

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

POSTAL RATE AND FEE CHANGES, 2006

Docket No. R2006-1

DIRECT TESTIMONY
OF
KIRK T. KANEER
ON BEHALF OF
UNITED STATES POSTAL SERVICE

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1 DIRECT TESTIMONY
2 OF
3 KIRK KANEER

4 AUTOBIOGRAPHICAL SKETCH

5 My name is Kirk T. Kaneer and I am employed by the Postal Service as an
6 economist in Pricing and Classification. I have held this position since 1998. My
7 current duties are to develop pricing and classification proposals, cost analyses,
8 forecasts, and implementation databases. Prior to my move to Classification and
9 Product Development, I did similar work in Pricing from 1992 to 1998. Before working in
10 Pricing, I was employed in the Labor Economics Research Division as an economist
11 involved in labor negotiations. I have been employed by the Postal Service since 1988.
12 I was the rate design witness for Repositionable Notes (RPN) in Docket Nos. MC2004-5
13 (USPS-T-2) and MC2006-2 (USPS-T-1). I was a cost and classification witness for
14 post office boxes in Docket Nos. R2000-1 (USPS-T-40) and R2001-1 (USPS-T-38). In
15 Docket No. R97-1, I was the Periodicals Nonprofit and Classroom rate design witness
16 (USPS-T-35) and the rebuttal witness for post office box service (USPS-RT-19). I was
17 the pricing witness for the Classroom subclass of Periodicals in Docket No. MC96-2
18 (USPS-CT-3) as well.

19 Prior to coming to the Postal Service, I worked from 1983 to 1988 at the Bureau
20 of Labor Statistics (BLS), Office of Prices and Living Conditions, Consumer Expenditure
21 Surveys Research Division.

22 In 1982, I received a Master of Science degree in Economics from Florida State
23 University in Tallahassee, Florida. In 1978, I received a Bachelor of Science Degree
24 with double majors in Economics and Business Administration from the University of
25 Central Florida in Orlando, Florida.

1 DIRECT TESTIMONY
2 OF
3 KIRK KANEER

4 **I. Purpose**

5 This testimony presents the Postal Service's proposals for Post Office Box and
6 Caller Service, which includes new post office box service fees along with caller service
7 fees that vary in relation to location space cost. I also propose a clarification on Group
8 E fee availability in footnote 1 to the post office box fee schedule. In this docket, my
9 testimony addresses not only pricing, but also costing and volume estimation issues.
10 Section II gives a guide to supporting documentation. Section III provides background
11 and introduces my pricing model. Section IV describes the test year revenue and
12 volume forecasting methodology, and summarizes the results. Section V discusses the
13 costing methodology, including cost allocation by location, and unit cost development.
14 Section VI describes the current and planned post office box fee group designs, and
15 how the planned design continues the progress towards increased cost homogeneity in
16 the post office box fee groups. Section VII discusses the proposed fees for post office
17 boxes, caller service, and reserve number service. Key duplication and lock
18 replacement fees are discussed as well as overall financial results. This section also
19 contains a proposed update to the wording of the first footnote to Fee Schedule 921.
20 Section VIII applies the statutory pricing criteria to the fee proposals.

21
22 **II. Guide to Supporting Documentation**

23 My testimony proposes new fees for post office boxes, caller service, reserve
24 numbers, key duplication, and lock replacement. It also forecasts the before- and after-
25 rates box counts and revenues, and allocates attributable costs. Postal Service witness

1 O'Hara (USPS-T-31) uses these revenue and volume calculations, as does witness
2 Thress (USPS-T-7). Witness Berkeley (USPS-T-39) uses current and proposed fees as
3 well as base year and test year box counts. I rely upon witness Waterbury (USPS-T-
4 10), witness Page (USPS-T-23), and witness Smith (USPS-T-13) as sources of
5 aggregate and special study cost data. Also, I use base year RPW data from Witness
6 Pafford (USPS-T-3) to estimate base year post office box volume. I use the special
7 services fee history in library reference USPS-LR-L-76 to support the volume and
8 revenue forecasting. I sponsor the documentation for my analyses in USPS-LR-L-125,
9 Supporting Materials for Post Office Box and Caller Service.

10

11 **III. Pricing Modernization**

12 One longstanding Postal Service goal is improving the fairness and efficiency of
13 post office box and caller service fees through increased reliance upon local facility
14 costs. As such, the two primary foundations for proposed fees are econometrically
15 calculated local real estate costs, and the current fee groups.

16 The proposed box fee groups in this docket comport with the fee group
17 specification and fee setting methods recommended by the Commission in Docket Nos.
18 R97-1, R2000-1, and R2001-1. In Docket No. R2005-1, however, fees were simply
19 increased 'across the board' without specifying new fee groups. In this docket, the
20 proposed fees and planned fee group specifications continue to progress towards more
21 fair, cost-based post office box fees using updated estimates of location costs, referred
22 to as 'Erents'.

23

1 **IV. Forecast Methods and Results**

2 Post office box and caller service revenue has increased continually since postal
3 reorganization.¹ In 1970, this revenue was about \$44 million dollars. By 2008, TYBR
4 revenue is projected to be about \$860 million, with about 16.3 million boxes in use.²
5 The complete revenue history is provided in USPS-LR-L-75.

6 Projection of test year post office box counts and revenue requires baseline box
7 count estimates, development of a forecast index, estimation of price elasticity effects,
8 and calculation of box counts by fee cell through the test year, as further explained in
9 the following four subsections. Thereafter, subsection IV.E quantifies test year box
10 counts and revenue, both before and after rates.

11

12 **A. Baseline Box Count Estimation**

13 Post office box volumes are the foundation for production of revenue forecasts,
14 attribution of costs, and analysis of cost coverage.³ Accurately determining the impact
15 of changes to fees and fee category assignments requires accurate box counts by size
16 at the ZIP Code level of detail.

17 While post office box data quality has significantly improved over the past two
18 years, the Postal Service still lacks a definitive count of boxes in every office. To
19 determine these volumes, the Postal Service uses existing data from over 28,000
20 individual ZIP Codes as a sample describing the distribution of post office boxes across

¹ Box revenue includes caller service and reserve number revenue.

² The methodology for estimating test year revenue is described in detail in USPS-LR-L-125.

³ Post office box "volume" refers to the number of post office boxes in use at a specific time. This differs significantly from other Postal Service products, for which "volume" represents a quantity sold over a specific time frame.

1 fee categories and sizes. This distribution is then applied to the total revenue of post
2 office boxes for FY 2005 to determine approximate actual counts for all fee groups and
3 box sizes.

4

5 **B. Forecast Index**

6 Production of test year before rates box counts uses an aggregate forecast of
7 post office box volumes assuming current rates to calculate revenues and determine
8 cost coverage. The forecast index should be viewed as a anticipation of post office box
9 growth holding prices and other market forces constant.⁴

10 The development of this forecast index remains consistent with the methodology
11 used in Docket No. R2001-1. Because historical data on actual post office box volumes
12 are limited, a reliable statistical model of post office box volume growth is still
13 unavailable. In light of this, the model uses Global Insight's forecast of quarterly growth
14 in U.S. population over the age of 18 as a proxy for post office box volume growth. This
15 is a reasonable proxy as it assumes a propensity to purchase post office box service
16 directly relates to population change.

17 Population is considered to be a fundamental component of estimating the
18 quantity of demand for many products. A growing population typically means a similar
19 growth in product sales, all other factors remaining constant. Furthermore, population
20 appears as an independent variable in a number of postal volume demand formulae.
21 Witness Thress (USPS-T-7) uses population to forecast volume for numerous mail
22 categories. He notes:

⁴ The volume forecast index used is tabulated in USPS-LR-L-125, Part E, S5 'Forecast Factors'.

1 All of the demand equations presented here model mail volume per
 2 adult per Postal delivery day as a function of various explanatory
 3 variables. Hence, total mail volume is projected to grow proportionally to
 4 adult population.⁵

5
 6 Thus, using the change in population as a "growth factor" to forecast the number
 7 of post office boxes in-use is reasonable.

8 9 **C. Own-Price Elasticity**

10 An estimate of price change impacts on post office box counts compares box
 11 counts before with those after price changes. Existing data are inadequate for
 12 estimating this elasticity. Accordingly, as in previous testimony, I assume a zero price
 13 elasticity for post office boxes based on their relatively low fees, historically limited
 14 competition, and the value customers place on continuity of service for a particular box.

15 16 **D. Calculations**

17 Given baseline box counts, a forecast volume index, and assumed inelasticity, it
 18 is possible to calculate fee cell volumes and revenue for the test year. These forecasts
 19 are developed on a monthly basis for each combination of current and planned ZIP
 20 Code fee group assignments.

21 Forecast calculations are made as follows:

$$22 \quad Inst_{j,t} = Inst_{j,b} * (VF_t / 100)$$

$$23 \quad Use_{j,t} = Use_{j,b} * (V_t / 100) * (1 + \epsilon_j) * \frac{(WP_{j,t} - WP_{j,b}) / D_t}{WP_{j,b} / D_t}$$

$$24 \quad Rev_{j,t} = (WP_{j,t} * Use_{j,t}) / 6$$

$$25 \quad WP_j = (bw_j * BP_j) + (cw_j * CP_j) + (1 - bw_j - cw_j) * PP_j$$

⁵ Thress (USPS-T-7), page 60.

1 where:

2 $Inst_{j,t}$: Installed box count size j at time t

3 $Use_{j,t}$: In-use box count size j at time t

4 $Rev_{j,t}$: Monthly revenue box size j at time t

5 $WP_{j,t}$: Weighted price at time t

6 BP_j : Base period fee of size j⁶

7 CP_j : Current fee of size j

8 PP_j : Proposed fee of size j

9 bwt : Percent of boxes paying base fee group fees at time t

10 cwt : Percent of boxes paying current fee group fees at time t

11 D_t : Price deflator index at time t

12 VF_t : Steady state volume forecast index

13 ϵ_j : Box size j price elasticity

14 j : Box sizes 1- 5

15 t : Time; base period(Month, GFY & Calendar Year) – forecast end

16 b : Base period.

17

18

19 **E. Results**

20 Tables 1 and 2 below show the resulting box counts from the calculations and

21 methods described above for the test year before rates and test year after rates.

⁶ Base period, current and proposed fees (including reserve number) in these calculations are expressed on a semi-annual basis.

- 1 Calculations appear in USPS-LR-L-125, Part D under section 1 'Forecast Subroutine'.
- 2 The TYAR box counts reflect fee group redefinitions described in section VI.

Table 1: TYBR Box Counts In-use, and Caller Service and Reserve Number Volumes

Current Fee Group	Size 1	Size 2	Size 3	Size 4	Size 5	Caller Service	Reserve Number	Total
1	391,136	178,103	41,535	5,837	1,038	8,534	5,829	632,012
2	478,440	149,257	53,838	8,759	1,362	10,130	5,349	707,136
3	1,633,994	611,362	207,968	40,484	7,575	28,703	14,652	2,544,739
4	2,454,318	1,045,130	360,747	73,953	15,803	41,304	26,195	4,017,451
5	1,038,916	431,961	128,103	18,788	3,247	11,113	12,713	1,644,842
6	3,292,377	1,319,460	338,460	29,563	3,609	2,491	120	4,986,082
7	346,537	165,384	42,172	4,432	527	289	5	559,346
E	886,891	298,019	59,778	5,274	1,060	0	0	1,251,023
TOTAL	10,522,610	4,198,678	1,232,602	187,090	34,223	102,563	64,865	16,342,631

3

Table 2: TYAR Box Counts In-use, and Caller Service and Reserve Number Volumes

Planned Fee Group	Size 1	Size 2	Size 3	Size 4	Size 5	Caller Service	Reserve Number	Total
1	380,719	178,991	42,191	5,758	968	7,310	3,597	619,533
2	553,314	165,420	58,471	9,236	1,446	10,181	7,410	805,478
3	1,500,909	579,090	197,569	37,997	7,315	25,413	316	2,348,610
4	2,642,461	1,104,217	358,605	65,878	13,538	35,987	20,214	4,240,900
5	3,127,675	1,251,785	353,367	44,582	7,617	16,223	23,203	4,824,452
6	1,103,999	469,387	123,656	14,222	1,829	7,027	10,126	1,730,245
7	326,642	151,768	38,963	4,143	450	421	0	522,388
E	886,891	298,019	59,778	5,274	1,060	0	0	1,251,023
TOTAL	10,522,610	4,198,678	1,232,602	187,090	34,223	102,563	64,865	16,342,631

4

5

6 V. Costing Methods and Results

7 The pricing model for post office boxes calculates post office box unit costs and
 8 forecasts volumes and revenues resulting from fee changes and planned fee group
 9 specifications. The model uses volume variable test year before rates (TYBR) costs, as
 10 determined by the Postal Service's rollforward model, and allocates TYBR post office
 11 box costs by their assigned cost segments into three categories: 1) Space Provision, 2)
 12 Space Support, and 3) All Other. Caller service costs are estimated by witness Smith

1 (USPS-T-13). Reserve number costs and post office box lock replacement and key
 2 duplication unit costs are developed by witness Page (USPS-T-23). Similar calculations
 3 for test year after rates (TYAR) costs for these services are estimated as described
 4 below and fully documented in USPS-LR-L-125, Part D, Section 2, 'Cost Subroutine'.
 5

5

6 **A. Unit Costs for Post Office Boxes**

7 The TYBR \$624.7 million aggregate post office box costs, including a 1 percent
 8 contingency factor, must be apportioned to the 16.3 million post office boxes estimated
 9 to be in use during the test year to derive their unit costs. The average cost per box for
 10 each fee group and box size is calculated by the pricing model. These unit costs serve
 11 as the basis for proposed post office box fees. This section explains how unit costs
 12 derive from aggregate post office box costs and counts.

13 The calculation of unit costs begins by assigning TYBR post office box segment
 14 costs to the Space Provision, Space Support, and All Other categories. These
 15 assignments are based on each cost segment's relationship to these three cost types.
 16 Tables 3 and 4 show the cost distributions (see USPS-LR-L-125, Part E, S9 'Test Year
 17 Before Rates Attributable Costs' and S23 'Test Year After Rates Attributable Costs').

18

Cost Item	
All Other	\$81,928
Space Provision	\$295,334
Space Support	\$247,449
TOTAL	\$624,710

Cost Item	
All Other	\$82,187
Space Provision	\$292,600
Space Support	\$247,513
TOTAL	\$622,299

1
2 Space Provision Costs are rents paid for leased space, imputed rent for owned
3 space, interest expenses, and depreciation costs for floor space located in postal
4 facilities as reported in cost segments 15.1 (rents), 20.3 (building and leasehold
5 depreciation), and 20.5 (interest expense). These cost segments are allocated to
6 Space Provision because they are a function of the amount of space required for the
7 installed box capacity at each post office box location, and the location's floor space
8 cost per square foot. In general, these costs are attributed to fee groups and box sizes
9 in proportion to each fee group's average location space cost and amount of installed
10 capacity (expressed in box size 1 equivalents).⁷ The Erent analysis is used to assign
11 ZIP Codes to fee groups. Then average rent is calculated for each fee group for use as
12 a distribution key in the attribution of Space Provision costs. This attribution reflects the
13 underlying variations in space cost by ZIP Code.

14

15 **B. Capacity Weighted Average Location Cost Per Square Foot**
16 **by Fee Group**

17

18 The following set of calculations derives the average location cost per square
19 foot for each fee group, weighted by the number of boxes installed, expressed in size 1
20 box equivalents.

⁷ A standard box section can contain 60 size 1 boxes, 40 size 2 boxes, 20 size 3 boxes, 10 size 4 boxes, or box size 5; these relationships permit respective box sizes to be expressed as size 1 equivalents. So a size 2 box equates to 1.5 size 1 boxes, size 3 equates to 3 size 1 boxes, size 4 to 6 size 1 boxes, and size 5 to 12 size 1 boxes.

1 Let: $CSQFT_{ij}$ = location cost per square foot, ZIP Code_i, fee group_j,

2 $POBINST_{ij}$ = Installed box count, ZIP Code_i, fee group_j,

3 $CAPFAC_i = (\sum_k(NS_{ki} \times (60 \div SSk)) \div \sum_k(NS_{ki}),$

4 = Average box size, expressed in box size 1 equivalents, ZIP Code_i,

5 Where:

6 NS_{ki} = Number of size k boxes installed, ZIP Code_i,

7 SS_k = Number of size k boxes held in a standard box section,

8 60 = Number of size 1 boxes held in a standard box section,

9 (k= Box size 1... Box size 5).

10 Then: $R_j = WCOST_j \div EQCAP_j$, = weighted average cost per square foot
11 in fee group j,

12 Where: $WCOST_j = \sum_i(POBINST_{ij} \times CAPFAC_i \times CSQFT_{ij}),$

13 $EQCAP_j = \sum_i(POBINST_{ij} \times CAPFAC_i).$

14

15

16 **C. Square Feet Allocation for Each Box Size**

17 The following equations derive the amount of floor space allocated to each box size
18 given the total square feet attributed to post office boxes, the relationship between box
19 sizes and capacity, and the number of boxes installed.

20 Given: TSF = Total square feet attributed to post office boxes,

1 POBINST = Total number of boxes installed,

2 IBSPDIS_k = Share of total boxes that are size k,

3 S1CAPEQ_k = Size 1 Capacity Equivalent, size k

4 (k = Box size 1... Box size 5).

5 Then: POBINST_k = POBINST × IBSPDIS_k

6 = Total boxes installed, size k,

7 BS1EQ_k = POBINST_k × S1CAPEQ_k,

8 = Total size k post office boxes expressed in size 1 boxes,

9 SFPBS1EQ = TSF ÷ ∑_kBS1EQ_k

10 = Square feet per size 1 equivalent box,

11 TSQFTA_k = BS1EQ_k × SFPBS1EQ,

12 = Total square feet attributed to size k boxes,

13 SQFTPBI_k = TSQFTA_k ÷ POBINST_k

14 = Square feet per box size k.

15

16

17 **D. Space Provision Unit Cost by Fee Group by Box Size**

18 Having established the relationships between location space cost and box size in

19 the two sets of equations above, the next set of equations apportions space provision

1 costs to occupied boxes, for each fee group and box size, based on box size capacity
 2 and the fee group's weighted average location space cost.

$$3 \quad SP_{jk} = A(SQFT_{jk} \times R_j) \div OB_{jk}$$

4 = Space provision cost, by group j, by size k,

$$5 \quad \text{Where: } SQFT_{jk} = SQFTPBI_k \times IB_{jk}$$

6 = Square feet of Installed Boxes,
 7 fee group j, size k,

8 $SQFTPBI_k$ = square feet per box size k,

9 IB_{jk} = Number of installed boxes, fee group j, size k,

10 R_j = Weighted Average Cost per square foot, fee group j,

11 OB_{jk} = Number of occupied boxes, fee group j, size k,

$$12 \quad A = SPC \div TAR$$

13 = Adjustment factor to convert from base year calculated space provision
 14 cost to rollforward test year rent and depreciation costs.

15 Where: SPC = Cost Segments 15.1 and 20,

16 = Total rent and depreciation,

$$17 \quad TAR = \sum_k \sum_j (R_j \times SQFT_{jk})$$

18 = Total Annual Rent.

19 These three sets of equations allow the aggregate Space Provision costs, as
 20 reported by the test year rollforward model, to be allocated to post office boxes in

1 proportion to their box-weighted average location cost per square foot, for each
2 combination of fee group and box size capacity.

3 Space Support costs include costs for custodial supplies and services, building
4 supplies and services, and maintenance of plant and building equipment (e.g.,
5 elevators, heating and air conditioning, fuel, electricity, water, protection activities,
6 internal audits, and special investigations). All of these are related to box size, and are
7 not allocated directly by location. These costs are reported in cost segments 11.1.1,
8 11.1.2, 11.3, 15.2, 16.3.1, and 18.1.4, and are allocated based on the cubic capacity of
9 each box. For example, a size 5 box, which has 12 times the cubic capacity of a size 1
10 box, is assigned 12 times the costs for space support. Space Support costs per box are
11 derived by first multiplying the number of boxes in each fee group and box size by a
12 factor reflecting the relative capacity of each box size. Each box size is then allocated
13 Space Support costs in relation to capacity. The result is a Space Support cost per box
14 that varies only with box size (not with location).

15 All Other costs are primarily labor costs for window service, and related
16 supervisory and personnel costs. The costs are contained in cost segments 1, 2, 3, 6,
17 7, 12, 16.3.2, 16.3.4, 18.3 and 20.1. Costs in the All Other category are allocated
18 proportionally to the number of boxes because these costs do not vary by box size or
19 location. The result is a cost per box that is constant across all fee groups.

20 Allocation factors are created for each of the above three cost categories. These
21 factors are All Other Cost per box in use, Space Support Cost per square foot, and
22 Space Provision Cost per square foot. These inputs are used in the model to apportion
23 test year attributable costs to the current and planned fee group specifications, both

1 TYBR and TYAR, and to calculate total unit costs by box size for each planned fee
2 group.

3

4 **E. Cost Results**

5 Tables 5 and 6 below show cell level estimates of test year annual unit cost
6 based on the calculations and process described above (see USPS-LR-L-125, Part E,
7 S13 'TYBR Cost Coverage Summary' and S27 'TYAR Cost Coverage Summary').

Current Fee Group	Size 1	Size 2	Size 3	Size 4	Size 5
1	\$ 41.77	\$ 64.64	\$ 142.74	\$ 354.30	\$ 1,146.68
2	\$ 34.71	\$ 54.70	\$ 104.18	\$ 238.08	\$ 534.05
3	\$ 27.46	\$ 41.73	\$ 80.36	\$ 173.16	\$ 350.44
4	\$ 23.49	\$ 35.53	\$ 67.63	\$ 139.55	\$ 279.95
5	\$ 31.98	\$ 48.12	\$ 87.35	\$ 181.45	\$ 396.64
6	\$ 26.38	\$ 39.57	\$ 73.45	\$ 148.62	\$ 303.80
7	\$ 24.11	\$ 35.73	\$ 65.50	\$ 130.97	\$ 269.73
E	\$ 23.91	\$ 33.77	\$ 63.35	\$ 122.51	\$ 240.83

8

Planned Fee Group	Size 1	Size 2	Size 3	Size 4	Size 5
1	\$ 47.35	\$ 73.33	\$ 158.87	\$ 391.65	\$ 1,404.49
2	\$ 35.06	\$ 55.03	\$ 106.77	\$ 243.33	\$ 527.86
3	\$ 28.26	\$ 43.17	\$ 82.91	\$ 180.52	\$ 358.32
4	\$ 26.81	\$ 40.74	\$ 77.44	\$ 162.81	\$ 328.74
5	\$ 25.97	\$ 38.75	\$ 72.22	\$ 147.63	\$ 312.31
6	\$ 21.66	\$ 32.15	\$ 58.92	\$ 115.76	\$ 232.95
7	\$ 17.81	\$ 25.17	\$ 45.73	\$ 88.71	\$ 177.90
E	\$ 23.80	\$ 33.60	\$ 63.00	\$ 121.79	\$ 239.37

9

1 VI. Planned Fee Group Specifications

2 A specific aim of the post office box fee proposal is further alignment of fees with
 3 costs. As such, post office boxes with similar costs should be grouped together and
 4 have the same fee. However, a more cost-based fit of costs with post office box fee
 5 groups cannot be attained in one simple step without unacceptable fee impacts. Thus,
 6 facilities are planned to only shift one fee group in this docket.⁸

7 The following fee group specifications are planned for implementation in
 8 conjunction with the proposed fees:

9 Group 1: Current Group 1 with cost per sq.ft. \geq \$5.00,
 10 and Current Group 2 with cost per sq.ft. \geq \$18.00.

11 Group 2: Current Group 1 with Cost per sq.ft. $<$ \$5.00,
 12 Current Group 2 with cost per sq.ft. \geq \$4.00 & $<$ \$18.00,
 13 and Current Group 3 with cost per sq.ft. \geq \$14.00.

14 Group 3: Current Group 2 with cost per sq.ft. $<$ \$4.00,
 15 Current Group 3 with cost per sq.ft. \geq \$2.00 & $<$ \$14.00,
 16 and Current Group 4 with cost per sq.ft. \geq \$10.00.

17 Group 4: Current Group 3 with cost per sq.ft. $<$ \$2.00,
 18 and Current Group 4 with cost per sq.ft. \geq \$2.00 & $<$ \$10.00,
 19 and Current Group 5 with cost per sq.ft. \geq \$6.00.

20 Group 5: Current Group 4 with cost per sq.ft. $<$ \$2.00,
 21 and Current Group 5 with cost per sq.ft. \geq \$2.00 & $<$ \$6.00,

⁸ Since, the Postal Service proposes to maintain existing Fee Group E, no further mention of this group is appropriate in the discussion of cost based fees.

1 and Current Group 6 with cost per sq.ft. \geq \$4.00.

2 Group 6: Current Group 5 with cost per sq.ft. $<$ \$2.00,

3 Current Group 6 with cost per sq.ft. \geq \$2.00 & $<$ \$4.00,

4 Current Group 7 with cost per sq.ft. \geq \$2.00.

5 Group 7: Current Group 6 with cost per sq.ft. $<$ \$2.00,

6 and Current Group 7 with cost per sq.ft. $<$ \$2.00.

7 Continuing the progress towards cost homogeneity, the Postal Service plans to
8 assign post office box service ZIP Codes to the seven location cost-based groups
9 shown above. This fee structure is developed as part of an ongoing and practical
10 process in which post office box fees are better aligned with their costs, thus sending
11 more appropriate price signals to postal customers and managers.

12 The progress toward cost homogeneity can be seen clearly in Tables 7 and 8
13 below (see USPS-LR-L-125, Part E, S14 'Transitions and Rents'). The tables show the
14 number of ZIP Codes distributed among the current and planned fee groups, including
15 the mean cost per square foot and the standard deviation within each fee group. As
16 can be seen, the planned fee groups have a more consistent mean cost per square foot
17 from high to low cost fee groups, and smaller standard deviations, indicating an
18 increase in cost homogeneity compared to current fee groups.

Current Groups	ZIP Codes	Mean [1]	Standard Deviation
1	827	\$ 13.46	\$ 7.54
2	930	\$ 10.78	\$ 6.85
3	2,884	\$ 6.94	\$ 4.65
4	4,823	\$ 4.65	\$ 3.27
5	3,264	\$ 10.58	\$ 6.03
6	14,532	\$ 5.87	\$ 3.28
7	1,531	\$ 4.48	\$ 2.69
Total:	28,791	na	na

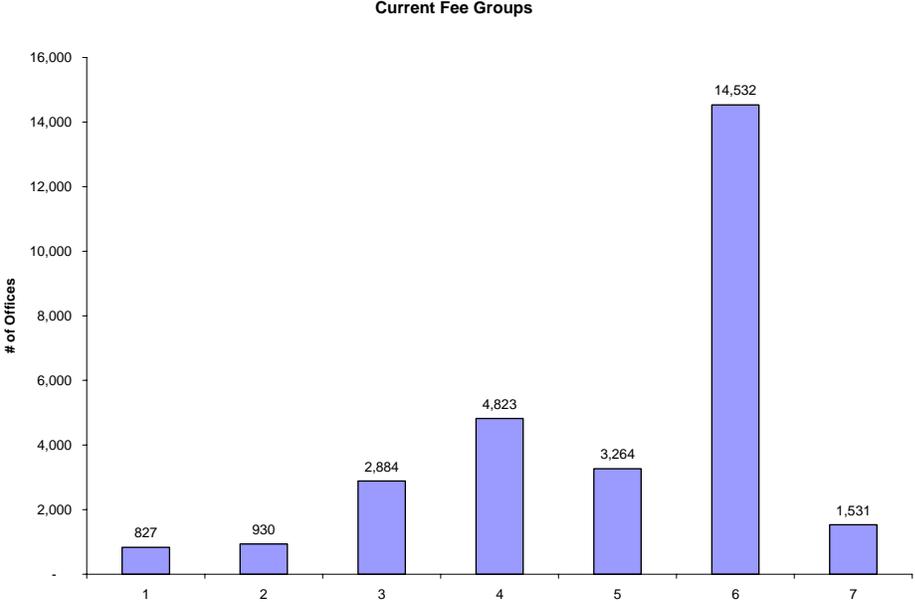
Note: [1] Non-weighted Average.

Proposed Groups	ZIP Codes	Mean [1]	Standard Deviation
1	852	\$ 16.15	\$ 7.51
2	1,025	\$ 10.85	\$ 5.39
3	2,661	\$ 7.32	\$ 3.81
4	6,377	\$ 7.85	\$ 5.36
5	11,711	\$ 6.54	\$ 3.34
6	4,948	\$ 3.55	\$ 1.66
7	1,217	\$ 1.44	\$ 0.35
Total:	28,791	na	na

Note: [1] Non-weighted Average.

The charts below show that the planned fee group specifications better reflect the expected underlying normal distribution of facility interior space cost than do the current fee group specifications. In terms of the count of ZIP Codes in each fee group, note that the highest count group is group 5 rather than group 6, as current locations are moved from fee groups 4 and 6 to planned group 5 (thus better resembling a symmetrical, bell shaped distribution seen in Chart 4). It is anticipated that group 4 will become the biggest group as locations are moved among the groups in the future.

1 Chart 1: Current Fee Group Distribution

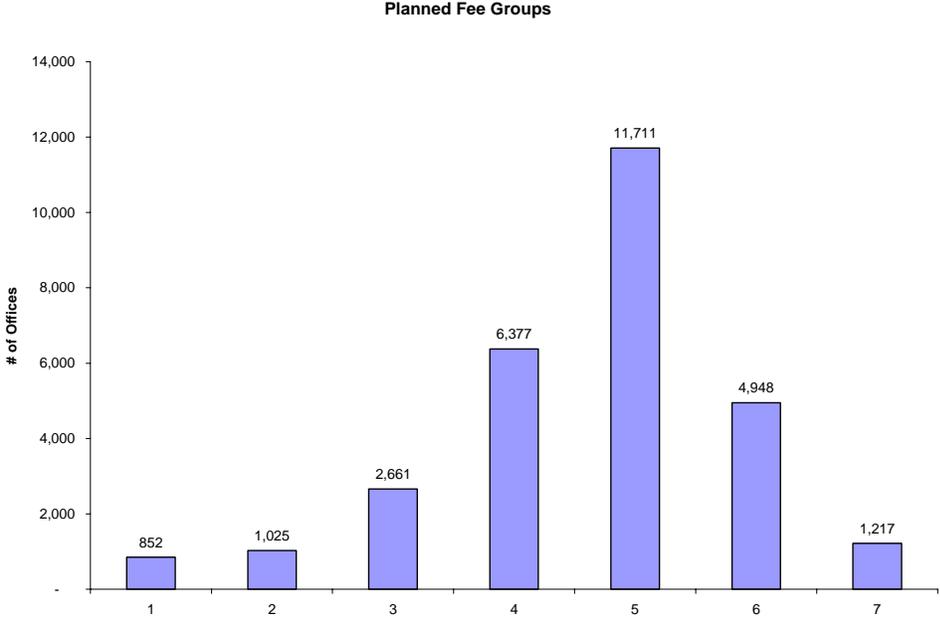


2

3 Source: Table 8.

3

4 Chart 2: Planned Fee Group Distribution

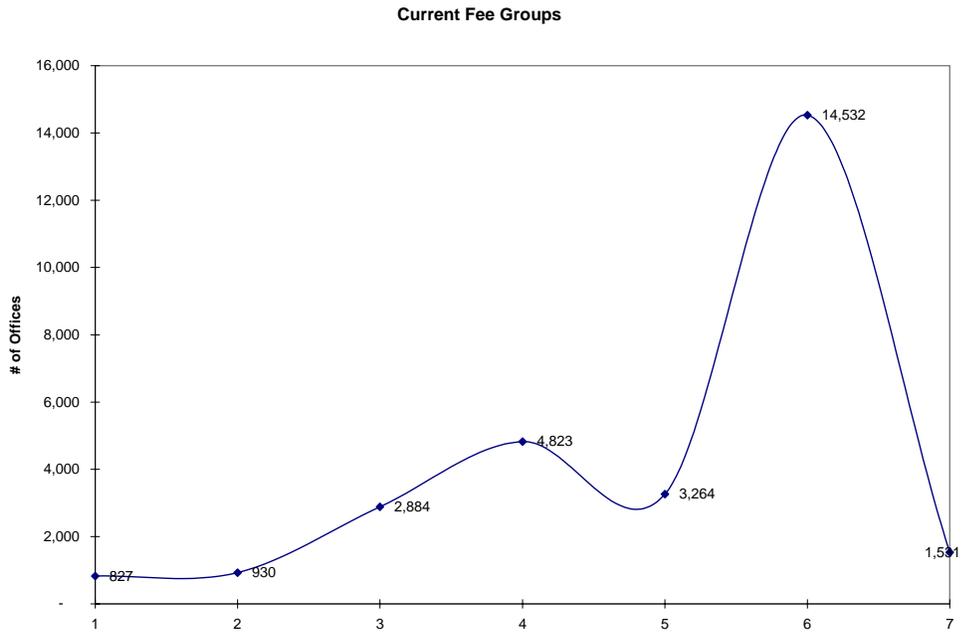


5

6 Source: Table 9.

6

1 Chart 3: "Smoothed" Current ZIP Code Distribution.



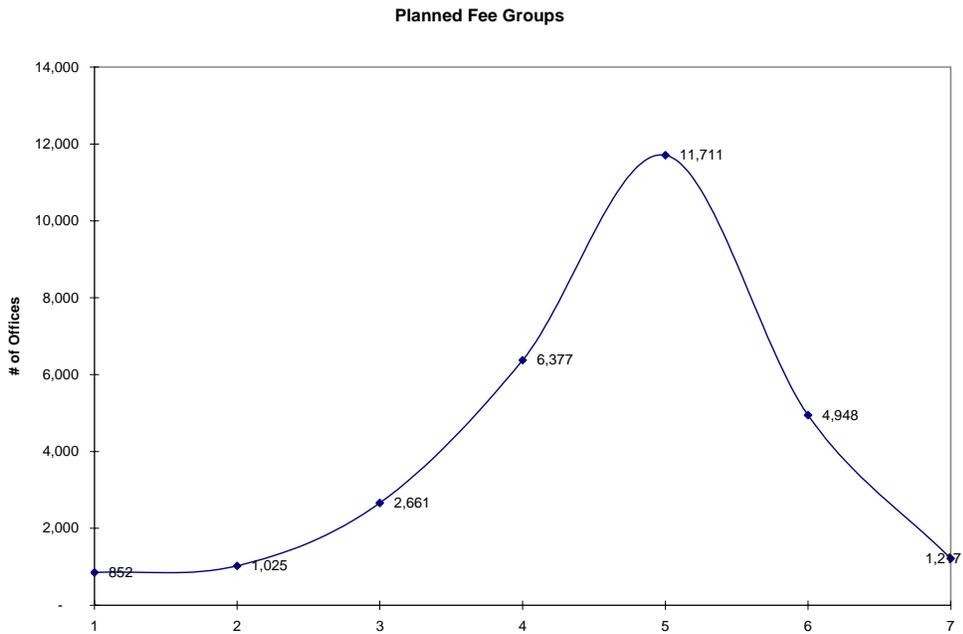
2

3

Source: Table 8.

4

Chart 4: "Smoothed" Planned Fee Group ZIP Code Distribution



5

6

Source: Table 9.

1 VII. Current and Proposed Fees

2 Post office box service is available to customers who want additional, or
3 alternative, delivery locations, or earlier receipt of mail than generally available from
4 carrier delivery.

5 A variety of factors motivate individuals and businesses to choose post office box
6 service. Time and location of delivery are likely key factors. For example, some
7 individuals may have strong location preferences, perhaps preferring to receive their
8 mail near their place of employment or some other convenient location. Also, some
9 customers prefer mailing addresses within notable ZIP Codes, neighborhoods, or cities.
10 Earlier mail receipt at a post office box may allow a business to process and ship orders
11 sooner, or it may improve cash flow by allowing earlier deposit of payments. For some
12 customers, additional mail separations that suit specific purposes may be the salient
13 factor. For example, some individuals may prefer a separation of their business mail
14 from their residential mail. Some businesses may also prefer multiple separations,
15 whether for billing and executive correspondence, or for respective departments.
16 Others may appreciate the higher level of mail security in post office boxes, while some
17 customers may prefer not to disclose their physical addresses. In short, numerous
18 factors influence individuals or businesses to value post office box service over other
19 alternatives.

20 Post office box service is available at over 30,000 post office locations. Boxes
21 come in five sizes, although all five sizes may not be available in every location. Box
22 customers and post office employees work together to determine which size is
23 appropriate to customers' needs. Customers may ask for, or be asked to move to,

1 larger size boxes if current ones are too small for delivered mail volume. Caller service
 2 is available for customers whose requirements exceed the space limitations of the
 3 largest size box.⁹

4

5 **A. Post Office Boxes**

6 Tables 9 and 10 below display current and proposed post office box fees.

7

Current Groups	Size 1	Size 2	Size 3	Size 4	Size 5
1	\$37.00	\$53.00	\$105.00	\$216.00	\$348.00
2	\$31.00	\$47.00	\$84.00	\$179.00	\$332.00
3	\$25.00	\$40.00	\$72.00	\$124.00	\$220.00
4	\$20.00	\$36.00	\$66.00	\$116.00	\$184.00
5	\$14.00	\$23.00	\$36.00	\$69.00	\$132.00
6	\$13.00	\$19.00	\$35.00	\$63.00	\$102.00
7	\$9.00	\$14.00	\$24.00	\$42.00	\$74.00
E	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00

8

Planned Groups	Size 1	Size 2	Size 3	Size 4	Size 5
1	\$42.00	\$64.00	\$118.00	\$242.00	\$390.00
2	\$35.00	\$54.00	\$94.00	\$184.00	\$326.00
3	\$28.00	\$46.00	\$84.00	\$150.00	\$250.00
4	\$20.00	\$34.00	\$52.00	\$102.00	\$196.00
5	\$18.00	\$26.00	\$48.00	\$88.00	\$148.00
6	\$13.00	\$20.00	\$35.00	\$62.00	\$110.00
7	\$10.00	\$16.00	\$28.00	\$48.00	\$86.00
E	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00

9

10 The proposed fees entail both increases and decreases for current box
 11 customers. Table 11 below displays box counts for each current to planned fee group

⁹ See DMM 508.4.4.4 Overflow

1 combination, with dollar and percent changes from current to proposed fees. To
 2 mitigate the proposed price change impact on customers, no single fee is proposed to
 3 change by more than 49 percent as part of this docket's cost alignment process;
 4 perhaps not surprisingly, the higher percentage increases occur where offices are
 5 aligning with higher cost fee groups. In Docket No. R2001-1, the Commission urged the
 6 Postal Service to:

7 consider following principles that would more efficiently and consistently
 8 transition toward cost based rates. For example, boxes whose rates are
 9 moving downward toward more cost based rates should have percentage
 10 rate increases that are smaller than the subclass average. Conversely,
 11 boxes whose rates are moving upward toward more cost based rates
 12 should have rate increases that are above the average for the subclass.

13 PRC Op., R2001-1, at 127.

14 As can be seen in Table 11 below (see USPS-LR-L-125, Part E, S19 'Fee
 15 Changes'), I propose fee reductions in ZIP Codes moving down a fee group, and the
 16 largest fee increases for ZIP Codes moving up a fee group. Thus, the proposal in this
 17 docket responds directly to the Commission's Docket No. R2001-1 concerns.

Table 11: Test Year Box Counts and Fee Changes by Box Size

Path	Size 1			Size 2			Size 3			Size 4			Size 5			
	Count	Fee Change	Percent Change	Count	Fee Change	Percent Change	Count	Fee Change	Percent Change	Count	Fee Change	Percent Change	Count	Fee Change	Percent Change	
1 1	327,440	5.00	13.5%	159,883	11.00	20.8%	35,931	13.00	12.4%	4,868	26.00	12.0%	873	42.00	12.1%	
1 2	63,696	(2.00)	-5.4%	18,220	1.00	1.9%	5,604	(11.00)	-10.5%	970	(32.00)	-14.8%	164	(22.00)	-6.3%	
2 1	53,279	11.00	35.5%	19,107	17.00	36.2%	6,261	34.00	40.5%	890	63.00	35.2%	94	58.00	17.5%	
2 2	349,910	4.00	12.9%	104,753	7.00	14.9%	38,542	10.00	11.9%	6,079	5.00	2.8%	951	(6.00)	-1.8%	
2 3	75,252	(3.00)	-9.7%	25,396	(1.00)	-2.1%	9,036	-	0.0%	1,790	(29.00)	-16.2%	317	(82.00)	-24.7%	
3 2	139,709	10.00	40.0%	42,447	14.00	35.0%	14,325	22.00	30.6%	2,188	60.00	48.4%	331	106.00	48.2%	
3 3	1,278,787	3.00	12.0%	487,281	6.00	15.0%	163,925	12.00	16.7%	31,364	26.00	21.0%	5,916	30.00	13.6%	
3 4	215,497	(5.00)	-20.0%	81,635	(6.00)	-15.0%	29,718	(20.00)	-27.8%	6,933	(22.00)	-17.7%	1,328	(24.00)	-10.9%	
4 3	146,869	8.00	40.0%	66,413	10.00	27.8%	24,609	18.00	27.3%	4,843	34.00	29.3%	1,082	66.00	35.9%	
4 4	1,775,378	-	0.0%	757,958	(2.00)	-5.6%	256,117	(14.00)	-21.2%	51,507	(14.00)	-12.1%	10,889	12.00	6.5%	
4 5	532,071	(2.00)	-10.0%	220,759	(10.00)	-27.8%	80,021	(18.00)	-27.3%	17,603	(28.00)	-24.1%	3,832	(36.00)	-19.6%	
5 4	651,586	6.00	42.9%	264,624	11.00	47.8%	72,770	16.00	44.4%	7,438	33.00	47.8%	1,320	64.00	48.5%	
5 5	295,079	4.00	28.6%	127,940	3.00	13.0%	39,613	12.00	33.3%	7,246	19.00	27.5%	1,263	16.00	12.1%	
5 6	92,252	(1.00)	-7.1%	39,397	(3.00)	-13.0%	15,720	(1.00)	-2.8%	4,104	(7.00)	-10.1%	663	(22.00)	-16.7%	
6 5	2,300,525	5.00	38.5%	903,086	7.00	36.8%	233,733	13.00	37.1%	19,733	25.00	39.7%	2,521	46.00	45.1%	
6 6	736,134	-	0.0%	297,754	1.00	5.3%	75,179	-	0.0%	6,753	(1.00)	-1.6%	750	8.00	7.8%	
6 7	255,718	(3.00)	-23.1%	118,620	(3.00)	-15.8%	29,548	(7.00)	-20.0%	3,076	(15.00)	-23.8%	338	(16.00)	-15.7%	
7 6	275,613	4.00	44.4%	132,236	6.00	42.9%	32,757	11.00	45.8%	3,364	20.00	47.6%	416	36.00	48.6%	
7 7	70,925	1.00	11.1%	33,148	2.00	14.3%	9,415	4.00	16.7%	1,067	6.00	14%	112	12.00	16.2%	
ALL	9,635,718			3,900,659			1,172,824			181,816			33,163			
Min		-5.00	-23.1%		-10.00	-27.8%		-20.00	-27.8%		-32.00	-24.1%		-82.00	-24.7%	
Max		11.00	44.4%		17.00	47.8%		34.00	45.8%		63.00	48.4%		106.00	48.6%	
														Total Paid Box		14,924,179
														Group E in-use Boxes		1,251,023
														Total Boxes in-use		16,175,202

1 As in Docket Nos. R2000-1 and R2001-1, the fees and planned groups specified
 2 herein will benefit the Postal Service and customers upon implementation, and
 3 encourage future improvements. By recommending the Postal Service's proposed fees
 4 in this docket, the Commission will greatly aid the Postal Service in further utilizing the
 5 best available information to meet the pricing criteria of the Postal Reorganization Act.

7 B. Key Duplication

8 Post office box customers receive their first two keys at no charge.¹⁰ However, a
 9 key duplication or replacement fee is charged for additional keys. Customers benefit
 10 from this service. For example, customers may prefer additional keys for multiple
 11 employees or family members. The key duplication unit cost has increased from the
 12 Docket No. R2001-1 cost of \$2.99 to \$4.24 (see table 12 below, and USPS-LR-L-59
 13 Attachment 9).

	R2001-1	R2005-1	Proposed	Proposed Change over Current
Key fee	\$ 4.40	\$ 4.65	\$ 6.00	29.0%
Unit Cost			\$ 4.20	na
Contingency			101%	na
Key Cost w/Contingency	\$ 2.99	\$ 3.45	\$ 4.24	na
Coverage	147.2%	134.8%	141.6%	na

14
 15 Consistent with the cost increase, the Postal Service proposes to increase the
 16 additional or replacement key fee by 29 percent, from \$4.65 to \$6.00. This proposed
 17 fee increase is reasonable and similar to other percentage increases in this subclass,
 18 while producing an implicit cost coverage (141.6 percent) comparable to the subclass
 19 cost coverage produced in Docket No. R2001-1 (147.2 percent).

¹⁰ A refundable deposit is charged for each key, DMM 508.4.8.1.

1 **C. Lock Replacement**

2 The ability to have a post office box lock changed can, at times, be quite valuable
 3 to a customer for a variety of reasons. Perhaps a key was lost or provided to former
 4 friends or colleagues, thus posing a mail security concern. As such, this service adds
 5 considerable value for post office box customers.

6

Table13: Lock Replacement Fee and Cost				
	R2001-1	R2005-1	Proposed	Proposed Change over Current
Lock Fee	\$ 11.00	\$ 11.60	\$ 14.00	20.7%
Unit Cost			\$ 9.01	na
Contingency			101%	na
Lock Cost w/ Contingency	\$ 7.45	\$ 7.71	\$ 9.10	na
Coverage	147.7%	150.5%	153.8%	na

7 The Postal Service proposes to increase the lock replacement fee by 20.7
 8 percent, from \$11.60 to \$14.00. This proposed fee increase is reasonable, and similar
 9 to other percentage increases in this subclass, while creating an implicit cost coverage
 10 similar to those of Docket Nos. R2001-1 and R2005-1 (see table 13 above, and USPS-
 11 LR-L-59, Attachment 9).

12

13 **D. Caller Service Fee Redesign and Proposed Fees**

14 Caller service allows business customers to pick up their box mail at a post office
 15 call window or loading dock when the office is open. Caller service customers may
 16 choose when to pick up their mail and can accordingly have increased access to their
 17 mail even if the box section is not open. Like post office box service, caller service can
 18 enable business transactions earlier in the day.

19 While prior to Docket No. R97-1 caller service fees varied somewhat based on
 20 local market values, in that docket a single caller service fee was established. This

1 change made sense at the time because of the limited role that space costs played in
 2 the caller service cost study. However, the caller service costs in this docket show that
 3 nearly 30 percent of caller service costs are from space provision (see the testimony of
 4 witness Smith (USPS-T-13), Attachment 12). Moreover, as post office box fees have
 5 become more closely aligned with location costs, the gaps between box size 5 fees and
 6 the current nationwide caller service fee have become disparate across fee groups.
 7 Since post office box customers whose mail volume exceeds box size 5 capacities must
 8 obtain caller service, reasonable rate relationships should be maintained. It is also
 9 important that these rate relationships reflect the higher value of service associated with
 10 Caller Service allowing for window pickup and more frequent mail retrieval. The Postal
 11 Service therefore proposes caller service fees that reflect the space-related caller
 12 service costs. Current and proposed fees are shown in Table 14 below.

Fee Group	R2005-1	Proposed	Pct Change
1	\$434.00	\$630.00	45.2%
2	\$434.00	\$550.00	26.7%
3	\$434.00	\$485.00	11.8%
4	\$434.00	\$475.00	9.4%
5	\$434.00	\$465.00	7.1%
6	\$434.00	\$415.00	-4.4%
7	\$434.00	\$370.00	-14.7%

13

14

15 Tables 15 and 16, below (see USPS-LR-L-125, Part E, S24 ' TYBR Caller
 16 Service and Reserve Number Adjustment' Table 2), show how average cost per
 17 square foot for the planned post office box fee groups was used to derive a caller
 18 service fee that better reflects space provision costs.

Table 15: Derivation of Proposed Caller Service Fees

Proposed Fee Group	Average Erent	Indexed Erent [1]	Caller Service Volume	Space Provision Cost (000's)	Space Support Costs (000s)	All Other Cost (000's)	Averaged Cost per seperation [2]	Average Space Provision Cost per [3]	De-Averaged Space Provision Cost per Seperation [4]	De-Averaged Space Provision Cost [5]	Adjusted De-Averaged Space Provision Cost per [6]	Adjusted De-Averaged Space Provision Cost [7]
Col	a	b	c	d	e	f	g	h	i	j	k	l
1	\$ 16.30	2.497	7,310	\$ 8,516	\$ 8,067	\$ 12,800	\$ 286.49	\$ 83.03	\$ 207.36	\$ 1,515,811	\$ 181.63	\$ 1,327,690
2	\$ 10.44	1.599	10,181	\$ 8,516	\$ 8,067	\$ 12,800	\$ 286.49	\$ 83.03	\$ 132.78	\$ 1,351,835	\$ 116.30	\$ 1,184,065
3	\$ 7.21	1.105	25,413	\$ 8,516	\$ 8,067	\$ 12,800	\$ 286.49	\$ 83.03	\$ 91.71	\$ 2,330,628	\$ 80.33	\$ 2,041,384
4	\$ 6.51	0.997	35,987	\$ 8,516	\$ 8,067	\$ 12,800	\$ 286.49	\$ 83.03	\$ 82.75	\$ 2,977,927	\$ 72.48	\$ 2,608,350
5	\$ 5.92	0.907	16,223	\$ 8,516	\$ 8,067	\$ 12,800	\$ 286.49	\$ 83.03	\$ 75.29	\$ 1,221,529	\$ 65.95	\$ 1,069,930
6	\$ 3.55	0.544	7,027	\$ 8,516	\$ 8,067	\$ 12,800	\$ 286.49	\$ 83.03	\$ 45.13	\$ 317,138	\$ 39.53	\$ 277,779
7	\$ 1.40	0.214	421	\$ 8,516	\$ 8,067	\$ 12,800	\$ 286.49	\$ 83.03	\$ 17.77	\$ 7,485	\$ 15.56	\$ 6,556
TOTAL	\$ 6.53		102,563			29,383				9,722,352	Check [8]	0.000

Notes: [1] col. b = col. a / col. a total. [2] col g = ((col. d + col. e + col. f) x 1000) / col c. total [3] col. d x 1000 / col. c. total [4] col. h x col. b. [5] col. i x col. c. [6] col. if x (col. d/ col. j total) [7] col. l = col. k * col. c [8] check = col. l total - col. d * 1000

1
2

Table 16: Derivation of Proposed Caller Service Fees, continued.

Proposed Fee Group	Average Space Support Cost per [1]	Average All Other Cost per [2]	Average Unit Cost [3]	R2005-1 Fee	Proposed Caller Service Fees	Proposed Percent Change [8]	Proposed Cost Coverage
Col	m	n	o	r	s	t	u
1	\$ 78.65	\$ 124.80	\$ 385.08	\$ 434	\$ 630	45.2%	327.2%
2	\$ 78.65	\$ 124.80	\$ 319.75	\$ 434	\$ 550	26.7%	344.0%
3	\$ 78.65	\$ 124.80	\$ 283.79	\$ 434	\$ 485	11.8%	341.8%
4	\$ 78.65	\$ 124.80	\$ 275.94	\$ 434	\$ 475	9.4%	344.3%
5	\$ 78.65	\$ 124.80	\$ 269.41	\$ 434	\$ 465	7.1%	345.2%
6	\$ 78.65	\$ 124.80	\$ 242.99	\$ 434	\$ 415	-4.4%	341.6%
7	\$ 78.65	\$ 124.80	\$ 219.02	\$ 434	\$ 370	-14.7%	337.9%

Notes: [1] col. m = table 8 col f / table 8 col c total [2] col. n = table 8 col e / table 8 col c total [3] col. o = table 8 col. l + col. m + col. n [4] col. t = col.s/ col r - 1 [5] col. u = (col.s * 2) / col o.

3
4
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10

The proposed caller service fees include both increases and decreases to the current fee of \$434 per six months. The highest increase is less than 46 percent – an increase from \$434 to \$630 for those customers who choose caller service in post offices with the highest associated space costs. The proposed fees better reflect the cost of service to customers; moreover, they improve the price relationships between caller service and post office box fees.

1 **E. Reserve Number**

2 Reserve numbers allow a company to reserve a box number for future caller
3 service use. Businesses find this useful if they want to establish a mailing address in
4 advance when planning a promotion, campaign, or advertisement.

5 The Postal Service proposes to increase the reserve number fee by 11.8
6 percent, from \$34 to \$38 annually. This yields an implicit cost coverage of 178 percent
7 (see Table 17 below). This coverage is similar to the cost coverage of the reserve
8 number fees recommended in Docket Nos. R2001-1 and R2005-1.

Table 17: Reserve Number				
	Docket No. R2001-1	Docket No. R2005-1	Proposed	Percent Change, Current to Proposed
Annual Fee	\$32.00	\$34.00	\$38.00	11.8%
TY Unit Cost	\$16.59	\$19.46	21.15 [1]	na
Contingency	2.5%	1.0%	1.0%	na
TY Unit Cost w/contingency	\$17.02	\$19.65	\$21.36	na
Coverage	188.0%	173.0%	177.9%	na

9 Notes: [1] Witness Page, USPS-LR-L-59, Attachment 1

10

11 **F. Financial Summary**

12 Tables 18 and 19 below show the implicit cost coverages respectively for current
13 and proposed fees based on the attribution and forecast methodology described above
14 (see USPS-LR-L-125, Part E, S13 and S27). Compared to Table 18, Table 19 shows
15 more homogenous cost coverage across all fee groups within box size categories, and
16 cost coverage closer to 130 percent for the most popular fee cells – planned fee groups
17 4 to 6, sizes 1 to 3.

row/col.	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
	Current Fee Group	Size 1	Size 2	Size 3	Size 4	Size 5	Caller Service	Reserve Number
(1)	1	177%	164%	147%	122%	61%	242%	159%
(2)	2	179%	172%	161%	150%	124%	268%	159%
(3)	3	182%	192%	179%	143%	126%	307%	159%
(4)	4	170%	203%	195%	166%	131%	333%	159%
(5)	5	88%	96%	82%	76%	67%	283%	159%
(6)	6	99%	96%	95%	85%	67%	318%	159%
(7)	7	75%	78%	73%	64%	55%	332%	159%

row/col.	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
	Planned Fee Group	Size 1	Size 2	Size 3	Size 4	Size 5	Caller Service	Reserve Number
(1)	1	177%	175%	149%	124%	56%	327%	178%
(2)	2	200%	196%	176%	151%	124%	344%	178%
(3)	3	198%	213%	203%	166%	140%	342%	178%
(4)	4	149%	167%	134%	125%	119%	344%	178%
(5)	5	139%	134%	133%	119%	95%	345%	178%
(6)	6	120%	124%	119%	107%	94%	342%	178%
(7)	7	112%	127%	122%	108%	97%	338%	178%

Table 20 below displays financial summary data comparing the TYBR and TYAR data for post office box and caller service, including reserve number, key duplication, and lock replacement revenues.

TYBR Box Revenue	\$864,612,224
TYBR Key and Lock Revenue	\$1,706,922
Total TYBR Revenue	\$866,319,146
TYBR Costs	\$624,710,422
Difference	\$239,901,802
Implicit Cost Coverage	138.7%
TYAR Revenue	\$951,849,379
TYAR Key and Lock Revenue	\$2,036,360
Total TYAR Revenue	\$953,885,739
TYAR Costs	\$622,299,482
Difference	\$331,586,257
Implicit Cost Coverage	153.3%
Percent Revenue Increase	10.1%

1 Note: TYAR Revenue accounts for delayed impact of new fees, which are
2 paid only as existing service periods end.
3

4 **G. Proposed Fee Schedule Clarification**

5 The Postal Service proposes a change in the wording of the first footnote to Fee
6 Schedule 921 (post office boxes/caller service). It now reads:

7 A customer ineligible for carrier delivery may obtain a post office box at
8 Group E fees, *subject to administrative decisions regarding customer's*
9 *proximity to post office.* (Emphasis mine)
10

11 While the last clause originally reflected eligibility exceptions for quarter mile rule
12 affected customers, those subject to the quarter mile rule have been eligible for Group E
13 service for many years now. Postal Bulletin 21975 (July 2, 1998). But the proximity of a
14 customer's potential carrier delivery point to a Post Office still has meaning. The Post
15 Office responsible for delivery service to that customer's location, when it chooses not
16 to provide carrier delivery, would instead provide Group E box service. The customer
17 may not choose the Post Office that provides Group E service.

18 The Postal Service is accordingly proposing a replacement footnote 1 to Fee
19 Schedule 921 that describes these circumstances more accurately.

20 When the Postal Service determines not to provide carrier delivery to a
21 customer's physical address or business location that constitutes a
22 potential carrier delivery point, as defined by the Postal Service, that
23 customer becomes eligible for one post office box at the Group E fee.
24

25 This revised footnote would recognize that proximity remains important, as are
26 what constitutes a location to which the Postal Service may deliver, and who makes the
27 decision not to provide carrier delivery. Group E eligibility depends on the Postal
28 Service being allowed to provide carrier delivery, but deciding not to do so.

1 This change continues the current practice for the Postal Service in determining
2 Group E eligibility. It, moreover, is consistent with the classification criteria. In
3 particular, it is fair and equitable (Criterion 1), and benefits both the Postal Service and
4 its customers by clarifying Group E eligibility (Criterion 5). The proposed revision also
5 helps to limit the associated costs to the Postal Service and possible secondary price
6 impacts on non-Group E box customers. It better describes the Postal Service's
7 practice of providing a free means of delivery to customers who, as a consequence of
8 Postal Service choice, do not receive free delivery through the more common method:
9 carrier delivery.

10

11 **VIII. Nine Pricing Criteria Assessment**

12 The proposed post office box and caller service fees meet the nine statutory
13 pricing criteria for this subclass.

14 The proposed fees take into consideration the impact upon current box
15 customers by limiting fee group re-assignments from current to planned fee groups,
16 thereby limiting price change impacts. Moreover, the proposed fees progress towards
17 fulfillment of a fundamental principle of pricing equity: cost causality. Pricing a product
18 in accordance with its cost means a given consumer pays a price that covers the cost of
19 the resources consumed in providing the service. Applying this equitable pricing
20 principle to post office box service means that box customers who choose services that
21 are more costly to provide, such as larger box sizes or more costly locations, pay higher
22 fees than those customers who choose less costly services and locations.

23

1 **1. The establishment and maintenance of a fair and equitable**
2 **schedule**

3
4 The proposed fees for post office boxes and caller service are fair and equitable.

5 The proposed post office box fees and planned fee groups represent another step
6 towards the long-term goal of cost and fee alignment. The proposed fees are more “fair
7 and equitable” than the current fees, in part because more customers who utilize box
8 service in higher cost locations will pay a larger share of the revenue burden than
9 customers who utilize box service in lower cost locations. However, by limiting fee
10 group assignments and careful setting of fee amounts, the proposed changes in fees
11 also reflect a reasonable balancing of the fee impacts on customers with the need for
12 the Postal Service to recover its costs

13 The proposed additional key duplication and lock change fees also satisfy the
14 statutory pricing criteria. The fees are fair and equitable, since the cost is recovered
15 from those customers who receive the benefit of the service. The proposed post office
16 box lock change fee covers the cost of the service and makes a reasonable contribution
17 to other costs. The proposed increases are reasonable in view of the value of the
18 services, as well as the cost increases, and the overall fee increase for post office box
19 and caller service.

20
21 **2. The value of the mail service actually provided each class or**
22 **type of mail service to both the sender and the recipient,**
23 **including but not limited to the collection, mode of**
24 **transportation, and priority of delivery**

25
26 Customers choose post office box and caller service as an alternative to free
27 delivery for at least some portion of their mail, and are willing to pay for the benefits
28 these services provide. Thus, these services, including post office box additional and

1 replacement keys and lock changes, are high value services. Post office box service
2 may provide customers with more convenience, protection, privacy, and more desirable
3 addresses than free delivery options. Also, post office box service, when compared to
4 carrier delivery from the same post office, can offer earlier access, and speed of
5 delivery.

6 Caller service provides high value to customers who choose it as an alternative
7 to carrier delivery. Caller service customers are able to pick up their mail early in the
8 day and process orders or financial transactions, and speed responses to inquiries. A
9 caller who, as a regular practice, wants to call for mail at a postal facility more than once
10 in any 24-hour period can do so with the postmaster's approval of the pickup
11 schedule.¹¹ Caller service also provides customers with a means to receive post office
12 box type service when their volumes are too large for post office box service, or on
13 occasion, when post office boxes are not available at a particular location. These
14 customers likely realize a high service value.

15 Reserve number customers likely value this service highly, since it promises to
16 hold a specific number for their use in the future. For example, organizations preparing
17 advertising campaigns, or product packaging items, need to inform their clients and
18 customers of the appropriate address for response to the advertisement. Moreover,
19 printing advertising materials typically requires a long lead time, so a reserved number
20 is advantageous and highly valued.

21
22

¹¹ DMM 508.5.4.1 Mail Receipt

1 **3. The requirement that each class of mail or type of mail**
2 **service bear the direct and indirect postal costs attributable**
3 **to that class or type plus that portion of all other costs of the**
4 **Postal Service reasonably assignable to such class or type**
5

6 The proposed post office box and caller service fees will generate revenues that
7 recover the attributable test year costs and contingency, and contribute to the Postal
8 Service's general revenue requirement.

9 In the past, low post office box cost coverage resulted from the many below-cost
10 cells. However, with the comprehensive fee group reclassification introduced in Docket
11 No. R2000-1, and the planned further fee group refinement and fees proposed in this
12 docket, most fee cells would cover costs, and the fees cells that do fall below cost would
13 do so to a lesser extent.

14 The proposed fees for additional keys and customer initiated lock changes cover
15 the cost of these services and make a reasonable contribution to other costs.

16 Both the proposed caller service fee revenue and the proposed reserve number
17 fee revenue cover the costs of service and would contribute to other costs.

18 The post office box and caller service proposals are estimated to yield a TYAR
19 cost coverage of 153.0 percent.
20

21 **4. The effect of rate increases upon the general public,**
22 **business mail users, and enterprises in the private sector of**
23 **the economy engaged in the delivery of mail matter other**
24 **than letters**
25

26 The effect of the proposed fees on the various post office box customers was
27 carefully considered. Fees are proposed to both increase and decrease. Overall, the
28 proposed post office box fee changes result in a 10.09 percent increase in revenue.

1 Though fee cell percentage changes range between positive 48.6 percent to negative
2 27.8 percent, the proposed fees should not be a substantial outlay in absolute terms for
3 most customers. The highest dollar increase for post office boxes is a \$106 semi-
4 annual increase for box Size 5 proposed to move from fee Group 3 to Fee Group 2.
5 Since large boxes are typically used for commercial purposes, this increase should not
6 prove burdensome to the large volume business customers who use this box size.
7 More typically, 91.5 percent of current box customers would experience semi-annual fee
8 changes of \$10.00 or less. Indeed, 20.0 percent of customers would experience fee
9 reductions up to \$82.00 (see Table 21 below, and USPS-LR-L-125, Part E, S19 'Fee
10 Changes').

Table 21: Test Year Box Counts and Fee Changes by Box Size

Line	Path	Count	Fee Change	Size	Cumulative Count	Cumulative Percent	Line	Path	Count	Fee Change	Size	Cumulative Count	Cumulative Percent of Total
1	2 3	317	(82.00)	5	317	0.002%	49	1 1	327,440	5.00	1	10,975,792	73.544%
2	4 5	3,832	(36.00)	5	4,149	0.028%	50	2 2	6,079	5.00	4	10,981,870	73.584%
3	1 2	970	(32.00)	4	5,118	0.034%	51	5 4	651,586	6.00	1	11,633,456	77.950%
4	2 3	1,790	(29.00)	4	6,909	0.046%	52	3 3	487,281	6.00	2	12,120,737	81.215%
5	4 5	17,603	(28.00)	4	24,512	0.164%	53	7 6	132,236	6.00	2	12,252,974	82.101%
6	3 4	1,328	(24.00)	5	25,840	0.173%	54	7 7	1,067	6.00	4	12,254,041	82.109%
7	3 4	6,933	(22.00)	4	32,773	0.220%	55	6 5	903,086	7.00	2	13,157,127	88.160%
8	5 6	663	(22.00)	5	33,436	0.224%	56	2 2	104,753	7.00	2	13,261,880	88.862%
9	1 2	164	(22.00)	5	33,601	0.225%	57	4 3	146,869	8.00	1	13,408,749	89.846%
10	3 4	29,718	(20.00)	3	63,319	0.424%	58	6 6	750	8.00	5	13,409,499	89.851%
11	4 5	80,021	(18.00)	3	143,340	0.960%	59	3 2	139,709	10.00	1	13,549,208	90.787%
12	6 7	338	(16.00)	5	143,679	0.963%	60	4 3	66,413	10.00	2	13,615,621	91.232%
13	6 7	3,076	(15.00)	4	146,755	0.983%	61	2 2	38,542	10.00	3	13,654,163	91.490%
14	4 4	256,117	(14.00)	3	402,871	2.699%	62	5 4	264,624	11.00	2	13,918,787	93.263%
15	4 4	51,507	(14.00)	4	454,378	3.045%	63	1 1	159,883	11.00	2	14,078,671	94.335%
16	1 2	5,604	(11.00)	3	459,982	3.082%	64	2 1	53,279	11.00	1	14,131,949	94.692%
17	4 5	220,759	(10.00)	2	680,741	4.561%	65	7 6	32,757	11.00	3	14,164,706	94.911%
18	6 7	29,548	(7.00)	3	710,290	4.759%	66	3 3	163,925	12.00	3	14,328,631	96.010%
19	5 6	4,104	(7.00)	4	714,393	4.787%	67	5 5	39,613	12.00	3	14,368,244	96.275%
20	3 4	81,635	(6.00)	2	796,028	5.334%	68	4 4	10,889	12.00	5	14,379,133	96.348%
21	2 2	951	(6.00)	5	796,979	5.340%	69	7 7	112	12.00	5	14,379,245	96.349%
22	3 4	215,497	(5.00)	1	1,012,476	6.784%	70	6 5	233,733	13.00	3	14,612,978	97.915%
23	6 7	255,718	(3.00)	1	1,268,194	8.498%	71	1 1	35,931	13.00	2	14,648,909	98.156%
24	6 7	118,620	(3.00)	2	1,386,814	9.292%	72	3 2	42,447	14.00	2	14,691,355	98.440%
25	2 3	75,252	(3.00)	1	1,462,066	9.797%	73	5 4	72,770	16.00	3	14,764,125	98.928%
26	5 6	39,397	(3.00)	2	1,501,463	10.061%	74	5 5	1,263	16.00	5	14,765,389	98.936%
27	4 4	757,958	(2.00)	2	2,259,421	15.139%	75	2 1	19,107	17.00	2	14,784,496	99.064%
28	4 5	532,071	(2.00)	1	2,791,492	18.704%	76	4 3	24,609	18.00	3	14,809,105	99.229%
29	1 2	63,696	(2.00)	1	2,855,188	19.131%	77	5 5	7,246	19.00	4	14,816,352	99.277%
30	5 6	92,252	(1.00)	1	2,947,439	19.749%	78	7 6	3,364	20.00	4	14,819,716	99.300%
31	2 3	25,396	(1.00)	2	2,972,835	19.920%	79	3 2	14,325	22.00	3	14,834,041	99.396%
32	5 6	15,720	(1.00)	3	2,988,555	20.025%	80	6 5	19,733	25.00	4	14,853,774	99.528%
33	6 6	6,753	(1.00)	4	2,995,309	20.070%	81	3 3	31,364	26.00	4	14,885,138	99.738%
34	4 4	1,775,378	-	1	4,770,687	31.966%	82	1 1	4,868	26.00	4	14,890,006	99.771%
35	6 6	736,134	-	1	5,506,821	36.899%	83	3 3	5,916	30.00	5	14,895,922	99.811%
36	6 6	75,179	-	3	5,582,000	37.402%	84	5 4	7,438	33.00	4	14,903,360	99.860%
37	2 3	9,036	-	3	5,591,036	37.463%	85	2 1	6,261	34.00	3	14,909,620	99.902%
38	6 6	297,754	1.00	2	5,888,790	39.458%	86	4 3	4,843	34.00	4	14,914,464	99.935%
39	7 7	70,925	1.00	1	5,959,715	39.933%	87	7 6	416	36.00	5	14,914,879	99.938%
40	1 2	18,220	1.00	2	5,977,934	40.055%	88	1 1	873	42.00	5	14,915,753	99.944%
41	7 7	33,148	2.00	2	6,011,082	40.277%	89	6 5	2,521	46.00	5	14,918,274	99.960%
42	3 3	1,278,787	3.00	1	7,289,870	48.846%	90	2 1	94	58.00	5	14,918,369	99.961%
43	5 5	127,940	3.00	2	7,417,810	49.703%	91	3 2	2,188	60.00	4	14,920,556	99.976%
44	2 2	349,910	4.00	1	7,767,719	52.048%	92	2 1	890	63.00	4	14,921,446	99.982%
45	5 5	295,079	4.00	1	8,062,798	54.025%	93	5 4	1,320	64.00	5	14,922,767	99.991%
46	7 6	275,613	4.00	1	8,338,411	55.872%	94	4 3	1,082	66.00	5	14,923,849	99.998%
47	7 7	9,415	4.00	3	8,347,826	55.935%	95	3 2	331	106.00	5	14,924,179	100.000%
48	6 5	2,300,525	5.00	1	10,648,351	71.350%							

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Further, the effect of the additional key and customer initiated post office lock change fees should not present an undue hardship on customers as they only apply when customers want the added convenience beyond the two keys originally provided without charge. Also, the effect of these proposed fees should not present an undue

1 hardship on customers given their amounts. Customers are typically satisfied with the
2 two keys and the lock originally provided.

3 The proposed caller service fees also represent both increases and decreases to
4 the current fee of \$434 per six months. The highest increase is less than 46 percent –
5 an increase from \$434 to \$630 for those customers who choose caller service in post
6 offices with the highest associated space costs. Moreover, fee decreases are proposed
7 for those customers who choose to use caller service in lower cost locations. Thus, the
8 proposed fees better reflect the cost of the service to customers, and improve the price
9 relationships between caller service and post office box fees.

10 The proposed reserve number fee increase (\$4 per year) is about one-half of the
11 median dollar fee increase for post office box customers (\$4 semiannually). See Table
12 21, line 47. This modest proposed fee increase should not adversely affect customers
13 while continuing to reflect a reserve number's value.

14

15 **5. The available alternative means of sending and receiving**
16 **letters and other mail matter at reasonable costs**

17

18 There are many available alternatives for post office box service. First, for
19 virtually all customers there is free carrier delivery. Secondly, there are many
20 commercial mail receiving agents (CMRAs) that typically charge much higher service
21 fees than does the Postal Service. Similarly, caller service customers also have
22 available alternatives through third party service providers. In the majority of locations,
23 post office box fees will increase. Thus, the available alternative providers would not be
24 disadvantaged. Conversely, at locations where fees would decline, alternative
25 providers would likely be benefiting from the same low cost environments.

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7. Simplicity of structure for the entire schedule and simple, identifiable relationships between rates or fees charged the various classes of mail for postal services

Although there are a number of fees, the proposed post office box fee schedule is relatively simple for each office to administer the few fees at its particular location. Also, the proposed fees would promote identifiable fee relationships to the greatest extent practical. In addition, no change to the number of fee groups is proposed.

The proposed reserve number, additional key and lock change fees remain simple in design, each having only one fee cell.

Caller service fees are proposed to vary by fee group, adding some complexity. However, this additional complexity is justified by more closely aligning caller service fees to costs, and by reducing the gaps between box size 5 fees and caller service fees for the lower cost fee groups.

The Postal Service believes the proposed pricing changes meet the statutory classification and pricing criteria for post office box and caller service and improve the alignment of cost and fee groups begun in Docket No. R2000-1. In particular, the proposed post office box fees should be evaluated in light of the ongoing need to improve cost and fee alignment. The Postal Service has used the most accurate data available in preparing the proposals for this docket. However, as before, the Postal Service plans to utilize the best available data at the time of implementation for assignment to post office box fee groups. The Postal Service plans to revalidate local space cost estimates and current fee assignments, accounting for any changes, prior to actual implementation of the new fees. Implementation plans call for data components,

1 such as current fee group assignment, to be verified by field personnel as well. This
2 should ensure that actual post office box fee assignments are accurate and consistent
3 with the fee structure and pricing formulae that form the foundation for the proposed
4 post office box fees.