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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

USPS-T-40

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

POSTAL RATE AND FEE CHANGES, 1997

Docket No. R97--1

DIRECT TESTIMONY
OF
MICHAEL K. PLUNKETT
ON BEHALF OF
THE UNITED STATES POSTAL SERVICE

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AUTOBIOGRAPHICAL SKETCH

1
2 My name is Michael K. Plunkett. I am currently an economist in the
3 Pricing Office of Marketing. I began working for the Postal Service in 1984 as a
4 letter carrier at the Dracut, Massachusetts Post Office. In 1985, I transferred to
5 the Manchester, New Hampshire Division where I held a number of positions in
6 customer services operations. In 1990, I was accepted to the Management
7 Intern program. As an intern, I rotated through a number of assignments in
8 various organizational units throughout the country. These assignments
9 included positions in headquarters, area, and district offices in finance, human
10 resources, operations, and marketing. In 1995, I transferred to the office of
11 Budget and Financial Analysis where I served as an Economist. In February
12 1997, I transferred to the office of Pricing. My responsibilities include all aspects
13 of fee design for various special services.

14 I received bachelor's degrees in finance and economics from
15 Pennsylvania State University in University Park, Pennsylvania, and a Masters in
16 Business Administration from the Wharton School at the University of
17 Pennsylvania, where I concentrated on finance and decision sciences.

1 **I. PURPOSE OF TESTIMONY**

2 The purpose of this testimony is to propose classification changes and
3 fees for the following special services: certificates of mailing, insurance,
4 restricted delivery, return receipts, delivery confirmation, merchandise return
5 service, permit fees, and Periodicals application fees.

6 **II. SPECIAL SERVICES CLASSIFICATION AND FEE PROPOSALS**

7 **A. CERTIFICATES OF MAILING**

8 **1. PROPOSAL**

9 The Postal Service is proposing an average 15.2 percent increase in fees for
10 certificates of mailing. Specifically, the proposed percentage increase for a
11 listing of an original certificate, or an additional copy of a listing, is 9.1 percent,
12 the proposed increase for a listing on a firm mailing book is 25 percent, and the
13 increase proposed for a certificate for a bulk mailing up to 1,000 pieces is 9.1
14 percent. The proposed increase for a certificate for additional 1,000 piece
15 increments over the initial 1,000 pieces in a mailing is 14.3 percent. At the
16 proposed fees the cost coverage for certificates of mailing would be 132 percent.

17 **2. CHARACTERISTICS**

18 Certificates of mailing are provided for customers who wish to retain an
19 independent verification of the mailing of pieces to particular addresses on a
20 particular date, but who neither want nor need a record of delivery. The mailer
21 may not request restricted delivery in conjunction with a certificate of mailing, nor
22 is there any insurance against loss or damage included in the service. Three

1 types of verification are available to mailers: verification of individual pieces and
2 mailings via form 3817, verification of mailings of three or more pieces recorded
3 in a firm book or customer manifest via form 3877, or verification of a bulk
4 mailing via form 3606.

5 3. REVENUE HISTORY

6 The revenue generated from certificates of mailing increased steadily from
7 FY 1970 until 1984 but has been on a steady decline since then. In FY 1996,
8 revenue fell 6.7 percent from to \$4.2 million. This makes FY 1996 the fifth
9 consecutive year in which revenue has fallen. The revenue peak for certificates
10 of mailing came in FY 1984 when revenue equaled \$14.1million. A more
11 complete record of the revenue history of certificates of mailing is available in
12 library reference H-187.

13 4. FEE HISTORY

14 In Docket No. R94-1, the fee-for certificates of mailing increased ten
15 percent for both individual pieces, and for mailing books, and increased 16
16 percent for each additional 1,000 pieces of a bulk mailing. The fees went up
17 from \$0.50 to \$0.55 for an individual piece certificate, and the fee for mailings of
18 up to 1,000 pieces increased from \$2.50 to \$2.75, while the fee for each
19 additional thousand increased from \$0.30 to \$0.35. The additional thousand
20 book increased \$0.05 during every fee increase since 1981. Since 1981, the fee
21 for individual pieces has also increased by \$0.05 in every general rate increase ,
22 with the exception of 1988 when the fee remained unchanged. The fee for the

1 first thousand pieces in a mailing increased by 25 percent in 1991 and 1988 and
2 18.5 percent in 1985. In 1981, the cost of a certificate for a single mail piece
3 increased 167 percent reflecting the deaveraging of costs with the introduction of
4 firm books for multiple certificates. A complete record of the fee history for
5 certificates of mailing is available in library reference H-187.

6 5. FEE DESIGN

7 Proposed fees for certificates of mailing retain the existing fee structure;
8 distinct fees for the different types of certificates of mailing. This fee structure is
9 consistent with modeled cost differences (LR-H-107). Fee increases are
10 required to maintain adequate cost coverages given cost increases due primarily
11 to growth in wage rates. As is consistent with the current fee schedule, existing
12 rounding constraints of 5 cents for originals of form 3817, original form 3877, and
13 certificates for additional 1,000 pieces of bulk mailings were used. The rounding
14 constraint for the firm book fee was 25 cents. The proposed cost coverage of
15 132 percent is consistent with the statutory pricing criteria.

16 B. INSURANCE

17 1. PROPOSAL

18 The Postal Service proposes an overall 17.3 percent average increase in
19 insurance fees. The resulting cost coverage of 154 percent, though higher than
20 the Commission's recommended cost coverage of 139 percent in Docket No.
21 R94-1, reflects the higher indemnity limits recommended in Docket No. MC96-3,
22 and is comparable to the Commission's recommended cost coverage of 148

1 percent in that case. In addition to the fee changes, the Postal Service proposes
2 to create a bulk insurance classification for bulk parcel mailers who use
3 electronic manifesting.

4 2. CHARACTERISTICS

5 Insurance is used to provide indemnity for the value (up to \$5,000) of
6 articles lost or damaged in transit. For articles with values up to \$50, insured
7 pieces are marked as such at the time of acceptance, after which they are
8 treated in the same manner as uninsured pieces. Articles having a value over
9 \$50 are given a number at the time of acceptance; this number is placed both on
10 the article and on the customer receipt. Upon delivery, the signature of the
11 addressee or the addressee's agent is required. This process aids in evaluating
12 indemnity claims and provides an additional element of security to the mail piece.
13 Insurance is used primarily in conjunction with package services generally, and
14 Parcel Post in particular.

15 3. VOLUME HISTORY

16 Insurance volume has been declining steadily. Over the last 25 years, the
17 number of insurance transactions has gone from a peak of 114.1 million in 1971
18 to 28.8 million in 1996. This decline has paralleled the trend in parcel post
19 volume, which has fallen from 570 million pieces to 213 million over the same
20 period. Complete volume histories for insurance and parcel post are available in
21 library reference H-187.

1 4. FEE HISTORY

2 Current Insurance fees range from \$0.75 to \$45.70 depending upon the
3 declared value of the article. In Docket No. MC96-3, the indemnity limit for
4 insurance was raised from \$600 to \$5,000. In Docket No. R94-1, the fees were
5 increased 1 percent overall by establishing a uniform increment for each \$100 of
6 declared indemnity value over the first \$100. In Docket No. R90-1, the indemnity
7 limit for insured parcels was raised from \$500 to \$600, and fees were increased
8 by an average of 9 percent. In Docket No. R87-1, the value limit for unnumbered
9 pieces was raised from \$25 to \$50, and fees were reduced an average of 2%. A
10 complete fee history for Insurance is presented in library reference H-187.

11 5. FEE DESIGN

12 Fees for Insurance have been designed using the existing fee structure,
13 which consists of a fee for unnumbered pieces, a base fee for numbered pieces
14 with declared values less than \$100, and an additional charge for each \$100 in
15 declared indemnity value up to \$5,000.

16 As indicated in library reference H-107, costs associated with Insurance
17 can be separated to determine the costs unique to numbered pieces, and the
18 costs common to insured pieces in general. In the test year, the net unit costs,
19 excluding indemnity costs, for numbered and unnumbered pieces are \$1.24 and
20 \$0.63 respectively. This cost difference is the primary reason for the lower fee
21 for unnumbered pieces.

1 Indemnity costs, however, are a function of the value of the articles. As
 2 the following table indicates, average per piece indemnity costs for insured
 3 pieces with values up to \$50 were 11 cents in FY 1996, while costs for articles
 4 with values between \$50 and \$100 were 24 cents.

5 **TABLE 1.**

1996 Indemnity Costs

Value Up To	Transactions			Claims				Average Indemnity Per Transaction			
	Number	Fee	Revenue	Number		Amount		Lost	Damaged	Total	% Of Fee
				Lost	Damaged	Lost	Damaged				
50	12,609,038	\$0.75	9,456,779	22,513	14,218	905,077	505,926	\$ 0.07	\$ 0.04	\$ 0.11	14.9%
100	8,417,574	\$1.60	13,468,118	11,485	16,160	976,321	1,060,320	\$ 0.12	\$ 0.13	\$ 0.24	15.1%
200	3,851,599	\$2.50	9,628,998	7,455	9,790	1,217,153	1,134,028	\$ 0.32	\$ 0.29	\$ 0.61	24.4%
300	1,407,088	\$3.40	4,784,099	3,465	4,329	897,708	752,316	\$ 0.64	\$ 0.53	\$ 1.17	34.5%
400	516,947	\$4.30	2,222,872	1,676	1,936	585,360	455,945	\$ 1.13	\$ 0.88	\$ 2.01	46.8%
500	647,789	\$5.20	3,368,503	1,546	1,954	674,673	551,904	\$ 1.04	\$ 0.85	\$ 1.89	36.4%
600	521,275	\$6.10	3,179,778	1,897	2,381	1,040,845	844,289	\$ 2.00	\$ 1.62	\$ 3.62	59.3%
Total	27,971,310		46,109,146	50,037	50,768	6,297,137	5,304,728	\$ 0.23	\$ 0.19	\$ 0.41	

6
 7 The proposed fees for insurance have been set to provide a cost
 8 coverage of 154 percent of the total insurance costs including indemnity and
 9 contingency. Insurance is a high value service. Customers who use the service
 10 are willing to pay to indemnify an article that by definition has intrinsic value.
 11 Moreover, insurance has a low price elasticity of -0.1, indicating very little price
 12 sensitivity on the part of customers who purchase this service, which suggests
 13 relatively high value (Criterion 2). Higher limits and the bulk insurance proposal
 14 also enhance the value of the product offering. At the same time, the primary
 15 surface alternative provides a limited amount of insurance as part of the basic
 16 price. This feature places the value of the postal offering in perspective.

1 Moreover, postal alternatives for insurance can include registered mail and
2 Express Mail, which include some insurance as part of the basic charge
3 (Criterion 5).

4 The 17.3 percent increase is consistent with the rate of inflation over a
5 comparable period of time and should have a modest impact on customers
6 (Criterion 4). At the same time, the 154 percent cost coverage guards against
7 improper competition on the part of the Postal Service. The bulk insurance
8 proposal rewards customer efforts to reduce costs (Criterion 6). The existing
9 fee schedule has proven relatively easy to administer (Criterion 7) and the only
10 additional complexity is for bulk insurance which would apply to the more
11 technically sophisticated customers who can easily adapt to its use. In
12 summary, the proposed fee schedule is fair and equitable for customers,
13 competitors, and the Postal Service, alike.

14 In the absence of actual claims data for insured pieces with values greater
15 than \$600, I have used the Commission's method for estimating volume and fee
16 revenue as shown in the Commission's Opinion in Docket No. MC96-3,
17 Appendix D, Schedule 3. Moreover, I have assumed that the average indemnity
18 cost per piece will be equal to 0.5 percent of the indemnity value. A table of the
19 proposed fees is presented in workpaper WP-2.

20 6. BULK INSURANCE

21 The Postal Service is proposing to establish an option within insurance
22 service for bulk mailers that would allow such mailers to purchase insurance by

1 using electronic manifesting. This reduces the administrative costs as shown in
2 library reference H-110, by virtue of the fact that window services costs are
3 avoided. This study estimates cost savings of 79.9 cents and \$1.13 for
4 unnumbered insured and numbered insured pieces respectively. An earlier
5 study had estimated the savings at 47.2 cents and 81.9 cents per piece for
6 unnumbered and numbered insured respectively (Docket No. MC97-2, USPS-
7 LR-PCR-37). Because of the wide variation in the estimates, and because the
8 most recent study reflects a relatively small sample size, the Postal Service
9 proposes to pass through 50 percent of the estimated savings for unnumbered
10 pieces in setting the discount for bulk insurance.

11 In addition to the window services costs that will be avoided, indemnity
12 costs for bulk insurance are expected to be lower than for basic insurance.
13 Current insurance coverage provides indemnity for the actual value of the article
14 at the time of mailing. The proposed bulk insurance service would provide
15 indemnity for the lesser of the actual value of the article at the time of mailing or
16 the wholesale cost of the contents to the sender. This is a reasonable approach
17 because the lost value to the shipper is the replacement cost of the article, which
18 may be different from the retail price. Though the additional savings related to
19 the change in indemnity is not quantified in this docket, it is expected that such
20 savings will be demonstrable once the bulk insurance option has been in place
21 for a period sufficient to accumulate claims experience.

22 It is expected that the lower fees and relative ease of purchase that bulk
23 insurance allows will make insurance a more attractive and valuable product for

1 our large customers, and enhance the value of the delivery services with which
2 insurance is associated. The Postal Service has received informal indications of
3 demand for bulk insurance from prospective customers, but, as yet no formal
4 market research has been conducted. Consequently, estimates of new volume
5 and or migration of existing insurance volume are unavailable. However,
6 because the discount is predicated on passing through half of the estimated
7 savings, the availability of bulk insurance is not expected to have a negative
8 effect on cost coverage for insurance as a whole.

9 **7. EXPRESS MAIL INSURANCE**

10 Docket No. MC96-3 established a classification and fees for Express Mail
11 insurance for merchandise items. Insurance for articles valued up to \$500 is
12 included in the Express Mail rate. The fee for each \$100 of value above \$500
13 was set at \$0.90, the same increment as for general insurance. The Postal
14 Service proposes to retain the existing relationship between Express Mail
15 Insurance and general insurance. Insurance is proposed to be offered at no fee
16 for Express Mail merchandise valued up to \$500, and for a fee of \$1 for each
17 \$100 of indemnity value above \$500.

18 **C. RESTRICTED DELIVERY**

19 **1. PROPOSAL**

20 The Postal Service proposes to retain the existing fee of \$2.75 for
21 restricted delivery service. At the \$1.71 unit cost indicated in Library Reference
22 H-107, the cost coverage for restricted delivery would be 159 percent.

1 2. CHARACTERISTICS

2 Restricted delivery is an ancillary service used in conjunction with
3 certified, numbered insured, C.O.D., and registered mail. Restricted delivery
4 service offers the sender the option of requiring that delivery be made only to the
5 addressee or an authorized agent. This feature makes restricted delivery a
6 substantial enhancement over normal delivery.

7 Restricted delivery can be requested at the time of mailing or after
8 mailing. However, for requests made after the time of mailing, the mailer is
9 required to pay the additional cost for postage, telegram, or telephone service
10 expended in notifying the delivery office.

11 3. VOLUME HISTORY

12 Restricted delivery volume has grown slowly but steadily over the last
13 twenty-five years. The FY 1996 volume of 3.9 million pieces was 5 percent
14 higher than in FY 1995. Over the last five years, restricted delivery transactions
15 have grown at an average rate of 2.2 percent. A complete volume and revenue
16 history is provided in library reference H-187.

17 4. FEE HISTORY

18 In Docket No. R94-1, the fee for restricted delivery service was raised ten
19 percent from \$2.50 to \$2.75 per piece of mail. The previous fee increase had
20 been 25 percent in 1991 representing an increase from \$2.00 to \$2.50. Prior to
21 that, the fee had increased 60 percent in 1988. In both 1985 and 1981, the fee
22 was increased 25 percent. The fee was raised 33 percent in 1978, and 20

1 percent in 1976. A complete fee history for restricted delivery service is available
2 in library reference H-187.

3 **5. FEE DESIGN**

4 As indicated above, the Postal Service proposes to retain the existing fee
5 schedule for restricted delivery, which shields existing customers from any rate
6 increase. The proposed cost coverage of 159 percent is comparable to the
7 proposed coverages for other high value products such as return receipts
8 (Criterion 2). The proposed coverage ensures that the revenues from restricted
9 delivery are sufficient to cover costs, and provide a contribution to non-volume
10 variable costs (Criterion 3). In summary, the proposal is consistent with the
11 requirements of the Act and yields a fair and equitable fee (Criterion 1).

12 **D. RETURN RECEIPTS**

13 **1. PROPOSAL.**

14 The Postal Service proposes increases of 46 percent for Return Receipt
15 for Merchandise service, 36 percent for regular Return Receipts purchased at
16 the time of mailing, and 7 percent for Return Receipts purchased after mailing.
17 The proposed fees for these services are \$1.70, \$1.45, and \$7.00 respectively.
18 The Postal Service will be changing the return receipt form to include a check off
19 box to indicate that delivery of the mail piece was made at the address on the
20 mail piece. The Postal Service is also proposing a classification change that
21 would allow customers to purchase return receipt service in conjunction with the
22 proposed delivery confirmation service.

1 2. CHARACTERISTICS.

2 Return receipts provide customers with proof of delivery of a mail piece.
3 The return receipt provides the sender with the signature of the addressee or the
4 addressee's agent, the date the piece was delivered, and the address where the
5 piece was delivered if that address is different from the address on the mail
6 piece. As indicated above, a box will be checked on the return receipt if delivery
7 was made to the address on the piece.

8 Return receipts are available in conjunction with certified, C.O.D., and
9 registered services, Express Mail, Priority Mail (merchandise only), Standard B
10 (merchandise only), and insured pieces with a value exceeding \$50 ("numbered"
11 insured). In FY 1996, 97 percent of return receipts were on certified mail, 1.3
12 percent were on registered, 1.3 percent were on merchandise, and 0.3 percent
13 were on insured mail.

14 3. VOLUME HISTORY.

15 Return receipt service has shown consistently high volume growth over
16 the last 25 years. During this period volume has more than tripled, with an
17 annual growth rate of slightly more than 5 percent. During more recent periods,
18 this growth has been accelerating. Volume grew by an average of 5.3 percent
19 over the last ten years, and by more than 6.6 percent on average since FY 1990.
20 A complete volume history is presented in library reference USPS H-187.

1 4. FEE HISTORY

2 In Docket No. R94-1, the fees were each raised by about ten percent.
3 The fee for non-merchandise return receipts, when purchased at the time of
4 mailing and showing to whom and when the mail was delivered, was raised from
5 \$1.00 to \$1.10, return receipts showing to whom, when, and the address where
6 the mail was delivered increased from \$1.35 to \$1.50, and requests made after
7 mailing that show to whom and when the mail was delivered increased from
8 \$6.00 to \$6.60. In 1991, fees were increased for the option that includes the
9 address by 12.5 percent and by 11 percent for the receipts showing to whom
10 and when the piece was delivered.

11 In 1988, return receipt for merchandise service was first offered, at a fee
12 of \$1.00, for the date and the recipient's signature, and \$1.20 for the date,
13 signature, and address of delivery. In subsequent cases, the fees for this service
14 have increased in regular increments: receipts without the address rising by
15 \$0.10 and receipts with the address rising by \$0.15 in 1991 and 1995. A
16 complete record of the fee history for return receipts is available in library
17 reference H-187.

18 As a result of the classification change in Docket No. MC96-3, all return
19 receipts indicate to whom the mail was delivered, the date of delivery, and the
20 address of delivery if different from the address on the mail piece. The new fees
21 for this service were set at \$1.10 for non-merchandise and \$1.20 for

1 merchandise. These are the same fees as the previous fees for receipts
2 showing the date of delivery and the recipient.

3 5. FEE DESIGN

4 Return receipt service (including service for merchandise only) has a high
5 value of service to its customers as evinced by the strong recent volume growth
6 despite fee increases (Criterion 2). By offering a check-off box as part of the
7 service, we are adding additional value for return receipt customers.

8 The inclusion of the check-off box to indicate that the current address is
9 correct will improve service by reducing doubt as to whether the address was
10 correct or not. Thus, the reliability of this (Criterion 3) and other services would
11 be enhanced for subsequent correspondence. Addition of this component will
12 have an impact on costs as it adds to the duties required of the employee
13 attempting delivery; however, we assume that the cost increase will be relatively
14 small. Therefore, rather than attempt to explicitly model the costs, we propose
15 revisiting the costs in a subsequent filing when the actual costs of the practice
16 can be studied. The Postal Service believes that at the proposed fees cost
17 coverage will be sufficient to allow absorption of any additional cost.

18 In Docket No. MC96-3, the Commission recommended a cost coverage
19 for return receipt service of 125 percent, well below the system-wide average.
20 Under the proposal in this testimony, the cost coverage for return receipt service
21 would become 147 percent. The proposed cost coverage is still below, but
22 closer to, the system-wide cost coverage proposed by the Postal Service in

1 Docket No. R97-1 than the current cost coverage, and thus better reflects the
2 high value for return receipt service.

3 The proposed fee for return receipt for non-merchandise service would
4 help make the cost coverage consistent with the coverage for certified mail. The
5 proposed fee for return receipt for merchandise service reflects the additional
6 cost of this service compared with non-merchandise service. Furthermore, as
7 indicated in my testimony regarding the proposed delivery confirmation service,
8 customers seeking a lower value service will have such an alternative available.
9 The proposal does yield a relatively large increase for customers, however, this
10 is due in large measure to the recent overall decrease in the amount paid for
11 return receipts after their restructuring (Criterion 4). At the same time, the
12 proposed increase, along with the cost coverage, indicates that the Postal
13 Service is not competing unfairly against potential private competitor alternatives.
14 Moreover, there are at least some partial alternatives within the Postal Service
15 such as Express Mail when the signature is not waived, and to a certain degree,
16 delivery confirmation.

17 In summary, I believe the proposal is fair and equitable (Criterion 1). It
18 reflects the value of the service purchased by customers and meets all the
19 relevant criteria of the Act.

20 6. CLASSIFICATION CHANGE

21 The Postal Service is proposing that return receipt service be available for
22 mail sent under the new delivery confirmation classification schedule (see

1 below). Delivery confirmation will provide mail with a unique identifier necessary
2 for return receipt service. For this reason, it is appropriate to enable customers to
3 use return receipt service on mail sent under this new classification schedule.

4 Return receipt mail sent under the delivery confirmation schedule will
5 provide the same information to customers as other return receipt mail. At their
6 request, customers will be provided with a copy of an electronically stored image
7 of the recipient's name, signature, and the address of delivery if it is different
8 from the original address.

9 **E. DELIVERY CONFIRMATION**

10 **1. PROPOSAL**

11 The Postal Service is proposing to establish a new special service for
12 mailers of Priority Mail, Parcel Post, Bound Printed Matter, Special and Library
13 Mail that will provide customers with the date of delivery or the date of attempted
14 delivery, if appropriate. Small fees are proposed for this service, except for
15 mailers of Priority Mail who apply their own barcodes and use more automated
16 systems as subsequently discussed. A description of the service and its
17 component elements is contained in witness Treworgy's testimony (USPS-T-22).

18 There will be two types of acceptance available, each targeted to a
19 different type of customer. Senders of individual mail pieces may obtain delivery
20 confirmation service at the postal retail counter, or through their rural carrier. In
21 this case, the postal employee will apply the necessary delivery confirmation
22 barcoded label, and the customer will be given a receipt that shows the delivery

1 confirmation identification number. The customer may then access delivery
2 confirmation information by use of a toll-free phone number or the Internet.

3 The second type of delivery confirmation acceptance is designed to serve
4 the needs of larger volume shippers who are capable of providing the Postal
5 Service an electronic manifest of all delivery confirmation pieces on the day that
6 the pieces are mailed. The manifest would include information such as the date
7 of the mailing, the package ID number, and destination ZIP Code. Users of the
8 electronic form of delivery confirmation must apply the necessary labeling
9 themselves, and must access the delivery confirmation information electronically.

10 2. VOLUME AND REVENUE

11 Services like delivery confirmation service have been available to
12 customers of competitors of the Postal Service for a number of years. Postal
13 customers have requested a delivery confirmation service, indicating that the
14 *absence of such a service may lead to unwillingness to use the Postal Service*
15 *for delivery in some circumstances.* Standard (B) customer interest in using
16 delivery confirmation was assessed through a survey of the Postal Service's
17 largest volume parcel shippers.¹

18 This survey indicated that some large customers were interested in
19 purchasing delivery confirmation service, both for parcels they currently ship
20 through the Postal Service, and for additional volume for some subclasses of
21 mail. Priority Mail customers were also surveyed regarding their expected use of

¹ See LR-H-166.

1 delivery confirmation. A summary of these findings is presented in witness
2 Sharkey's testimony (USPS-T-33). The cost and revenue impacts of the
3 additional volume accruing due to the availability of delivery confirmation are
4 detailed in my workpaper WP 5.

5 3. FEE DESIGN

6 As the financial analysis summary in WP 5 indicates, the estimated overall
7 cost coverage for delivery confirmation service is 106 percent. This coverage
8 excludes those costs related to providing Priority Mail base delivery confirmation
9 which have been included in the costs of Priority Mail (see USPS-T-33).

10 Under the proposed fees, the implicit coverages for delivery confirmation
11 when used with Standard (B) mail are 165 percent for electronic delivery
12 confirmation and 123 percent for manual delivery confirmation. The implicit cost
13 coverage for Priority Mail retail surcharge delivery confirmation is 103 percent .

14 The proposed fees for delivery confirmation reflect an evolution in the
15 market place for expedited delivery. All of the Postal Service's major competitors
16 offer tracking capabilities, often included in the basic rate. In order to better
17 satisfy its customers expectations regarding expedited delivery, the Postal
18 Service has elected to provide delivery confirmation without additional charge to
19 Priority Mail customers who satisfy the criteria described in witness Treworgy's
20 testimony (USPS-T-22 pp. 5-6). As indicated by witness Sharkey (USPS-T-33)
21 the base volume variable costs of providing this service are included in Priority

1 Mail costs, and consequently have the effect of reducing the cost coverage of
2 Priority Mail.

3 The proposed 35 cent fee for Priority Mail retail surcharge delivery
4 confirmation reflects the additional cost of providing delivery confirmation service
5 to retail customers, above the costs included in Priority Mail costs. As in the
6 case of Priority Mail base delivery confirmation, the intent is to make delivery
7 confirmation available, not as a source of additional contribution, in and of itself,
8 but to meet customers' need for delivery status information. However, by
9 offering delivery confirmation, the Postal Service expects to attract some new
10 customers and help maintain the existing customer base, thereby protecting the
11 contribution of the associated classifications. Consequently, the fee is set only to
12 cover costs and provide a minimal contribution. The fees for delivery
13 confirmation are presented in table 2.

14 TABLE 2

**Delivery Confirmation
Proposed Fees**

Mail Classification	Service Type	
	<u>Manual</u>	<u>Electronic</u>
Priority Mail	\$ 0.35	\$ -
Standard (B)	\$ 0.60	\$ 0.25

15
16
17 The proposed fees for delivery confirmation of \$0.60 per piece for
18 Standard (B) manual delivery confirmation and \$0.25 per piece for Standard (B)
19 electronic delivery confirmation are intended to be high enough to result in

1 revenue that will cover the costs of the service and provide some contribution to
2 cover non-volume-variable costs. Unlike Priority Mail, Standard (B) subclasses
3 have markups that are well below the system average. Consequently, offering
4 delivery confirmation at fees that are less than or just greater than costs would
5 erode contribution to unreasonably low levels. These fees are consistent with
6 the criteria set forth in the Postal Reorganization Act, 39 U.S.C. section 3622(b).

7 Given the increase in Priority Mail volume expected as a result of delivery
8 confirmation, the cost coverage of 106 percent satisfies Criterion 3 that the
9 service bear the costs that vary with it, and make some contribution to other
10 costs. As discussed in witness Treworgy's testimony (USPS T-22), the fees are
11 based on a conservative estimate of the costs of providing the service, so the
12 estimated cost coverage is conservatively low. While the value of delivery
13 service for a mail piece with delivery confirmation (Criterion 2) is higher than for a
14 mail piece without the service, delivery confirmation provides only a narrow
15 range of information and has no effect on the underlying service in terms of
16 speed or reliability provided to the mail piece. Specifically, there is no signature
17 constituting written proof of delivery as there would be for return receipt service,
18 nor is the piece given different handling as an accountable piece of mail, as
19 would be the case for registered mail or certified mail. In addition, the collection,
20 mode of transportation, and priority of delivery for delivery confirmation pieces is
21 no better than for pieces within the same subclasses that do not use delivery
22 confirmation.

1 By offering delivery confirmation service to Standard (B) customers as an
2 optional service for which fees are charged based on the costs of providing the
3 service, Criterion 1 is satisfied. Customers who desire the additional information
4 offered through delivery confirmation service will pay more than customers who
5 do not desire such information. As delivery confirmation service does not exist at
6 this time, there is not a fee increase, per se, to consider (Criterion 4). As such,
7 no existing customers will be inconvenienced by the fee.

8 Customers will continue to have available to them all of the alternatives
9 currently available (Criterion 5). As noted above, competitors of the Postal
10 Service have offered delivery confirmation and tracking and tracing service to
11 their customers for several years, sometimes as an option for an additional fee,
12 and sometimes as part of the basic service.

13 The fees in the delivery confirmation service reflect the degree of mailer
14 preparation (Criterion 6) by offering lower fees to those mailers who will bypass
15 window costs and provide the package information electronically. The structure
16 is not unduly complicated (Criterion 7) by offering two levels of service for each
17 class of mail with which delivery confirmation will be made available. In
18 summary, the proposal is fair and equitable (Criterion 1).

19 With respect to the classification criteria listed at Section 3623(c), Criteria
20 1, 2, 4, and 5 seem particularly relevant for this new service. As described
21 above, Criterion 1 is satisfied by establishing the service as an optional one with
22 two fees for each class tied to the costs associated with the two levels of service.
23 Criterion 2 is likewise satisfied by having the customers who desire the optional

1 delivery confirmation service pay separately for such service, and by virtue of the
2 fact that, as the value of the mail to the sender and the recipient increases, the
3 sender may be more likely to choose delivery confirmation service to determine
4 whether the merchandise sent was, in fact, delivered.

5 Criterion 4 relates to the importance of maintaining classifications which
6 do not require an extremely high degree of reliability and speed of delivery. As
7 noted above, delivery confirmation will not affect the speed of delivery. Criterion
8 5 relates to the desirability of special classifications from the point of view of the
9 user and the Postal Service. As noted above, customers have requested that
10 the Postal Service initiate an optional delivery confirmation service.

11 **F. MERCHANDISE RETURN**

12 **1. PROPOSAL**

13 The Postal Service proposes to retain the existing fee of 30 cents per
14 piece for merchandise return service. At the 23.3 cent unit cost indicated in
15 Library Reference H-107, the cost coverage for merchandise return would be
16 128 percent.

17 **2. CHARACTERISTICS**

18 Merchandise return service allows a recipient to receive parcels from a
19 mailer without requiring the mailer to pay the postage. The recipient pays the
20 postage and an additional fee for each piece received. In this respect it
21 resembles business reply for First-Class Mail, though merchandise return is most

1 often used as a supplement to parcel post service. A permit fee is required to
2 obtain merchandise return service.

3 Merchandise return is a high value service, in that it helps to cement the
4 relationship between mailers and their customers. Alternatives to merchandise
5 return exist, namely payment of postage by the sender and refund of postage by
6 the recipient.

7 3. FEE HISTORY

8 In Docket No. R94-1, the per piece fee (not including postage) for
9 merchandise return was raised 20 percent from \$0.25 to \$0.30. In 1991, the per
10 piece fee was raised 25 percent (from 20 cents to 25 cents) and the permit fee
11 was raised 25 percent. Also in 1991, it became a requirement that firms pay
12 their fees using an advanced deposit account. During 1988, the per piece fee
13 was reduced 33 percent. In 1985, the per piece fee increased 50 percent. In
14 1981, there was no change in the original per piece fee and the permit fee
15 increased 33 percent from its original level. A complete record of the fee history
16 of merchandise return is available in library reference H-187.

17 **G. PERMIT FEES**

18 1. PROPOSAL

19 The Postal Service is proposing to increase the annual permit fees by 17
20 percent, from \$85 to \$100. This proposed increase would apply to the following
21 fees:

22 First-Class Mail Presort Fee
23 Standard (A) Bulk Mailing Fee

1 Standard (B) Special Presort Mailing Fee
2 Destination Bulk Mail Center Fee
3 Merchandise Return Fee
4 Permit Imprint Fee
5

6 *The fees for Periodicals applications will be treated separately below.*

7 2. CHARACTERISTICS

8 The First-Class Mail Presort Fee allows mailers to pay a discounted rate
9 for First-Class mail that meets the appropriate preparation standards as set forth
10 in the Domestic Mail Manual. The Standard (B) Special presort mailing fee
11 allows mailers of Standard (B) Special mail to enter mail at discounted rates,
12 subject to the Postal Service's preparation standards. Standard (A) bulk mailing
13 fees enable mailers to enter Standard (A) mail at bulk, as opposed to single
14 piece, rates. Destination bulk mail center fees allow mailers of standard mail to
15 enter their mailings at the bulk mail center where the pieces are destined, and to
16 qualify for discounted rates where applicable. Merchandise return fees authorize
17 mailers to use merchandise return service, thus allowing their customers to
18 return refused pieces without having to pay postage.

19 Permit fees allow mailers to preprint mail pieces with indicia and a permit
20 number in the front upper right-hand corner, rather than use stamps or metered
21 postage on the pieces. Permit mail can be deposited only at specified times and
22 locations as determined by the post office granting the permit. These
23 requirements are designed to ensure that the correct postage is collected on
24 mailings. All classes of mail are eligible for mailing under a permit imprint. The
25 permit imprint fee is paid in addition to the other annual permits for those

1 mailings which require permit indicia, such as First-Class presorted, Standard (A)
2 bulk, and destination Bulk Mail Center mailings.

3 3. REVENUE AND VOLUME HISTORY

4 The number of permit imprint accounts grew steadily from 47,000 in FY
5 1970 to a peak of 166,000 in FY 1985. Since that time, the number of permits
6 has declined to fewer than 100,000. A complete revenue and transaction history
7 for the permit imprint fee is included in library reference H-187.

8 4. FEE HISTORY

9 In Docket No. R94-1, the permit fee was raised 13 percent from \$75 a
10 year to \$85 a year. In 1991, the fee was raised 25 percent, from \$60 to \$75.
11 Each previous fee increase had been \$10 from the pre-existing level. The
12 percent increases for those years were 20 percent in 1988, 25 percent in 1985,
13 33 percent in 1981, 50 percent in 1978, and 100 percent in 1976. A more
14 complete record of the fee history for permit is available in library reference H-
15 187.

16 5. FEE DESIGN

17 As indicated in library reference H-107, the unit cost of administering
18 permits has risen to \$87.17 in the test year. The \$100 fee has been proposed to
19 cover these costs and provide a modest contribution to non-volume-variable
20 costs.

1 **H. PERIODICALS APPLICATION FEES**

2 **1. PROPOSAL**

3 The Postal Service proposes the following fees for Periodicals
4 applications. For original entry the fee will remain \$305, the additional entry fee
5 will be \$50, and the fees for reentry and news agents will be \$50. At these fees
6 the cost coverage for Periodicals application fees would be 129 percent.

7 **2. CHARACTERISTICS**

8 The Periodicals application fee is a one-time fee required of all mailers
9 who wish to obtain Periodicals mailing privileges for their publications. The
10 original entry fee is to cover the administrative costs of processing the
11 application. Holders of a Periodicals permit who wish to enter mailings at offices
12 other than those where the original entry was granted may request an additional
13 entry by filing an application and paying the additional entry fee.

14 The re-entry application and fee are required of Periodicals mailers when
15 the status of the authorized publication changes, with a change in name,
16 frequency of issues, preferential rate status, or office of publication. The original
17 office of entry receives and processes the application and fee. The news
18 registration fee is to cover processing of requests by authorized news agents
19 who handle two or more publications by different publishers.

1 3. REVENUE HISTORY

2 Revenues from Periodicals application fees have grown over time, though
3 that growth has been erratic. For example, revenue has grown an average of 3
4 percent over the last ten years. However, in five of those ten years, revenue
5 declined from the previous year. A more complete revenue history of Periodicals
6 application fees is available in library reference H-187.

7 4. FEE HISTORY

8
9 Initially, original entry fees were based on the publication's circulation. In
10 1978, the \$30 fee for a circulation under 2,000 was increased to \$120, marking
11 the first increase for second-class mailing application fees since postal
12 reorganization. Also in 1978, the \$60 fee for publications with circulation greater
13 than 2,000 but less than 5,000 was increased to \$120. The fee for publications
14 with circulation over 5,000 remained unchanged at \$120. Subsequent to 1978
15 circulation had no bearing on application fees, which have gradually risen to their
16 current level.

17 The re-entry and news registration fees were \$15 and \$25 respectively in
18 1970. A classification change implemented in 1978 equated the two fees at \$30.
19 Since that change the two fees have remained equal.

20 Additional entry fees were at one time based on distance, with a higher
21 charge for a more distant zone. In 1970 the fees for an additional entry for zones
22 1 & 2 was \$15 and for zones 3 - 8 was \$50. As in the case of re-entry and news
23 registration fees a 1978 reclassification established a single fee for additional

1 entries irrespective of zone. The fee at that time was set at \$50. A complete fee
2 history of Periodicals application fees is available in H-187.

3 5. FEE DESIGN

4
5 As indicated above, the Postal Service proposes to reduce the fee for
6 additional entry applications from \$85 to \$50. In addition to simplifying the fee
7 schedule for Periodicals applications, the change reflects a change in the way
8 applications are processed. In the cost analysis of Second-Class application
9 fees updated in October 1983, a cost differential between additional entry
10 applications and reentry applications was established. The differential was due
11 to the fact that at that time reentry applications were processed using PS Form
12 3510, whereas there were no forms available for additional entry applicants.
13 These applications required letters from the publisher, resulting in increased
14 processing costs at Postal Service headquarters. According to Postal Service
15 personnel in the Business Mail Acceptance department, this is no longer the
16 case. Both reentry and additional entry applications use Form 3510 and receive
17 essentially identical handling. As indicated in library reference H-107, reducing
18 the processing time lowers unit costs for additional entry applications to \$44.65.

19 Because additional entry applications are relatively few in number (they
20 comprise 2 percent of periodicals applications), the effect on cost coverage is
21 minimal. Despite the proposed reduction in this fee, Periodicals applications will
22 continue to cover costs, and to provide contribution to non-volume-variable

- 1 costs. Moreover, the fee reduction satisfies the seventh ratemaking criterion by
- 2 reducing the complexity of the fee structure.