ORIGINAL

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

SPECIAL SERVICES REFORM, 1996	Docket No. MC96–3

INITIAL BRIEF OF UNITED STATES POSTAL SERVICE

UNITED STATES POSTAL SERVICE

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STATEMENT OF THE CASE

On June 7, 1996, the United States Postal Service filed with the Postal Rate Commission (hereinafter "Commission") the Request of the United States Postal Service for a Recommended Decision on Special Service Changes (hereinafter "Request") This Request was filed in accordance with 39 U.S.C. §§ 3622 and 3623, and the Commission's rules of practice and procedure.

The Request, based on a test year of Fiscal Year 1996 (FY 1996), proposes changes to the classifications and fees for the post office box (including caller service), certified mail, return receipt, insurance, and registry services. It proposes to eliminate special delivery service. It also proposes to treat the production of postal cards as a new special service, separate from the postage that such cards require, and to rename postal cards as "stamped cards."

The Request was accompanied by eight pieces of direct testimony sponsored by seven witnesses, with exhibits and workpapers related to these testimonies, as well as other material responsive to the Commission's rule 54.

The Postal Service's Request was set down for hearing by the Commission as Docket No. MC96-3. Twenty-one parties have intervened. By Order No. 1115, issued on June 12, 1996, the Commission elected to sit *en banc*, and designated W. Gail Willette, Director of the Commission's Office of the Consumer Advocate, to represent the general public in the proceeding. By separate notice, Chairman Edward J. Gleiman designated Commissioner H. Edward Quick to serve as Presiding Officer.

The Commission held a prehearing conference on July 12, 1996. Following an opportunity to comment at the Prehearing Conference, the Presiding Officer issued special rules for the proceeding and a procedural schedule.

Postal Service witnesses and the Postal Service itself responded to over 600 written interrogatories, consisting of many more individual questions. Most of these were filed during the regular discovery period on the witnesses' direct testimonies, which ended on August 12, 1996. Later interrogatories were filed on witnesses as follow-up. Moreover, a special discovery period for obtaining "information (such as operating procedures and data) available only from the Postal Service" ran through November 15, 1996. Responses to discovery requests to the Postal Service and its witnesses were generally provided within 14 days, as prescribed by the special rules. Evidentiary hearings on the Postal Service's case began on September 9, 1996, and continued through September 11, 1996.

The Commission issued one Notice of Inquiry. The Presiding Officer issued six Information Requests, which contained 66 questions, many with multiple subparts, on a variety of issues. The Notice of Inquiry and the Presiding Officer's Information Requests dealt both with issues that had been raised by participants as well as with issues that had not been advanced by any participant.

The direct cases of participants other than the Postal Service, and their rebuttal to the Postal Service's direct case, were filed on September 30, 1996. By Order No. 1129, issued August 8, 1996, moreover, the Commission enlarged the scope of the case to consider the appropriateness of establishing a separate rate category for bulk, non-automated Business Reply Mail (BRM), as requested by Nashua Photo, Inc. and Mystic Color Lab (Nashua/Mystic). Nashua/Mystic, joined by Seattle FilmWorks, filed their direct case on BRM issues on October 9, 1996. On December 19, 1996, however, following the Postal Service's filing of an experimental case on BRM issues responsive to the intervenors' concerns, the Presiding Officer granted these parties' motion to withdraw their proposal.[1]

In accordance with the special rules for this proceeding, intervenors responded to interrogatories within 14 days. The period for conducting discovery on participants' cases ended on October 30, 1996. Evidentiary hearings on these cases, including the appearance of seven witnesses sponsoring seven separate testimonies, began on November 18, 1996, and continued through November 25, 1996. On November 25, 1996, the Postal Service provided an additional witness to discuss implementation issues related to the post office box service proposals.

The Postal Service filed rebuttal testimony of six witnesses (two of which were later withdrawn, *see* n. 1) on December 6, 1996. Evidentiary hearings were held on December 16 and 17, 1996. The complete evidentiary record consists of more than 3600 transcribed pages in addition to the direct case of the Postal Service.

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[1] Presiding Officer's Ruling No. MC96-3/31. Concurrently, the Postal Service withdrew its two pieces of rebuttal testimony on BRM issues. Tr. 10/3627.

The date for filing of briefs was set for January 14, 1997, with January 21, 1997 set for filing reply briefs.

I. THE POSTAL SERVICE IS PROPOSING SPECIAL SERVICE REFORMS TO REFLECT MARKETPLACE AND COST CONSIDERATIONS.

The Postal Service's proposals in this docket are intended to bring certain special services more in line with marketplace and cost considerations. In particular, reform objectives include more market-based prices, more equitable contributions to institutional costs for the services, and realignment and streamlining of certain services to make them more useful for and easily understood by customers. USPS-T-1 at 1-2.

Thus, the Postal Service proposes reforms for six special services, as well as the creation of a new special service for postal cards. In particular, for post office boxes, the Postal Service proposes the merger of the fee groups for city carrier delivery and non-city carrier delivery offices, fee increases of varying amounts, a new fee for customers who obtain box service away from the office that provides their free delivery option, and boxes at no charge for many customers who are ineligible for any carrier delivery. For certified mail, the Postal Service proposes an increased fee to reflect an improved cost coverage calculation, and value of service. For return receipts, the two basic types of return receipt service would be merged into an intermediate service offering. The Postal Service proposes a similar change for return receipt for merchandise service, which in addition would be limited to Priority Mail and certain Standard Mail subclasses.

For insurance, the Postal Service proposes increasing the maximum indemnity available for insured mail from $600 to $5,000, and the maximum indemnity for merchandise sent by Express Mail from $500 to $5,000. The Postal Service also proposes to reduce the maximum indemnity for Express Mail document reconstruction from $50,000 to $500 per piece and from $500,000 to $5,000 per occurrence. For registered mail, the Postal Service proposes to eliminate the uninsured registry mail option for items valued above $100. For postal cards, the Postal Service proposes a new special service fee of two cents to recover the manufacturing costs for these cards directly, reflect their service value, and provide consistent treatment with stamped envelopes. The Postal Service also proposes to rename postal cards as "stamped cards". Finally, the Postal Service proposes the elimination of special delivery service.

These reform proposals meet a variety of goals. The proposals for post office box and caller service, certified mail, and return receipts are designed to reflect value of service properly, especially since full recognition of such value was explicitly deferred during the last omnibus rate case.[2] The proposals for caller service, box service at non-city carrier delivery offices, and postal cards are designed to align fees more with costs.[3] Enhanced levels of service are proposed for insurance and basic return receipts.[4] The proposals for return

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[2] USPS-T-1 at 6; USPS-T-7 at 31-32; USPS-T-8 at 68.

[3] USPS-T-1 at 14-15; USPS-T-7 at 23, 37.

[4] USPS-T-1 at 3-4.

receipts, postal cards, special delivery, registered mail, and Express Mail document reconstruction are focused on streamlining products and making them more understandable for customers.[5] Finally, several proposals, including insurance, postal cards, post office box service, certified mail, and return receipts, are designed to reflect market conditions and offerings by alternate providers.[6]

II. RATE AND FEE CHANGES OUTSIDE OF AN OMNIBUS RATE CASE ARE PERMITTED BY THE POSTAL REORGANIZATION ACT, EVEN IF THEY INCREASE NET REVENUE.

Consistent with these goals, and the Postal Reorganization Act's authorization of requests for "changes in *a rate* or rates of postage or in *a fee* or fees for postal services",[7] the Postal Service is requesting selective reform proposals in this docket. If the Postal Service's proposals (especially those for increased contribution to institutional costs for post office boxes, certified mail, and return receipts) are adopted, they would result in increased net revenue of $339.4 million.[8] These revenue gains are the consequence of proposals that are

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[5] USPS-T-1 at 4, 15-16; Tr. 2/79, 91.

[6] USPS-T-1 at 12-13.

[7] 39 U.S.C. § 3622(a) (emphasis added).

[8] USPS-T-1 at 9. This is based on a test year of FY 1996, selected by the Postal Service as a moderate basis for cost and revenue projections, that conforms to the Commission's rules for selecting a test year. USPS-T-1 at 7. Note that the adjusted certified mail volumes presented in response to POIR No. 5, Question 1 (Tr. 8/3023) would reduce this additional contribution by about $4.4 million, to $335.0 million. (TYBR revenues = $1.10 x 276,538,000 = $304,191,800; TYAR revenues = $1.50 x 265,261 = $397,891,500. Revenue increase = $93,699,700, instead of $98,131,000 in Exhibit USPS-T-1A.)

independently justified by pricing and other objectives discussed below.[9] For example, the low test year before rates cost coverages for post office boxes (100 percent)[10], certified mail (102 percent),[11] and return receipts (127 percent)[12] would support the proposed changes notwithstanding the revenue effect, especially because such adjustments were deferred in the last general rate case.

An alternative would be to continue deferring these improvements until the next omnibus case. Having concluded that its proposals further the policies of the Act, Postal Service management is pursuing these changes now, rather than later. In this regard, they have determined that postponing good ideas for reforming postal products until an as-yet-unscheduled omnibus rate case is filed, or insisting on holding every limited rate case to a standard of "revenue neutrality", is not required by the Act, and would have unbusinesslike consequences. As witness Lyons states in rebuttal:

> It does not make sense to spend time and resources searching for ways to justify revenue reductions just for the sake of achieving a short term net balance. Such an approach is not likely to make the customer subject to an increase feel any better, and would be inconsistent with Postal Service goals of net revenue generation and equity restoration. There is no reason to force the concept of

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[9] *See* Tr. 2/207.

[10] Exhibit USPS-T-1C.

[11] Tr. 8/3023 (Response to POIR No. 5, Question 1, Table 1).

[12] Exhibit USPS-T-1C.

> revenue neutrality onto all reform proposals when additional net revenue is a consequence of reform.

USPS-RT-1 at 4.[13]

A. The Net Revenue Increase That Would Result From The Postal Service's Proposals Is Consistent With The Postal Service's Goal For Restoration Of Equity.

Additional net revenue resulting from this docket would promote the Postal Service's legitimate financial policy objectives, including the goal of recovering prior years' losses (PYL) so as to break-even over time. In Docket No. R94-1, Postal Service witness Bjorn advocated the development of approaches to build equity. Docket No. R94-1, USPS-T-10 at 15. The Commission supported such an undertaking. PRC Op., R94-1, at II-23-24.

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[13] Not only does slavish adherence to a concept of revenue neutrality not make business sense, but it is also unclear how and when its proponents would implement that concept. For example, OCA witness Thompson indicates that "at least two necessary conditions" must be met before a selective rate increase would be appropriate. Tr. 5/1408-10. She says:

> First there must be a *new* net revenue need that could not have been foreseen in the last general rate case, is not covered by the contingency provision, and is not offset by unexpected net revenue surplus. Second, there must be a causal connection between the new net revenue need and the categories of mail targeted for rate increases.

Id. at 1409. Witness Thompson implies, however, that even existence of these two "necessary conditions" may not be sufficient. *Id.* Moreover, her testimony concerning when these two "necessary conditions" might occur was woefully lacking in specifics. For instance, when asked what she meant by the term "unexpected net revenue surplus," witness Thompson said that "[u]nexpected is unexpected. It is not explained, you don't foresee it, and I can't give you an example of what would be expected." *Id.* at 1500.

Soon after Docket No. R94-1, Price Waterhouse provided the Postal Service with "A Report on the Need for Equity Restoration and the Recovery of Prior Years' Losses." Library Reference SSR-112. This report specifically recommended "ratemaking reform initiatives such as demand-based pricing, experimental testing of new products, and procedural adjustments which will allow the Postal Service to react more quickly to market changes and revenue needs". *Id.* at 16.

In response to this Report, the Board of Governors, in Resolution No. 95-9, "affirm[ed] the Postal Service's commitment to the goals of breaking even over time and taking actions to improve its equity position." Specifically, the Board stated "[t]he Postal Service will plan for cumulative net income, in the period since implementation of the rates adopted in the most recent omnibus rate proceeding, *to equal or exceed the cumulative prior years' loss recovery target* for the same period."[14] As witness Lyons points out, by approving the Docket No. MC96-3 filing and an FY 1997 operating budget with a surplus, the Board of Governors has acted to take advantage of this period of strong performance by the Postal Service to continue restoring equity at a faster rate than anticipated in Docket No. R94-1. USPS-RT-1 at 2.

As witness Lyons explains, despite the favorable financial results in FY 1995 and FY 1996, the Postal Service continues to have a substantial amount of PYL. USPS-T-1 at 9-11; USPS-RT-1 at 2-3. The additional revenue that would

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[14] Library Reference SSR-112 (emphasis in original). *See* USPS-RT-1 at 1-3.

result from implementation of the Postal Service's proposal in this docket will further the goal of restoring equity. Witness Lyons concludes that:

> the responsible course of action is to restore additional equity now that will mitigate general rate increases in the future. The revenue reforms proposed in this docket do just that and are consistent with our legal mandate and sound business practice.

USPS-RT-1 at 3.

Moreover, in Docket No. R94-1 the Postal Rate Commission emphasized the importance of the Postal Service's restoring its equity. The Commission concluded that the Postal Service's financial position was sufficiently adverse that additional means might be needed to restore equity beyond the PYL amount recommended in that case. PRC Op., R94-1, at II-23. *Id.* at II-34. With respect to the need to align rates with costs to achieve break-even, moreover, the Commission quoted UPS witness Geddes with approval:

> As witness Geddes contends, "If the break-even requirement is to perform its function, the Postal Service must face the economic consequences of raising rates to reflect its costs." Tr. 14A/6731.

Id. at II-33. The Commission also stated pointedly that "[o]nly Postal Service management can assure that the Service operates on a break-even basis and restores its equity position." *Id.* at II-34.

In filing this case, Postal Service management is requesting special service reforms, including fee increases, that would build on its recent success in restoring equity. While the Postal Service is taking many other actions directed at the same objective, rate and fee increases require Commission support, which the Postal Service is seeking in this docket.

Any enhancement of the Postal Service's ability to recover PYL resulting from this docket would work to the benefit of all customers in the future. As PYL are reduced, the amount for recovery of prior years' losses (RPYL) through rates and fees will also be reduced. For example, witness Lyons has observed that the PYL recovery that has already taken place in recent years will reduce the RPYL amount in the next rate case by about $400 million per year. Tr. 9/3367, 3369-70. Implementation of the proposals in this docket would produce additional recovery, and a concomitant reduction in the RPYL amount in the next omnibus case.

Recommending net revenue gains through proposals made outside of an omnibus rate case would not be unprecedented. In Docket No. R78-1, the Commission recommended a nonstandard surcharge for First-Class Mail, even though that recommendation would produce $80 million in additional net revenue.[15] In making its recommendation, the Commission endorsed the use of additional revenue to reduce prior years' losses. The Commission stated:

> In light of the Postal Service's accumulated deficit from operations as of September 30, 1978, of $3,843 million, $379 million in FY 1978 alone, we do not find it necessary to make compensating reductions in other rates to avoid violating the break-even requirement of § 3621. Any surplus which may arise from the surcharge will only be temporary since in the next major rate case all rates will be adjusted to provide for "break-even." If the recommended seven cent surcharge does indeed result in a surplus for the Postal Service for a

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[15] Since the total revenue requirement in the previous omnibus rate case, Docket No. R77-1, was about $17.6 billion, less than one-third of the Docket No. R94-1 revenue requirement, the $80 million amount is comparable proportionately to the $339 million in additional net revenue requested in Docket No. MC96-3. *See* PRC Op., R77-1, Vol. 1, at 21; PRC Op., R94-1, at i.

> fiscal year it will offset prior year losses which, as we indicated, now equal $3,843 million.

PRC Op., R78-1, at 56 (footnote omitted). As the Commission pointed out, any revenue imbalance resulting from an interim classification case would only last until the next omnibus rate case. In an omnibus case, any additional revenues generated by these special services will contribute to overall revenue needs and will tend to have the effect of holding other rates or fees down, within the context of test year break-even objectives. Furthermore, any perceived revenue imbalance is likely to be short-lived, especially when new rates or fees from an interim case would not be implemented until more than two years after rates were implemented following the last omnibus case.[16]

B. The Additional Revenues And Improved Contributions Resulting From These Proposed Reforms Will Promote Future Rate Stability.

As discussed above, implementation of the reforms proposed in this docket would tend to suppress the RPYL amount of the revenue requirement in the next omnibus case. This will benefit all classes of mail and special services to some extent. Moreover, the higher cost coverages proposed for post office box and caller service, certified mail, and return receipts would diminish the need for future increases for these services. Tr. 2/217-18; USPS-T-7 at 42-43. Thus, witness Lyons concludes that, coupled with the Postal Service's efforts to control costs

[16] Rates and fees recommended in Docket No. R94-1 were implemented on January 1, 1995, more than two years ago.

and increase revenues without rate and fee increases, the proposals in this docket would help moderate future rate increases. USPS-T-1 at 3, 11.

C. The Selective Nature Of The Postal Service's Filing Allows For More Efficient Use Of Resources, And Better Analysis And Data To Be Provided To The Commission.

Other byproducts of the selective nature of the proposals in this docket include enhanced abilities to: (1) manage limited resources and focus their use, (2) control timing, (3) develop a variety of studies and analyses to support the reforms, and (4) achieve the filing goals discussed by witness Lyons.[17] For example, Postal Service witness Steidtmann explains that "a selective review of products and prices is advantageous since it allows for greater analysis of those products that would most benefit from adjustment." USPS-T-2 at 1; *see also,* Tr. 4/941-42. Moreover, Dr. Steidtmann notes that by litigating special service reforms outside of an omnibus proceeding, the proposals can be addressed without being overshadowed by other rate and classification issues. *Id.*

D. The Commission Can Apply The Statutory Pricing Factors Despite The Selective Nature Of This Filing.

Witness Lyons presents the cost coverages that will result from the Postal Service's proposals in this docket, and finds them to be consistent with the systemwide cost coverage of 157 percent established in the most recent omnibus rate case, Docket No. R94-1.[18] USPS-T-1 at 20. In fact, all but two of the

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[17] USPS-T-1 at 2-3; Tr. 2/61, 201-202.

[18] Witness Lyons also asserts that the 157 percent is relatively close to the systemwide cost coverages established in the last few omnibus rate cases. Tr.

proposed cost coverages are below that systemwide cost coverage, and these two exceptions -- the proposed cost coverages for return receipts and the proposed stamped card special service -- are not much above that cost coverage. *See* Exhibit USPS-T-1C.

The selective changes proposed in this docket furthermore are limited to special services. Unlike the cost coverages for the classes of mail, cost coverages for these special services have not in the past been set with specific reference to cost coverages for the classes of mail. *See* Tr. 7/2444-45. Moreover, the Postal Service explicitly recognized in Docket No. R94-1 that the cost coverages for post office box and caller service, and for certified mail, were lower than they would be under circumstances other than those resulting from the Postal Service's across-the-board approach in that docket. Docket No. R94-1, USPS-T-11 at 61, 66.

Even if it is concluded that cost coverages for the special services in this docket must be established with reference to other cost coverages, the information to do so is available. Witness Patelunas's Exhibits USPS-T-5G and USPS-T-5J present cost coverages for the classes and subclasses of mail and for the special services both before and after implementation of the proposed special service changes. USPS-RT-1 at 6. Moreover, witness Patelunas also presents a complete set of cost coverages for FY 1995, the Docket No. R94-1 test year. Exhibit USPS-T-5C at 1, 16. No participant has asserted that any of the cost

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2/82.

coverages proposed by the Postal Service in this docket are out of line with the cost coverages for all classes and special services that resulted from Docket No. R94-1, and no such assertion would be justified.

III. THE POSTAL SERVICE HAS CORRECTLY ATTRIBUTED AND DISTRIBUTED COSTS TO EACH SUBCLASS AND SPECIAL SERVICE.

Cost attribution and distribution are the joint starting points for postal ratemaking. In USPS-T-5, the Postal Service's costing witness, Mr. Patelunas, presents the development of costs for the base year. At pages 3 to 4, witness Patelunas identifies the concepts which guide the process of allocating postal costs. As in previous proceedings, costs that are variable with mail volume, or costs that are fixed but are specific to one subclass or special service, are considered attributable. Specific fixed costs comprise but a small fraction of all postal costs. Costs that are not volume variable and not specific fixed are considered institutional costs.

As required by Commission rules, the Postal Service has submitted information regarding the attribution and distribution of all categories of postal costs for all subclasses and special services, even though "[t]he Postal Service does not intend to open up for consideration any rates or fees other than those directly affected by its proposal." Request at 3. Also, in compliance with Commission rules, the Postal Service presented Base Year 1995 costs in accordance with its Cost and Revenue Analysis ("CRA") report costing methodology. USPS-T-5 at 7-8. Witness Patelunas's testimony traces the evolution of the Postal Service's costing methodology from Docket No. R90-1 to the present, including a detailed description of changes from Fiscal Year 1994 to Fiscal Year 1995. USPS-T-5 at 5-11.

In addition, witness Patelunas explains the development of cost reduction and other program factors, and demonstrates their distribution to the subclasses of mail and special services in Appendix A. Also, in Appendix B, Mr. Patelunas develops cost adjustments to reflect the diversion of mail from post office box delivery to street delivery, assuming implementation of the Postal Service's post office box proposal.

The OCA and MMA have disagreed with various aspects of the Postal Service's costing approach. The OCA has raised concerns with certified mail and post office box attributable costs. MMA has taken issue with the Postal Service's use of its own, rather than the Commission's, costing methodology. Both the OCA's and MMA's concerns are misplaced, as discussed below.

A. The Cost Information Presented By The Postal Service Is Accurate And The Best Available.

1. Accurate certified mail costs have been presented in this docket.

The total attributable costs of certified mail for Base Year 1995 are $281,429 million. Exhibit USPS-T-5A at 8. These costs are "pure" certified mail costs, *e.g.* they do not include costs for ancillary services, such as return receipt service. Tr. 8/3076 (Answer of Richard Patelunas to Presiding Officer's

Information Request No. 5 to United States Postal Service, Question 1(a)); *see also* Tr. 9/3490.

The OCA has attempted to raise the specter of an unclear record regarding the Postal Service's certified mail proposal, yet the OCA's own witnesses basically admit that they do not question the total certified mail attributable costs, but rather the manner in which cost coverages for certified mail are calculated. For example, witness Sherman generally agrees that past errors had been made in cost coverages, not costs, as reflected in the following exchanges:

> Q Where do you draw the conclusion that there's been a longstanding error in costs?
>
> A Well, it's cost coverage.
>
> * * * *
>
> Q Now you state that witness Needham's testimony indicates that an inconsistent treatment of return receipt costs and revenues had led historically to faulty cost coverages for Certified Mail; correct costs would match costs with revenues to yield a cost coverage calculation for Certified Mail that would be correct.
>
> Okay. Here your reference to correct costs is not a challenge to the costs that have been presented for Certified Mail, is that right?
>
> A I don't think I'm challenging the costs. In witness Needham's testimony there was a reference to cost coverage. There was not detailed information about costs.
>
> ****
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> Q As I understand that response, you are simply stating that -- your reference to the inconsistent treatment of historic Certified Mail cost coverage calculations has to do with whether or not ancillary service revenues were included in the Certified Mail revenues.

A Yes.

Tr. 7/2428-2430.

Moreover, the OCA and the Postal Service entered a Stipulation in this docket, agreeing that "[w]itness Needham has not filed testimony regarding the accuracy of certified mail costs used calculating the certified mail cost coverage in any docket other than Docket No. R90-1." Stipulation, November 25, 1996 at 2-3, para. 1(c).[19] Thus, the certified mail costs presented in this docket are accurate and should be used by the Commission as part of the basis for recommending the Postal Service's certified mail proposal.

2. Post office box delivery cost savings are properly reflected in the Postal Service's proposal.

The Postal Service has taken account of the potential savings from delivering mail to a post office box rather than to a street address in its proposal. Witness Patelunas develops cost adjustments to reflect the diversion of mail from post office box delivery to street delivery, assuming implementation of the Postal Service's post office box proposal, in Appendix B to USPS-T-5. As witness Patelunas explains:

> Appendix B presents the development of the cost adjustments resulting from proposed changes in fees for Post Office Boxes. The

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[19] In fact, in Docket No. R90-1, the attributable costs for certified mail presented by the Postal Service's costing witness were not inaccurate. Rather, the Postal Service pricing witness in that docket "erroneously subtracted an amount representing ancillary service *costs* from the CRA certified mail costs (which did not include ancillary service costs), resulting in an inflated proposed cost coverage." USPS-RT-4 at 4, Tr. 9/3451 (footnote omitted; emphasis in original).

generally Tr. 5/1581 and Tr. 7/2379-80.[20] Even a cursory examination of witnesses Callow's and Sherman's comments on this subject, however, reveals their basic lack of comprehension of Appendix B specifically and of the nature of post office box attributable costs generally.

Witness Callow indicates that he did not have appropriate data to set post office box fees to reflect the potential "cost savings in delivery to a post office box rather than to a business or residence." Tr. 5/1581. It is witness Callow's further opinion that "[t]he Appendix B costs are not in a useful form" because they provide "cost on a per mail piece basis" rather than "costs on a per box basis." Tr. 5/1605. Likewise, witness Sherman states:

> I do not think Appendix B to USPS-T-5 identifies delivery cost savings in a form that can be readily converted into cost savings from post office box service in order to affect the price of that service. The savings must be imputed to the post office box units to determine effects on prices for them, and data are not presented for that pricing purpose.

Tr. 7/2382. Witness Sherman, at least in one sense, is correct -- the cost savings data from Appendix B cannot be imputed to the post office box units. Witnesses Callow and Sherman are incorrect, however, in assuming that the data should be so imputed.

The attributable cost of the delivery -- whether to a post office box, an individual home mail slot, or a Neighborhood Delivery and Collection Box Unit ("NDCBU") -- of a particular piece of mail is reflected in the attributable cost of the

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[20] The OCA witnesses, however, apparently are not making a specific proposal that this be accomplished in this docket.

subclass of that piece of mail. Thus, a true cost reduction for post office box delivery would go to the piece of mail being delivered to the post office box (perhaps in the form of a discount), not to the holder of the post office box. Other rates might have to increase. For example, a First-Class letter delivered to a home would cost more than the same First-Class letter delivered to a NDCBU. Of course, a system of rate reductions and increases, based on delivery type, likely would be administratively unmanageable.[21]

Post office box attributable costs, on the other hand, can be categorized as "Space Support," "Space Provision," and "All Other." USPS-T-4 at 34. Witness Lion describes Space Support costs as including "(1) custodial supplies and services, (2) building supplies and services, (3) maintenance of plant and building equipment (*e.g.*, elevators, heating, and air conditioning), (4) fuels, electricity, and water, and (5) protection activities, internal audits, and special investigations." *Id.* Space Provision costs are for "(1) rents, (2) interest expenses, and (3) depreciation costs for floor space located in postal facilities." *Id.* Finally, witness Lion describes All Other costs as "primarily labor costs for window service, and related supervisory and personnel costs." USPS-T-4 at 35. As is clear from

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[21] Witness Sherman concedes, for example, that any post office box delivery cost savings likely would be lower in the case of "dual delivery,", *e.g.*, when a customer receives delivery of mail at a business or residence in addition to having a post office box. Tr. 7/2341.

these descriptions, these cost categories do not include the costs of "delivery" of mail to post office boxes.[22]

The OCA witnesses' lack of understanding of the distinction between "delivery" costs and post office box attributable costs is further evidenced by what they specifically have to say about post office box attributable costs. Although ostensibly calling for a reduction in post office box costs to reflect delivery savings, witness Callow incongruously also concludes that the attributable costs of post office boxes are *not* overstated. Tr. 5/1605. Witness Sherman erroneously believes that the costs contained in USPS-T-5, Appendix B, represent post office box attributable costs, while also concluding that all costs attributable to post office boxes are reflected in witness Lion's categories of Space Support, Space Provision and All Other. *Compare* Tr. 7/2465 *with* Tr. 7/2467. Witness Sherman further believes that post office box attributable costs *are* overstated, yet is unable to specify which costs -- Space Support, Space Provision or All Other -- are overstated. Tr. 7/2468.

The OCA witnesses' bewilderment is also apparent in their proposed "solutions," or lack thereof, to the non-existent "problem" of properly reflecting post

[22] Perhaps some of the OCA witnesses' confusion was engendered by their apparent unawareness of the errata to witness Lion's testimony which corrected the description of post office box attributable "All Other" costs from "labor costs for sorting mail to boxes" to "labor costs for window service." Notice of United States Postal Service of Filing of Errata to Testimony of Witness Lion, USPS-T-4, August 12, 1996; *see also* Tr. 7/2466-67. As can be seen from USPS LR-SSR-103, "sorting mail to boxes" relates to the attributable costs of various categories of mail, not to attributable post office box costs.

office box delivery cost savings. Witness Callow, perhaps innately sensing the wrong turn he has taken, tries to disassociate himself from the entire endeavor. When asked how he would reflect these savings in his post office box proposal, with its 101 percent cost coverage, witness Callow says he did not consider the issue. Tr. 5/1606. When asked to assume an identifiable per piece cost savings connected with delivery to a post office box, and further asked why a post office box holder should receive the benefit of such savings, witness Callow promptly responded, "This issue was addressed by Witness Sherman. I did not consider it." *Id.*

Witness Sherman, on the contrary, plunges ahead, stating that delivery cost savings should be imputed to post office box units. Tr. 7/2472. He describes how this would be done:

> It would require information on the mail categories that go into boxes, perhaps even by box size, and from that you can make up the savings by those separate classes and average them together by -- so that you would convert it to a difference per box.
>
> If there are so many letters a year that go into a box and there's so much savings per letter, you could calculate out how much ought to be reduced from the cost of offering the box.

Id. Per piece post office box "delivery" cost savings have nothing to do with post office box attributable costs and deducting them in the fashion recommended by witness Sherman would, in essence, double-count the costs savings. Moreover, attempting to ascertain which mail categories are delivered to which box size for the millions of post office boxes would be, at worst, impossible and, at best, a data collection nightmare.

The Postal Service has properly reflected post office box delivery cost savings in its proposal. The criticisms of OCA witnesses to the contrary demonstrate a rudimentary misunderstanding of mail delivery costs as well as post office box attributable costs, and should be disregarded.

3. The Postal Service's proposals for caller service and return receipt make appropriate use of special cost studies.

In this docket, as in past proceedings, the Postal Service relies upon special cost studies to support its proposals for return receipt and caller service. These special cost studies, which are updates of previous ones, are presented in USPS LR-SSR-104. In past proceedings, particularly in regard to various special services, the Postal Service has relied upon special cost studies rather than the costing information contained in the CRA. See, for example, USPS LR-G-136 in Docket No. R94-1, which contained special cost studies for address correction service, business reply, caller service, certificate of mailing, insurance, correction of mailing lists, merchandise return, meter setting, permit imprints, restricted delivery, return receipts, stamped envelopes, and ZIP Coding of mailing lists.

As witness Patelunas explains, "The Postal Service uses special studies, rather than the CRA costs, to identify costs at a more detailed level needed for pricing particular special services. This level of detail is beyond that required for CRA reporting and is often used for purposes beyond the scope of the CRA." Tr. 8/3052. It is therefore appropriate to look to the special cost study, rather than the CRA, for purposes of determining the attributable cost of the special service for the purpose of setting a suitable price. The Commission itself has recognized this, as expressed in its discussion of BRM rates in Docket No. R87-1. In that case, the Postal Service's use of an attributable cost figure for BRM developed through the updating of a special cost study was questioned, with parties arguing that the lower CRA attributable cost figure should have been used instead. The Commission stated:

> In Docket No. R84-1 at para. 5214 the Commission rejected using the RCA (now CRA) to determine BRM costs. The Commission stated that special studies provide a better illumination of specific cost areas that are not likely to be picked up with sufficient detail by the Service's omnibus costing system. We find no reason to deviate from this precedent. While the CRA does provide some useful insights into special service costs, because of the unique nature of special services it is likely that there are significant special service costs not picked up in the CRA. For example, accounting and clerical costs incurred in connection with BRM are not picked up by the CRA even though they are known to occur. *A properly defined special study examining all the processes associated with the performance of the special service is more assuredly going to provide a better analysis of costs than reliance on the CRA.*

PRC Op., R87-1 at 792-93 (emphasis added).

Here, it is clear that the special studies for caller service and return receipt examine costs "not likely to be picked up with sufficient detail" by the CRA. For example, with regard to caller service, an unidentified portion of activity code 6210, Platform Acceptance, is not included in the total attributable cost of post office boxes, which includes caller service. Tr. 2/255-56. With regard to return receipt costs, they are included, along with address correction and business reply costs, in the "other" special service line in the CRA. *See* Tr. 8/3049. As discussed by witness Patelunas, however, all return receipt costs are not captured in "other" special service. Mr. Patelunas explains:

> For this case though, as has been the tradition for previous cases, the level of detail in the special study is meant to capture costs that may not be captured in the CRA as return receipt costs. For example, cost segments 8 and 14 capture no special service costs and segments 9, 10, 12 and 13 capture few special service, particularly "other" special service, costs. Such costs are not missing from the CRA, although they appear somewhere else, rather than as "other" special service. As I explained in my response to OCA/USPS-T8-10, return receipt costs are also a portion of U.S. Postal Service penalty attributable costs. This is the case in Segment 14, in which a return receipt card (PS Form 3811) would appear as U.S. Postal Service penalty mail because it has a postal indicia.
>
> Furthermore, additional CRA data collection efforts would be required to capture some of the costs reflected in the special study. For example, the additional carrier time used to receive mail pieces bearing return receipts and to obtain addressee signatures on those return receipts is not collected in the city carrier data system. Capturing this additional cost resulting from the return receipt service is the function of the special study.
>
> The cost system has to be viewed in its entirety to understand the relevance of the special study in terms of the CRA. The special study is intended to capture return receipt costs included in the CRA lines "US Postal Service" and special service "other," as well as costs such as the carrier costs discussed in the preceding paragraph.

Tr. 8/3049-51.

Clearly then, reliance on the special cost studies for caller service and return receipts costs is justified. The special studies update similar studies used in previous dockets, and are designed to give a fuller accounting of costs not delineated sufficiently in the CRA.

B. The Postal Service Has Provided All Costing Information Required To Support Its Proposals.

In this docket, the Postal Service has presented costs for all classes and subclasses of mail and special services for the base year, the test year before rates and the test year after rates, using its traditional CRA costing methodology. *See* USPS-T-5. This costing information is presented in full compliance with Commission rules and provides sufficient information for cost coverage comparisons. Accordingly, these costs form the appropriate basis for the Postal Service's proposals.

1. The Postal Service's costing presentation complies with Rule 54.

Commission Rule 54 requires that the Postal Service present "total actual accrued costs during the most recent fiscal year for which they are reasonably available," as well as "the estimated total accrued costs of the Postal Service for the fiscal year in which the filing is made and . . . the estimated total accrued costs of the Postal Service as specified in section 3621 of the Act which form the basis for the proposed change in rates or fees." Rule 54(f)(1) and (2). The rule does not, however, contain any requirement that the Postal Service present its costs in a specific manner or in accordance with a specific costing methodology.

Despite the disagreements in this docket over use of different costing methodologies, the Commission has, in essence, acknowledged that the Postal Service's costing presentation is in compliance with Rule 54. Although asserting that the Postal Service's costing presentation hinders the objectives of Rule 54, the Commission nonetheless concedes:

> Rule 54 requires an itemization of costs by account and a distribution of those costs to functions and subfunctions. Because it is a generic rule, it does not require that this process be carried out by specified methods for particular functions. It allows for diverse costing methods to be used at any one time, and the evolution of costing methods over time.

Order Denying Motion to Reconsider Order No 1120, Order No. 1126, July 19, 1996 at 8.

In addition, the Commission recently has instituted a rulemaking to consider proposed changes to Rule 54. The purpose of the rulemaking is described as follows:

> To ensure timely and effective notice of the impact of Postal Service requests that propose to simultaneously change rates and attribution principles, the Commission proposes to amend Rule 54(a). The proposed amendment would require the Postal Service to include with such a request an alternate attributable cost presentation that would calculate attributable costs and cost coverages at Postal Service proposed rates according to established attribution principals.

Docket No. RM97-1, Order Publishing Notice of Proposed Rulemaking, Order No. 1146, December 17, 1996 at 3.

The Postal Service's costing submissions in this case thus comply with Rule 54 and are entirely proper.

2. The Postal Service has presented all costing information needed for evaluation of its proposals.

The Postal Service does not believe that cost coverage comparisons between the special services that are at issue in this docket and all classes, subclasses, and other special services are required for a full and fair evaluation of its proposals. As the Postal Service stated in its Request, "The Postal Service does not intend to open up for consideration any rates or fees other than those directly affected by its proposal." Request at 3.

Nonetheless, the Postal Service still provided full base year and test year costs and related documentation for all classes and subclasses of mail and all special services using the standard cost methodology reflected in its CRA report. *See* USPS-T-5. OCA witness Sherman is simply wrong in his assessment that the "care to show the interrelations with other services and to compare cost coverages across all classes" was "lacking in this case." Tr. 7/2349-50.

Should the Commission desire to compare cost coverages for the proposals in this docket with those for the classes and subclasses of mail and other special services, the requisite information is contained in the Postal Service's filing. *See* USPS-RT-1 at 6, Tr. 9/3352.

3. Costs under the Postal Service's methodology are not substantially different from costs under the Commission's methodology.

The fact of the matter is the costs and cost coverages for the special services at issue in this proceeding are not substantially different under either the Postal Service's or the Commission's methodology. Therefore, the Postal

Service's CRA costing methodology provides an adequate basis for comparison in this case.

Early on in this docket, the Postal Service provided USPS LR-SSR-122, which compared costs and cost coverages for the Postal Service's Fiscal Year 1993 CRA with the Commission's Base Year 1993 used in its Opinion and Further Recommended Decision in Docket No. R94-1. This comparison revealed that, except for special delivery, the differences between costs using the CRA versus the Commission's methodology ranged from a low of -0.89 percent for post office boxes to a high of 2.36 percent for certified mail. Cost coverages using the CRA versus the Commission's methodology varied in range from -0.97 percent for post office boxes to +3.99 percent for certified mail.[23] The difference in special delivery costs and cost coverages is larger, but it is irrelevant, since the Postal Service is proposing to eliminate this service.[24] The Postal Service argued that ratios reflecting the differences in Postal Service versus Commission costs could be developed from the materials it had presented, and that these ratios could be applied to the costs and cost coverages reflected in witness Patelunas's and Lyons's exhibits to indicate what the costs and cost coverages in this docket

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[23] The certified mail cost coverages do not reflect the true certified mail cost coverage, with ancillary service revenues removed, under either the Postal Service or the Commission methodology. Nonetheless, they are instructive for the sake of comparison.

[24] In fact, the Commission cost presentation contained in PRC-LR-2 also eliminates special delivery since the purported entire purpose of PRC-LR-1 and 2 is to reflect what the Postal Service's *proposal* would look like under the Commission's cost methodology.

would look like under the Commission's methodology. Motion of the United States Postal Service for Reconsideration of Order No. 1120 and Partial Response, June 28, 1996 at 2.

In actuality, the percentage differences in FY 1996 after rates costs for the special services at issue under the Commission's methodology, as reflected in PRC-LR-2, are very similar to the costs that could be developed using the ratios from USPS LR-SSR-122. For example, the percentage difference in costs for post office boxes between the Commission's methodology from PRC-LR-2 and the estimated Commission costs calculated using the USPS LR-SSR-122 ratios is only -0.20 percent. *See* Attachment A hereto. The percentage difference in costs for certified mail between the Commission's methodology from PRC-LR-2 and the estimated Commission costs calculated using the USPS LR-SSR-122 ratios is only +1.16 percent. *Id.*

In any event, these minor differences would not cause the Postal Service to change its proposals, nor is it likely that they would cause the Commission to alter its recommendations.[25] Accordingly, use of the Postal Service's costing methodology is warranted.

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[25] Even MMA witness Bentley, a proponent of the Commission's costing methodology states that "[s]ignificant differences in cost methodology occur when they can impact upon a rate." Tr. 6/1912. Witness Bentley further opines, with regard to the specific proposals in this docket, that "significant" means "if it would change those rates differently from what the Postal Service had proposed." Tr. 6/1989.

C. There Is No Evidentiary Foundation For Use Of Other Than The Postal Service's Costs In This Docket.

There is no evidentiary foundation for use of the Commission methodology in this docket. The Commission costing methodology has been presented in such a way and has been used by other witnesses in such a manner as to preclude its adoption.

The Commission' costing methodology is presented in PRC-LR-1 and 2. Under the Commission's rules, library references are not evidence. "Designation of a document as a library reference is a procedure for facilitating reference to the document in Commission proceedings and does not, by itself, confer any particular evidentiary status upon the document." Rule 31(b). Under Special Rule 5 in these proceedings, a library reference "is not evidence unless and until it is designated and sponsored by a witness." Presiding Officer's Ruling Confirming Procedural Schedule and Special Rules of Practice, Presiding Officer's Ruling No. MC96-3/3, July 25, 1996. The Commission's rules further provide that "witnesses whose testimony is to be taken shall be sworn, or shall affirm, before their testimony shall be deemed evidence in the proceeding or any questions are put to them." Rule 31(a). The Commission's own rules thus make clear that the determination is not one of the proper weight to be given to these library references. They are not evidence and thus cannot be accorded any weight at all.[26]

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[26] It is true that the Postal Service, as well as other parties, often rely on library reference materials. Those situations, however, are inapposite to the

The Commission has not presented a witness to sponsor, explain and defend its costing methodology. The witnesses -- OCA witness Thompson and MMA witness Bentley -- who used certain of the results of the Commission's costing methodology in their presentations are unable to replicate, verify, validate or otherwise explain either the mechanics of that costing methodology or any of the theories and assumptions underlying it.[27]

OCA witness Thompson cites cost coverages from page 4 of OCA-LR-6, which were derived using base year attributable costs from PRC-LR-2. *See* Tr. 5/1405-07.[28] Yet, witness Thompson did not respond to Postal Service

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situation regarding PRC-LR-1 and 2. For example, with regard to the Postal Service's data system library references and USPS LR-SSR-104, witnesses and the Postal Service as an institution, routinely have responded on the record to legitimate discovery requests. In this docket, both witness Patelunas and the Postal Service responded to numerous interrogatories concerning the Postal Service's data systems, and witness Lyons responded to Presiding Officer's Information Requests concerning USPS LR-SSR-104. *See* Tr. 2/278-79, 289-316, *and* Tr. 8/2792-94, 2799-2893, 3004-05, 3017-18.

[27] The Postal Service strongly takes exception to any suggestion that by questioning these witnesses about the Commission cost model results they used or about their understanding of the Commission cost model, the Postal Service has somehow waived any objections it might have to use of these extra-record materials. This result would mean that all parties to these proceedings would be confronted with a Hobson's choice of either probing the witnesses understanding and thus acquiescing in use of extra-record materials, or objecting to their use and being subject to a virtual "gag order" concerning the materials. Such an outcome is utterly inconsistent with fundamental fairness and due process.

[28] Other OCA witnesses did not use the Commission's costs at all, even though the OCA received an extension of time to file its testimony after PRC-LR-1 and 2 were produced. *See* Presiding Officer's Ruling Granting Major Mailers Association Motion for Extension of Time and Amending the Procedural Schedule, Presiding Officer's Ruling No. MC96-3/15, September 25, 1996. PRC witness Collins says PRC-LR-1 and 2 "were filed at too late a stage in the preparation of my testimony to be reviewed and incorporated," but further states, "I did not ask

interrogatories probing her understanding of the Commission's costing methodology; rather, these were redirected to and answered by the OCA as an institution. *See* Answers of the Office of the Consumer Advocate to Interrogatories USPS/OCA-T200-18-32, 34-37 Redirected from Witness Thompson, November 21, 1996. In fact, the OCA's institutional responses clearly demonstrate that no one on the OCA staff has made any efforts to replicate, verify, validate, or otherwise explain any facet of the Commission's costing methodology. For example, the response to USPS/OCA-T200-20 indicates that the OCA "simply executes unmodified Commission cost model programs on unmodified 'before rates" factor files already included in PRC-LR-2 as if it were a 'turn-key' cost model" and that it "has not had the resources to replicate the Commission's cost model." Tr. 11/3704.

MMA witness Bentley, likewise, remains blissfully ignorant of the workings of the Commission's costing methodology. Witness Bentley states, among other reasons, that he

> did not regard it as appropriate to analyze, to replicate or to attempt to replicate Library Reference PRC-LR-1 and 2 in view of the Commission's representations that Library Reference PRC-LR-1 and 2 "us[es] the established methodology of single subclass stops"

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for an extension of time to file my testimony, nor was I involved in the OCA's decision to support MMA's motion for an extension of time." Tr. 5/1776. Witness Sherman says he did not review the Commission's Distribution of PO Box Cost Adjustment contained in PRC-LR-2, and "was unaware of any extension of time until early October." Tr. 7/2374-76. Likewise, witness Callow uses Postal Service, rather than Commission cost data for his post office box proposal, and states, "I did not ask for a new filing date, nor was I involved in the OCA's decision to support MMA's motion for an extension of time." Tr. 5/1580.

> (Order No. 1134, p. 16) and "us[es] approved methods" (*id.*) and that "the basic operation of the Commission's cost model is the same as in the last omnibus rate proceeding, Docket No. R94-1" (PRC-LR-2, Introduction).

Tr. 6/1972; *see also* Tr. 6/1990-91.

The fact remains that no witness in this proceeding has explained the Commission's costing methodology on the record.[29] The Postal Service and other participants have been denied the opportunity to scrutinize the workings of and the assumptions underlying the model, yet its results have been offered into evidence. No weight can be accorded these results which flow from an analysis conducted off the record by the Commission. Due process requires nothing less than full scrutiny on the record. *See Mail Order Association of America v. United*

[29] The Commission has stated,

> Expert witnesses often rely on their broad body of professional knowledge. That knowledge, frequently developed over many years, is what makes them qualified as expert witnesses, and it is normal and appropriate to question such witnesses on matters which are not part of the evidentiary record to ascertain the breadth and depth of their expertise.

Order Denying Postal Service Motion to Strike, Order No. 1143, December 12, 1996 at 5-6. The Postal Service does not disagree. However, this most certainly is not the case with regard to the witnesses who have used the Commission's cost model results in this proceeding. These witnesses are, by no stretch of the imagination, "experts" on the Commissions's cost model, since they admit that they know nothing about it. Even witness Bentley acknowledges that "it would certainly be nice if the Commission would explain their cost methodology so that the parties such as the Postal Service could understand it -- and there probably should be a forum for that as well." Tr. 6/1998.

States Postal Service, 2 F.3d 408 (D.C. Cir. 1993).[30] This is particularly critical where it is not at all clear what the "approved" Commission costing methodology is, and where the parties urging use of the Commission costing methodology evidently feel free to use whatever version of that methodology strikes their fancy.

Witness Bentley claims that "[t]he Commission-approved methodology is that utilized by the Commission in the most recent rate case, Docket No. R94-1"

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[30] While the court in *Scenic Hudson Preservation Conference v. Federal Power Commission*, 354 F.2d 608, 620 (2d Cir. 1965), may have expressed dicta to the effect that the Federal Power Commission ("*FPC*") in the circumstances at issue in that case was more than "an umpire blandly calling balls and strikes," it does not follow that any decision maker in any circumstances can trample the due process rights of the participants in its proceedings. The court in *Scenic Hudson* set aside three orders of the FPC -- two of them dealing with allowing additional evidence into the record -- and remanded the case for further proceedings. The court held:

> If the Commission is properly to discharge its duty in this regard, *the record* on which it bases its determination must be complete. The petitioners and the public at large have a right to demand this completeness. It is our view, and we find, that the Commission has failed to compile *a record* which is sufficient to support its decision. The Commission has ignored certain relevant factors and failed to make a thorough study of possible alternatives to the Storm King project.

Id. at 612 (emphasis added). The court also said, "[T]he right of the public must receive active and affirmative *protection* at the hands of the Commission." *Id. at 620.* In addition, the court quoted with approval from the dissenting opinion to the agency decision, which stated, in pertinent part:

> "I do feel the public is entitled to know *on the record* that no stone has been left unturned. How much better it would be if the public is clearly advised *under oath and cross-examination* that there truly is no alternative?"

Id. (emphasis added).

in the Further Recommended Decision. Tr. 6/1918. Yet, witness Bentley cites to results from PRC-LR-1 and 2 in his testimony, assuming that the methodology reflected in the Docket No. R94-1 Further Recommended Decision is "very similar, if not identical." Tr. 6/1920. In addition, in his new analysis, first introduced at the hearing on November 19, 1996, witness Bentley uses figures from the Commission's Docket No. R94-1 initial Recommended Decision. Tr. 11/3684.

Likewise, the OCA, while using data from PRC-LR-2 and from the initial Recommended Decision in Docket No. R94-1, says:

> The Commission has stated in Order No. 1134 and in its library references PRC-LR-1 and PRC-LR-2 that the methodology is basically the same as in the R94-1 Further Recommended Decision. Consequently, the OCA interprets PRC-LR-2 as Commission approved cost methodology applied to docket MC96-3.

Tr. 11/3708. In an attempt at further clarification, the OCA states:

> The OCA understands that no party uses identical cost distribution and forecasting models from case to case. The Commission's cost models have consistently replicated the Postal Service's distribution and projection of costs from case to case. There is thus no reason to believe that one case's model differs significantly from another (unless the Postal Service's models also differ). Certainly, the differences in attributable costs between the Commission's two R94-1 cost models are trivial in the extreme.

Tr. 11/3706-07.

The Commission's cost models most certainly do not "replicate the Postal Service's distribution and projection of costs" as evidenced by the Commission's use and the Postal Service's rejection of the single subclass costing approach. Moreover, the Commission's cost models, in fact, have differed from case to case. *See generally* Decision of the Governors of the United States Postal Service on the Recommended Decision on Remand of the Postal Rate Commission on Postal Rate and Fee Changes, Docket No. R90-1, February 21, 1995; PRC Op., R94-1 at 35-40 (Further Recommended Decision). While there may be, at some level, a broad conceptual consistency in the Commission's most recent cost models, and while the Postal Service may also change aspects of its cost model from time to time, the crucial difference is that any Postal Service changes are subject to full record scrutiny, while the Commission's cost models remain immune from full examination.

The champions of the Commission methodology dismiss any changes from case to case as "trivial" or likely insignificant, and thus not worthy of concern. *See* Tr. 11/3706-07 and Tr. 6/1983. Interestingly, these same participants apparently believe that similar "trivial" differences in results between the Postal Service's and the Commission's cost models are of such concern that the Postal Service should be required to produce the Commission's cost model. For instance, witness Bentley states,

> [T]he Postal Service and the Commission methodologies could be considered consistent with one another, under a very broad definition of the word consistent, because of the many similarities. On the other hand, because of the significant differences in the way city delivery carrier costs are attributed, I would consider the two methodologies to be inconsistent from one another.

Tr. 6/1948.[31]

[31] Of course, witness Bentley elsewhere says that "[s]ignificant differences in cost methodology occur when they can impact upon a rate" (Tr. 6/1912), and further admits that the cost coverages for FY 1995 for Classroom Publications and Library Rate are identical and third-class single piece differs by 0.1 percent

These parties cannot have it both ways. Differences in versions of one costing methodology as well as differences between two costing methodologies are either equally of concern or they are not. All must be subject to examination, elucidation and illumination on the record.

The Commission's costing methodology has not been subject to full scrutiny on the record as mandated by due process. Accordingly, there is no evidentiary foundation for use of the Commission's costs in this proceeding.

D. Even Assuming An Evidentiary Foundation For Use Of The Commission's Costs In This Docket, They Should Be Given No Weight.

As the Postal Service has argued above, there is no evidentiary foundation for use of the Commission methodology in this docket. Assuming for the sake of argument, however, that an evidentiary foundation is found to exist, various inconsistencies and inaccuracies in the manner in which they are used by witnesses in this proceeding warrants that the Commission's costs and the witnesses' presentations be given no weight.

1. MMA Witness Bentley's analysis using PRC-LR-1 and 2 is confused and draws inaccurate conclusions.

MMA witness Bentley uses various results from PRC-LR-1 and 2 to conclude that "the dollar consequences of choosing a methodology for apportioning city carrier delivery costs are huge if the Commission uses consistent methodologies in all rate cases" and that "it is important that the Commission

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under the Commission's and the Postal Service's cost methodologies. *See* Tr. 6/1966-68.

continue to insist that the Postal Service provide information that discloses its costs not only on its preferred methodologies, but according to the Commission-approved methodologies." Tr. 6/1895 and 1898. Witness Bentley, however, gives confusing explanations as to what barometer of significance is to be used in determining whether there should be concern over the dollar consequences of differing methodologies and as to what barometer of consistency should be applied to differing costing methodologies.

Witness Bentley claims that "[s]ignificant differences in cost methodology occur when they can impact upon a rate." Tr. 6/1912; *see also* Tr. 6/1989.[32] Yet, witness Bentley does not shed much light on how one is to go about determining when a difference in cost methodology does, indeed, "impact upon a rate." For example, when asked a specific question about whether the change from a cost avoidance methodology to an Appendix F methodology for First-Class presort discounts constituted a "significantly different methodology" under his definition, witness Bentley responded:

> A. It didn't even occur to me. I was really concerned with how to attribute costs, not how to find the cost of a particular segment within first class which requires a special study of some sort.
>
> Q. So you were talking about overall attribution of all costs?

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[32] As the Postal Service has maintained consistently throughout this proceeding, use of the Commission's costing methodology would not cause it to change its proposals for the special services in this docket. *See* Motion of United States Postal Service for Reconsideration of Order No. 1120, and Partial Response, June 28, 1996, at 5, n.8.

A. That's correct.

Tr. 6/1985. It would seem, however, that different ways of determining presort costs might affect presort rates.

Elsewhere, witness Bentley admits that a novel costing theory with small changes to attributable costs constitutes a "significantly different methodology." Tr. 6/1986. Yet, small changes in these circumstances might not affect rates.

When asked whether the barometer of significance was the total costs attributed to a mail category or the unit cost results, witness Bentley declared:

> No, it's really the result and the impact on the rate and the revenue requirement for a particular rate element or rate subclass. In the case of first class, it is measured in terms of tenths of a cent for presorted and pennies for first class non-presorted, and it may be very difficult to come up with an additional $5 million by changing a tenth of a cent, so therefore $5 million would not be significant in that situation.

Tr. 1988-89. Here, it seems that witness Bentley is saying that relatively large dollar differences in costs do not matter if rates would not change. This belies his position that the Postal Service should be forced to produce costs according to the Commission's methodology as he elsewhere acknowledges that "the dollar consequences of the Postal Service's use of a nonapproved methodology may not impact the Service's proposed rates significantly in this proceeding. . . ." Tr. 6/1893.

When asked to discuss his definition of "consistency," witness Bentley is similarly muddled. He says that "[t]he word 'consistent'" is a relative term without a precise meaning in the context used here" and cites to a dictionary definition of "'conforming to the same principles or course of action.'" Tr. 6/1914. He further declares that "significance" and "consistency" are not the same thing (Tr. 6/1991), yet concludes that "the more significantly different those results [attributable costs for each category of mail] are, the more you should be concerned about consistency." Tr. 6/1993. In a further attempt at explanation, witness Bentley claims, "If the results weren't different, I would not be as concerned about the consistency of two different methods. It's when they are different that you have to be a lot more concerned." Tr. 6/1994.[33]

If neither the parties nor the Commission are able to specify when differences in costing methodologies are significant and relevant and when they are not, then any analyses or presentations claiming that the Commission's costing methodology *must* be used because the cost differences are significant, cannot be accorded any weight. These presentations cannot form the basis for any Commission recommendations.

Witness Bentley's analysis based upon PRC-LR-1 and 2 also suffers from other flaws. He concludes that "[f]or every additional dollar of cost that the PRC's methodology attributes to First Class, the USPS assigns $1.24 of institutional cost to First Class." Tr. 6/1952. This "conclusion" is nothing more than an untested and untrue hypothesis.

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[33] The confusion in definitions is particularly troublesome where the Commission's costing methodology changes from case to case and there is no explanation on the record of what those changes represent and why they were made.

Witness Bentley comes to his conclusion by calculating what he terms an "institutional cost apportionment factor," representing the percentage of total institutional costs borne by a particular category of mail. Tr. 6/1951. He assumes that this "institutional cost apportionment factor" is a constant target at which the Postal Service aims. This is utter nonsense.[34] Contrary to witness Bentley's beliefs, rates are not set by either the Postal Service or by the Commission by determining in advance a "target" dollar amount of institutional cost contribution. Rather, attributable costs are first derived, and a cost coverage is then determined based on the non-cost criteria of the Act. These two steps, occurring in that order, determine the ultimate price.[35]

2. Witness Bentley's analysis using data from Docket No. R94-1 is irrelevant and flawed and was allowed into the record too late for adequate scrutiny.

At the hearing on November 19, 1996, witness Bentley introduced a new analysis to support his conclusion that there are "huge" dollar consequences flowing from the choice of costing methodologies. Tr. 6/2008-10. This analysis

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[34] If Commission attributable costs are substituted for Postal Service attributable costs in column 5 of page 2 of MMA-LR-1 (Tr. 6/1951), the "institutional cost apportionment factor" changes. In fact, using the Commission costs reflected in PRC-LR-2 (revised), the First Class factor *increases*, whereas the third class factor *decreases*. *See* Attachment B hereto.

[35] Witness Bentley asserts his "belief" that "sometimes" the Postal Service backs into a rate by first determining the contribution to institutional costs that a category of mail should make, although he admits that he cannot prove any such thing. *See* Tr. 6/2005. When further pressed, moreover, witness Bentley conceded that both the Postal Service and the Commission first determine what attributable costs are for a category of mail and then apply a markup to cover its appropriate portion of institutional costs. *Id.*

uses data from the Commission's initial Recommended Decision in Docket No. R94-1, despite witness Bentley's conclusion that the Further Recommended Decision in Docket No. R94-1 represents the "approved" costing methodology. *Compare* Tr. 11/3684 *with* Tr. 6/1918. Witness Bentley uses projected TY 1995 data from Docket No. R94-1. *See* Tr. 6/2039-41. Data from either the Docket No. R94-1 initial or Further Recommended Decision are not relevant to this docket as the Postal Service's proposals are based on more recent data.

Furthermore, witness Bentley's results are suspect because of overly simplistic assumptions underlying his analysis. In OCA/MMA-XE-3 (Tr. 6/2041), witness Bentley makes an adjustment to Commission attributable costs to reflect Postal Service rates and volumes. This adjustment assumes that applying the percentage difference between Commission projected volumes and Postal Service projected volumes to only First-Class letters, third-class bulk rate regular, BRR and "All Other" (everything else) is the same as running the Commission model with Postal Service volumes. In fact, unless and until the model is so run, this is an unproven supposition. Witness Bentley admits that he has not attempted to replicate the Commission's cost model. Tr. 6/1972. He further says that "[t]he roll forward cost models should and probably do take into account differences in mail volumes that result from differences in rates," but acknowledges that he has "not independently verified this." Tr.11/3699. Witness Bentley's musings on what the results would show are entitled to no weight.

Finally, witness Bentley's "eleventh-hour" analysis was allowed into the record too late for the full record scrutiny required by due process. Witness Bentley's new analysis was neither simple nor straightforward, generating three rounds of discovery. *See* Comments of the United States Postal Service Concerning Further Procedures Related to Major Mailers Association Witness Bentley's New Analysis, December 17, 1996.[36] The Postal Service declined to request recall of witness Bentley or to file rebuttal to his new analysis because it found itself confronted with the unfair choice of either exercising its full due process rights or risking the possibility that the procedural schedule would be delayed. *See* Comments of the United States Postal Service Concerning Further Procedures Related to Major Mailers Association Witness Bentley's New Analysis, December 17, 1996.

The new analysis is thus infirm for a number of reasons. It must, therefore, be disregarded.

[36] In fact, the discovery resulted in additions and corrections to the analysis as originally filed. *See* Tr. 11/3683 and 3695.

IV. THE CLASSIFICATION AND FEE PROPOSALS FOR POST OFFICE BOX AND CALLER SERVICE SATISFY THE STATUTORY CRITERIA OF SECTIONS 3622(B) AND 3623(C), AND SHOULD BE RECOMMENDED BY THE POSTAL RATE COMMISSION.

A. The Postal Service Has Provided Substantial New Studies And Analyses Underlying Its Post Office Box And Caller Service Proposals.

The proposal for a new fee schedule for post office box service is based upon a determination of box counts, allocated costs for each box size and delivery group and a study of CMRAs. Witness Lion's testimony, USPS-T-4, presents the specific components of these studies, including counts of boxes across respective groups and sizes ("PO Box Study"), allocation of Space Provision, Space Support and All Other costs to each ("Cost Allocation Study") and the attributes of CMRA box service ("CMRA Study"). USPS-T-4 at 1-2.

The proposed box fee schedule is also based on a price sensitivity study, USPS-T-6, which tested a range of fee increases that encompasses the proposals. Tr. 8/3011.

1. PO Box Study

The PO Box Study inventoried post office boxes for which Group I or Group II fees are charged. *Id.* at 1. In addition to the numbers of boxes in different sizes and groups, this study produced information on the numbers of boxes in use and the presence of private alternatives. *Id.* Over 25,000 data collection forms sent in by participating postal facilities were analyzed. *Id.* at 5, Table 2. These forms reported a total of 14,290,298 installed Group I and Group II boxes, which is

74 percent of the national total of 19,202,987 reported by the Delivery Statistics File ("DSF"). *Id.* Tables 3 and 4 in USPS-T-4 respectively report the counts of boxes installed and in use reflected in the data collection forms. *Id.* at 6-7. The ratio of the national total of installed boxes to the reported total of installed boxes, 1.344, was then applied to the reported counts of boxes in use to arrive at estimates of the nationwide total of boxes in use. *Id.* at 37, Table 14. The PO Box Study also collected data on the number of caller service customers. USPS-LR-SSR-113 at 50.

The PO Box Study also sheds light on capacity utilization of post office boxes. 79 percent of all boxes in the offices surveyed are in use. *Id.* at 8, Table 5. For box size 1, the most common size, 82 percent are in use. *Id.* Moreover, 38 percent of offices face a capacity constraint in at least one size, and ten percent of offices have a constraint in box size 1. *Id.* at 9, Table 6. Finally, of the 9,745 offices facing a capacity constraint, *id.*, only 2,946 (or 30 percent) have room to expand. *Id.* at 10, Table 7.

The issue of capacity utilization also received attention in the rebuttal phase of this proceeding after OCA witness Callow juxtaposed the 38 percent figure in the preceding paragraph with an indication that only five percent of offices studied in the PO Box Study had no post office boxes of any size available. Tr. 5/1528-30. Witness Lion notes that the five and 38 percent figures are but two of "many potential measures" that can be used to evaluate box capacity. Tr. 9/3532. "Useful measures of capacity can be developed by box size (or combinations thereof), by facility (or groups thereof), by delivery group, or by geographic area." *Id.* He also cautioned that, for several reasons, the number of boxes available for use by customers is usually somewhat less than those installed. For example, he compares box service with the housing industry in that turnover, the need for repairs, mismatch between supply and demand, etc., cause several percent of overall capacity to be effectively unavailable, and occupancy rates rarely to approach 100 percent. Tr. 9/3531-34.

Witness Lion accordingly looked at different capacity utilization ranges by box size, *id.* at 3534-38, and found that 13.8 percent of boxes are located in offices at least 98 percent of whose capacity is utilized, while 23.4 percent are located in offices whose capacity utilization rate is 95 percent or greater. The Postal Service thus faces significant capacity constraints at a substantial proportion of its facilities offering post office box service. Tr. 9/3531-38, 3559-69, 3577-80.

2. Cost Allocation Study

The purpose of the cost allocation study was to determine costs per box within each delivery group and box size. USPS-T-4 at 34. Costs were divided into three groups, Space Support, Space Provision and All Other, and then allocated to boxes within delivery group and box size. *Id.* Space Support costs include custodial supplies and services, building supplies and services, plant and building maintenance, utilities (fuels, electricity and water), and revenue protection activities, such as internal audits and special investigations. *Id.* Space Provision costs include the rent or lease cost of the space, interest expenses, and depreciation of postal-owned space. *Id.* All Other costs are primarily labor costs for window service, and related supervisory and personnel costs. *Id.* at 35.

Witness Lion testifies that the three respective cost groups are allocated differently to boxes. *Id.* at 35-39. Since All Other costs do not vary with box size or location, they are allocated in proportion to the number of boxes in use. Space Support costs, on the other hand, vary according to box size and are therefore allocated on the basis of capacity (measured in cubic feet).[37] A size 5 box has twelve times the capacity of a size 1 box (*see* Table 1, USPS-T-4 at 4) and would therefore be allocated twelve times as much Space Support costs. Space Provision costs vary both with box size and location (*e.g.*, by Groups IA, IB, IC, and II), so a box that is twice as large as another, and in a facility that has twice the space rental costs, would be allocated four times as much Space Provision costs.

Total costs in FY94 for post office boxes were approximately $482 million, *id.* at 35; these are allocated to boxes by delivery group and box size in Table 18. *Id.* at 44.[38]

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[37] This allocation conforms to the approach employed in Docket No. R90-1 (USPS-LR-F-183). Tr. 3/609.

[38] The OCA evidently concluded that the PO Box Study results and the Cost Allocation Study's methodology were appropriate since the OCA's fee proposal is also based on them.

3. CMRA Survey

The PO Box Study established that many city delivery post offices face competition from commercial mail receiving agencies (CMRAs). USPS-T-4, Tables 9A and 9B, at 14. CMRAs directly compete with post office box service by offering their customers a physical receptacle or box, in which incoming mail (and other) matter is deposited, together with other office-related services. USPS-T-4 at 1-2, 15. Furthermore, the number of CMRAs is increasing rapidly. USPS-RT-3 at 20-21. The Postal Service accordingly undertook a telephone survey of CMRAs that are located in Group I ZIP Code areas to determine their fees, box sizes, and the prevalence of related services. The procedures by which most CMRAs competing with Group IA and Group IB offices were identified appear in USPS-T-4 at 16-17. Useful responses were gathered from 121 of these, using the survey form that appears as Item 1 in USPS LR-SSR-118. Successful interviews were also completed with 299 CMRAs located in Group IC ZIP Code areas. *Id.* at 19-20. These 299 are "a representative sample across geographic areas and business cost areas." Tr. 3/594.

Two sets of results from the CMRA Survey are presented graphically in USPS-T-4. Figures 1 through 6, USPS-T-4 at 25-30, show that in virtually every case CMRA fees for boxes are significantly higher than the fees for post office boxes of comparable sizes. Table 11, *Average Fees for CMRA Boxes,* further reports CMRA fees for the highest- and lowest-priced boxes, with competitors to Group IA, IB, and IC post office boxes reported separately. The second set of graphic results, which appear in Figures 7 through 9, USPS-T-4 at 31-33, show that CMRAs tend to offer boxes smaller than post office boxes. The frontal areas of CMRA boxes are also reported in Table 12, USPS-T-4 at 23. The third set of CMRA Survey results appear in Table 13, *Services Offered By CMRAs,* which shows the relative prevalence of CMRA collateral service offerings.

4. Price Sensitivity Study

The Postal Service engaged the services of Timothy D. Ellard, Executive Vice President of Opinion Research Corporation, to conduct market research in the form of a price sensitivity study that quantified responses by existing box customers to a range of potential box fee increases. USPS-T-6. Mr. Ellard's outstanding qualifications as a market researcher, *id.* at pp. iii-iv, have gone unchallenged and are unrebutted on the record.

Using a representative sample of boxholders, USPS-T-3 at 2-3, Mr. Ellard interviewed individual boxholders by telephone to determine their acceptance of a range of box fee increases. *Id.* at 3-5. Weighted data from the interviews were then tabulated by Group and box size to develop a "floor" or lower bound for price acceptance. *Id.* at 6-16. The results of his survey are summarized in Table 8 of USPS-T-6, which shows a smooth change in acceptance across the range of tested prices. *Id.* at 16.

Mr. Ellard testifies that his results should be understood as identifying a "floor" for acceptance rates for several reasons, USPS-T-6 at 4, 7, primarily because customers tend to say they will reject price increases while in practice they tend to accept them. In other words, respondents tend to overstate the degree of rejection and understate the degree of acceptance.

This effect is well-known; hence, the design of the questionnaire permitted respondents who reflexively rejected a price increase to accept the increase after some additional consideration. USPS-T-6 at 4. Mr. Ellard nonetheless reports his results as a floor. He notes that estimating the extent to which respondents overstate the rejection of price increases is quite complex, depending upon the specific product or service in question, its current price, and the availability of alternatives. *Id.* at 7. Thus, while Mr. Ellard's research could identify a "floor" acceptance rate, it was left for witness Lyons, who is more knowledgeable about post office box service, its current price, and the availability of alternatives, to determine how best to use the "floor".

Witness Lyons uses the results of the price sensitivity study to "estimate the impact on volume and revenues for test year 1996" of the post office box fee redesign. USPS-T-1, Appendix at A1. He identifies two additional reasons specific to post office box service why he concurs with Mr. Ellard that the price sensitivity study defines a "floor" for price acceptance: (1) the significant behavioral consequences of a rejection, namely, that a customer needs to investigate and find alternative means of receiving mail, and then follow through with necessary address changes;[39] and (2) the history of previous box fee

[39] Mr. Carlson identifies at least some of the burdens of changing one's address. Tr. 8/2529.

increases, which does not indicate much customer rejection of the fees. *Id.* at 2-3; Tr. 2/198-200, 396-97. Witness Lyons therefore juxtaposes the "floor" or worst case values generated by the price sensitivity study with a best case scenario that contemplates no rejection of fee increases by existing customers.

In order to project the impact of the box fee proposal on volume and revenue, witness Lyons uses a midpoint between the best and worst case scenarios.[40] This use of the price sensitivity data is consistent with Mr. Lyons' background and experience in post office box service -- and, moreover, consistent with Mr. Ellard's intended use of the data.

B. The Commission Should Recommend The Proposed Merger Of The Fee Groups For City Delivery And Non-City Delivery Offices.

A major goal of the Postal Service's post office box and caller service proposal is to begin to treat city and non-city carrier delivery offices more similarly. Since 1958, the fee structure for post office box service has focused on a distinction between city carrier delivery offices and non-city (primarily rural) carrier delivery offices.[41] Initially, the fees at non-city delivery offices were not much lower than the fees at city delivery offices.[42] However, the difference between city (Group I) fees and non-city (Group II) fees has grown to be substantial.[43] In fact, while Group I fees cover box costs, Group II fees fail to do so by a wide

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[40] USPS-T-1, Appendix; Tr. 2/198-200.

[41] USPS-T-7 at 17-18; *see* USPS-LR-SSR-116.

[42] *Id.*

[43] Tr. 3/878.

margin. As demonstrated by witnesses Lion and Needham, Group II fees fail to cover even half their costs. USPS-T-7 at 15. Moreover, the fees at Group II offices range from only 19 to 23 percent of the Group I fees for comparably-sized boxes.[44] Witness Needham concludes that:

> [a]ny difference between city and rural carrier delivery offices does not justify such a large difference in fees. First, the salary levels of clerks putting up box mail is the same nationwide. Second, customers in both these fee groups are eligible for carrier delivery. Moreover, as developed in witness Lion's testimony, Postal Service costs for providing post office box service are only about 10 percent less in Group II than in Subgroup IC. Finally, witness Lion shows that the usage rate for Group II boxes is comparable to the usage rate for Group I boxes, and that a greater proportion of Group II offices than of Group I offices have no vacant boxes for at least one size. Therefore, the Postal Service is proposing to begin moving toward comparable treatment for all offices with carrier delivery.

USPS-T-7 at 18 (footnotes omitted).

Witness Needham therefore proposes to merge Groups I and II. Her proposal would replace Groups I and II with Groups A through D, for all offices that offer some form of carrier delivery service. Witness Lyons describes the Postal Service's plan to phase out the substantial differential between city and non-city delivery offices over time. USPS-T-1 at 15. Both witnesses Lyons and Needham indicate that the expansion of the suburbs to formerly rural areas blurs distinctions which might have been more significant in the past. They also point out that box service costs for non-city delivery offices are not much lower than costs for city delivery offices. They conclude that it is not fair and equitable to

[44] *See* Attachment B to Request, at 4; USPS-T-7 at 18.

maintain such a large difference between fee treatment for city and non-city carrier delivery offices. *Id.*; USPS-T-7 at 31, 41-42. Furthermore, as witness Needham explains, the non-city delivery office boxholders have enjoyed low (below cost) fees for a long time, and it is only fair that this segment of the boxholder population begin to contribute more significantly towards covering the costs of their box service. USPS-T-7 at 35-36.

In presenting the new, merged fee structure, witness Needham explains that "[t]he four groups [A through D] are designed so that fees can be set, starting in part with this proposal, to reflect different levels of costs and demand for the variety of delivery offices." USPS-T-7 at 19, n. 10. Thus, while in this proceeding all non-city delivery offices are being maintained as a separate group (Group D), in the future the Postal Service's proposal would allow two non-city delivery offices with different costs or demand to have different fees. Moreover, it would allow non-city delivery offices with high costs or demand to have higher fees than some city delivery offices. Thus, the Postal Service's proposal prepares the way for possible future reforms, such as that presented by Postal Service witness Taufique (USPS-RT-2 at 14), or using CAG level to group offices, as the OCA might prefer. *See* Tr. 5/1590.

C. Business Reasons Properly Justify The Proposed Fee Increases For City Delivery Offices.

Currently, city delivery offices are included in three subgroups of Group I. Subgroup IA covers Manhattan, New York, and has the highest fees. Subgroup IB contains specific high cost ZIP Code areas in eight large cities and their suburbs. Subgroup IC includes all other city delivery ZIP Code areas. The Postal Service proposes in this docket to move these subgroups into proposed Groups A, B, and C, respectively. Fees are proposed to increase about 25 percent for the three smallest box sizes (sizes 1 through 3). For box size 4, the proposed increases are 15 percent for Groups A and B, and 10 percent for Group C. For the largest boxes, size 5, the proposed increases are 20 percent for Groups A and B, and 4 percent for Group C. While the increases for box size 5, Groups A and B, are designed to cover costs, in most cases the Postal Service seeks to provide smaller increases for large boxes than for smaller boxes. By reducing the fee differential between small and large boxes, this design encourages customers to shift to larger boxes. This, in turn, will reduce window service costs for mail pickup when boxes are too small, and free up smaller boxes for individuals and small businesses. USPS-T-7 at 19-20. Moreover, for larger boxes, vacancy rates are higher than for smaller boxes, and CMRA prices are more competitive with post office box fees.[45] Users of large boxes are likely to take more of their postal-related business away, if they give up their post office box, than smaller customers, who would likely continue to use other postal products. Thus, larger fee increases for the Postal Service's larger boxes are likely to be counterproductive.[46]

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[45] USPS-T-4 at 8, 25-30; USPS-T-7 at 20.

[46] USPS-T-7 at 20. OCA witness Callow's post office box fee proposals seek, in part, to reduce the disparity in cost coverages by box size. Tr. 5/1540 (OCA-T-300 at 21). This approach tends to produce the largest fee increases, or smallest

Group I increases are needed (1) to reach a more appropriate cost coverage, and (2) to help justify box expansion at those Group I offices lacking enough boxes to meet customer demand. With regard to the second goal, witness Lyons explains how fees that do not reflect market costs will send the wrong signal to postal managers. The proposed fee increases will provide additional revenue potential that will justify the addition of post office boxes in some instances.[47] This will help those customers "who are quite willing to pay the higher fees we propose, but are unable to obtain box service at the lower fee because no boxes are available." USPS-T-1 at 19.

The proposed fees also reflect the new analysis of prices charged by alternative providers of box services, such as CMRAs. Witness Needham used the results from witness Lion's survey of CMRA pricing, discussed above, to show that CMRA prices are generally well above post office box fees, and, moreover, would still be substantially higher than the Postal Service's proposed fees.[48] Witness Needham concludes that the proposed box fees remain a good value when compared to CMRA prices. USPS-T-7 at 39. In addition, witness Needham

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decreases, for box size 5. The Postal Service disagrees with this approach, because it ignores the demand-based factors discussed above.

[47] USPS-T-1 at 18-19. *See also* Tr. 3/691. Witness Lyons notes that the low revenue potentials resulting from current fees provide an incentive to add boxes only in low cost areas, which are frequently not the locations which customers desire. USPS-T-1 at 19.

[48] USPS-T-7 at 12. Witness Needham notes that the smallest CMRA boxes are much smaller than the Postal Service's size 1 boxes, but that CMRAs offer, to varying degrees, services that may not be available at post offices. *Id.* at 12-13.

asserts that the rapid growth in the number of CMRAs shows an increasing demand for box service in general. This further justifies the Postal Service's proposed fee increases where CMRAs have been established. Tr. 3/915-17.

D. The OCA Proposal To Maintain Or Reduce Fees For Group I Boxes Is Bad Business Practice, And Should Be Rejected By The Commission.

OCA witness Callow proposes stable fees or fee decreases for Group I boxes. OCA-T-300 at 18-22. This proposal is driven in part by his decision to maintain, approximately, the current 100 percent cost coverage for post office box and caller service. Given that goal, and his desire to bring Group II closer to covering costs, he had to reduce many Group I fees. The OCA's proposal for Group I fees would not provide any added incentive to expand box availability where demand warrants. Moreover, decreasing some Group I fees flies in the face of the demand-based justification for increasing Group I fees. In this regard, witness Callow's proposal would move fees further below CMRA fees. Tr. 5/1577. This would be contrary to sound business practice. Furthermore, witness Callow ignores a potential for adverse impact on CMRAs, which already generally charge prices well above those of the Postal Service.[49] Unfortunately, witness Callow's consideration of pricing criterion (b)(4) omits the impact on CMRAs, and is limited to the effect of his proposal on Postal Service customers. Tr. 5/1547. Witness Callow's proposal should be rejected.

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[49] Witness Needham stresses that the Postal Service's proposed fee increases, on the other hand, will make it less likely that CMRA customers will switch to the Postal Service for post office box service. USPS-T-7 at 32-33.

E. The Proposed Fee Increases For Non-City Delivery Offices Are Needed To Reflect Costs, And Are Not Unduly Burdensome On Box Customers.

The Postal Service proposes to set the Group D fees at twice the current Group II fees. This moderates between raising fees even more, to cover costs, and protecting current Group II box customers from any fee increase. Group II increases are needed (1) to come closer to covering Group II costs, (2) to move the fees closer to those charged for Group I, and (3) to promote box expansion at those offices which lack enough boxes to meet customer demand.

Witnesses Lyons and Needham explain the objective of aligning fees for non-city delivery offices more closely with costs. USPS-T-1 at 14; USPS-T-7 at 38-39. Consistent with economic efficiency goals, the fee proposals for Group D begin moving this group closer to recovering its costs. Tr. 2/87. For example, while current fees for size 1 boxes in non-city delivery offices cover only one-third of their costs, the proposed fees cover over two-thirds of these costs.[50]

Witness Needham stresses the need to reduce the percentage disparity between fees at city and non-city delivery offices. She explains that it is not fair or equitable to have widely disparate fees, when costs and service levels at these offices are similar. USPS-T-7 at 35-36.

The Postal Service's proposal is designed to mitigate the impact on Group II users. Witness Needham explains how the proposed increases reflect a concern with the impact on Group II box customers:

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[50] *See* USPS-T-7 at 15-16.

> the proposed dollar increase in fees for Group II, box sizes 1 through 3, is less than the proposed dollar increase for Group I for those box sizes. Moreover, the proposed resident fees for all box sizes in Group II and the proposed non-resident fees for box sizes 4 and 5 remain below cost, recognizing the potential hardship on this segment of boxholders that still higher fee increases would bring. Additionally, the fact that the Postal Service is not proposing fees to match those proposed in Group C demonstrates sensitivity to the impact of a fee increase. Finally, the highest percentage increases apply only to non-residents at Group II offices. It is estimated that only 6 percent of Group II customers are currently non-residents, and they would pay the nonresident fee only if they decide to receive box service away from their local office.

USPS-T-7 at 36 (footnote omitted).

Fee increases for current Group II boxes, including caller service, are projected to produce $79.3 million in additional revenues. USPS-T-1, WP C at 2, 3. Even at this level, the proposed fees for Group D would still fail to cover Group D costs. Tr. 7/2300 (OCA-T-100 at 29). Moreover, that additional revenue alone is insufficient to produce an adequate cost coverage for post office box and caller service. This provides further support for the Group I fee increases, discussed above.

Witness Lyons shows that the proposed 100 percent increase for non-city delivery customers is quite modest in dollar amounts. The increases amount to only 67 cents per month for the most popular box size, and $1.08 per month for the next most popular size. The fee increases for box sizes 1 through 3, moreover, are less in dollar amount than the increases for city delivery customers. USPS-T-1 at 17.

OCA witness Callow endorses the Postal Service's proposal to double fees for boxes at non-city delivery offices. He points out that the 100 percent fee increase is "modest in absolute amount", representing semi-annual increases of $4.00 and $6.50 for individual and small business boxholders. Tr. 5/1547. He adds that the fee increase "insures that all boxes move toward covering their costs, ..." Tr. 5/1549. Finally, witness Callow notes that the increase helps reduce the disparity between Group IC and Group II fees. Tr. 5/1567. OCA witness Sherman appears to support even larger increases for non-city delivery offices, in order to achieve the "compelling goal" of covering costs. Tr. 7/2300. He argues that the absolute fee increases needed to cover cost would be smaller than many other increases in the Postal Service's post office box proposal, so "they would not be unreasonable." *Id.*

Thus, while at first blush the proposal to double fees at non-city delivery offices seems substantial, in fact the increase would be quite modest. Moreover, given the interests in reducing disparities between city and non-city delivery offices, and in covering more of the costs at non-city delivery offices, the proposal has gained support from the OCA, and is fully justified.

F. The Postal Service's Proposal For Customers At Offices Not Offering Any Carrier Delivery Improves Fairness And Equity, And Should Be Recommended.

In this proceeding the Postal Service proposes an extension of the principle that customers are entitled to one form of free delivery. Currently, the vast majority of customers are eligible for, and take advantage of, some form of carrier delivery service, whether via city, rural or contract carrier. Customers of non-city delivery offices typically also have an option of general delivery service. Tr. 8/3082. The Request extends the principle by reducing to $0 the base fee level at nondelivery offices. The Postal Service also plans to offer this $0 fee level to many customers who are served by delivery offices but are nonetheless ineligible for carrier delivery.

The existing box fee structure, embodied in both the DMCS and the DMM, contains two provisions that provide limited recognition of the principle that customers ineligible for any kind of carrier delivery should not have to pay the full box fee. One of these provides that such customers, when they obtain box service at a city delivery office, may obtain a single box at Group II fees. DMM § D910.4.3(a). The second applies to existing Group III offices, which are contractor-operated facilities administered by Group II offices. Customers at these facilities are, more likely than not, ineligible for carrier delivery. Tr. 8/3086-89. Their box fees are accordingly set at only $2 per year, significantly less than the Group II fees.

The Postal Service proposal to provide customers ineligible for carrier delivery a free box at their local nondelivery post office is embodied in the Postal Service's proposed DMCS language. *See* Attachment B to the Request at 4-6, in particular paragraph B beginning in the middle of page 5. The three salient parts of that paragraph, respectively, (1) create a fee group for all offices not offering any carrier service;[51] (2) define the fee for all sizes of boxes at these offices as $0 (*see also,* Tr, 8/3090); and (3) limit the availability of that fee by stating, in footnote 2, "Post office box customers who are eligible to receive carrier service at their delivery addresses are ineligible for these fees and subject instead to Group D fees."

The balance struck by this language reflects the tension between administrative simplicity -- a desire to apply just a single box fee for a box of a given size in a given office -- and the circumstance that customers of a given office may not be equally situated if only some are eligible for carrier delivery. The tension can also be viewed as one between an office-based system of fees, and the customer-specific circumstances regarding eligibility for carrier delivery. Tr. 8/3095-97. The first of the two salient sections of proposed DMCS language reflects the office-based nature of the proposal, while the customer-focused footnote 2 operates to preclude the extension of free box service to those who are eligible for carrier delivery. This language was deliberately crafted to preclude the inappropriate extension of free box service to customers who are already eligible for a free delivery option.[52]

By eliminating the $2 fee for box service in offices without any carrier service, this proposal would increase the number of customers for whom the

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[51] The Postal Service notes that its proposed DMCS language inadvertently fails to specify this fee group as "Group E". *Compare* USPS-T-7 at 21.

[52] This is an improvement over the existing Group III fee break which is extended to Group III customers who are eligible for carrier delivery.

Postal Service provides at least one form of free delivery. In particular, the Postal Service has explained that this proposal would apply to customers at postal-operated offices which do not offer any carrier service. Tr. 8/3084. Currently, such offices charge Group II fees. Tr. 8/3083. Witness Needham concludes that "the proposal is more equitable than the existing fee schedule because it will bring much greater uniformity than now exists in affording customers ineligible for carrier delivery a break in box fees." Tr. 8/3114.

While the Postal Service has not changed its box fee proposal in this case, it has determined during the course of the proceeding to exercise its rulemaking discretion to improve the fairness and equity of its proposal by extending free box service to additional customers who are ineligible for carrier delivery. Tr. 8/3217-20. As evidenced by the existence of DMM § D910.4.3(a), this is exactly the kind of discretion the Postal Service has traditionally exercised in connection with box fees.[53]

These planned DMM rules would promote the goal of providing each customer one form of free delivery. USPS-T-7 at 34; Tr. 8/3096. The First Status Report and several of the answers to Presiding Officer's Information Request No. 2 significantly advance the record regarding how the Postal Service expects to exercise its discretion should its proposal be approved and implemented. Tr.

[53] Witness Needham noted that an alternative DMCS approach that explicitly entitled customers who are ineligible for delivery to a free box would withdraw from the Postal Service needed flexibility concerning administrative burdens. Tr. 8/3117.

8/3085-92, 3217-20. The Postal Service now projects that free box service will be extended to all customers ineligible for carrier delivery except those who are ineligible by reason of the quarter-mile rule. This widespread extension of some form of free delivery significantly surpasses the limitations in the existing fee schedule, thus constituting a very substantial improvement in the overall fairness and equity of the box fee schedule.[54] *Id.*; Tr. 8/3095-97, 3108-17; Tr. 3/885-89.

G. The Proposed Nonresident Fee Is Reasonable, Fair And Equitable, Conforms To The Statutory Pricing Criteria, And Should Be Recommended.

The Postal Service Request in this case seeks authorization to charge an $18 semi-annual fee for post office boxholders who are unable to obtain from the Postal Service an exemption based upon local residency. USPS-T-7 at 2; Attachment B to Request at 5-6, note 1. It has been variously described as a "non-resident fee" (USPS-T-7 at 23) and an "alternate service fee." Tr. 8/3106. This latter description inheres from the proposal to impose the fee on customers who choose not to avail themselves of a free delivery option, whether it takes the form of carrier delivery or a free box at a local postal facility. *Id.*

The need and justification for a nonresident fee are summarized by witness Needham:

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[54] In particular, DMM rules are expected to apply the $0 fee to boxholders at current Group III offices. These contractor-operated facilities are planned to be categorized based on their administering office. Tr. 8/3219. Thus, they will end up as Group D facilities, unless the administering office does not offer any carrier delivery and thus is itself a Group E office. Nonetheless, most boxholders at contractor-operated facilities are not eligible for carrier delivery, and thus are expected to be eligible for the $0 fee.

> Problems with non-resident boxholders have been discussed informally at various postal meetings and postmaster conventions as well as up and down the chain of command. In the absence of quantified information regarding these problems, whether in the form of cost studies or compilations of written reports, the Postal Service chose to present this information in what amounts to its native form: descriptions of operational difficulties from the postmaster level. Hence, Mr. Landwehr's testimony (USPS-T-3) includes qualitative descriptions of four offices which face varying degrees of the operational difficulties presented by non-resident boxholders that the non-resident fee is intended to address.

Tr. 3/685-86.

Mr. Landwehr's testimony describes several operational problems associated with high demand for post office box service arising from nonresident boxholders. These include greater frequency of box overflow problems owing to infrequent mail retrieval, more forwarding orders, communications problems, and additional burdens in the areas of accountable mail and parcel management. USPS-T-3 at 1-10. Communications problems can themselves lead to a greater proportion of mail becoming undeliverable as addressed. Tr. 3/41. These administrative and management burdens are especially typical of post offices in border towns and prestigious areas. While Mr. Landwehr is unable to project his knowledge of operational problems to all post offices, he testifies that he can project his experience to offices in border towns and affluent areas. Tr. 3/469-72.

Ms. Needham *testifies that the additional burdens caused by nonresident* box customers have a cost impact. Tr. 3/757-58. She specifically agrees with witness Landwehr, for example, that nonresident customers are more likely to cause overflow problems and to require contact via costly long distance telephone. Tr. 3/751, 753-54. Ms. Needham provides additional qualitative descriptions of difficulties faced by post offices with greater populations of nonresident boxholders. USPS-T-7 at 25-31. She supports these descriptions with newspaper articles collected in library reference SSR-105. In response to interrogatories, she further reports the results of an inquiry to one postal area concerning additional offices facing problems with a high proportion of nonresident box customers. Tr. 3/715-17. Together, Mr. Landwehr's and Ms. Needham's testimonies provide substantial record evidence that nonresident customers place unusual, costly demands on the operation of post office box service.

The economic underpinnings of the proposed nonresident fee are quite straightforward: boxholders who choose to obtain box service somewhere outside their area of residence place a greater value on box service than do residents. USPS-T-2 at 4; USPS-T-7 at 42. If such customers did not, they would travel less instead of more and obtain box service at a location closer to their residences. This added value of service for nonresident boxholders may be due to prestige, vanity, a desire for a United States address, or convenience. USPS-T-7 at 25, 37. Mr. Carlson testifies at great length about the high value of box service to him in his capacities as both a resident and a nonresident boxholder. Tr. 8/2513-17, 2527-28, 3238-45, 3255.

A collateral benefit of a nonresident fee could be an increase in boxes available to resident customers, when nonresidents decide to give up their boxes. USPS-T-7 at 25, 41-42; Tr. 8/2784. Fees from nonresident customers who retain their boxes may serve to justify installation of additional boxes, for use by resident and non-resident customers alike. USPS-T-7 at 25, 42; USPS-T-1 at 18-19; Tr. 9/3355-56. Of course, without a nonresident fee, the proposed base box fees would have to be much higher in order to obtain the same or similar cost coverage.

In her direct and rebuttal testimonies, witness Needham provides further support for the nonresident fee in the form of similar demand-based fees in other service industries, USPS-T-7 at 37-38; Tr. 3/762, 883, 909; Tr. 9/3453-56, thus demonstrating the propriety of a demand-based rather than a cost-based fee.

During the cross-examination of witness Needham, concerns were raised about the impact of the nonresident fee on individualized situations. The fairness and equity of the box fee proposal, including the nonresident fee, should be evaluated in terms of its impact upon groups of boxholders, not individuals, because box fees are national in scope and must be administered by post offices across the country. Tr. 8/3280-81, 3289; Tr. 3/649-51. Distinguishing customers on the basis of the ZIP Code area in which they live is, moreover, consistent with the current administration of the box fee schedule -- the existing distinction between Group I and Group II fee areas is ZIP Code based. Tr. 3/737, 836. The box fee proposal is, accordingly, fair and equitable.

H. The Commission Should Recommend The Proposed Uniform Caller Service Fee.

The Postal Service proposes a uniform annual fee of $500 for caller service, at all offices, regardless of fee group.[55] As witness Needham explains, caller service, unlike post office box service, generally does not require any permanently dedicated space for a particular customer. USPS-T-7 at 33, 36-37. Since only about 10 percent of caller service costs are space-related, and postal labor costs are uniform nationwide, there is no cost reason to vary the caller service fee among the different fee groups.[56] USPS-T-7 at 23, 36-37. The proposed uniform caller service fee also would simplify the fee schedule. *Id.*

I. The Postal Service's Proposed Fees Should Be Adopted To Establish An Adequate Cost Coverage For Post Office Box And Caller Service.

One major goal of the Postal Service's post office box and caller service proposal is to establish a cost coverage that is more consistent with the statutory pricing criteria than either the existing FY 1996 coverage, or the coverages proposed in and resulting from Docket No. R94-1. As a result of its across-the-board pricing approach in Docket No. R94-1, the Postal Service proposed a cost

[55] Customers at Group D offices who obtain caller service only because no post office box of the appropriate size is available would, as now, pay the fee for the largest box size in the facility. USPS-T-7 at 22.

[56] By the same token, since use of caller service by one customer does not reduce the availability of caller service for others, there is no basis for extending a nonresident fee to caller service. Tr. 3/673.

coverage of 112.3 percent. Docket No. R94-1, USPS-T-11 at 60. In presenting this proposal, however, the pricing witness, Mr. Foster, stressed that:

> [u]nder circumstances other than an across-the-board rate increase, the Postal Service would consider a more substantial increase in certain post office box and caller fees. The current fee levels appear to be out of line with the market, and in some cases remain inadequate to compensate the Postal Service for installing new boxes in high cost areas. Misalignment of the post office box fee structure with market realities results in the needs of some customers being unfulfilled.

Id. at 61. The 10.3 percent increase proposed for post office box and caller service fees was well below the increases proposed in Dockets No. R78-1 (38 percent), R87-1 (34 percent), and R90-1 (25 percent). USPS-T-7 at 31-32.

In Docket No. R94-1, the Commission recommended a cost coverage of 115.4 percent, the lowest cost coverage that the Commission has ever recommended for post office box and caller service.[57] In making its recommendation for a larger increase (13.9 percent) than that proposed by the Postal Service, the Commission specifically noted "its desire to move toward the

[57] PRC Op., R94-1, at V-159. In Docket No. R90-1, the Commission recommended fees produced a 132.8 percent cost coverage (PRC Op., R90-1, Vol. 2, App. G, Sch. 1); in Docket No. R87-1, the recommended cost coverage was 126.9 percent (PRC Op., R87-1, Vol. 2, App. G, Sch. 1); in Docket No. R84-1, the recommended cost coverage was 181 percent (PRC Op., R84-1, Vol. 1, at 597); in Docket No. R80-1, the recommended cost coverage was 133 percent (PRC Op., R80-1, Vol. 1, at 579); in Docket No. R77-1 the recommended cost coverage was 125.7 percent (PRC Op., R77-1, Vol. 2, App. D-3a, and App. G, Sch. 3, at 37); and in Docket No. R76-1, the recommended cost coverage was 119.8 percent (PRC Op., R76-1, Vol. 2, App. G, Sch. 3, at 27).

previous markup [Docket No. R90-1's 132.8 percent cost coverage]."[58] The Postal Service's proposal in this docket would continue that movement.

The actual cost coverage in FY 1995 at current post office box and caller service fees was 104.3 percent. Exhibit USPS-T-5C at 16. This cost coverage was projected to decline to 99.8 percent in FY 1996. Exhibit USPS-T-1C. A higher cost coverage is needed for post office boxes to make an adequate contribution to institutional costs, consistent with the statutory pricing criteria, and the other rates and fees resulting from Docket No. R94-1.

In particular, witness Lion shows that, in deciding how many post office boxes to install, postal managers will use actual space costs rather than the book costs that are used to determine cost coverages for post office box service. As a result, for business purposes all the cost coverages calculated for post office box service are overstated by 7 to 8 percent. Tr. 9/3545-46. This overstatement is of particular concern with regard to post office box and caller service cost coverages that are close to or even below 100 percent. In this docket, the before rates cost coverage, and the cost coverage proposed by the OCA, would fall into that category.[59]

Using revenues based on the new box counts developed by witness Lion, and costs from witness Patelunas, witness Lyons determined that the after rates cost coverage for post office box and caller service is 128 percent. While this

[58] PRC Op., R94-1, at V-159.

[59] Exhibit USPS-T-1C; Tr. 5/1537.

cost coverage is higher than that resulting from Docket No. R94-1, a 128 percent cost coverage is less than the Commission's Docket No. R90-1 coverage, and is less than the average recommended post office box and caller service cost coverages in all of the omnibus rate cases prior to Docket No. R94-1. For the previous six omnibus cases, the average cost coverage resulting from the Commission's recommended fees was 136.5 percent, over 8 percentage points more than the Postal Service's proposed 128 percent cost coverage.[60]

This proposed cost coverage would begin to recognize the high value of service for box service. Witness Needham shows that:

> [p]ost office boxes offer privacy, prestige, and convenience, features that are very valuable to many customers. For businesses using box service or caller service, the value is seen in terms of revenue and orders being received sufficiently early in the day to process in an efficient manner.

USPS-T-7 at 37. Witness Needham provides several newspaper articles discussing the prestige value of, and high demand for, post office boxes at varying locations around the nation, including vanity addresses and addresses at offices bordering Canada and Mexico.[61] She also discusses other articles concerning the privacy benefits of box service, as well as her personal experience with the privacy value of post office box service. *Id.* at 29-30.

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[60] Using the cost coverages presented in footnote 57 above, (132.8 + 126.9 + 181 + 133 + 125.7 + 119.8)/6 = 136.5.

[61] USPS-T-7 at 26-28; *see* USPS-LR-SSR-105.

Witness Carlson also presents several benefits of post office box service that further demonstrate its high value of service. A post office box provides better mail security than carrier delivery, especially for large articles. A box address protects privacy by allowing one to correspond without revealing a street address. A box address is easier to communicate over the telephone than a street address, since there is no need to spell out a street name. Often mail is received earlier in the day from a post office box than through carrier delivery. Also, some post offices deliver mail to post office boxes, but not street addresses, on some less widely observed holidays, such as Martin Luther King Jr.'s Birthday, Presidents Day, Columbus Day, and Veterans Day. Tr. 8/2538-39.

The proposed cost coverage also reflects to a limited degree the readily available alternatives for most box customers. Given that most customers can switch to free carrier delivery, even a higher cost coverage would appear to be justified.[62] Given the rapid growth of the CMRA industry, an increasing proportion of customers also has the option of receiving their mail through a CMRA. Tr. 9/3548-49.

Witness Needham concludes that the target cost coverage for post office box and caller service should be at least as high as the systemwide cost coverage. After considering the impact of fee increases on box and caller service customers, however, witness Needham supports a cost coverage of 128 percent,

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[62] *See* USPS-T-7 at 39-40.

which falls midway between 100 percent and the systemwide cost coverage recommended in Docket No. R94-1. USPS-T-7 at 39.

J. The Postal Service Has Presented Sound Revenue Estimates For Its Post Office Box And Caller Service Proposal.

Witness Lyons estimates the post office box and caller service revenues that would result from the Postal Service's proposal in this docket, using the following inputs: (1) the fees proposed by witness Needham, (2) the box counts developed by witness Lion, (3) the acceptance rates for fee increases developed in his own Appendix and Workpaper C, using witness Ellard's survey results, and (4) the proportions of nonresident box customers in Groups I and II estimated from witness Ellard's survey. USPS-T-1, WP C and WP D, at 7-8. Witness Lyons assumes no migrations of customers from one fee group to another.[63] In particular, he adopts the assumptions that all box customers currently in Group II are eligible for some form of carrier delivery, and thus will pay the proposed Group D fees. Moreover, he assumes that all box customers currently in Group III, using the Docket No. R94-1 estimate of these customers, are not eligible for carrier delivery, and thus will avoid paying a fee for a Group E box.[64] Based on these assumptions, he estimates that after rates revenues will increase by $134.5 million, to a total of $662.973 million. Exhibit USPS-T-1C.

[63] Tr. 8/2997-99.

[64] These assumptions are explained by witness Needham, in response to question 5 of POIR No. 2. Tr. 8/3086-87.

In response to Presiding Officer's Information Requests, witness Lyons provides alternative estimates of the revenue loss from the proposed Group E fee level, and the revenue that would result from those current Group III customers who are eligible for carrier delivery. The Postal Service concludes that the likely revenue loss from the proposed $0 fee level for box customers who are not eligible for carrier delivery is $7.3 million.[65] The likely revenue gain from Group III customers who are eligible for carrier delivery is a little over $200,000.[66] Thus, this other means of estimating the likely net revenue loss from the proposed Group E fee indicates about $2 million more than the $5.4 million loss presented in witness Lyons' workpaper C, at 3.

V. THE FEE PROPOSAL FOR CERTIFIED MAIL SATISFIES AND FURTHERS THE POLICIES OF 39 U.S.C. § 3622 AND SHOULD BE RECOMMENDED BY THE COMMISSION.

A. Description

The record amply supports the Postal Service's proposal to raise the certified mail fee 40¢, from $1.10 to $1.50. Witness Needham explains that certified mail has experienced exceptional growth in recent years, with volume nearly quintupling since postal reorganization. USPS-T-8 at 61. According to witness Needham, certified mail is a high value-added, premium service providing

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[65] Tr. 8/3006-3010.

[66] $284,722 - ($2 x 33,851) = $217,020. This subtracts current revenue contributed by eligible Group III boxholders from the likely revenue from Group D fees for these boxholders, as presented by witness Lyons in response to POIR No. 5, Question 2. Tr. 8/3024.

mailers with a mailing receipt and delivery record accountability for mailing documents. USPS-T-8 at 60; Tr. 4/1131, 4/1185.

B. The Fee Increase Is Supported By Market Research.

In support of the fee proposal, the Postal Service prepared market research to acquire information about the reasons for certified mail usage; alternatives to certified mail; and the identity, cost, and convenience of alternatives. USPS LR-SSR-110; USPS-T-8 at 66-67. Banks, legal service firms, insurance agents and brokers, real estate agents, courts, and police institutions were surveyed. *Id.* The respondents identified a number of alternatives to certified mail, including:

- courier/messenger service (26 percent)
- United Parcel Service, Federal Express, and Airborne (50 percent)
- constable, process server, sworn individual, and maintenance people (13 percent)

USPS LR-SSR-110 at 21; USPS-T-8 at 67. The average price of these alternatives exceeded the proposed fee for certified mail by several multiples, thereby demonstrating that customers would pay substantially more than the proposed fee for accountable delivery. USPS-T-8 at 67; USPS LR-SSR-110 at 21. According to Dr. Steidtmann, despite the higher prices for alternatives, they still constitute reasonable substitutes for certified mail because factors other than price inform consumer behavior. Tr. 4/945-46, 4/954. The evidence accordingly shows that the proposed fee increase better aligns the price for certified mail with market conditions.

C. Past Certified Mail Fees Have Been Too Low Based On Erroneous Cost Coverages.

The proposed 40¢ increase in the certified mail fee is quite modest, especially given that certified mail cost coverages were based on erroneous understandings of the revenue and cost relationship. As discussed below, these errors have contributed to adoption of certified mail fees that have been too low, often at levels substantially below attributable costs. An increase in the certified mail fee is accordingly warranted. Tr. 4/3452-53.

Witness Needham explains that the source of inaccurate pricing analyses of certified mail fees in prior dockets can be traced to the CRA's exclusion of ancillary service costs and inclusion of ancillary service revenues in certified mail costs and revenues, respectively. Tr. 8/3449. Historically, the CRA has included ancillary service revenues, which include revenues for return receipts and restricted delivery associated with certified mail, in certified mail revenues. *Id.* CRA costs, however, have not included ancillary service costs. *Id.* n.5. The result has been that certified mail cost coverages reported in the CRA have been inflated. Tr. 4/1072-73, 4/1126-27, 4/1127; Tr. 9/3449-51.

The record establishes that the certified mail fee recommended by the Commission in the most recent omnibus rate proceeding did not cover attributable costs in the test year, even though Postal Service pricing testimony reported a cost coverage for certified mail of 172.1 percent. Tr. 9/3449-50; Docket No. R94-1, Appendix F at 3. This is because the numerator of the figure used to calculate the cost coverage was inflated because it included ancillary service revenues for restricted delivery and return receipts associated with certified mail. Tr. 9/3449-50. In recommending a fee of $1.10 in Docket No. R94-1, the Commission followed the CRA cost coverage methodology. Tr. 9/3450. As a result, the Commission's recommended cost coverage of 170 percent exceeded the actual cost coverage for the recommended fee, which was a mere 94.8 percent. Tr. 9/3450.[67]

The recommended cost coverage in Docket No. R90-1 was even lower. Although the pricing witness in that docket properly adjusted certified mail revenues in the Postal Service's proposal, an amount representing ancillary service *costs* taken from the CRA certified mail costs (which did not include ancillary service costs) was erroneously subtracted from proposed costs, resulting in an inflated proposed cost coverage. Tr. 4/1127; Tr. 4/1200; Tr. 9/3450-51. The Commission, however, followed the CRA approach, and recommended a certified mail fee of $1.00 in Docket No. R90-1, based on an erroneous cost coverage of 124 percent. Tr. 4/3451; Docket No. R90-1, PRC Op. & Rec. Dec., App. G, Schedule 1. As in Docket No. R94-1, the Commission's recommended fee of $1.00 in Docket No. R90-1 was based upon a cost coverage calculation with ancillary service revenues erroneously included in the numerator. *Id.* The true

[67] This figure is calculated using revenues for the certified mail basic fee of $293,220,000, reported at PRC Op. & Rec. Dec., Docket No. R94-1, App. G, Schedule 2 at 20, divided by certified mail costs of $309,213,000, reported at PRC Op. & Rec. Dec., Docket No. R94-1, App. G, Schedule 1. Tr. 4/3450 n.10.

cost coverage of 65 percent was nearly half that reported by the Commission in its recommended decision. Tr. 4/3451.[68]

Witness Needham confirms that the before- and after-rates certified mail cost coverages in this docket do not share the problems associated with the certified mail cost coverage methodology in past dockets. USPS-T-8 at 71; Tr. 9/3451. After correcting for revenues inflated by return receipt for merchandise volumes, witness Lyons presents before- and after- rates cost coverages for certified mail of 102.1 percent and 139.2 percent, respectively. Tr. 8/3020-23; Tr. 9/3452; *see also* Tr. 8/3076. As witness Needham explains, these cost coverages are appropriate for the Commission's evaluation of the certified mail fee proposal because the certified mail revenues in these figures are free of ancillary service and return receipt revenues, and the certified mail costs have not been subject to any unnecessary adjustments for ancillary service costs. Tr. 4/3452.

Although the before-rates revenue for certified mail in this docket barely covers attributable cost, past errors in setting the certified mail fee serve as a justification for increasing the certified mail fee. Tr. 9/3452-53. OCA witness Sherman agrees. He states that, putting aside the issue of whether rates and fees should be raised outside an omnibus proceeding, the Commission should undertake remedial steps to "repair[] a faulty decision in the past . . . ." Tr.

[68] This figure is calculated by dividing certified mail revenue of $205,068,000, Docket No. R90-1, PRC Op. & Rec. Dec., App. G, Schedule 2, at 19, by certified mail costs of $315,392,000, Docket No. R90-1, PRC Op. & Rec. Dec., App. G, Schedule 1. Tr. 4/3451 n.15.

7/2422-23. Witness Needham persuasively testifies that this docket serves as an opportune time for the Commission to remedy past errors by recommending the proposed 40¢ increase in the certified mail. She explains:

> past Postal Service proposals and Commission recommended fees for certified mail have been based on inflated cost coverages. I believe this serves as further justification for the Commission to recommend the proposed $1.50 fee for certified mail. Since certified mail users have been paying a fee below (now slightly above) cost, it is fair and reasonable that they begin to pay a fee that aligns better with the high value service they receive. Now is the time for the Commission to remedy past errors, for certified mail users have been paying exceptionally low fees for an extended period of time.

Tr. 9/3452-53. In sum, past errors in setting the certified mail fee serve as ample justification for increasing the fee in this Docket.

D. Operational Improvements To Certified Mail Justify The New Fee.

In addition to errors committed in determining the certified mail fee, two recent operational improvements to certified mail justify adjusting the certified mail fee. Witness Needham testifies that a "print name" block has been added to all accountable mail forms, including delivery receipts for certified mail. Tr. 4/1063-64; 4/1079. The "print name" block requests, in addition to the recipient's signature, the recipient's printed name, which aids in deciphering illegible signatures, and is particularly valuable to the sender if a return receipt after mailing is requested. Tr. 4/1064, 4/1078.

Another recent operational improvement began in March 1993 with the addition of florescent tags to certified mail labels. Tr. 4/1064. This was followed by the deployment of certified mail detectors used on automated processing equipment, beginning in September 1995. Tr. 4.1064, 4/1079; Tr. 8/3137. These measures facilitate identification of certified mail in automated processing and enable the Postal Service to transfer certified pieces to the accountable mailstream with relative ease. Tr. 4/1064. Previously, postal employees identified certified mail through visual identification of green certified mail labels. Tr. 8/3136. Manual detection methods proved inadequate once substantial volumes of mail began to be processed on automation, since mail processed on automation is subject to less manual handling, thereby making it more difficult to cull certified pieces. Tr. 8/3136.

E. The Postal Service's Proposed Certified Mail Fee Complies With And Furthers The Policies Of The Postal Reorganization Act.

The Postal Service's certified mail proposal is in accord with the statutory criteria of 39 U.S.C. § 3622(b). The proposed fee promotes fairness and equity (39 U.S.C. § 3622(b)(1)) by better aligning the fee with market considerations and ending a long history of mistaken analysis of certified mail costs and revenues. USPS-T-8 at 70-73; Tr. 3452-53.

The record amply demonstrates that the proposed fee would better align the value of certified mail service with the fee in accordance with 39 U.S.C. § 3622(b)(2). First, the market research demonstrates that customers would pay substantially more for hard-copy delivery alternatives to certified mail, thereby establishing certified mail's high value of service to senders. *See* USPS-T-8 at 70; USPS LR-SSR-110 at 21. Witness Needham testifies that various characteristics of certified mail also contribute to its high value of service to both senders and recipients. She explains that certified pieces are "more likely to receive the recipient's prompt attention," through the presence of a unique green label on certified mail pieces, and through compliance with the signature requirement for receipt of certified mail pieces. USPS-T-8 at 70. Certified mail pieces are accordingly likely to have high open, read, and response rates, since recipients' attentions are diverted from other responsibilities when clerks or carriers request a signature on the delivery notice, and the return receipt, if applicable. USPS-T-8 at 70. Finally, witness Needham observes that certified mail's own price elasticity of between -0.2 and -0.3[69] serves as additional proof of its high value of service. USPS-T-8 at 70.

The fee proposal also brings certified mail in compliance with 39 U.S.C. § 3622(b)(3). Although certified mail barely covers its attributable costs, the record demonstrates that certified mail has not been making reasonable contributions to institutional costs; indeed, certified mail has been making marginal or negative contributions to institutional costs for an extended period of time. Tr. 9/3449-53. This docket presents the Commission with an ideal opportunity to make up for longstanding errors in cost coverages that have contributed to exceptionally low fees for certified mail. Tr. 9/3453. The proposed 136.2 percent cost coverage would enable certified mail to begin making reasonable contributions to institutional costs commensurate with the high value of service certified mail offers. Tr. 9/3453; USPS-T-8 at 70.

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[69] USPS LR-SSR-101; Docket No. R94-1, USPS-T-2 at p. 226.

The testimonies of witnesses Lyons and Needham both demonstrate sensitivity to the effect on users, which the Commission is authorized to evaluate pursuant to 39 U.S.C. § 3622(b)(4). Witness Needham explains that since market research participants stated that their alternatives to certified mail were much more costly, the proposed fee for certified mail still would provide a reasonably inexpensive means for evidence of delivery. USPS-T-8 at 72. Witness Lyons, moreover, evaluated the effect on individuals by noting that the fee increase represents a tiny fraction of individual personal income. USPS-T-1 at 17. Consequently, no severe hardship from this proposed increase should be expected. It should be noted, moreover, that the Postal Service expressed interest in increasing the certified mail fee in excess of the 10.3 percent across-the-board rate and fee proposal in Docket No. R94-1. Witness Foster explained:

> Under circumstances other than an across-the-board increase request, the Postal Service would consider a higher fee for this valuable service, particularly considering the relatively low fee increases experienced over the past years.

Docket No. R94-1, USPS-T-11, page 66. That the Postal Service elected to propose a more moderate fee increase in the last omnibus rate proceeding further demonstrates the reasonableness and necessity of the increase proposed here. *See* USPS-T-8 at 68.

The record demonstrates the existence of reasonably priced alternatives to certified mail. 39 U.S.C. § 3622(b)(5). Most market research participants identified alternatives to certified mail. Tr. 4/946; USPS-LR-SSR-110 at 20-21; USPS-T-8 at 67. Although these alternatives are more expensive, they are still available at reasonable prices, since they provide value-added features beyond those offered by certified mail, such as speed of delivery. Tr. 4/953. In addition, another postal product, registered mail, also serves as a reasonably-priced alternative to certified mail. Tr. 4/1008.

Finally, the proposed certified mail fee serves the interest of simplicity in accordance with 39 U.S.C. § 3622(b)(7). Witness Needham explains that an increase to $1.50, along with a combined certified mail/return receipt fee of $3.00, would make the fee simple and easy for customers and postal employees to remember. USPS-T-8 at 73.

In sum, the record provides ample support for the proposed fee increase for certified mail.

VI. THE RECORD SUPPORTS LIMITING RETURN RECEIPT FOR MERCHANDISE SERVICE TO SPECIFIED SUBCLASSES.

The evidentiary record supports the Postal Service's proposed classification change to limit return receipt for merchandise service to Priority Mail and specified Standard Mail subclasses. Presently, Schedule SS-16 provides that return receipt for merchandise is available for merchandise sent via First-Class and Standard Mail. The proposed classification change would specify that return receipt for merchandise is available for merchandise sent by Priority Mail and Standard Mail Single Piece, Parcel Post, Bound Printed Matter, Special, and Library subclasses. Request, Attachment A at 15-16.

The proposal to specify the Standard Mail subclasses for which return receipt for merchandise is available remedies an apparent inconsistency in the DMCS. Witness Needham explains that the proposed change would make Schedule SS-16 conform to DMCS § 362, which already provides that return receipt for merchandise service is available only for the proposed, specified Standard Mail subclasses. USPS-T-8 at 89, n.34. Changing Schedule SS-16 to conform with DMCS section 362 is appropriate, since, according to witness Needham, the subclasses specified in section 362 consist of the "Standard Mail subclasses for which there is a reasonable expectation of usage." Tr. 4/1124.

Limiting return receipt for merchandise service to Priority Mail within First-Class Mail simplifies administration and protects against misuse. Witness Needham confirms that the Postal Service cannot always verify whether letter or flat-size mail contains merchandise. USPS-T-8 at 87, 89; Tr. 4/1123-24. Consequently, mail sent within the Letters and Sealed Parcels subclass presents the greatest opportunity for misuse of return receipt for merchandise service, because the contents are sealed against inspection and more likely to be non-merchandise. Tr. 4/1124. Misuse likely occurs because return receipt for merchandise service is, in some cases, incorrectly perceived as being comparable to certified mail combined with return receipt service, and the price of return receipt for merchandise is much less than the combined price of the certified mail-return receipt combination. *Cf.,* POSTAL OPERATIONS MANUAL § 824.1. Basic return receipt for merchandise service is available for a fee $1.20 (proposed fee of

$1.65), whereas certified mail with return receipt is presently available for $2.20 (proposed fees of $3.00). Tr. 4/1123-24. A mailer seeking to obtain proof of delivery of a mailpiece containing documents may be tempted to purchase basic return receipt for merchandise service to save $1.00 under the present schedule, or $1.35 under the proposed fees. *Id.*[70] This would be contrary to the DMCS, because return receipt for merchandise service was not intended to be a substitute for certified mail, which was designed for documents. Tr. 4/1123; USPS-T-8 at 87. The DMCS, however, gives the Postal Service no effective mechanism to prevent against this practice, particularly since First-Class Mail is sealed against inspection. Tr. 4/1124. Thus, limiting return receipt for merchandise service to Priority Mail would likely curb abuses, since the contents of Priority Mail are more likely to contain merchandise than correspondence, given that it is primarily designed for heavier weight flats and parcels. Tr. 4/1254.

The proposed limitation, moreover, would comport with the original intention of the service. As proposed in Docket No. R87-1, return receipt for merchandise service was designed to meet the needs of parcel mailers by providing them with the option of purchasing a return receipt without another special service for parcels. Tr. 4/1124; *see* Docket No. R87-1, USPS-T-21, at 47; PRC Op., Docket No. R87-1 at 779. It is therefore appropriate to take steps to minimize misuse of

[70] It should be noted that return receipt for merchandise is not equivalent to certified mail.

return receipt for merchandise service by senders of mailpieces containing documents. Tr. 4/1124.

Limiting return receipt for merchandise to Priority Mail would further the interest of maintaining a fair and equitable classification system under 39 U.S.C. § 3623(c)(1). The proposal creates a simple method for administering the service and ensures consistency with the original intention of this service. USPS-T-8 at 87, 89. It should be emphasized that the proposed change does not deny availability of return receipt services to Letters and Sealed Parcels mailers; customers would still retain other options. Return receipts for mail sent via Letters and Sealed Parcels would still be available through combination of return receipt service with certified, registered, or insured mail services. Tr. 4/1299. Alternatively, mailers of articles containing merchandise weighing 11 ounces or less would, of course, retain the option of using return receipt for merchandise service with the $3.00 Priority Mail envelope rate for mailpieces weighing two pounds or less. *See* Tr. 4/1153, 4/1300.[71]

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[71] The incentive to misuse return receipt for merchandise for documents in that instance would be sharply reduced, because the combined price of $4.65 for the envelope rate ($3.00) and the return receipt for merchandise fee ($1.65) exceeds the combined prices ($3.32 to $4.47) of First-Class Single Piece up to the 6 ounce increment ($0.32 to $1.47) combined with certified mail ($1.50) and return receipt ($1.50). *See* Tr. 4/1300.

VII. THE POSTAL SERVICE'S RESTRUCTURING OF RETURN RECEIPT OPTIONS SATISFIES THE CRITERIA OF 39 U.S.C §§ 3622 AND 3623.

The Postal Service's proposal for return receipts restructures the classification and fee schedules for return receipts by replacing the two options, available at the time of mailing, of showing to whom and date delivered (hereinafter "basic service") and of showing to whom and date delivered and address (hereinafter "enhanced service"), with a new, modified service showing to whom and the date delivered, and the delivery address, if it differs from the address on the mailpiece ("combined service"). The proposed fees of $1.50 and $1.65 for combined return receipt service and return receipt for merchandise service, respectively, are equivalent to existing fees for enhanced service. USPS-T-8 at 86. This proposal merits recommendation.

A. Classification Criteria

The proposal for a combined service promotes fairness and equity under 39 U.S.C. § 3623(c)(1) by offering improved service to customers. Witness Needham explains that, in lieu of requesting a fee increase for both service options at the time of mailing, the proposed elimination of the two basic service options would create a single combined service for all return receipts requested at the time of mailing, with a value enhancement over the current basic service option because the delivery address would be provided when different. USPS-T-8 at 86. Therefore, if this proposed restructuring is implemented, basic return receipt customers would not be paying more for the same service, but rather would pay a higher fee for a service enhancement. USPS-T-8 at 86; Tr. 4/1081, 4/1100-01, 4/1130. Customers of enhanced service would experience no change in price, since they would receive essentially the same service. USPS-T-8 at 88.[72]

The proposed inclusion of address correction, if applicable, as a component of all return receipt service at the time of mailing would promote good address hygiene among the users of the service, thereby making return receipt service more valuable to basic service customers under 39 U.S.C. §§ 3623(c)(2) and (5). USPS-T-8 at 90.[73] The reliability of this and other services could also be enhanced for subsequent correspondence since senders would receive notice of address changes and update their address lists accordingly. 39 U.S.C. § 3623(c)(3); USPS-T-8 at 90. This is also beneficial from the Postal Service's perspective by reducing the number misaddressed pieces. This, in turn, improves service and reduces postal operating costs. 39 U.S.C. § 3623(c)(5).

Finally, the restructuring promotes administrative efficiency in the retail and delivery contexts: window clerks would no longer need to explain the different

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[72] This is true regardless of whether the mailpiece bears a correct or incorrect address. Under the combined service, a return receipt with a blank address block would signal to the sender that the piece was delivered to the address written by the sender on the piece, thereby giving the sender *de facto* confirmation that the address information applied to the piece was correct. Tr. 4/1070; *see also* 7/2420-21. A return receipt bearing the sender's new address, on the other hand, would indicate to the sender that the address which the piece bore was incorrect.

[73] In addition to improving address hygiene, providing senders correct address information would be beneficial in other contexts, such as identifying a telephone customer through directory assistance, addressing a package correctly shipped via alternative delivery, and dispatching emergency services personnel. Tr. 7/2330-32.

service levels and associated fees, and delivery of mail with return receipts would be streamlined and simplified for carriers. USPS-T-8 at 87, 89. According to Dr. Steidtmann, the restructuring's emphasis on simplification is consistent with sound business practices:

> [s]implifying a product line is worthwhile in a retail context because it generally decreases costs by reducing transaction time for both the consumer and retailer. Simplifying a product line also makes it easier to communicate the value and features of the service to customers. . . . The Postal Service proposal also attempts to achieve simplicity by packaging return receipt features into one pre-mailing option.

USPS-T-2 at 5. OCA witness Collins agrees, noting that the combined service would "simplif[y] the fee schedules and provide[] an administrative benefit to the Postal Service." Tr. 5/1709; *see also* Tr. 5/1803.

B. Pricing Criteria

The fees for the combined service are fair and equitable. Enhanced service customers will receive essentially the same service they presently receive for the same price, USPS-T-8 at 88; basic service customers will receive enhanced service for an additional 40¢ for return receipt service and 45¢ for return receipt for merchandise service. *See id.*

Recent efforts undertaken by the Postal Service to improve this service since the existing fees were proposed in Docket No. R94-1 have increased the value of return receipt service, thereby justifying the increased fees basic customers will pay. 39 U.S.C. § 3622(b)(2). Specifically, witness Needham testifies that a "print name" block has been added to all accountable mail forms, including return receipt forms. Tr. 4/1063-64, 4/1078; Tr. 8/3145. The "print name" block requests, in addition to the recipient's signature, the recipient's printed name, which is particularly valuable to the sender if the recipient's signature is illegible. Tr. 4/1078. The record also establishes the Postal Service's sincere determination to improve return receipt service. In support of this, witness Needham provides an August 1, 1996 Headquarters memorandum to District Managers asking that they adopt a "proactive approach" to improving return receipt service. Tr. 4/1305-07; Tr. 8/3145. The memorandum insists that delivery managers review their return receipt delivery operations to ensure compliance with postal operating policies and emphasizes the importance of providing the high quality service customers expect. The memorandum's emphasis on improving customer service cannot be less clear:

> A significant concern is a lack of realization by some employees that the customer is the sender, who has paid for this service, and any arrangement that makes it easier for the addressee at the expense of that service should not be tolerated.

Tr. 4/1307. Instructions to the field on the correct manner of providing return receipt service were further distributed to postal employees recently in the first edition of the *Postal Bulletin* this year. *Postal Bulletin* No. 21936 at 7 (January 2, 1997).

The total current cost coverage for return receipt service is 127 percent, and witness Lyons reports an after-rates cost coverage of 171 percent. Exhibit USPS-T-1C. Witness Needham reports that the proposed cost coverage is closer to the systemwide cost coverage recommended in Docket No. R94-1 than the current cost coverage and reasons that the proposed cost coverage better reflects the high value of service from return receipts, thereby satisfying 39 U.S.C. § 3622(b)(3). USPS-T-8 at 92.

The effect of the restructuring on return receipt customers is minimal. The combined service, moreover, should be preferred to the alternative of proposing fee increases for the two basic service levels of return receipts. Tr. 4/1101, 4/1130. The fees are also desirable from the Postal Service's perspective, since the fee restructuring would result in a 40 percent reduction in the total number of return receipt fees by eliminating two of the current five fees. USPS-T-8 at 87. The fee of $1.50 for all non-merchandise return receipt service at the time of mailing is simple and represents an identifiable relationship with the proposed certified mail fee under 39 U.S.C. § 3622(b)(7). USPS-T-8 at 93. The fee would accordingly be easy for both customers and postal employees to remember. *Id.* The fee for return receipt for merchandise service is also simple and represents an identifiable relationship with the current fee for the enhanced service. *Id.*

VIII. THE POSTAL SERVICE'S PROPOSAL TO EXTEND MERCHANDISE INSURANCE TO HIGHER VALUE ARTICLES IS UNCHALLENGED ON THE EVIDENTIARY RECORD AND MERITS RECOMMENDATION.

No party has submitted evidence in opposition to the Postal Service's proposal to extend insurance coverage to higher value articles. Indeed, the OCA observes that the proposal represents a "genuine improvement" in service for postal customers. Tr. 7/2283, 7/2385. The proposal, which includes increasing the indemnity limit for domestic insured mail from $600 to $5,000, and for merchandise sent via domestic Express Mail from $500 to $5,000, is long overdue.[74] According to witness Needham, since 1978, the Postal Service has increased indemnity levels for insurance by $100 in every other omnibus rate case. USPS-T-8 at 31. Thus, past indemnity levels have been adjusted for inflation, but market factors have not played a significant role. *Id.* The insured mail changes proposed in the Request represent an ambitious attempt to better match product offerings with market information and make postal insurance more competitive. USPS-T-8 at 27; USPS-T-2 at 6.

A. The Proposal Is Consistent With Customer Preferences.

Witness Needham testifies that the insured mail proposal conforms to customer comments favoring increases in the indemnity limit. She reports that customers have expressed their dissatisfaction with the present low levels of coverage through communications with postal employees, USPS-T-8 at 31 (citing USPS LR-SSR-109 at 6), and through two market research surveys, USPS LR-SSR-109 at 12-105 and 106-24. The first survey, conducted of 257 respondents engaged in mail order/telemarketing, wholesale, and retail, demonstrates that customers use insured parcel services offered by competitors to send higher value articles. USPS-T-8 at 33-34; USPS LR-SSR-109 at 92-94. Notably, nearly half of the respondents confirmed that they would make greater use of postal services if

[74] Express Mail currently provides up to $500 of insurance for merchandise. This indemnity coverage is included in the basic Express Mail rate. USPS-T-8 at 30.

the indemnity limit for postal insurance were raised. USPS LR-SSR-109 at 95. Additionally, nearly one-third of the respondents providing comments made unsolicited requests for higher insurance levels for Express Mail. USPS-T-8 at 34-35; USPS LR-SSR-109 at 96.

A second survey conducted in 1996 confirms that customers also desire insurance coverage above $2,000. USPS LR-SSR-109 at 106-24. The customer base for this market research included respondents surveyed in the initial market research and shippers of high value electronics and computer equipment. The respondents reported usage of insured parcel services with contents valued between $2,000 to $5,000. USPS-T-8 at 37. More than one-third of the respondents confirmed they would make greater use of postal insurance if coverage up to $5,000 were available. *Id.* These findings, in combination with customer comments received over the last few years, indicate that there is sufficient interest among mailers for insured mail service for higher value items, at least up to $5,000. USPS-T-8 at 49.

B. The New Proposed Limits Make Postal Insurance More Competitive.

According to Dr. Steidtmann, indemnity in the context of the shipping business complements existing parcel services and serves an important role in generating additional revenue and achieving competitive advantages. USPS-T-2 at 6. Dr. Steidtmann testifies that other parcel carriers offer, in conjunction with their delivery services, much higher indemnity limits than the Postal Service. USPS-T-2 at 6; USPS LR-SSR-109 at 4-5. Greater postal insurance coverage is therefore warranted, particularly in light of the fact that postal insurance lags far behind its competitors in terms of coverage. *Id.* The Postal Service's $500 and $600 limits for Express Mail merchandise and insured mail, respectively, pale in comparison to UPS's and Federal Express' $50,000 limit, RPS's and DHL's $25,000 limit, and Airborne's $5,000 limit. *Id.* This proposal better positions the Postal Service to serve customers, particularly shippers of luxury items and valuable merchandise. USPS-T-2 at 6.

C. The Proposal Complies With And Furthers The Classification And Pricing Criteria Of The Act.

1. Classification Criteria

The proposed insured mail value increments for insured mail and Express Mail satisfy the classification criteria of the Act. The proposal promotes fairness and equity under 39 U.S.C. § 3623(c)(1) by dramatically broadening the mail base that will be eligible for insured mail services. USPS-T-8 at 50. The Postal Service's market research efforts demonstrate shippers desire and would use the new proposed insured mail value increments for higher value articles. 39 U.S.C. § 3623(c)(2) and (5). USPS-T-8 at 49. Witness Sherman concurs that the record supports the new classifications:

> there appears to be sufficient interest to warrant offering the higher indemnity levels, and to try to see what the effect it might have on usage by mailers of valuable items.

Tr. 7/2284. This proposal also serves the Postal Service's interest in improving customer satisfaction, a central component of the Postal Service's operating objectives, by providing the level of service customers desire. 39 U.S.C. § 3623(c)(5). USPS-T-8 at 50.

The importance of providing classifications with extremely high degrees of reliability and speed of delivery under 39 U.S.C. § 3623(c)(3) was carefully considered. Although insured registry is an alternative to insured mail, witness Needham testifies that customers should expect registered mail shipments to be delivered one to two days later than First-Class Mail, due to the special accountability and handling procedures for registry. Tr. 4/1109. The proposed insured mail indemnity level increase will accordingly satisfy First-Class Mail customers' desire for an intermediate insured mail service, *i.e.,* one whose speed of delivery falls in between registry's correspondingly longer "service expectation" and Express Mail's 1- to 2-day service guarantee. *See* Tr. 4/1109; USPS-T-8 at 50. For customers who desire the combination of speed and higher insurance coverage, the extension of merchandise insurance to higher value merchandise sent by Express Mail would be an attractive alternative. USPS-T-8 at 50. The need for classifications that do not require speed of delivery under 39 U.S.C. § 3623(c)(4) is also satisfied by this proposal. Postal insurance coverage, which is presently available for various Standard Mail subclasses, including Single-Piece and Parcel Post, would also be available up to $5,000 for these subclasses as well, thereby meeting the needs of customers not requiring the speed of delivery offered by either First-Class or Express Mail.

2. Pricing Criteria

The proposed incremental 90¢ fee for the new insured mail categories is adequately supported on the record and in accord with the pricing criteria of 39 U.S.C. § 3622(b). The proposed 90¢ incremental fee for each $100 value level for domestic insurance and Express Mail merchandise reflects maintenance of the fair and equitable fee schedule recommended by the Commission in Docket No. R94-1. USPS-T-8 at 51. The incremental charge of 90¢ merely extends to the new higher value increments the existing incremental charge for insured mail valued above $100. *Id*; Tr. 4/1107.

The fee is commensurate with the value of service of insured mail. 39 U.S.C. § 3622(b)(2). Insurance is used for shipments containing valuable articles; consequently, both senders and recipients place a high value of service on insured mail due to the high value of its contents. *See* USPS-T-8 at 52. Witness Needham further identifies measures to improve insured mail service for customers, including changes to forms and claims processing procedures, along with delivery confirmation to enable prompt access to insured mail delivery information. Tr. 4/1068-69. These factors support the 148 percent cost coverage for insured mail.

The proposed fee satisfies the requirement that insured mail cover its attributable costs and make reasonable contributions to institutional costs under 39 U.S.C. § 3622(b)(3). Witness Lyons reports a combined cost coverage of 148 percent for Express Mail insurance (for which a fee is charged) and insured mail, demonstrating the service would cover its costs, both direct and indirect, and provide a reasonable contribution to overhead. Exhibit USPS-T-1C. Witness Lyons further estimates that the new, proposed value increments will cover the estimated cost of paid claims. Lyons WP A at 4-5. Witness Lyons uses the percentage of paid claims in the highest existing insured mail value increment ($500 to $600), as compared to that increment's average value, as a proxy to estimate the claims costs for the new value increments. Lyons WP A at 5. According to witness Lyons' analysis, the estimated revenue from new insured pieces, estimated at $13.5 million, will handsomely exceed the estimated claims costs of $6.7 million for the new increments. Lyons WP A at 4-5.

Witness Needham considered the effect of the new insurance fees on the general public, businesses, and competition under 39 U.S.C. § 3622(b)(4). USPS-T-8 at 53. She concludes that individual and business customers should welcome this proposal, since the increased indemnity limit and associated fees provide customers the opportunity to make greater use of postal services. *Id.* Customers, moreover, have abundant lower-priced insurance alternatives, USPS-LR-SSR-109 at 4-5, so the proposed fees would not be unduly burdensome. 39 U.S.C. § 3622(b)(5). The effect on competition appears to be minimal. The results of the market research reveal only a modest shift on the order of 1,000,000 parcels to the Postal Service. Lyons WP A at 2. Moreover, alternative providers' insurance fees would still be competitive, since they would continue to be lower than the Postal Service's proposed fees. Tr. 5/1751; USPS LR-SSR-109.

Finally, the proposed insurance incremental fee per $100 value level represents a simple, identifiable relationship with the current insurance fee schedule under 39 U.S.C. § 3622(b)(7) by continuing the existing 90¢ incremental fee. USPS-T-8 at 54.

IX. THE POSTAL SERVICE'S PROPOSED REFORM OF EXPRESS MAIL INSURANCE IS REASONABLE.

The Postal Service's proposal to reduce document reconstruction insurance for Express Mail better aligns indemnity coverage with customer needs. This proposed classification change would reduce current document reconstruction indemnity limit of $50,000 per piece, and $500,000 per occurrence, to $500 per piece, and $5,000 per occurrence.[75]

Under Domestic Mail Manual regulations, document reconstruction insurance generally provides mailers with reimbursement for the reasonable costs incurred in the physical *reconstruction* of lost documents. DMM § S010. Witness Needham explains that high document reconstruction limits are no longer needed due to changes in communication methods. USPS-T-8 at 55. Document

[75] The reduction in the per occurrence limitation from $500,000 to $5000 would mirror the proposed 100-fold decrease in per piece coverage from $50,000 to $500. Tr. 8/3103. Witness Needham explains that the "per occurrence" limitation applies to document reconstruction claims made in connection with catastrophic losses of multiple Express Mail articles. Tr. 8/3102-03. Because the average payable document reconstruction claim is quite modest, averaging less than $100 per article, *see* USPS LR-SSR-109 at 2, witness Needham submits that circumstances in which this provision would be invoked would be quite rare. Tr. 8/3103.

reconstruction insurance was conceived in the early 1970s to meet the needs of mailers such as banks to protect themselves against the considerable expense of physically reconstructing non-negotiable documents or data, or both, that are lost or damaged while in transit. *Id.*

Witness Needham urges a reduction in the indemnity limit due in large part to the widespread use of alternative means of sending and reproducing documents. USPS-T-8 at 55. She notes that the proliferation of photocopy machines, e-mail, computer technology, and facsimile machines has made document reconstruction a relatively simple and inexpensive exercise. USPS-T-8 at 55-56. Indeed, in FY 1995, the average paid domestic document reconstruction claim was less than $100.00,[76] which is more than two orders of magnitude smaller than the present limit. USPS-T-8 at 56. Customers no longer need such excessive coverage. Witness Sherman concurs, noting that, "[a]though it is a very substantial reduction in what has been offered, the $50,000 limit per piece is probably inappropriate at the present time, and the new offering seems adequate." Tr. 7/2285.

Past claims payment history confirms that only a handful of *payable* Express Mail document reconstruction claims would exceed the proposed maximum limit. Witness Needham testifies that in FY 95, only 12 of 810 Express Mail paid document reconstruction claims exceeded the proposed $500 limit;

[76] St. Louis Information Service Center, U.S. Postal Service Domestic Claims Paid by Categories Report, USPS LR-SSR-109 p. 2. The average domestic paid claim for Express Mail document reconstruction in FY 1995 was $88.33. *Id.*

therefore, had the proposed limit been in effect at that time, almost 99 percent of all paid claims in FY 1995 would not have been affected by this proposed change. Tr. 8/3158, 8/3178. Even fewer paid claims exceeded the new proposed maximum limit in FY 96. Witness Needham reports that of 732 paid document reconstruction claims, only four exceeded $500. Tr. 8/3178. These four claims, ranging from $570 to $1,350, amounted to less than 0.6 percent of all paid document reconstruction claims in FY 96. Tr. 8/3178, 8/3190. Thus, it can be safely concluded that adjusting the limit to $500 would have virtually no impact on customers, since all but a handful of outlying paid claims in FY 95 and FY 96 exceeded the new proposed limit.

Witnesses Lyons and Needham reason that a reduction in the limit for document reconstruction would also reduce the administrative costs of the Postal Service and enhance customer satisfaction. Claimants persevere in pursuing unreasonable and frivolous claims that are not payable under postal regulations, such as claims for consequential losses. USPS-T-8 at 56-57. Witness Needham posits this may be so because a "remarkably high" indemnity limit of $50,000 is offered, thereby creating incentives for claimants to pursue frivolous claims. *Id.* A lower limit would likely increase customer satisfaction, since fewer customers would feel as if their claims have been unjustly denied by the Postal Service. *Id.* Witness Lyons concurs, noting that the proposed limit "clarif[ies] expectations in the event of conflicts involving loss or damage." USPS-T-1 at 16. Witness Needham therefore urges that the Commission recommend a reduction in the limit to deter customers from filing and pursuing frivolous, nonpayable claims, since the potential gain, from claimants' perspectives, in pursuing high-value nonpayable claims would be significantly reduced. USPS-T-8 at 57.

In addition to the limitations on document reconstruction, two minor reforms to DMCS provisions for Express Mail insurance are also requested. Tr. 8/3103-04. The first is that for Express Mail articles with contents valued at less than $15.00, the Postal Service would only pay the actual value of the contents, rather than the $15.00 minimum. The second is that rather than offering a flat $15.00 payment in the event of loss or damage to negotiable items, currency, or bullion, the Postal Service would offer reimbursement up to $15.00 for each such loss. Witness Needham establishes the fairness and equity of these proposals:

> First, the Postal Service already offers reasonable compensation in the event of loss for articles valued at $15.00 or less through reimbursement of Express Mail postage. See DMCS § 181; DMM § S500.2.0. Secondly, the proposal promotes equal treatment among claims. It is not necessary to favor mailers of low-value articles or negotiable items, currency, or bullion valued at less than $15.00 by offering reimbursement in excess of the actual loss. Claimants will receive reimbursement for the actual value of their losses in accordance with the insurance coverage provided.

Tr. 8/3103-04.

X. THE POSTAL SERVICE'S CLASSIFICATION CHANGE FOR REGISTRY COMPLIES WITH AND FURTHERS THE CLASSIFICATION CRITERIA OF THE ACT AND MERITS ADOPTION.

The uncontroverted record before the Commission supports the Postal Service's classification proposal for registered mail. The Postal Service proposes to include insurance for all registered mail valued between $100 and $25,000. All such registered mail would pay the current fees for registered mail with insurance, rather than the marginally lower fees for uninsured registry. Under the Postal Service's proposal, customers would retain the option of uninsured registry for articles valued up to $100.

A. The Classification Change Is Consistent With Customer Preferences.

Elimination of uninsured registry above $100 in value is consistent with customer preferences. Witness Needham's pattern of usage analysis shows that few customers use uninsured registry for higher value articles. USPS-T-8 at 20-22. The percentage of uninsured registered mail volume over $100 in value has ranged between 2.9 to 3.6 percent over the last six years, averaging 3.3 percent. USPS-T-8 at 21. Further, witness Needham notes that higher value articles constitute a small fraction of uninsured volume. Of total uninsured registered mail volume, the percentage of uninsured registered mail volume over $100 in value has ranged between 10 to 13 percent over the last six years, averaging 12 percent. USPS-T-8 at 20.

Customers have also expressed preferences consistent with this proposal in a survey conducted of members of the Industry Council of Tangible Assets (ICTA) and top postal indemnity claims filers. Nearly 75 percent of the respondents expressed that they would not be inconvenienced if uninsured registry above $100 were discontinued. USPS-T-8 at 8-9; USPS LR-SSR-108 at 25. Further, of those few respondents who indicated that they would be "very inconvenienced," very few make much use of uninsured registry. USPS-T-8 at 9. Witness Needham reveals that 71 percent of respondents stating that they would be very inconvenienced actually insure at least 90 percent of their registered mail. USPS-T-8 at 9. In view of the apparent inconsistency between customer responses to the survey and their usage patterns, the Commission should give little weight to the few mailers who stated they would be inconvenienced by this proposal.

B. The Classification Change for Registry Complies With And Furthers The Criteria of 39 U.S.C. § 3623.

The Postal Service's registry proposal is in accord with the statutory criteria of 39 U.S.C. § 3623(c). The proposed classification changes promote fairness and equity, 39 U.S.C. § 3623(c)(1), by discontinuing lower value, low volume service options, while preserving uninsured registry for the most widely used uninsured increment. USPS-T-8 at 23. This proposal is also desirable from the customer's perspective, 39 U.S.C. § 3623(c)(2), because customers will receive insurance protection with their registered shipments for only modestly higher fees. USPS-T-8 at 24, 25. The small increase in fees reflects the high security of the registered mailstream. USPS-T-8 at 24. This proposal enhances the desirability of the classification with minimal impact. Witness Needham explains that:

> [t]he vast majority of uninsured registry customers (88 percent) would experience no fee change. Indeed, the proposed fee restructuring . . . will affect only three percent of the total registered volume, since this very small portion of registered mail valued at more than $100 is sent without insurance. These customers could obtain insurance at a modestly higher fee. The alternative of insuring their registered mail with the Postal Service would be available at fees

> ranging from 4 percent to 19 percent higher (depending on the declared value up to $25,000) for this added value.

USPS-T-8 at 25.

This proposal promotes the reliability of registry service by eliminating much of the confusion customers and window clerks experience in connection with the dual fee structure. Witness Needham testifies that the uninsured option has proven to be misleading for some customers and clerks. USPS-T-8 at 19. She reports that:

> occasionally customers assume that because an article is being sent via registered mail, it automatically carries insurance up to the full declared value. This assumption causes customers to believe that an indemnity claim may be filed for the full value of a lost or damaged registered mail article for which they did not purchase insurance, or the correct level thereof, at the time of mailing. These problems would be largely eliminated by the fee redesign, as the only choice for insurance would be for articles valued up to $100.

USPS-T-8 at 19.

The proposal is also desirable from the Postal Service's perspective. 39 U.S.C. § 3623(c)(5). The current dual fee structure for registered mail is confusing for clerks to administer. USPS-T-8 at 19. This confusion in administration results in acceptance errors, which can, in turn, become grounds for customer complaints and dissatisfaction. USPS-T-8 at 19. This proposal further serves the interest of fee simplicity by reducing the number of fees and service options of which customers make little use. USPS-T-8 at 26. Moreover, consistent with Dr. Steidtmann's testimony, USPS-T-2 at 5, 7, this proposal should reduce administrative and transaction costs, since window clerks will not need to learn and explain the dual fee structure for articles valued above $100. In short, the elimination of 30 fee cells from the registered mail fee schedule would greatly ease the administration of providing registered mail service.

XI. THE COMMISSION HAS AMPLE EVIDENCE TO SUPPORT ELIMINATION OF SPECIAL DELIVERY SERVICE.

The uncontroverted record evidence before the Commission supports elimination of special delivery. As a rapid communications vehicle, special delivery has outlived its usefulness and cannot compete with more rapid and technologically-advanced communications offerings. USPS-T-8 at 136. As fees have increased, volume and revenue have both plummeted, further establishing that special delivery mail has lost its usefulness in the marketplace. *Id.*

A. Special Delivery Is An Anachronism.

Created in 1885, special delivery service was designed to provide immediate delivery of special delivery articles once they arrived at the delivery unit. USPS-T-8 at 117. At that time, First-Class Mail was dispatched to post offices throughout the day. USPS-T-8 at 121. Except for special delivery, mail arriving at the destination post office after carriers had departed on their last routes was held for the next delivery day. *Id.* Special delivery, however, was delivered immediately, whenever it arrived at the delivery unit throughout the delivery day. USPS-T-8 at 122. Often, special delivery pieces were delivered by special delivery messengers whose primary work objective was the delivery of special delivery mail throughout the day. USPS-T-8 at 122. By narrowing the window between the moment of receipt at the addressee post office and delivery, special delivery provided expedition at one point in the mailstream before newer and faster means of transportation were introduced. *Id.*

As witness Needham explains, changes in distribution methods have eroded special delivery's usefulness. Frequent daily dispatches to delivery units have largely ended with the consolidation of operations in processing and distribution centers. Tr. 4/1035. Since special delivery is and has always been transported in the same transportation network as mail of the same class, Tr. 4/1011, 4/1035, 8/3168, special delivery now usually arrives once daily at the delivery unit with mail of the same class in lieu of being dispatched to delivery units throughout the delivery day. Tr. 4/1020. As such, it usually does not arrive at the delivery office after carriers have departed the delivery unit for their routes. Tr. 4/1020. Its relative advantage over First-Class Mail has therefore diminished. Since it is available for distribution to carriers before they leave for their routes, special delivery pieces are often delivered by regular carriers with the other mail. Tr. 4/1035, 4/1021-22. Perhaps the only remaining advantage over ordinary First-Class Mail is that a special delivery piece may be personally transferred by the carrier to the recipient, but this occurs only if the recipient is available when the carrier happens to deliver the piece; when the recipient is unavailable, however, special delivery may be deposited in the addressee's mailbox with a corresponding notice of attempted delivery. Tr. 4/1034. This is hardly worth the additional $9.95 service fee. Indeed, witness Needham observes that "more personalized" delivery may be obtained for a fraction of the cost through use of certified or registered mail, since the recipient must interface with the carrier to receive these items. Tr. 4/1034. Table I below offers a service and price comparison at proposed fees among these special services, demonstrating special delivery's inferiority in virtually all categories

TABLE I

SERVICE	PRICE	NETWORK	SIGNATURE	IDENTIFIER	DELIVERY	RETURN RECEIPT AVAILABLE?
Special Delivery (First-Class)	$9 95	First-Class network	No signature required, may be left in mailbox with notice	No unique identifier for delivery record	usually delivered by regular carrier with other mail; delivery by messenger possible, if available, and on Sundays and holidays	No, unless combined with qualifying special service
Certified Mail	$1 50	First-Class network with tags for segregation in automated processing	signature required	Unique identifier for delivery record	usually delivered by regular carrier with other mail	Yes
Registry (without insurance, valued between $0 and $100)	$4.85	high security network	signature required	Unique identifier for delivery record	usually delivered by regular carrier with other mail	Yes

Sources: USPS-T-8 at 5, 120 Tr. 4/1006, 4/1011, 4/1034, 4/1035.

B. Special Delivery Has Been Eclipsed By Alternatives.

Today, abundant alternatives to special delivery are available, such as Express Mail, Priority Mail, First-Class Mail, long distance phone calls, facsimile transmissions, and electronic mail messaging. USPS-T-8 at 127. Witness Needham testifies that prices for these alternatives, including Priority Mail, First-Class Mail, long distance phone calls, faxes, and e-mail, are almost always lower than special delivery fees. *Id.* Alternatives can also provide more expeditious delivery and guaranteed service and are either equivalent in price or only marginally more or less expensive. USPS-T-8 at 128. Indeed, as shown in Table II, Express Mail is sometimes less expensive than First-Class Special Delivery.

TABLE II

SERVICE	WEIGHT				
	1 oz.	4 oz.	8 oz.	1 lb.	2 lb.
	TOTAL POSTAGE				
Special Delivery (Fee + First-Class Postage)	$10.27	$10.96	$11.88	$12.95	$12.95
Express Mail (P.O. to Addressee)	$10.75	$10.75	$10.75	$15.00	$15.00

Table II provides a fairly comprehensive special delivery profile, since 91 percent of special delivery volume (excluding Government) consists of First-Class Mail in weight increments at or below 2 pounds, Tr. 4/1028; USPS-LR-SSR-145, and the median weight of special delivery pieces is a mere 0.6 ounce, Tr. 8/2674. As shown in Table I, the prices of 4 and 8 ounce First-Class Special Delivery exceed the Express Mail ½ pound rate, and the difference in price between special delivery and Express Mail in the first-ounce weight increment is a mere 48¢.

Despite Special Delivery's high cost, the record clearly establishes that it offers virtually no advantages over Express Mail, and has many disadvantages. Unlike Express Mail, which receives expedited, dedicated transportation, Tr. 4/1031, 4/1057, special delivery does not travel in a separate mailstream, but rather is transported together with mail of the corresponding class. Tr. 4/1011, 4/1035. Express Mail offers merchandise and document reconstruction insurance and a refund in the event of untimely delivery, USPS-T-8 at 30, DMM § S500.2.0, whereas special delivery offers neither insurance nor refunds in the event of untimely delivery. Special delivery is not an accountable mail service. Tr. 4/1034. Therefore, unlike Express Mail, a signature is not required for receipt of a special delivery piece, and delivery records for special delivery need not be maintained. Tr. 4/1034. By contrast, Express Mail gives the sender the option of waiving or requiring the recipient's signature. Tr. 4/1034. Special delivery pieces lack unique identifiers to facilitate access to toll-free automated delivery information or return receipt service after mailing, both of which are available for Express Mail pieces. Tr. 4/1056; DMM § S915.1.2; DMM Quick Service Guide 500. Express Mail can be combined with return receipt or pickup service, neither of which are available for special delivery alone. DMM §§ D010.1.1, S915.1.2. Both Express Mail Service (P.O. to Addressee) and special delivery are delivered on Sundays and holidays. USPS-T-8 at 120; DMM Quick Service Guide § 500. When special delivery arrives at a delivery unit, it is "highly unlikely that special delivery would be delivered earlier than Express Mail," even when both pieces are destined to the same delivery address, because both would likely be given to a special delivery messenger or regular carrier for simultaneous delivery. Tr. 8/3195. Express Mail, moreover, is favored in delivery, because it offers a guaranteed time of delivery, usually noon or 3:00 p.m., whereas special delivery offers none. Tr. 8/3184, 8/3193. In any event, it is usually the proximity of the delivery points to the delivery unit or the carrier's or messenger's route sequence that determines the sequence of delivery of Express Mail and special delivery pieces. Tr. 8/3193.

C. The Commission Has Suggested Discontinuing Special Delivery In Light Of Declining Volume And Revenue Trends.

Special delivery is a textbook example of a product that, according to Dr. Steidtmann, has reached the "late stages of its life cycle." USPS-T-2 at 8. Special delivery volume and revenue have plummeted since postal reorganization. Witness Needham explains that special delivery volume has declined dramatically, from 110 million in 1970 to a mere 300,000 transactions in 1995, a decrease of over 99 percent. USPS-T-8 at 126. Revenue has not fared well, either. Since postal reorganization, witness Needham observes that revenue has decreased 95 percent, from $56 million to $3 million. USPS-T-8 at 124.

Despite high fee increases over the past few years, volume declines have more than offset any revenue increases. USPS-T-8 at 123. In light of special delivery's inverse relationship between costs and volumes, the Commission has expressed skepticism about the long-term viability of special delivery service. In its Docket No. R87-1 opinion, the Commission invited the Postal Service to consider eliminating the service:

> In light of the declining special delivery volume, the Service may consider a classification change to either eliminate the service or conversely restore some vitality to the service by identifying its most valued characteristics and attempting to provide them at lower cost.

PRC Op. R87-1 at 773. In 1990, the Commission warned of special delivery's impending doom, noting that special delivery's viability was "clearly threatened by the mandatory rate increases necessary to cover attributable costs." PRC Op. R90-1 at V-404. More recently, in Docket No. R94-1, the Commission raised serious doubts about the overall viability of special delivery service, concluding it was "a troubled service offering" in light of the "precipitous" decline in volume. PRC Op. R94-1 at V-168. In this same opinion, the Commission again invited the Postal Service to consider eliminating the product:

> the continuing decline of special delivery volumes perpetuates serious questions about the viability of this service. The Commission reiterates here its suggestion made in Docket No. R87-1 that the Postal Service consider a classification change (separately or as part of classification reform) "to either eliminate the service or conversely restore some vitality to the service by identifying its most valued characteristics and attempting to provide them at lower cost."

PRC Op. R94-1 at V-169. The Commission's suggestion is well taken. Because the Postal Service "knows of no way of revitalizing this service," USPS-T-8 at 136, Tr. 4/1050, the Request accepts the Commission's invitation to eliminate the service.

D. The Postal Service's Proposed Classification Change Is In Accord With the Classification Criteria Of Section 3623.

The Postal Service's special delivery proposal is in accord with the statutory criteria of 39 U.S.C. § 3623(c). The proposed fee promotes fairness and equity (39 U.S.C. § 3623(c)(1)) by eliminating a costly, low value product. *See* USPS-T-8 at 129-30. The continuation of special delivery undermines public confidence in the classification schedule and traditional notions of fairness, since it offers customers little more than window dressing for 31 times the price of a first-ounce, First-Class single-piece letter, and costs about the same as Express Mail, without all of the superior features that product offers. USPS-T-8 at 130.

In light of special delivery's precipitous downward volume and revenue trend, witness Needham concludes it no longer deserves a special service classification under 39 U.S.C. § 3623(b)(2) and (5). USPS-T-8 at 130-31. Customer need for expedition can be met through use of Express Mail. *Id.* Additionally, to the extent customers use special delivery to draw the recipient's attention to the mailpiece or to effect more personalized service on the addressee, the Postal Service offers less expensive alternatives, such as certified or registered mail with or without return receipt or restricted delivery services, that can accomplish the same objectives at a fraction of the cost to the sender. USPS-T-8 at 130; Tr. 4/1034.

Special delivery does not merit a classification on the basis of reliability or speed of delivery. *Cf.* 39 U.S.C. § 3623(b)(3-4). There is no evidence that special delivery offers additional reliability over the corresponding class of service, and indeed, special delivery offers nothing comparable to Express Mail's service guarantee. Tr. 8/3184. Special delivery no longer offers speed of delivery that customers value. Therefore, special delivery cannot substantially justify its position as a special service classification. USPS-T-8 at 131.

Special delivery does not further the Postal Service's best interests. 39 U.S.C. § 3623(b)(5). In view of its virtual disutility and high price, special delivery undermines the public's confidence in the classification schedule, and that, in turn, damages the Postal Service's reputation in the eyes of the public. Its declining volume also serves as proof of its demise. Dr. Sherman notes that:

> [b]ased on the declining usage of special delivery and its inability to contribute above its attributable costs, [elimination of the service] might be a wise course.

Tr. 7/2283. Dr. Steidtmann points out that the proposed elimination of special delivery is beneficial from the Postal Service's perspective, because it would result in a better allocation of Postal Service resources. He observes that eliminating special delivery "simplifies the product pool in the mind of the consumer and reduces costs at the same time." USPS-T-2 at 8.

XII. THE POSTAL SERVICE'S PROPOSAL FOR A SPECIAL SERVICE CLASSIFICATION AND FEE FOR STAMPED CARDS MEETS THE CLASSIFICATION AND PRICING CRITERIA OF THE ACT AND SHOULD BE ADOPTED.

The record amply supports the Postal Service proposal to create separate classifications and fees for stamped cards. The proposal would create fee categories for stamped cards in a renamed Stamped Cards and Envelopes fee schedule. The Postal Service proposes modest per-piece fees of 2¢ per stamped card and 4¢ per double stamped card. The proposal is sensible, furthers consistency in the DMCS, and satisfies the Act's pricing and classification criteria.

A. The Proposal Is Logically Sound.

Stamped cards are presently classified as postal cards and have long been sold by the Postal Service at no additional charge above postage. Postal cards are plain, standardized, postcard-size pieces bearing preprinted single-piece rate postage indicia. USPS-T-8 at 96-97. Postal cards are blank for users to supply their own messages and address information. *Id.* at 96. Postal cards are available at post offices and are sold at the single-piece postcard postage rate only, currently 20¢. *Id.* The Postal Service also offers double postal cards which allow the sender to mail a card containing another pre-stamped card for the recipient to send. *Id.* Additionally, postal cards can be purchased in bulk sheets composed of 40 postal cards, which facilitate printer compatibility. *Id.*

The record before the Commission establishes that postal cards have not, to date, directly borne their cost of manufacture; rather, the manufacturing costs of postal cards have been borne by all users of the Postal and Post Card Subclass, including users of private postcards. Tr. 4/1138; USPS-T-8 at 110; *see* Tr. 7/2474. This is because postal cards are not a separate subclass, and, as such, their attributable costs are not considered in isolation for ratesetting purposes. *Id.* Rather, the Commission has set rates for the Postal and Post Card Subclass based upon all of the attributable costs of postcards and postal cards, including postal card manufacturing costs. *Id.* As a result, the rates of postage for private post cards can vary with the postal card manufacturing costs. *Id.*

This proposal is designed to end attribution of manufacturing costs to the Postal and Postcard Subclass by treating the manufacturing costs of postal cards separately and as the basis for the proposed stamped card fee. Tr. 4/1138. In this manner, users of the mails that receive the additional benefits of postal cards, including the stationery and preprinted postage indicia, would directly bear the manufacturing costs, which are unique to postal cards. Tr. 4/1138; USPS-T-8 at 116. In addition, private postcard users, who do not receive free stationery and affixation of postage, would no longer support the manufacturing costs of postal cards.

Witness Needham testifies that the proposed fee would cover the manufacturing costs for postal cards, and add a markup to reflect, *inter alia*, the value of service for purchasers of these cards. USPS-T-8 at 109. In this regard, the proposal would end the inconsistent treatment of postal cards and their most analogous cousin, stamped envelopes, in the classification schedule. USPS-T-8 at 114. This proposal mirrors the stamped envelope classification by creating a separate fee above postage for the stamped paper customers receive, to cover the costs of stamped stationery plus a reasonable markup. *See id.*

B. Postal Cards Have Distinct Characteristics That Contribute To Their High Value Of Service.

Witness Needham explains that postal cards offer advantages over private postcards for both individual and business users. She notes that postal cards presently provide stationery for no additional charge and save customers resources expended in obtaining stationery. USPS-T-8 at 109-10, 113. Postal card users can purchase postal cards at a post office, prepare a message, address the card, and enter the card in the mailstream in the same visit. USPS-T-8 at 109-10. As such, they serve as a convenient and inexpensive method of sending messages to friends, entering contests, and requesting information from companies. USPS-T-8 at 97. Unlike picture postcards, postal cards are devoid of any decoration or printing, so customers can print address information on one side and use the other side entirely for correspondence. USPS-T-8 at 97.[77]

The advantages of postal cards over private postcards from the business mailer's perspective are well documented in the record. Dr. Steidtmann cites a survey of prices charged by local stationery and business product retailers for plain private postcards, which are substitutes for stamped cards, to support his conclusion that the stamped card fee would be "a bargain." USPS-T-2 at 7 (citing USPS LR-SSR-106 at 5). The survey confirms that private postcards are priced significantly higher than the proposed fee for stamped cards. USPS LR-SSR-106 at 5. Per-piece prices quoted in the survey for private postcards range from a high of 45¢ to a low of 7.18¢, which is more than three times the proposed 2¢ fee for stamped cards. *Id.*

Postal cards, moreover, possess an additional advantage over plain postcards in that they may be purchased individually or in bulk. As is evident from the survey, the least expensive plain postcards are sold in bulk, usually in

[77] Additionally, postal cards are less likely than picture postcards to be read by people other than the addressee since the address typically appears on the side bearing postage and the message is on the reverse. USPS-T-8 at 110.

quantities of 100 or 1,000. USPS LR-SSR-106 at 5. Postal cards do not restrict customer choice in this manner: customers may purchase the exact quantity of cards they desire for the same low rate. The survey further shows an inverse relationship between price and minimum quantity sold. USPS LR-SSR-106 at 5. It is therefore reasonable to conclude that single, plain postcards would cost an amount greater than or equal to the highest per-piece fee quoted in the survey for bulk quantities of postal cards. Postal cards, moreover, are advantageous in that bulk quantities are formatted in sheets. USPS-T-8 at 96.

Witness Needham supplies two magazine articles which provide further proof of the advantages of postal cards over postcards for business users. The first article published in POSTAL WORLD[78] describes the beneficial features of postal cards. The article explains that postal cards are advantageous because they save customers labor and paper resources, presumably through provision of stationery and elimination of the need to apply postage to these pieces. USPS LR-SSR-106 at 7. In addition, because postal cards bear single-piece postage, they save mailers time and effort in presorting and preparing mailing statements. *Id.* The article further touts the fact that postal cards receive First-Class service, including valuable free forwarding. *Id.* Postal cards thus serve as an effective, low-cost communication medium for businesses in various contexts, including advertising and sending notices. *Id.*

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[78] "Two-for-one: Free mail piece for the cost of postage," POSTAL WORLD, November 6, 1995, at 1, 3, *in* USPS LR-SSR-106 at 7.

The second article published in WORDPERFECT, THE MAGAZINE[79] comments that postal cards are a "great bargain" because the cost of the card is the same as the private postcard postage rate and free stationery is supplied. USPS LR-SSR-106 at 9. Also noted as an attractive feature of postal cards was "saving the labor and hassle of stamping the cards." *Id.*

In sum, this evidence demonstrates the high value of service provided by postal cards and their advantages over private postcards.

C. The Fee Proposal Avoids The Problems Associated With PCMA's Docket No. R76-1 Postal Card Proposal.

In Docket No. R76-1, the Post Card Manufacturers Association (PCMA) proposed an additional one-cent charge for postal cards, based on a manufacturing cost per card of 0.4¢. The Commission did not adopt the proposal, explaining that the manufacturing cost was not sufficiently high to impose a whole-cent increase, and that the proposal could complicate the subclass rate structure. The Commission reasoned:

> We are not persuaded by PCMA's argument. We do not find that the additional fraction of a cent incurred in manufacturing cards is sufficient to warrant a rate one cent higher than for privately-issued post cards. Further, we believe that this charge might unduly complicate the rate structure for this subclass.

PRC Op. 76-1, at 173-174.

The stamped card fee proposal is not vulnerable to the criticisms that led the Commission to reject the PCMA's proposed additional one-cent increase for

[79] Elden Nelson, "Promote Your Business with Custom Postcards," WORDPERFECT, THE MAGAZINE, Oct. 1995, at 16-20, *in* USPS LR-SSR-106 at 9-13.

postal cards in Docket No. R76-1. First, the record in this docket is clear that the Postal Service does not intend to change postal card "rates" as the Commission's Opinion in R76-1 suggested; rather, the Request proposes to create a stamped card fee which would be analogous to the fee charged for stamped envelopes. USPS-T-8 at 95. In this regard, the proposal would not "complicate the subclass rate structure" because no new rate category in the Stamped and Post Card Subclass would be created, and the same rate of postage would continue to apply to both private and stamped cards. *Id; see also* Tr. 4/1137. In fact, the Commission has already endorsed the concept of a postal card fee. In its R76-1 Opinion, the Commission suggested that the Postal Service propose a special service fee for postal cards:

> We think . . . that the Postal Service should . . . consider for future proceedings the possibility of treating the sale of postal cards as a special service much as it treats the sale of stamped envelopes as a special service.

PRC Op. R76-1 at 174, n.2. Thus, the stamped card fee proposal would not share the rate complexity inherent in the PCMA proposal; to the contrary, it comports with the Commission's suggestion in Docket No. R76-1 to create a postal card fee in the special service schedule.

Secondly, actual FY 96 postal card manufacturing costs have nearly tripled since the Commission was confronted with the PCMA proposal twenty years ago. The 0.4¢ manufacturing cost cited in R76-1 rounded to 0¢. By contrast, in this proceeding, the manufacturing cost is sufficiently high to warrant charging an additional fee above postage. Indeed, postal card manufacturing costs have exceeded 1¢ since 1989. USPS-T-8 at 106; Tr. 4/1114. The 1995 cost to manufacture a postal card was 1.1¢. *Id.* The 1996 year-to-date cost is 1.2¢, or 0.8¢ higher than the cost presented in Docket No. R76-1. *Id.*[80] The per-piece manufacturing costs are sufficiently high to warrant the creation of a stamped card fee. *Id.* In consideration of whole-cent rounding constraints, witness Needham proposes a fee that recovers the actual FY 96 manufacturing cost with the lowest cost coverage possible, 170 percent. USPS-T-8 at 107, 109.

D. The Proposal Complies With And Furthers The Classification And Pricing Criteria Of The Act.

1. Pricing Criteria

The proposed fee is manifestly fair and equitable under 39 U.S.C. § 3622(b)(1). As explained above, the fee ensures that postal card users, rather than all Postal and Postcard Subclass users, bear the costs attributable to the manufacture of postal cards. Tr. 4/1138. Additionally, the fee of 2¢ represents the first whole-cent increment above the actual FY 96 per-piece manufacturing cost. USPS-T-8 at 106-07.

The analysis in subpart B, *supra*, establishes the high value of service postal cards provide to their users under 39 U.S.C. § 3622(b)(2). The 170 percent

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[80] In her direct testimony, witness Needham uses actual FY 96 year-to-date figures to derive the 1.175¢ per-piece manufacturing cost figure. USPS-T-8 at 106-07; Tr. 4/1115. This figure is about the same as the per-piece manufacturing costs of postal cards reported at the end of FY 96. In the Response of United States Postal Service to Questions Raised at Hearings (filed November 26, 1996), witness Needham states that, although final FY 96 figures have not yet been determined, the office of Stamp Acquisition reports that per-piece manufacturing unit costs were 1.161¢ at the end of FY 96.

cost coverage is commensurate with that value of service. USPS-T-8 at 110. The 2¢ fee also meets the criterion in 39 U.S.C. § 3622(b)(3) that postal cards bear their attributable costs and make a reasonable contribution to overhead. The proposed two-cent fee for stamped cards would cover the directly-attributable manufacturing cost per card, realize the affixation value and provide a contribution to other costs. USPS-T-8 at 110.

The record demonstrates due consideration of the effect of the fee upon the general public, business mailers, and alternative carriers under 39 U.S.C. § 3622(b)(4). Witness Needham concludes that the 2¢ fee for stamped cards would be priced well below alternatives. Mailers accordingly would find the fee to be reasonable, particularly when considering the savings in paper and labor associated with the use of postal cards. USPS-T-8 at 111. From the Postal Service's perspective, witness Needham reasons that it makes no business sense for the Postal Service to provide free stationery. *Id.* From the perspective of alternate carriers, this proposed special service could be viewed as a price increase from a potential competitor, so this proposal should not have an adverse impact upon competitors. *Id.*

The record demonstrates the existence of abundant alternatives to postal cards, thereby warranting adoption of the fee under 39 U.S.C. § 3922(b)(5). Witness Needham identifies First-Class Mail letters, Standard Mail bulk rate regular mail, postcards, telephone calls, and on-line computer messaging, as examples of reasonably priced alternatives. USPS-T-8 at 111-12. Witness

Needham also testifies that the proposed fees are simple under 39 U.S.C. § 3622(b)(7). The fee would not complicate the rate structure, but rather would mirror the DMCS provisions for stamped envelopes. USPS-T-8 at 112. Finally, witness Needham asks the Commission to consider the "affixation value" of postal cards as a ninth pricing criterion to consideration of the fee design for stamped cards. According to witness Needham, the affixation value refers to the benefit to postal card users of having the postage pre-affixed to the card. She notes that, "[p]re-affixation of postage on stationery at the time of purchase saves time, and therefore money, for postal card users." USPS-T-8 at 112-13. Preaffixation accordingly contributes to the high value of service of postal cards through savings on labor-intensive operations. USPS-T-8 at 112-13.

2. Classification Criteria

The stamped card fee would be consistent with the DMCS's existing treatment of stamped envelopes. The cost for the stamped envelopes has long been recovered through a special service fee for stamped envelopes. Witness Needham accordingly concludes that the existence of a special service classification for envelopes but not for cards "calls into question the fairness and equity criterion of the existing classification schedule" under 39 U.S.C. § 3623(c)(1). USPS-T-8 at 114. Conceptually, there is no difference between purchasing either an envelope or a card with pre-affixed postage. *Id.* at 115. In fact, postal cards provide additional utility because they provide the stationery for the correspondence. *Id.*

The value of postal cards to its users is high. As mentioned previously, postal cards provide First-Class service in all respects and value to customers by provision of stationery and pre-affixation of postage. *Id.* at 115. In addition, providing classifications with a high degree of reliability and speed of delivery is important to both the Postal Service and its customers. Since stamped cards would continue to be First-Class products, their present high degree of reliability and speed of delivery would in no way be compromised. *Id.*

From the point of view of the Postal Service, a special classification for postal cards as a special service renamed "stamped cards" is very desirable. *Id.* at 115-16. The fee revenue of stamped cards would recover the unique manufacturing costs associated with only this product in the postcard subclass. Moreover, the change in the name of the product would better indicate the similarities to the stamped envelope special service and, as witness Lyons observes, eliminate the confusion between post and postal cards. Tr. 2/79-81.

CONCLUSION

For the foregoing reasons, the Postal Rate Commission should make and submit a recommended decision to the Governors recommending the proposed revisions to the Domestic Mail Classification Schedule and its attendant fee and rate schedules set forth in Attachments A and B to the Request.

Respectfully submitted,

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CRA Line Number & Title	Adjusted Attrib Costs FY96AR w/Mix 1/	Test Year AR (FY 1996) 2/	BY 1993 % change CRA to PRC 3/	FY96AR w/Mix @ % change SSR-122 5/	PRC derived minus PRC-LR-2 (Rev) 6/	% Difference 7/
	(1)	(2)	(3)	(4)	(5)	(6)
101. LETTER NP	14,294,372	14,635,031	2.44%	14,643,155	8,124	0.06%
102. TOTAL PRESORT	4,267,923	4,471,280	4.11%	4,443,335	-27,945	-0.62%
103 POSTAL CARD	32,641	44,454	36.41%	44,526	72	0.16%
104 P-CARD NONPRSRT	457,513	464,247	1.66%	465,108	861	0.19%
105 TOTAL PRST CDS	141,247	145,436	3.37%	146,007	571	0.39%
107. TOTAL FIRST	19,193,696	19,760,448		19,742,130		
110. PRIORITY	1,620,866	1,626,259	0.23%	1,624,594	-1,665	-0.10%
111. EXPRESS	538,225	586,724	11.58%	600,551	13,827	2.36%
112. MAILGRAM	789	805	0.51%	793	-12	-1.49%
113. WITHIN COUNTY 4/	75,468	77,591	-23.49%	57,741	-19,850	-25.58%
118. 2ND NONPROFIT	316,451	321,604	4.44%	330,501	8,897	2.77%
119 CLASSROOM	13,450	13,612	0.96%	13,579	-33	-0.24%
117 2ND REGULAR	1,381,915	1,398,874	2.44%	1,415,634	16,760	1.20%
123. TOTAL SECOND	1,787,284	1,811,681		1,817,455		
125. 3RD SINGLE PC.	224,777	224,768	0.67%	226,283	1,515	0.67%
126. REG C-RTE	1,952,068	2,122,442	8.72%	2,122,288	-154	-0.01%
127. TOT REG OTHER	4,495,179	4,717,460	5.46%	4,740,616	23,156	0.49%
128. TOTAL REGULAR	6,447,247	6,839,902		6,862,904		
131. NONPROF. C-RTE	139,505	143,414	3.75%	144,736	1,322	0.92%
132. TOT NP. BASIC	964,621	987,685	4.00%	1,003,206	15,521	1.57%
133. TOT NONPROFIT	1,104,126	1,131,099		1,147,942		
135. TOTAL THIRD	7,776,150	8,195,769		8,237,129		
136. TOT ZONE RATE	716,018	647,586	-12.30%	627,948	-19,638	-3.03%
137 BND PRNT MATTER	289,127	289,800	-1.38%	285,137	-4,663	-1.61%
139. SPECIAL 4TH	299,117	300,184	-0.52%	297,562	-2,622	-0.87%
140. LIBRARY RATE	43,925	43,674	-1.57%	43,235	-439	-1.00%
141. TOTAL FOURTH	1,348,187	1,281,244		1,253,882		
142. USPS PENALTY	0	0	0.00%	0	0	0.00%
147. FREE BLIND	29,618	29,846	0.25%	29,692	-154	-0.52%
161. TOT INTERNAT'L	1,360,689	1,376,748	1.02%	1,374,568	-2,180	-0.16%
162. TOT ALL MAIL	33,655,504	34,669,524		34,680,794		
163. REGISTRY	72,419	72,491	0.41%	72,716	225	0.31%
165. INSURANCE	42,249	42,413	0.84%	42,604	191	0.45%
164. CERTIFIED	285,880	289,264	2.36%	292,627	3,363	1.16%
166. COD	20,814	21,389	0.85%	20,991	-398	-1.86%
168. MONEY ORDERS	195,663	195,563	-0.09%	195,487	-76	-0.04%
167 SPEC DELIVERY	0	0	36.43%	0	0	0.00%
169. STMPD ENVEL.	14,655	14,655	-0.02%	14,652	-3	-0.02%
170. SPEC HNDLG	4,716	4,725	-0.04%	4,714	-11	-0.23%
171. P.O. BOX	516,598	513,039	-0.89%	512,000	-1,039	-0.20%
172. OTHER	220,053	220,279	-0.11%	219,811	-468	-0.21%
173. TOT SPECIAL SVS	1,373,047	1,373,818		1,375,602		
198. TOTAL ATTRIB	35,028,551	36,043,342	2.90%	36,056,396	13,054	0.04%
199. OTHER	20,967,862	19,955,488	-4.48%	20,028,502	73,014	0.37%
200 TOTAL COSTS	55,996,413	55,998,830		56,084,898	86,068	0.15%

1/ USPS-T-5; Exhibit USPS-T-5I
2/ PRC-LR-2 (revised) MC96-3
3/ USPS LR-SSR-122, page 12 of 15
4/ Using Barker Supplemental Testimony from R94-1 changes -25.58% to 77%
5/ column1 * (1 + column3)
6/ column4 - column2
7/ column5 / column2

Attachment B

USPS Finances For BY 1995 Using USPS and PRC Cost Methodologies
Docket No. MC96-3
($000)

Computation of Attributable Cost Difference

ine	Subclass	USPS Attrib. Costs 1		PRC Attrib Costs2/ 2		Difference Attrib Costs 3 (Col 2 - Col 1)	PRC Attrib Cost Factor 4 (Col 3 / 1,068,613)
1	First Class Letters	17,856,472	1/	18,392,595	3/	536,123	50.17%
2	Third Class BRR	6,145,129	1/	6,531,201	3/	386,072	36.13%
3	All Other	9,687,755	2/	9,834,173	2/	146,418	13.70%
4	Grand Total	33,689,356	1/	34,757,969	3/	1,068,613	100 00%

Computation of USPS Institutional Cost Apportinment Factors

	Subclass	PRC Attrib Costs2/ 5		USPS Rev Target 6		Institutional Cost Burden 7 (Col 6 - Col 5)	PRC Institutional Cost Apportionment Fact 8 (Col 7 / 19,751,404)
5	First Class Letters	18,392,595	3/	30,821,411	4/	12,428,816	62.93%
6	Third Class BRR	6,531,201	3/	10,267,615	4/	3,736,414	18.92%
7	All Other	9,834,173	2/	13,420,347	2/	3,586,174	18.16%
8	Grand Total	34,757,969	3/	54,509,373	4/	19,751,404	100.00%

1/ Exhibit USPS-T-5B, pages 1 and 2
2/ Grand Total less (First-Class Letters + Third Class BRR)
3/ Library Reference PRC-LR-2 (Revised), Matrix by951p.1r Page 50
4/ USPS Witness Patelunas's Workpaper WP-A, pages 129-130

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CERTIFICATE OF SERVICE

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

David H. Rubin

David H. Rubin

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260–1137
January 14, 1997