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BEFORE THE POSTAL RATE COMMISSION  
POSTAL RATE COMMISSION  
OFFICE OF THE SECRETARY  
WASHINGTON, DC 20268-0001

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Postal Rate and Fee Changes, 1997

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Docket No. R97-1

DIRECT TESTIMONY OF  
JOHN V. CURRIE  
ON BEHALF OF  
UNITED STATES POSTAL SERVICE

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1     **Autobiographical Sketch**

2

3     My name is John V. Currie. Since 1990, I have served as President of Currie  
4     Associates, Inc., the primary business of which is the worldwide provision of  
5     consulting, training, and auditing services related to the transportation of  
6     dangerous goods. Prior to founding Currie Associates, I served as Corporate  
7     Manager of Hazardous Materials Transportation for the Digital Equipment  
8     Corporation, as Director of Safety for the American Trucking Associations, and  
9     as supervisor for the New York State Police Hazardous Materials Enforcement  
10    Unit. I have served as a member of the Board of Directors of the Hazardous  
11    Materials Advisory Council and on the Hazardous Materials Committee of the  
12    Transportation Research Board of the National Academy of Sciences. I have  
13    observed the handling of hazardous materials in a variety of postal facilities,  
14    including Bulk Mail Centers (BMCs), Processing and Distribution Centers  
15    (P&DCs), and Associate Offices (AOs).

1 **I. Purpose of Testimony**

2

3 My testimony describes the Postal Service proposal to establish  
4 surcharges for the handling of two types of hazardous materials: (1) specified  
5 types of Hazardous Medical Materials (HMM), generally mailed as First-Class  
6 Mail, Priority Mail, or Express Mail; and (2) Other Mailable Hazardous Materials  
7 (OMHM), generally mailed as surface parcels.<sup>1</sup>

8 The proposed surcharges recognize the special costs of handling these  
9 materials, improve the alignment of prices with costs, increase the conformity of  
10 the Postal Service price structure with industry standards, and provide a means  
11 of improving Postal Service data on these materials.

12 I refer to and briefly summarize current Postal Service regulations related  
13 to the acceptance and handling of hazardous materials, and I specify the  
14 materials subject to each of the proposed surcharges. I then provide an  
15 overview of the special methods and procedures used by private sector carriers  
16 for handling and transporting these materials. These methods have become  
17 increasingly stringent and costly in recent years as knowledge, awareness, and  
18 concern about the risks these materials may pose have increased. I also  
19 describe the current handling environment in which these items are processed  
20 by the Postal Service and discuss the various types of additional costs that the  
21 Postal Service incurs due to the presence of these items in the mail.

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<sup>1</sup>For certain materials, limited quantities are permitted to be transported by air, in which case these materials may also be mailed as First-Class Mail, Priority Mail, or Express Mail.

1           Next, I review the hazardous materials surcharges imposed by private-  
2           sector carriers such as United Parcel Service and Federal Express. Though  
3           lower than these competitors' surcharges, the surcharges proposed herein help  
4           offset both the routine additional costs associated with such materials and the  
5           costs of clean-up activities that are required whenever a spill or breakage occurs.  
6           Finally, I evaluate the proposed classifications and surcharges with respect to  
7           the criteria in sections 3623(c) and 3622(b) of the Postal Reorganization Act.

1 **II. Current Postal Service Regulations for Mailable Hazardous Materials**

2

3 The Postal Service authorizes the acceptance of numerous hazard  
4 classes of hazardous materials in mailable quantities, as described in the  
5 Domestic Mail Manual (DMM) §§C021, C023, and C024.<sup>2</sup> These materials must  
6 *be prepared according to specific postal regulations detailed in Publication 52,*  
7 *Acceptance of Hazardous, Restricted, or Perishable Matter.* These regulations  
8 prescribe limitations on the mailability of certain hazard classes and further  
9 prescribe documentation and packaging requirements that apply to each hazard  
10 class. Additional requirements applicable to transportation by air also appear in  
11 Publication 52 at Chapter 6.

12 Hazardous materials in the mail are a cause of concern because of risks  
13 they present to other mail, to individuals who handle mail, and to mail processing  
14 equipment. *These risky yet mailable materials include paints, inks, perfumes,*  
15 *solvent cleaners, small aerosol dispensers, medical wastes, etiologic agents,*  
16 *and diagnostic specimens bound for laboratory testing.* In some cases the  
17 hazardous materials may meet the 49 CFR §171.8 definition of a "consumer  
18 commodity." This term applies to many hazardous materials when they are  
19 packaged in a limited quantity and intended for personal care or household use.

20 Reports tendered by postal facilities indicate that while spills or leaks are  
21 infrequent and rarely injurious, they significantly increase the operational costs

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<sup>2</sup>Copies of the postal materials cited in this section are included in Library Reference PCR-26 filed in connection with Docket No. MC97-2

1 associated with the collection, handling, and distribution of mail. Management  
2 Instructions (MIs) are distributed to all Postal Service facilities and include  
3 instructions on proper response to hazardous materials releases. See EL-810-  
4 96-1 and EL-810-96-2 in Library Reference PCR-26. These instructions include  
5 policies of the Postal Service on preventing incidents, developing Emergency  
6 Action Plans and Emergency Response Plans, cleaning up spills, responding to  
7 exposures and/or injuries involving hazardous materials, and filing Hazardous  
8 Materials Incident Reports (Forms 1770). Employees engaged in the cleanup of  
9 incidental spills and leaks involving mailed hazardous materials must be  
10 provided with certain personal protective equipment (PPE) and training on how  
11 to use it. All employees are required to be provided training on emergency  
12 action plans and specialized employees must be trained to different levels of  
13 response as specified in the HAZWOPER<sup>3</sup> First Responder requirements. See  
14 EL-810-96-1 at 15-16. In addition, the Postal Service is required by federal and  
15 some state environmental regulations to provide appropriate responses to  
16 releases of hazardous materials to the environment. Safety and Risk  
17 Management at Postal Service Headquarters coordinates with Business Mail  
18 Acceptance to determine the mailability of hazardous materials and any  
19 associated special packaging requirements.

20 Over the past ten years, the Occupational Safety and Health  
21 Administration (OSHA), the Environmental Protection Agency (EPA), and the

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<sup>3</sup>HAZWOPER stands for Hazardous Waste Operations and Emergency Response (OSHA standard 29 CFR 1910.120)

1 International Air Transport Association (IATA) have instituted and strengthened  
2 training requirements related to hazardous materials. This has resulted in  
3 increased costs for training, equipment, and medical surveillance even though  
4 there have been no significant changes in the materials the Postal Service  
5 accepts for mailing.

6

7 Proposed Surcharges

8 The Postal Service is proposing two surcharges for these mailable  
9 hazardous materials. The proposed Hazardous Medical Materials surcharge  
10 applies to the six categories of material currently described in DMM  
11 §C023.10.2a-f; these are (a) etiologic agents, (b) etiological agent preparations,  
12 (c) clinical (or diagnostic) specimens, (d) biological products, (e) sharps, and (f)  
13 other medical devices. The packaging, labeling, and quantity requirements for  
14 medical items that a customer must meet before the Postal Service will accept  
15 them for shipment are found in DMM §§C021, C023.10.3 - 10.7, and in  
16 Publication 52.

17 The proposed Other Mailable Hazardous Materials surcharge applies to  
18 those mailable items described in DMM §§C023.1.0 - 6.0 and 9.0. These include  
19 a wide range of materials with varying restrictions on acceptable quantities,  
20 labeling and packaging requirements, and allowable modes of transportation.  
21 additional detail is provided in Publication 52.

22 Acceptance regulations for the domestic shipment of these hazardous  
23 materials are in DMM §§C021, C023, C024, and in Publication 52.



1     **III. Additional Costs Due to Hazardous Materials**

2  
3     **A. Industry Practices and Costs**

4             Carriers by all modes of transportation have experienced an increase in  
5     operational costs associated with the transportation of hazardous materials. The  
6     common systems utilized by private sector carriers to move freight from a  
7     consignor to a consignee may be compared to the system used by the Postal  
8     Service to collect, transport, and deliver mail; although the quantity per package  
9     may be different, the special handling required for hazardous materials in either  
10    system is quite similar.

11            For motor carriers, packages are picked up from the consignor by a pick-  
12    up and delivery driver and taken to a pick-up and delivery terminal. These  
13    packages are then consolidated and transported to a regional break-bulk facility  
14    where they are unloaded and reloaded on a trailer destined for another break-  
15    bulk facility in the region nearest the consignee. The packages are then off-  
16    loaded and reloaded on another pick-up and delivery route truck for delivery to  
17    the consignee. In each of these instances of loading the packages of hazardous  
18    materials into the vehicle, the person responsible for loading must ensure that  
19    the packages are properly blocked, braced, and otherwise secured against  
20    movement and segregated as required. If a sufficient quantity of these materials  
21    are loaded on the vehicle, specific markings and placards must be displayed to  
22    communicate the hazards carried. At each facility, packages which contain  
23    hazardous materials are separated from the main stream of other cargo and

1 stored in a designated hazardous materials storage area pending further  
2 transportation. Employees are trained to exercise caution in this storage area  
3 and to use only approved tools or devices when handling hazardous materials.

4 The regulations of several federal and state authorities mandate that  
5 carriers must provide training for employees who prepare, handle, or transport  
6 hazardous materials in order to ensure that they are aware of the hazards  
7 presented by each material, familiar with the methods for protecting themselves  
8 from exposure, able to perform specific regulatory compliance functions  
9 associated with their jobs, and knowledgeable about methods for handling these  
10 cargoes safely. The typical cost of providing this type of training to motor carrier  
11 employees is approximately \$15 per hour per employee, with an average of four  
12 hours expended for delivering this training to new employees or for meeting  
13 every three years the recurrent training requirement.

14 In spite of this intensive training, accidental releases do occasionally  
15 occur during transportation and may result in expensive clean-up and  
16 environmental restoration costs. In order to ensure that carriers are able to pay  
17 these costs, Department of Transportation (DOT) regulations require that carriers  
18 who transport these materials must provide additional insurance coverage, or in  
19 the case of self-insured carriers, that they guarantee financial security; this adds  
20 to their operational costs.

21 To prevent dangerous reactions from occurring in the event of an  
22 accidental release, the regulations require that certain materials of incompatible  
23 hazard classes must be segregated from one another during transportation.

1 Regulations for each transportation mode provide specific segregation charts for  
2 hazardous materials and may also specify special handling requirements,  
3 including restrictions on the use of mechanized handling tools. See, e.g., 49  
4 CFR §177.848 and IATA 9.3.

5 Based upon my experience, I am aware that hazardous materials  
6 constitute approximately five percent of all materials offered for transportation.  
7 However, I also know that these materials constitute a significantly higher  
8 percentage of a carrier's operational costs. In order to recoup a part of these  
9 costs, carriers have imposed a surcharge on commodities that are regulated as  
10 hazardous materials.

## 11

### 12 **B. Postal Service Practices and Costs**

#### 13 In-Office Handling Procedures

14 Hazardous Medical Material generally cannot and should not be  
15 processed on automated equipment; safety considerations generally require that  
16 its packaging be designed so that it is diverted to the manually-processed  
17 mailstream by the facer-canceler (if not previously culled out manually).

18 Moreover, even relative to other items in the manually-processed mailstream,  
19 HMM pieces appear to have higher processing costs because employees are  
20 understandably more cautious in handling them.

21 Other Mailable Hazardous Materials are processed, distributed, and  
22 delivered through the regular mailstream. However, postal employees are

1 instructed to handle as "outside"<sup>4</sup> pieces all items that are labeled or known to  
2 contain such materials. Outside pieces necessarily incur greater handling costs  
3 than regular mail.

4 This does not apply to all medical mailings. Any clinical/diagnostic  
5 specimens not required to bear the "Infectious Substance," "Etiologic Agent," or  
6 "Etiologic Agent Preparation" labels should be placed in sacks for dispatch and  
7 transport. However, it appears that many medical mailings that could be sacked  
8 are actually processed and dispatched as outside pieces because postal  
9 employees are apprehensive about coming into contact with clinical or diagnostic  
10 specimens.

11 Due to employee concerns about these potentially dangerous substances,  
12 handling time is increased.<sup>5</sup> Thanks to comprehensive training and diligent  
13 adherence by postal employees to safe handling procedures, the vast majority of  
14 these pieces of mail are handled without incident and safely reach the delivery  
15 points.

16

### 17 Clean-up Costs

18 Of course, hazardous materials packages occasionally fail during handling  
19 and transportation. When they do, high cleanup costs and extended downtime  
20 for automated mail handling equipment result. The most serious incidents are

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<sup>4</sup>See Handbook EL-812 at 13, in LR-PCR-26. "Outside" pieces are handled individually rather than being combined with other parcels in a sack.

<sup>5</sup>Recently, due to employee concerns, the Memphis BMC had to institute special handling procedures for all biological materials moved through the facility.

1 systematically reported using Form 1770. Reports received regarding incidents  
2 that occurred between October 1991 and November 1994 are summarized in  
3 Library Reference PCR-26.

4

5 Costs Related to Air Transportation Restrictions

6 There has been an increase in pilot/airline refusals to carry mail that  
7 contains hazardous materials. The prime reason hazardous articles are refused  
8 is that the articles fail to comply with acceptance, packaging, labeling,  
9 documentation, and other transportation regulations mandated for the safe  
10 transport of hazardous substances. Governing regulations are identified within  
11 the guidelines set forth by the International Air Transport Association (IATA),  
12 International Civil Aviation Organization (ICAO) and Title 49 of the Code of  
13 Federal Regulations (49 CFR). Specific procedures for air transport of these  
14 articles are outlined in 49 CFR §§171-177. In many instances, articles are  
15 denied boarding because they are totally prohibited from transport via passenger  
16 aircraft or are not approved as a substance to be transported on a particular  
17 airline's FAA Certificate. In addition, the final approval for boarding an item onto  
18 a given aircraft is subject to the discretion of the Pilot in Command. Articles that  
19 are refused by the airlines must be returned to the AMC/AMF, which must then  
20 contact the sender, advise the customer of the airline's refusal, and determine  
21 what action should be taken regarding the item. If it is safe to do so, the item  
22 must either be returned to sender or forwarded via Domestic Surface Mail.  
23 Whether returned or forwarded, the item must be dispatched to the respective

1 P&DC or BMC network for transportation to its final destination. The AMC/AMF  
2 is required to notify the receiving facility of the arrival and need for special  
3 handling of such articles.

4 Required Training

5 The Postal Service incurs substantial training costs due to the presence of  
6 hazardous materials in the mailstream.<sup>6</sup> It has recently instituted a revised and  
7 expanded training curriculum for employees who handle hazardous materials in  
8 the mail and respond to spill and leak incidents. This training is required by  
9 OSHA and the EPA.

10 The various types and levels of training are summarized in MI EL-810-96-  
11 1. The most significant, in terms of number of people and probable overall costs,  
12 are the "Awareness" and "Operations" level HAZWOPER First Responder  
13 training courses mandated by OSHA.

14 The "Awareness Level" training is required for mail handlers, supervisors  
15 and other employees who frequently handle packages that may contain  
16 hazardous materials. This training is provided through the Postal Service  
17 Training Network system, and lasts two hours.

18 The "Operations Level" training is required for maintenance and custodial  
19 personnel, supervisors, and other persons designated to manage and clean up  
20 incidental spills. This training requires eight hours per employee for initial

---

<sup>6</sup>I understand that Postal Service training costs are generally not "attributed" to individual mail subclasses and special services, but rather are accounted for as institutional costs. Nevertheless, in the private sector the costs of special training related to hazardous materials have become substantial over the past 10 years, and I believe that these costs are one important reason that private sector carriers impose surcharges on such materials, or otherwise charge higher rates for carrying them.

1 training, with a required annual refresher course of two hours. A smaller number  
2 of people must receive a three-day training course, usually conducted at the  
3 *Technical Training Center in Norman, Oklahoma*. In addition, the standard  
4 training for window clerks includes a module on postal regulations related to the  
5 mailability of various hazardous materials.

#### 7 **IV. Hazardous Materials Charges Imposed By Other Carriers**

8 *In order to recoup a part of the increased operational expenses*  
9 associated with handling hazardous materials, carriers have imposed a  
10 surcharge on those commodities subject to hazardous materials regulations. The  
11 amounts of these surcharges may vary. Since the deregulation of the motor  
12 carrier industry, competitive discounting based on trade volume is common,  
13 *making it difficult to determine an average charge which might be attributed to*  
14 transporting hazardous materials shipments. Research is currently being  
15 conducted by the National Motor Freight Classification Conference of the  
16 American Trucking Associations to establish a unique classification and rate  
17 which would be recommended for hazardous materials and would reflect these  
18 *additional transportation expenses*.

19 Of the major carriers that transport hazardous materials in small parcels,  
20 the Postal Service is the only one that does not currently charge extra for  
21 processing these items. Hazardous items travel through the mailstream at  
22 whatever postage is required for the indicated class of mail, weight, and  
23 distance. United Parcel Service imposes surcharges of \$10.00 (ground) and

1 \$14.00 (air) for transportation of hazardous materials through its system.  
2 Federal Express imposes surcharges of \$10.00 or more depending on the  
3 hazard class. These carriers' rates and requirements for customer packaging  
4 and labeling are also widely available on the Internet and in other publications.

5 According to a current accessorial schedule, RPS charges an additional  
6 fee of \$10.00 per shipment, regardless of the hazard class.

7 Airborne Express imposes a hazardous materials surcharge of \$12.00 per  
8 shipment -- \$17.00 if the shipment is packed in dry ice. Diagnostic specimens or  
9 infectious substances in Class 6.2 are required to be packaged properly, then  
10 placed in a Lab Pack, an outer packaging available for \$0.75 from Airborne  
11 Express.

12 DHL will not accept hazardous materials unless prior authorization has  
13 been granted by DHL headquarters. Hazardous materials are only accepted  
14 when offered by an approved account and in pre-approved packaging.

15 Additional charges are based upon any additional handling required

16 Burlington Air Express imposes a surcharge of \$0.10 per pound for  
17 hazardous materials, with a minimum surcharge of \$30 per shipment. Diagnostic  
18 specimens are only accepted if they are shipped as hazard class 6.2 infectious  
19 substances, even if they do not contain any such substance.

20 Emery Worldwide imposes a \$50.00-per-shipment hazardous materials  
21 surcharge, regardless of the size of the package. All packages must be  
22 prepared for air transportation. Infectious substances are subject to the same  
23 surcharge as other hazards. Diagnostic specimens not known to contain any



1 infectious substances must be packaged in special packaging approved by  
2 Emery Worldwide to avoid the surcharge. Emery Worldwide only accepts  
3 diagnostic specimens under the terms of contractual agreements with pre-  
4 approved accounts.

5

## 6 **V. Classification Criteria**

7 In consultation with postal officials, I have evaluated the proposed  
8 surcharge classifications for HMM and OMHM with respect to the classification  
9 criteria in Section 2623(c). Since the mail covered by these proposed  
10 surcharges imposes additional handling costs on the Postal Service, fairness  
11 and equity (criterion 1) for the entire spectrum of mailers are served by the  
12 establishment of a classification with an associated surcharge to offset these  
13 costs, as compared to the present situation in which these costs are born by  
14 mailers of hazardous and nonhazardous material alike. The ability to transport  
15 such material through the mail is of considerable value to the sender and  
16 recipient, since for many people other options are less convenient and/or more  
17 costly (criterion 2). These classifications are desirable to the Postal Service  
18 because they permit it to recover the additional costs associated with such mail,  
19 and they provide a means of determining the volume of such mail more easily  
20 (criterion 5). The proposed classifications may also be desirable to mailers,  
21 despite the fact that new surcharges will be imposed, if contrasted to the  
22 alternative of prohibiting the mailing of such material (criterion 5). Criteria 3 and

1 4 (desirability of classifications with different degrees of speed and reliability) are  
2 not relevant to these proposals.

3

## 4 **VI. Proposed Surcharges, Pricing Criteria, and Volumes Affected**

5

### 6 **A. Proposed Surcharges and Pricing Criteria**

7 The Postal Service is proposing surcharges of \$0.50 per piece for HMM  
8 and \$1.00 per piece for OMHM. In consultation with postal officials, I have  
9 evaluated these proposed surcharges with respect to the pricing criteria in  
10 Section 2622(b).

11 As described in section III(B), the handling of these materials clearly  
12 imposes additional costs on the Postal Service (criterion 3). Although the Postal  
13 Service has not been able to quantify these costs, it is my judgment that they are  
14 of the same order of magnitude as the proposed surcharges. Indeed, at a cost  
15 per workhour of \$30,<sup>7</sup> the proposed surcharges of \$0.50 and \$1.00 would  
16 translate into one minute and two minutes of time respectively. In addition to the  
17 extra costs for routine handling of these materials, there are clean-up costs when  
18 spills or leaks occur. I would also note that the posted surcharges of competitors  
19 for similar materials are significantly higher.

---

<sup>7</sup>I understand that postal costs per workhour for typical manual operations, including "piggyback" factors for indirect labor and non-labor costs, would be this high or higher.

1           It promotes fairness and equity (criterion 1) to establish a surcharge  
2           offsetting these costs instead of spreading them over the entire volume of non-  
3           hazardous materials in the mail.

4           The value of service (criterion 2) for mailing these materials is relatively  
5           high; HMM pieces generally travel as First-Class, Priority, or Express Mail.  
6           Moreover, the ability to send medical materials through the mail would appear to  
7           provide considerable convenience while lowering the total cost for many  
8           diagnostic tests. The value of service provided to OMHM is less than that of  
9           medical materials because they generally travel as surface parcels, but it is still  
10          high given the convenience and relatively low cost of using the mails for such  
11          material.

12          I believe that the effect of these new surcharges on mailers of such  
13          materials and on private sector providers of similar services (criterion 4) is  
14          acceptable. The overwhelming majority of pieces subject to the \$0.50 medical  
15          materials surcharge are expected to be clinical/diagnostic specimens weighing  
16          less than a pound and paying \$2.00 - \$3.00 in postage. The level of the HMM  
17          surcharge has been set with these typical pieces in mind (although the surcharge  
18          will occasionally be paid for heavier Priority Mail pieces). Since these proposed  
19          surcharges for hazardous materials effectively raise the cost of shipping such  
20          materials via the Postal Service, their impact, if any, on private sector providers  
21          of similar services will presumably be beneficial.

1 As noted above, alternate means of sending and receiving the materials  
2 subject to the proposed surcharges are available from private sector providers at  
3 reasonable costs (criterion 5).

4 Criterion 6 (degree of preparation by the mailer and its effect on reducing  
5 costs to the Postal Service) does not apply to the material subject to the  
6 proposed surcharges.<sup>8</sup>

7 The proposed surcharges, though adding a bit of complexity to the  
8 schedule, are relatively simple in structure (criterion 7). Criterion 8 (educational,  
9 cultural, scientific and informational value to the recipient) does not apply to the  
10 material subject to the proposed surcharges.

11

## 12 **B. Volumes Subject to the Surcharges and Financial Impact**

13 I am informed that, because no surcharges currently exist for hazardous  
14 materials, the Postal Service has no precise estimate of the volume of such  
15 materials it currently handles. While the types of hazardous materials that are  
16 mailable have not changed significantly, the volume of such materials in the mail  
17 appears to have increased in recent years as the needs of postal customers  
18 have evolved and as other carriers have imposed surcharges.

19 It appears that the current volume of First-Class clinical diagnostic  
20 specimens may be on the order of 10 million pieces annually, with perhaps  
21 another 500 thousand pieces of Priority medical materials, primarily used

---

<sup>8</sup>Indeed, the material by its nature increases Postal Service costs. Any "preparation" that the mailer performs by using required special packaging only serves to mitigate these cost increases

1 needles. See Appendix A. For OMHM, the volume subject to the surcharge has  
2 been judgmentally assumed to be about one-half of one percent of Parcel Post  
3 volume, or 1.1 million pieces. Because the hazardous materials volumes are a  
4 modest percentage of the total volumes in the affected mail classes, the  
5 proposed surcharges will not have an appreciable effect on volume or postage  
6 revenue in those classes.

7

## 8 **VII. Conclusion**

9 The proposed surcharges for Hazardous Medical Materials and Other  
10 Mailable Hazardous Materials appropriately reflect the additional care and costs  
11 that are required to carry such material safely in the mailstream. Surcharges for  
12 this material will facilitate the routine collection of data on its volume and costs.  
13 The proposed surcharges also move the postal price structure closer to the one  
14 that has emerged among competitive private-sector carriers, thereby reducing  
15 shippers' incentives to burden the Postal Service with such high-cost mail.

1 **Appendix A. Volume and Revenue Assumptions**

2

3 From limited information about individual mailers and/or recipients (as  
4 Business Reply Mail) of hazardous materials, the Postal Service has developed  
5 "round-number" estimates of the volume that might be subject to the HMM  
6 surcharge. It appears that about 10,000,000 pieces are currently carried as  
7 First-Class Mail and another 500,000 pieces as Priority Mail. If the imposition of  
8 the \$0.50 HMM surcharge had no effect on volume, the associated surcharge  
9 revenue would be \$5.25 million. However, some volume reduction is to be  
10 expected. To obtain a rough estimate this effect, the Postal Service has  
11 assumed a price elasticity of -0.8, roughly equal to the Priority Mail price  
12 elasticity, and calculated the volume response as follows:

13

	First-Class	Priority
14 Volume before surcharge (000s)	10,000	500
15 Postage @ 8 oz & 5 lbs	1.93	6.00
16 Postage plus HMM surcharge	2.43	6.50
17 Price ratio	1.259	1.083
18 Volume ratio (1)	0.832	0.938
19 Volume after surcharge (000s)	8,317	469
20		
21 Total HMM surcharge revenue (000s)		4,393

22

23 (1) Volume ratio = price ratio ^ elasticity

24

25

26

1 For materials subject to the OMHM surcharge, information about  
 2 individual mailers and recipients was insufficient to construct even approximate  
 3 volume estimates, and for the purpose of revenue estimates, the Postal Service  
 4 has judgmentally assumed that about 0.5% of Parcel Post volume, or 1.1 million  
 5 pieces, would be subject to the surcharge.<sup>1</sup> If the imposition of the \$1.00 OMHM  
 6 surcharge had no effect on volume, revenue would be \$1.1 million. However, as  
 7 with HMM, some volume reduction is to be expected. For OMHM, the Postal  
 8 Service has assumed a price elasticity of -1.0, roughly equal to that for Parcel  
 9 Post, and calculated the volume response as follows:

	Two-pound pieces	Ten-pound pieces
11 Volume before surcharge (000s)	800	300
12 Postage (2)	4.54	5.87
13 Postage plus OMHM surcharge	5.54	6.87
14 Price ratio	1.220	1.170
15 Volume ratio (3)	0.820	0.854
16 Volume after surcharge (000s)	656	256
17		
18 Total OMHM surcharge revenue (000s):	912	

20 (2) Postage is calculated as Zone 3 Inter-BMC plus non-machinable  
 21 surcharge

22 (3) Volume ratio = price ratio ^ elasticity  
 23

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<sup>1</sup>Because much Parcel Post volume is originated by households rather than businesses, the Postal Service's estimate of 0.5% does not seem unreasonable, even though it is significantly lower than the 5% figure for private-sector carriers noted in section III(A).