

ORIGINAL

005485

OCA-T-300

Docket No. MC96-3

RECEIVED  
SEP 30 12 26 PM '96  
POSTAL RATE COMMISSION  
OFFICE OF THE SECRETARY

DIRECT TESTIMONY

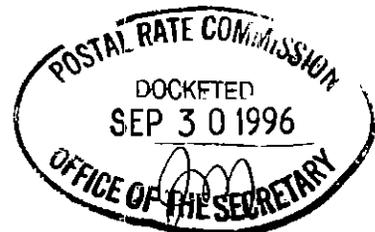
OF

JAMES F. CALLOW

ON BEHALF OF

THE OFFICE OF THE CONSUMER ADVOCATE

SEPTEMBER 30, 1996



## TABLE OF CONTENTS

STATEMENT OF QUALIFICATIONS.....	1
I. PURPOSE AND SCOPE OF TESTIMONY.....	3
II. THE POSTAL SERVICE'S PROPOSED SURCHARGE ON NON-RESIDENT BOXHOLDERS IS NOT JUSTIFIED.....	4
A. The Postal Service's Anecdotal Information Does Not Show A Significantly Higher Incidence Of Cost-Causing Behavior For Non-Residents Than For Residents.....	5
B. Neither Anecdotal Nor Quantitative Information Reveals A Significant Nationwide Shortage Of Boxes Due To Non-Residents.....	9
C. The Postal Service Has Not Provided Sufficient Information To Evaluate The Effect Of The Surcharge On Non-Resident Boxholders.....	12
D. The Postal Service's Proposed Non-Resident Surcharge Is Unfair And Inequitable.....	15
III. PROPOSED POST OFFICE BOX FEES SHOULD COVER COSTS WITHOUT BURDENING BOXHOLDERS WITH AN UNNECESSARY CONTRIBUTION TO INSTITUTIONAL COSTS.....	18
A. New Post Office Box Fees Should Seek To Reduce The Disparity In Cost Coverages By Group and Box Size.....	19
B. New Post Office Box Fees Must Satisfy The Pricing Criteria Of The Postal Reorganization Act.....	24
IV. CONCLUSION.....	30

## 1 DIRECT TESTIMONY OF

2 JAMES F. CALLOW

3 STATEMENT OF QUALIFICATIONS  
4

5 My name is James F. Callow. I have been employed by the  
6 Postal Rate Commission since June 1993, and since February  
7 1995 in the Office of the Consumer Advocate (OCA). I am a  
8 Postal Rate and Classification Specialist.

9 I testified before this Commission in Docket No. MC95-1.  
10 My testimony in that proceeding summarized the comments of  
11 persons expressing views to the Commission and the Office of  
12 the Consumer Advocate on postal rates and services.

13 As a Special Assistant to Commissioner Quick, I  
14 participated in Docket Nos. MC93-1, MC93-2 and R94-1. In the  
15 latter docket, I was assigned responsibility for substantive  
16 subject areas considered by the Commission in its Opinion and  
17 Recommended Decision. Specifically, I analyzed quantitative  
18 testimony of the Postal Service with respect to the estimation  
19 of workers' compensation costs and evaluated rate design  
20 proposals of the Postal Service and other parties related to  
21 special postal services.

1           Prior to joining the Commission, I was employed by a US  
2 Senator and a Member of Congress from Michigan, and the  
3 Governor of the State of Michigan.

4           I am an accountant by training. In 1985, I earned an MS  
5 degree in accounting from Georgetown University. My course  
6 work included cost accounting and auditing. In 1977, I  
7 obtained my BA degree from the University of Michigan-Dearborn  
8 with a double major in political science and history and a  
9 minor in economics.

## 1 I. PURPOSE AND SCOPE OF TESTIMONY

2 This testimony addresses the post office box  
3 classification and fee proposals of the Postal Service.<sup>1</sup> I  
4 reject the Postal Service's proposed classification change for  
5 implementing a non-resident surcharge and propose alternative  
6 fees for post office box service. The alternative fees are  
7 generally lower than those proposed by the Postal Service.  
8 The fees are designed to equalize inter-group cost coverages,  
9 and reduce the disparity in cost coverages by post office box  
10 size.

---

<sup>1</sup> My testimony uses the existing delivery group nomenclature—Group IA, IB, IC, Group II and Group III—for ease of presentation. I do not object to the proposed names, Group A, B, C, D and E, respectively.

1 II. THE POSTAL SERVICE'S PROPOSED SURCHARGE ON NON-RESIDENT  
2 BOXHOLDERS IS NOT JUSTIFIED

3 The Postal Service proposes to assess a surcharge on  
4 "individuals and businesses which reside or are located in one  
5 ZIP Code area and use a post office box in another." Request  
6 at 2. These "non-residents" would be charged \$35 annually, in  
7 addition to the applicable box service fee. In determining  
8 whether to assess the surcharge, the Postal Service would ask  
9 persons seeking to obtain or renew box service to furnish  
10 proof of residency. USPS-T-7 at 24.

11 The justifications for the non-resident surcharge are  
12 stated by witness Needham. It is intended to address the  
13 "greater administrative burdens that are associated with non-  
14 resident box service at some locations." Id. at 41.  
15 According to witness Needham, the surcharge would compensate  
16 the Postal Service for these additional administrative costs.  
17 Tr. 3/691 (OCA/USPS-T7-21). Witness Landwehr's testimony  
18 describes these greater administrative burdens, but does not  
19 quantify any extra cost.

20 Another justification is that non-resident boxholders  
21 contribute to the unavailability of post office boxes for  
22 residents. Id. The surcharge is intended to motivate non-

1 II. THE POSTAL SERVICE'S PROPOSED SURCHARGE ON NON-RESIDENT  
2 BOXHOLDERS IS NOT JUSTIFIED

3 The Postal Service proposes to assess a surcharge on  
4 "individuals and businesses which reside or are located in one  
5 ZIP Code area and use a post office box in another." Request  
6 at 2. These "non-residents" would be charged \$36 annually, in  
7 addition to the applicable box service fee. In determining  
8 whether to assess the surcharge, the Postal Service would ask  
9 persons seeking to obtain or renew box service to furnish  
10 proof of residency. USPS-T-7 at 24.

11 The justifications for the non-resident surcharge are  
12 stated by witness Needham. It is intended to address the  
13 "greater administrative burdens that are associated with non-  
14 resident box service at some locations." Id. at 41.  
15 According to witness Needham, the surcharge would compensate  
16 the Postal Service for these additional administrative costs.  
17 Tr. 3/691 (OCA/USPS-T7-21). Witness Landwehr's testimony  
18 describes these greater administrative burdens, but does not  
19 quantify any extra cost.

20 Another justification is that non-resident boxholders  
21 contribute to the unavailability of post office boxes for  
22 residents. Tr. 3/684 (OCA/USPS-T7-14b). The surcharge is

1 residents to seek local box service or other alternatives,  
2 thereby "making more available for residents." Id. at 25.

3 The final justification relates to market factors. Non-  
4 resident boxholders "seek convenience or prestige, or both,  
5 and should pay higher fees for the inherent value of these  
6 factors." Id. at 33.

7 A. The Postal Service's Anecdotal Information Does Not Show  
8 A Significantly Higher Incidence Of Cost-Causing Behavior  
9 For Non-Residents Than For Residents.

10 The attribution of costs is of central importance in  
11 setting postal rates and fees. PRC Op. R90-1, para. 4005.  
12 The Postal Service's attributable costs of providing a service  
13 are essential to this process.

14 With respect to the proposed non-resident surcharge, no  
15 cost studies have been performed to identify or quantify "any  
16 attributable cost differences associated with providing box  
17 service to residents [or] non-residents." Tr. 3/586  
18 (OCA/USPS-T4-1). Witness Needham acknowledges that "the \$18  
19 [semi-annual] fee was not determined based on costs" of  
20 providing box service to non-residents. Tr. 3/674  
21 (OCA/USPS-T7-5).

1 intended to motivate non-residents to seek local box service  
2 or other alternatives, thereby "making [boxes] available for  
3 residents." USPS-T-7 at 25.

4 The final justification relates to market factors. Non-  
5 resident boxholders "seek convenience or prestige, or both,  
6 and should pay higher fees for the inherent value of these  
7 factors." Id. at 33.

8 A. The Postal Service's Anecdotal Information Does Not Show  
9 A Significantly Higher Incidence Of Cost-Causing Behavior  
10 For Non-Residents Than For Residents.

11 The attribution of costs is of central importance in  
12 setting postal rates and fees. PRC Op. R90-1, para. 4005.  
13 The Postal Service's attributable costs of providing a service  
14 are essential to this process.

15 With respect to the proposed non-resident surcharge, no  
16 cost studies have been performed to identify or quantify "any  
17 attributable cost differences associated with providing box  
18 service to residents [or] non-residents . . . ." Tr. 3/586  
19 (OCA/USPS-T4-1). Witness Needham acknowledges that "the \$18  
20 [semi-annual] fee was not determined based on costs" of  
21 providing box service to non-residents. Tr. 3/674  
22 (OCA/USPS-T7-5).

1 The Postal Service instead indirectly raises costing  
2 considerations by offering "qualitative descriptions of . . .  
3 operational difficulties" presented by non-resident boxholders  
4 at three post offices. Tr. 3/686 (OCA/USPS-T7-15). These  
5 operational difficulties, which "the non-resident fee is  
6 intended to address," are found in the testimony of witness  
7 Landwehr.<sup>2</sup>

8 Witness Landwehr identifies the following "operational  
9 difficulties" associated with providing box service to non-  
10 residents that result in postal costs:

- 11 • separate storage of mail in the post office awaiting  
12 pick-up due to infrequent and irregular visits by non-  
13 residents to collect their mail (USPS-T-3 at 4, 7 and 9);  
14
- 15 • more frequent requests for temporary mail forwarding  
16 orders and mail hold orders than residents (id. at 4);  
17
- 18 • processing Freedom of Information Act requests (id. at  
19 7);  
20
- 21 • long distance telephone communications (id.);  
22
- 23 • multiple individuals using the same box, which makes  
24 control of the box difficult (id. at 7, 8 and 10);  
25
- 26 • unsightly clutter in post office lobbies requiring  
27 additional custodial resources (id. at 9);  
28

---

<sup>2</sup> Id. The "operational difficulties" are also variously described as "significant demands on operations," "greater administrative burdens," and "greater administrative requirements." USPS-T-3 at 4, 7 and 9.

Revised 10/8/96

1           The Postal Service instead indirectly raises costing  
2 considerations by offering "qualitative descriptions of . . .  
3 operational difficulties" presented by non-resident boxholders  
4 at three post offices. Tr. 3/686 (OCA/USPS-T7-15). These  
5 operational difficulties, which "the non-resident fee is  
6 intended to address," are found in the testimony of witness  
7 Landwehr.<sup>2</sup>

8           Witness Landwehr identifies the following "operational  
9 difficulties" associated with providing box service to non-  
10 residents that result in postal costs:

- 11     •     separate storage of mail in the post office awaiting  
12           pick-up due to infrequent and irregular visits by non-  
13           residents to collect their mail (USPS-T-3 at 4, 7 and 9);  
14
- 15     •     more frequent requests for temporary mail forwarding  
16           orders and mail hold orders than residents (id. at 4);  
17
- 18     •     processing Freedom of Information Act requests (id. at  
19           7);  
20
- 21     •     long distance telephone communications (id.);  
22
- 23     •     multiple individuals using the same box, which makes  
24           control of the box difficult (id. at 7-8 and 10);  
25
- 26     •     unsightly clutter in post office lobbies requiring  
27           additional custodial resources (id. at 9);  
28

---

<sup>2</sup> Id. The "operational difficulties" are also variously described as "significant demands on operations," "greater administrative burdens," and "greater administrative requirements." USPS-T-3 at 4, 7 and 9.

- 1 • Late payment of box fees (id. at 10); and  
2  
3 • providing assistance filling out forms and explaining  
4 postal services available.<sup>3</sup>  
5

6 Witness Needham states that the surcharge is justified on  
7 a cost basis because,

8 non-resident boxholders are more apt to present  
9 costlier situations than residents. The proposed  
10 non-resident fee is geared . . . to recover these  
11 costs.  
12

13 Tr. 3/655 (DFC/USPS-T7-6). Witness Needham's comments  
14 represent the only cost justification presented. These  
15 comments are based on the premise that non-residents have a  
16 greater propensity to "present costlier situations" than  
17 residents. According to witness Ellard, such a premise can  
18 only be established if the frequency of each of these "costly  
19 situations" were available separately for residents and non-  
20 residents. Tr. 3/385. This information was not collected.  
21 Id.

22 No studies were conducted on the frequency of cost-  
23 causing behaviors by resident and non-resident boxholders with

---

<sup>3</sup> Id. at 8. Witness Landwehr also identifies "a higher than normal incidence of lost or forgotten box keys." USPS-T-3 at 8 and 10. The Domestic Mail Manual (DMM) provides that, "Box customers may obtain additional or replacement keys by submitting Form 1094 and paying the applicable fee." See DMM § D910.6.2.

Revised 10/8/96

- 1 • late payment of box fees (id. at 10); and  
2  
3 • providing assistance filling out forms and explaining  
4 postal services available.<sup>3</sup>  
5

6 Witness Needham states that the surcharge is justified on  
7 a cost basis because,

8 non-resident boxholders are more apt to present  
9 costlier situations than residents. The proposed  
10 non-resident fee is geared . . . to recover these  
11 costs.  
12

13 Tr. 3/655 (DFC/USPS-T7-6) (citation omitted). Witness  
14 Needham's comments represent the only cost justification  
15 presented. These comments are based on the premise that non-  
16 residents have a greater propensity to "present costlier  
17 situations" than residents. According to witness Ellard, such  
18 a premise can only be established if the frequency of each of  
19 these "costlier situations" were available separately for  
20 residents and non-residents. Tr. 2/385. This information was  
21 not collected. Id.

22 No studies were conducted on the frequency of cost-  
23 causing behaviors by resident and non-resident boxholders with

---

<sup>3</sup> Id. at 8. Witness Landwehr also identifies "a higher than normal incidence of lost or forgotten box keys." USPS-T-3 at 8 and 10. The Domestic Mail Manual (DMM) provides that, "Box customers may obtain additional or replacement keys by submitting Form 1094 and paying the applicable fee." See DMM § D910.6.2.

1 respect to the following: accumulation of mail that exceeds  
2 box capacity, thereby requiring separate storage, Tr. 3/431  
3 (DFC/USPS-T3-6) and 413 (DBP/USPS-T3-5); processing of Freedom  
4 of Information Act requests, Tr. 3/423 (DBP/USPS-T3-15);  
5 multiple users making control of the box difficult, Tr. 3/417  
6 (DBP/USPS-T3-9); lobby clutter and the need for additional  
7 custodial resources, Tr. 3/432 (DFC/USPS-T3-7) and 414  
8 (DBP/USPS-T3-6); late payment of box fees, Tr. 3/427  
9 (DFC/USPS-T3-2) and 420 (DBP/USPS-T3-12); assistance filling  
10 out Postal Service forms, Tr. 3/424 (DBP/USPS-T3-16); and a  
11 higher than normal incidence of lost or forgotten keys, Tr.  
12 3/430 (DFC/USPS-T3-5) and 418 (DBP/USPS-T3-10).

13         Witness Needham cites costs associated with the greater  
14 administrative burden of providing box service to non-  
15 residents as a justification for the surcharge. However, she  
16 cannot quantify any costs and the anecdotal information that  
17 has been offered is associated with only a small number of  
18 post offices. It is not possible to justify the \$36 annual  
19 non-resident surcharge on the basis of "cost-causing" behavior  
20 by non-resident boxholders.

1 respect to the following: accumulation of mail that exceeds  
2 box capacity, thereby requiring separate storage, Tr. 3/431  
3 (DFC/USPS-T3-6) and 413 (DBP/USPS-T3-5); processing of Freedom  
4 of Information Act requests, Tr. 3/423 (DBP/USPS-T3-15);  
5 multiple users making control of the box difficult, see Tr.  
6 3/417 (DBP/USPS-T3-9); lobby clutter and the need for  
7 additional custodial resources, Tr. 3/432 (DFC/USPS-T3-7) and  
8 414 (DBP/USPS-T3-6); late payment of box fees, Tr. 3/427  
9 (DFC/USPS-T3-2) and 420 (DBP/USPS-T3-12); assistance filling  
10 out Postal Service forms, Tr. 3/424 (DBP/USPS-T3-16); and a  
11 higher than normal incidence of lost or forgotten keys, Tr.  
12 3/430 (DFC/USPS-T3-5) and 418 (DBP/USPS-T3-10).

13         Witness Needham cites costs associated with the greater  
14 administrative burden of providing box service to non-  
15 residents as a justification for the surcharge. However, she  
16 cannot quantify any costs and the anecdotal information that  
17 has been offered is associated with only a small number of  
18 post offices. It is not possible to justify the \$36 annual  
19 non-resident surcharge on the basis of "cost-causing" behavior  
20 by non-resident boxholders.

1 B. Neither Anecdotal Nor Quantitative Information Reveals A  
2 Significant Nationwide Shortage Of Boxes Due To Non-  
3 Residents.

4 The Postal Service attempts to justify the non-resident  
5 surcharge by offering anecdotal information about box  
6 shortages where there are non-residents boxholders. Witness  
7 Landwehr identifies three post offices—Middleburg, VA; San  
8 Luis, AZ; and, Blaine, WA—with a “high number of non-resident  
9 customers” and no boxes available. USPS-T-3 at 10. These  
10 post offices are described as “atypical in the pool of all  
11 post offices,” but he concludes “there are also many similar  
12 offices nationwide.” Id.

13 Witness Needham relies on newspaper articles to establish  
14 a link between the unavailability of post office boxes and  
15 non-resident usage. USPS-T-7 at 25-31; *see also* LR-SSR-105.  
16 These articles highlight post offices in “vanity address”  
17 areas and towns bordering Canada and Mexico that “attract  
18 large numbers of non-residents seeking post office box  
19 service.” USPS-T-7 at 28.

20 In one identified community, witness Needham observes,  
21 Since no boxes are available, non-resident boxholders in  
22 Rancho Santa Fe preclude new residents from obtaining  
23 post office box service.  
24

1 Id. at 27. A similar observation is made with respect to  
2 Middleburg, VA. Id. What witness Needham fails to  
3 demonstrate is that forcing non-residents to move would not  
4 simply shift box shortages to other post offices.

5 The testimony of witnesses Needham and Landwehr create  
6 the impression that there is a serious nationwide shortage of  
7 post office boxes due to non-residents. This impression  
8 cannot be substantiated. Tr. 3/697 (OCA/USPS-T7-26). The  
9 Postal Service cannot project the number of similar offices  
10 nationwide. Tr. 3/460 (OCA/USPS-T3-22) and 426  
11 (DFC/USPS-T3-1). Witness Landwehr admits that his conclusion  
12 is not based on quantitative studies or reports. Tr. 3/460.

13 The newspaper articles in LR-SSR-105 identify post  
14 offices in only 11 communities that attract large numbers of  
15 non-residents where all post office boxes are in use.<sup>4</sup>  
16 Another eight post offices were subsequently identified as  
17 having "high proportions" of non-resident boxholders and no  
18 additional boxes available for rent.<sup>5</sup> These 19 post offices

---

<sup>4</sup> Beverly Hills, CA; Middleburg, VA; Rancho Santa Fe, CA;  
Palm Beach, FL; Winnetka, IL; Modesto, CA; Lake Oswego, OR;  
West Linn, OR; Davidson, NC; and the border towns of Blaine,  
WA and San Luis, AZ.

<sup>5</sup> Tr. 3/716-7 (OCA/USPS-T7-38, Supplemental Response).  
The supplemental response also identified another 18 post

1 Id. at 27. A similar observation is made with respect to  
2 Middleburg, VA. Id. What witness Needham fails to  
3 demonstrate is that forcing non-residents to move would not  
4 simply shift box shortages to other post offices.

5 The testimony of witnesses Needham and Landwehr create  
6 the impression that there is a serious nationwide shortage of  
7 post office boxes due to non-residents. This impression  
8 cannot be substantiated. Tr. 3/697 (OCA/USPS-T7-26). The  
9 Postal Service cannot project the number of similar offices  
10 nationwide. See Tr. 3/460 (OCA/USPS-T3-22) and 426  
11 (DFC/USPS-T3-1). Witness Landwehr admits that his conclusion  
12 is not based on quantitative studies or reports. See Tr.  
13 3/460.

14 The newspaper articles in LR-SSR-105 identify post  
15 offices in only 11 communities that attract large numbers of  
16 non-residents where all post office boxes are in use.<sup>4</sup>  
17 Another eight post offices were subsequently identified as  
18 having "high proportions" of non-resident boxholders and no

---

<sup>4</sup> Beverly Hills, CA; Middleburg, VA; Rancho Santa Fe, CA;  
Palm Beach, FL; Winnetka, IL; Modesto, CA; Lake Oswego, OR;  
West Linn, OR; Davidson, NC; and the border town of San Luis,  
AZ. Blaine, WA, a border town identified in USPS-T-3, is  
included in this count.

1 additional boxes available for rent.<sup>5</sup> These 19 post offices

---

<sup>5</sup> Tr. 3/716-17 (OCA/USPS-T7-38, Supplemental Response). The supplemental response also identified another 15 post offices that are "popular" with, or have "high proportions" of, or a "substantial proportion" of, non-resident boxholders. Tr. 3/716-7. The original response identified two post offices "which have complaints regarding" non-resident boxholders. Tr. 3/715. There is no information on whether all boxes at these offices are in use.

1 constitute less than 0.07 percent of the 25,591 postal  
2 facilities counted in the PO Box Study.<sup>6</sup>

3       The Postal Service's quantitative information does not  
4 reveal a serious post office box shortage problem. Witness  
5 Lion states that 38 percent of postal facilities have all  
6 boxes in use for at least one size category. USPS-T-4, Table  
7 6, at 9. This is misleading. An office with a capacity  
8 problem in only one box size (box size 5, for example) may  
9 have an abundance of boxes in the other four sizes.  
10 Nevertheless, such an office is still counted in witness  
11 Lion's 38 percent figure.

12       In post offices where all size 1 boxes are in use, a  
13 potential boxholder may still be willing to use a size 2 or  
14 size 3 box. Post office box fees for box size 3 are much less  
15 than the lowest-price boxes at CMRAs. USPS-T-4, Table 11, at  
16 22. In fact, the potential boxholder seeking a size 1 box may

---

offices that are "popular" with, or have "high proportions"  
of, or a "substantial proportion" of, non-resident boxholders.  
Tr. 3/716-7. The original response identified two post  
offices "which have complaints regarding" non-resident  
boxholders. Tr. 3/715. There is no information on whether  
all boxes at these offices are in use.

<sup>6</sup> USPS-T-4, Table 2, at 5. The PO Box Study inventoried  
the number of post office boxes at post facilities in Groups I  
and II. See USPS-T-4 at 3-14.

1 care little that there are no size 5 boxes available at the  
2 post office.

3 A more realistic measure of resident boxholder hardship  
4 is to count only those offices where no boxes of any size are  
5 available. Of those postal facilities with installed boxes,  
6 only 5.25 percent had no boxes of any size available.  
7 OCA-LR-2 at 7. In other words, box service could be obtained  
8 in roughly 95 percent of the facilities represented in witness  
9 Lion's PO Box Study. The quantitative data also show that  
10 only 5.47 percent of the offices had no boxes of size 1, 2 or  
11 3 available. Id.

12 The quantitative information reveals that there is no  
13 nationwide box availability problem. Ninety-five percent of  
14 all offices have boxes available. Moreover, the PO Box Study  
15 contains no data to determine that the lack of available boxes  
16 in the other five percent of post offices is due to non-  
17 residents. Tr. 3/621 (OCA/USPS-T7-13).

18 C. The Postal Service Has Not Provided Sufficient  
19 Information To Evaluate The Effect Of The Surcharge On  
20 Non-Resident Boxholders.

21 The Postal Service's proposed non-resident surcharge must  
22 meet the relevant statutory criteria of §3622(b) and §3623(c).

1 In particular, section 3622(b)(4) requires consideration of  
2 "the effect of rate increase upon the general public." The  
3 Postal Service's information is inadequate for this purpose.

4 For purposes of her testimony, witness Needham defines  
5 non-residents "as those individuals or business boxholders  
6 whose residence or place of business is not located within the  
7 5-digit ZIP Code area of the office where box service is  
8 obtained." USPS-T-7 at 23-24. The Postal Service's proposed  
9 change in the special service schedule provides another:

10 "[A]ll customers will be subject to an additional semi-annual  
11 \$18.00 nonresident fee per box . . . unless they receive . . .  
12 an exemption based upon proof of local residency." Request,  
13 Appendix B, at 5-6.

14 The Postal Service has not supplied estimates of the  
15 number of boxholders subject to either of these definitions.  
16 The only data available on the number of non-residents is  
17 based on witness Ellard's market research survey. See  
18 LR-SSR-111. That survey only estimated the number of  
19 boxholders who believe they are non-residents. Tr. 2/389. It  
20 is unlikely the Postal Service would exempt a boxholder from  
21 the non-resident surcharge based on the boxholder's belief  
22 that he is a resident.

1 In particular, section 3622(b)(4) requires consideration of  
2 "the effect of rate increase upon the general public." The  
3 Postal Service's information is inadequate for this purpose.

4 For purposes of her testimony, witness Needham defines  
5 non-residents "as those individuals or business boxholders  
6 whose residence or place of business is not located within the  
7 5-digit ZIP Code area of the office where box service is  
8 obtained." USPS-T-7 at 23-24. The Postal Service's proposed  
9 change in the special service schedule provides another:

10 "[A]ll customers will be subject to an additional semi-annual  
11 \$18.00 nonresident fee per box . . . unless they receive . . .  
12 an exemption based upon proof of local residency." Request,  
13 Attachment B, at 5-6, n. 1.

14 The Postal Service has not supplied estimates of the  
15 number of boxholders subject to either of these definitions.  
16 The only data available on the number of non-residents is  
17 based on witness Ellard's market research survey. See  
18 LR-SSR-111. That survey only estimated the number of  
19 boxholders who believe they are non-residents. Tr. 2/389. It  
20 is unlikely the Postal Service would exempt a boxholder from  
21 the non-resident surcharge based on the boxholder's belief  
22 that he is a resident.

1           The determination of non-residents subject to the  
2 surcharge is further clouded by the inability of Postal  
3 Service witnesses to clarify the residency status of  
4 identified groups of boxholders. Witness Landwehr identifies  
5 "Canadian citizens who own vacation property" in the Blaine,  
6 WA, delivery area as non-resident boxholders. USPS-T-3 at 9.  
7 However, witness Landwehr could not state whether these owners  
8 would be subject to the surcharge. Tr. 3/459  
9 (OCA/USPS-T3-21). Witness Needham could not state, based upon  
10 her definition, whether US or Mexican migrant farm workers who  
11 leave their families in the San Luis area are residents or  
12 non-residents for purposes of the surcharge. Tr. 3/857-60.

13           It is not possible to determine the effect of the  
14 surcharge when the Postal Service, itself, does not know who  
15 will be paying it. This situation exists because, "The  
16 definition of residents and non-residents as it relates to  
17 post office boxes has not been finalized." Tr. 3/459  
18 (OCA/USPS-T3-21). Considerable work on defining who is a  
19 resident and non-resident boxholder subject to the surcharge  
20 is deferred to implementation when the "details of residency  
21 will be determined." Tr. 3/663 (DFC/USPS-T7-13).

1 With respect to testing the price sensitivity of non-  
2 resident boxholders to the non-resident surcharge, the Postal  
3 Service's market research did not distinguish between resident  
4 and non-resident boxholders. Non-resident survey respondents  
5 were not even informed that their fees would be \$36 a year  
6 more than the proposed box fees for residents. Tr. 2/370  
7 (OCA/USPS-T6-25). Witness Ellard could have tested the  
8 sensitivity of non-resident boxholders to the surcharge in his  
9 market research. However, the research was conducted before  
10 witness Ellard learned of the Postal Service's plan to propose  
11 a non-resident surcharge. Tr. 2/395. Consequently, it  
12 appears there is no market research about the effect of the  
13 Postal Service's proposed surcharge on non-resident  
14 boxholders.

15 D. The Postal Service's Proposed Non-Resident Surcharge Is  
16 Unfair And Inequitable.

17 Proposed classification changes, and accompanying rates  
18 and fees, must satisfy §3622(b)(1) and §3623(c)(1), which  
19 require "the establishment and maintenance of a fair and  
20 equitable" rate schedule and classification system. The  
21 Postal Service's discriminatory treatment of non-resident

1 boxholders through the proposed non-resident surcharge is  
2 unfair and inequitable.

3       Witness Needham considers it "fair and equitable to  
4 address the difference between resident and non-resident"  
5 boxholders via the non-resident surcharge. USPS-T-7 at 41.  
6 She states that because non-resident boxholders "seek  
7 convenience or prestige, or both," they should pay a surcharge  
8 for choosing box service outside of their local delivery area.  
9 Id. at 41.

10       The Postal Service is unable to assess the value of non-  
11 local box service for non-resident boxholders. It did not  
12 contact or interview non-resident boxholders. Tr. 3/677  
13 (OCA/USPS-T7-9). Therefore, the Postal Service is unable to  
14 determine reliably the reasons non-residents seek box service  
15 outside their local delivery area.

16       The Postal Service's proposed box fees and non-resident  
17 surcharge are large increases in percentage terms. Proposed  
18 increases on non-resident boxholders range from 30 to 100  
19 percent where box fees are the highest (Group IA), and 165 to  
20 550 percent for non-resident boxholders in Group II.  
21 USPS-T-7, Table II, at 5-6.

1 boxholders through the proposed non-resident surcharge is  
2 unfair and inequitable.

3         Witness Needham considers it "fair and equitable to  
4 address the difference between resident and non-resident"  
5 boxholders via the non-resident surcharge. USPS-T-7 at 41.  
6 She states that because non-resident boxholders "seek  
7 convenience or prestige, or both," they should pay a surcharge  
8 for choosing box service outside of their local delivery area.  
9 Id. at 33.

10         The Postal Service is unable to assess the value of non-  
11 local box service for non-resident boxholders. It did not  
12 contact or interview non-resident boxholders. Tr. 3/677  
13 (OCA/USPS-T7-9). Therefore, the Postal Service is unable to  
14 determine reliably the reasons non-residents seek box service  
15 outside their local delivery area.

16         The Postal Service's proposed box fees and non-resident  
17 surcharge are large increases in percentage terms. Proposed  
18 increases on non-resident boxholders range from 30 to 100  
19 percent where box fees are the highest (Group IA), and 165 to  
20 550 percent for non-resident boxholders in Group II.  
21 USPS-T-7, Table II, at 5-6.

1           The non-resident surcharge and fee increases are unfair  
2 and inequitable under the circumstances. As explained in the  
3 previous sections, the specific reasons advanced by the Postal  
4 Service to justify the non-resident surcharge rely on  
5 anecdotal information, or lack quantitative data.

6           Implementing the proposed non-resident surcharge in the  
7 absence of critical costing information and demonstrated need  
8 would be unfair and inequitable.

1 III. PROPOSED POST OFFICE BOX FEES SHOULD COVER COSTS WITHOUT  
2 BURDENING BOXHOLDERS WITH AN UNNECESSARY CONTRIBUTION TO  
3 INSTITUTIONAL COSTS

4  
5 As explained in the testimony of OCA witness Thompson,  
6 classification reform of post office boxes (and special  
7 services generally) outside of an omnibus rate proceeding  
8 should follow the Postal Service's initial goal of  
9 contribution neutrality. In keeping with the Postal Service's  
10 initial framework, fees for post office boxes must be net  
11 revenue neutral.

12 Under my proposal, most box fees would remain unchanged  
13 or decrease. Those box fees that are increased cover costs or  
14 move in that direction. Collectively, the changes result in a  
15 post office box and caller service cost coverage of 100  
16 percent and net revenues of \$172 thousand (an increase of \$1.1  
17 million).

18 My proposed fees differ from the Postal Service's  
19 proposals in two respects. First, because I reject the  
20 Service's proposed classification change there is no provision  
21 for a non-resident surcharge. Second, the proposed fees are,  
22 on average, lower than those proposed by the Postal Service.  
23 Proposed fees in Group IA decrease by an average 1.2 percent;

005505

1 III. PROPOSED POST OFFICE BOX FEES SHOULD COVER COSTS WITHOUT  
2 BURDENING BOXHOLDERS WITH AN UNNECESSARY CONTRIBUTION TO  
3 INSTITUTIONAL COSTS

4  
5 As explained in the testimony of OCA witness Thompson,  
6 classification reform of post office boxes (and special  
7 services generally) outside of an omnibus rate proceeding  
8 should follow the Postal Service's initial goal of  
9 contribution neutrality. In keeping with the Postal Service's  
10 initial framework, fees for post office boxes should be net  
11 revenue neutral.

12 Under my proposal, most box fees would remain unchanged  
13 or decrease. Those box fees that are increased move toward  
14 covering costs. Collectively, the changes result in a post  
15 office box and caller service cost coverage of 101 percent and  
16 net revenues of \$5.5 million (an increase of \$6.3 million).

17 My proposed fees differ from the Postal Service's  
18 proposals in two respects. First, because I reject the  
19 Service's proposed classification change there is no provision  
20 for a non-resident surcharge. Second, the proposed fees are,  
21 on average, lower than those proposed by the Postal Service.  
22 Proposed fees in Group IA decrease by an average 1.2 percent;

1 III. PROPOSED POST OFFICE BOX FEES SHOULD COVER COSTS WITHOUT  
2 BURDENING BOXHOLDERS WITH AN UNNECESSARY CONTRIBUTION TO  
3 INSTITUTIONAL COSTS

4  
5 As explained in the testimony of OCA witness Thompson,  
6 classification reform of post office boxes (and special  
7 services generally) outside of an omnibus rate proceeding  
8 should follow the Postal Service's initial goal of  
9 contribution neutrality. In keeping with the Postal Service's  
10 initial framework, fees for post office boxes must be net  
11 revenue neutral.

12 Under my proposal, most box fees would remain unchanged  
13 or decrease. Those box fees that are increased move toward  
14 covering costs. Collectively, the changes result in a post  
15 office box and caller service cost coverage of 100 percent and  
16 net revenues of \$103 thousand (an increase of \$940 thousand).

17 My proposed fees differ from the Postal Service's  
18 proposals in two respects. First, because I reject the  
19 Service's proposed classification change there is no provision  
20 for a non-resident surcharge. Second, the proposed fees are,  
21 on average, lower than those proposed by the Postal Service.  
22 Proposed fees in Group IA decrease by an average 1.2 percent;

1 in Group IB, 1.3 percent; and in Group IC, 22.5 percent. See  
2 Table 1.

3 In Group II, I adopt the Postal Service's proposed 100  
4 percent fee increase. I also adopt the Postal Service's \$0  
5 fee for Group III boxholders.

6 A. New Post Office Box Fees Should Seek To Reduce The  
7 Disparity In Cost Coverages By Group and Box Size.

8 Table 1 compares the current semi-annual fees to the fees  
9 proposed by the Postal Service and OCA. Also compared is the  
10 percentage change in fees as proposed by the Postal Service  
11 and OCA.

Table 1  
POST OFFICE BOX FEE COMPARISON  
(Annual Fees)

Box Size	Current Fee	USPS Proposal <sup>7</sup>		Percentage Change	
		Group IA	OCA Proposal	USPS	OCA
1	\$48.00	\$60.00	\$48.00	25%	0%
2	\$74.00	\$92.00	\$66.00	24%	-11%
3	\$128.00	\$160.00	\$122.00	25%	-5%
4	\$210.00	\$242.00	\$210.00	15%	0%
5	\$348.00	\$418.00	\$410.00	20%	18%
<b>Group IB</b>					
1	\$44.00	\$56.00	\$44.00	27%	0%
2	\$66.00	\$82.00	\$60.00	24%	-9%
3	\$112.00	\$140.00	\$110.00	25%	-2%
4	\$190.00	\$218.00	\$190.00	15%	0%
5	\$310.00	\$372.00	\$358.00	20%	15%
<b>Group IC</b>					
1	\$40.00	\$50.00	\$32.00	25%	-20%
2	\$58.00	\$72.00	\$43.00	24%	-26%
3	\$104.00	\$130.00	\$76.00	25%	-27%
4	\$172.00	\$190.00	\$142.00	10%	-17%
5	\$288.00	\$300.00	\$272.00	4%	-6%
<b>Group II</b>					
1	\$8.00	\$16.00	\$16.00	100%	100%
2	\$13.00	\$26.00	\$26.00	100%	100%
3	\$24.00	\$48.00	\$48.00	100%	100%
4	\$35.00	\$70.00	\$70.00	100%	100%
5	\$55.00	\$110.00	\$110.00	100%	100%
<b>Group III</b>					
1 to 5	\$2.00	\$0.00	\$0.00	-100%	-100%

<sup>7</sup> Without proposed non-resident surcharge.

1 Each of my fee proposals move post office box fees toward  
2 the goal of reducing the disparity in cost coverages by group  
3 and box size. Currently, the highest cost coverages occur in  
4 Group IC; the lowest in Group II, where fees are below cost.  
5 As explained by OCA witness Sherman, "[a]voiding prices that  
6 are below cost would seem to be a compelling goal." OCA-T-100  
7 at 29. In addition, witness Sherman states that the highest  
8 cost coverages occur in box size 3, with the coverages  
9 declining toward the smaller and larger boxes. Id.

10 Accordingly, most of the fees I propose for Group I boxes  
11 are unchanged or less than current fees, except for those fees  
12 that are below cost. Fees that are unchanged involve box  
13 sizes 1 and 4 in Groups IA and IB. Fees that are reduced  
14 involve box size 2 and 3 in Groups IA and IB, and all box fees  
15 in Group IC. Group II fees are increased, as is the fee for  
16 box size 5 in Groups IA and IB. Table 2 compares the current  
17 cost coverage and the cost coverages under the Postal Service  
18 and OCA proposals by group and box size.

Revised 10/8/96

1 Each of my fee proposals move post office box fees toward  
2 the goal of reducing the disparity in cost coverages by group  
3 and box size. Currently, the highest cost coverages occur in  
4 Group IC; the lowest in Group II, where fees are below cost.  
5 As explained by OCA witness Sherman, "[a]voiding prices that  
6 are below cost would seem to be a compelling goal." OCA-T-100  
7 at 29. In addition, witness Sherman states that the highest  
8 cost coverages occur in box size 3, with the coverages  
9 declining toward the smaller and larger boxes. Id.

10 Accordingly, most of the fees I propose for Group I boxes  
11 are unchanged or less than current fees. Fees that are  
12 unchanged involve box sizes 1 and 4 in Groups IA and IB. Fees  
13 that are reduced involve box size 2 and 3 in Groups IA and IB,  
14 and all box fees in Group IC. Group II fees are increased, as  
15 is the fee for box size 5 in Groups IA and IB. Table 2  
16 compares the current cost coverage and the cost coverages  
17 under the Postal Service and OCA proposals by group and box  
18 size.

Revised 11/13/96

Table 2<sup>8</sup>  
 POST OFFICE BOX COST COVERAGE COMPARISON

Box Size	Current Cost Coverage	USPS Proposed Cost Coverage <sup>9</sup>	OCA Proposed Cost Coverage
<b>Group IA</b>			
1	111%	124%	112%
2	120%	133%	108%
3	110%	121%	106%
4	93%	94%	94%
5	78%	82%	92%
Average	111%	123%	111%
<b>Group IB</b>			
1	113%	129%	114%
2	120%	133%	110%
3	108%	120%	108%
4	95%	96%	96%
5	79%	83%	92%
Average	110%	123%	110%
<b>Group IC</b>			
1	142%	161%	115%
2	149%	166%	112%
3	147%	163%	108%
4	127%	124%	106%
5	109%	100%	104%
Average	143%	158%	112%
<b>Group II</b>			
1	31%	56%	62%
2	37%	66%	74%
3	37%	66%	75%
4	29%	51%	58%
5	23%	41%	47%
Average	33%	60%	67%

<sup>8</sup> OCA-LR-3 at 1 and 3.

<sup>9</sup> Without proposed non-resident surcharge.

Table 2<sup>8</sup>  
 POST OFFICE BOX COST COVERAGE COMPARISON

Box Size	Current Cost Coverage	Group IA	
		USPS Proposed Cost Coverage <sup>9</sup>	OCA Proposed Cost Coverage
1	111%	138%	111%
2	120%	149%	107%
3	110%	137%	104%
4	93%	107%	93%
5	78%	94%	92%
Average	111%	138%	109%
Group IB			
1	113%	144%	113%
2	120%	149%	109%
3	108%	135%	106%
4	95%	109%	95%
5	79%	94%	91%
Average	110%	138%	109%
Group IC			
1	142%	178%	114%
2	149%	185%	111%
3	147%	183%	107%
4	127%	141%	105%
5	109%	114%	103%
Average	143%	176%	111%
Group II			
1	31%	62%	62%
2	37%	73%	73%
3	37%	75%	75%
4	29%	57%	57%
5	23%	46%	46%
Average	33%	66%	66%

<sup>8</sup> OCA-LR-3 at 1 and 3.

<sup>9</sup> Without proposed non-resident surcharge.

Table 2<sup>8</sup>  
 POST OFFICE BOX COST COVERAGE COMPARISON

Box Size	Current Cost Coverage	USPS Proposed Cost Coverage <sup>9</sup>	OCA Proposed Cost Coverage
<b>Group IA</b>			
1	118%	148%	118%
2	129%	160%	115%
3	119%	149%	113%
4	101%	116%	101%
5	85%	102%	100%
Average	118%	148%	117%
<b>Group IB</b>			
1	121%	154%	121%
2	129%	161%	118%
3	118%	148%	116%
4	104%	119%	104%
5	87%	104%	100%
Average	119%	149%	117%
<b>Group IC</b>			
1	154%	193%	123%
2	164%	204%	122%
3	164%	205%	120%
4	143%	159%	118%
5	124%	129%	117%
Average	157%	193%	122%
<b>Group II</b>			
1	34%	67%	67%
2	40%	81%	81%
3	42%	84%	84%
4	33%	65%	65%
5	27%	53%	53%
Average	37%	73%	73%

<sup>8</sup> OCA-LR-3 at 1 and 3.

<sup>9</sup> Without proposed non-resident surcharge.

1 My proposal relies on cost estimates and volume estimates  
 2 contained in OCA-LR-3, revised November 5, 1996.  
 3 Consequently, where a fee change is proposed, the change in  
 4 post office box volume accompanying that fee change is the  
 5 volume change estimated in OCA-LR-3. Those volume changes are  
 6 used to calculate total costs. The unit cost per box is based  
 7 on the testimony of witness Lion.

8 Table 3 compares the results of the Postal Service's fee  
 9 changes with those of the OCA. Differences in revenues,  
 10 costs, net revenue, and the post office box and caller service  
 11 cost coverages are shown.

Table 3<sup>10</sup>

## POSTAL SERVICE AND OCA PROPOSALS COMPARED

Post Office Box and Caller Service	USPS Proposal <sup>11</sup>	OCA Proposal
Revenues	\$623,899,541	\$535,303,399
Costs	\$518,452,742	\$529,831,606
Net Revenues	\$105,466,799	\$5,471,793
Cost Coverage	120%	101%

<sup>10</sup> OCA-LR-3 at 1 and 3.

<sup>11</sup> Without proposed non-resident surcharge.

1 My proposal relies on cost estimates presented by Postal  
 2 Service witness Lion (USPS-T-4). Volume estimates are  
 3 contained in OCA-LR-3. Consequently, where a fee change is  
 4 proposed, the change in post office box volume accompanying  
 5 that fee change is the volume change estimated in OCA-LR-3.  
 6 Those volume changes are used to calculate total costs. The  
 7 unit cost per box is based on the testimony of witness Lion.  
 8 Table 3 compares the results of the Postal Service's fee  
 9 changes with those of the OCA. Differences in revenues,  
 10 costs, net revenue, and the post office box and caller service  
 11 cost coverages are shown.

Table 3<sup>10</sup>

POSTAL SERVICE AND OCA PROPOSALS COMPARED

Post Office Box and Caller Service	USPS Proposal <sup>11</sup>	OCA Proposal
Revenues	\$623,899,541	\$535,303,399
Costs	\$466,254,352	\$535,200,850
Net Revenues	\$157,645,189	\$102,549
Cost Coverage	134%	100%

<sup>10</sup> OCA-LR-3 at 1 and 3.

<sup>11</sup> Without proposed non-resident surcharge.

1 My proposal relies on cost estimates presented by Postal  
 2 Service witness Lion (USPS-T-4). Volume estimates are  
 3 contained in OCA-LR-3. Consequently, where a fee change is  
 4 proposed, the change in post office box volume accompanying  
 5 that fee change is the volume change estimated in OCA-LR-3.  
 6 Those volume changes are used to calculate total costs. The  
 7 unit cost per box is based on the testimony of witness Lion.  
 8 Table 3 compares the results of the Postal Service's fee  
 9 changes with those of the OCA. Differences in revenues,  
 10 costs, net revenue, and the post office box and caller service  
 11 cost coverages are shown.

Table 3<sup>10</sup>

POSTAL SERVICE AND OCA PROPOSALS COMPARED

Post Office Box and Caller Service	USPS Proposal <sup>11</sup>	OCA Proposal
Revenues	\$623,899,541	\$535,303,399
Costs	\$448,432,075	\$535,131,437
Net Revenues	\$175,467,466	\$171,962
Cost Coverage	139%	100%

<sup>10</sup> OCA-LR-3 at 1 and 3.

<sup>11</sup> Without proposed non-resident surcharge.

1 B. New Post Office Box Fees Must Satisfy The Pricing  
2 Criteria Of The Postal Reorganization Act.

3 The pricing criteria for postal rates and fees are  
4 enumerated in Section 3622(b), paragraphs 1 through 9, of the  
5 Postal Reorganization Act. In developing the proposed fees  
6 for post office boxes, I considered the relevant pricing  
7 criteria. The proposed fees reflect my judgment as to the  
8 application of those criteria.

9 Criterion number one refers to "the establishment and  
10 maintenance of a fair and equitable schedule." Most of the  
11 proposed fees are presumptively fair and equitable, since they  
12 are the same or below the fees recommended by the Commission  
13 and approved by the Governors in Docket No. R94-1. Of the 21  
14 post office box fees, 15 are unchanged or reduced from current  
15 fees.

16 Fairness and equity are enhanced by reducing the  
17 disparity in cost coverages between groups. As shown in Table  
18 2, Group IC bears a proportionally larger institutional cost  
19 burden. My proposed box fee changes decrease the cost  
20 coverage in Group IC, bringing it closer to the cost coverage  
21 in Groups IA and IB.

1 Fairness and equity are also enhanced by reducing the  
2 disparity in cost coverages by box size. OCA witness Sherman  
3 observes that the cost coverages proposed by the Postal  
4 Service encourage use of the smallest and largest box sizes.  
5 OCA-T-100 at 30. Cost coverages under the current fee  
6 structure also encourage use of the smallest and largest box  
7 sizes. See Table 2.

8 The fees I propose reduce this disparity in cost coverage  
9 by box size. Cost coverages under my proposal decline from  
10 the smallest to the largest boxes, except in Group II. This  
11 declining cost coverage by box size promotes the use of larger  
12 boxes. It also reduces reliance on the middle size boxes for  
13 the largest contribution to institutional costs, thereby  
14 creating a more fair and equitable fee schedule.

15 My proposed fee increases for box size 5 in Groups IA and  
16 IB are fair and equitable. The current cost coverages for  
17 these boxes are 85 and 87 percent, respectively. Cost  
18 coverages for the other box sizes in Groups IA and IB now  
19 range from 101 to 129 percent. The proposed fee increases  
20 raise the box size 5 cost coverage to 100 percent.

21 The Postal Service's proposed fee increase of 100 percent  
22 for all boxes in Group II is fair and equitable. Post office

Revised 10/8/96

1 Fairness and equity are also enhanced by reducing the  
2 disparity in cost coverages by box size. OCA witness Sherman  
3 observes that the cost coverages proposed by the Postal  
4 Service encourage use of the smallest and largest box sizes.  
5 OCA-T-100 at 30. Cost coverages under the current fee  
6 structure also encourage use of the smallest and largest box  
7 sizes. See Table 2.

8 The fees I propose reduce this disparity in cost coverage  
9 by box size. Cost coverages under my proposal decline from  
10 the smallest to the largest boxes, except in Group II. This  
11 declining cost coverage by box size promotes the use of larger  
12 boxes. It also reduces reliance on the middle size boxes for  
13 the largest contribution to institutional costs, thereby  
14 creating a more fair and equitable fee schedule.

15 My proposed fee increases for box size 5 in Groups IA and  
16 IB are fair and equitable. The current cost coverages for  
17 these boxes are 78 and 79 percent, respectively. Cost  
18 coverages for the other box sizes in Groups IA and IB now  
19 range from 93 to 120 percent. The proposed fee increases  
20 raise the box size 5 cost coverage.

21 The Postal Service's proposed fee increase of 100 percent  
22 for all boxes in Group II is fair and equitable. Post office

1 box and other postal services offered by rural delivery  
2 offices are generally comparable to those offered by city  
3 carrier delivery offices. The large disparity in Group II vs.  
4 Group IC fees for the same size box—a difference ranging up  
5 to 400 percent—is not justified. Moreover, the disparity in  
6 fees is not justified on the basis of cost differences. See  
7 USPS-T-4, Table 18, at 44.

8 While this substantial increase results in fees that are  
9 still below attributable costs, the disparity in fees between  
10 Group I and Group II boxes is reduced. As a result, the  
11 increase creates a more fair and equitable schedule vis-à-vis  
12 boxholders in city delivery offices.

13 The Postal Service's proposed \$0 fee for Group III  
14 boxholders is fair and equitable as it recognizes that such  
15 boxholders have no alternative to post office box service for  
16 the receipt of mail.

17 The second criterion directs that consideration be given  
18 to "the value of the mail service actually provided." Post  
19 office box service offers relatively low value. Box features  
20 such as privacy and security are offset by more limited  
21 boxholder access to the mail at post offices box sections, as

1 box and other postal services offered by rural delivery  
2 offices are generally comparable to those offered by city  
3 carrier delivery offices. The large disparity in Group II vs.  
4 Group IC fees for the same size box—a difference ranging up  
5 to 400 percent—is not justified. Moreover, the disparity in  
6 fees is not justified on the basis of cost differences. See  
7 OCA-LR-3 at 1.

8 While this substantial increase results in fees that are  
9 still below attributable costs, the disparity in fees between  
10 Group I and Group II boxes is reduced. As a result, the  
11 increase creates a more fair and equitable schedule vis-à-vis  
12 boxholders in city delivery offices.

13 The Postal Service's proposed \$0 fee for Group III  
14 boxholders is fair and equitable as it recognizes that such  
15 boxholders have no alternative to post office box service for  
16 the receipt of mail.

17 The second criterion directs that consideration be given  
18 to "the value of the mail service actually provided." Post  
19 office box service offers relatively low value. Box features  
20 such as privacy and security are offset by more limited  
21 boxholder access to the mail at post offices box sections, as

1 compared to carrier delivery. At present, only 42 percent of  
2 post offices have 24 hour access to box sections. USPS-T-4,  
3 Table 8A and 8B, at 12. (For a discussion of the relatively  
4 low value of box service, see the direct testimony of Douglas  
5 F. Carlson.)

6 The third criterion—recovery of attributable costs—  
7 requires that revenues for each mail class or service be at  
8 least equal to the attributable costs for that class or  
9 service. The Postal Service's revenues from post office box  
10 and caller service results in a cost coverage of 128 percent.  
11 USPS-T-1, Exhibit C. However, the Postal Service's proposed  
12 fee and classification changes extract an additional \$134.5  
13 million in net revenues from boxholders. USPS-T-1, WP C, at  
14 3.

15 My proposed fees for post office boxes, plus caller  
16 service, increase combined net revenues by \$5.5 million, with  
17 a resulting cost coverage of 101 percent. These fee changes  
18 represent a balance between the "contribution neutral" premise  
19 of classification reform and reducing disparities between cost  
20 coverages by group and box size.

1 compared to carrier delivery. At present, only 42 percent of  
2 post offices have 24 hour access to box sections. USPS-T-4,  
3 Table 8A and 8B, at 12. (For a discussion of the relatively  
4 low value of box service, see the direct testimony of Douglas  
5 F. Carlson.)

6 The third criterion—recovery of attributable costs—  
7 requires that revenues for each mail class or service be at  
8 least equal to the attributable costs for that class or  
9 service. The Postal Service's revenues from post office box  
10 and caller service results in a cost coverage of 128 percent.  
11 USPS-T-1, Exhibit C. However, the Postal Service's proposed  
12 fee and classification changes extract an additional \$134.5  
13 million in net revenues from boxholders. USPS-T-1, WP C, at  
14 3.

15 My proposed fees for post office boxes, plus caller  
16 service, increase combined net revenues by \$103 thousand, with  
17 a resulting cost coverage of 100 percent. These fee changes  
18 represent a balance between the "contribution neutral" premise  
19 of classification reform and reducing disparities between cost  
20 coverages by group and box size.

1 compared to carrier delivery. At present, only 42 percent of  
2 post offices have 24 hour access to box sections. USPS-T-4,  
3 Table 8A and 8B, at 12. (For a discussion of the relatively  
4 low value of box service, see the direct testimony of Douglas  
5 F. Carlson.)

6 The third criterion—recovery of attributable costs—  
7 requires that revenues for each mail class or service be at  
8 least equal to the attributable costs for that class or  
9 service. The Postal Service's revenues from post office box  
10 and caller service results in a cost coverage of 128 percent.  
11 USPS-T-1, Exhibit C. However, the Postal Service's proposed  
12 fee and classification changes extract an additional \$134.5  
13 million in net revenues from boxholders. USPS-T-1, WP C, at  
14 3.

15 My proposed fees for post office boxes, plus caller  
16 service, increase combined net revenues by \$172 thousand, with  
17 a resulting cost coverage of 100 percent. These fee changes  
18 represent a balance between the "contribution neutral" premise  
19 of classification reform and reducing disparities between cost  
20 coverages by group and box size.

1 Criterion number four concerns "the effect of rate  
2 increases" on the general public. Fees that are unchanged or  
3 reduced will make boxholders indifferent or better off as a  
4 result. The 100 percent fee increase proposed for Group II  
5 boxholders, while large in percentage terms, is modest in  
6 absolute amount. A doubling of fees for the two smallest box  
7 sizes means a semi-annual increase of \$4.00 and \$6.50,  
8 respectively, for individual and small business boxholders.

9 The fees I propose for box size 5 in Groups IA and IB are  
10 smaller in percentage terms, 18 and 15 percent, respectively,  
11 than proposed by the Postal Service. Although the increase in  
12 dollars is not trivial, it is balanced by the consideration  
13 that fees for all boxes should cover costs.

14 The fifth criterion directs consideration to the role of  
15 available alternatives at reasonable cost. For the box sizes  
16 used most often by individuals and small businesses, my  
17 proposed fees for Group I boxes remain below those offered by  
18 private sector competitors. USPS-T-4, Table 11, at 22.  
19 Moreover, where fees are increased, Group I and Group II  
20 boxholders generally have the option of carrier delivery as an  
21 alternative to box service.

1 Criterion number four concerns "the effect of rate  
2 increases" on the general public. Fees that are unchanged or  
3 reduced will make boxholders indifferent or better off as a  
4 result. The 100 percent fee increase proposed for Group II  
5 boxholders, while large in percentage terms, is modest in  
6 absolute amount. A doubling of fees for the two smallest box  
7 sizes means a semi-annual increase of \$4.00 and \$6.50,  
8 respectively, for individual and small business boxholders.

9 The fees I propose for box size 5 in Groups IA and IB are  
10 smaller in percentage terms, 18 and 15 percent, respectively,  
11 than proposed by the Postal Service. Although the increase in  
12 dollars is not trivial, it is balanced by the consideration  
13 that fees for all boxes should move toward covering costs.

14 The fifth criterion directs consideration to the role of  
15 available alternatives at reasonable cost. For the box sizes  
16 used most often by individuals and small businesses, my  
17 proposed fees for Group I boxes remain below those offered by  
18 private sector competitors. USPS-T-4, Table 11, at 22.  
19 Moreover, where fees are increased, Group I and Group II  
20 boxholders generally have the option of carrier delivery as an  
21 alternative to box service.

1 Criterion number seven refers to the "simplicity of the  
2 structure for the entire schedule and simple, identifiable  
3 relationships between the rates or fees charged." The  
4 simplicity of the fee structure is maintained, as it is  
5 essentially unchanged from the current structure.

1           Criterion number seven refers to the "simplicity of [the]  
2 structure for the entire schedule and simple, identifiable  
3 relationships between the rates or fees charged." The  
4 simplicity of the fee structure is maintained, as it is  
5 essentially unchanged from the current structure.

1 IV. CONCLUSION

2 The Postal Service's proposed surcharge for non-resident  
3 boxholders cannot be justified. The Postal Service offers no  
4 studies to verify any differences in the cost of providing box  
5 service to non-resident versus resident boxholders. The  
6 Postal Service is unable to show that there is a nationwide  
7 shortage of post office boxes generally, or due to presence of  
8 non-resident boxholders specifically. Finally, the Postal  
9 Service's market research did not measure the price  
10 sensitivity of non-resident boxholders to the additional and  
11 separate non-resident surcharge. The resulting discriminatory  
12 treatment of non-resident boxholders under the circumstances  
13 is not justified.

14 The post office box fees proposed herein satisfy the  
15 relevant statutory pricing criteria. The proposed box fees,  
16 combined with caller service, provide a small addition to net  
17 revenues and a low contribution to institutional costs. The  
18 OCA proposal insures that all boxes cover their costs or move  
19 in that direction, and creates a more equitable allocation of  
20 institutional costs by group and box size.

005517

## 1 IV. CONCLUSION

2 The Postal Service's proposed surcharge for non-resident  
3 boxholders cannot be justified. The Postal Service offers no  
4 studies to verify any differences in the cost of providing box  
5 service to non-resident versus resident boxholders. The  
6 Postal Service is unable to show that there is a nationwide  
7 shortage of post office boxes generally, or due to presence of  
8 non-resident boxholders specifically. Finally, the Postal  
9 Service's market research did not measure the price  
10 sensitivity of non-resident boxholders to the additional and  
11 separate non-resident surcharge. The resulting discriminatory  
12 treatment of non-resident boxholders under the circumstances  
13 is not justified.

14 The post office box fees proposed herein satisfy the  
15 relevant statutory pricing criteria. The proposed box fees,  
16 combined with caller service, provide a small addition to net  
17 revenues and a low contribution to institutional costs. My  
18 proposal insures that all boxes move toward covering their  
19 costs, and creates a more equitable allocation of  
20 institutional costs by group and box size.