

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

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

COMPLAINT OF THE CONTINUITY
SHIPPERS ASSOCIATION

Docket No. C99-4

NOTICE OF UNITED STATES POSTAL SERVICE
OF FILING OF REBUTTAL TESTIMONY

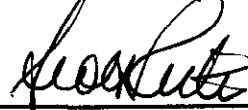
The United States Postal Service hereby gives notice that is filing in this docket today the Rebuttal Testimony of Susan W. Mayo on Behalf of United States Postal Service, designated USPS-RT-1.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

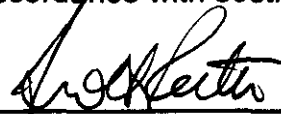
Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking



Scott L. Reiter

CERTIFICATE OF SERVICE

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



Scott L. Reiter

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February 16, 2000

USPS-RT-1

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

COMPLAINT OF THE CONTINUITY
SHIPPERS ASSOCIATION

Docket No. C99-4

REBUTTAL TESTIMONY OF
SUSAN W. MAYO
ON BEHALF OF
UNITED STATES POSTAL SERVICE

i

TABLE OF CONTENTS

TABLE OF CONTENTS	i
AUTOBIOGRAPHICAL SKETCH.....	ii
I. PURPOSE	1
II. BACKGROUND OF BPRS.....	2
A. Origin of BPRS	2
B. Description of the Service.....	3
III. REBUTTAL	4
A. BPRS is a Special Service.....	4
B. BPRS is Not Standard Mail (A).....	5
C. The BPRS Cost Coverage is Reasonable	7
IV. PRICING CRITERIA	9
A. SECTION 3622(b) of Title 39.....	9
B. How the Criteria Apply to the Current BPRS Fee	10
V. CONCLUSION	11

AUTOBIOGRAPHICAL SKETCH

1
2

3 My name is Susan W. Mayo. I am currently an economist in Pricing at
4 Postal Service Headquarters. I began working for the Postal Service in 1981 as
5 a letter carrier at the McLean, Virginia post office. From 1983 to 1986, I worked
6 at the Research and Development Laboratories, the National Test Administration
7 Center, and the Headquarters Personnel Division before joining the Pricing Office
8 in 1986. I provided substantial technical support for Dockets No. R87-1, R90-1,
9 and R94-1. I provided two direct testimonies and one rebuttal testimony in
10 Docket No. MC96-3. I also provide direct and rebuttal testimony in Docket R97-
11 1. I am currently providing direct testimony on special service fee design in
12 Docket No. R2000-1. Since 1991, I have been the special services pricing expert
13 and in 1996 became the project manager for special services pricing. This is my
14 seventh appearance before the Commission. I formerly appeared as witness
15 Susan W. Needham.

16

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

21

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

1 I. PURPOSE

2

3 The purpose of this testimony is to rebut the testimony of witness Buc,
4 particularly with respect to the Bulk Parcel Return Service (BPRS) cost coverage.

5 My testimony focuses on several issues. First, I will point out the high value
6 characteristics of BPRS. Also, I will demonstrate how BPRS is a special service,
7 and for pricing purposes should be treated as such. Additionally, I will discuss
8 the real comparison between Standard Mail (A) and BPRS. Finally, I will show
9 how the cost coverage is reasonable.

1 **II. BACKGROUND OF BPRS**

2

3 **A. Origin of BPRS**

4

5 Prior to the establishment of BPRS, parcels originally entered as bulk
6 Standard Mail (A) were returned as Standard Mail (A) Single-Piece when they
7 were refused or otherwise undeliverable-as-addressed. When rate parity
8 between Standard Mail (A) Single-Piece rates and First-Class Mail letter rates
9 was extended to the eleventh ounce in Docket No. R94-1, using the Standard
10 Mail (A) Single-Piece rate for returned parcels became less economically
11 attractive.

12

13 The Postal Service responded to the need for an effective and economical
14 bulk parcel return service by proposing Bulk Parcel Return Service in Docket No.
15 MC97-4. This special service provides high volume Standard Mail (A) parcel
16 mailers with a standardized and cost-effective method of retrieving refused or
17 otherwise undeliverable-as-addressed parcels. This special service was
18 expanded in Docket No. MC99-4 to allow opened and resealed parcels to be
19 returned using BPRS in certain circumstances.

1 **B. Description of the Service**

2

3 BPRS is an efficient and effective means for high volume Standard Mail (A)
4 bulk parcel shippers to retrieve refused or otherwise undeliverable-as-addressed
5 parcels, and parcels that were opened, resealed and redeposited in the mail by
6 the customer. The parcels must have been originally mailed as Standard Mail (A)
7 bulk parcels (which, by definition, weigh less than one pound) and must be
8 machinable. Each parcel must bear a BPRS endorsement and a return address
9 in the delivery area of the post office issuing the BPRS permit. Parcels that have
10 been opened and resealed by the recipient must either bear a BPRS return label
11 or be found in the mailstream when it is impracticable to return the parcel to the
12 recipient for payment of return postage. The returns are either picked up in bulk
13 from a designated postal facility or delivered in bulk to the mailer.

14

15 To qualify for this special service, a mailer must demonstrate receipt of at
16 least 10,000 returned Standard Mail (A) parcels in the previous twelve months or
17 demonstrate the high likelihood of receiving a minimum of 10,000 returned
18 Standard Mail (A) parcels in the coming twelve months. Additionally, a permit
19 must be obtained and return postage must be guaranteed from a centralized
20 advanced deposit postage due account. Mailers using the service pay the BPRS
21 per-piece fee of \$1.75 for each returned parcel. There is currently no annual
22 advance deposit account fee.

1 **III. REBUTTAL**

2

3 **A. BPRS is a Special Service**

4

5 The Commission recommended the Postal Service's proposed classification

6 for BPRS and the corresponding per-piece fee in Docket No. MC97-4.

7 Specifically, in its Opinion and Recommended Decision at page 1, the

8 Commission noted:

9 This recommendation entails the establishment of two new special
10 postal services, referred to as Bulk Parcel Return Service and
11 Shipper-Paid Forwarding.

12

13 The Commission's Recommended Decision clearly identifies BPRS as a special
14 service. BPRS was not designed as a subclass of Standard Mail (A) or any other
15 class of mail. In fact, BPRS is a special service specifically designed to provide a
16 simple means for high volume Standard (A) bulk parcel shippers to obtain parcel
17 returns. It was also not designed for low volume shippers and would not be
18 considered a useful service for the majority of Standard Mail (A) mailers.

19

20 When asked whether BPRS is a special service, witness Buc stated: "...I
21 guess it is a special service. But on its outgoing leg it is Standard A, when it
22 comes back it is a special service. But when I think about pricing of it at least, it
23 is more like Standard A than it is like anything else in terms of a mail class."¹

24 Although the pricing of both a special service and a mail class are done with a

¹ Tr. 1/109.

1 review of the pricing criteria of section 3622(b) of title 39, with a few exceptions,
2 special services provide a value of service above and beyond the basic mail
3 class or mail delivery. Many special services are considered to be premium
4 services. In the case of BPRS, the service is a valuable one, as I discuss below.

5

6 **B. BPRS is Not Standard Mail (A)**

7

8 Witness Buc states in his written testimony on page 5 that "Parcels returned
9 under BPRS are Standard A regular mail which has a coverage of 135%." He
10 continues in his written testimony and his cross examination to maintain that
11 there is a close relationship between Standard Mail (A) and BPRS for pricing
12 purposes. Aside from the fact that BPRS is a special service, pieces categorized
13 as BPRS are very different from typical Standard Mail (A) pieces

14

15 Commercial Standard Mail (A) is dominated by advertising mail that is letter-
16 or flat-shaped. In most cases, although recipients may enjoy receiving
17 advertising mail, it is unsolicited. A very small portion of Standard Mail (A) is
18 merchandise fulfillment.² Unlike the majority of Standard Mail (A), this
19 merchandise is often parcel-shaped, and was solicited by the recipient. This

² Only 2.8 percent of the Regular subclass was expected to be subject to the Residual Shape Surcharge, which is generally applicable to parcel-shaped merchandise pieces. (Docket No. R97-1, USPS-T-35 Workpaper 1, pages 3 and 13).

1 merchandise is much more costly to process and deliver than advertising mail.³
2 Despite implementation of a surcharge on these more costly pieces following
3 Docket No. R97-1, it was expected that their revenues still would not cover their
4 costs.⁴ So, despite being categorized as Standard Mail (A), merchandise is
5 shaped differently, its contents are different, its costs are much higher, it is more
6 welcomed by the recipient, and it fails to make a contribution to covering the
7 institutional costs of the Postal Service.

8
9 When a Standard Mail (A) parcel is returned to the mailstream as a BPRS
10 piece, it, too, is significantly different from typical Standard Mail (A). The original
11 mailer has asked to receive, and has a great interest in receiving, returned
12 merchandise and whatever else may have been included in the case of opened
13 and resealed BPRS parcels, such as customer information and payment. Again,
14 this differs from the typical advertising mail piece in that, though potentially useful
15 to the recipient, ad mail is generally unsolicited and return of ad mail is rarely, if
16 ever, requested by the original sender.

17

³ A parcel costs about 41 cents more than a comparable flat. By comparison, the overall unit cost for commercial Standard is only 12.2 cents. (PRC Op., R97-1, Vol. 1, at 426 [¶5486], and Vol. 2, Appendix G, Schedule 1).

⁴ Even with the surcharge, it was expected that the revenue would be 7.8 cents below cost. (PRC Op., R97-1, Vol. 1, at 426-27 [¶ 5487].)

1 **C. The BPRS Cost Coverage is Reasonable**
2
3

4 When it recommended BPRS, the Commission, at page 1 of its Opinion and
5 Recommended Decision, noted:

6 [T]he proposed classification and fee changes meet the criteria of 39
7 U.S.C. §§ 3622 and 3623, and conform to policies of the Postal
8 Reorganization Act. In particular, the Commission notes that th[e
9 supporting] testimony shows that the recommendation significantly
10 improves the fairness and equity of the classification schedule, pursuant
11 to 39 U.S.C. § 3623(c)(1) and 39 U.S.C. § 3622(b)(1). Many parcel
12 mailers will now have options that will improve their ability to use the
13 nation's postal system in a far more efficient and cost-effective way than
14 is now the case, consistent with 39 U.S.C. § 3623(c)(5). The
15 recommendation also reflects consideration of the effect of rate
16 increases on mail users, as required by 39 U.S.C. § 3622(b)(4), by
17 addressing the consequences of linking Standard A Mail forwarding and
18 return fees to the First-Class Mail single-piece rate.⁵
19

20 When BPRS was originally established in Docket No. MC97-4, the fee was
21 set to provide a cost coverage of 156 percent. Witness Buc states in his written
22 testimony at page 5 that the cost coverage of 168 percent results when using the
23 Bulk Parcel Return Service Cost Study, dated October 30, 1998. In witness
24 Buc's testimony pages 10-12, he calculates the cost under the Commission's
25 method at 103.8 cents and rolls the cost forward to estimate the current cost at
26 111.2 cents. Witness Buc's cost estimate results in a cost coverage of 157
27 percent. ($175/111.2=1.57$) This is within 1 percent of the 156 percent cost
28 coverage recommended by the Commission in Docket No. MC97-4.

⁵ Docket No. MC97-4, pp 9-10.

1 Witness Buc, when discussing fairness and equity, refers to his cost coverage
2 calculation of 168 percent, and compares this coverage to those of Standard Mail
3 (A) and Bound Printed Matter, without considering that BPRS is, as I discussed
4 above, a Special Service with unique characteristics. Also, witness Buc
5 disregards his own calculated current cost coverage of 157 percent in performing
6 his pricing analysis. Since he has testified that he believes that 168 percent is "a
7 little bit too high" (Tr. 1/114), perhaps 157 percent is indeed appropriate.

8
9 The notion that the cost coverage for BPRS be restrained to that of Standard
10 Mail (A) cannot be based on similarities between BPRS and Standard Mail (A).
11 In fact, characteristics for each are quite different. BPRS's physical difference is
12 what makes it a contribution loser on its outbound shipment at Standard Mail (A)
13 rates. Moreover, if one were inclined to make this comparison, it would be
14 important to consider that the other commercial subclass of Standard Mail (A)
15 (Enhanced Carrier Route) has a cost coverage of 203 percent.⁶

16

⁶ PRC Op., R97-1, Vol. 2, Appendix G, at 1.

1 **IV. PRICING CRITERIA**

2

3 **A. Section 3622(b) of Title 39**

4

5 The following pricing criteria are from Section 3622(b) of Title 39, United
6 States Code and are used in the design of postal rates and fees:

- 7 1. the establishment and maintenance of a fair and equitable schedule;
- 8 2. the value of the mail service actually provided each class or type of mail
9 service to both the sender and the recipient, including but not limited to, the
10 collection, mode of transportation, and priority of delivery;
- 11
- 12 3. the requirement that each class of mail or type of mail service bear the direct
13 and indirect postal costs attributable to that class or type plus that portion of
14 all other costs of the Postal Service reasonably assignable to such class or
15 type;
- 16
- 17 4. the effect of rate increases upon the general public, business mail users, and
18 enterprises in the private sector of the economy engaged in the delivery of
19 mail matter other than letters;
- 20
- 21 5. the available alternative means of sending and receiving letters and other
22 mail matter at reasonable costs;
- 23
- 24 6. the degree of preparation of mail for delivery into the postal system performed
25 by the mailer and its effect upon reducing costs to the Postal Service;
- 26
- 27 7. simplicity of structure for the entire schedule and simple, identifiable
28 relationships between the rates of fees charged the various classes of mail for
29 postal services;
- 30
- 31 8. the educational, cultural, scientific, and informational value to the recipient of
32 mail matter; and
- 33
- 34 9. such other factors as the Commission deems appropriate.
- 35
- 36

1 **B. How the Criteria Apply to the Current BPRS Fee**

2

3 The current fee for BPRS covers the cost of the service and provides a
4 reasonable contribution to other costs (Criterion 3). The effect of the fee upon
5 users of the service is not detrimental; in fact, BPRS is far less expensive than
6 the alternatives (Criterion 5), so it actually has had a positive effect. The current
7 fee is simple (Criterion 7). Based on the characteristics of the service, the value
8 to users, both mailers and recipients, should be high to very high (Criterion 2). In
9 fact, the feature allowing return of a parcel that has been opened offers an even
10 higher value of service for BPRS customers than the original service. The
11 service and the associated fee are fair and equitable (Criterion 1), having been
12 established as a result of customer desires. I am aware of no intervening
13 circumstances that have changed since BPRS was established that would make
14 a lower cost coverage appropriate now, compared to what it was when
15 established by the Commission. To the contrary, the recent enhancements of
16 the service, allowing the use of return labels at no additional fee and authorizing
17 return of opened and resealed parcels without return labels in certain
18 circumstances, add considerably to the value of service.

19

20 I also stress that, in Docket No. R2000-1, I am proposing an annual advance
21 deposit account fee for BPRS. The current absence of this fee for BPRS
22 suggests that the cost coverage should not be lowered, until such a fee is added.

1 **V. CONCLUSION**

2

3 The cost coverage for BPRS was established at 156 percent. Using costs
4 from the Bulk Parcel Return Service Cost Study as inflated for the current year by
5 witness Buc yields a current cost coverage of 157 percent. I believe the current
6 fee for BPRS is as fair and reasonable and compliant with title 39 of the United
7 States Code as it was when it was recommended by the Commission. I do not
8 believe there has been any basis demonstrated in the testimony of witness Buc
9 that would justify an isolated change in the BPRS fee at this time.