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

POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

POSTAL RATES AND FEE CHANGES, 2000)

Docket No. R2000-1

Direct Testimony of

DR. JOHN HALDI

Concerning

PRIORITY MAIL

on Behalf of

ASSOCIATION OF PRIORITY MAIL USERS, INC.

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Counsel for Association of
Priority Mail Users, Inc.

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AUTOBIOGRAPHICAL SKETCH

My name is John Haldi. I am President of Haldi Associates, Inc., an economic and management consulting firm with offices at 1370 Avenue of the Americas, New York, New York 10019. My consulting experience has covered a wide variety of areas for government, business and private organizations, including testimony before Congress and state legislatures.

In 1952, I received a Bachelor of Arts degree from Emory University, with a major in mathematics and a minor in economics. In 1957 and 1959, respectively, I received an M.A. and a Ph.D. in economics from Stanford University.

From 1958 to 1965, I was an assistant professor at the Stanford University Graduate School of Business. In 1966 and 1967, I was Chief of the Program Evaluation Staff, U.S. Bureau of the Budget. While there, I was responsible for overseeing implementation of the Planning-Programming-Budgeting ("PPB") system in all non-defense agencies of the federal government. During 1966 I also served as Acting Director, Office of Planning, United States Post Office Department. I was responsible for establishing the Office of Planning under Postmaster General Lawrence O'Brien. I established an initial research program, and screened and hired the initial staff.

1 I have written numerous articles, published consulting studies,
2 and co-authored one book. Items included among those publications
3 that deal with postal and delivery economics are an article, "The Value of
4 Output of the Post Office Department," which appeared in *The Analysis*
5 *of Public Output* (1970); a book, *Postal Monopoly: An Assessment of the*
6 *Private Express Statutes*, published by the American Enterprise Institute
7 for Public Policy Research (1974); an article, "Measuring Performance in
8 Mail Delivery," in *Regulation and the Nature of Postal Delivery Services*
9 (1992); an article (with Leonard Merewitz) "Costs and Returns from
10 Delivery to Sparsely Settled Rural Areas," in *Managing Change in the*
11 *Postal and Delivery Industries* (1997); an article (with John Schmidt)
12 "Transaction Costs of Alternative Postage Payment and Evidencing
13 Systems" in *Emerging Competition in Postal and Delivery Services* (1999);
14 and an article (with John Schmidt), "Controlling Postal Retail
15 Transaction Costs and Improving Customer Access to Postal Products" in
16 *Current Directions in Postal Reform* (2000).

17 I have testified as a witness before the Postal Rate Commission in
18 Docket Nos. R97-1, MC96-3, MC95-1, R94-1, SS91-1, R90-1, R87-1,
19 SS86-1, R84-1, R80-1, MC78-2 and R77-1. I also have submitted
20 comments in Docket No. RM91-1.

1 **I. PURPOSE OF TESTIMONY**

2 The purpose of this testimony is to propose (i) a classification
3 change that would require pieces of First-Class Mail that weigh in excess
4 of 11 ounces to be entered as Priority Mail (this change is particularly
5 important due to the newly-proposed 1 pound rate), and (ii) alternative
6 rates for Priority Mail, which include a new discount for Priority Mail
7 which is used to dropship other Postal products to destination SCFs.
8 These proposals, the rationale for their adoption, and their impact are
9 explained herein.

1 **II. THE ASSOCIATION OF PRIORITY MAIL USERS**

2 This testimony is presented on behalf of the Association of Priority
3 Mail Users, Inc. ("APMU"), a trade association founded in 1993. APMU
4 consists of Priority Mail users — such as through-the-mail film
5 processors, manufacturers of consumer products, television, internet,
6 and catalog retailers, and shipping consolidators.

7 APMU is a member of the Mailers Technical Advisory Committee
8 ("MTAC"). It publishes a bi-monthly Newsletter, *APMU News*, and
9 maintains a web site at www.apmu.org. It offers its members regular
10 reports on important postal developments, not limited to Priority Mail,
11 sponsors Priority Mail Breakfast Briefings at all National Postal Forums,
12 and holds quarterly membership meetings corresponding with MTAC
13 sessions.

14 APMU has been interested in Postal Rate Commission litigation,
15 intervening in Docket Nos. R94-1, MC96-1, MC97-2, and R97-1.

16 **Mailing Practices of APMU Members**

17 APMU members use all rate categories of Priority Mail, from flat-
18 rate to heavyweight, both unzoned and zoned.

19 Members of APMU have a strong interest in the improvement of
20 Priority Mail's features and service, and its continued viability as a

1 profitable postal product. They also have significant concerns in this
2 docket regarding the disproportionate rate increase proposed by the
3 Postal Service; the projected decline in Priority Mail volume; Priority
4 Mail's declining market share; the Postal Service's failure to improve
5 significantly Priority Mail service; and Priority Mail's continued lack of
6 value-added features when compared with its competitors.

III. INTRODUCTION

My testimony on Priority Mail in Docket No. R97-1 noted that during FY 1997 "the Postal Service signed an innovative contract with Emery to sort and transport all Priority Mail in the Northeast and Florida,"¹ and it further noted that "implementation of the PMPC network adds significantly to the cost projections for Priority Mail during Test Year."² And in what has turned out to be a somewhat prophetic statement, my testimony stated that "[t]he network of dedicated PMPC facilities is an innovative attempt to improve performance. At the same time, however, it is totally unproven, and it could turn out to be a mistake with grave consequences."³ For many years now, the Postal Service has been faced with determining how best to improve the timeliness and reliability of Priority Mail while keeping costs down. An important purpose of the PMPC contract was to help ascertain whether the dedication of facilities and local transportation to Priority Mail could be part or all of the solution.

Unfortunately, the Emery contract has been hugely expensive. It is one of the reasons that the average unit cost for Priority Mail increased

¹ Docket No. R97-1, NDMS-T-2, p. 74 ll. 11-13.

² *Id.*, p. 68, ll. 7-8.

³ *Id.*, p. 69, ll. 4-6.

1 from **\$1.76** per piece in FY 1997 to **\$1.99** per piece in FY 1998, and is
2 projected to increase to **\$2.45** per piece in 2001. This projection for
3 2001 represents a 39 percent increase from 1997 levels. It significantly
4 exceeds the highly-touted increase in unit cost for Periodicals, which also
5 have increased far more rapidly than the rate of inflation (see Table 1).

6 **Table 1**

7 **Unit Costs for Priority Mail and Periodicals**
8 **1997-2001**

		Unit Cost (cents)		Index, 1997 = 100	
	Year	Priority Mail	Periodicals	Priority Mail	Periodicals
12	1997	1.761	0.188	100	100
13	1998	1.993	0.197	113	105
14	1999	2.321	0.220	132	117
15	2000	2.240	0.228	127	121
16	2001BR	2.405	0.239	137	127
17	2001AR	2.452	0.239	139	127

18 Unless Emery obtains the right to terminate its contract with the
19 Postal Service through the litigation it has filed, discussed below, the
20 Emery contract will expire in February, 2002, shortly after the Test Year
21 in this case ends, but well before the likely Test Year in any subsequent
22 case. The testimony of witness Robinson notes that the Postal Service is

1 reviewing all of its options with respect to the PMPC, as well it should.⁴

2 In view of the prospect that the Postal Service shortly may be able to

3 regain some control over its costs, the fact that Priority Mail faces

4 intensifying competition, and the fact that Priority Mail has a high price

5 elasticity of demand, the coverage should be restricted to about the same

6 level established by the Commission in Docket No. R97-1.

7 Priority Mail has been a highly profitable and successful product

8 for the Postal Service. The FY 1996 revenues and operating profit (*i.e.*,

9 contribution to institutional costs) of Priority Mail were, respectively,

10 \$3,321.5 million and \$1,681.3 million. As of FY 1999, revenues and

11 operating profit had grown to \$4,533.2 million and \$1,868.5 million.⁵

12 The operating profit from Priority Mail was 2.5 times greater than

13 the operating profit of Express Mail and all Standard B mail, combined.

14 Viewed differently, the operating profit from Priority Mail exceeded the

15 combined operating profit of all domestic postal classes of mail, special

16 services, and international postal classes of mail combined, excepting

17 First-Class and Standard A commercial mail.

18 The proposals contained in this testimony are submitted on behalf

19 of customers of Priority Mail, and are intended to improve the product

20 and make it even more successful.

⁴ USPS-T-34, pp. 13-15.

⁵ USPS-T-14, Exhibit USPS-14D, p. 2.

IV. COST CONSIDERATIONS

A. The PMPC Network

In my testimony in Docket No. R97-1, I discussed the initiation of the Priority Mail Processing Center ("PMPC") contract.⁶ Among other items, I noted that the stated goal of the new network was to provide at least 96.5 percent on-time Two-Day service for all destinations within the Phase I PMPC area. That same testimony, discussed the effect of the PMPC contract on Priority Mail costs, particularly on that docket's Test Year, 1998.⁷

The PMPC Network and Service Performance

Even at that time, it was noted that the entire normal two-day performance period was given over to the contractor, Emery Worldwide Airlines Inc., to process and transport Priority Mail after receipt from the Postal Service until return to the Postal Service. Thus, it would be difficult to see how the Postal Service could "improve significantly" on the timely delivery of Priority Mail in terms of full end-to-end performance. Even if one were to discount the above-stated goal, and simply to focus

⁶ Docket No. R97-1, NDMS-T-2, pp. 66-69.

⁷ *Id.*, pp. 74-79

1 on merely "improving" the timeliness of Priority Mail within this service
2 area, disappointment would likely abound. APMU requested data from
3 the Postal Service to delineate performance within the PMPC area from
4 general Overnight, Two-Day and Three-Day commitment areas.⁸ The
5 Postal Service objected to provision of such data, in part on grounds of
6 relevance.⁹ Absent specific performance data that directly differentiate
7 performance within the PMPC area from the general performance
8 universe, it is difficult to comprehend whether this ambitious project
9 adds value in proportion to the costs (including the apparent cost
10 overruns) incurred for services provided under the contract.

11 In general terms, and in despite any improved performance that
12 could be attributed to the PMPC network, overall Priority Mail
13 performance has deteriorated in the interval since Docket No. R97-1. In
14 my prior testimony, the calculated mean values of Priority Mail overnight
15 and Two-Day Standard performance reflecting ODIS data for the three-
16 year period from 1995 through 1997 were **85.6** percent and **76.2**
17 percent, respectively.¹⁰ In this testimony, the corresponding performance
18 values for the period from 1997 through 1999 were **85.0** percent and

⁸ APMU/USPS-T34-33 thru 36.

⁹ USPS Objection to APMU interrogatories, APMU/USPS-T34-33-39, 41-42 (March 17, 2000).

¹⁰ Docket R97-1, NDMS T-2, Table 7, p. 65.

1 **73.0** percent, respectively (see Table 9), a **decline** of over 3 percentage
2 points in the critical Two-Day Service commitment area. Even in the
3 Three-Day service commitment area the performance **deteriorated**, also
4 by 3 percent, from **77.7** percent in my Docket No. R97-1 testimony to
5 **74.7** percent in this docket.

6 All indicators of delivery performance point to deterioration of
7 service.¹¹ At the same time, unit costs for Priority Mail are increasing out
8 of proportion to unit costs for most other mail products. Certainly costs
9 affect rates, and service performance affects consumer demand for the
10 service. These two values are integral to a healthy competitive offering in
11 the marketplace and are therefore relevant to any discussion involving
12 rate increase proposals and coverage factors such as those put forth in
13 this docket for Priority Mail. It is difficult to understand the Postal
14 Service's objection to releasing data on PMPC performance on grounds of
15 relevance. In the eyes of the consumer, performance is more relevant to
16 the perception of value than any other factor save the rate paid.

17 **The PMPC network and cost.** Witness Robinson's testimony
18 describes the adjustment of costs incurred for the PMPC network and
19 their effect on the Priority Mail rates proposed in this docket. She
20 recognizes the necessity to address this issue due to the fact that:

¹¹ Please see Section V, Part F, Value of Service, for a full discussion of Priority Mail performance.

1 the Emery PMPC network is a test program.... This is
2 necessary given the degree of uncertainty surrounding the
3 future Priority Mail network configuration, and the potential
4 effect of unknown network changes on the cost structure of
5 Priority Mail.¹²

6 My testimony in Docket No. R97-1 noted that, the Postal Service
7 expected costs for the PMPC network in Test Year 1998 to be
8 approximately \$265 million and, surprisingly, identified only
9 approximately \$127 million in cost reductions during the same period.¹³
10 During the discovery period in this docket, numerous questions were
11 posed to the Postal Service regarding the issue of cost for the Emery
12 contract. In particular, when asked for cost breakouts for amounts paid
13 under the PMPC contract during 1998 stratified by (i) fixed, (ii) variable
14 and (iii) per piece, the response was that due to the nature of the
15 contract, no such data were available, but the total cost for the Base Year
16 1998 was slightly over \$289 million. In addition, however, for Base Year
17 1998 the Postal Service paid Emery \$20.8 million pursuant to a
18 supplemental letter agreement.¹⁴ Although vaguely worded, the payment
19 was characterized as "mutually beneficial," and thus did not delineate
20 the reasons or rationale for the overruns. The "mutual benefit" appears

¹² USPS-T-34, p. 14, l. 15, p. 15 ll. 8-11.

¹³ Docket No. R97-1, NDMS-T-2, pp. 74-75.

¹⁴ Response to APMU/USPS-T34-5 (Tr. 7/2731-32).

1 to have grown geometrically, with an additional supplement in 1999 of
2 \$42.8 million.¹⁵

3 The real shocker, however, is the itemization provided by witness
4 Robinson that Pending claims, filed by Emery, amount to \$685,744,027
5 and affect every contract year from 1998 through the balance of the life of
6 the contract.¹⁶ Claims of this amount hardly reflect a cordial working
7 relationship between the Postal Service and Emery, and in all likelihood
8 do not augur well for controlling future costs for the PMPC network.
9 Note also that Emery has filed a lawsuit over its claims, asking the court,
10 *inter alia*, that Emery be allowed to elect to cancel the contract and stop
11 work.¹⁷

12 **The Inspector General's Report on the PMPC Network.** On
13 September 24, 1999, the Office of Inspector General issued a report on
14 the performance of the PMPC network.¹⁸ In general terms, this report
15 appears consistent with the previous discussions in this Section
16 regarding Priority Mail delivery performance.

¹⁵ Response to APMU/USPS-T34-51, part d (Tr. 7/2735).

¹⁶ Response to APMU/USPS-T34-51 (c) (Tr. 7/2734).

¹⁷ Emery Worldwide Airlines, Inc. v. United States, Civil Action No. 00-173, U.S. Court of Federal Claims, April 3, 2000.

¹⁸ Inspector General's Audit Report No. DA-AR-99-001. A redacted version has been filed as USPS-LR-I-315 in response to POR No. R2000-1/51.

1 If the PMPC Network has improved Priority Mail performance, it
2 has been slight, based on the above analysis, and costly. The Inspector
3 General report revealed that in some ways service may have been harmed
4 by the contract as “network subcontractors were abandoning Priority
5 Mail destined for Anchorage, Alaska to Seattle, Washington from
6 November 1997 through August 1998.”¹⁹ In a compelled answer to an
7 interrogatory, Postal Service witness Robinson testified that “when
8 comparing the costs for the PMPC Network with doing the work in-house,
9 without a network, the Inspector General’s report estimates [\$101
10 million] of additional of additional PMPC network costs is reasonable.”²⁰
11 The IG report quotes Postal management as stating that the PMPC
12 Network “was one of the most complex projects undertaken by Postal
13 Management in years.” (I.G. Report, at ii.) For whatever reason, it is a
14 project that did not succeed.

15 The failure to achieve significant performance improvement
16 contributes to the erosion of the customer perception of the value of the
17 Priority Mail service. The increase in costs associated with provision of
18 the end-to-end Priority Mail service contributes directly to the proposed
19 increase in this docket for Priority Mail. Paying more to receive only

¹⁹ I.G. Report, at 12.

²⁰ Response to APMU/USPS-T34-41, filed May 5, 2000, compelled by
Presiding Officer’s Ruling R2000-1/51.

1 marginally improved performance, at best, will ultimately lead customers
2 to choose alternative service providers for their expedited document and
3 package delivery.

4 The PMPC contract experiment could be viewed as an effort to
5 “think outside the box,” and attempt in meaningful, creative ways to
6 improve Priority Mail service, or cost, or both. Despite the possible
7 merits of the original plan, it is and would be inconceivable that the
8 Postal Service would extend what it now knows to be a failed experiment.
9 In the light of what is now known about the contract, to do so would
10 deny mailers the benefit of reliable and efficient services, as required by
11 the Postal Reorganization Act 39 U.S.C. sec. 101(a). In order for Priority
12 Mail to remain viable, the Postal Service must find other ways to improve
13 service while controlling costs.

14 In this competitive market segment the value of service, which
15 includes performance, customer-demanded features, and customer
16 convenience, must be balanced delicately against the price charged for
17 the service. In the PMPC network experiment, the costs incurred for the
18 PMPC network have tipped the cost balance too far without meaningfully
19 improving the value of service.

1 **B. Overstatement of Rehabilitation Costs for Priority Mail**

2 The Postal Service's case-in-chief included an erroneous
3 distribution of over \$48 million in FY 2000 "other program" costs to
4 Priority Mail.²¹

5 In response to an interrogatory, witness Kashani disaggregated
6 changes in "other programs," and explained the basis behind the discrete
7 distributions made to individual classes and subclasses of mail. In his
8 discussion of the detailed distributions made in "other programs," witness
9 Kashani stated that he had erroneously distributed \$48.350 million in
10 FY 2000 costs — from Clerks (component 35) associated with the
11 Rehabilitation program (affecting Clerks in Cost Segment 3) — to Priority
12 Mail. Witness Kashani notes that corrective redistribution of these costs
13 to the appropriate classes and subclasses has a minimal impact.

14 Nevertheless, failure to attribute these costs properly could not be
15 said to have a minimal impact on Priority Mail. Priority Mail has TYAR
16 attributable costs of \$2,887.309 million.²² The correction to Priority Mail

²¹ Response to MPA/USPS-T14-2 and Attachment I (Tr. 2/653, 660-62, 686-87).

²² USPS-T-34, Attachment K. Note that Attachment I to MPA/USPS-T14-2 identifies a slightly higher total for pre-adjustment Priority Mail TYAR attributable costs — \$2,887.653 million. (Tr. 2/686-87)

- 1 TYAR costs would be a reduction of \$48.439 million.²³ This over-
- 2 attribution reflects 1.7 percent of all costs attributed to Priority Mail.

²³ According to witness Kay, correction of this erroneous distribution of “other program” costs would reduce Priority Mail TYAR incremental costs by \$48.509 million. Response to APMU/USPS-T23-1 (Tr. 17/6708-10).

V. COVERAGE CONSIDERATIONS

The most important criteria in Section 3622(b) with respect to coverage for Priority Mail are:

- Fairness (criterion 1)
- Value of Service (criterion 2)
- Effect of Rate Increases (criterion 4)
- Available Alternatives (criterion 5)

Priority Mail competes in the market for expedited 2- and 3-day delivery of documents and packages.²⁴ As will be elaborated further below, the expedited market is characterized by intense and increasing competition. Consequently, a plethora of alternatives are readily available to the public (criterion number 5).

The competitiveness of the expedited market in turn bears directly on the effect of rate increases (criterion number 4). The Commission has traditionally interpreted criterion 4 as an admonition to ameliorate high rate increases, especially to mailers who lack competitive alternatives and would otherwise be subject to monopolistic exploitation. Thus, when applying criterion 4, the focus has been on protecting those mailers who would have to pay higher-than-average rate increases. In view of the increasing level of competition in the expedited market, however, the Commission in this instance needs to consider the effect that high rate increases for Priority Mail will have not only on mailers of expedited

²⁴ USPS-T-34, p. 6, ll. 9-10.

1 packages, but also on the Postal Service and mailers in other subclasses
2 who rely on Priority Mail to contribute a substantial sum to the Postal
3 Service's institutional costs. Since 1995, Priority Mail has contributed
4 over \$1.5 billion per year to the Postal Service's institutional costs.²⁵ In
5 the Test Year, the Postal Service requests rates designed to extract an
6 astonishing \$2.4 billion from Priority Mail. The consequences of over-
7 reaching in a competitive market can be disastrous. Speaking
8 figuratively, the Commission should not allow the Postal Service to "kill
9 the goose that lays the golden eggs." The brief case study of Express
10 Mail set out in Appendix A is instructive.

11 It is fundamental to the notion of a market economy that
12 competition goes hand-in-hand with fairness and equity (criterion 1). In
13 the market for expedited delivery services, competition gives shippers
14 meaningful alternatives. If rates of one provider are perceived as too
15 high, or the quality of its product too low, consumers will take their
16 business elsewhere. In the case of Priority Mail, much of the business
17 for heavier weight packages (over 5 pounds) appears to have migrated
18 already to other providers. The Commission can feel reasonably assured
19 that, should it fail to recommend rates which the mailing public

²⁵ See Appendix A, Table A-2. The contribution to institutional cost has been roughly equal to the total revenue from Regular Rate Periodicals.

1 considers fair and equitable, a substantial portion of the remaining
2 business will also migrate elsewhere.

3 In the last docket, value of service (criterion 2) received the
4 Commission's considered attention. It is again of paramount importance
5 in this case. For that reason, it is discussed at length in Section F below.

6 **A. Competition Offers Ready Alternatives**

7 Competition for expedited document and package delivery services
8 exists at the local, regional, and national level. The providers that
9 compete most directly with the Postal Service have nationwide collection
10 and delivery networks. Three of the largest and better-known providers
11 are FedEx, United Parcel Service ("UPS"), and Airborne. (DHL also has a
12 nationwide collection service, and is a major player in the market for
13 international expedited package delivery.) These firms have established
14 themselves by focusing on the business-to-business market.

15 Businesses originate the vast majority, 88 percent, of Priority Mail.
16 Moreover, 55 percent of Priority Mail is business-to-business.²⁶ This
17 makes Priority Mail highly vulnerable to competitive inroads by firms
18 that have specialized in honing their products, services, and rates to suit

²⁶ Priority Mail rate design witness Robinson expressed her surprise that so much of Priority Mail was vulnerable to competition. (Tr. 11/4624, l. 8, 4625, ll. 15-16).

the needs of business firms. The profile of Priority Mail's market, by originator and recipient, is shown in Table 2.

The following sections compare (i) the features of competing products with those offered by Priority Mail, and (ii) the rates for directly competing products with current and proposed Priority Mail rates.

Table 2

**Profile of Priority Mail Originators and Recipients
GFY 1998**

----- Recipient -----			
Originator	Businesses	Residences	Total
Businesses	640 (54.5%)	393 (33.5%)	1,033 (88.0%)
Residences	36 (3.1%)	105 (8.9%)	141 (12.0%)
	-----	-----	-----
Total	676 (57.6%)	498 (42.4%)	1,174 (100.0%)

Source: Response to UPS/USPS-T8-1 (Tr. 9/3566-67).

B. The Competition Has Many Customer-Desired Features Which Priority Mail Lacks

The delivery business, especially the expedited market, has become increasingly sophisticated and demanding. It consists of far more than having customers drop off packages at counters or depositing them into collection boxes with the expectation that they will be delivered —

1 sooner, later, or whenever. Those days are gone, and any delivery
2 company still operating on that paradigm is unlikely to survive in the
3 current environment. Witness Robinson acknowledges as much:

4 The market in which priority mail competes has become
5 more competitive since 1996. Increasingly, customers are
6 demanding reliable service and some customers want the
7 ability to use computer-based applications to manage and
8 track their mailings.²⁷

9 **No track-and-trace.** Priority Mail now offers a delivery
10 confirmation service, which enables the mailer to ascertain whether and
11 when the carrier delivered the piece.²⁸ If a signature is desired, an
12 additional fee must be paid.²⁹ Delivery confirmation falls well short of a
13 true track-and-trace system, however. After the mail piece is entered
14 into the system, it is not "wanded" at any intermediate point in the
15 network; only at final delivery. Until the piece is actually delivered, the
16 Postal Service is unable to provide any information as to the whereabouts
17 of the piece. Insofar as some information is better than no information,
18 delivery confirmation is admittedly an improvement over the past. Still,
19 it is far below the level of service offered by the competition.

²⁷ Response to APMU/USPS-T34-44(d) (Tr. 7/2723).

²⁸ Delivery confirmation requires a fee from single-piece mailers, who must enter the piece at a postal counter, and is free to those mailers who enter the requisite information on an electronic manifest.

²⁹ The additional fee proposed for this service is \$1.25 per piece if the article is mailed from an electronic manifest and \$1.75 for articles mailed at a Postal Service counter.

1 **Other competitive features lacking.** Priority Mail lacks a
2 number of other features that are currently offered by the competition to
3 satisfy customer requirements.³⁰ These include features such as:

- 4 • inclusion of minimum insurance in the basic fee;
- 5 • consolidated billing and payment options;
- 6 • reliable, scheduled pick-up services;
- 7 • volume discounts and negotiated prices;
- 8 • a variety of delivery/pricing schedules broader than those
9 offered by the Postal Service; and
- 10 •
11 guaranteed delivery days/times.

12 A summary comparison of features provided by Priority Mail and
13 competitors is shown in Table 3. Put directly, Priority Mail struggles in
14 comparison to offerings of competitors in this market segment, both in
15 services available and in price flexibility. Only in absolute price does
16 Priority Mail appear to be competitive, a compelling factor that should
17 signal the Postal Service to act with great restraint rather than proposing
18 a coverage level of 180.9 percent for this product.

19 Unless and until Priority Mail becomes more competitive with
20 respect to the features described here, it should not be saddled with a
21 high coverage that fails to recognize the realities of the competitive
22 marketplace. The \$4.5 billion of revenues which Priority Mail generated

³⁰ USPS-T-34, p. 6, ll. 13-14.

in FY 1999 represents an obvious, attractive target for competitors. Since Priority Mail competes chiefly on price, and has a high own-price elasticity, it is essential that the rate structure be competitive.

Table 3

Comparison of Two- and Three-Day Expedited Services

	<u>Service</u>	<u>Delivery Time</u>	<u>Insurance</u>	<u>Guarantee</u>	<u>Signature</u>	<u>Track & Trace</u>	<u>Sat Del.</u>	<u>Sun Del.</u>
USPS	Priority	5PM *	NO	NO	NO **	NO	YES	NO
FedEx	2-Day	4:30PM-7PM***	YES	YES	YES	YES	NO	NO
FedEx	Express	4:30PM-7PM***	YES	YES	YES	YES	NO	NO
UPS	AM	12PM	YES	YES	YES	YES	NO	NO
UPS	2nd Day Air	5PM	YES	YES	YES	YES	NO	NO
UPS	3 Day Select	5PM	YES	YES	YES	YES	NO	NO
Airborne	2nd Day	5PM	YES	YES	YES	YES	NO	NO

* Variable according to zone.

** In her testimony, on page 142, witness Mayo proposes signature service fees of \$1.25 for mailers who use an electronic manifest, and \$1.75 for "manual" mailers, those who mail at a USPS counter. Thus this service is not included in the basic Priority Mail service.

*** Residential.

Limited advantages. Priority Mail service does enjoy some limited advantages. The foremost advantage of Priority Mail is probably the rate for the basic service, relative to the **published** commercial rates of its competitors, discussed at greater length in the next section.

Saturday delivery service is provided at no extra cost. However, for the many business firms that are closed on Saturday, this feature is much less meaningful.

1 It is estimated that perhaps as little as one-fourth of Priority Mail's
2 volume, and less of its revenue, enjoys any monopoly protection from the
3 Private Express Statutes.³¹ This means that 75 percent of the volume is
4 totally exposed to competitive inroads. Moreover, even if that portion
5 which is nominally subject to the Private Express Statutes were to
6 migrate to competing carriers, it is not clear that the Postal Service would
7 know of the migration or be able to mount an effective enforcement
8 action if it somehow learned about it. At best, therefore, the Private
9 Express Statutes provide limited advantage to the Postal Service.

10 **C. The Increasingly Competitive Environment**

11 **Competition in collection and delivery networks.** Light-weight
12 Priority Mail pieces, those under 1 pound, enjoy ease of entry through
13 the Postal Service's vast network of collection boxes.³² Whatever small
14 advantage this may have afforded Priority Mail in the past is gradually
15 being eroded by the growth of competitors' competing collection
16 networks. In major office buildings throughout the country, and even in
17 some street locations in business districts, it is not uncommon to see
18 FedEx and UPS drop-off boxes aligned side-by-side with the familiar mail

³¹ Response to APMU/USPS-T32-4 (Tr. 11/4220).

³² Stamped Priority Mail pieces in excess of 1 pound must be entered at a post office window. This inconvenience may be a distinct competitive disadvantage vis-a-vis the increasing convenience offered by competitors.

1 box. In addition, in many places, particularly the large metropolitan
2 markets, FedEx and UPS trucks (which number in the tens of
3 thousands) have been retro-fitted with a convenient slot in the side of the
4 vehicle, into which small flat packages may be deposited directly. This is
5 an important area where competition is gradually but steadily making
6 inroads. The increase in Priority Mail's own-price elasticity from Docket
7 No. R97-1 (-0.771) to this docket (-0.819) reflects an increase in
8 competition.

9 The Postal Service's far-reaching delivery network has historically
10 given it a strong competitive position with respect to residential delivery.
11 Competitors have tended to focus largely on the business-to-business
12 market. However, in March 2000, FedEx launched a new service, FedEx
13 Home Delivery.³³ The new service was said to be available to 50 percent
14 of the U.S. population upon launching, and the shipper anticipates
15 reaching 98 percent within four years. This is yet another area where
16 competition is increasing.

17 Cut-off times for collection and drop-off. The widespread
18 availability of later drop-off for second-day delivery by Postal competitors
19 is yet another way in which Priority Mail suffers in comparison with the
20 competition. The last pick-up for Priority Mail deposited in Postal Service

³³ *DM News*, March 13, 2000, p. 1.

1 collection boxes located in commercial districts of major metropolitan
2 areas is typically between 5 and 6 p.m., after which Postal Service
3 collection vehicles head in for the night. It is around that same time that
4 trucks from competitors such as FedEx, UPS, and Airborne **begin** an
5 intensive round of pickup and collection. Cut-off times at the
6 competitors' collection boxes in commercial areas of major cities typically
7 range between 7:00 and 8:00 p.m., versus the Postal Service's last
8 scheduled pickups of no later than 6:00 p.m. Moreover, customers in
9 major metropolitan areas can drop packages off at competitors'
10 convenience locations up to 9:00 p.m. and in a few places even later, for
11 next-day and second day delivery. By comparison, few post offices are
12 open after 5:00 or 6:00 p.m.

13 **The Internet changes the paradigm.** From almost every
14 perspective except published prices and Saturday delivery, Priority Mail
15 suffers in comparison to its competition. The offerings of UPS, FedEx
16 and Airborne are making even greater inroads into the highly competitive
17 and expanding marketplace for expedited package delivery services.
18 Each of these major competitors, as well as others such as DHL, has
19 established Internet sites, on which customers can browse their
20 numerous service offerings, permitting selection of customized features
21 for the mailing, as well as rate information.

1 In a more recent development, consolidated shipping information,
2 offering the ability to compare the feature offerings and associated
3 shipping rates of all of the major competitors in this market segment, is
4 now available at web sites such as SmartShip.com, and iShip.com.³⁴ A
5 quick visit to the SmartShip site rapidly exposes Priority Mail's
6 weaknesses against its principal competition. The very first page
7 highlights that Priority Mail offers no guarantee to deliver by a specific
8 day or time.³⁵ Subsequent pages on the web site highlight Priority Mail's
9 other weaknesses, already discussed.

10 A visit to the iShip.com web site reveals a similar direct message to
11 their customers regarding Priority Mail and Parcel Post features.³⁶

12 Most services automatically protect your shipment up to
13 \$100. However, USPS Priority Mail and Parcel Post do not
14 have automatic protection. Some USPS services have no
15 available Loss Protection.

16 As sites such as this one proliferate and offer their customers
17 streamlined opportunities to make quick, comprehensive comparisons of
18 the services offered by shippers, the Postal Service may have increasing
19 difficulty in retaining market share.

³⁴ iShip.com is a wholly owned subsidiary of Stamps.com.

³⁵ See Appendix C, Figure C-1.

³⁶ See Appendix C, Figure C-2.

1 **Conclusion.** Competition in the market for expedited delivery
2 involves a number of critical dimensions that include, but are not limited
3 to, price. Priority Mail's lack of added value features, which force it to
4 rely almost solely on price as its chief attraction, place it at risk in this
5 competitive market segment. Unless and until the Postal Service is able
6 to incorporate more value-added features for Priority Mail, it is crucial
7 that Priority Mail not be burdened with too high a coverage factor which
8 could negate its only advantage, price. The Postal Service's rate proposal
9 for Priority Mail poses a serious risk of repeating the experience of
10 Express Mail, which has now been relegated to a niche role within the
11 expedited market, and could not under any foreseeable circumstances
12 generate a major contribution to institutional costs.

13 **D. Priority Mail Rates Are Marginally Competitive**
14 **with Competitors' Published Rates**

15 **Rates for lighter weight pieces (under 5 pounds).** A cursory
16 comparison with the **published** rates of leading competitors indicates
17 that Priority Mail rates are competitive, at least in the lower weight range
18 (under 5 pounds). For a 2 pound article with a 2-day or 3-day delivery
19 commitment, Table 4 shows the Drop Off rates.³⁷ The first row displays

³⁷ Drop Off Service equates to Priority Mail articles mailed at a Postal Service service counter or designated drop off site, or placed in a collection box if under 1 pound in weight. Competitors, with the exception of Airborne, offer
(continued...)

1 current rates for Priority Mail and current **published** rates for
2 comparable service levels available from FedEx, UPS and Airborne.
3 Ignoring all differences in service quality, Priority Mail is clearly more
4 economical than the competition's **published** rates for a 2 pound article
5 (see Table 3). At the 2 pound level, competitors' **published** rates in the
6 2-day and 3-day service categories average approximately **328 percent** of
7 Priority Mail rates. This ratio would decrease to approximately **272**
8 **percent** with the \$3.85 rate proposed in this docket.

³⁷ (...continued)

Drop Off service at their distribution facilities or at designated customer convenience sites. Some competitors provide for deposit of letter and flat size articles through drop slots located in the side of their delivery and pick up vehicles.

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Table 4
Rate Comparison for 2 Pound Pieces
Current Priority Mail Rate vs. Selected Services

			<u>2-Pound Drop Off Rate</u>	
<u>Provider</u>	<u>Service</u>	<u>Delivery Time</u>	<u>2 Day Rate</u>	<u>3 Day Rate</u>
USPS	Priority	5PM *	3.20	3.20
FedEx	2-Day	4:30PM-7PM**	11.33	
FedEx	Express Saver	4:30PM-7PM**		10.08
UPS	2nd Day Air AM	12PM	11.80	
UPS	2nd Day Air	5PM	10.50	
UPS	3 Day Select	5PM		9.20
Airborne	2nd Day ***	5PM	7.98	

* Variable according to zone
** Residential.
*** Airborne does not offer a drop off rate. This rate is for articles picked up at the customer's residence or place of business. UPS and FedEx offer Pick Up rates for an additional \$3.00 per pick up. USPS will pick up Priority Mail articles for an additional charge of \$8.25 per pick up (proposed to increase to \$10.25). A comparison of rates including pick up fees materially dilutes the Priority Mail rate advantage for customers using that service.

For low-volume mailers who do not benefit from any discounts or negotiated rates offered by competitors, Priority Mail offers an inexpensive baseline service in the two to three day delivery market segment, particularly in the lower weight ranges (5 pounds and under).

1 For example, Priority Mail service is currently available for \$3.20,³⁸ for up
2 to two pounds in a Postal Service-provided flat rate envelope, regardless
3 of its destination in the United States.

4 **Rates for heavier weight pieces (more than 5 pounds).** A
5 comparison between competitors' **published** rates in the 10 to 70 pound
6 range with (i) current and (ii) proposed Priority Mail rates illustrates the
7 limited nature of any pricing advantage enjoyed by Priority Mail. For
8 articles that weigh from 10 to 70 pounds, Table 4 shows the **published**
9 rates for (1) FedEx 2-day service, (2) UPS 2-day, (3) UPS select 3-day
10 service, (4) current and (5) proposed Priority Mail rates. Rates for articles
11 to Zones 5 and 8 only are shown in Table 5.

12 Using Zone 5 as an example, for a 10 pound package competitors'
13 **published** rates range **from 127 to 184 percent** of current Priority Mail
14 rates (column 4). With the increases proposed in this docket,
15 competitors' **published** rates in these same rate cells will be even closer
16 to those of Priority Mail, ranging **from 116 to 167 percent** of proposed
17 Priority Mail rates (column 5). These percentage comparisons are far less
18 favorable than those for the 2-pound rate.

19 As weight increases, Priority Mail's advantage diminishes even
20 more. Staying with the Zone 5 example discussed above, competitors'

³⁸ This rate is requested to be increased to \$3.85.

1 **published** rates for a 70 pound package range **from 103 to 121 percent**
2 of current Priority Mail rates (column 4). With the increases proposed in
3 this docket, competitors' **published** rates in these same rate cells will
4 move even closer to those of Priority Mail, ranging **from 94 to 110**
5 **percent** of proposed Priority Mail rates (column 5). It is easy to see that
6 excessive costs, high coverage, and high rates have eroded the
7 competitiveness of Priority Mail rates for heavier weight packages when
8 compared with even the **published** rates of competitors.

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Table 5						
Rate Comparison for Heavier Articles 10 to 70 Pounds Drop Off Service						
	(1)	(2)	(3)	(4)	(5)	
Weight	FedEx	UPS	UPS Select	Current	Proposed	
(lbs.)	<u>2 Day</u>	<u>2 Day</u>	<u>3 Day</u>	<u>USPS</u> <u>Priority</u>	<u>USPS</u> <u>Priority</u>	
ZONE 5						
10	17.61	15.60	12.10	9.50	10.45	
20	25.75	24.30	19.60	17.00	18.70	
30	32.44	32.70	26.90	24.40	26.85	
40	40.17	41.20	34.10	31.80	35.00	
50	48.14	49.00	41.30	39.20	43.10	
60	56.38	57.20	48.50	46.60	51.25	
70	65.15	65.60	55.70	53.95	59.35	
ZONE 8						
10	26.01	24.30	20.00	15.25	16.85	
20	41.20	40.10	33.40	28.20	31.00	
30	55.62	55.80	46.40	40.35	44.40	
40	70.04	71.60	58.60	52.45	57.70	
50	84.19	85.40	71.80	64.55	71.00	
60	98.36	101.10	85.60	76.55	84.30	
70	113.56	116.00	98.90	88.80	97.70	

E. Priority Mail Rates Already May Not Be Competitive with Competitors' Negotiated Rates

The preceding section compared Priority Mail rates with **published** rates of competitors. It is well-known, though, that competitors offer negotiated, discounted rates to any firm with significant volume. Unfortunately, it is somewhat difficult to develop record evidence on

1 discounted rates, because all vendors and most firms consider their
2 negotiated contract rates to be confidential information.

3 At least one significant record of discounted rates, FedEx's federal
4 government contract rates, is publicly available. It shows dramatically
5 how precarious Priority Mail's competitiveness would become at the
6 Postal Service's proposed rates. For selected rate cells, Table 6 compares
7 the current and proposed Priority Mail rates (columns 1 and 2,
8 respectively) with the overnight and 2-day contract rates (columns 3 and
9 4, respectively) between FedEx and the Federal Government (all FedEx
10 Government Rates are unzoned).³⁹ Under the current rate schedule
11 shown in column 1, Priority Mail might be deemed competitive with the
12 FedEx 2-day rate (column 4) for anything that weighs up to 2 pounds
13 (\$3.20 versus \$3.62). **If the Postal Service's proposed rates are**
14 **implemented, anything over 1 pound would not be competitive.**

15 For packages that weigh more than 5 pounds, Table 5 shows
16 Priority Mail rates to Zone 5 only. A comparison of the current Priority
17 mail rates in column 1 with the unzoned FedEx rates in column 4 reveals
18 that the FedEx 2-day rate is already lower. This sort of competitive
19 pricing helps explain why Priority Mail has such a low share of the
20 market for heavier weight pieces (discussed below). At the Postal

³⁹ The complete published rates for government agencies, including the Department of Defense, are shown in Appendix B.

1 Service's proposed rates shown in column 2, Priority Mail would not be
2 considered competitive at any weight, particularly given its inconsistent
3 performance record and lack of other desirable features.

4 The really bad news, however, arises from a comparison between
5 the proposed Priority Mail rates (column 2) with FedEx Priority Overnight
6 rates (column 3). At the Postal Service's proposed rates, anything over 1
7 pound would be less expensive via FedEx Priority Overnight. The
8 Commission has always considered it anomalous to charge a lower rate
9 for a better service. By this standard, it would be anomalous for any
10 government agency ever to use Priority Mail; *i.e.*, knowingly to pay more
11 for a poorer service.

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Table 6

**Comparison of Priority Mail Rates vs.
FedEx U.S. Government Rates**

	(1)	(2)	(3)	(4)
Weight (lbs.)	Priority Mail <u>Current</u>	Priority Mail <u>Proposed</u>	FedEx Priority <u>Overnight</u>	FedEx 2-day*
	Unzoned	Unzoned	Unzoned	Unzoned
1	\$3.20	3.45	3.67	3.57
2	3.20	3.85	3.74	3.62
3	4.30	5.10	3.80	3.67
4	5.40	6.35	3.85	3.72
5	6.50	7.60	4.37	4.11
	To Zone 5	To Zone 5	Unzoned	Unzoned
10	9.50	10.45	8.31	8.05
20	17.00	18.70	15.40	15.13
30	24.40	26.85	23.27	23.01
40	31.80	35.00	31.14	30.88
50	39.20	43.10	39.01	38.75
60	46.60	51.25	46.88	39.53
70	53.95	59.35	54.75	39.53

* Applicable to all government agencies except Department of Defense , which has slightly lower rates.

** Rates for items over 5 Lbs are zoned; zone rates in this example represent zone 5; articles posted to more distant zones fare progressively worse in comparison.

Source: Appendix B.

1 **F. Value of Service**

2 Value of service is perhaps the most important criterion with
3 respect to determining the appropriate coverage for Priority Mail.
4 Consequently, in prior dockets, the Commission has appropriately
5 included in its analysis a number of different factors that might shed
6 light on the value of service provided by Priority Mail. Usage by the
7 public, as measured by growth rate and market share, as well as delivery
8 performance, are among the most important indicators of value of
9 service. Each is discussed below.

10 **Growth of Priority Mail volume.** Annual Priority Mail volume
11 from 1989 to 1999 is shown in Table 7. The growth in volume in large
12 part has been due to growth of the economy and the market for expedited
13 delivery. This growth is best put into perspective by examining market
14 share, as discussed below.

15 The slower growth rate in 1999 was partly due to the higher rates
16 and partly due to the reclassification change which permitted pieces
17 weighing between 11 and 13 ounces to be entered as First-Class Mail. At
18 current rates, mailers who use First-Class Mail can save 45 and 23
19 cents, respectively, on 12 and 13 ounce pieces. Inasmuch as a
20 substantial volume of 11 to 13 ounce pieces did in fact migrate to First-
21 Class, many mailers obviously did not consider Priority Mail to be worth
22 the additional cost. This shift to First-Class Mail would indicate that

1 Priority Mail has a somewhat low value of service, even at the \$3.20 rate
2 for 2 pounds.

4 **Table 7**

5 **Priority Mail Volume History**
6 **(millions of pieces)**

7	8	9	10	11	12	13	14	15	16	17	18	19	20
		<u>Fiscal Year</u>	<u>Pieces</u>	<u>Annual</u>	<u>Percentage</u>	<u>Change</u>							
		1989	471	8%									
		1990	518	10%									
		1991	530	2%									
		1992	584	10%									
		1993	664	14%									
		1994	770	16%									
		1995	869	13%									
		1996	937	8%									
		1997	1,068	14%									
		1998	1,174	10%									
		1999	1,192	2%									

21 Source: 1989-1998, USPS-T-34, p. 5.
22 1999, RPW Report.

24 Witness Robinson testified that:⁴⁰

25 [t]he relatively small growth rate in 1991 was due at least in
26 part to the implementation of the Docket No. R90-1 rates
27 which increase[d] Priority Mail rates by 19%.

28 If the Postal Service's proposed rates are adopted, it is predictable
29 that the stifled growth rate experienced in 1991 will likely recur in 2001.
30 It is also predictable, in view of the previously discussed practice of

⁴⁰ USPS-T-34, p. 6, fn. 1.

1 Priority Mail's competitors to negotiate discounted pricing, that as the
2 baseline price differential between Priority Mail and its competitors gets
3 smaller, loss of volume and revenue could result. Furthermore, **recovery**
4 **of lost volume and market share will be much more difficult, if not**
5 **impossible, to achieve.**

6 In simpler words, at minimum the drop in volume growth from 10
7 percent in 1990 to 2 percent in 1991 will likely be recur with any rate
8 increase of the magnitude proposed by the Postal Service. The
9 subsequent rebound to a 10 percent growth rate that occurred in 1992,
10 however, may not recur in 2002, due to a vastly more competitive
11 marketplace for expedited package and document delivery.

12 **Priority Mail suffers from declining market share.** The Postal
13 Service's estimated market share, in terms of pieces and revenue, is
14 shown here in Table 8. In terms of volume, the Postal Service's market
15 share has continued to decline gradually, as can be observed from
16 column 1.⁴¹ Over the past decade, Priority Mail has suffered a gradual
17 but persistent decline in market share even while the market for
18 expedited delivery of packages and documents has experienced strong
19 growth. This decline in market share does not indicate high value of
20 service.

⁴¹ According to testimony of witness Robinson, Priority Mail achieved an estimated market share of 61.8 percent in 1998, and that market share has remained "relatively constant." USPS-T-34, p. 6.

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Table 8

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**Priority Mail Share of
Two to Three Day Market**

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Calendar
Year

(1)

Market Share
(pieces)

(2)

Market Share
(revenue)

8

1990

76.0%

9

1993

72.0%

10

1997

62.7%

45.2%

11

1998

62.4%

44.7%

12

1999 (through Q3)

61.3%

45.0%

13

Sources:

1990-1993, Docket No. R94-1, *Op. & Rec. Dec.*, p. V-36.

14

1997-1999, Response to APMU/USPS-T34-48 (Tr. 7/2728).

15

In terms of revenue (column 2), the market share over the last

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three years has remained essentially unchanged. This latter

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consideration, however, is no cause for complacency. The fact that

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competitors have not gained market share in terms of revenue, while

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gaining market share in terms of volume, could simply indicate intense

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price competition within the private sector, and a prelude to impending

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disaster for Priority Mail.

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In terms of revenue, Priority Mail's market share is some 16 to 17

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percentage points below its market share in terms of volume. This

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confirms that competitors have garnered more of the market for heavier

1 weight pieces, which have higher rates. Such a result should not be
2 surprising in light of the rate comparisons discussed previously.

3 The negotiated rates offered by competitors (who also provide more
4 desirable quality features than Priority Mail) may already be dangerously
5 close to undercutting **existing** Priority Mail rates. Should those
6 negotiated rates drop below the higher rates proposed for Priority Mail,
7 the resulting loss in market share could be far more dramatic than the
8 econometric forecast by witness Musgrave, which relies solely on
9 historical data, including past rate relationships. If the higher rates
10 proposed in this docket rise above those of competitors, that would
11 represent a major change in rate relationships, calling into question the
12 validity of previous forecasting models.

13 **Delivery performance compares unfavorably.** Along with
14 increased price competition within the expedited market, Priority Mail
15 also faces the challenge of increased performance competition. The
16 services offered by UPS, FedEx, and Airborne that compete most directly
17 with Priority Mail include a guarantee that the item will be delivered on
18 the targeted delivery day or the price charged to deliver the item will be
19 refunded. Although Priority Mail provides no such refund guarantee, it
20 seems reasonable to assume that the public's general expectation is that
21 Priority Mail will meet its published overnight, two-day and three-day
22 commitments.

1 Lack of a track-and-trace capability means that Priority Mail
2 customers have (i) no way to determine if the article(s) they mailed are on
3 schedule for delivery within the expected service standard time, and (ii)
4 no way to locate any article in transit. These competitive deficiencies
5 cause Priority Mail users to question whether the reason the Postal
6 Service does not provide track and trace is to hide poor performance.

7 With the notable absence of actual performance data in rate cases
8 prior to Docket No. R97-1, the Commission was forced to rely on the
9 concept of "intrinsic value of service." This intrinsic value tended to be
10 based on various product features and internal service guidelines for
11 assigning relative priorities to the various classes and subclasses. In this
12 docket, witness Robinson provides the usual recitation of asserted
13 differences between Priority and First-Class Mail, stating:

14 [w]hile Priority Mail does serve as heavyweight First-Class
15 Mail, it differs from First-Class Mail service in several ways.
16 Priority Mail is sorted and processed separately from First-
17 Class Mail in Postal facilities and within the Priority Mail
18 Processing Center network which exclusively handles Priority
19 Mail. In addition, Priority Mail receives expedited handling
20 and transportation. Priority Mail service standards, on
21 average, are quicker than First-Class Mail service standards.
22 Lastly, Priority Mail customers are able to use value-added
23 services such as delivery confirmation and Postal Service
24 provided packaging that are not available to First-Class Mail
25 customers.⁴²

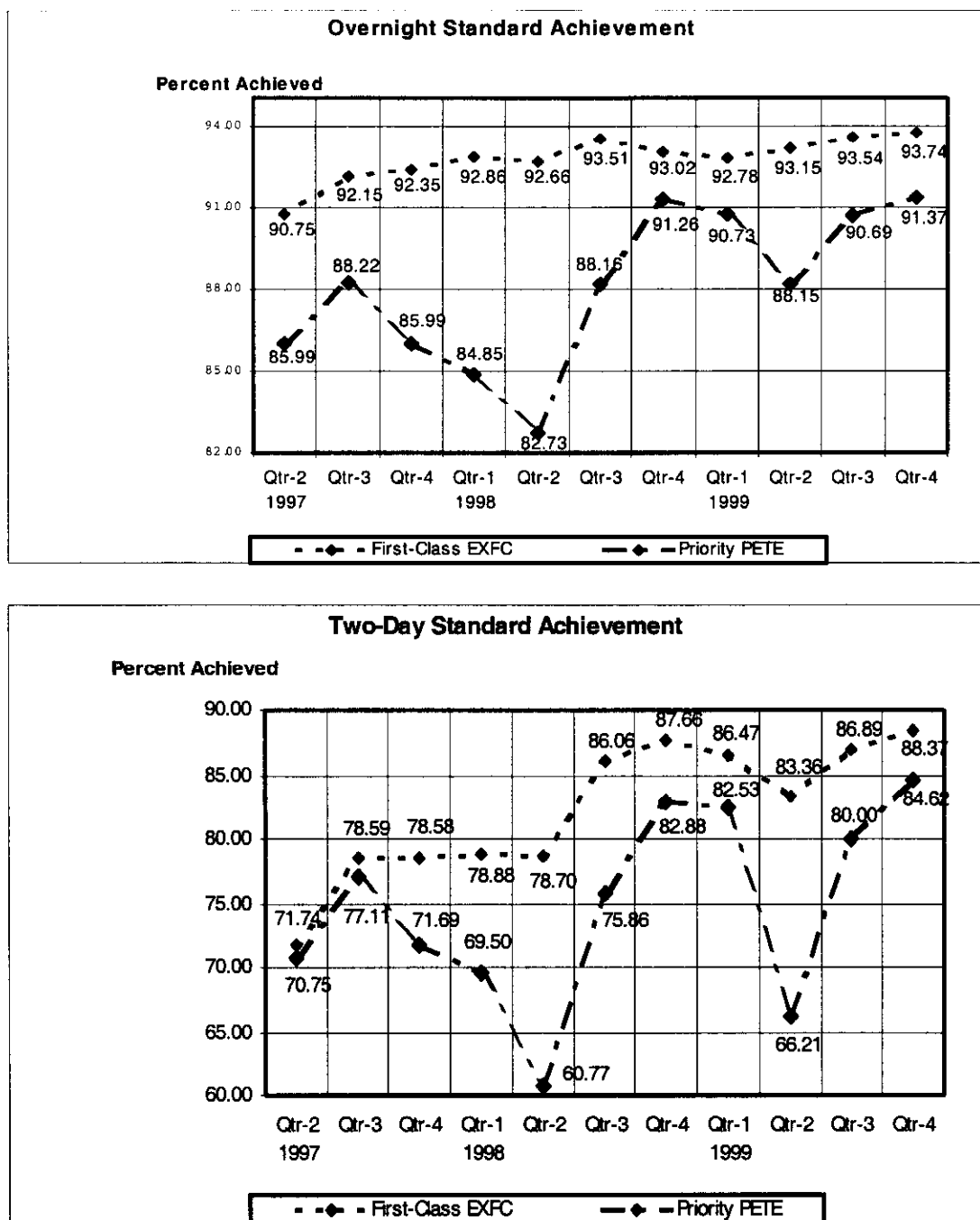
⁴² Response to APMU/USPS-T34-25 (Tr.7/2711).

1 In response to a request for additional detail to support the above
2 cited information, witness Robinson referenced numerous ways in which
3 Priority Mail supposedly is given preference over First-Class Mail in
4 Postal operations.⁴³ Still, it remains vital to assess carefully actual
5 performance data. The "bottom line" is what counts; and the bottom line
6 here is: the mail is either delivered on time, or it is not.

7 **EXFC and PETE performance data.** Although witness Robinson's
8 intent may have been to demonstrate that intrinsic factors somehow give
9 Priority Mail a value of service equal to or exceeding that of First-Class
10 Mail, the record of delivery performance plainly does not support this
11 premise. In fact, the data in Figure 1 show that First-Class Mail has
12 outperformed Priority Mail in every quarter since independent
13 measurement of Priority Mail performance began in 1997. Figure 1
14 compares performance for overnight and two day delivery standards as
15 measured by the External First-Class (EXFC) measurement system, for
16 First-Class, and by Priority-End-To-End (PETE) for Priority Mail.

⁴³ Response to APMU/USPS-T34-45 (Tr. 7/2724-25).

Figure 1



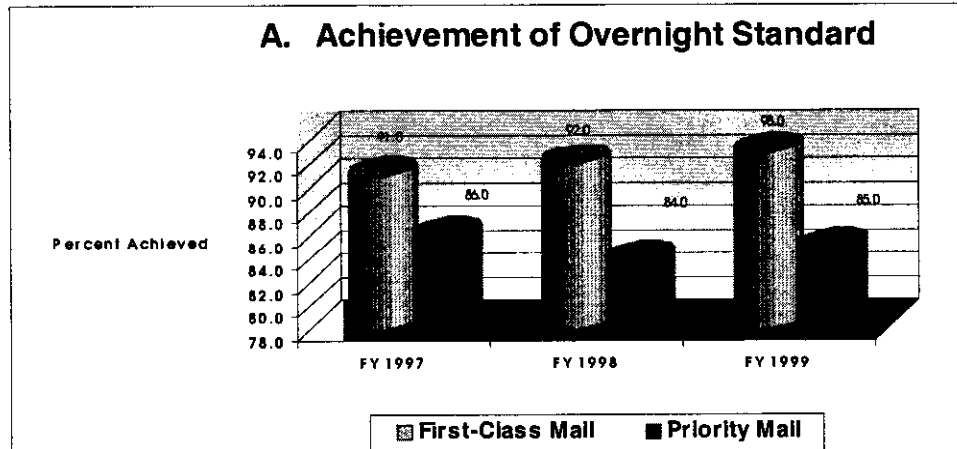
Sources: EXFC quarterly data, witness Tayman (USPS-T-9, Table 7, p. 9).
 PETE quarterly data, Response to APMU/USPS-T34-8 (Tr. 21/8694) and
 Response to UPS/USPS-T34-26 (Tr. 21/9376).

1 During Base Year 1998, Priority Mail **overnight** performance
2 remained static or declined while First-Class overnight performance
3 improved. Relative to First-Class, Priority Mail overnight performance
4 thus declined. For Priority Mail with a **2-day commitment**, the picture
5 was considerably worse. In 1998 and 1999, the failure rate for Priority
6 Mail with a 2-day commitment averaged more than 25 percent. Equally
7 bad, perhaps, performance of Priority Mail with a 2-day commitment was
8 more than 10 percentage points worse than First-Class Mail (72 versus
9 83 percent). This kind of performance does not warrant an increase in
10 coverage — at least not based on value of service.

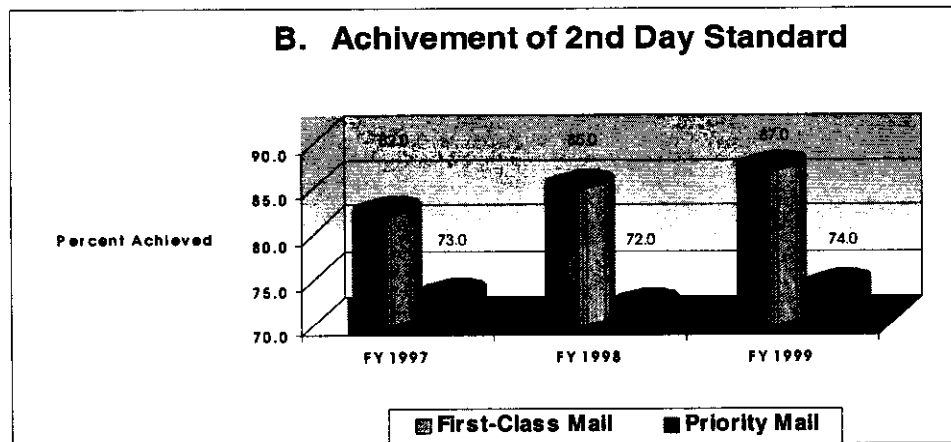
11 Customers' concern relates directly to the bottom line; *i.e.*, whether
12 their mail receives service that is timely and consistent. Whether the
13 mail flows through the PMPC network or through ordinary postal
14 facilities is of absolutely no concern. A similar observation holds with
15 respect to whether the mail is transported by surface or air, or via
16 commercial airlines or the Eagle Network. Such factors are meaningless
17 unless they show up in on time delivery performance and/or decreased
18 costs.

Figure 2

Performance of First-Class and Priority Mail
Based on ODIS Data
FY 1997 - FY 1999



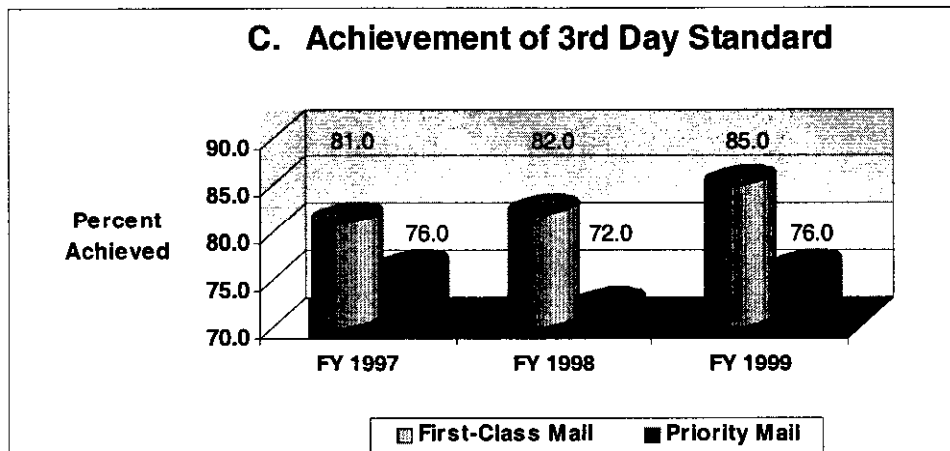
Source: Table 8 ODIS First-Class and Priority Mail Overnight Standard Achievement data.



Source: Table 8 ODIS First-Class and Priority Mail Two-Day Standard Achievement data.

Figure 2 (Cont.)

Performance of First-Class and Priority Mail
Based on ODIS Data
FY 1997 - FY 1999



Source: Table 8 ODIS First-Class and Priority Mail Three-Day Standard Achievement data.

As these independently measured performance data show, no evidence indicates that efforts undertaken by the Postal Service to expedite the handling and transportation of Priority Mail over that of First-Class Mail have borne fruit. The fact that the two-day service area for Priority Mail is greater than that of First-Class Mail does not justify failure to achieve service commitments. Customers can be expected to assume that the Postal Service, in setting the more aggressive two-day delivery area, has adjusted its internal processes and transportation logistics to meet the asserted standard.

1 Value of service is not enhanced when customer expectations are
2 raised, only to be frustrated by poor actual performance that falls well
3 short of the mark, leaving disappointment and frustration in its wake. If
4 anything, such an exercise degrades value of service.

5 **ODIS performance data.** Another Postal Service measurement
6 system, the Origin Destination Information System ("ODIS"), produces
7 information on service performance of First-Class Mail and Priority Mail.
8 ODIS is not an end-to-end system. Instead, performance is measured
9 from the origination office (time of postmark) to the destination office.

10 Figure 2 depicts the ODIS performance of First-Class Mail versus that of
11 Priority Mail. During the period FY 1997 – 1999, it shows that Priority
12 Mail performance in overnight, two-day and three-day standard areas
13 **trailed** First-Class Mail's performance in all areas by 5 percent at best⁴⁴,
14 and by 13 percent at worst.⁴⁵ Put another way, **Priority Mail failures**
15 were 7 percent higher than those of First-Class Mail in the overnight
16 standard area, 11.7 percent higher in the two-day standard area, and 8
17 percent higher in the three-day standard area. See Figure 2 and Table 8
18 on the following pages. In not one single quarter, for any service
19 standard, did Priority Mail have better performance or a higher value of

⁴⁴ See Figure 2, Charts A and C.

⁴⁵ See Figure 2, Chart B.

1 service. The ODIS performance data thus support conclusions drawn
2 from the EXFC and PETE performance data.

4 **Table 9**

5 **Performance of First-Class and Priority Mail**
6 **Based on ODIS Data**
7 **FY 1997 - FY 1999**

	<u>Year</u>	<u>Overnight Standard</u>		<u>Two-Day Standard</u>		<u>Three-Day Standard</u>	
		<u>First-Class</u> <u>Mail</u>	<u>Priority</u> <u>Mail</u>	<u>First-Class</u> <u>Mail</u>	<u>Priority</u> <u>Mail</u>	<u>First Class</u> <u>Mail</u>	<u>Priority</u> <u>Mail</u>
11	1997	91.0	86.0	82.0	73.0	81.0	76.0
12	1998	92.0	84.0	85.0	72.0	82.0	72.0
13	1999	<u>93.0</u>	<u>85.0</u>	<u>87.0</u>	<u>74.0</u>	<u>85.0</u>	<u>76.0</u>
14	Sum	276	255	254	219	248	224
15	Mean	92.0	85.0	84.7	73.0	82.7	74.7
16	Failure Rate	8.0	15.0	15.3	27.0	17.3	25.3

17 Source: Response to APMU/USPS-T-34-52 (Tr. 7/2736).
18

19 **Delivery confirmation performance data.** The Postal Service has
20 also provided performance data from the Delivery Confirmation
21 database.⁴⁶ These data were available only for Quarter 4 of FY 1999
22 since the Delivery Confirmation service was not implemented until
23 March, 1999. Data for that single quarter are shown in Table 10.

⁴⁶ Response to UPS/USPS-T34-33 (Tr. 21/9367-68).

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Table 10
Priority Mail Performance
Delivery Confirmation Compared with PETE and EXFC
Quarter 4, FY 1999

	Overnight Standard	Two-Day Standard	Three-Day Standard
PRIORITY MAIL			
Delivery Confirmation Service	89.9%	83.4%	83.1%
PETE	91.4%	84.6%	
FIRST-CLASS MAIL			
EXFC	93.7%	88.4%	

Due to recent implementation of the service, the data are relatively sparse. Further, the population of mail pieces drawn from DCS is not representative. With those caveats, it is interesting to note that performance of pieces for which Delivery Confirmation Service was used appears to be (i) slightly poorer than performance from the general population of Priority Mail as measured by PETE, and (ii) even more poor than First-Class Mail according to EXFC.

Unidentified Priority Mail. In FY 1998, 29.8 percent of Priority Mail volume was unidentified, according to witness Robinson.⁴⁷ Unidentified Priority Mail occurs when a customer pays the rate for Priority Mail, but fails to identify the article clearly as Priority Mail in some noticeable way other than by the amount of postage paid. Such

⁴⁷ Response to APMU/USPS-T34-31 (Tr. 7/2716).

1 pieces are typically flats in plain envelopes, and they are processed as
2 part of the First-Class mail stream, thus depriving customers who paid
3 the Priority Mail rate of the advantageous handling that supposedly
4 accrues to this expedited service. Priority Mail commingled with First-
5 Class Mail is identified as such by ODIS data collectors, hence is part of
6 the ODIS performance data base.⁴⁸ Nonetheless, these data are yet
7 another indicator of the failure of the Postal Service to deliver on the
8 promise inherent in calling this service "Priority" Mail. This factor alone
9 seriously erodes the earlier referenced "intrinsic value of service" concept
10 evident in previous Dockets.

11 **Summary of Priority Mail performance.** The Postal Service's
12 entry in the expedited 2- and 3-day package and document delivery
13 market has failed to equal, let alone exceed, the performance of its First-
14 Class Mail product. Such performance leads to the inevitable conclusion
15 that Priority Mail receives no meaningful "priority. " Clearly, the Postal
16 Service has not figured out how to run an expedited delivery network
17 that is capable of providing reliable, timely service. The lack of many
18 competitive features desired by customers, coupled with poor actual
19 service performance, forces Priority Mail to rely solely on its advantage in

⁴⁸ Priority Mail with delivery confirmation is likely identified as Priority Mail since First-Class Mail is not eligible for delivery confirmation.

1 pricing — a limited advantage that has been placed in further jeopardy
2 in this proceeding.

3 **Conclusion: Priority Mail Is Highly Vulnerable**

4 As the preceding discussion in this section has shown, Priority
5 Mail lacks a number of features commonly offered by private sector
6 competitors in the 2- to 3-day expedited market. It also suffers from
7 delivery performance that is generally perceived as less timely and
8 reliable than its competitors. Consequently, Priority Mail competes
9 chiefly on price, not quality of service.⁴⁹ The lack of customer-desired
10 features and reliance on low price give Priority Mail an own-price
11 elasticity that is probably higher than that of its competitors.⁵⁰

12 Priority Mail is highly vulnerable to competitive inroads, perhaps
13 somewhat more vulnerable than even the Postal Service realizes. In
14 order for Priority Mail to remain a viable, successful product in the
15 market for expedited delivery, the Postal Service must find ways to
16 reduce costs materially while improving the quality of service. The PMPC
17 contract was a bold but unsuccessful effort to achieve the desired result.
18 Witness Robinson acknowledges that the Postal Service is researching its
19 alternatives to the Emery PMPC contract. During this critical period,

⁴⁹ Response to APMU/USPS-T32-7 (Tr. 11/4223).

⁵⁰ Response to UPS/USPS-T41-8 (Tr. 6/2330-3).

1 damage control is desperately needed. Rather than compounding the
2 rapid increase in costs with an increase in coverage, and thereby driving
3 Priority Mail customers into the waiting arms of competitors, the
4 Commission should restrain the coverage, help ameliorate the damage,
5 and give Priority Mail an opportunity to recover.

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1 **Treatment of distance-related transportation costs.** In Docket
2 No. R97-1, I proposed that no mark-up be imposed on the distance-
3 related component of transportation costs. For any given revenue
4 requirement, this proposal would increase the target revenue per pound
5 to offset the reduction in revenue from the mark-up on distance-related
6 transportation costs. The methodology for this approach to Priority Mail
7 rate design was fully developed in my prior testimony.⁵¹ Important
8 considerations supporting this approach to rate design are (i) to achieve
9 consistency with the methodology for destination entry discounts in
10 other subclasses, and (ii) to reduce the incentive for private sector
11 carriers to compete for core Priority Mail business while using Parcel
12 Select for local entry.

13 Within the rate design for Standard A Mail, destination entry
14 discounts do not reflect the full amount of costs avoided.⁵² Within
15 Priority Mail rate design, the rate for local entry versus a more distant
16 zone reflects the full amount of transportation cost plus the mark-up.
17 The inconsistency is obvious.

18 Aside from the existence of a logical inconsistency, it should be
19 recognized that the current Priority Mail rate design, in conjunction with

⁵¹ Docket No. R97-1, NDMS-T-1, pp. 29-37.

⁵² In this docket, witness Moeller proposes to reduce the passthroughs from the 85 percent level established in Docket No. R97-1, to 73 and 77 percent.

1 parcel post destination entry, invites competition and “cream-skimming.”

2 This is exactly what is occurring.

3 Let me give a simple illustration of the incentive. The Postal
4 Service’s proposed rates and costs for a 20-pound package are as follows:

5	Zone:	<u>L.1.2.3</u>	<u>Zone 5</u>	<u>Zone 8</u>
6	Rate	\$11.40	\$18.70	\$31.00
7	Cost ⁵³	<u>6.20</u>	<u>9.02</u>	<u>15.50</u>
8	Gross Profit	\$ 5.20	\$ 9.68	\$15.50

9 The increased gross profit for the more distant zones reflects the
10 mark-up on distance-related transportation costs. The issue which the
11 Postal Service must now face is that the DSCF and DDU Parcel Select
12 rates for a 20-pound package are, respectively \$3.16 and \$1.96. If a 20-
13 pound package shifts from Priority Mail to a competitor who uses the
14 Parcel Select DDU rate, the Postal Service loses \$15.50 of **gross profit**
15 while gaining **gross revenues** of \$1.96, and **net profit** of about \$0.25.
16 This describes the business strategy of one recent entrant,
17 Airborne@Home.

18 As the preceding example illustrates, the rationale for my proposal
19 to eliminate the mark-up on distance-related transportation cost
20 persists. However, in deference to the Postal Service’s desire, as

⁵³ Source: USPS-T-34, Attachment H, p.1.

1 expressed by witness Robinson,⁵⁴ "to avoid dramatic changes in Priority
2 Mail rate design and the potential effect on Priority Mail customers," I
3 will not renew my proposal in this docket.

4 **Even increments for unzoned flat rates.** A second proposal in
5 Docket No. R97-1 was to retain the same additional fee for each pound
6 increment within the unzoned flat-rate weight range (up to 5 pounds).
7 Even increments were recommended by the Commission and approved
8 by the Governors in the last case, and mostly they are incorporated into
9 witness Robinson's rate design in this case. The published rates of some
10 competitors of Priority Mail now incorporate zoned rates for packages
11 that weigh less than 5 pounds, and in a future case the Postal Service
12 may need to reconsider the desirability of flat rates for packages over 2
13 pounds. Until that were to happen, however, I continue to recommend
14 the simplicity of the even incremental fee structure for unzoned rates.

15 **Elimination of presort discounts.** A third initiative, to eliminate
16 presort discounts for Priority Mail, was advanced by the Postal Service,
17 seconded by me, recommended by the Commission, and approved by the
18 Governors.

⁵⁴ USPS-T-34, p. 15, ll. 7-8.

1 **B. The Proposed 1-Pound Rate Should Be Adopted**

2 My testimony in Docket No. R97-1 also addressed the classification
3 problem arising from the “gap” between the maximum rate for First-Class
4 Mail and the minimum rate for Priority Mail.⁵⁵ In order to avoid having
5 too large a gap, the Commission responded favorably to my proposal to
6 increase the maximum weight for First-Class Mail from 11 to 13
7 ounces.⁵⁶ In this docket, the Postal Service has addressed what it
8 describes as “the underlying causes of the problem” by proposing to
9 establish a new 1-pound category for Priority Mail.⁵⁷ According to
10 witness Robinson:⁵⁸

11 [w]hile the Docket No. R97-1 change in the maximum weight
12 for First-Class Mail directly addressed the “gap” between
13 First-Class mail rates and Priority Mail rates, the underlying
14 causes of the problem have not been addressed. This
15 problem results from the large weight step (currently 19
16 ounces) when mailers move between the two classes and the
17 difference in the cost structure of the two mail classes.
18 While a sequence of changes in the maximum First-Class
19 weight will, to some extent, mitigate the problem, a long-
20 term solution must address the specific causes of the
21 problem. A one-pound Priority Mail rate would reduce the
22 weight step between First-Class Mail and Priority Mail from
23 19 ounces to 3 ounces with a corresponding reduction in the
24 underlying cost of the incremental weight step.

⁵⁵ Docket No. R97-1, NDMS-T-2, pp. 8-16. In that docket, testimony of the Postal Service did not address the issue of the gap.

⁵⁶ Docket No. R97-1, *Op. & Rec. Dec.*, pp. 338-39.

⁵⁷ USPS-T-34, p. 16, ll. 1-4.

⁵⁸ USPS-T-34, p. 16, ll. 1-11.

1 On net balance, the Postal Service proposal for a 1-pound rate
2 seems sensible. In the first place, it reduces the weight step between
3 First-Class Mail and Priority Mail, as witness Robinson points out.
4 Additionally, the major competitors of Priority Mail already have 1-pound
5 rates for their products which compete directly with Priority Mail.

6 At the same time, however, it needs to be recognized that the
7 Postal Service's proposed rate structure also creates something of an
8 anomaly. Namely, since the proposed unzoned rate for a 1-pound
9 package is \$3.45 and the unzoned rate for a 2-pound package is \$3.85,
10 the mailing public will perceive the rate for up to a second pound of mail
11 to be \$0.40.⁵⁹ For additional weight beyond 2 pounds, however, the
12 additional postage at proposed rates is \$1.25 per pound, up to 5 pounds.
13 Any mailer could rightfully ask: Why does the rate for an additional
14 pound jump from \$0.40 to \$1.25? Witness Robinson does not address
15 this obvious anomaly, nor indicate whether or how the future design is
16 likely to overcome the problem created by her proposal.

17 Still another problem is that Priority Mail users, seeing the
18 "unbundling" of the current 2-pound rate, will expect the rather dramatic
19 20 percent increase in the 2-pound rate to be accompanied by a
20 reduction in the 1-pound rate.

⁵⁹ If the flat rate envelope is used, the weight can even exceed 2 pounds.

1 As indicated elsewhere in this testimony, it is obvious that the
2 Postal Service needs to regain control over the Priority Mail cost
3 structure. Unless and until that occurs, the entire Priority Mail product
4 is in the highly precarious situation of going from a low-cost, low-quality
5 product to a high-cost, low-quality product. Looking toward the future,
6 however, introduction of the 1-pound rate makes it necessary to consider
7 (i) reducing the maximum weight of First-Class Mail, and (ii) reducing the
8 1-pound Priority Mail rate. Over time, if the Postal Service reduces its
9 costs, it should be possible to evolve to an unzoned rate structure with
10 four even increments from 1 to 5 pounds.

11 **C. The Maximum Weight for First-Class Mail Should Be Reduced**

12 Immediately prior to Docket No. R97-1, the maximum weight for
13 First-Class Mail was 11 ounces, while the minimum rate for a piece of
14 Priority Mail began at 2 pounds; i.e., a 21-ounce weight gap existed
15 between First-Class Mail and Priority Mail. In order to avoid having too
16 large a gap, the Commission recommended that rates for First-Class Mail
17 be extended up to 13 ounces, which reduced the rate gap from 21 to 19
18 ounces. Although the weight gap has varied somewhat, historically it
19 has always been between 19 and 21 ounces.

20 In this docket, the Postal Service's proposal for a 1-pound rate
21 addresses the fundamental problem by effecting a dramatic and,

1 presumably, permanent reduction in the weight gap. Assuming that the
2 Commission recommends the Postal Service's proposal for a 1-pound
3 Priority Mail rate, it becomes not only feasible, but also desirable, to
4 consider alternative limits on the maximum weight for First-Class Mail.
5 The rates proposed in the next section do exactly this.

6 **D. Priority Mail Rates Should Offer a Discount for Pieces**
7 **Delivered Only to an SCF**

8 Some mailers use Priority Mail to dropship (and expedite) smaller
9 items of different mail classes to destinating SCFs (and, perhaps on
10 occasion, to DDUs). At the DSCF, Priority Mail sacks are opened and the
11 items within are then entered as Standard A Mail, or another class. By
12 their very nature, dropship packages of this type tend to fall in the
13 heavier, zoned weight range. They also tend to travel longer distances,
14 which is why the sender desires expedition.

15 Priority Mail which does not go beyond the SCF avoids all costs of
16 handling and transportation beyond the SCF, as well as delivery costs.
17 These are the very costs incurred by parcels entered at the SCF under
18 the Parcel Select Service.

19 As explained previously, heavier weight pieces in excess of 5
20 pounds, shipped to zone 5 or farther, result in relatively high unit profits.
21 The Postal Service can and should cultivate this profitable dropship

1 business by offering a discount for pieces that avoid transportation and
2 delivery costs. A later section proposes a modest dropship discount for
3 zoned-rate packages over 5 pounds that destinate at the SCF or the
4 DDU.

VII. PROPOSED PRIORITY MAIL RATES

The rates proposed for Priority Mail are shown in Table 10.

Following Commission precedent, they have been rounded to the nearest 5 cents. They incorporate the following features:

- A 1-pound rate of **\$3.00** — reduced from the Postal Service's proposal of \$3.45, likely to be used for pieces over 11 ounces, and providing the best rate for any piece weighing less than 16 ounces.
- A 2-pound rate of **\$3.75** — reduced from the Postal Service's proposal of \$3.85, also applying to the flat-rate envelope.
- Even **\$1.00** increments for 3-, 4- and 5-pound pieces (up to 5 pounds, rates are unzoned) — reduced from the Postal Service's proposal of \$1.25.
- A target coverage of **168** percent — reduced from the Postal Service's proposal of 180.9 percent, and a contribution to institutional cost of **\$2.343 billion** — reduced from the Postal Service's proposal of \$2,478 billion (which itself should be corrected downward to \$2.388 billion, reduced by \$89.817 million by virtue of the admitted over-attribution of \$48.438 million in retirement costs, discussed above, loaded with the Postal Service proposed 2.5 percent contingency, and coverage of 180.9 percent).

One-pound rate. It is estimated that reducing the maximum weight of First-Class Mail from 13 to 11 ounces will increase Priority Mail

1 volume after rates by 157 million pieces.⁶⁰ Revenue for this additional
2 volume is computed at \$3.00 per piece.

3 The cost of these pieces is another issue altogether. Witness
4 Daniel estimates that 10- to 11-ounce pieces of single-piece First-Class
5 Mail have unit costs, respectively, of \$0.80 and \$0.79.⁶¹ She did not
6 estimate the unit cost of 12- and 13-ounce pieces of First-Class Mail
7 because the change in the weight limit did not become effective until
8 January 1, 1999. Judging by the data shown in her testimony and LR-I-
9 92, however, the unit cost for 12- to 13-ounce pieces would have been in
10 the range of \$0.80 to \$0.90.

11 At the same time, witness Robinson estimates that the TY average
12 cost of a piece of Priority Mail weighing no more than 1 pound is \$1.90
13 (including contingency).⁶² No Postal Service witness explains why the
14 unit cost of an 11-ounce piece of First-Class Mail is only \$0.78-\$0.80,
15 while a piece of Priority Mail weighing under 1-pound costs \$1.90.⁶³ As

⁶⁰ Response to UPS/USPS-T34-8 (Tr. 9/3578). This is the volume that witness Musgrave estimated would be lost on account of the higher weight limit and higher proposed rate. No effort was made to increase the estimated volume on account of the lower 1-pound rate proposed here.

⁶¹ USPS-T-28, Table 1, p. 11.

⁶² USPS-T-34, Attachment H (unit cost) and Table D, Section IV of my workpapers.

⁶³ Witness Daniel may have underestimated the cost of weight. See VP/CW-T-1, Appendix B. Her estimate is not considered reliable, and is not relied on here.

1 between a piece of maximum-weight First Class Mail (previously 11
2 ounces, currently 13 ounces) and minimum weight Priority Mail, the
3 "gap" in unit costs greatly exceeds the gap in rates. In order to be
4 conservative with respect to estimated costs and contribution to
5 overhead, I have used witness Robinson's higher unit cost figure of \$1.90
6 per piece.

7 **Two-pound rate.** My testimony provisionally reduces the rate
8 requested by the Postal Service for Priority Mail two-pound and Flat Rate
9 Envelope (\$3.85), by a nominal \$0.10, to \$3.75. This minimal level of
10 reduction is done with great reluctance, but subject to being revisited as
11 discovery is concluded and facts unfold in this docket. I fear that a 17
12 percent increase for this important rate cell will do much to impair
13 Priority Mail's status as a key revenue generator for the Postal Service.
14 However, due to the volume of mail in those rate cells and the need to
15 make other even more compelling rate adjustments, I have limited my
16 recommendation to this minimal change. The fact that I reduced the
17 Postal Services' rate by only a tiny amount should not be taken as tacit
18 acceptance or approval of the general level of the rate. On this issue I
19 feel a sense of resignation, unless the Commission is willing and able to
20 reduce significantly the coverage on Priority Mail to the point where this
21 "basic" rate could be reduced to a more competitive level. With that
22 thought in mind, I leave the matter in the hands of the Commission.

1 **Additional \$1.00 increments for unzoned 3-, 4- and 5-pound**
2 **Priority Mail.** The proposed \$1.00 increment (over the \$3.75 rate for a
3 2-pound piece) results in a coverage over allocated costs, including
4 contingency, of 176 percent for the 3-, 4- and 5-pound rate cells
5 combined.⁶⁴

6 **Rates above 5 pounds.** For pieces weighing 10 pounds and up,
7 the Postal Service's allocated unit costs (including contingency) are
8 multiplied by my target coverage of 170 percent, to produce un-rounded
9 target rates, which are then rounded to the nearest 5 cents. Between 6
10 to 10 pounds, rates are smoothed by hand; in a few instances it was
11 necessary to extend smoothing to the 11- and 12-pound rate cells.

12 **Anomalies with Parcel Post.** In terms of the Postal Service's
13 allocated unit costs, every Priority rate cell is fully compensatory.⁶⁵
14 However, the rates proposed here would create some anomalies with the
15 Postal Service's proposed rates for parcel post (proposed rate schedule
16 521.2A), especially rates to zones 7 and 8. Those parcel post rate cells
17 that are affected (i.e., anomalous) may need to be adjusted downward, as
18 the Commission has done in prior cases, if they would otherwise exceed
19 the comparable rates recommended by the Commission for Priority Mail.

⁶⁴ Witness Robinson's proposed \$1.25 increment results in a coverage of 192 percent, which is excessive even by witness Mayes' proposed standard.

⁶⁵ Table 18 in my work papers shows the implicit coverage for each rate cell, based on the Postal Service's allocated unit costs.

Table 10

**Priority Mail
APMU Proposed Rates (unrounded)**

Weight (Pounds)	<u>L,1,2&3</u>	<u>Zone 4</u>	<u>Zone 5</u>	<u>Zone 6</u>	<u>Zone 7</u>	<u>Zone 8</u>
Flat Rate	3.75	3.75	3.75	3.75	3.75	3.75
1	3.00	3.00	3.00	3.00	3.00	3.00
2	3.75	3.75	3.75	3.75	3.75	3.75
3	4.75	4.75	4.75	4.75	4.75	4.75
4	5.75	5.75	5.75	5.75	5.75	5.75
5	6.75	6.75	6.75	6.75	6.75	6.75
6	6.95	7.30	7.35	7.50	7.83	8.35
7	7.05	7.75	7.85	8.15	8.80	9.85
8	7.15	8.20	8.35	8.80	9.80	11.35
9	7.25	8.65	8.85	9.45	10.75	12.85
10	7.35	8.95	9.10	10.10	11.75	14.35
11	7.45	9.55	9.75	10.70	12.65	15.85
12	7.65	10.15	10.35	11.40	13.55	16.95
13	7.85	10.75	10.95	12.10	14.45	18.15
14	8.25	11.40	11.60	12.80	15.35	19.30
15	8.60	12.00	12.20	13.55	16.20	20.50
16	9.00	12.60	12.85	14.25	17.10	21.65
17	9.40	13.20	13.45	14.95	18.00	22.85
18	9.75	13.80	14.10	15.65	18.90	24.00
19	10.15	14.40	14.70	16.35	19.80	25.20
20	10.55	15.00	15.35	17.10	20.70	26.35
21	10.90	15.65	15.95	17.80	21.55	27.50
22	11.30	16.25	16.60	18.50	22.45	28.70
23	11.70	16.85	17.20	19.20	23.35	29.85
24	12.05	17.45	17.85	19.95	24.25	31.05
25	12.45	18.05	18.45	20.65	25.15	32.20
26	12.84	18.65	19.10	21.35	26.00	33.40
27	13.22	19.30	19.70	22.05	26.90	34.55
28	13.60	19.90	20.35	22.75	27.80	35.75
29	14.00	20.50	20.95	23.50	28.70	36.90
30	14.35	21.10	21.60	24.20	29.60	38.10
31	14.75	21.70	22.20	24.90	30.45	39.25
32	15.15	22.30	22.80	25.60	31.35	40.45
33	15.50	22.95	23.45	26.30	32.25	41.60
34	15.90	23.55	24.05	27.05	33.15	42.80
35	16.30	24.15	24.70	27.75	34.05	43.95
36	16.65	24.75	25.30	28.45	34.90	45.15
37	17.05	25.35	25.95	29.15	35.80	46.30
38	17.45	25.95	26.55	29.90	36.70	47.50
39	17.80	26.60	27.20	30.60	37.60	48.65
40	18.20	27.20	27.80	31.30	38.50	49.85
41	18.60	27.80	28.45	32.00	39.40	51.00
42	18.95	28.40	29.05	32.70	40.25	52.20
43	19.35	29.00	29.70	33.45	41.15	53.35
44	19.75	29.60	30.30	34.15	42.05	54.55
45	20.10	30.20	30.95	34.85	42.95	55.70
46	20.50	30.85	31.55	35.55	43.85	56.90
47	20.90	31.45	32.20	36.30	44.70	58.05
48	21.25	32.05	32.80	37.00	45.60	59.25
49	21.65	32.65	33.45	37.70	46.50	60.40
50	22.05	33.25	34.05	38.40	47.40	61.60
51	22.40	33.85	34.65	39.10	48.30	62.75
52	22.80	34.50	35.30	39.85	49.15	63.95

Table 10 (cont.)

**Priority Mail
APMU Proposed Rates (unrounded)**

Weight (Pounds)	<u>L, 1,2&3</u>	<u>Zone 4</u>	<u>Zone 5</u>	<u>Zone 6</u>	<u>Zone 7</u>	<u>Zone 8</u>
53	23.20	35.10	35.90	40.55	50.0	65.10
54	23.55	35.70	36.55	41.25	50.95	66.30
55	23.95	36.30	37.15	41.95	51.85	67.45
56	24.35	36.90	37.80	42.70	52.75	68.65
57	24.70	37.50	38.40	43.40	53.65	69.80
58	25.10	38.15	39.05	44.10	54.50	70.95
59	25.50	38.75	39.65	44.80	55.40	72.15
60	25.85	39.35	40.30	45.50	56.30	73.30
61	26.25	39.95	40.90	46.25	57.20	74.50
62	26.65	40.55	41.55	46.95	58.10	75.65
63	27.00	41.15	42.15	47.65	58.95	76.85
64	27.40	41.75	42.80	48.35	59.85	78.00
65	27.80	42.40	43.40	49.05	60.75	79.20
66	28.15	43.00	44.05	49.80	61.65	80.35
67	28.55	43.60	44.65	50.50	62.55	81.55
68	28.95	44.20	45.30	51.20	63.40	82.70
69	29.35	44.80	45.90	51.90	64.30	83.90
70	29.70	45.40	46.50	52.65	65.20	85.05

1 **Discount for destination SCF delivery of Priority Mail. I**

2 propose a discount for all zoned pieces of Priority Mail (weighing over 5
3 pounds) which destinate at SCFs. Such mail is typically referred to as
4 "Priority Mail dropship." Mailers who seek to expedite the delivery of
5 another class of mail by entering that class of mail closer to the delivery
6 point use Priority Mail dropship. For example, through-the-mail
7 photofinishers send Priority Mail sacks of Standard A Regular Mail
8 containing processed film and prints to expedite the return of the film
9 processing orders. The DMM describes this merged-mail concept as
10 follows:

11 Priority Mail drop shipment expedites movement of any other
12 class or subclass of mail (except Express Mail) between
13 domestic postal facilities. The drop shipment receives
14 Priority Mail service from the origin post office to the
15 destination post office of the shipment, where the enclosed
16 mail is processed and provided the appropriate service from
17 that post office to its destination. [DMM D071.21.]

18 In this case, the Standard A mailpiece pays a destination entry
19 rate, not being required to pay for transportation and handling to the
20 SCF where the piece is entered. Nevertheless, the Priority Mail piece
21 pays full rate, including the cost of delivery to a final business or
22 residential destination, despite the fact that it terminates at the DSCF.
23 The Priority Mail piece is charged as though it received handling and
24 transportation beyond the SCF, and for delivery which it does not

1 receive. Providing such a discount promotes fairness and equity
2 (criterion 1).

3 The proposed discounts are shown in Table 11. For simplicity
4 (criterion 7), the proposed discounts are in 10-lb. increments. Due to the
5 unavailability of Priority Mail delivery cost data, the proposed Priority
6 Mail Destination SCF rates are developed from the cost data drawn from
7 another Postal Service package product – Parcel Select Destination SCF
8 rates (particularly, from Postal Service proposed rate schedule 521.2D),
9 as follows:

10 First, the proposed Parcel Select SCF rates as submitted contain
11 various anomalies. For example, for the 30 and 31 pound rate cells the
12 rates shown are, respectively, \$3.94 and \$3.72 (*i.e.*, the 30 lb. Rate
13 exceeds the 31 lb. rate.). Similarly, the rates for 36 and 37 lbs. are,
14 respectively, \$3.94 and \$3.91; and for the 40 and 41 lbs. the rates are
15 \$4.10 and \$4.09. Consequently, I developed a smoothed set of Parcel
16 Select SCF rates which eliminated the anomalies.

17 Next, witness Plunkett states that the implicit coverage on his
18 proposed Parcel Select SCF rates is 113 percent.⁶⁶ Therefore, I divide his
19 proposed rates by 1.13 to estimate the cost of delivering parcels of
20 various weights entered at the SCF.

⁶⁶ Response to AMZ/USPS-T36-7 (Tr. 11/4985).

1 Third, to be conservative, I apply a passthrough of only 75 percent
2 to the estimated costs. This gives a schedule of discounts for each
3 pound, up to 70 lbs.

4 Fourth, I average the discounts over the pertinent range, i.e., 6 to
5 10 lbs., and every 10 lbs. thereafter.

6 Fifth, I round the proposed discounts down to the nearest 5 cents.

7 The volume of destination entry SCF Priority Mail used to dropship
8 smaller items is not known, but it is reckoned that as much as 10
9 percent of all zoned Priority Mail pieces over 5 pounds already may be
10 used for this purpose. Using the volumes projected at APMU rates would
11 result in a reduction in revenues of \$9.9 million. Offsetting this
12 reduction would be revenue from any increase in Priority Mail volume as
13 well as additional revenue from the enclosed pieces, both of which could
14 be expected from the Postal Service's offering of a more reasonably
15 priced, merged-mail, dropship product. Such a rate discount would help
16 prevent loss of such SCF destinating Priority Mail volume to alternative
17 carriers which have been better able to compete with Priority Mail entry
18 due to the availability of consolidated national postage payment options
19 which did not previously exist.

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Table 11
Proposed Discounts for Destination SCF Delivery of Priority Mail

Weight (pounds)	Discount
6-10	\$1.50
11-20	1.90
21-30	2.30
31-40	2.60
41-50	2.85
51-60	3.10
61-70	3.35

Financial Summary. A financial summary for Priority Mail, at APMU proposed rates, and including the proposed discount for SCF delivery, is shown in Table 12.

1

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Table 12

3

Priority Mail Financial Summary

4

Test Year Volume, Revenue and Cost After Rates

5

Test Year After Rates

6

Volume 1,475,128 (000)

7

Revenue at proposed rates \$5,820,622 (000)

8

Revenue per piece \$3.95

9

Test Year after rates cost \$3,384,221 (000)

10

Contingency 2.5%

11

Cost with contingency \$3,468,827 (000)

12

Cost per piece \$2.35

13

Cost coverage at proposed rates 168%

14

Average rate increase 2.6%

15

Pickup Revenue and Cost

16

Pickup revenue at proposed rates \$2,972 (000)

17

Pickup costs \$2,888 (000)

18

Fee Revenue \$795 (000)

19

Discount for SCF Delivery \$9,866 (000)

20

Total Test Year After Rates

21

Total volume 1,475,128 (000)

22

Total revenue \$5,814,563 (000)

23

Total cost including contingency \$3,471,715 (000)

24

Contribution to institutional costs \$2,342,848 (000)

25

Cost coverage 168%

26

1 **APPENDIX A**

2 **EXPRESS MAIL: A BRIEF CASE STUDY**

3 The history of Express Mail contains some worthwhile lessons
4 about what can happen when a large bureaucratic organization
5 confronts the demanding realities of the competitive marketplace. In
6 short, when consumers have alternatives, competition severely limits the
7 rates, mark-ups, target coverages and profits that can be earned from a
8 product.

9 The mark-up and mark-up index for Express Mail is set out in
10 Table A-1. Over a span of 20 years, the mark-up and mark-up index for
11 Express Mail have gone from being by far the highest to among the
12 lowest of any subclass that does not enjoy special statutory status.⁶⁷

13 Although the Postal Service pioneered overnight delivery, Express
14 Mail's market share has declined to the point where it currently is
15 approximately 11 percent.⁶⁸ The Postal Service is now generally
16 considered to be a minor player in the market for expedited overnight
17 delivery. Once the Postal Service has lost substantial market share to

⁶⁷ In Docket No. R97-1, one preferred rate subclass, Standard A Nonprofit Mail, had a higher mark-up than Express Mail.

⁶⁸ Response to PSA/USPS-T6-1 (Tr. 9/3651-52).

competitors, any significant recovery in its market-share has proven to be most difficult.⁶⁹

Table A-2 translates into dollar terms the percentages and index numbers shown in Table A-1. In addition, the Express Mail contribution to institutional costs is compared to that of Priority Mail. In 1984, Express Mail achieved its highest contribution, \$313 million. Despite the inflationary creep that has occurred since 1984, the contribution gradually withered to \$145 million in 1993. Since that time, the contribution has recovered a little, reaching \$219 million in 1998, which was substantially below 1984 in absolute amount, and even less when inflation is taken into account. In contrast to the experience of Express Mail, Priority Mail has been a more successful product, at least up until now. However, Priority Mail is at the point where it can be priced out of the market quite easily, in which event Priority Mail may also be reduced to a minor role within the expedited market.

⁶⁹ At one time the Postal Service was also the dominant provider of ground parcel service.

1

2

Table A-1

3

Express Mail Mark-Ups and Mark-Up Indices

4

(1)

(2)

5

Docket.
No.

6

Mark-Up
(percent)Mark-Up
Index

7

R77-1

422

17.580

8

R80-1

123

4.566

9

R84-1

139

2.673

10

R87-1

69

1.420

11

R90-1

29

0.572

12

R94-1

19

0.332

13

R97-1

14

0.245

14

Source: Docket No. R97-1, *Op. & Rec. Dec.*, App. G, Schedule 3.

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Table A-2
Express and Priority Mail
Contribution to Institutional Cost
1980-1998
(\$, millions)

	(1)	(2)
Fiscal Year	Express Mail	Priority Mail
1980	115	301
1981	187	414
1982	233	493
1983	298	495
1984	313	552
1985		
1986	280	512
1987	246	579
1988	211	630
1989	169	603
1990	170	669
1991	163	752
1992	157	1,025
1993	145	1,133
1994	148	1,300
1995	188	1,715
1996	228	1,681
1997	202	1,699
1998	219	1,545

Source: USPS, Cost and Revenue Analysis Reports
(PRC version for FY 1997-1998)

How to Determine Your Rates



FedEx Government Rates

For single packages or multiple-package shipments weighing 150 lbs. or less FedEx Priority Overnight and FedEx 2Day

For weights other than those listed, please call 1-800-Go-FedEx, (800)463-3339.

weight (lbs.)	FedEx Priority Overnight	FedEx 2Day	weight (lbs.)	FedEx Priority Overnight	FedEx 2Day	weight (lbs.)	FedEx Priority Overnight	FedEx 2Day	weight (lbs.)	FedEx Priority Overnight	FedEx 2Day	weight (lbs.)	FedEx Priority Overnight	FedEx 2Day
letter	\$3.62		31	\$24.05	\$23.79	62	\$48.46	\$39.53	93	\$67.66	\$58.69	124	\$89.04	\$70.84
1	3.67	3.57	32	24.84	24.58	63	49.24	39.53	94	68.13	58.69	125	89.82	70.84
2	3.74	3.62	33	25.63	25.37	64	50.03	39.53	95	68.61	58.69	126	90.60	90.52
3	3.80	3.67	34	26.42	26.15	65	50.82	39.53	96	69.08	58.69	127	91.38	90.52
4	3.85	3.72	35	27.20	26.94	66	51.60	39.53	97	69.55	58.69	128	92.16	90.52
5	4.37	4.11	36	27.99	27.73	67	52.39	39.53	98	69.84	58.69	129	92.94	90.52
6	5.16	4.90	37	28.74	28.51	68	53.18	39.53	99	70.32	58.69	130	93.72	90.52
7	5.95	5.69	38	29.56	29.30	69	53.97	39.53	100	70.32	58.69	131	94.50	90.52
8	6.74	6.47	39	30.35	30.09	70	54.75	39.53	101	71.10	70.84	132	95.28	90.52
9	7.52	7.26	40	31.14	30.88	71	55.54	39.53	102	71.88	70.84	133	96.06	90.52
10	8.31	8.05	41	31.93	31.66	72	56.33	39.53	103	72.66	70.84	134	96.84	90.52
11	8.94	8.68	42	32.71	32.45	73	57.11	39.53	104	73.44	70.84	135	97.62	90.52
12	9.57	9.31	43	33.50	33.24	74	57.90	39.53	105	74.22	70.84	136	98.40	90.52
13	10.20	9.94	44	34.29	34.02	75	58.43	58.69	106	75.00	70.84	137	99.18	90.52
14	10.83	10.57	45	35.07	34.81	76	58.95	58.69	107	75.78	70.84	138	99.96	90.52
15	11.46	11.20	46	35.86	35.60	77	59.48	58.69	108	76.56	70.84	139	100.74	90.52
16	12.25	11.99	47	36.65	36.39	78	60.00	58.69	109	77.34	70.84	140	101.52	90.52
17	13.03	12.77	48	37.44	37.17	79	60.52	58.69	110	78.12	70.84	141	102.30	90.52
18	13.82	13.56	49	38.22	37.96	80	61.05	58.69	111	78.90	70.84	142	103.08	90.52
19	14.61	14.35	50	39.01	38.75	81	61.57	58.69	112	79.68	70.84	143	103.86	90.52
20	15.40	15.13	51	39.80	39.53	82	62.10	58.69	113	80.46	70.84	144	104.64	90.52
21	16.18	15.92	52	40.58	39.53	83	62.62	58.69	114	81.24	70.84	145	105.42	90.52
22	16.97	16.71	53	41.37	39.53	84	63.15	58.69	115	82.02	70.84	146	106.20	90.52
23	17.76	17.50	54	42.16	39.53	85	63.67	58.69	116	82.80	70.84	147	106.98	90.52
24	18.54	18.28	55	42.95	39.53	86	64.20	58.69	117	83.58	70.84	148	107.76	90.52
25	19.33	19.07	56	43.73	39.53	87	64.72	58.69	118	84.36	70.84	149	108.54	90.52
26	20.12	19.86	57	44.52	39.53	88	65.25	58.69	119	85.14	70.84	150	109.32	90.52
27	20.91	20.64	58	45.31	39.53	89	65.77	58.69	120	85.92	70.84			
28	21.69	21.43	59	46.09	39.53	90	66.24	58.69	121	86.70	70.84			
29	22.48	22.22	60	46.88	39.53	91	66.72	58.69	122	87.48	70.84			
30	23.27	23.01	61	47.67	39.53	92	67.19	58.69	123	88.26	70.84			

Rates

FedEx Department of Defense Rates

For single packages or multiple-package shipments weighing 150 lbs. or less (FedEx Priority Overnight and FedEx 2Day)

For weights other than those listed, please call 1-800-Go-FedEx, (800)463-3339.

weight (lbs.)	FedEx Priority Overnight	FedEx 2Day	weight (lbs.)	FedEx Priority Overnight	FedEx 2Day	weight (lbs.)	FedEx Priority Overnight	FedEx 2Day	weight (lbs.)	FedEx Priority Overnight	FedEx 2Day	weight (lbs.)	FedEx Priority Overnight	FedEx 2Day
letter	\$3.45		31	\$22.92	\$22.67	62	\$46.17	\$37.67	93	\$64.47	\$55.92	124	\$85.00	\$67.50
1	3.50	3.40	32	23.67	23.42	63	46.92	37.67	94	64.92	55.92	125	85.75	67.50
2	3.57	3.45	33	24.42	24.17	64	47.67	37.67	95	65.37	55.92	126	86.50	66.25
3	3.62	3.50	34	25.17	24.92	65	48.42	37.67	96	65.82	55.92	127	87.25	66.25
4	3.67	3.55	35	25.92	25.67	66	49.17	37.67	97	66.27	55.92	128	88.00	66.25
5	4.17	3.92	36	26.67	26.42	67	49.92	37.67	98	66.55	55.92	129	88.75	66.25
6	4.92	4.67	37	27.42	27.17	68	50.67	37.67	99	67.00	55.92	130	89.50	66.25
7	5.67	5.42	38	28.17	27.92	69	51.42	37.67	100	67.00	55.92	131	90.25	66.25
8	6.42	6.17	39	28.92	28.67	70	52.17	37.67	101	67.75	67.50	131	90.25	66.25
9	7.17	6.92	40	29.67	29.42	71	52.92	37.67	102	68.50	67.50	132	91.00	66.25
10	7.92	7.67	41	30.42	30.17	72	53.67	37.67	103	69.25	67.50	133	91.75	66.25
11	8.52	8.27	42	31.17	30.92	73	54.42	37.67	104	70.00	67.50	134	92.50	66.25
12	9.12	8.87	43	31.92	31.67	74	55.17	37.67	105	70.75	67.50	135	93.25	66.25
13	9.72	9.47	44	32.67	32.42	75	55.67	37.67	106	71.50	67.50	136	94.00	66.25
14	10.32	10.07	45	33.42	33.17	76	56.17	55.92	107	72.25	67.50	137	94.75	66.25
15	10.92	10.67	46	34.17	33.92	77	56.67	55.92	108	73.00	67.50	138	95.50	66.25
16	11.67	11.42	47	34.92	34.67	78	57.17	55.92	109	73.75	67.50	139	96.25	66.25
17	12.42	12.17	48	35.67	35.42	79	57.67	55.92	110	74.50	67.50	140	97.00	66.25
18	13.17	12.92	49	36.42	36.17	80	58.17	55.92	111	75.25	67.50	141	97.75	66.25
19	13.92	13.67	50	37.17	36.92	81	58.67	55.92	112	76.00	67.50	142	98.50	66.25
20	14.67	14.42	51	37.92	37.67	82	59.17	55.92	113	76.75	67.50	143	99.25	66.25
21	15.42	15.17	52	38.67	37.67	83	59.67	55.92	114	77.50	67.50	144	100.00	66.25
22	16.17	15.92	53	39.42	37.67	84	60.17	55.92	115	78.25	67.50	145	100.75	66.25
23	16.92	16.67	54	40.17	37.67	85	60.67	55.92	116	79.00	67.50	146	101.50	66.25
24	17.67	17.42	55	40.92	37.67	86	61.17	55.92	117	79.75	67.50	147	102.25	66.25
25	18.42	18.17	56	41.67	37.67	87	61.67	55.92	118	80.50	67.50	148	103.00	66.25
26	19.17	18.92	57	42.42	37.67	88	62.17	55.92	119	81.25	67.50	149	103.75	66.25
27	19.92	19.67	58	43.17	37.67	89	62.67	55.92	120	82.00	67.50	150	104.50	66.25
28	20.67	20.42	59	43.92	37.67	90	63.12	55.92	121	82.75	67.50			
29	21.42	21.17	60	44.67	37.67	91	63.57	55.92	122	83.50	67.50			
30	22.17	21.92	61	45.42	37.67	92	64.02	55.92	123	84.25	67.50			

APPENDIX B, Page B-3

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Figure C-1

The way shipping is done.

home
compare and ship
manage account
help
SmartShip.com
logout
contact us

☒ Show All Couriers
☐ Limit Couriers To...

Show rates for:
Pickup & Dropoff

re-calculate

From Zip: 20110 To Zip: 93101 Weight: 2 Lbs Ship Date: Mon May 15, 2000

Click To Sort ▾ Delivery Time	Click To Sort ▾ Shipping Deadline	Click To Sort ▾ Rate Information	Click To Sort ▾ Courier
Tue May 16, 2000			
Tue 10:30am Guaranteed	May 15 9:30pm Dropoff	\$25.25 DropOff info	UPS
Tue 10:30am Guaranteed	May 15 8:30pm Dropoff	\$27.55 DropOff info	FedEx
Tue 10:30am Guaranteed	May 15 Unknown Pickup	\$28.25 PickUp info	UPS
Tue 10:30am Guaranteed	May 15 Unknown Pickup	\$30.55 PickUp info	FedEx
Tue 12:00pm Guaranteed	May 15 9:00pm Dropoff	\$15.75 DropOff info	USPS Express
Tue 12:00pm Guaranteed	May 15 5:00pm Pickup	\$17.41 PickUp info	Airborne
Tue 12:00pm Guaranteed	May 15 Unknown Pickup	\$24.00 PickUp info	USPS Express
Tue 3:00pm Guaranteed	May 15 9:30pm Dropoff	\$22.50 DropOff info	UPS
Tue 3:00pm Guaranteed	May 15 8:30pm Dropoff	\$23.42 DropOff info	FedEx
Tue 3:00pm Guaranteed	May 15 5:00pm Pickup	\$14.94 PickUp info	Airborne
Tue 3:00pm Guaranteed	May 15 Unknown Pickup	\$25.50 PickUp info	UPS
Tue 3:00pm Guaranteed	May 15 Unknown Pickup	\$26.42 PickUp info	FedEx
Wed May 17, 2000			
Wed 12:00pm Guaranteed	May 15 9:30pm Dropoff	\$11.80 DropOff info	UPS
Wed 12:00pm Guaranteed	May 15 Unknown Pickup	\$14.80 PickUp info	UPS
Wed 4:30pm Guaranteed	May 15 8:30pm Dropoff	\$11.33 DropOff info	FedEx
Wed 4:30pm Guaranteed	May 15 Unknown Pickup	\$14.33 PickUp info	FedEx
Wed 5:00pm Non-Guaranteed	May 15 10:00pm Dropoff	\$3.20 Get Label	USPS Priority
Wed 5:00pm Guaranteed	May 15 9:30pm Dropoff	\$10.50 DropOff info	UPS
Wed 5:00pm Guaranteed	May 15 5:00pm Pickup	\$7.98 PickUp info	Airborne
Wed 5:00pm Non-Guaranteed	May 15 Unknown Pickup	\$11.45 PickUp info	USPS Priority
Wed 5:00pm Guaranteed	May 15 Unknown Pickup	\$13.50 PickUp info	UPS
Thu May 18, 2000			
Thu 4:30pm Guaranteed	May 15 8:30pm Dropoff	\$10.08 DropOff info	FedEx
Thu 4:30pm Guaranteed	May 15 Unknown Pickup	\$13.08 PickUp info	FedEx
Thu 5:00pm Guaranteed	May 15 9:30pm Dropoff	\$8.20 DropOff info	UPS
Thu 5:00pm Guaranteed	May 15 Unknown Pickup	\$10.70 PickUp info	UPS

Get rates again?

Copyright© 1997-2000 SmartShip, Inc.

Figure C-2

iShip.com™

Prepare Your Shipping Estimate

To find out the available services and charges for your shipment, fill out the information below. You will be able to add service options on the next page.

To get started, simply complete the form below and choose Continue!

Enter the Shipment Weight and Packaging	My shipment will weigh: 2 lbs. oz. (Include the weight of all packing materials. You may use a weight estimate for shipments that weigh more than 150 pounds.) I am using the following packaging: <input type="radio"/> Carrier Letter <input checked="" type="radio"/> Carrier Box <input type="radio"/> Carrier Pak or Tube <input type="radio"/> Other packaging. The dimensions (in inches) are: Length Box in. Width Box in. Height Box in. <input type="checkbox"/> The packaging is <u>irregular or is not standard</u> Learn More
	Enter Your Postal Codes I will ship the item FROM: This postal code: 20110 98125, for example I will ship the item TO: This postal code: 93101 98125, for example This city: _____ This country: USA ▼
	Add Carrier Loss Protection I want to protect my shipment from carrier loss or damage. The value of the contents is: \$ _____ Most services automatically protect your shipment up to \$100. However, USPS Priority Mail and Parcel Post do not have automatic protection. Some USPS services have no available Loss Protection. Learn More
	The delivery address for my shipment is a: <input checked="" type="radio"/> Business <input type="radio"/> Residence iShip.com currently supports packages shipped from the U.S. Learn More

Cancel

Continue >>

Figure C-3

iShip.com



Learn More - Loss Protection

Press the Back button on your Browser to return.

If you declare a value for your shipment, and if the shipment is lost or the contents damaged in transit, you would be eligible for compensation from the carrier for up to the declared value amount. If you do not declare a value for your package, then a carrier's liability is limited to the basic coverage included in the service you used to ship your package. Generally, claims will be denied if the item was not properly packaged. This may occur if there is no exterior damage to the packaging but the contents are damaged.

The coverage provided by the carriers does not replace your insurance, but it does help to protect you in case the carrier is responsible for losing or damaging your goods. Carriers generally will compensate you for the lesser of (1) the actual value of the goods or (2) the amount you declare as the value of the goods. The cost of loss protection varies, depending on the carrier and the service you select.

Each carrier has different rules regarding loss protection. For example, UPS, FedEx, Airborne, and Yellow provide at least \$100 of coverage in their basic shipping rates. On the other hand, the U.S. Postal Service provides \$500 of coverage with its Express Mail Service, but no coverage is included with Priority Mail or Parcel Post.

Limits on Coverage

In addition, each carrier permits only a certain amount of coverage, and a different amount of coverage may be allowed depending on the packaging or the service you select. For example, you can purchase loss protection for up to \$50,000 for a FedEx Box, but only up to \$500 for a FedEx Letter.

The basic rules for coverage are summarized below. Fortunately, you don't need to memorize this chart. Just type the value of the item you are shipping in the Add Carrier Loss Protection box. The iShip.com shipping charges grid will automatically display services and prices available for that amount of coverage. Some services will not appear on the shipping charges grid if you select a high amount of coverage - iShip.com will not display services that are unavailable if your coverage exceeds the maximum.

Carrier/Service	Basic Coverage	Maximum Coverage
UPS Standard	\$100	\$50,000
UPS Prepaid Letter	\$100	\$100
USPS Express Mail	\$500	\$5,000
USPS Priority Mail	\$0	\$5,000
USPS Parcel Post	\$0	\$5,000
FedEx Standard	\$100	\$50,000
FedEx Letter, Packet, Pak	\$100	\$500
Airborne Standard	\$100	\$25,000
Airborne Letters	\$100	\$500
Yellow HomeNet	\$100	\$10,000

Figure C-3

Large and Heavy Items

For Yellow shipments, excess coverage (coverage over the first \$100) is available for \$0.75 per \$100 valuation with a \$20 minimum.

Restrictions and Exclusions

Each carrier has restrictions on the types of items they will cover. Most carriers will not permit any loss protection coverage beyond basic coverage for unique items (such as artwork), for items of extremely high value (such as antiques), or for perishable items. If your item is worth more than the maximum allowed declared value, check with the carrier before shipping it.

If you are planning to ship one of the following types of goods, check with the carrier first.

- Perishable goods
- Goods requiring protection from heat or cold
- Goods worth more than the maximum allowed declared value
- Goods of unusual value
- Antiques or museum articles
- Fragile items such as glassware or ostrich eggs
- Jewelry, furs, precious metals
- Stocks, bonds, cash equivalents
- Coins
- Stamps
- Hazardous or dangerous materials (including anything flammable, corrosive, explosive, infectious, or radioactive)
- Firearms or fireworks
- Tobacco or alcohol
- Live animals or plants

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