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POSTAL RATE COMMISSION  
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BEFORE THE  
POSTAL RATE COMMISSION  
WASHINGTON, DC 20268-0001

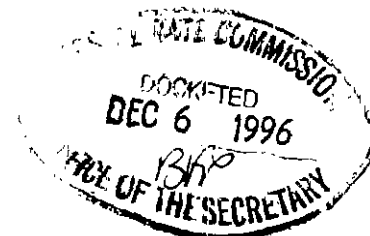
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SPECIAL SERVICES REFORM, 1996

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Docket No. MC96-3

REBUTTAL TESTIMONY OF  
PAUL M. LION  
ON BEHALF OF  
UNITED STATES POSTAL SERVICE



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LIBRARY REFERENCES

- LR-SSR-157. Post Office Box Capacity Utilization By Box Size
- LR-SSR-158. Cost Coverages for OCA-Proposed Box Fees
- LR-SSR-159. Cost Coverages -- Market vs. Book Space Provision Costs
- LR-SSR-160. Copies of Outside Materials Cited in USPS-RT-3

REBUTTAL TESTIMONY  
OF  
PAUL MICHEL LION

RECEIVED  
DEC 6 4 04 PM '93  
POSTAL RATE COMMISSION  
OFFICE OF THE SECRETARY

AUTOBIOGRAPHICAL SKETCH

The autobiographical sketch that appears in my direct testimony (USPS-T-4) was admitted into evidence at Tr. 3/579-580.

1 I. PURPOSE OF THE TESTIMONY

2 The purposes of this testimony are to rebut: (1) Witness Callow's  
3 argument that there are no significant post office box shortages (Section II); (2)  
4 Witness Callow's argument that the fees proposed by OCA would provide  
5 adequate cost coverage (Sections III and IV); and (3) Witness Sherman's  
6 argument that it is reasonable to estimate CMRA costs from their fees (Section  
7 V).

8 Section II explains why all installed post office boxes are not generally  
9 available for use, and identifies the number of facilities that meet various  
10 definitions of "full capacity". I conclude that there are shortages of boxes at  
11 many facilities.

12 Section III challenges a key assumption underlying the OCA post office  
13 box fee proposal, specifically the assumption regarding the elasticity of  
14 acceptance among new customers. The elasticity of acceptance for post office  
15 box fee increases used by the Postal Service was based on a survey of existing  
16 customers. The OCA, however, applies this same elasticity estimate to new  
17 customers who would initiate box service in response to a fee decrease. This  
18 section explains how these two populations are distinct from one another such  
19 that the OCA's assumption overstates the likely number of new customers. I  
20 conclude that the analysis presented by the OCA represents an optimistic upper  
21 bound on cost coverage for its proposal, and that the likely result, if the OCA-  
22 proposed fees were implemented, would be a cost coverage of less than 100  
23 percent for post office boxes.

1           Section IV demonstrates that the pricing of post office box fees should  
2 take into account the market-based space provision costs if this case is to  
3 provide, as intended, a financial incentive for local postal managers to install new  
4 box sections to meet demand. The appropriate incentive exists for local  
5 managers only if the marginal revenues (at their facilities) exceed the marginal  
6 costs of expansion (at their facilities). Their cost estimates of expanding post  
7 office box service are based on current real estate market costs, unlike CRA  
8 costs which rely on depreciated book costs that are (on average) 25 percent  
9 lower. I conclude that in order to provide the appropriate incentive to local  
10 managers, the Commission should take this difference into account in pricing  
11 box fees.

12           Section V presents recent data on growth in the market for Commercial  
13 Mail Receiving Agents (CMRAs). The current annual growth rate is estimated at  
14 over 40 percent, indicating that this market is not in equilibrium. Since witness  
15 Sherman's estimation of CMRA costs presumes a market in equilibrium, that  
16 estimation is not valid.

1 II. MEASURES OF CAPACITY UTILIZATION

2 Many industries rely on the concept of "capacity utilization" to measure  
3 shortages and surpluses. Generally speaking, this ratio is defined with used  
4 capacity in the numerator and installed capacity in the denominator. In the  
5 context of post office boxes, capacity utilization is defined as the ratio of boxes in  
6 use to installed boxes.

7 It is important, however, to distinguish "available capacity" from "installed  
8 capacity", since some of the latter may be unavailable. As a result, an enterprise  
9 may be operating at "full capacity" when most, but not all, installed capacity is in  
10 use. Inconsistencies in the pattern of supply and demand are almost inevitable  
11 in geographically distributed industries (such as the Postal Service). In the  
12 airline industry, for example, capacity utilization is referred to as "load factor" and  
13 measured in fractional terms; a load factor of more than .75 is generally  
14 considered to mean very crowded airplanes. In this industry, some capacity is  
15 unavailable to meet demand because the geographic pattern of demand is  
16 different from the distribution of aircraft and because of aircraft in transition,  
17 among other things. The same is true in the railroad industry, where capacity  
18 utilization is measured separately for freight cars and locomotives.

19 An example that more closely resembles post office boxes is the housing  
20 industry, where vacancy rates greater than zero can nonetheless be considered  
21 "full occupancy". Housing stock may be unavailable due to tenants in transition  
22 or housing units under repair. A more familiar example is the national  
23 unemployment rate where, for example, six percent unemployed may

1 nonetheless constitute "full employment".<sup>1</sup> Similarly, as elaborated upon below,  
2 all installed post office boxes are not typically available for use so that "full  
3 capacity" is generally reached when less than 100 percent of installed boxes are  
4 actually in use.

5 With five different box sizes in five different delivery groups in post offices  
6 all across the country, there are many potential measures of post office box  
7 capacity. Useful measures of capacity can be developed by box size (or  
8 combinations thereof), by facility (or groups thereof), by delivery group, or by  
9 geographic area. Each of these may be informative, depending, in part, on the  
10 aspect of capacity that is being examined.

11 Two such measures have been presented in this proceeding. First, there  
12 is the 38 percent number presented in Table 6 of my testimony (USPS-T-4 at 9).  
13 Second, there is the 5 percent number presented by witness Callow (Tr. 5/1531).  
14 Both numbers are correct measurements of different aspects of capacity  
15 constraint.<sup>2</sup>

16 The first measure (38 percent) is the percentage of facilities that have a  
17 "capacity constraint" in any box size or, equivalently, in "at least one box size"  
18 (USPS-T-4 at 9). If a facility has such a capacity constraint, and a customer  
19 wants one of the box sizes that are "sold out", there are three possibilities: (1)

---

<sup>1</sup> Foster Associates, Foster Forecast, December 1, 1996, Bethesda MD, a copy of which is included in LR-SSR-160.

<sup>2</sup> All estimates of capacity constraints in this testimony and in my direct testimony, as well as that of witness Callow, are derived from the Post Office Box Study described in USPS-T-4. As such, only boxes in Delivery Groups I-A, I-B, I-C and II are considered. Capacity utilization for all box sizes is presented in LR-SSR-157.



1 the customer will go elsewhere, (2) the customer will pay more than planned, or  
2 (3) the customer will settle for a smaller box than needed. In each case, there is  
3 likely to be a dissatisfied customer. For an organization such as the Postal  
4 Service that focuses on customer satisfaction, avoidance of customer  
5 dissatisfaction is important. As shown (and precisely defined) on page 9 of  
6 USPS-T-4, a capacity constraint in at least one box size exists in 38 percent of  
7 all Group I and Group II offices.

8 The second measure (5 percent) is defined as the percentage of facilities  
9 where 100 percent of installed boxes are in use (Tr. 5/1531). It is clearly useful  
10 to know the number of facilities for which boxes are completely "sold out".

11 In developing this 5 percent number, witness Callow was careful to  
12 account correctly for those facilities offering fewer than five box sizes.  
13 Nevertheless, this measure fails to quantify adequately the number of offices  
14 facing capacity constraints since it confuses "boxes installed" with "boxes  
15 available", a confusion first introduced at page 12 of witness Callow's testimony  
16 (Tr. 5/1531).

17 For individual post offices, the number of available boxes is normally less  
18 than the number of boxes installed. On a nationwide basis, having all installed  
19 boxes in use is a virtual impossibility. Reasons for this include: (1) occasional  
20 need for repairs to boxes, box sections, or buildings; (2) misalignment of box size  
21 supply available at some offices with local demand at established fees; (3)  
22 shortages in some fast-growing and high-cost markets and surpluses in markets  
23 with population or economic decline; (4) administrative time required to close out

1 accounts and make released boxes available for use; and (5) miscellaneous  
2 delays, such as keys lost by customers who have moved. Thus, any complete  
3 picture of capacity constraints should include offices where the number of boxes  
4 in use approaches, but does not reach, the number installed.

5 Table 1 on the next page summarizes the actual numbers of boxes in  
6 different capacity utilization ranges by box size. The right column shows the  
7 percentage of total boxes, both installed and in use, in each range. As the table  
8 shows, 37 percent of installed boxes are in facilities in which over 90 percent of  
9 boxes are in use; 35 percent of total installed boxes are in use in these facilities.

10 It is interesting to note that, in each of the top three categories, utilization  
11 for size 1 boxes is well above the average for all box sizes in that capacity  
12 utilization range, whereas utilization for the other sizes is less than (or equal to)  
13 the overall average (again in the same range). This indicates that most capacity  
14 constraints occur in box size 1. This is also true when all utilization ranges are  
15 considered.

Table 1. Actual Capacity Utilization by Box Size and Range

Capacity Utilization Range	Box Size	1	2	3	4	5	Total	Percent of Total
90-100%	Installed	3,305,432	1,425,447	442,497	77,082	13,816	5,264,274	37 percent
	In Use	3,222,451	1,364,783	399,557	64,069	11,148	5,062,008	35%
	Ratio	97%	96%	90%	83%	81%	96%	
80-90%	Installed	1,936,529	860,209	273,536	47,642	9,492	3,127,408	22%
	In Use	1,723,153	700,488	204,931	31,929	6,217	2,666,718	19%
	Ratio	89%	81%	75%	67%	65%	85%	
70-80%	Installed	1,346,051	618,716	187,743	32,478	5,872	2,190,860	15%
	In Use	1,077,194	428,563	123,212	18,383	3,260	1,650,612	12%
	Ratio	80%	69%	66%	57%	56%	75%	
<70%	Installed	2,258,735	1,046,306	322,015	57,718	22,982	3,707,756	26%
	In Use	1,269,438	490,734	152,774	22,154	5,498	1,940,598	14%
	Ratio	56%	47%	47%	38%	24%	52%	
All	Installed	8,846,747	3,950,678	1,225,791	214,920	52,162	14,290,298	100%
	In Use	7,292,236	2,984,568	880,474	136,535	26,123	11,319,936	79%
	Ratio	82%	76%	72%	64%	50%	79%	

1 We have no direct measure of the percent utilization that represents full  
 2 capacity for post office boxes, but we can test the sensitivity of this measure of  
 3 capacity parametrically by defining full capacity at different values of the ratio of  
 4 boxes in use to installed boxes. This is done in Table 2 below for values of the  
 5 utilization ratio from 100 percent (as in witness Callow's testimony) to 85 percent.

<b>Full Capacity Utilization Rate</b>	<b>Number of Offices</b>	<b>Percentage of Offices</b>	<b>Number of Boxes at these Facilities</b>	<b>Percentage of All Boxes</b>
100 %	1,332	5.2 %	713,311	5.0 %
> 98 %	3,051	11.9 %	1,972,782	13.8 %
> 95%	5,077	19.8 %	3,336,169	23.4 %
> 90 %	7,989	31.2 %	5,264,274	36.8 %
> 85 %	10,770	42.1 %	6,939,693	48.6 %

6  
 7 In this table, the left-hand column shows different levels of capacity  
 8 utilization that can be defined as full capacity. The next two columns show  
 9 respectively the cumulative number and cumulative percentage of offices that  
 10 are at that level of utilization, and thus "at capacity". No distinction is made here  
 11 among box sizes: capacity utilization is simply the total number of boxes in use  
 12 at a particular office divided by the number of boxes installed at that office. For  
 13 example, if full capacity is defined as 98 percent of boxes installed, then on  
 14 average 2 percent of boxes are unavailable for one reason or another. With this  
 15 definition, the table shows that almost 12 percent of the facilities in Groups I and

1 II are capacity constrained. Similarly, if full capacity is defined at the 95 percent  
 2 level -- 5 percent of boxes unavailable on average -- then almost 20 percent of  
 3 facilities in these two groups are effectively sold out.

4 The last two columns show respectively the cumulative number and  
 5 cumulative percentage of boxes at these same facilities. As the table indicates,  
 6 those facilities at capacity generally have a disproportionately large number of  
 7 the installed boxes. With full capacity defined as 98 percent utilization, the 12  
 8 percent of offices at capacity have 13.8 percent of all installed boxes. At the 95  
 9 percent level, the 19.8 percent of offices at capacity have 23.4 percent of all  
 10 boxes installed.

11 Box size 1 is the most prevalent and most popular of the five different  
 12 sizes. Table 3 below is comparable to Table 2, except that it focuses exclusively  
 13 on size 1 boxes.

<b>Table 3. Cumulative Number of Post Offices At Capacity - Size 1</b>				
<b>Full Capacity Utilization Rate</b>	<b>Number of Offices</b>	<b>Percentage of Offices</b>	<b>Number of Boxes at these Facilities</b>	<b>Percentage of All Boxes</b>
100 %	2,524	9.9 %	874,840	9.9 %
> 98 %	5,142	20.1 %	2,141,881	24.2 %
> 95%	7,677	30.0 %	3,170,171	35.8 %
> 90 %	10,582	41.4 %	4,339,967	49.1 %
> 85 %	12,901	50.4 %	5,218,486	59.0 %

1           At the 98 percent level, over 20 percent of post offices are at capacity for  
2 box size 1. At the 95 percent level, almost one-third of all Group I and Group II  
3 offices are at capacity. Again, these are the larger offices, with a  
4 disproportionate number of the boxes installed.

5           Thus, the single measure of capacity that witness Callow relies upon  
6 overstates the inventory of boxes available for use by assuming that 100 percent  
7 utilization is universally possible. The extent of this overstatement can be judged  
8 by noting the increases in the number of facilities at full capacity if the definition  
9 of full capacity is set at more realistic (but still relatively high) levels, such as 98  
10 percent or 95 percent. In conclusion, these data show that there are many  
11 localities where consumer demand for boxes is not being met due to capacity  
12 constraints.

1 III. COST COVERAGE AT OCA-PROPOSED FEES

2 In his testimony, witness Callow presents on behalf of the OCA a  
3 proposed set of fees for post office boxes that he estimates will result in a cost  
4 coverage of 101 percent for this service (Tr. 5/1542 ). Of course, this level of  
5 cost coverage implies that boxholders would not make a significant contribution  
6 to institutional costs. Of more concern here, however, is the likelihood that the  
7 OCA-proposed schedule of fees, if adopted, would actually result in a cost  
8 coverage of less than 100 percent, meaning that boxholders would be  
9 subsidized by other postal customers, and the requirement that each service  
10 cover its attributable costs would be violated.

11 Witness Callow's analysis rests upon a critical assumption: that the  
12 elasticity of new boxholders, who would be attracted by proposed lower fees, is  
13 identical to the elasticity of existing boxholders. The latter elasticity was derived  
14 from an estimate of how existing boxholders would react to a fee increase. This  
15 study was done explicitly for this proceeding, as reported by witness Lyons  
16 (USPS-T-1, WP C at 2). Prospective boxholders attracted by a fee decrease  
17 were not included in this study. In effect, witness Callow assumes that the  
18 accept rate for prospective customers who are not now using post office box  
19 service is the same as the reject rate for existing customers.

20 Witness Callow explained that this boxholder elasticity was the only  
21 information he had, so he used it (Tr. 5/1617). While his use of the best  
22 available data may be laudable, in this instance he applied a measure derived  
23 from one population to another population, which -- logic would suggest -- differs

1 on the parameter measured. We know that (1) existing customers and (2)  
2 possible new customers are distinct with respect to their propensity to use post  
3 office boxes; customers have indicated their interest in post office box service by  
4 obtaining boxes, while non-customers have indicated their lack of interest by not  
5 obtaining boxes. A more realistic approach would be to assume that non-  
6 customers have a lower rate of response to fee changes than would existing  
7 customers.

8           The reason that the demand for post office boxes may well be  
9 asymmetrical is that, as witness Callow concedes, these two groups "start at a  
10 different place" [sic] (Tr. 5/1614). For most customers, the decision to use a post  
11 office box is a binary decision; you either have one or you don't. It is, in this  
12 sense, different from a commodity, such as First-Class Mail, which can be  
13 purchased in greater or lesser amounts. Because of the relatively low fees for  
14 post office boxes, the decision to obtain box service is not driven primarily by  
15 price, but by specific needs and by convenience. This is corroborated by the fact  
16 that so many people are willing to pay much higher fees for CMRA boxes.

17           A second factor contributing to the asymmetrical demand is that box  
18 shortages occur at some locations, as shown in the previous section of this  
19 testimony. Even if some new customers were attracted by a fee decrease from  
20 \$40 to \$32 annually (as proposed by witness Callow for size 1 boxes in Delivery  
21 Group I-C), the boxes may not be available where needed. While existing  
22 customers choosing to stop box service may implement that decision through  
23 inaction (failure to renew service), new customers must affirmatively follow



1 through to obtain service. The necessary follow-through could become  
2 logistically more difficult if the location chosen for new box service faces a  
3 capacity constraint in the box size desired. In contrast, when fees are increased  
4 and some existing customers decline, their places may be taken by those on  
5 waiting lists willing to pay the higher fee.<sup>3</sup>

6 Lacking specific data on prospective customers, the analysis below varies  
7 the elasticity for this group parametrically. The assumption used by witness  
8 Callow -- that the elasticity for fee decreases is identical to that for fee increases  
9 -- can be considered an optimistic upper bound. The actual cost coverage that  
10 would result were his proposal implemented would almost certainly be less. A  
11 lower bound to the cost coverage that would result can be determined by  
12 assuming that the rate decreases would not attract any new customers (no new  
13 boxes). In addition to these two limiting cases, a mid-range value for the  
14 elasticity of acceptance, exactly halfway between the two extremes, has been  
15 analyzed.

16 For purposes of this analysis, there are three categories of boxholders:

- 17 (1) Delivery Group II and Size 5 boxes in Delivery Group I  
18 (2) Size 4 boxes in Delivery Group I.  
19 (3) Remainder of Delivery Group I.

20 For the first category, the recommended fees are higher for both Postal  
21 Service and OCA proposals. The elasticities developed by witness Lyons apply

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<sup>3</sup> Witness Callow suggests that new customers attracted by a fee decrease may come from waiting lists. (Tr. 5/1609). However, lowering fees will not create new boxes. Rather, it would likely inhibit needed expansion, as shown in Section IV below.

1 to this category of customers, and the estimated decrease in the number of  
2 boxholders is the same for both proposals.

3 For the third category, the OCA has recommended fee decreases. There  
4 may be new customers attracted by the reduced fees. The elasticity of  
5 acceptance of these prospective customers was varied in this analysis as  
6 described below.

7 The second category can be handled as part of either of the other two.  
8 The OCA-proposed fees do not change from current fees, and therefore the  
9 numbers of boxholders do not change.

10 The issue in this analysis is how many new customers would likely decide  
11 to use post office boxes based on the OCA-proposed fee decreases. To  
12 estimate the sensitivity of the cost coverage to this critical parameter, the  
13 acceptance rate was varied for category 3 above. Three separate cases are  
14 defined as follows:

- 15 1. Upper bound: OCA elasticities used.
- 16 2. Lower bound: Elasticities set to zero. (No new boxes).
- 17 3. Mid-range: Mid-point elasticities used.

18 The results are shown in Table 4 on the next page.<sup>4</sup>

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<sup>4</sup> The spreadsheets on which Table 4 is based were derived from OCA-LR-3 (revised November 5, 1996), and are included in LR-SSR-158.

<b>Table 4. TYAR Cost Coverage as a Function of the Elasticity of Acceptance (dollars in thousands)</b>			
	<b>Upper Bound (OCA Proposal)</b>	<b>Mid-Range</b>	<b>Lower Bound (No New Boxes)</b>
<b>TYAR Revenue</b>	\$535,303	\$516,728	\$498,154
<b>TYAR Cost</b>	\$529,832	\$527,143	\$524,455
<b>Contribution</b>	\$ 5,472	(\$10,415)	(\$26,301)
<b>Cost Coverage</b>	101 %	98 %	95 %

1

2           The table shows that, as the elasticity of acceptance declines, both  
3 revenues and costs decline, but revenues do so at a greater rate -- resulting in  
4 declining contribution and cost coverage. In all likelihood, new customers would  
5 be attracted at a lower rate than existing customers and, hence, adoption of the  
6 OCA proposal is likely to result in a negative contribution and a cost coverage of  
7 less than 100 percent.

1 IV. ACTUAL COSTS OF EXPANDING POST OFFICE BOX SERVICE

2 The Commission requires that book costs of space provision be used in  
3 the calculation of attributable costs. Attributable space provision costs are  
4 "capped", or cannot exceed, book costs. See Docket No. R76-1, PRC Op., App.  
5 J at 177-187 and Docket No. R90-1, PRC Op. at III-102. If attributable space  
6 provision costs were based on market rental rates without capping, they would  
7 be \$1.413 billion for the Postal Service as a whole. LR-SSR-100, page II-1, item  
8 14. However, these costs are capped at book costs of \$1.128 billion in witness  
9 Patelunas' testimony. LR-SSR-100, page II-1, item 10. Attributable space  
10 provision costs are thus below the level that would obtain if market rental rates  
11 were used.

12 Nonetheless, there is a real cost/revenue trade-off that postal managers  
13 must address when evaluating whether to expand post office box service to meet  
14 new customer demand. When justifying the expansion of post office box  
15 sections, local postal managers base their decisions on a comparison of the  
16 costs of expansion with the expected additional revenues. Thus, if this  
17 proceeding is to produce an incentive for these local managers to expand their  
18 box sections to meet new demand, consideration of market-based costs for  
19 space provision is essential in setting the prices for those boxes.

20 Attributable space provision costs for FY96 are 79.8 percent of the market  
21 rental rate ( $\$1.128 / \$1.413 = .798$ ). This translates into a 25 percent premium  
22 for market-based space costs. This premium applies to each category of space  
23 provision costs, such as post office boxes. Applying this factor to the FY96

1 space provision cost of \$186 million developed by witness Callow (OCA-LR-3,  
 2 revised November 5),<sup>5</sup> produces an estimate of \$233 million for attributable  
 3 market-based space provision costs for that year.

4 Substituting \$233 million for \$186 million for total space provision costs in  
 5 the standard spreadsheets (developed in this proceeding by OCA and adapted  
 6 by the USPS) allows one to compare the difference in cost coverage for post  
 7 office boxes using market and book costs. The results are shown in Table 5 for  
 8 the test year before rates (TYBR).<sup>6</sup>

<b>Table 5. TYBR Cost Coverage Market vs. Book Space Provision Costs (dollars in thousands)</b>		
	<b>Book Costs</b>	<b>Market Costs</b>
<b>Revenue</b>	\$528,536	\$528,536
<b>Cost</b>	\$529,374	\$576,366
<b>Contribution</b>	(\$838)	(\$47,830)
<b>Cost Coverage</b>	100 %	92 %

9

10 Table 5 shows that using market-based space provision costs drops the  
 11 post office box cost coverage before rates by 8 percentage points -- from 100

<sup>5</sup> In developing this number, witness Callow used the procedures outlined in my testimony for space provision costs. However, in FY95, the Postal Service changed its cost methodology. As a result Cost Segment 20 should be adjusted to take out equipment interest (and add it to All Other costs). This correction is small and has no effect on the significant digits in this analysis. Details on this adjustment are presented in LR-SSR-159.

<sup>6</sup> Supporting documentation appears in LR-SSR-159.

1 percent to 92 percent. For any of the other fee proposals, the result would be  
2 about the same: a drop of about 8 percentage points in the cost coverage.<sup>7</sup>

3 Of course, the imputed cost coverage calculated in this way is a system-  
4 wide average. Where space costs are relatively higher, the local cost coverage  
5 will be even lower. It is just those areas that are most likely to need new post  
6 office boxes.

7 A postal manager facing the decision to expand post office box service  
8 thus has a far higher hurdle to overcome in justifying expansion than that implied  
9 by traditional cost coverages based on depreciated book costs. Decisions to  
10 expand box service are usually initiated by local postal officials. The revenues  
11 and costs are reflected in the budget of local managers, and ultimately in how  
12 their performance is evaluated.

13 Thus if projected revenues fall short of actual costs, a rational manager  
14 would choose not to invest. Even if revenues exceed costs, the return must be  
15 sufficient compared with alternative investments.

16 The bottom line is that, unless revenues are sufficiently above actual  
17 costs, which include market rental costs, expansion of the numbers of post office  
18 boxes to meet new demand will be adversely affected. This would be  
19 unfortunate because, as a comparison with CMRA prices shows, post office  
20 boxes are underpriced and could readily bear a greater portion of institutional

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<sup>7</sup> Space provision costs for FY96 are about 35% of total costs attributable to post office boxes. Applying the 25% market premium, yields an estimated overall cost increase of 8.8% (.25 \* .35). Since revenues remain constant, the cost coverage changes by a factor of  $.92 = 1 / 1.088$ .

- 1 costs. This aspect of postal costing should be kept in mind in determining the
- 2 appropriate CRA-based cost coverage for post office box service.

1 V. CMRA MARKET GROWTH

2 On cross-examination, witness Sherman surmised that CMRA costs of  
3 providing box service are higher than those of the Postal Service based on the  
4 higher prices that CMRAs charge their customers (Tr. 7/2433-35). He also  
5 agreed that such a conclusion is possible only when the relevant market is "in  
6 long-run equilibrium" (Tr. 7/2434).

7 Based on information gathered during this proceeding, the CMRA market  
8 has not yet reached equilibrium. In an interview on October 11, 1996, a  
9 representative of the Associated Mail and Parcel Centers (AMPC) of Napa,  
10 California - the trade association for CMRAs - defined its membership as  
11 operations "like Mail Boxes, Etc.", although they tend to be "independents".  
12 (Bulk mailers and vendors are not included.) According to the AMPC  
13 representative, AMPC at that time had about 9,000 CMRAs on its mailing list. In  
14 a statement before the House Subcommittee on the Postal Service in  
15 September, 1996, the president of AMPC estimated the industry total was "over  
16 10,000 mail and parcel centers nationwide".<sup>8</sup> In a 1994 circular, AMPC reported  
17 a total of 5,000 CMRAs.<sup>9</sup>

18 As of December 31, 1992 the Census of Service Industries, published by  
19 the United States Department of Commerce, reported that there were 2,514

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<sup>8</sup> Statement of Charmaine Fennie, before the House Subcommittee on the Postal Service, September 26, 1996. Supporting materials cited in this section are provided in LR-SSR-160.

<sup>9</sup> AMPC, Membership Benefits, October, 1994, Napa, California.



1 CMRAs nationwide.<sup>10</sup> The Economic Census provides a detailed portrait of the  
2 U.S. economy every five years. In 1987, data for "private mail centers" were  
3 aggregated in a miscellaneous category and thus are not available.<sup>11</sup>

4 An entity that doubles in two years is growing at an annual rate of 41.4  
5 percent. These data suggest that the number of CMRAs doubled between 1992  
6 and 1994, and again between 1994 and 1996.

7 Thus, taken together, the data portray an explosive growth rate for  
8 CMRAs, in excess of 40 percent per year over the past four years. Even  
9 allowing for the definitional differences in data between the Department of  
10 Commerce and the industry trade association, it seems clear that this is not a  
11 market "in long-run equilibrium".

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<sup>10</sup> Bureau of the Census, Data User Services Division, 1992 Economic Census CD-ROM Report Series, Washington, DC . A copy of this reference is available in the library at Postal Service headquarters.

<sup>11</sup> Private mail centers are defined by the Census Bureau as establishments engaged primarily in providing mailboxes and other postal and mail services.