 2004 to complete a term expiring on November 22, 2006. He was confirmed by the United States Senate on November 21, 2004. Mr. Tisdale previously served in various positions within the U.S. Postal Service. He served in the U.S. Navy from 1962 to 1966.

Mr. Tisdale's postal career began in 1966 in Austin, Texas as a Letter Carrier. He served in a variety of positions including Supervisor of Mails and Delivery, Labor Relations Representative and Manager of Employment and Training (Waco, Texas). He also served as MDO (Manager of Distribution Operations). He retired in 2000 after 11 years as Postmaster of Smithville, Texas. In addition to the above mentioned positions, Mr. Tisdale has served the Postal Service in numerous other ways. He worked with EI (Employee Involvement) as a Facilitator and Trainer, and also has over 10 years experience working with Alternative Dispute Resolution initiatives.

An active community leader, Mr. Tisdale has served as President of the Board of Directors for CASA (Court Appointed Special Advocates) in Bastrop County Texas as well as for LVA (Literacy Volunteers of America) in Smithville, Texas. He was also a member of the Noon Lions Club of Smithville.

Mr. Tisdale is a native and longtime resident of Austin, Texas, and is married to the former Vanessa Palfrey. After 35 years of experience in many different roles, Mr. Tisdale brings a unique and interesting perspective to the Postal Rate Commission.



MARK ACTON - COMMISSIONER

Mark Acton was nominated by President George W. Bush on November 7, 2005 for a term of office extending until October 14, 2010. Commissioner Acton was confirmed by the United States Senate on August 3, 2006. Prior to this appointment, Mr. Acton served as Special Assistant to the Chairman of the Postal Rate Commission assistin in managing all aspects of agency operations.

In addition to his years of public administration experience at the Postal Rate Commission, Mr. Acton has an extensive professional history of active involvement in the public policy arena - including nine years of experience managing legislative and regulatory concerns as Staff Director for the Republican National Committee Counsel's Office. Mr. Acton's professional background includes direct mail marketing experience managing Republican Party finance programs.

Mark Acton was appointed Special Assistant to the Chairman of the Postal Rate Commission in 2002. Mr. Acton served a year in New York City as Deputy to the Chairman of the 2004 Republican National Convention and, prior to joining the agency, was Staff Director for the Republican National Committee Counsel's Office.

He has held posts as Special Assistant to the RNC Chief Counsel as well as RNC Counsel's Office Government Relations Officer and Redistricting Coordinator. At the 2000 Republican National Convention in Philadelphia, Acton was Executive Director of the Committee on Permanent Organization and, four years earlier in San Diego, was Deputy Executive Director of the Committee on Rules for the 1996 Republican National Convention. He was chosen also as Executive Director of the RNC Redistricting Task Force, chief RNC liaison to the Republican National Lawyers Association, and lead coordinator for the RNC Campaign Finance Task Force. From 1989 until 1993, Mark Acton was Deputy Redistricting Director for the National Republican Congressional Committee and prior to that he was an Assistant Director for RNC Major Donor Finance Programs as well as Assistant to the RNC Director of Computer Services.

Commissioner Acton, who resides in Washington, DC, is a native of Louisville, Kentucky where he attended the University of Louisville. He holds a Master of Business Administration from the Robert H. Smith School of Business at the University of Maryland. Commissioner Acton is an active member of the University of Louisville Alumni Association, the Kentucky Society of Washington, the United States Tennis Association, and the Honorable Order of Kentucky Colonels.



RUTH Y GOLDWAY - COMMISSIONER

Ruth Goldway is an experienced public affairs professional with expertise in citizen participation, consumer issues, urban planning issues, education and the arts. Ruth Goldway was appointed Commissioner of the United States Postal Rate Commission (PRC) by President George W. Bush in November, 2002 to serve a second term ending in 2008. She was first appointed by President Clinton in April, 1998. The PRC oversees the rates and classification system of the U.S. Postal Service, the world's largest post and the second largest civilian employer in the United States. Ms. Goldway has written on postal matters for national newspapers and submitted congressional testimony. She represents the Commission on the State Department delegation to the Universal Postal Union.



Ms. Goldway has lectured on the role of women in government, Finnish culture and society, urban planning, and consumerism at universities and professional associations throughout the U.S., Europe, Australia and Japan. Ms. Goldway has been a successful advocate on behalf of consumer, women's and urban issues. She was Assistant to the Director of California's Department of Consumer Affairs during the 1970's. She was elected council member and mayor of the city of Santa Monica from 1979 to 1983. She helped to found California's system of statewide farmers markets and expanded citizen representation on state regulatory boards. She served as Founder and Chairperson of the Santa Monica Pier Restoration Corporation from 1983 - 1994.

Ms. Goldway served as Director of Public Affairs at California State University, Los Angeles, one of the nation's most racially and ethnically diverse campuses. From 1991 to 1994 she served as Manager of Public Affairs for the Getty Trust, the largest arts and education foundation in the U.S.

In Finland, from 1994-1997, as the then spouse of the U.S. Ambassador, she authored several articles that appeared in the Finnish magazine **Gloria**, organized seminars on women's issues and assisted in the promotion of American products and services. Her memoirs of her experiences there, *Letters from Finland*, were translated and published in Finland by Otava Oy in November, 1998.

Born in New York City, Ms. Goldway attended the Bronx High School of Science, earned a BA from the University of Michigan and received an MA in English Literature from Wayne State University. She has three children, Julie, Anthony, and Casey. She is on the board of Tree People and New Visions Foundation. Her recreational activities include biking, cooking, reading, and travel.

TONY HAMMOND - COMMISSIONER

Tony Hammond has served as a Commissioner of the Postal Rate Commission since his recess appointment by President George W. Bush in August 2002, with the U. S. Senate confirming the appointment later that year. Following his renomination by President Bush in January 2005, the Senate confirmed Commissioner Hammond to a term expiring October 14, 2010. From October 2003 to October 2005, Commissioner Hammond served as Vice Chairman of the Commission.

Before being named to the PRC, Commissioner Hammond was owner and managing member of T. Hammond Company, LLC, a private consulting firm with offices in Arlington, Virginia and Newport Beach, California. He also served as Senior Consultant to Forbes 2000, Incorporated, and as Senior Vice President of the direct marketing firm, FL&S.

During the 1998 election cycle, Hammond was Director of Campaign Operations for the Republican National Committee where he was responsible for political programs nationwide. He was previously Regional Representative for RNC Chairman Haley Barbour in the Great Lakes Region and Southern Region where he assisted campaigns and state party organizations in implementing RNC programs.

From 1989 to 1994, Mr. Hammond was Executive Director, as well as Finance Director, of the Missouri Republican Party.

Commissioner Hammond served on Capitol Hill for ten years on the official staff of Southwest Missouri Congressman Gene Taylor. During Taylor's tenure as Ranking Member of the Post Office and Civil Service Committee, Hammond dealt with the diverse issues and interests concerning the U. S. Postal Service rates and operations.

Commissioner Hammond is a graduate of Missouri State University in Springfield and remains an owner of the Hammond family farm in his native Hickory County, Missouri.



POSTAL REGULATORY COMMISSION

EXCERPTS FROM DECISION

Summary

Table of Contents Including Appendices

Procedural History

COMMISSIONERS AND SENIOR STAFF

Dan G. Blair, Chairman

Dawn Tisdale, Vice Chairman

Ruth Y. Goldway, Commissioner

Tony Hammond, Commissioner

Mark D. Acton, Commissioner

Ann C. Fisher, Chief of Staff

Stephen L. Sharfman, General Counsel

John Waller, Director, Office of Rates, Analysis and Planning

Steven W. Williams, Secretary

Shelley Dreifuss, Director, Office of the Consumer Advocate

901 New York Avenue, NW, Suite 200
Washington DC 20268
202-789-6800
FAX: 202-789-6886

EMAIL: prc-admin@prc.gov

www.prc.gov

SUMMARY

In this decision the Postal Regulatory Commission responds to a United States Postal Service Request for rate increases designed to generate almost \$4 billion of additional annual revenue. In addition to rate increases, the Service asks the Commission to approve rate design changes for most categories of mail, including First-Class Letters and Sealed Parcels.

The Commission finds the Postal Service will need to increase rates in order to break even next year. The Commission also concludes that the rate designs for many postal products can and should be improved.

The rates recommended in this decision fully fund every expense the Postal Service identifies in its Request, including \$768 million for contingencies. However, the Commission has identified calculation errors in the Service's supporting financial documentation, and conceptual errors in the Service's proposed rates, that allow the Commission to recommend smaller increases than the Postal Service requested. The Commission recommends rates that increase, on average, 7.6 percent. The rates requested by the Postal Service equate to an 8.1 percent increase.

The Commission recommends an increase of 2 cents instead of 3 cents in the rate for First-Class one-ounce letters. The rate will go from 39 to 41 cents. The Commission also recommends an increase of 2 cents instead of 3 cents in the rate for postcards. That rate will go from 24 to 26 cents. On average, First-Class Mail rates increase 6.9 percent.

The Postal Service sought authority to offer a new “Forever Stamp” to ease the transition to new rates. Forever Stamps will be sold in reasonably limited quantities for the price of a First-Class one-ounce letter, and continue to be worth the price of a First-Class one-ounce letter even if that price changes. The Commission recommends this innovative proposal which will be a convenience for individual consumers, and reduce the costs of transitions to new rates.

The Postal Service also requested new, separate shape-based rate schedules within First-Class. Large or odd-shaped pieces are more expensive to process than letters, and the Service wants to be able to charge compensatory rates for such pieces. The Commission finds this step justified and recommends separate rate schedules for flats (large envelopes) and parcels. This refinement also allows the Commission to reduce the First-Class additional ounce rate from 24 to 17 cents. The Postal Service is urged to carry out a broad public education program before it begins to charge separate rates for letters, flats, and parcels.

In this case the Commission obtained comments and testimony from a cross-section of interested participants on how best to develop rate discounts for mailers who perform worksharing to reduce Postal Service costs. Most business mailers now participate in worksharing activities in order to earn postage discounts. The consensus was to apply the economic principle of Efficient Component Pricing. This results in the most productive use of the Nation’s resources.

The Commission has used Efficient Component Pricing to develop rates wherever possible. Many rates proposed by the Postal Service were not consistent with Efficient Component Pricing as they failed to reflect cost differences fully. Rates that more accurately reflect costs send proper price signals. Rates that send proper price signals result in more efficient processing and transportation practices, which in turn reduce costs, thereby allowing smaller rate increases, and less volume losses.

In First-Class, the Postal Service proposed to “de-link” single-piece from worksharing rates. This practice would abandon the principle that worksharing discounts should be based on the costs avoided by worksharing activities. As applied by the Postal Service in this case, it would expand discounts beyond avoided costs, and unfairly shift the burden of this rate increase on to single-piece mailers. The Commission believes that mailers who workshare should be rewarded, and recommends discounts that fully reflect the costs avoided by worksharing. Because the de-linking approach does not equitably balance the interests of all mailers within a subclass, and does not follow established principles of rate design including Efficient Component Pricing, the Commission does not adopt it.

Standard Mail consists entirely of bulk mailings with rates intended to reflect cost distinctions. The Postal Service proposes that new, separate shape-based rate schedules be added to Standard Mail to better reflect costs. The Commission recommends this improvement. Recommended Standard rates vary from those suggested by the Postal Service in that smaller increases are recommended for the more efficient (lower cost) pieces, while some less efficient pieces face larger increases. On average, Standard Mail rates increase 9.3 percent.

Several participants, including the Postal Service, propose new rate designs for Periodicals. Here, too, the goal is to better reflect costs, and send price signals that will encourage more efficient mailing practices. Periodicals’ costs have risen disproportionately in recent years, in part because current rates send such poor signals. For example, Periodicals is the only class where no rate penalty is applied to nonmachinable pieces.

The Commission recommends a new design that draws from the separate proposals of the Postal Service and Time Warner Inc. The recommended rates recognize only a limited portion of the costs associated with identifiable cost drivers in order to moderate the impact on mailers. Nonetheless, Periodicals mailers are extremely cost conscious, and the Commission expects that these rates will foster more efficient, less costly Periodicals mail. On average, Periodicals rates increase 11.8 percent.

The Postal Accountability and Enhancement Act of 2006 has altered the way postal rates will be set in the future. In particular, the Postal Service will have wide flexibility to set the rates for competitive products, so long as those products generate revenues sufficiently above costs. In recognition of that fact, the Commission has not recommended new rate designs for the Postal Service's competitive products. Rates for Express, Priority and Parcel Post include adjustments to better reflect costs, but otherwise are largely as suggested by the Postal Service.

This completes the last omnibus rate request filed prior to enactment of the 2006 legislative reform. The rates recommended by the Commission provide a sound foundation on which the Postal Service and the Postal Regulatory Commission will begin to exercise their new, important responsibilities under this legislation.

TABLE OF CONTENTS

| | <i>page</i> |
|--|-------------|
| I. Procedural History | 1 |
| II. Revenue Requirement | 3 |
| A. Bases of Test Year Cost and Revenue Estimates | 3 |
| B. Volume Models and Forecasting Methodologies | 5 |
| 1. The Postal Service’s Methodologies..... | 5 |
| 2. Criticisms and Alternative Estimates | 5 |
| 3. Commission Evaluation of Alternative Presentations | 7 |
| C. Changes and Adjustments to Test Year Costs and Revenues | 10 |
| 1. Supervisory Savings in Cost Reduction Programs | 10 |
| 2. Summary of Miscellaneous Changes and Adjustments | 13 |
| D. Provision for Contingencies..... | 15 |
| E. Potential Impact of the PAEA on Finances | 19 |
| III. Costing | 21 |
| A. MAIL PROCESSING VARIABILITY | 21 |
| B. City Carrier Street Time Attribution..... | 54 |
| C. Window Service Cost Attribution | 67 |
| 1. Introduction | 67 |
| 2. Postal Service Window Service Study..... | 68 |
| D. FedEx Day-Turn Network Costs..... | 77 |
| IV. Pricing | 81 |
| A. Role of Efficient Component Pricing..... | 81 |
| B. Assignment of Institutional Cost | 91 |

| | | |
|----|---|-----|
| V. | Rate Design | 105 |
| A. | Express Mail..... | 105 |
| | 1. Introduction | 105 |
| | 2. Postal Service Proposal..... | 106 |
| | 3. Rate Design | 106 |
| | a. Custom Designed Delivery Stop | 109 |
| | 4. Cost Coverage..... | 110 |
| B. | First-Class Mail..... | 112 |
| | 1. Preliminary Matters..... | 116 |
| | a. Shape-Based Rate Design | 116 |
| | b. De-Linking of First-Class Mail Rate Design | 121 |
| | c. Efficient Component Pricing | 128 |
| | d. Benchmark | 129 |
| | e. Worksharing Mail Costs and Cost Avoidances | 134 |
| | 2. Letters and Sealed Parcels Rates and Classifications | 148 |
| | a. Single-Piece Rate Design | 150 |
| | b. Non-automation Presort Rate Design | 151 |
| | c. Automation Letters Rate Design | 152 |
| | d. Automation Flats Rate Design | 154 |
| | e. Business Parcels Rate Design | 155 |
| | f. Additional Ounce Rate Design | 156 |
| | g. Nonmachinable Surcharge Proposals | 159 |
| | h. Heavy-Piece Discount Proposal | 163 |
| | i. Qualified Business Reply Mail | 164 |
| | j. Consideration of Rate and Classification Factors | 167 |
| | 3. First-Class Mail Alternative Proposals..... | 169 |
| | a. OCA Four-Ounce Increment Proposal | 169 |
| | b. Pitney Bowes Single-Piece Indicia Discount Proposal | 172 |
| | 4. Forever Stamp..... | 174 |
| | 5. Cards Rates and Classifications..... | 183 |
| | 6. Priority Mail | 187 |
| | a. Introduction | 187 |
| | b. Postal Service Proposal | 188 |
| | c. Proposed Classification Changes | 189 |
| | d. Rate Design | 192 |
| | e. Cost Coverage | 195 |

| | | |
|----|--|-----|
| C. | Standard Mail | 203 |
| 1. | Introduction | 203 |
| 2. | History of Standard Mail Subclasses | 204 |
| 3. | Cost Coverage | 206 |
| a. | Standard ECR Subclasses | 206 |
| b. | Standard Regular Subclasses | 215 |
| 4. | Classification Proposals | 219 |
| a. | Regular and Nonprofit (Regular) Subclasses Classification Proposals | 220 |
| b. | ECR and Nonprofit ECR Subclasses Proposals | 230 |
| 5. | Rate Proposals | 235 |
| a. | General Rate Design Methodology | 236 |
| b. | Arguments for 100 Percent passthroughs | 242 |
| c. | Proposals for the Standard Regular Subclass | 245 |
| d. | ECR Rate Proposals | 266 |
| e. | Proposals for the Nonprofit Subclasses | 286 |
| 6. | Sequenced Mail Costs and Capacity Constraints | 289 |
| 7. | Commission’s Recommended Rate Design for Standard Regular | 292 |
| 8. | Commission’s Recommended Rate Design for Standard ECR | 296 |
| D. | Periodicals | 299 |
| 1. | Introduction and Summary | 299 |
| a. | Overview | 299 |
| b. | Summary of the Postal Service’s Proposal for the Periodicals Class | 300 |
| c. | Summary of Commission Recommendations | 300 |
| 2. | The Outside County Subclass | 302 |
| a. | Background | 302 |
| b. | Context of the Proposals | 303 |
| c. | Key Features of the Postal Service’s Proposal | 308 |
| d. | Key Features of the MPA-ANM Proposal | 314 |
| e. | Key Features of the Time Warner Proposal | 319 |
| f. | Commission analysis | 324 |

| | | |
|----|--|-----|
| 3. | Within County Subclass | 353 |
| a. | Background | 353 |
| b. | Key Features of the Postal Service’s Proposal | 354 |
| c. | Key Features of the NNA Proposal | 354 |
| d. | Commission analysis | 356 |
| E. | Package Services Mail | 362 |
| 1. | Parcel Post | 362 |
| a. | Introduction | 362 |
| b. | Postal Service Proposal | 363 |
| c. | Proposed Classification Changes | 364 |
| d. | Rate Design | 365 |
| e. | Cost Coverage | 384 |
| 2. | Bound Printed Matter | 388 |
| a. | Introduction | 388 |
| b. | Postal Service Proposal | 389 |
| c. | Postal Service Classification Proposals | 389 |
| d. | Intervenor Classification Proposal | 392 |
| e. | Cost Coverage | 395 |
| f. | Rate Design | 400 |
| 3. | Media Mail and Library Mail | 405 |
| a. | Introduction | 405 |
| b. | Postal Service Proposal | 406 |
| c. | Cost Coverage | 406 |
| d. | Rate Design | 409 |
| F. | Special Services | 414 |
| 1. | Address Correction Service (Fee Schedule 911) | 418 |
| 2. | Mailing List Services (Schedule 912)..... | 420 |
| a. | ZIP Coding of Mailing Lists | 420 |
| b. | Correction of Mailing Lists | 420 |
| c. | Address Changes for Election Boards and Registration Commission | 421 |
| d. | Carrier Sequencing of Address Cards | 422 |
| 3. | Post Office Box and Caller Services (Fee Schedule 921) | 422 |
| 4. | Business Reply Mail | 427 |
| 5. | Merchandise Return Service (Fee Schedule 932)..... | 433 |
| 6. | On-Site Meter Service | 434 |
| 7. | Bulk Parcel Return Service (Fee Schedule 935) | 434 |
| 8. | Shipper-Paid Forwarding (Fee Schedule 936) | 435 |

| | | |
|-----|---|-----|
| 9. | Premium Forwarding Service (Fee Schedule 937) | 436 |
| 10. | Standard Mail Forwarding | 436 |
| 11. | Certified Mail (Fee Schedule 941)..... | 438 |
| 12. | Registered Mail (Fee Schedule 942)..... | 439 |
| 13. | Insurance (Fee Schedule 943)..... | 442 |
| 14. | Collect on Delivery (Fee Schedule 944)..... | 445 |
| 15. | Return Receipt (Fee Schedule 945)..... | 451 |
| 16. | Restricted Delivery (Fee Schedule 946) | 456 |
| 17. | Certificate of Mailing (Fee Schedule 947) | 457 |
| 18. | Delivery Confirmation (Fee Schedule 948) | 458 |
| 19. | Signature Confirmation (Fee Schedule 949)..... | 459 |
| 20. | Parcel Airlift (Fee Schedule 951) | 460 |
| 21. | Special Handling (Fee Schedule 952)..... | 461 |
| 22. | Stamped Envelopes (Fee Schedule 961) | 462 |
| 23. | Stamped Cards (Fee Schedule 962)..... | 463 |
| 24. | Money Orders (Fee Schedule 971)..... | 463 |
| 25. | Confirm (Fee Schedule 991)..... | 465 |
| 26. | Miscellaneous Fees (Fee Schedule 1000)..... | 484 |
| | a. Permit Fees | 484 |
| | b. Account Maintenance Fee | 484 |
| | c. Periodicals Application Fee | 485 |
| | d. Change of Address Fee | 486 |

RECOMMENDED DECISION

APPENDIX ONE

APPENDIX TWO

TECHNICAL APPENDICES — VOLUME 2

- Appendix A Participants and Counsel or Representative
- Appendix B Witnesses' Testimony
- Appendix C Revenue Requirement for Test Year with Proposed Revenue and Costs
- Appendix D Development of Revenue Requirement and Cost Roll Forward Corrections
- Appendix E Comparison of Costs Attributed by Cost Segment and Component
- Appendix F PRC Distribution of Attributable Costs to Classes and Subclasses
- Appendix G Test Year Volume, Cost, Revenue, and Cost Coverage by Class
- Appendix H Comparison of Estimated Test Year Volumes
- Appendix I Economic Demand Models and Forecast Methodology
- Appendix J Mail Processing Variability
- Appendix K Description of Newly Available Carrier Street Time Data
- Appendix L Challenges in Applying Instrumental Variables Procedures to Estimate Mail Processing Variabilities

I. PROCEDURAL HISTORY

[1001] On May 3, 2006, the United States Postal Service filed a Request with the Postal Rate Commission for a recommended decision on proposed changes in domestic postage rates, fees and certain mail classifications. The Commission gave notice of the Request in Order No. 1464, issued May 5, 2006, and assigned Docket No. R2006-1 to this proceeding. The Commission heard the case *en banc*, initially with former Chairman George Omas and subsequently with Chairman Dan G. Blair serving as Presiding Officer. The 60 participants sponsored 139 pieces of testimony from 99 witnesses that were received during 34 days of hearings.

[1002] The Postal Service supports its Request with testimony that projects its costs forward from Fiscal Year 2005 (the base year), and estimates that at existing rates it will experience a revenue deficiency in Fiscal Year 2008 (the test year) of \$5.874 billion. It proposes rates calculated to generate additional revenues of \$3.983 billion, of which \$767 million will be used as a contingency against unforeseen financial adversities.

[1003] During this proceeding, the Commission issued three Notices of Inquiry directed to all interested participants. The first concerns the development of the Periodicals Within County markup; see Notice of Inquiry No. 1, issued June 5, 2006. The second addresses rate design methodology for Standard Mail; see Notice of Inquiry No. 2, issued July 21, 2006. The third deals with approaches to development of rates for First-Class Mail and Standard Mail; see Notice of Inquiry No 3, issued July 26, 2006. The latter two inquiries also address the role of Efficient Component Pricing in rate design. Participants provided significant responsive materials, which are discussed in Chapter IV, Section A.

[1004] The Presiding Officer issued 25 information requests most of which were directed to the Postal Service. Three of these information requests, focused on the issue

of City Carrier Street Time costs, raised one of the most prominent evidentiary issues in this case.

[1005] In the Opinion in Docket No. R2005-1, the Commission expressed significant concerns regarding data quality and its effect on econometric modeling in the City Carrier Street Time Study (CCSTS) sponsored by Postal Service witness Bradley in that case. PRC Op. R2005-1, ¶ 4011. In light of these concerns, the Commission urged the Service to analyze the issue carefully prior to the next rate proceeding. *Id.* at ¶ 4018.

[1006] The Postal Service's Request in this docket includes no new data or analysis of carrier street time costs. To shore up the resulting weaknesses in the record, the Presiding Officer issued three information requests seeking more recent CCSTS data and alternatives to the models proposed by the Service in Docket No. R2005-1. He subsequently designated responsive materials for inclusion in the evidentiary record.

[1007] Several participants objected to inclusion of these materials, noting that their production in the latter stages of the proceeding precluded an adequate opportunity to examine and respond to these complex and potentially significant additions to the record. In two Orders addressing these matters, we acknowledged participants' due process concerns, and limited the use of the materials to illustrative purposes. Order No. 1482, November 8, 2006; Order No. 1, December 22, 2006. Nonetheless, as noted in the Orders, we anticipate that this research could contribute to the objective of effectively modeling the variability of carrier street time costs in the future. It is described in Appendix K.