Postal Rate Commission
Submitted 9/9/2004 2:10 pm
Filing ID: 41660
Accepted 9/9/2004

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

EXPERIMENTAL PRIORITY MAIL FLAT-RATE BOX, 2004	Docket No. MC2004-2

COMMENTS OF THE UNITED STATES POSTAL SERVICE
IN SUPPORT OF THE STIPULATION AND AGREEMENT
(September 9, 2004)

Pursuant to Presiding Officer's Ruling No. MC2004-2/7, the United States Postal Service hereby files its Comments in support of the Stipulation and Agreement filed on August 10, 2004.

I. PROCEDURAL HISTORY

On June 3, 2004, the Postal Service filed a Request asking that the Postal Rate Commission (Commission) issue a decision recommending the implementation of an experimental classification and rate within Priority Mail for matter mailed using a Postal Service-supplied flat-rate box.[1] This experimental classification and rate would be effective for two years, with an extension if a request for a permanent classification change is pending upon conclusion of the two-year period.[2] The Request was accompanied by the testimonies of three witnesses: Thomas M. Scherer (USPS-T-1),

[1] Request of the United States Postal Service for a Recommended Decision on Experimental Classification and Rate for Priority-Mail Flat Box (June 3, 2004). As part of the Request, the Postal Service asked the Commission to conduct the proceedings under its expedited procedures for considering experiments, 39. C.F.R. §§ 3001.67-67d, noting that data helpful to determining whether to request a permanent classification and rate change need to be collected. Request at 3-4.
[2] *See id.* at 4-5.

Daniel J. Barrett (USPS-T-2), and L. Paul Loetscher (USPS-T-3). In addition, the Postal Service requested the establishment of settlement procedures by the Commission.[3]

In Order No. 1408, issued June 9, 2004, the Commission noticed the Request and granted the settlement request, appointing Postal Service counsel as settlement coordinator. The Commission also established a June 24th deadline for filing notices of intervention, in which parties were directed to indicate whether they would seek a hearing. Five parties ultimately intervened in the proceeding: the Parcel Shippers Association, the Association of Priority Mail Users, the Mail Order Association of America, Mr. David P. Popkin, and Mr. Douglas F. Carlson.[4] In addition, the Commission designated the Office of the Consumer Advocate (OCA) to represent the interests of the general public. None of the participants requested a hearing or presented testimony; instead, discovery consisted of interrogatories or requests for production directed to the Postal Service, plus one Presiding Officer's Information Request.

Following a settlement conference coordinated by the Postal Service on July 1, 2004, the Commission held a pre-hearing conference on July 8, 2004, in which the Postal Service indicated that the prospects for a settlement were promising. The Chairman directed the Postal Service to keep the Commission informed of the progress of the settlement negotiations through bi-weekly status reports.[5] In the second such report, the Postal Service indicated that a settlement agreement had been reached with

---

[3] *See* United States Postal Service Request for Establishment of Settlement Procedures (June 3, 2004).
[4] None of these parties objected to the use of the Commission's expedited procedures.
[5] These reports were filed on July 22 and August 5, 2004. *See* Status Report on Settlement (July 22, 2004); Second Status Report on Settlement (August 5, 2004).

OCA, and that the terms had been forwarded to all the parties. On August 10, 2004, the Postal Service filed a motion requesting that the Commission base its recommended decision on the terms of the Stipulation and Agreement,[6] which all but two of the participants have signed.[7]

On August 31, 2004, the Presiding Officer established a final procedural schedule, calling for briefs to be filed on September 9, 2004.[8] These Comments are being filed in accordance with that schedule and Paragraph 4 of the Stipulation and Agreement.

II. THE FLAT-RATE BOX EXPERIMENT SHOULD BE RECOMMENDED BASED ON THE TERMS OF THE STIPULATION AND AGREEMENT.

The signatories to the Stipulation and Agreement agree that the direct testimony accompanying the Postal Service's Request and the designated written cross-examination support and justify a Commission decision recommending the experimental flat-rate box classification and rate. The Commission should accordingly base its decision on the Stipulation and Agreement and recommend the experiment.

A. The Flat-Rate Box Experiment is Consistent with § 3623 Because it Provides Benefits to Both Mailers and the Postal Service.

The primary rationale for the introduction of a flat-rate box is the value it provides to mailers in the form of convenience and ease of use.[9] A number of factors contribute to the box's convenience and ease of use. First, the flat-rate box disposes of the need

---

[6] *See* Motion of the United States Postal Service for Consideration of the Stipulation and Agreement as the Basis for Recommended Decision (August 10, 2004).
[7] *See* Motion of the United States Postal Service for Establishment of Final Procedural Steps (August 19, 2004) at n.3 (noting that all the parties except Mr. Popkin and Mr. Carlson have signed the Stipulation and Agreement).
[8] *See* Presiding Officer's Ruling No. MC-2002-2/7 (August 31, 2004).
[9] *See* USPS-T-2 at 3-7.

for mailers to calculate the existing weight- and zone-based Priority Mail rate; in fact, the rate of $7.70 allows mailers to simply use two $3.85 stamps.[10] Second, the box will be made available in a fashion similar to other Postal Service-provided packaging materials, including through retail locations and the Internet, meaning mailers will be able to conveniently obtain the boxes. Third, the two proposed boxes can each hold a variety of possible items, and correspond to the dimensions of corrugated box items that have proven popular with Priority Mail customers in the past. Overall, for many mailers, the convenience and ease of use of the flat-rate box will provide real value, which in turn justifies a favorable recommendation from the Commission.[11]

The experimental classification is also desirable from the Postal Service's point of view because it presents minimal risk to the Postal Service's finances that should be more than offset by potential financial benefits.[12] As the testimony of witness Scherer shows, the risk of "revenue leakage" is minimal, even when estimating the worst-case annual revenue loss from such leakage.[13] This minimal risk is acceptable considering the experimental nature of the classification and the potential financial benefits to the Postal Service, which hopes to see additional contribution due to 1) new Priority Mail

---

[10] In addition, the flat-rate box supports the use of other convenient channels for purchasing postage, especially online postage options. *See* USPS-T-2 at 4, 7.

[11] *See* 39 U.S.C. §§ 3623(c)(2), (c)(5). Also, because the flat-rate box is expected to attract new volume to Priority Mail, the flat-rate box is supported by § 3623(c)(3) in that it will enhance a classification characterized by high reliability and speed of delivery.

[12] *See* USPS-T-1 at 6-9. Classification criteria number 5 (39 U.S.C. § 3623(c)(5)) thus supports a favorable recommendation.

[13] Witness Scherer calculates the worst-case annual revenue loss from leakage as being $12.6 million, or 0.28% of Priority Mail revenue. This figure is worst-case because it assumes that all of the Priority Mail parcels estimated by witness Loetscher whose postage exceeded $7.70 and which could fit within the flat-rate boxes would actually migrate down to the boxes. Countervailing factors beyond ability-to-fit, such as the desire for custom packaging, transaction costs, and the need to minimize the risk of breakage, may prevent many such parcels from actually migrating down. *See* USPS-T-1 at 6-9.

volume attracted by the flat-rate box's convenience and ease of use, and 2) revenue gains from existing Priority Mail customers who willingly pay a higher postage for the flat-rate box due to its convenience.[14]

B. The Proposed Rate is Consistent with § 3622 and the Experimental Nature of the Proposal.

The Stipulation and Agreement endorses a rate of $7.70, which reflects a $5.92 "base rate" and a $1.78 premium.[15] This proposed rate ensures that the experimental classification presents minimal financial risk to the Postal Service, while advancing the general goal of the classification—giving customers a simple means of entering Priority Mail parcels. For both reasons, the rate satisfies the pricing criteria of 39 U.S.C. § 3622.

The proposed rate is designed to cover costs adequately and thereby ensure that any impact on the Postal Service's revenue position will be minor.[16] First, the base rate, which represents the estimated average revenue for Priority Mail parcels of comparable size to the flat-rate boxes, is derived from existing rates using an unbiased and reliable estimate of Priority Mail parcel density developed by witness Loetscher. Second, the premium is designed partly to protect against the risk that parcels shipped using the flat-rate boxes will be, on average, heavier and/or shipped longer distances than existing

---

[14] The Stipulation and Agreement addresses the potential that in some circumstances a customer may "over-pay" for the flat-rate box. *See infra* note 21 and accompanying text. This shows that the Postal Service shares the concern expressed by some parties to this proceeding.

[15] *See* USPS-T-1 at 3-6.

[16] *See* USPS-T-1 at 17. 39 U.S.C. § 3622(b)(3) thus supports a favorable recommendation. In addition, the proposed rate will have an immaterial effect on the Postal Service's competitors, which is relevant under 39 U.S.C. § 3622(b)(4). Any volume growth precipitated by the flat-rate box is unlikely to have a significant effect on the parcel delivery market. *See* USPS-T-1 at 12-13. Further, the proposed rate is not unfair to competitors because it is designed to cover costs adequately while reflecting the added value to mailers. *See id.* at 17.

Priority Mail parcels.[17] The result is a rate derived from and consistent with the current Priority Mail schedule, which has been found to provide adequate cost coverage.

The proposed rate also maintains the convenience and ease of use of the flat-rate box in a way that is fair to mailers. In addition to protecting against revenue leakage, the premium appropriately reflects a portion of the value created by the flat-rate box's convenience and ease of use, allowing that value to be shared between the mailer and the Postal Service.[18] In addition, the premium maintains and enhances that value because, when added to the base rate, it produces a total rate equal to two existing $3.85 stamps. Overall, the proposed rate fits sensibly within the existing Priority Mail rate schedule,[19] providing a simple rate choice to consumers and enhancing the value of the Priority Mail subclass.[20]

Finally, the Postal Service recognizes and appreciates the fact that some consumers could "over-pay" for the flat-rate box, in that the value they assign to the box's convenience and ease of use might be less than the additional postage they pay over the current Priority Mail rates. The Postal Service has no interest in deceiving its consumers, and has therefore addressed this issue in the Stipulation and Agreement by agreeing to the placement of appropriate language on the flat-rate box and to the inclusion of this issue in the draft communications plan.[21]

---

[17] As witness Scherer shows, the premium serves to reduce the maximum annual revenue leakage from $36.7 million to $12.6 million. *See* USPS-T-1 at 8-9.
[18] This is relevant under 39 U.S.C. § 3622(b)(2).
[19] This is relevant under 39 U.S.C. § 3622(b)(7).
[20] *See* USPS-T-1 at 15, 18; USPS-T-2 at 3-4. This consistency with the current Priority Mail schedule avoids affecting demand for the flat-rate box either positively or negatively as against the existing Priority Mail rates. *See* USPS-T-1 at 3 n.1.
[21] *See* Stipulation and Agreement ¶ 9; Data Collection Plan ¶¶ 4-5.

C. The Stipulated Data Collection Plan is Designed to Provide Solid Information Regarding the Potential Viability of a Permanent Classification Change.

Consistent with the experimental nature of this proposal, the Stipulation and Agreement contains a data collection plan that is designed to provide the Postal Service with data that will help it determine whether to seek a permanent classification change. Through the collection of volume data by weight increment and zone, supplemented by market research, the Postal Service will be able to analyze the two components of the rate premium—its reflection of the value added by the flat-rate box and its protection against revenue leakage—with the ultimate objective being the estimation of the experiment's financial impacts.[22] The Postal Service will also gain insight into the customers using the flat-rate box through the market research as well as by collecting data identifying the method by which postage for the flat-rate box is paid.[23] Overall, this data should aid the Postal Service in determining whether the flat-rate box ought to become a permanent option within Priority Mail.

III. CONCLUSION

The terms of the Stipulation and Agreement endorse 1) an experimental classification that provides real value to mailers and strong potential benefits to the Postal Service, with minimal risk; 2) an experimental rate that is derived from and reasonably related to the existing Priority Mail rate schedule, is based on solid foundational evidence, and is designed—through a reasonable premium—to protect the Postal Service's finances and reflect a portion of the value provided to mailers; and 3) a data collection plan that should provide the Postal Service with data that will inform a

[22] *See* USPS-T-1 at 13-14 (discussing Data Collection Plan ¶¶ 1, 3).
[23] *See id.*

decision whether to make the experimental classification permanent. For these reasons, the Commission should issue an opinion and recommended decision favoring the implementation of the flat-rate box classification and rate according to the terms of the Stipulation and Agreement.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking

_____
Kenneth N. Hollies

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260–1137
(202) 268–3083; Fax -3084
September 9, 2004

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.

_____
Kenneth N. Hollies

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260–1137
(202) 268–3083; Fax -3084
September 9, 2004