

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

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

POSTAL RATE AND FEE CHANGES, 1997

Docket No. R97-1

DIRECT TESTIMONY
OF
SUSAN W. NEEDHAM
ON BEHALF OF
THE UNITED STATES POSTAL SERVICE

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AUTOBIOGRAPHICAL SKETCH

My name is Susan W. Needham. I am currently an economist in Pricing at Postal Service Headquarters. I began working for the Postal Service in 1981 as a letter carrier at the McLean, Virginia post office. From 1983 to 1986, I worked at the Research and Development Laboratories, the National Test Administration Center, and the Headquarters Personnel Division before joining the Pricing Office in 1986. I provided substantial technical support for Dockets No. R87-1, R90-1, and R94-1. I provided two direct testimonies and one rebuttal testimony in Docket No. MC96-3. Since 1991, I have been the special services pricing expert and in 1996 became the project manager for special services pricing. This is my fourth appearance before the Commission.

Prior to joining the Postal Service, I was a financial analyst for SYSCON Corporation of America. My responsibilities there included financial database maintenance for a shipbuilding project, and development and preparation of Department of Defense budgets.

I received bachelor's degrees in business administration and economics from Catawba College, Salisbury, North Carolina. I have been working on a master's degree in business administration at Marymount University, Arlington, Virginia.

1 **I. PURPOSE**

2

3 The purpose of this testimony is to propose fee changes, both increases
4 and decreases, and several classification changes to many of the Postal
5 Service's special services. The special services covered in this testimony are
6 address changes for election boards, address correction, business reply mail,
7 carrier sequencing of address cards, certified mail, collect-on-delivery, correction
8 of mailing lists, money orders, on-site meter settings, parcel airlift, post office
9 boxes, caller service, reserve call numbers, prepaid reply mail permits, registered
10 mail, special handling, stamped cards, stamped envelopes and ZIP Coding of
11 mailing lists.

12

13 Most of the fee increase proposals in this testimony are modest in
14 percentage terms over the current fees. There are a few special services,
15 however, that due to either increases in, or improved estimates of, volume
16 variable or incremental costs are facing proposed fee increases of substantial
17 proportions.

18

19 This testimony also presents significant fee decreases for BRM. As a result
20 of new cost data, the proposed fee for non-BRMAS BRM with an advance
21 deposit account is 20 percent less than the current fee. The proposed fee for
22 non-BRMAS BRM without an advance deposit account is 32 percent lower than
23 the current fee.

1

2 No fee changes are proposed to several of the special services. Those
3 special services include manual and automated address corrections, all money
4 order fees, and scheduled and unscheduled meter settings.

5

6 The classification changes proposed in this testimony affect registered mail,
7 business reply mail, and the newly-proposed prepaid reply mail. The Postal
8 Service is seeking a further streamlined fee schedule for registered mail than
9 that recommended by the Commission in its Docket No. MC96-3 Recommended
10 Decision. Under the classification proposal, uninsured registered mail would be
11 available only for merchandise of no declared value. Classification proposals to
12 add an annual permit fee and a monthly accounting fee for permit reply mail are
13 also being proposed.

14

15 This testimony will demonstrate the need for the fee and classification
16 changes by showing how each of the proposals meets or exceeds the respective
17 criteria, where applicable.¹ It will further demonstrate the high value of service
18 that almost every one of the special services provides customers.

19

¹ Where no fee changes are proposed, the pricing criteria are not discussed in detail.

1 II. PRICING CRITERIA

2 Proposed fee changes presented in this testimony were designed using the
3 following pricing criteria from Section 3622(b) of Title 39, United States Code:

- 4 1. the establishment and maintenance of a fair and equitable schedule;
- 5 2. the value of the mail service actually provided each class or type of
6 mail service to both the sender and the recipient, including but not
7 limited to, the collection, mode of transportation, and priority of
8 delivery;
- 9
10 3. the requirement that each class of mail or type of mail service bear the
11 direct and indirect postal costs attributable to that class or type plus
12 that portion of all other costs of the Postal Service reasonably
13 assignable to such class or type;
- 14
15 4. the effect of rate increases upon the general public, business mail
16 users, and enterprises in the private sector of the economy engaged in
17 the delivery of mail matter other than letters;
- 18
19 5. the available alternative means of sending and receiving letters and
20 other mail matter at reasonable costs;
- 21
22 6. the degree of preparation of mail for delivery into the postal system
23 performed by the mailer and its effect upon reducing costs to the
24 Postal Service;
- 25
26 7. simplicity of structure for the entire schedule and simple, identifiable
27 relationships between the rates or fees charged the various classes of
28 mail for postal services;
- 29
30 8. the educational, cultural, scientific, and informational value to the
31 recipient of mail matter; and
- 32
33 9. such other factors as the Commission deems appropriate.
- 34

1 **III. CLASSIFICATION CRITERIA**

2 Proposed classification changes presented in this testimony were
3 developed using the following classification criteria from Section 3623(c) of Title
4 39, United States Code:

- 5
- 6 1. the establishment and maintenance of a fair and equitable
7 classification system for all mail;
- 8
- 9 2. the relative value to the people of the kinds of mail matter entered
10 into the postal system and the desirability and justification for
11 special classifications and services of mail;
- 12
- 13 3. the importance of providing classifications with extremely high
14 degrees of reliability and speed of delivery;
- 15
- 16 4. the importance of providing classifications which do not require an
17 extremely high degree of reliability and speed of delivery;
- 18
- 19 5. the desirability of special classifications from the point of view of
20 both the user and the Postal Service; and
- 21
- 22 6. such factors as the Commission may deem appropriate.
- 23
-

1 **IV. PROPOSALS**

2

3 **A. Address Changes for Election Boards**

4

5 **1. Proposal**

6

7 The Postal Services proposes to increase the current fee of 17 cents per
 8 address change to 20 cents per address change for the address changes for
 9 election boards special service. This proposal results in an 18 percent increase
 10 to the current fee. Table 1 below presents the current and proposed address
 11 changes for election boards fee.

12

13 **Table 1 - Address Changes for Election Boards**

<u>Description</u>	<u>Current Fee</u>	<u>Proposed Fee</u>	<u>Percentage Change from Current to Proposed Fee</u>
Per Address Change	\$0.17	\$0.20	18%

14

15 **2. Description**

16

17 Once a month, upon request, the Postal Service provides change of
 18 address information to local election boards and draft registration commissions.
 19 The current fee of 17 cents is charged per address change provided.

3. Fee History

The fee for address changes furnished to election boards and registration commissions has increased four times since Postal Reorganization. In 1976, the fee increased 100 percent over the initial fee of five cents, in place since the origin of the service in 1961. In 1981, the fee increased 30 percent, and in 1985 the fee increased 15 percent. As a result of Docket No. R94-1, in 1995 the fee increased 13 percent to its current 17 cents. A detailed fee history for address changes for election boards is presented in Library Reference H-187.

4. Fee Design

The proposed fee for address changes for election boards was designed by applying a markup over the per-piece cost of 16.1 cents and conforming to a five-cent rounding constraint. The 20-cent proposed fee both covers the cost and meets a 5-cent rounding constraint, with a resulting 124 percent cost coverage.

5. Pricing Criteria

The proposed address changes for election boards fee is fair and equitable (Criterion 1). Considering the facts that this fee has only increased four times since Postal Reorganization, the cumulative impact of these changes

1 has been relatively modest (Criterion 4). The cost coverage is relatively low for
2 this special service.

3

4 Address changes for election boards provide moderate value to voter
5 registration commissions (Criterion 2). Address changes are critical for voting
6 polls to maintain accurate name and address lists for their precincts, and to
7 promote correct voter registration. The 124 percent proposed cost coverage
8 covers the cost for this service and provides a contribution (Criterion 3). A
9 proposed 20-cent fee per correction maintains a simple fee structure and
10 matches the proposed fees for carrier sequencing of address cards and
11 correction of mailing lists, thus maintaining identifiable relationships between the
12 fees for these list services (Criterion 7).

B. Address Correction

1. Proposal

The Postal Service proposes no change to the current address correction fees of 50 cents for a manual address correction and 20 cents for an automated address correction. Updated costs for both types of address corrections (see Library Reference H-107) indicate that these services are covering their volume variable costs and making reasonable contributions to other costs, and no adjustments to the fees are necessary. In the test year after rates, the proposed implicit cost coverages are 117 percent for manual corrections and 167 percent for automated corrections, with a total cost coverage of 127 percent. Retaining as low as address correction fees as practical encourages customers to update their address files, thereby resulting in less forwarding and return of mail. As such, the proposal accounts for mailer efforts to reduce postal costs. The two-part fee structure is simple and understandable. In summary, the fees cover their cost and are fair and equitable. Table 2 below presents the current and proposed address correction fees.

Table 2 - Address Correction

<u>Description</u>	<u>Current Fee</u>	<u>Proposed Fee</u>	<u>Percentage Change from Current to Proposed Fee</u>
Manual Corrections	\$0.50	\$0.50	0%
Automated Corrections	\$0.20	\$0.20	0%

2. Description

Address correction service provides mailers with a forwarding or correct address or a reason why the mailpiece cannot be delivered. In order to receive address correction service, mailpieces must bear a preprinted endorsement. A fee is charged only when the service is provided, except for periodicals which automatically receive address correction service for an extended period after a change of address order has lapsed.

In 1996, 52 percent of address corrections were manual corrections and 48 percent were automated corrections. Also in 1996, of the individual subclass address corrections, Standard Mail A bulk automated corrections accounted for 23 percent, First-Class manual corrections accounted for 21 percent, and Periodical automated corrections and Standard Mail A bulk manual corrections accounted for 20 percent each of the total address correction volume.

3. Volume Trends

Address correction volume has fluctuated substantially since Postal Reorganization. However, over the past few years, volume has climbed tremendously; an increase in part attributed to the introduction of automated address corrections in 1991. Address correction volume increased 224 percent

1 over the past 10 years and 50 percent over the past 5 years. From 1995 to
2 1996, address correction volume decreased 20 percent although 1996 saw the
3 second highest volume of 237 million transactions. A detailed volume history for
4 address corrections is presented in Library Reference H-187.

5

6 4. Revenue Trends

7

8 Address correction revenue has increased fairly consistently since
9 Postal Reorganization. Address correction revenue increased 284 percent over
10 the past 10 years and 122 percent over the past 5 years. From 1995 to 1996,
11 revenue decreased 16 percent, which can be attributed to an increase in the
12 number of automated address corrections, that have a lower fee than the manual
13 corrections. A detailed revenue history for address correction service is
14 presented in Library Reference H-187.

15

16 5. Fee History

17

18 The fee for manual address corrections has increased five times since
19 Postal Reorganization. In 1976, the fee changed twice, representing a 30
20 percent increase and a 92 percent increase, respectively. In 1985, the fee
21 increased 20 percent and in 1991, the fee increased 17 percent. As a result of
22 Docket No. R94-1, in 1995 the fee increased 43 percent. The fee for automated

- 1 address corrections has remained the same since its introduction in 1991. A
- 2 detailed fee history for address corrections is presented in Library
- 3 Reference H-187.

1 **C. Business Reply Mail**

2
3 1. Proposal
4

5 The Postal Service proposes several changes to the Business Reply
6 Mail (BRM) fees. The current "Prebarcoded" fee for mail qualifying for the
7 Business Reply Mail Accounting System (BRMAS) System will be renamed the
8 "Qualified" fee, indicating that it will be limited to mail eligible for the "Qualified
9 Business Reply Mail" postage rate being proposed by witness Fronk (USPS - T-
10 32). This fee is proposed to be increased from 2 cents to 6 cents, resulting in a
11 200 percent increase.² The current BRM fee of 10 cents per piece for non-
12 BRMAS BRM with an advance deposit account is proposed to be reduced to 8
13 cents per piece, resulting in a 20 percent decrease. Also, the current BRM fee of
14 44 cents per piece for non-advance deposit account BRM is proposed to be
15 reduced to 30 cents, resulting in a 32 percent decrease.

16
17 The annual accounting fee for BRM is proposed to increase from \$205
18 to \$300, a 46 percent increase. Finally, the annual permit fee for BRM is
19 proposed to increase from \$85 to \$100, an 18 percent increase. Table 3
20 presents the current and proposed BRM fees.

² Since mail paying this fee will also receive a three-cent discount off the First-Class first ounce letter rate and the basic postcard rate, the actual increase in postage and fees combined will be less than 10 percent.

Table 3 - Business Reply Mail (BRM)

<u>Description</u>	<u>Current Fee</u>	<u>Proposed Fee</u>	<u>Percentage Change from Current to Proposed Fee</u>
Qualified (formerly Prebarcoded/BRMAS) (per piece)	\$ 0.02	\$ 0.06	200%
Other BRM with advanced deposit account (per piece)	\$ 0.10	\$ 0.08	(20%)
BRM without an advanced deposit account (per piece)	\$ 0.44	\$ 0.30	(32%)
Annual Accounting Fee	\$205.00	\$300.00	46%
Annual Permit Fee	\$ 85.00	\$100.00	18%

2. Description

Business Reply Mail (BRM) is a special service that allows businesses to pay postage on reply envelopes, cards, and parcels, as a courtesy to their customers. BRM is used for the return of product orders, first-time orders and renewals of magazine subscriptions, proxy statements, fund-raising appeal responses, survey responses, potential interest in services, and bill payments, among other uses.

1 A major advantage of BRM over return envelopes and cards with actual
2 postage pre-affixed is that the mailer does not have to incur the cost of postage
3 unless the mailpiece is actually returned. This is especially beneficial when the
4 anticipated response rate to a mailing is low.

5

6 Above the postage amount for the BRM, a fee for the service is
7 assessed. All BRM mailers must obtain a permit on an annual basis. BRM
8 mailers, particularly large volume mailers, may choose to have a trust fund
9 established, from which the postage and fees are deducted as the mailpieces
10 are delivered. Within this trust fund or advance deposit account system, one of
11 two per-piece fees is charged depending on whether or not the mail has qualified
12 for the BRMAS fee. There is an annual accounting fee for the administration of
13 an advance deposit account. There is only one per-piece fee for those BRM
14 mailers not using an advance deposit account.

15

16 3. Volume Trends

17

18 Business Reply Mail (BRM) volume has increased modestly since Postal
19 Reorganization with various fluctuations throughout the years. It is difficult to
20 ascertain any sort of trend with respect to BRM volume due to the many
21 fluctuations between the lowest volume of 733 million pieces and the highest
22 volume of 1.25 billion pieces. BRM volume increased 7 percent over the past 10
23 years and 12 percent over the past 5 years. From 1995 to 1996, however, BRM

1 volume decreased 21 percent. A detailed volume history for BRM is presented
2 in Library Reference H-187.

3

4 4. Revenue Trends

5

6 Business Reply Mail (BRM) revenue has increased fairly steadily since
7 Postal Reorganization, particularly considering its volume fluctuations. BRM
8 revenue increased 23 percent over the past 10 years and 14 percent over the
9 past 5 years. From 1995 to 1996, BRM revenue decreased 9 percent due to a
10 substantial volume decrease. A detailed revenue history for BRM is presented in
11 Library Reference H-187.

12

13 5. Fee History

14

15 Since its introduction in August 1958, Business Reply Mail (BRM) fees
16 have changed eight times. The original fee structure for BRM included a per
17 piece fee for pieces weighing two ounces or less and a per piece fee for pieces
18 weighing over two ounces. In 1974, the fee for pieces weighing over two ounces
19 increased 20 percent, and in 1975, the fee for pieces weighing two ounces or
20 less increased 150 percent.

21

22 In 1976, the BRM fee structure was redesigned due to the introduction
23 of advance deposit, with the fee no longer based on the weight of the piece but

1 rather on whether or not the mailer had established a trust fund. In 1981, the per
2 piece advance deposit fee increased 43 percent and the per piece non-advance
3 fee increased 50 percent. In 1985, the per piece advance deposit fee increased
4 40 percent and the non-advance deposit fee increased 28 percent. In 1988, a
5 pre-barcoded (BRMAS) per piece fee was introduced for mailers using the
6 advance deposit; the regular advance deposit per piece fee increased 14
7 percent; and the non-advance deposit per piece fee increased 74 percent. In
8 1991, the regular advance deposit per piece fee increased 13 percent and the
9 pre-barcoded advance deposit per piece fee decreased 60 percent. As a result
10 of Docket No. R94-1, in 1995 the regular advance deposit per piece fee
11 increased 11 percent and the non-advance deposit per piece fee increased 10
12 percent. A detailed fee history for BRM is presented in Library Reference H-187.

13

14 6. Fee Design

15

16 Based on cost information from witness Schenk (USPS-T-27), fees are
17 designed for Qualified BRM. Other advance deposit account BRM, and non-
18 advance deposit account BRM applying small markups over costs. The resultant
19 fees represent an increase to the current BRMAS (proposed Qualified) fee, and
20 decreases to the current advance deposit BRM and the non-advance deposit
21 account BRM. Additionally, based on other cost information from witness
22 Schenk a small markup over cost was applied to develop the proposed

1 accounting fee. The BRM permit fee is proposed to remain equal to the other
2 permit fees, at \$100. See witness Plunkett's testimony, USPS-T-40.

3

4 7. Pricing Criteria

5

6 In this testimony, the Postal Service is proposing three increases and
7 two decreases to the current BRM fee schedule. Following is a separate
8 discussion of each of the fees in the fee schedules.

9

10 BRMAS (proposed to be Qualified) BRM provides a high value of
11 service (Criterion 2) to businesses and customers. For businesses, BRMAS
12 BRM is a vehicle for generating revenue through sales and services at a much
13 lower cost than mailing out pre-stamped envelopes or cards when the response
14 rate is either low or unknown. Customers replying to businesses via BRMAS
15 BRM may be more likely to respond to a solicitation they are interested in if an
16 envelope or a card is provided and the customer does not have to incur the cost
17 of, and affix, postage. Businesses may project an image of being professional
18 and financially secure if they offer the courtesy of a reply at no expense to the
19 customer. This discussion of Criterion 2 holds true for both non-BRMAS BRM
20 with an advance deposit account and non-BRMAS BRM without an advance
21 deposit account.

22

1 Witness Schenk's testimony (USPS-T-27) exhibits a per-piece cost for
2 BRMAS BRM of \$.0554. The proposed 6-cent fee for Qualified covers the per-
3 piece cost and makes a minimal contribution, creating an implicit cost coverage
4 of 108 percent (Criterion 3).

5
6 The effect of the BRMAS BRM fee increase on the businesses paying
7 for the service was carefully considered in the fee development (Criterion 4).
8 The magnitude of a 200 percent fee increase was not considered in isolation, but
9 instead as part of the total postage and fee increase. Since BRMAS BRM is
10 available only in conjunction with First-Class or Priority Mail, it would not have
11 been reasonable to isolate the fee when considering Criterion 4. The proposed
12 postage rate for the proposed QBRM is 30 cents, three cents lower than the
13 proposed First-Class first ounce rate. When the proposed Qualified fee is added
14 to the proposed postage rate, the result is 36 cents, two cents more than the
15 current 34 cent total BRMAS BRM mailers are now paying. This represents a
16 real increase in the total price of 6 percent.

17
18 The current fee is not based directly on costs, since in Docket No. R94-1
19 the Commission decided that the Postal Service's cost presentation was not
20 reliable. If the four-cent fee that the Postal Service proposed in that docket,
21 based on its revised costs, had been recommended, then the proposed 6-cent
22 fee in this docket would represent only a 50 percent increase.

1 Even the impact of the Qualified BRM combined rate and fee is mitigated,
2 because prepaid reply mail is being proposed in this proceeding by witness
3 Fronk (USPS-T-32) as a lower-priced alternative to BRMAS BRM (Criterion 5) for
4 many current customers. Other alternatives to BRMAS BRM are 800 and 888
5 telephone numbers, and letters and cards with pre-affixed postage. These
6 alternatives are also available for both non-BRMAS BRM with an advance
7 deposit account and BRM without an advance deposit account.

8

9 The proposed fee of 6 cents for the proposed Qualified BRM is simple
10 and maintains the whole-cent rounding constraint of BRMAS BRM (Criterion 7).
11 The proposed fee maintains identifiable relationships between the other BRM per
12 piece fees, based on cost differences.

13

14 Based upon the aforementioned criteria, the proposed 6-cent Qualified
15 BRM fee is fair and equitable (Criterion 1). The modest contribution that results
16 reflects sensitivity towards BRMAS BRM mailers not able to utilize the proposed
17 Prepaid Reply Mail special service.

18

19 The proposed fee decrease from 10 cents per piece to 8 cents per piece
20 for non-BRMAS BRM with an advance deposit account is primarily reflective of a
21 small markup over the cost presented by witness Schenk (USPS-T-27) (Criterion
22 3). The proposed 113 percent implicit cost coverage is modest and provides for
23 a fair and equitable fee (Criterion 1). Additionally, the proposed fee is simple,

1 promotes the established identifiable relationships with the other BRM fees, and
2 comports with a whole-cent rounding constraint (Criterion 7).

3

4 The proposed fee for BRM without an advance deposit account also
5 reflects a decrease, from 44 cents per piece to 30 cents per piece. Additionally,
6 this reduction reflects the new per-piece costs (Criterion 3) presented by witness
7 Schenk (USPS-T-27). The resulting proposed implicit coverage of 133 percent is
8 the highest of all BRM proposed fees. Arguably, this BRM service should have
9 the largest cost coverage, as mailers using this service are not using an advance
10 deposit account, and do not have to pay an annual accounting fee. Still, a cost
11 coverage of 133 percent is fair and equitable, considering the value of service
12 provided. The proposed fee is simple, promotes the established identifiable
13 relationships with the other BRM fees, and comports with a whole-cent rounding
14 constraint (Criterion 7).

15

16 The \$100 proposed BRM permit fee is fair and equitable (Criterion 1).
17 The value of service for BRM (discussed earlier) applies to the permit fee,
18 required for all BRM (Criterion 2). The proposed permit fee covers its costs and
19 makes a modest contribution to other costs with a proposed 114 percent implicit
20 cost coverage (Criterion 3). The effect of this fee increase on the BRM mailers,
21 particularly those users of non-BRMAS BRM, should not present an undue
22 hardship when the per piece fees for the two non-BRMAS BRM categories are
23 proposed to decrease substantially (Criterion 4). The proposed permit fee is

1 simple and maintains the identifiable relationship with the other proposed annual
2 permit fees (Criterion 7).³

3

4 Like the previously discussed BRM fees, the proposed annual
5 accounting fee was predominantly developed to cover costs with a small markup.
6 Cost data obtained from witness Schenk's testimony (USPS-T-27), show the
7 current accounting fee is not covering its costs. The proposed fee is designed to
8 cover these costs and provide a modest contribution (Criterion 3).

9

10 Although the proposed Qualified BRM fee represents a 200 percent fee
11 increase, in terms of actual price paid under the BRM proposals, the accounting
12 fee, with a proposed 46 percent increase, can be viewed as the largest
13 percentage increase in the BRM fee structure. Given the magnitude of the cost
14 change, it is necessary to keep the increase to a minimum above costs in order
15 to mitigate the effect of a large increase on the users (Criterion 4). The proposed
16 \$300 fee is simple and maintains a whole dollar rounding constraint (Criterion 7).
17 The accounting fee is of a high value to BRM customers because it allows them
18 to take advantage of lower per-piece fees when an advance deposit account is
19 established (Criterion 2). Based upon the aforementioned criteria, the proposed
20 BRM annual accounting fee is fair and equitable (Criterion 1).

³ See witness Plunkett's testimony (USPS-T-40), and my discussion of the Prepaid Reply Mail permit fee later in this testimony.

D. Carrier Sequencing of Address Cards

1. Proposal

The Postal Service is proposing to increase the current 17-cent fee for address card sequencing to 20 cents per chargeable correction. This proposal results in an 18 percent increase to the current fee. Table 4 below presents the current and proposed carrier sequencing of address cards fee.

Table 4 - Carrier Sequencing of Address Cards

<u>Description</u>	<u>Current Fee</u>	<u>Proposed Fee</u>	<u>Percentage Change from Current to Proposed Fee</u>
Per chargeable correction	\$0.17	\$0.20	18%

2. Description

Mailers submit address cards (one address per card) to either an Address Information System (AIS) unit or the postmaster of the city where the addresses are to be sequenced (only if the mailer is also located in the same city). When mailers submit cards to an AIS unit, the AIS unit separates the cards (if cards are submitted for more than one post office) and forwards them on to the appropriate post office(s). Once the cards arrive at a post office they are broken out into separate carrier routes (if there are cards for more than one

1 route). Depending on the post office, a clerk, carrier, or another postal employee
2 knowledgeable about a specific route will perform the requested sequencing
3 services. After all the cards are sequenced, they are either returned to the AIS
4 unit or the mailer. If the cards are returned to the AIS unit, the AIS unit either
5 mails the cards back to the mailer or holds them at the unit until they are picked
6 up by the mailer, if this has been prearranged.

7
8 The Postal Service currently offers three levels of address card
9 sequencing. The first level is basic sequencing which is performed free of
10 charge. At this level, address cards are sequenced in the same order as the
11 carrier case or box section. Cards with incorrect or undeliverable addresses are
12 removed, gathered together in a separate bundle, and returned to the customer
13 with the sequenced cards. New address cards are provided for rural route
14 deliveries that have been converted to city deliveries. The second level of
15 sequencing includes the basic sequencing of the first level, with the added
16 service of inserting blank cards for each existing address that is missing from the
17 customer's collection. For customers who meet certain additional requirements
18 above and beyond the requirements for the first two levels of sequencing, the
19 third level of sequencing includes the same service of the second level with the
20 additional provision of new or omitted addresses.

21
22 Currently, the Postal Service charges 17 cents for each card removed
23 due to an incorrect or undeliverable address and for each card added with a new

1 address. The Postal Service does not charge for sequencing the cards in carrier
2 route walk sequence, inserting blank cards to show a missing address or range
3 of addresses, converting a rural address to a city delivery address, or for limited
4 address corrections.⁴

5

6 3. Fee History

7

8 Beginning August 15, 1961, the fee for card sequencing chargeable
9 corrections (including deletions and insertions) was 5 cents per card changed.
10 After no increase for 15 years, the fee was increased by 100 percent to 10 cents
11 on December 31, 1976. On March 22, 1981, the fee was increased by 30
12 percent to 13 cents. On February 17, 1985, the fee rose to 15 cents per card
13 charged representing a 15 percent increase over the 13-cent fee. On January 1,
14 1995, the fee increased by 13 percent to the current fee of 17 cents per card.

15

16 4. Fee Design

17

18 The proposed fee for carrier sequencing of address cards for election
19 boards was designed by applying a markup over the per-piece cost of 16.1 cents
20 and conforming to a five-cent rounding constraint. The 20-cent proposed fee
21 satisfies both covering the cost and meeting the rounding constraint.

⁴If obvious omissions or errors (not those omissions or errors that would affect delivery) are noticed during sequencing by an employee with more than just a passing familiarity with the route, the

1 5. Pricing Criteria

2

3 The proposed carrier sequencing of address cards fee is fair and
4 equitable (Criterion 1). Carrier sequencing of address cards provides relatively
5 high value to its users (Criterion 2). Proper sequencing ensures proper
6 addressing by businesses. This proper addressing, in turn, provides the
7 potential for increased business.

8

9 A proposed 20-cent fee per correction maintains a simple fee structure
10 and matches the proposed fees for carrier sequencing of address cards and
11 correction of mailing lists, thus maintaining identifiable relationships between the
12 fees for these services (Criterion 7). A criterion carefully considered in the
13 design of the proposed fee was Criterion 6 - the degree of mail preparation by
14 the mailer and the effect of the preparation on reducing costs for the Postal
15 Service. By obtaining this service, mailers can prepare cleaner mail. This
16 cleaner mail does reduce Postal Service costs. A markup over costs that is too
17 high will dissuade more mailers from using the service (Criterion 4). As a result,
18 less clean mail would be entered into the mailstream. Therefore, this fee was
19 designed to make a contribution with as moderate a fee increase as practical
20 given a full consideration of the pricing criteria.

corrections are made free-of-charge. Otherwise, an incorrect address would not be corrected free-of-charge.

E. Certified Mail**1. Proposal**

The Postal Service is proposing an increase to the current certified mail fee of \$1.35. The proposed fee of \$1.55 results in a 15 percent fee increase. Table 5 below presents the current and proposed certified mail fee.

Table 5 - Certified Mail

<u>Description</u>	<u>Current Fee</u>	<u>Proposed Fee</u>	<u>Percentage Change from Current to Proposed Fee</u>
Certified Mail	\$1.35	\$1.55	15%

2. Description

Certified mail provides accountability for mailing documents with no monetary value. Certified mail also provides the sender with a mailing receipt. It has proven to be an excellent alternative to higher-priced registered mail. Moreover, as with registered mail, carriers or clerks must return the signed delivery notice for certified mail to the accountable section. The mailer of the certified mail piece thus has the reassurance of knowing that the delivery notice is on file.

1 Although a delivery record for certified mail is kept on file for two years
2 at the delivery office, most certified mail customers choose return receipt as an
3 adjunct service to certified mail. Return receipts provide the mailer with tangible
4 proof in the form of a signature, date and address if it differs from the address on
5 the mailpiece. In 1996, 84 percent of all certified mail articles had return receipts
6 attached to them. Restricted delivery, delivery only to a specified individual or
7 that individual's authorized agent, is also available for use with certified mail. In
8 1996, slightly over one percent of all certified mail articles had restricted delivery
9 attached to them. Certified mail service may only be used with First-Class Mail
10 and Priority Mail.

11

12 The users of certified mail range from individuals to large corporations
13 and government agencies. Large volume certified mail users include banks,
14 mortgage companies, law firms, real estate companies, and police departments.
15 These mailers rely on certified mail to verify service for delivery of important
16 documents.

17

18 3. Volume Trends

19

20 Certified mail volume has increased every year since Postal
21 Reorganization, except for three years when the volume remained constant.
22 Certified mail volume increased 71 percent over the past 10 years and 30
23 percent over the past 5 years. From 1995 to 1996, certified mail volume

1 increased one percent. A detailed volume history for certified mail is presented
2 in Library Reference H-187.

3

4 4. Revenue Trends

5

6 Certified mail revenue has increased almost every year since Postal
7 Reorganization. Certified mail revenue increased 148 percent over the past 10
8 years, and 51 percent over the past 5 years. From 1995 to 1996, certified mail
9 revenue increased two percent. A detailed revenue history for certified mail is
10 presented in Library Reference H-187.

11

12 5. Fee History

13

14 The fee for certified mail has been increased six times and decreased
15 once since Postal Reorganization. In 1976, the fee increased 100 percent; in
16 1978, the fee increased 33 percent; and in 1981, the fee decreased 6 percent.
17 In 1988, the fee increased 13 percent; in 1991, the fee increased 18 percent;
18 and in 1995, the fee increased 10 percent. As a result of the Docket No. MC96-
19 3 rate case proceeding, in 1997 the fee increased 23 percent. A detailed fee
20 history for certified mail is presented in Library Reference H-187.

6. Fee Design

The proposed certified mail fee was designed considering the pricing criteria with special emphases on the resultant cost coverage from the proposed fee and the effect of a fee increase on certified mail users. The proposed cost coverage of 133 percent for certified mail does not fully reflect its high value, but it does raise the certified mail cost coverage closer to where it should be, particularly when comparing it to certified mail cost coverages of the past.

7. Pricing Criteria

Certified mail provides a high value of service (Criterion 2) to both senders and recipients. It is an accountable service, and research has indicated that most certified mail users cite the accountability feature as a primary reason for using the service. A prestige factor associated with certified mail also contributes to its high value of service. Certified mail acquires prominence and additional importance due to the presence of a unique⁵ label and certified number on the face of the mailpiece. Consequently, certified pieces are more likely to receive the recipient's prompt attention. Certified mail in conjunction with return receipt service is even more likely to catch the recipient's attention, as the importance of the recipient's receipt of the mailpiece to the sender is both

⁵ Mail is not permitted to bear imitations of markings of official postal services, such as certified mail. Domestic Mail Manual section P022.4.2 (Issue 49).

1 recognized and accentuated. Addressees are more likely to open, read, and
2 respond to certified pieces, since their attention is diverted from other
3 responsibilities and focused instead on the mailpiece, once the clerk or carrier
4 asks for a signature on the delivery notice and the return receipt, if applicable. In
5 addition, the fact that certified mail, particularly in conjunction with return receipt
6 service, offers proof of delivery is indicative of a high value service. Further,
7 certified mail's own price elasticity of -0.29 (see USPS-T-6) is evidence of a high
8 value of service.

9

10 When combined with restricted delivery service (with or without return
11 receipt service), certified mail also captures the recipient's attention. The
12 importance of the recipient's receipt of the mailpiece to the sender is again
13 highlighted.

14

15 Certified mail revenue covers volume variable costs and makes a
16 contribution to other Postal Service costs (Criterion 3). The proposed \$1.55 fee for
17 certified mail would result in a cost coverage of 133 percent. This proposed cost
18 coverage is not nearly as high as cost coverages for First-Class Mail or Priority
19 Mail. In its Docket No. MC96-3 decision, the Commission stated,

20 "[a]bsent extenuating circumstances, the cost coverage for
21 certified mail should be similar to the coverage for First-
22 Class and Priority Mail since certified mail provides high
23 value to both senders and recipients over and above the
24 inherent high value of First-Class Mail."
25

1 PRC Op., MC96-3, p. 94. In the past, moreover, the Commission has
2 recommended fees which it believed would produce a cost coverage for certified
3 mail above the system average. Id. It is therefore reasonable to expect that
4 certified mail, as a premium special service, would have a larger cost coverage.
5 However, considering the recent fee increase in the certified mail fee, a more
6 modest fee increase and cost coverage is being proposed in this proceeding
7 (Criterion 4).

8
9 As demonstrated in Docket No. MC96-3⁶, available alternatives to
10 certified mail (Criterion 5) are all much more expensive than certified mail, and
11 certified mail is considered roughly as convenient to use as these alternatives.
12 In this proceeding however, a proposal for a new special service for delivery
13 confirmation is anticipated to capture some certified mail volume. (See USPS-T-
14 39, W/P 5.) If delivery confirmation is implemented, there will be a lower cost
15 alternative to certified mail for certified mail customers not requiring a signature
16 by the recipient.

17
18 The proposed certified mail fee is simple (Criterion 7). An increase to
19 \$1.55 would maintain a five-cent rounding constraint. Coupled with the
20 proposed return receipt fee, the combined certified mail/return receipt fee would
21 be an even \$3.00.

⁶ Docket No. MC96-3, USPS-T-8, pp. 21-22.

1 Based on all of the criteria discussed above, the proposed certified mail
2 fee of \$1.55 is fair and equitable (Criterion 1). Although a larger proposed cost
3 coverage for certified mail could be justified, limiting the fee to a moderate
4 increase is more practical for those customers who have just experienced a
5 certified mail fee increase. The high value of service provided by this premium
6 product would, at the proposed fee, still be priced substantially less than all
7 totally viable alternatives.

1 **F. Collect-On-Delivery**

2

3 1. Proposal

4

5 The Postal Service is proposing an average increase of 12 percent to
6 the Collect-on-Delivery (C.O.D.) fees, with proposed percentage increases for
7 the individual value levels ranging from 5 to 14 percent. The proposed fee
8 structure for C.O.D. mail begins with a 50-cent proposed increase to the "up to
9 \$50 value level," from \$3.50 to \$4.00. The Postal Service is proposing to
10 maintain the current \$1.00 increment between value levels, so each value level
11 fee increases by 50 cents. Finally, the Postal Service proposes increasing the
12 notice of non-delivery and alteration of C.O.D. fees from \$2.80 to \$3.00, a 7
13 percent increase. Table 6 presents the current and proposed C.O.D. fees.

Table 6 - Collect-on Delivery (C.O.D.)

<u>Description</u>	<u>Current Fee</u>	<u>Proposed Fee</u>	<u>Percentage Change from Current to Proposed Fee</u>
Value up to \$50	\$3.50	\$ 4.00	14%
\$100	\$4.50	\$ 5.00	11%
\$200	\$5.50	\$ 6.00	9%
\$300	\$6.50	\$ 7.00	8%
\$400	\$7.50	\$ 8.00	7%
\$500	\$8.50	\$ 9.00	6%
\$600	\$9.50	\$10.00	5%
Registered C.O.D.	\$3.50	\$ 4.00	14%
Notice of Non-Delivery	\$2.80	\$ 3.00	7%
Alteration of C.O.D.	\$2.80	\$ 3.00	7%

2. Description

C.O.D. special service allows mailers to send articles of value before they have been paid for by the recipient. Once delivered, the recipient pays the postal employee, by cash, check, or postal money order, for the article plus the C.O.D. fee, which is based on the value of the article. The C.O.D. fee is paid by the recipient since it is this individual who is receiving the real benefit of the service: delay of payment until receipt of the goods.

C.O.D. is available for First-Class Mail, certain subclasses of Standard Mail, and Express Mail. Registry and restricted delivery services are available for C.O.D. provided that the classes of mail used are eligible for those services.

1 C.O.D. mailers may alter the C.O.D. charges or direct delivery to a new
2 addressee by filling out a request for an additional fee. Also, for an additional
3 fee, mailers may request a notice of undelivered C.O.D. mail.

4

5 3. Volume Trends

6

7 Collect-On-Delivery (C.O.D.) volume has declined steadily since Postal
8 Reorganization. Over the past 10 years, C.O.D. volume decreased 53 percent
9 and over the past 5 years C.O.D. volume decreased 44 percent. From 1995 to
10 1996, C.O.D. volume decreased 9 percent. A detailed volume history for C.O.D.
11 is presented in Library Reference H-187.

12

13 4. Revenue Trends

14

15 Collect-On-Delivery (C.O.D.) revenue has not varied much since Postal
16 Reorganization, ranging between \$14 and \$27 million at its lowest and highest
17 points, respectively during this 26-year period. Over the past 10 years, C.O.D.
18 revenue increased 9 percent, yet over the past 5 years decreased 17 percent.
19 From 1995 to 1996, C.O.D. revenue increased 2 percent. A detailed revenue
20 history for C.O.D. is presented in Library Reference H-187.

1 5. Fee History

2

3 The fees for C.O.D. have been increased seven times since Postal
4 Reorganization. In 1974, the maximum value for C.O.D. increased from \$200 to
5 \$300. In 1976, C.O.D. fees increased an average of 33 percent. In 1978, the
6 maximum value increased to \$400 and the fees increased by an average of 32
7 percent. In 1981 and 1985, C.O.D. fees increased by 10 percent and 1 percent,
8 respectively. Also, in 1985, the maximum value increased to \$500. In 1988 and
9 1991, C.O.D. fees increased 39 percent and 9 percent, respectively. The
10 maximum value level was increased to \$600 in 1991. As a result of Docket No.
11 R94-1, in 1995 C.O.D. fees were increased by an average of 39 percent. A
12 detailed fee history for C.O.D. is presented in Library Reference H-187.

13

14 6. Fee Design

15

16 The proposed fees for Collect-On-Delivery (C.O.D.) were developed with
17 a special consideration towards recovering volume variable costs with a minimal
18 total cost coverage of 106 percent, in order to minimize the impact of fee
19 increases on recipients of C.O.D. mail. Additionally, the proposed fees for the
20 basic service were designed to continue the current increment between value
21 levels.

7. Pricing Criteria

C.O.D. mail provides a fairly high value of service for its recipients (Criterion 2). C.O.D. service allows customers to order merchandise without prepaying. When the merchandise is delivered, the recipient pays for the merchandise, and pays the C.O.D. fee. By paying for the merchandise when it arrives, customers are able to use the time between when the order was placed and when it is delivered to accumulate the funds for payment if they are unable to pay the whole price for the merchandise at the time they place the order, or are unable to pay by credit card. C.O.D. service also is of fairly high value to businesses taking advantage of this service, as sales are increased to a population not able to pay for merchandise in other ways.

The proposed C.O.D. fees were designed to cover volume variable costs and make a small contribution (Criterion 3). A minimal markup over costs is justified for this service, particularly as it is presumed that many C.O.D. users are of relatively modest means and do not have ready access to other payment means, such as credit cards.

Since the proposed fee increase was kept to a minimum, while retaining the current rounding constraints, the effect of the C.O.D. fee increases should have the minimally practical adverse effect on its customers (Criterion 4). Furthermore, the proposed basic fees promote fee simplicity, as the one-dollar

- 1 fee increment is maintained (Criterion 7). Based on the aforementioned criteria,
- 2 the proposed C.O.D. fees are fair and equitable (Criterion 1).

G. Correction of Mailing Lists

1. Proposal

The Postal Service proposes to increase the current fee of 17 cents per correction to 20 cents per correction in the correction of mailing lists special service, with a minimum of \$7.00 per list. This proposal results in an 18 percent increase to the current fee. Table 7 below presents the current and proposed fee for correction of mailing lists.

Table 7 - Correction of Mailing Lists

<u>Description</u>	<u>Current Fee</u>	<u>Proposed Fee</u>	<u>Percentage Change from Current to Proposed Fee</u>
Per correction	\$0.17	\$0.20	18%

2. Description

Correction of mailing lists is a special service provided to mailers upon request. Mailers submit a mailing list and the corrections include crossing out names to which mail can neither be delivered nor forwarded, providing new addresses when a permanent forwarding order is on file, correcting misspelled addressee names and street names, correcting ZIP Codes and post office box or rural box numbers, and providing the name of the head of the household, if known, when two or more names with the same address appear on the list. If an

1 occupant list is submitted, the corrections include deleting invalid addresses,
2 providing the number of units in multiple unit dwellings, correcting ZIP Codes,
3 ZIP Coding business and rural addresses, correcting street names, and placing
4 directionals to indicate carrier route information. A per piece fee is charged per
5 address corrected, with a minimum charge per list.

6

7 3. Fee History

8

9 The fee for correction of mailing lists (per correction) has increased four
10 times since Postal Reorganization. In 1976, the fee increased 100 percent; in
11 1981, the fee increased 30 percent; and in 1985, the fee increased 15 percent.
12 As a result of Docket No. R94-1, in 1995 the fee increased 13 percent. A
13 detailed fee history for correction of mailing lists is presented in Library
14 Reference H-187.

15

16 4. Fee Design

17

18 The proposed fee for correction of mailing lists was designed by
19 applying a markup over the per-piece cost of 16.1 cents and conforming to a
20 five-cent rounding constraint. The 20-cent proposed fee satisfies both covering
21 the cost and meeting the rounding constraint, with a resulting 124 percent cost
22 coverage.

1 5. Pricing Criteria

2

3 The proposed correction of mailing lists fee is fair and equitable
4 (Criterion 1). Considering the facts that this fee has only increased four times
5 since Postal Reorganization and the cost coverage is relatively modest, the
6 proposed fee is fair.

7

8 Correction of mailing lists provides relatively high value to its users
9 (Criterion 2). Corrections to mailing lists ensure proper addressing by
10 businesses. This proper addressing, in turn, provides the potential for increased
11 business. The 124 percent proposed cost coverage covers the cost for this
12 service and provides a contribution (Criterion 3). A proposed 20-cent fee per
13 correction maintains a simple fee structure and matches the proposed fees for
14 carrier sequencing of address cards and address changes for election boards,
15 thus maintaining identifiable relationships between the fees for these list services
16 (Criterion 7).

17

18 A criterion carefully considered in the design of the proposed fee was
19 Criterion 6 - the degree of mail preparation by the mailer and the effect of the
20 preparation on reducing costs for the Postal Service. By obtaining this service,
21 mailers can prepare cleaner mail. This cleaner mail does reduce Postal Service
22 costs. A markup over costs that is too high will dissuade more mailers from
23 using the service and thus, less clean mail will be entered into the mailstream.

- 1 Therefore, the proposed fee was developed to make a contribution with a
- 2 relatively modest markup.

H. Money Orders

1. Proposal

The Postal Service is proposing no changes to the current money order fees. Since money orders are currently covering their costs and providing a substantial contribution with a 205 percent cost coverage, no changes to the fees are necessary. The proposed money order fees are fair and equitable. The fees easily recover the associated cost and maintaining the existing fee schedule avoids an impact on users. At the same time, the healthy cost coverage precludes the possibility of unfair competition for commercial alternatives. Table 8 below presents the current and proposed money order fees.

Table 8 - Money Orders

<u>Description</u>	<u>Current Fee</u>	<u>Proposed Fee</u>	<u>Percentage Change from Current to Proposed Fee</u>
APO/FPO	\$0.30	\$0.30	0%
Domestic	\$0.85	\$0.85	0%
International	\$3.00	\$3.00	0%
Inquiry Fee	\$2.75	\$2.75	0%

2. Description

Money orders were originally developed for Civil War soldiers so they could send money home to their dependents without having to mail cash. Today money orders still provide a means of sending money to family members, yet the predominant use of money orders is as a payment for goods and services. Many money order consumers have modest income and are often without checking accounts or other means to pay bills or for merchandise.

Money orders may be purchased at post offices or from rural carriers. (Postal money orders are more popular in rural areas where commercial money orders are generally not readily available.) A money order customer pays the face value of the money order in cash or traveler's checks plus a fee for the administration and processing of the money order. Postal money orders may be cashed at any bank or post office for the face value.

Postal money orders were required for payment of postal collect-on-delivery items until 1987. In 1988, a \$10,000 daily limitation on money order purchases per customer went into effect, as a method of preventing money laundering from sales of illegal drugs.

1 For an additional fee, money order customers may purchase inquiry
2 service. Inquiry service verifies whether or not the customer's postal money
3 order was cashed.

4

5 3. Volume Trends

6

7 Since Postal Reorganization, money order volume gradually declined
8 until the early 1980's and then gradually increased to exceed the 1970 volume
9 every year since 1993. Money order volume increased 60 percent over the past
10 10 years and 32 percent over the past 5 years. From 1995 to 1996 (the year
11 with the highest volume ever), money order volume increased 6 percent. A
12 detailed history of money order volume is presented in Library Reference H-187.

13

14 4. Revenue Trends

15

16 Total money order revenue⁷ has seen a strong growth since Postal
17 Reorganization. Money order revenue increased 59 percent over the past 10
18 years and 43 percent over the past 5 years. From 1995 to 1996, money order
19 revenue increased 8 percent. A detailed revenue history for money orders is
20 presented in Library Reference H-187.

⁷ Total money order revenue includes the fee revenue plus the float from money orders until they are redeemed, revenue from money orders not redeemed, and the commission on international money orders.

1 5. Fee History

2

3 The fees for money orders have changed eight times since Postal
4 Reorganization. In 1976, the fees were increased twice resulting in a 100
5 percent increase for the fees for money orders valued up to \$50, and a 125
6 percent increase for the fee for money orders valued over \$50 up to \$300. In
7 1978, the fee for money orders valued from \$.01 up to \$10 was increased 10
8 percent; \$10 up to \$50, 14 percent; \$50 up to \$400 (limit increased by \$100), 22
9 percent; and APO-FPO, 33 percent. In 1981, the minimum value level increased
10 to \$25 and the maximum limit increased to \$500. Subsequently, the fee for
11 money orders valued up to \$10 increased 36 percent; decreased 6 percent for
12 \$10.01 up to \$25; increased 38 percent for \$25.01 up to \$50; increased 41
13 percent for \$50.01 up to \$500; and increased 25 percent for APO-FPO.

14

15 In 1985, the maximum limit increased to \$700 and the inquiry fee was
16 introduced. The fees for money orders valued from \$25.01 up to \$700 were
17 consolidated into one fee, representing a 9 percent decrease for \$25.01 up to
18 \$50 and a 35 percent decrease for money orders valued from \$50.01 up to \$700.
19 In 1988, the minimum value level increased to \$35 which represented a 25
20 percent fee decrease for money orders valued from \$25.01 up to \$35. The
21 inquiry fee increased 43 percent in 1988.

1 In 1991, one value level for domestic money orders, from \$.01 to \$700
2 was implemented. This resulted in a 25 percent decrease in the fee for money
3 orders valued from \$35.01 up to \$700. The inquiry fee increased 25 percent in
4 1991. As a result of Docket No. R94-1, in 1995 the money order fee increased
5 13 percent, the APO FPO fee increased 20 percent, and the inquiry fee
6 increased 10 percent. A detailed fee history for money orders is presented in
7 Library Reference H-187.

I. On-Site Meter Settings

1. Proposal

The Postal Service is proposing increases to some of the on-site meter setting fees. No fee increases are proposed to the scheduled appointment fee, currently \$27.50, and the unscheduled or emergency meter setting fee, currently \$31.00. A 23 percent fee increase is proposed to the additional meter fee. The current fee of \$3.25 is proposed to be increased to \$4.00. The current fee of \$7.50 to check a meter in and out of service is proposed to be increased to \$8.50 resulting in a 13 percent fee increase. Table 9 below presents the current and proposed on-site meter setting fees.

Table 9 - On - Site Meter Settings

<u>Description</u>	<u>Current Fee</u>	<u>Proposed Fee</u>	<u>Percentage Change from Current to Proposed Fee</u>
Single Meter	\$27.50	\$27.50	0%
Unscheduled Setting	\$31.00	\$31.00	0%
Additional Meter	\$3.25	\$4.00	23%
In/Out of Service Check	\$7.50	\$8.50	13%

1 2. Description

2

3 On-site meter setting is a special service whereby postal employees
4 travel to business locations to reset postage meters. This is a convenience for
5 the businesses as they do not have to transport their meters to the post office to
6 have them reset. The fee for a meter setting depends upon whether the meter
7 setting is scheduled or unscheduled, with the fee for an unscheduled setting
8 being higher. Since the basic fee allows for one meter setting, postal
9 employees can reset additional meters during the same visit for a nominal fee.
10 Additionally, for a fee, postal employees can check a meter in or out of service.

11

12 3. Revenue Trends

13

14 Since the service was established in October 1973, on-site meter setting
15 revenue grew until the 1980's and has leveled off since then. On-site meter
16 setting revenue increased 18 percent over the past 10 years and 27 percent over
17 the past 5 years. From 1995 to 1996, on-site meter revenue decreased 6
18 percent. A detailed revenue history for on-site meter settings is presented in
19 Library Reference H-187.

1 4. Fee History

2

3 The fees for on-site meter settings have changed six times since Postal
4 Reorganization. In 1978, the fees for the first meter by appointment and
5 additional meters increased 40 percent, and the fee for an unscheduled meter
6 setting increased 60 percent. In 1981, the fee for meter company adjustments
7 increased 70 percent, the fee for the first meter by appointment increased 100
8 percent, the fee for an unscheduled setting increased 33 percent, and the fee for
9 additional meters increased 14 percent. In 1985, the meter company adjustment
10 fee increased 18 percent, the fee for the first meter by appointment increased 21
11 percent, and the fee for unscheduled settings increased 19 percent. In 1988, the
12 fees for the first meter by appointment and unscheduled settings increased 47
13 percent. Also in 1988, meter company adjustments were eliminated and
14 checking in and out of service was introduced. In 1991, the fee for additional
15 meters was decreased 31 percent and the fee for checking in and out of service
16 was increased 30 percent. As a result of Docket No. R94-1, in 1995 the fee for
17 the first meter increased 10 percent, the fee for unscheduled settings increased
18 11 percent, the fee for additional meters increased 18 percent, and the fee for
19 checking in and out of service increased 15 percent. A detailed fee history for
20 on-site meter settings is presented in Library Reference H-187.

5. Fee Design

Since the current fees for both scheduled and unscheduled meter settings cover the updated costs presented in Library Reference H-107 and provide reasonable contributions for these services, the current fees are proposed to remain in place. The proposed fees for both additional meters and checking a meter in and out of service were designed to result in reasonable implicit cost coverages, lower than those for the scheduled and unscheduled meter settings.

6. Pricing Criteria

On-site meter settings provide a high value of service to customers (Criterion 2), in terms of convenience. This is particularly true of those customers requiring an emergency, or unscheduled setting. Employees of businesses that use meters for postage application do not need to haul postage meters to the post office to have them set or checked in or out of service if they use the on-site meter setting service.

Fee increases are only proposed for two meter setting fees: additional meters and checking a meter in and out of service. Library Reference H-107 shows that both scheduled meter settings and unscheduled meter settings are already covering their own costs and making reasonable contributions at their

1 current fees (Criterion 3). The proposed implicit cost coverage for a scheduled
2 meter setting is 132 percent and the proposed implicit cost coverage for an
3 unscheduled meter setting is 143 percent.

4

5 The costs for additional meters and checking a meter in and out of
6 service, as presented in Library Reference H-107, are higher than the current
7 fees. The costs for these two services were marked up to deliberately result in
8 smaller implicit cost coverages than for meter settings. This is because setting
9 an additional meter or checking a meter in or out of service is an adjunct service
10 once the initial trip is made to set a meter. The proposed implicit cost coverages
11 for additional meters and checking a meter in or out of service are 123 percent
12 and 112 percent, respectively, lower than the proposed implicit cost coverages
13 for scheduled and unscheduled settings.

14

15 Although 23 percent and 13 percent fee increases are proposed for
16 additional meters and checking a meter in or out of service, respectively, these
17 fee increases should not present any undue hardship on meter setting
18 customers (Criterion 4). This is further bolstered by the consideration that no fee
19 increases are being proposed for the two highest fee services in this special
20 service.

21

22 Criterion 6 was also considered in the development of these fees,
23 particularly the effect upon reducing costs to the Postal Service. On-site meter

- 1 setting is advantageous not only to customers, but also to the Postal Service.
- 2 having meters set on-site precludes customers from having to bring in meters to
- 3 be set at the post office, thereby reducing window unit time and costs.

4

- 5 The proposed meter setting fees are simple and maintain current
- 6 rounding constraints (Criterion 7). Based on all of the aforementioned criteria,
- 7 the proposed meter setting fees are fair and equitable (Criterion 1).

J. Parcel Airlift

1. Proposal

The Postal Service is proposing fee increases to parcel airlift ranging from 12.5 percent for up to two pounds to 13.3 percent for two to three pounds. The individual fees are proposed to increase from \$.40 to \$.45 for up to two pounds, from \$.75 to \$.85 for two to three pounds, from \$1.15 to \$1.30 for three to four pounds, and from \$1.55 to \$1.75 to over four pounds. Table 10 below presents the current and proposed parcel airlift fees.

Table 10 - Parcel Airlift

<u>Description</u>	<u>Current Fee</u>	<u>Proposed Fee</u>	<u>Percentage Change from Current to Proposed Fee</u>
Weight:			
Up to 2 pounds	\$.40	\$.45	13%
Over 2 up to 3 pounds	\$.75	\$.85	13%
Over 3 up to 4 pounds	\$1.15	\$1.30	13%
Over 4 pounds	\$1.55	\$1.75	13%

2. Description

Parcel airlift is a special service that provides air transportation for parcels destinating to military post offices outside the 48 contiguous states. The

1 air transportation is provided on a space-available basis. Parcel airlift is
2 available for Standard Mail parcels. Fees for parcel airlift vary according to the
3 weight of the parcel.

4

5 3. Volume Trends

6

7 Parcel airlift volume has virtually diminished since Postal
8 Reorganization. In 1970, the parcel airlift volume was 6.8 million pieces
9 compared to 77 thousand pieces in 1996. From the late 1970's until 1990 parcel
10 airlift volume remained fairly constant. However, the last few years have seen a
11 major decline in volume. Parcel airlift volume decreased 82 percent over the
12 past 10 years and 75 percent over the past 5 years. From 1995 to 1996, parcel
13 airlift volume decreased 50 percent. A detailed volume history for parcel airlift is
14 presented in Library Reference H-187.

15

16 4. Revenue Trends

17

18

19 Parcel airlift revenue has decreased significantly since Postal
20 Reorganization, from \$6.8 million in 1970 to \$71 thousand in 1996. Over the
21 past 10 years, parcel airlift revenue decreased 83 percent and over the past 5
22 years the revenue decreased 74 percent. From 1995 to 1996, revenue
23 decreased 57 percent which represented the second largest annual revenue

1 decrease since 1970. A detailed revenue history for parcel airlift is presented in
2 Library Reference H-187.

3

4 5. Fee History

5

6 The fees for parcel airlift have decreased once and been increased
7 three times since Postal Reorganization. In 1978, separate fees based on
8 weight were established and the fee for up to 2 pounds was decreased 75
9 percent, the fee for over 2 up to 3 pounds was decreased 50 percent, and the
10 fee for over 3 up to 4 pounds was decreased 25 percent. In 1981, the fees
11 increased 20 percent, and in 1991, the fees increased 17 percent. As a result of
12 Docket No. R94-1, in 1995 the fee for up to 2 pounds increased 14 percent, the
13 fee for over 2 up to 3 pounds increased 7 percent, the fee for over 3 up to 4
14 pounds increased 10 percent, and the fee for over 4 pounds increased 11
15 percent. A detailed fee history for parcel airlift is presented in Library Reference
16 H-187.

17

18 6. Fee Design

19

20 The moderate proposed fee increases for parcel airlift, averaging 13
21 percent, were designed to maintain the five-cent rounding constraint while
22 considering the fact that parcel airlift fees have only been increased three times
23 since Postal Reorganization.

7. Pricing Criteria

2

3 Parcel airlift is a valuable service to both senders and recipients
4 (Criterion 2). For a nominal fee, Standard Mail mailers receive air transportation
5 rather than surface transportation, which is of benefit to both the sender and the
6 recipient.

7

8 Considering the fact that parcel airlift fees have been decreased once
9 and increased only three times in the last 27 years, the effect of an average 13
10 percent fee increase should not result in any undue hardship to parcel airlift users
11 (Criterion 4). Given the relative stability of parcel airlift fees, the major decline in
12 parcel airlift volume since Postal Reorganization is certainly not a result of price
13 sensitivity.

14

15 The proposed fees would maintain fee structure simplicity (Criterion 7).
16 The proposed fees were designed to retain the five-cent rounding constraint,
17 while applying an equal percentage increase throughout the fee structure.
18 Based upon this and the other criteria previously discussed, the proposed fees
19 maintain a fair and equitable fee schedule (Criterion 1).

K. Post Office Boxes, Caller Service and Reserve Call Numbers

1. Proposal

The Postal Service is proposing fee increases to caller service, the reserve call number, and all post office box fees other than the \$0 fee available for Group E customers. The Postal Service proposes to amend the fee schedule by specifying a \$0 fee for all box sizes in Group E.

The proposed box fee increases in Group A range from 32 percent to 46 percent; in Group B, from 17 percent to 36 percent; in Group C, from 11 percent to 13 percent; and, in Group D, from 50 to 53 percent. The proposed caller service fee increases range from 10 percent to 22 percent. A 43 percent increase is proposed for reserve call numbers. Table 11 presents the current fees, proposed fees, and the percentage changes.

1

Table 11 - Post Office Boxes, Caller Service and Reserve Call Numbers

<u>Description</u>	<u>Current Fee</u>	<u>Proposed Fee</u>	<u>Percentage Change from Current to Proposed Fee</u>
<u>Group A</u>			
Size 1	\$ 24.00	\$ 35.00	46%
Size 2	37.00	52.50	42%
Size 3	64.00	92.50	45%
Size 4	121.00	162.50	34%
Size 5	209.00	275.00	32%
<u>Group B</u>			
Size 1	22.00	30.00	36%
Size 2	33.00	45.00	36%
Size 3	56.00	75.00	34%
Size 4	109.00	145.00	33%
Size 5	186.00	217.50	17%
<u>Group C</u>			
Size 1	\$ 20.00	\$ 22.50	13%
Size 2	29.00	32.50	12%
Size 3	52.00	57.50	11%
Size 4	86.00	97.50	13%
Size 5	144.00	162.50	13%
<u>Group D</u>			
Size 1	\$ 6.00	\$ 9.00	50%
Size 2	10.00	15.00	50%
Size 3	18.00	27.50	53%
Size 4	26.50	40.00	51%
Size 5	41.50	62.50	51%
<u>Group E</u>			
Sizes 1-5	*	\$ 0.00	0%
<u>Caller Service</u>			
Group A	\$250.00	\$275.00	10%
Group B	240.00	275.00	15%
Groups C & D	225.00	275.00	22%
<u>Reserve Call Number</u>			
Per Number	\$ 15.00	\$ 20.00	43%

2

3

4

*Group E fees are listed in the fee schedule as equal to Group D fees, but only for customers who are eligible for carrier delivery

2. Description

Post office box service generally provides an alternative means for customers to receive their mail. The vast majority of post office boxes are used by customers eligible for carrier delivery, so post office boxes are considered a premium service. Group E boxes are an exception, as reflected in their \$0 fees.

Post office box fees vary by fee group. Group A fees apply to 107 ZIP Code areas in Manhattan, New York, and are the highest of all post office box fees. Group B fees, which are second highest, apply to specific high-cost ZIP Code areas in eight large cities and their suburbs. Group C fees are the next highest, and apply to customers eligible for delivery at all city delivery offices, except for ZIP Codes included in Groups A and B. Group D fees currently apply to customers at all non-city delivery offices and non-delivery offices who are eligible for carrier delivery, or are ineligible for delivery because of their close proximity to a non-city delivery office. Customers who are ineligible for delivery for any other reason do not have to pay a box fee.

Post office box service is available at most post offices. Post office boxes come in five sizes, although all may not be available at each post office. In some offices customers have convenient 24-hour access to their boxes. In others, whether for reasons of architecture or security, boxes may be accessed only during normal hours of retail operation.

1 Individuals use post office box service for a variety of reasons. Some
2 individuals prefer box service near their place of employment so they can obtain
3 their mail before arriving home after work. Other individuals appreciate the
4 privacy a box provides. These customers may prefer that certain pieces of mail
5 not be delivered to their residences. Other customers prefer the security that a
6 post office box provides. The desire for an address within a prestigious ZIP
7 Code area or city is another reason for box service.

8
9 Businesses secure box service for a variety of reasons. Some
10 businesses, like private citizens, prefer not to disclose their street addresses, or
11 prefer the vanity addresses available in select areas or ZIP Codes. Other
12 businesses use several boxes to separate general correspondence, billing,
13 orders, and so forth. Businesses may opt for box service to receive their mail
14 early in the day. For instance, this early delivery may permit banking
15 transactions to be completed before the close of the banking day, thereby
16 maximizing float. Post office box service also helps businesses respond to mail
17 that same business day, such as answering correspondence or filling orders.

18
19 Box customers and post office employees work together to determine
20 which of the five box sizes is appropriate to the customers' needs. Customers
21 may ask for, or be asked to move to, a larger size box if their current box is too
22 small to handle the volume of mail received. Caller service is available for
23 customers whose mail volume exceeds the space limitations of the largest size

1 box. Caller service mail addressed to a box number is held separately for pickup
2 by the customer. Businesses that receive bill payments via caller service find it
3 valuable for receiving payments early enough in the day to deposit them before
4 banks close.

6 3. Revenue Trends

8 With the exception of three years, post office box revenue⁸ has
9 increased steadily since Postal Reorganization, and now ranks as the highest
10 revenue-generating special service. Post office box revenue increased 121
11 percent over the past 10 years and 38 percent over the past 5 years. From 1995
12 to 1996, post office box revenue increased 7 percent. A detailed revenue history
13 for post office boxes is presented in Library Reference H-187.

15 4. Fee History

17 Post office box fees have changed eight times since Postal
18 Reorganization. Post office box fees increased an average of 22 percent in
19 1975, an average of 38 percent in 1978, an average of 8 percent in 1981, an
20 average of 15 percent in 1985, an average of 34 percent in 1988, an average of
21 25 percent in 1991 and an average of 14 percent in 1995. As a result of Docket
22 No. MC96-3, post office box fees increased in 1997 by an average of 9 percent.

1 Before 1981, post office box fees were set according to the revenue
2 units of the particular post office. Within each of the first two groups various
3 subgroups were established. Group III fees varied by box size until 1975. In
4 1981, fees for post office box service were consolidated within Groups I and II
5 and each group only had one set of fees for each box size.

6
7 As a result of Docket No. R90-1, Group I fees were split into three
8 subgroups; IA, IB and IC. The fees for subgroups IA and IB were higher to
9 reflect high commercial rents in selected large cities. Most Group I boxes
10 remained in Subgroup IC.

11
12 As a result of Docket No. MC96-3, fee groups A, B, C, D, and E were
13 created. Fee Groups A through D apply to all customers who are eligible for
14 some form of carrier delivery. Fee Group E, for which the fees are \$0 for all box
15 sizes, applies to customers who are ineligible for carrier delivery. Initially, fee
16 Groups A through D have been defined similarly to old fee Groups/subgroups IA,
17 IB, IC, and II, respectively. Fees in Groups A and B for box size 4 increased 15
18 percent over the IA and IB size 4 fees. Fees in Groups A and B for box size 5
19 increased 20 percent over the IA and IB size 5 fees. Fees in Group D increased
20 50 percent over the fees in old Group II. In offices which do not provide any form
21 of carrier delivery, Group D fees apply to customers who are eligible for carrier

⁸ Box revenue includes caller service and reserve call number revenue.

1 delivery from some other office, and Group E fees apply to customers who are
2 ineligible for carrier delivery.

3

4 In 1975, caller service replaced call-box service. The fees for caller
5 service decreased 14 percent in 1978, increased 58 percent in 1981, increased
6 37 percent in 1985, and increased 31 percent in 1988. In 1991, when Group I
7 split into three subgroups, the caller service fee for subgroup IA increased 32
8 percent; the caller service fee for subgroup IB increased 26 percent; and the
9 caller service fee for subgroup IC increased 19 percent over the previous uniform
10 caller service fee. As a result of Docket No. R94-1, in 1995 the caller service fee
11 increased 11 percent for subgroup 1A, 12 percent for subgroup IB, and 11
12 percent for subgroup IC. Following Docket No. MC96-3 in 1997, caller service at
13 the fee of \$225 was extended to Group D.

14

15 Since it was established in 1975 at an annual fee of \$10, the reserved
16 number fee increased 50 percent in 1985, increased 33 percent in 1988, and
17 increased 25 percent in 1991. As a result of Docket No. R94-1, the reserved
18 number fee increased 20 percent. Detailed fee histories for post office boxes,
19 caller service and reserved numbers are presented in Library Reference H-137.

5. Fee Design

The proposed post office box, caller service, and reserve call number fees were generally designed to cover costs and provide contributions. For those proposed fees that would be below costs (size 5 boxes in Groups A and B and all box sizes in Group D), fees were designed to come closer to covering costs. Also, in an effort to recognize the similarities in Groups C and D with respect to costs and service, Group C proposed fee increases were kept substantially lower than those of Group D. Further, Group A and B fees are proposed to increase substantially, thereby reflecting their higher costs relative to Group C.

The specification of \$0 Group E fees continues a process begun in Docket No. MC96-3, uncoupling box fee groups from the type of carrier delivery offered by offices. Hence, rather than distinguishing Group D from Group E fees by whether an office offers carrier delivery, the only salient distinction between the fee groups will be a customer's eligibility for carrier delivery.

All of the proposed annual fees for post office boxes, caller service, and reserve call numbers with the exception of the proposed post office box fee for a size 1 box in Group D, conform to five-dollar rounding constraints, whereas the proposed size 1 box in Group D conforms to a one-dollar rounding constraint.

1 6. Pricing Criteria

2 Post office box service (for those individuals eligible for carrier delivery)
3 caller service, and reserve call numbers are premium services that provide
4 extremely high values of service (Criterion 2). Post office boxes offer privacy,
5 prestige, and convenience. Businesses using post office box service or caller
6 service or reserve call numbers are eligible to pick up their mail early in the day
7 to process orders and financial transactions.

8
9 Overall, the proposed revenues cover cost and make a small
10 contribution with a 106 percent proposed implicit cost coverage (Criterion 3).
11 Using the box costs by group and box size presented by witness Lion (USPS-T-
12 24), the proposed fees for size 5 boxes in Groups A and B, and all boxes in
13 Group D, fall short of covering their costs. In an effort to mitigate the impact of a
14 fee increase on boxholders in the below cost cells (Criterion 4), the proposed
15 fees are not designed to cover the allocated costs. This mitigation is especially
16 needed in these cells because those customers experienced a fee increase as a
17 result of Docket No. MC96-3.

18
19 There are a number of available alternatives to box service (Criterion 5).
20 As demonstrated in Docket No. MC96-3, box fees at Commercial Mail Receiving
21 Agents are considerably higher than the Postal Service's current fees. It is
22 important to bear in mind that if our customers believe the Group A through D
23 post office box, caller service, and reserve call number fees are too high or the

1 services otherwise inappropriate, they generally have the option of free carrier
2 delivery.⁹

3

4 The proposed fee schedules are simple and, for Groups C and D,
5 promote identifiable relationships as the fees move closer together (Criterion 7).
6 All proposed annual fees conform to whole dollar rounding constraints, and all
7 but one proposed fee (Group D, size 1 box) conform to five dollar rounding
8 constraints.

9

10 The proposed uniform caller service fees are fair and equitable (Criterion
11 1). As caller service, unlike post office box service, requires minimal
12 permanently dedicated space, the majority of caller service costs are associated
13 with labor. Since wage rates are uniform nationwide, and caller service does not
14 vary significantly from one location to the other, it makes sense to have a uniform
15 fee.

16

17 The proposed post office box fees are also fair and equitable (Criterion
18 1). Although some sizable fee increases are proposed in this testimony, the fact
19 remains that this premium special service still has a very low cost coverage.
20 Limiting the proposed post office box fee increases for Group C in an effort to

⁹ As the Commission noted in its Opinion in Docket No. MC96-3, a significant group of customers who lack a free carrier delivery option are those subject to the quarter-mile rule. These customers are not currently eligible for free boxes either. The Postal Service recognizes that further accommodation of these customers is appropriate, but as also became apparent during the course of that docket,

- 1 move them closer to Group D fees also demonstrates a desire to mitigate the
- 2 impact on customers.

information on how many customers are affected by the rule is lacking. The Postal Service is accordingly in the process of initiating a formal study to gather the needed information.

L. Prepaid Reply Mail Permit

1. Proposal

The Postal Service is proposing new classifications for the proposed annual permit and monthly accounting fee, and a \$100 annual permit fee. Witness Fronk discusses the pricing for the proposed monthly accounting fee in his testimony, USPS-T-32. Table 12 below presents the proposed Prepaid Reply Mail (PRM) annual permit fee.

Table 12 - Prepaid Reply Mail Permit

<u>Description</u>	<u>Current Fee</u>	<u>Proposed Fee</u>	<u>Percentage Change from Current to Proposed Fee</u>
Annual Permit	-----	\$100.00	-----

2. Description

PRM mailers will be required to obtain a permit and pay an annual fee for that permit, similar to the BRM permit fee. All permit mailers pay a standard permit fee and this proposed permit classification and fee does not differ from the existing permit classifications and fees proposed in this proceeding.

3. Classification Criteria

In proposing both an annual permit fee and a monthly accounting fee for PRM, the Postal Service is establishing a fair and equitable classification system (Criterion 1). The proposed annual permit classification is identical to those for other types of mail, such as Business Reply Mail (BRM), First-Class presort, and Standard Mail bulk. The proposed monthly accounting fee is a mail-specific fee, similar in nature to the BRM accounting fee; i.e., it is designed to capture the costs associated with maintaining a PRM system on a monthly basis.

The proposed PRM service, as discussed in witness Fronk's testimony (USPS-T-32), is designed to be a high value service (Criterion 2). In order to receive the reduced rate and fee benefits of PRM, mailers would be required to obtain the annual permit and pay a monthly accounting fee. Consequently, the permit and accounting system would be of as high a value to the mailers as the PRM rate and service, because they could not use PRM otherwise.

It is important to provide classifications for mail that focus on reliability and speed of delivery (Criterion 3). The proposed PRM permit and accounting fee classifications would enable the reliability and speed of PRM which are advantageous to senders and recipients of PRM alike. Senders would be able to conduct business cheaper, quicker, and more conveniently by using PRM. Recipients would be able to increase customer satisfaction and facilitate faster

1 payments of bills by customers who might otherwise be delayed in sending
2 payments until they obtained the appropriate postage. In order to provide this
3 service, it is crucial that the permit and accounting fees be established to pay for
4 a system for assessing postage. Since PRM would be desirable from the point
5 of view of the Postal Service and the users of this service (Criterion 5), the permit
6 and accounting fees for PRM would also be desirable.

7

8 4. Fee Design

9

10 The proposed annual fee for PRM permits was designed to mirror the
11 other permit fees, proposed to be increased to \$100 a year. The proposed fee
12 was developed to both cover its own costs and provide a reasonable
13 contribution.

14

15 5. Pricing Criteria

16

17 The proposed fee for an annual PRM permit is the same as those
18 proposed for other permits of that type. Therefore, the proposed \$100 fee is
19 simple and promotes an identifiable relationship with the other annual permit
20 fees (Criterion 7).

21

1 The high value of service (Criterion 2) from the proposed PRM service,
2 as proposed in witness Fronk's testimony (USPS-T-27), applies to the permit fee.
3 The permit is important to PRM users as a prerequisite for PRM.

4
5 The proposed permit fee covers its costs and makes a modest
6 contribution to other costs with a proposed 114 percent implicit cost coverage
7 (Criterion 3). The effect of this fee on PRM mailers should not be burdensome,
8 especially when considering that this new permit will enable customers to obtain
9 a postage rate lower than the First-Class first-ounce rate with no per piece fee
10 (Criterion 4). Based upon the aforementioned criteria, the proposed permit fee is
11 fair and equitable (Criterion 1).

1 **M. Registered Mail**

2

3 1. Proposal

4

5 The Postal Service is proposing increases to the registered mail fees
6 averaging 51 percent. Proposed individual fee increases range from 51 percent
7 to 56 percent. The incremental fee for registered mail with postal insurance per
8 value level is proposed to be increased from 45 cents to 70 cents. The handling
9 charge per \$1,000 in value, or fraction thereof, for items valued over \$25,000 is
10 also proposed to be increased from 45 cents to 70 cents.

11

12 Additionally, the Postal Service is proposing classification changes to
13 reduce the maximum value level for registered mail without postal insurance
14 from \$100 to \$0, and increase the minimum value level for registered mail with
15 postal insurance from \$0.00 to \$0.01. Consequently, registered mail without
16 postal insurance would only be available for items without any monetary value.
17 Table 13 presents the current and proposed registered mail fees.

1

Table 13 - Registered Mail

<u>Description</u>	<u>Current Fee</u>	<u>Proposed Fee</u>	<u>Percentage Change from Current to Proposed Fee</u>
<u>Without Postal Insurance</u>			
Up to \$100 Current/\$0 Proposed	\$4.85	\$7.30	51%
<u>With Postal Insurance</u>			
Up to \$ 100	\$ 4.95	\$ 7.45	51%
\$ 500	\$ 5.40	\$ 8.15	51%
\$1,000	\$ 5.85	\$ 8.85	51%
\$2,000	\$ 6.30	\$ 9.55	52%
\$3,000	\$ 6.75	\$10.25	52%
\$4,000	\$ 7.20	\$10.95	52%
\$5,000	\$ 7.65	\$11.65	52%
\$6,000	\$ 8.10	\$12.35	52%
\$7,000	\$ 8.55	\$13.05	53%
\$8,000	\$ 9.00	\$13.75	53%
\$9,000	\$ 9.45	\$14.45	53%
\$10,000	\$ 9.90	\$15.15	53%
\$11,000	\$10.35	\$15.85	53%
\$12,000	\$10.80	\$16.55	53%
\$13,000	\$11.25	\$17.25	53%
\$14,000	\$11.70	\$17.95	53%
\$15,000	\$12.15	\$18.65	54%
\$16,000	\$12.60	\$19.35	54%
\$17,000	\$13.05	\$20.05	54%
\$18,000	\$13.50	\$20.75	54%
\$19,000	\$13.95	\$21.45	54%
\$20,000	\$14.40	\$22.15	54%
\$21,000	\$14.85	\$22.85	54%
\$22,000	\$15.30	\$23.55	54%
\$23,000	\$15.75	\$24.25	54%
\$24,000	\$16.20	\$24.95	54%
\$25,000	\$16.65	\$25.65	54%
Handling Charges (per \$1,000 in value for items valued over \$25,000)	\$.45	\$.70	56%

1 2. Description

2

3 Registered mail is a special service that offers a high security method of
4 sending valuable articles. All registered mail must be accounted for by the
5 employees handling this mail throughout the entire acceptance, processing and
6 delivery procedures. Registered mail is processed and kept in more secure
7 sections than other accountable mail and is transported in sealed containers.

8

9 Registered mail fees are based on the declared value of the article.
10 Postal insurance is automatic with any registered mail valued above \$100, but
11 the maximum insured value is \$25,000. For items valued over \$25,000, there is
12 an incremental handling charge per \$1,000 in value up to \$15 million. For items
13 valued above \$15 million, special arrangements are made, and charges are
14 determined on the basis of weight, space, and value of the article. Especially for
15 high value pieces, registry service may require additional security service, such
16 as armed guards.

17

18 Collect-On-Delivery (C.O.D.) and merchandise return services are
19 available in conjunction with registered mail for an additional fee. Also, for an
20 additional fee, return receipt service and restricted delivery are adjunct services
21 that can be purchased with registered mail.

3. Volume Trends

Registered mail volume has slowly and steadily declined since Postal Reorganization with some leveling off seen in the past few years. The Fiscal Year 1996 volume of 18 million pieces, however, represents an all-time low for registered mail volume since Postal Reorganization. Registered mail volume has decreased 51 percent over the past 10 years and 35 percent over the past 5 years. From 1995 to 1996 registered mail volume decreased 9 percent. A detailed volume history for registered mail is presented in Library Reference H-187.

4. Revenue Trends

Since Postal Reorganization, registered mail revenue increased fairly consistently until leveling off in the mid-1980's and beginning a decline in the 1990's. In fact, registered mail revenue in 1996 was the lowest it had been in 20 years. Registered mail revenue decreased 32 percent over the past 20 years and 24 percent over the past 5 years. From 1995 to 1996, registered mail revenue decreased 4 percent. A detailed revenue history for registered mail is presented in Library Reference H-187.

5. Fee History

The fees for registered mail have changed eight times since Postal Reorganization. In 1971, the fee increases were up to 25 percent for higher value articles. In 1976, the fees increased an average of 88 percent, and in 1978, the fees increased an average of 37 percent. In 1981, the fees were decreased by an average of 1 percent; and in 1985, the fees increased by 13 percent; in 1988, the fees increased 25 percent; in 1991, the fees increased 1 percent; and in 1995, the fees increased by 10 percent. As a result of Docket No. MC96-3, uninsured registry mail fees for articles with declared values over \$100 were eliminated. A detailed fee history for registered mail is presented in Library Reference H-187.

6. Fee Design

The proposed registered mail fees represent an average 51 percent increase over the current fees. These fees were designed to come close to covering the incremental costs. (See USPS-T-30.)

7. Classification Criteria

In this proceeding, the Postal Service is proposing classification changes to reduce the value level of registered mail without postal insurance

1 from \$100 to \$0.00, and to change the lowest value of registered mail with postal
2 insurance from \$0.00 to \$0.01. These two classification changes would provide
3 a more fair and equitable classification system for registered mail (Criterion 1)
4 than the current system. In particular, a value level of \$0.00 indicates there is no
5 need for insurance.

6

7 Registered mail, both with and without postal insurance, provides a high
8 *value of service to its customers (Criterion 2). Articles mailed via registry are*
9 *afforded the most stringent security methods the Postal Service offers.*

10 Registered mail service is demanded for items of large monetary value. Even
11 registered articles without a market monetary value, such as old family
12 photographs, are still valuable to both the sender and the recipient.

13 Consequently, it is important for the Postal Service to offer registered mail, which
14 provides an extremely high degree of reliability (Criterion 3), and is a desirable
15 special classification from the point of view of both the user and the Postal
16 Service (Criterion 5).

17

18 The Postal Service, via this testimony, is requesting the Commission to
19 consider Criterion 6 with respect to the logic involved in providing both an
20 uninsured registry classification with no monetary value and providing an insured
21 registry classification with a minimum monetary value. Common sense dictates
22 that insurance should not be offered on anything without monetary value.

1 8. Pricing Criteria

2

3 In developing the registered mail fees, all applicable pricing criteria were
4 reviewed, yet primary consideration was given to covering the incremental costs
5 (Criterion 3). The proposed revenue falls approximately \$1 million short of
6 attaining that goal, and proposing even higher increases to the current fees
7 would surely result in a large burden upon customers with respect to the effect of
8 the increase (Criterion 4). The average 51 percent proposed fee increase is
9 substantial enough for the registered mail customers to bear.

10

11 Registered mail offers a very high value of service (Criterion 2).
12 Insurance is included with registered mail (over \$100 currently) for up to \$25,000
13 of the item's value. Registry service is even available for items valued in excess
14 of \$15 million. In order to provide this type of service, the most extreme security
15 methods are employed. Registered mail customers appreciate the fact that they
16 can send valuables with confidence.

17

18 There are a host of available alternatives to registered mail (Criterion 5).
19 Besides the Postal Service's insurance service for items valued up to \$5,000,
20 other shippers offer secure delivery services similar to registered mail, and there
21 are also armored guard services. The proposed fee increases, particularly this
22 substantial, would certainly not be detrimental to our competitors. On the
23 contrary, our competitors would undoubtedly look upon the registered mail fee

1 proposal as favorable because they could potentially gain some additional
2 business from Postal Service customers choosing alternatives to registered mail
3 outside the Postal Service.

4
5 The proposed fee schedule is simple (Criterion 7). It also provides for
6 an identifiable relationship between value levels and the handling charge. In the
7 proposed fee schedule all value level incremental fees and the handling fees are
8 70 cents.

9
10 The proposed fees, based upon 70 cent increments, are fair and
11 equitable (Criterion 1). The proposed fees, with increases ranging from 51 to 56
12 percent, were marked up as equally as possible, so as not to overburden any
13 specific group of customers.

N. Special Handling

1. Proposal

The Postal Service proposes substantial increases to the special handling fees. The current fee of \$5.40 for special handling service up to 10 pounds is proposed to increase by 219 percent to \$17.25. The current fee of \$7.50 for special handling service over 10 pounds is proposed to increase by 220 percent to \$24.00. Table 14 below presents the current and proposed special handling fees.

Table 14 - Special Handling

<u>Description</u>	<u>Current Fee</u>	<u>Proposed Fee</u>	<u>Percentage Change from Current to Proposed Fee</u>
Up to 10 pounds	\$5.40	\$17.25	219%
Over 10 pounds	\$7.50	\$24.00	220%

2. Description

Special handling is a special service that provides expedited handling during processing and transportation for Standard Mail subclasses. Special handling is required for Standard Mail subclasses containing live poultry, crickets, honey bees, and other items of that nature. The special handling fee varies with the weight of the article.

3. Volume Trends

Special handling volume has all but disappeared since Postal Reorganization. The 1970 special handling volume was 15 million pieces; in 1996, the volume was 67 thousand pieces. Throughout most of the 1970's special handling volume remained fairly constant, ranging between 13 to 15 million pieces annually. From 1978 to 1986 volume declined sharply, averaging 2 to 3 million pieces annually. From 1987 to the present, annual volume has continued to decline, remaining well below one million pieces. Special handling volume decreased 95 percent over the past 10 years and 78 percent over the past 5 years. From 1995 to 1996, special handling volume decreased 72 percent due to the substantial fee increase in 1995 to cover unit rising costs. A detailed volume history for special handling is presented in Library Reference H-187.

4. Revenue Trends

The revenue for special handling has declined significantly since Postal Reorganization. Throughout the 1970's, special handling revenue averaged approximately \$5 million annually. However, during the 1980's, revenue averaged \$2 million annually. Since 1990, annual special handling revenue has barely reached \$1 million in two of the years. Over the past 10 years, revenue decreased 76 percent and over the past 5 years, revenue decreased 34 percent.

1 From 1995 (one of the two years in the 1990's when revenue was \$1 million) to
2 1996, revenue decreased 62 percent. A detailed revenue history for special
3 handling is presented in Library Reference H-187.

4

5 5. Fee History

6

7 The fees for special handling have increased eight times since Postal
8 Reorganization. In 1976, special handling fees increased twice, representing a
9 100 percent cumulative increase in the fees for all three classifications (under 2
10 pounds, 2 to 10 pounds, and over 10 pounds). In 1978, the fee for under 2
11 pounds increased 40 percent and the fee for over 10 pounds increased 25
12 percent. In 1981, the fees for under 2 pounds and 2 pounds to 10 pounds
13 increased 7 percent, and the fee for over 10 pounds increased 4 percent. Also
14 in 1981, a special handling fee for inter-BMC non-machinable parcels was
15 introduced. In 1985, the fees for under 2 pounds and 2 pounds to 10 pounds
16 were increased 47 percent, the fee for over 10 pounds was increased by 23
17 percent, and the inter-BMC fee was increased 80 percent. In 1988, the under 2
18 pounds and 2 to 10 pounds classifications were combined into one category
19 (under 10 pounds) and the fee for that and over 10 pounds were increased 41
20 percent. Also in 1988, the inter-BMC fee was increased 28 percent. In 1991,
21 the under 10 pounds fee was increased 16 percent, the over 10 pounds fee was
22 increased 11 percent, and the inter-BMC fee was increased 30 percent. As a
23 result of Docket No. R94-1, in 1995 the fees for under 10 pounds and over 10

1 pounds were increased 200 percent and the inter-BMC fee was increased 178
2 percent. A detailed fee history for special handling is presented in Library
3 Reference H-187.

4

5 6. Fee Design

6

7 The proposed fees for special handling were developed to cover
8 attributable costs and provide as low an increase as possible.

9

10 7. Pricing Criteria

11

12 Although all applicable pricing criteria were considered in the
13 development of the special handling fees, considerable weight was placed upon
14 covering costs (Criterion 3) in the fee design. The unit costs for special handling
15 have more than tripled since the last omnibus rate case proceeding, Docket No.
16 R94-1. Consequently, the proposed fees reflect substantial increases, well in
17 excess of 200 percent, in order to reach a 102 percent cost coverage.

18

19 Special handling is of relatively high value to users of the service
20 (Criterion 2) because of the importance of expedited handling in the shipment of
21 live animals and insects. Also, available alternatives to special handling are
22 scarce, at best (Criterion 5).

1 The proposed fee structure maintains simplicity (Criterion 7). The
2 proposed fees are rounded to 25-cent constraints.

3
4 In developing the fees, Criterion 4 - consideration of the effect of the
5 substantial fee increase upon the users of this service - was seriously weighted
6 with the increased costs. Therefore, the fees were set to just cover the costs.
7 Although special handling may be of relatively high value to its users, the very
8 magnitude of the fee increase overrides serious consideration of increasing the
9 fees more to reflect the value of the service. From the perspective of those
10 shippers offering services identical to special handling, the substantial fee
11 increased proposed by the Postal Service should have nothing less than a
12 positive effect on their business. Based on the aforementioned pricing criteria,
13 the proposed fee schedule for special handling is fair and equitable (Criterion 1).

14
15 The Postal Service requests that the Commission consider a ninth
16 criterion: the erosion of the special handling service. For many years, special
17 handling has been caught in the same downward spiral that befell special
18 delivery. From 1995 to 1996 alone, special handling volume declined 72 percent
19 and revenue declined 62 percent. However, unlike special delivery, there are no
20 viable alternatives to special handling offered with Standard Mail. This, coupled
21 with the fact that few alternatives exist in the marketplace, are the main reasons
22 why no consideration by the Postal Service is being given to proposing
23 elimination of this service. The Postal Service only seeks to recover the costs for

- 1 this service in the proposed fees, and realizes that this service is important to
- 2 maintain for those users who either cannot take advantage of alternatives or
- 3 would pay even more for alternatives.

O. Stamped Cards

1. Proposal

The Postal Service is proposing a two-cent fee per stamped card above the postage rate. For double stamped cards the proposed fee is four cents. For a sheet of 40 stamped cards the proposed fee is 80 cents. Table 15 below presents the current and proposed fees for stamped cards.

Table 15 - Stamped Cards

<u>Description</u>	<u>Current Fee</u>	<u>Proposed Fee</u>	<u>Percentage Change from Current to Proposed Fee</u>
Stamped Card	\$0.00	\$0.02	-----
Double Stamped Card	\$0.00	\$0.04	-----
Sheet of 40 Stamped Cards	\$0.00	\$0.80	-----

2. Description

As a result of Docket No. MC96-3, postal cards were renamed stamped cards and made a special service classification, similar to stamped envelopes. Stamped cards are postcards available at postal retail units for the price of a First-Class postcard rate, currently 20 cents. The postage is pre-affixed to the

1 card, so the mailer does not have to purchase postage separately from the
2 postcard.

3

4 Stamped cards are used by both individuals and businesses. For
5 individual users, stamped cards provide stationery for quick and easy
6 correspondence with one-stop shopping. After purchase of a stamped card, an
7 individual can prepare the correspondence and immediately enter the stamped
8 card for mailing, if purchased from a postal facility providing collection.
9 Businesses use stamped cards for many activities such as advertisements,
10 reminders, and billing. Stamped cards serve as an economical means of mailing
11 for business as the stationery is free above the postage rate and the labor-
12 intensive procedure of postage affixation is avoided.

13

14 Stamped cards are available in single units for 20 cents. Double
15 stamped cards, with one card for mailing and another card with postage affixed
16 to be returned to the mailer, are available for 40 cents. Also, sheets of 40 postal
17 cards can be purchased for \$8.00.

18

19 3. Fee Design

20

21 For the purposes of fee design for stamped cards, a per-piece cost to be
22 used as a guideline was derived using the test year manufacturing costs of \$4.54
23 million and the FY 1996 volume of 454,006,000 pieces. The FY 1996 volume

1 was used as a tool in the fee design because the test year after rates volume for
2 stamped cards appears to be questionably high. The per-piece cost using the
3 FY 1996 volume is exactly one-cent. The proposed fee was designed to cover
4 this cost and provide a meaningful cost coverage for this service.

5

6 4. Pricing Criteria

7

8 Stamped cards provide a high value of service to customers, both
9 individuals and businesses (Criterion 2). With the postage pre-affixed and the
10 stationery already provided in the price of the stamped card, measurable
11 convenience is offered to those customers valuing their time. No additional stop
12 is necessary to purchase a postcard separately from the postage. For those
13 individuals not concerned about sending a picture postcard, this is truly a
14 valuable service. For businesses that print advertising, billing information or
15 other correspondence, stamped cards currently provide the benefits of pre-
16 affixed postage and stationery at only the postage rate.

17

18 The proposed fee for stamped cards covers the manufacturing costs
19 attributable to the service and makes a substantial contribution (Criterion 3).
20 Among other criteria discussed later, the high value of this special service
21 indicates that a cost coverage over 200 percent is appropriate.

1 The effect of this proposed fee increase on the users of the service
2 (Criterion 4) should not be detrimental, particularly if the available alternatives
3 (Criterion 5) are considered. Individual users would be hard-pressed to find a
4 single postcard for less than two cents. Also advantageous to businesses that
5 purchase stamped cards is the affixation value of having postage already applied
6 to the card. Whereas it may not be as important to individual users of stamped
7 cards that the postage is pre-affixed, this is a substantial benefit to businesses
8 that are able to bypass a labor intensive process.

9
10 The proposed fee is simple (Criterion 7). Based on the aforementioned
11 criteria, the proposed fee for stamped cards is fair and equitable (Criterion 1).

1 **P. Stamped Envelopes**

2

3 1. Proposal

4

5 The Postal Service is proposing both fee increases and decreases for
6 stamped envelopes. Perhaps more important however, is the significance of the
7 proposed fee structure which has been simplified with aggregate categories for
8 all stamped envelopes. Except for the hologram and banded stamped
9 envelopes, all stamped envelopes are grouped together by size and whether
10 they are plain or printed. Table 16 presents the current fees, the proposed fees
11 and the fee percentage changes for stamped envelopes.

Table 16 - Stamped Envelopes*

<u>Current Description</u>	<u>Proposed Description</u>	<u>Current Fee</u>	<u>Proposed Fee</u>	<u>Percentage Change from Current to Proposed Fee</u>
Printed 6 ¾ size: Regular/Precancelled Regular Window/Precancelled Window	Printed 6 ¾ size: (Regular, Window, Precancelled Regular, Precancelled Window)	\$12.60	\$14.00	11%/4%
Printed 10 size: Regular/Precancelled Regular Window/Precancelled Window Savings Bond	Printed 10 size: (Regular, Window, Precancelled Regular, Precancelled Window, Savings Bond)	13.40 16.40 17.40 15.00		
Plain 6 ¾ Banded	Printed 6 ¾ Banded	8.20	9.50	16%
Plain 10 Banded	Printed 10 Banded	13.00	12.00	(8%)
Regular Window	Regular Window	\$ 3.00 3.10	\$ 3.00	0%/(3%)
Printed 6 ¾ Household: Regular Window	Printed 6 ¾ Household: Regular Window			
Printed 10 Household: Regular Window	Printed 10 Household: Regular Window	3.20 3.30	3.25	2%/(2%)
Printed 10 Household: Hologram	Printed 10 Household: Hologram	3.20	3.50	9%
Printed 10 Hologram	Printed 10 Hologram	16.40	19.00	16%
Plain 6 ¾ & 10 sizes Single Sale	Plain 6 ¾ & 10 sizes Single Sale	.06	.07	17%
Plain 10 size Single Sale Hologram	Plain 10 size Single Sale Hologram	.06	.08	33%
Plain 6 ¾ size: Regular/Regular Precancelled Window/Precancelled Window	Plain 6 ¾ size: Regular, Window, Precancelled Regular, Precancelled Window	8.20 9.00	8.50	4%/(6%)
Plain 10 size: Regular/Precancelled Regular	Plain 10 size: Regular, Window, Precancelled Regular, Precancelled Window, Double Window, Savings Bond	12.00	11.50	(4%)/(12%)/(23%)
Window/Precancelled Window/Savings Bond Double Window		13.00 15.00		

*All stamped envelopes in box lots of 500 unless otherwise noted.

2. Description

2

3 Stamped envelopes are available to customers as a convenience.

4 Stamped envelopes may be purchased individually at windows. Box lots of 50
5 and 500 must be ordered. Stamped envelopes come in a variety of pre-affixed
6 postage amounts, suited to individual and business customers alike.

7

8 Sizes for stamped envelopes are six and three-quarters, nine, and ten
9 inches in length. Window, double window, and pre-cancelled envelopes are
10 available. For an additional fee, stamped envelopes can be pre-printed with a
11 return address, title, company name, telephone number or advertising slogan.

12

3. Volume Trends

14

15 Stamped envelope volume has fluctuated since Postal Reorganization,
16 ranging from an all-time high of 1.5 billion envelopes manufactured in 1971 to an
17 all-time low of 468 million envelopes sold in 1996. The stamped envelope
18 volume trend since 1980 (when the number of envelopes sold was collected, as
19 opposed to the number of envelopes manufactured prior to 1980) has been one
20 of a gradual decline. Much of the stamped envelope volume lost can be
21 attributed to the increased usage of discounted postage rates, since there are
22 limited postage denominations on stamped envelopes.

1 Stamped envelope volume decreased 34 percent over the past 10 years
2 and 53 percent over the past 5 years. From 1995 to 1996, stamped envelope
3 volume decreased 30 percent. A detailed volume history for stamped envelopes
4 is presented in Library Reference H-187.

5

6 4. Revenue Trends

7

8 Stamped envelope revenue has remained fairly consistent since Postal
9 Reorganization, with the exception of a considerable increase during the first few
10 years of the 1990's. However, the 1996 revenue was the lowest it had been
11 since 1978. Stamped envelope revenue decreased 23 percent over the past 10
12 years and 53 percent over the past 5 years. From 1995 to 1996, stamped
13 envelope revenue decreased 34 percent. A detailed revenue history for
14 stamped envelopes is presented in Library Reference H-187.

15

16 5. Fee History

17

18 The fees for stamped envelopes have increased six times since Postal
19 Reorganization. In 1978, the fees increased, on average, 35 percent; in 1981,
20 the fees increased, on average, 31 percent; in 1985, the fees increased, on
21 average, 21 percent; in 1988, the fees increased, on average, 8 percent and in
22 1991, the fees increased, on average, 11 percent. As a result of Docket No.

1 R94-1, in 1995 the fees increased, on average, 12 percent. A detailed fee
2 history for stamped envelopes is presented in Library Reference H-187.

3

4 6. Fee Design

5

6 Most significant to the design of the stamped envelope fees is the
7 restructuring of the categories. Fundamental to this proposed restructuring were
8 aggregations of costs for categories (see Library Reference H-107) that were
9 used as guidelines in the fee development. For 6 $\frac{3}{4}$ inch and 10 inch sizes, both
10 plain and printed box lots, costs for regular, window, precancelled regular, and
11 precancelled window stamped envelopes were aggregated into four groups (6 $\frac{3}{4}$
12 inch plain, 6 $\frac{3}{4}$ inch printed, 10 inch plain, and 10 inch printed.)¹⁰ The proposed
13 fees represent the aggregate groupings and any markups over cost are minimal.
14 It is important to note that the costs presented in Library Reference H-107 were
15 used as a guideline for fee development. The costs presented in the test year
16 after rates roll-forward are those used in the calculation of the overall stamped
17 envelope cost coverage.

18

19 The fees for the household packs of 50 envelopes were also developed
20 using the same structure as the aggregate cost groups presented in Library
21 Reference H-107. The three new proposed fee groups are 6 $\frac{3}{4}$ inch household

¹⁰ The printed and plain 10 inch groups both include savings bond stamped envelopes and the plain 10 inch group additionally includes double window stamped envelopes.

1 regular and household window, 10 inch household regular and household
2 window, and 10 inch hologram.

3

4 A major distinction between the current stamped envelope fee structure
5 and the proposed stamped envelope fee structure is the separate grouping of
6 hologram stamped envelopes. By isolating the costs for the holograms from the
7 other fee categories, higher fees were developed for the holograms. For both
8 the 10 inch printed and plain bulk units, \$4.00 higher fees were developed for
9 holograms over the respective proposed bulk unit fees. Twenty-five-cent higher
10 fees were developed for the hologram household pack over the proposed regular
11 household 10 inch category fee. Finally, a one-cent higher fee over the
12 proposed fee for regular single sales was applied to the single sale hologram
13 stamped envelope.

14

15 7. Pricing Criteria

16

17 Stamped envelopes provide a high value of service to customers
18 (Criterion 2). Stamped envelopes are convenient to use, particularly for those
19 individuals needing to mail something who need ready access to postage and an
20 envelope. In particular, customers can pay a bill at the post office by purchasing
21 a money order and stamped envelope. By purchasing a stamped envelope,
22 moreover, there is no need to buy a whole box of plain envelopes to mail one
23 piece of correspondence, especially if the stamped envelope customer has one

1 or more boxes of plain envelopes at home. For businesses, stamped envelopes
2 are an economical vehicle for sending out routine correspondence. Value is
3 enhanced when businesses choose printed stamped envelopes with a variety of
4 options available besides the return address.

5

6 The primary alternative to stamped envelopes is for customers to
7 purchase plain or printed envelopes and affix postage themselves (Criterion 5).
8 In this respect, alternatives to stamped envelopes are many.

9

10 When comparing the stamped envelope proposed revenue to the
11 proposed roll-forward costs, stamped envelopes cover their own volume variable
12 costs and make a measurable contribution (Criterion 3). The effect of the
13 proposed fees on users of this service should not present any undue hardships,
14 particularly when considering that many of the proposed fees are less than the
15 current fees. Those proposed fees that are higher than the current fees (with the
16 exception of holograms) are minimally higher.

17

18 The proposed stamped envelope fee structure is simple and takes into
19 consideration the identifiable relationships between regular and window
20 categories with regular precancelled and window precancelled categories
21 (Criterion 7). By combining existing fee categories, the overall fee structure is
22 simplified. The result is fewer stamped envelope fees.

- 1 Removing the higher costs for hologram stamped envelopes from the
- 2 regular fee categories and developing new fee categories exclusively for
- 3 holograms is fair and equitable, especially for the users of the non-hologram
- 4 stamped envelopes (Criterion 1).

Q. ZIP Coding of Mailing Lists

1. Proposal

The Postal Service is proposing an increase to the ZIP Coding of mailing lists special service. The current fee of \$60 per list is proposed to be increased to \$70, a 17 percent fee increase. Table 17 below presents the current and proposed fee for ZIP Coding of Mailing Lists.

Table 17 - ZIP Coding of Mailing Lists

<u>Description</u>	<u>Current Fee</u>	<u>Proposed Fee</u>	<u>Percentage Change from Current to Proposed Fee</u>
Per List	\$60.00	\$70.00	17%

2. Description

ZIP Coding of mailing lists is a special service that encourages mailers to use correct ZIP Codes by sorting mailing list address cards by ZIP Code. Mailers supply individual address cards coded for single 5-digit ZIP Code post offices. For multiple 5-digit ZIP Code post offices, the Postal Service sorts the cards to 5-digit ZIP Codes, bundling the cards for each ZIP Code. One fee is charged per mailing list.

3. Fee History

The fee for ZIP Coding of mailing lists has increased six times since Postal Reorganization. In 1978, the fee increased from its original fee of \$1.50 to \$23.00, representing a 1,433 percent increase. In 1981, the fee increased 43 percent; in 1985, the fee increased 9 percent; in 1988, the fee increased 17 percent; and in 1991, the fee increased 29 percent. As a result of Docket No. R94-1, in 1995 the fee increased 11 percent. A detailed fee history for ZIP Coding of mailing lists is presented in Library Reference H-107 H-187.

4. Fee Design

The per-list fee for ZIP Coding of mailing lists was designed by both applying a reasonable markup over volume variable costs and by conforming to a \$10 rounding constraint. The proposed cost coverage for this service is 118 percent.

5. Pricing Criteria

The value of ZIP Coding of mailing lists (Criterion 2) is relatively high for the users of this service. For businesses, properly ZIP Coded mail results in less returned mail and greater potential for increased business, as a larger audience is reached.

1 The proposed 118 percent cost coverage represents a modest
2 contribution (Criterion 3). The Postal Service seeks to encourage properly ZIP
3 Coded mail as it is much cheaper to handle than mail not properly ZIP Coded
4 (Criterion 6). The proposed fee is simple and maintains the \$10 increment
5 (Criterion 7). Based on the aforementioned criteria, the fee proposal is fair and
6 equitable (Criterion 1).

V. Proposed Reorganization of Special Service Section of DMCS

As the Commission suggested in its Notice of Inquiry No. 1 in Docket No. MC96-3, the Domestic Mail Classification Schedule (DMCS) language for special services does not follow the organizational structure for the DMCS language for the classes of mail. In this docket, the Postal Service proposes to restructure the DMCS language for special services. Specifically, as shown in Attachment A to its Request, the Postal Service proposes to group the special services into 7 categories: addressing, delivery alternatives, payment alternatives, accountability and receipts, parcel handling, stamped paper, and money orders. These categories serve as organizational tools, and are not intended to change the methodology determining costs or prices. The sections are also renumbered into a 900 series, for ease of reference and parallel structure with the remainder of the DMCS. In addition, as the Commission suggested in Notice of Inquiry No. 1, numerous non-substantive, editorial changes were made to improve consistency and diction in the DMCS.

1 VI. CONCLUSION

2

3 The proposed fee and classification changes presented in this testimony
4 meet or exceed all applicable pricing or classification criteria. Most of the
5 proposed special service cost coverages are low because proposed fee
6 increases have been, for the most part, kept to a minimum to mitigate the impact
7 of increased fees on special service customers.

8

9 It is important to recognize that, with two minor exceptions,¹¹ special
10 services are, as the name states, "special" and refer to premium services above
11 postage rates. It has been demonstrated that customers demand services
12 above what is offered by the mail classes, and are willing to pay more for the
13 benefits they derive from these special services. Based on this, there are no
14 special services that provide anything but a high value of service to their
15 customers.

16

17 Finally, fundamental to the fee development in this testimony was the
18 consideration of limited and/or high-priced alternatives to some of the special
19 services. Consequently, the proposed fee increases for these applicable
20 services were kept to a minimum.

¹¹ The two minor exceptions would be those post office box customers not eligible for carrier delivery or the Group E \$0 fee because their address is in close proximity to their post office, and low income purchasers of money orders.