

USPS-T-35

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

POSTAL RATE AND FEE CHANGES, 2001

Docket No. R2001-1

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

TABLE OF CONTENTS

TABLE OF CONTENTS.....	i
TABLE OF TABLES.....	ii
AUTOBIOGRAPHICAL SKETCH.....	iii
I. PURPOSE AND SCOPE	1
II. GUIDE TO TESTIMONY AND SUPPORTING DOCUMENTATION.....	2
III. CLASSIFICATION CRITERIA	3
IV. EXPRESS MAIL BACKGROUND.....	4
A. Overall Mail Class Description	4
B. Same Day Airport Description.....	6
C. Custom Designed Service Description.....	7
D. Next Day Service Description.....	8
E. Second Day Service Description.....	9
F. Military Service Description	11
G. Rate History	13
H. Revenue History.....	14
I. Volume History.....	15
V. PROPOSALS	17
A. Rate Proposals.....	17
B. Classification Proposals	24
VI. RATE DESIGN	28

TABLE OF TABLES

1
2
3
4

5
6
7
8
9
10
11
12

Table 1 – Current Express Mail Rates	18
Table 2 – Proposed Express Mail Rates	20
Table 3 – Percentage Changes from Current to Proposed Rates	22

AUTOBIOGRAPHICAL SKETCH

My name is Susan W. Mayo. I am currently an economist in Pricing at Postal Service Headquarters. I began working for the Postal Service in 1981 as a letter carrier at the McLean, Virginia post office. From 1983 to 1986, I worked at the Research and Development Laboratories, the National Test Administration Center, and the Headquarters Personnel Division before joining the Pricing Office in 1986.

I provided substantial technical support for Dockets No. R87-1, R90-1, and R94-1. I provided two direct testimonies and one rebuttal testimony in Docket No. MC96-3, appearing as witness Susan W. Needham. I also provided both direct and rebuttal testimonies in both Dockets R97-1 (appearing as witness Susan W. Needham) and R2000-1. Additionally I testified in a Bulk Parcel Return Service complaint case, Docket No. C99-4. In this current Docket, I am also appearing separately as a special services pricing witness. Thus, this is my ninth appearance before the Commission.

Since 1991, I have been the special services pricing expert and in 1996 became the project manager for special services pricing and classification issues. Earlier this year I also became the project manager for Express Mail pricing and classification issues.

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

5

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

1 I. PURPOSE AND SCOPE

2

3 The purpose of my testimony is to discuss the rate design for Express Mail
4 and propose new Express Mail rates. Since Same Day Airport Express Mail
5 service is currently suspended, I will not be proposing any rates for this category.

6

7 I am also proposing three classification changes to Express Mail. The first
8 classification change is to tie the flat rate envelope rate for Post Office to Post
9 Office and Post Office to Addressee to the half-pound Express Mail rate for these
10 categories. The second classification change is a proposal to change the level of
11 insurance coverage included in the price of Express Mail postage to \$100. The
12 third classification change is to clarify the circumstances in which Express Mail
13 refunds are available.

1 II. GUIDE TO TESTIMONY AND SUPPORTING DOCUMENTATION

2

3 In addition to my testimony, I provide supporting spreadsheets, in hard copy
4 and electronic format, in Library Reference J-108. I also prepared the Express
5 Mail portion on the FY 2000 billing determinants in Library Reference USPS-LR-
6 J-98. Finally, I updated the Express Mail revenue and volume histories in Library
7 Reference USPS-LR-J-91.

1 III. CLASSIFICATION CRITERIA

2

3 Proposed classification changes presented in this testimony were
4 developed using the following classification criteria from 39 U.S.C. § 3623(c):

5

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

1 IV. EXPRESS MAIL BACKGROUND

2

3 A. Overall Mail Class Description

4

5 Express Mail is a premium mail class, offering either next-delivery day or
6 second-delivery day guaranteed delivery. The guarantee is backed by a refund
7 of total postage if delivery does not occur when specified by the Postal Service.

8 Express Mail is available under five different service offerings: Custom
9 Designed, Next-Day (Post Office to Post Office, or Post Office to Addressee),
10 Second-Day (Post Office to Post Office and Post Office to Addressee), Military
11 Service, and Same Day Airport.

12

13 Express Mail is available to any mailable matter that is closed against
14 inspection and weighing up to 70 pounds. Additionally, the longest length and
15 widest girth of an Express Mail mailpiece may not exceed 108 inches combined.
16 The postage for Express Mail is determined by both the type of service used and
17 the weight of the mailpiece. Express Mail Custom Designed Service, Next-Day
18 Service, and Second-Day Service may be used for dropshipment of other
19 classes of mail from one domestic postal facility to another. Currently, Express
20 Mail provides up to \$500 in insurance against damage, loss or rifling at no extra
21 cost, with an option to purchase merchandise insurance up to \$5,000. Document
22 reconstruction insurance currently is limited to \$500.

1 The Postal Service provides specially-marked envelopes as a
2 convenience to customers using Express Mail. Currently, the Postal Service
3 offers a “flat-rate” envelope that allows customers to fill the envelope as they
4 please and pay the two-pound rate regardless of the weight of the envelope.

5
6 Express Mail customers meeting certain requirements have the option of
7 setting up a corporate account. A corporate account allows the mailer to pay
8 Express Mail postage and applicable fees from an advance deposit. The mailer
9 receives a statement for each accounting period the account is active that details
10 the activity within the account.

11
12 Various fees and special services may be used in conjunction with
13 Express Mail. For mailers wishing to have their outgoing Express Mail picked up
14 by the Postal Service, a pickup fee is charged, regardless of the number of
15 pieces picked up. Address correction is another fee that can be charged for
16 Express Mail. Special services that can be used with Express Mail include return
17 receipt service, Collect-on-Delivery service, merchandise insurance (above \$500
18 in value; currently, up to \$500 in merchandise insurance coverage is provided
19 as part of the base price of the service). If an Express Mail dropshipment is
20 used, certified mail (if the enclosed mail is First Class Mail) or special handling
21 may be used, and for purposes of indemnity coverage, each dropshipment pouch
22 is considered one mailpiece. For the enclosed mail in an Express Mail

1 dropshipment, various special services may be used depending upon the mail
2 class.

3

4 B. Same Day Airport Service Description

5

6 Currently, Same Day Airport Service is suspended for an indefinite period of
7 time for security reasons. As this service may be resumed again in the future, no
8 plans have been made to eliminate it altogether. Prior to the suspension of
9 service, Same Day Airport Service provided Express Mail delivery to designated
10 airport mail facilities the same day the mailpiece was entered into the mailstream.
11 Express Mail that traveled via Same Day Airport Service was put on the next
12 available plane after acceptance. The Postal Service has the right to impose
13 additional procedures for accepting a Same Day Airport Service Express Mail
14 mailpiece due to concerns about hazardous material dispatch or aviation
15 security. Further, postal employees are not allowed to give the mailer specific
16 information about the routing or departure or arrival times of the mailpiece at
17 acceptance.

18

19 For Same Day Airport Service, postage refunds are provided if the
20 mailpiece is not available for recipient pickup at the destination airport facility by
21 the time specified at the acceptance. Reasons for non-refunds include strikes or
22 work stoppages, delays or cancellations of flights, government intervention or

forwarding or return service provision after the mailpiece is available at the time guaranteed.

C. Custom Designed Service Description

Custom Designed Service is a service set up between the Postal Service and a mailer that allows a custom schedule for pickup of Express Mail pieces to be established. This service is available to and from any location nationwide.

The agreement between the customer and the Postal Service specifies the scheduled place and date or day of origination for each shipment, the scheduled place and date or day of delivery for each shipment, and the times of day the shipments can be accepted and picked up. This service may be terminated by the customer at any time for any reason. The Postal Service may terminate the agreement giving written notice 10 days in advance. Reasons for termination by the Postal Service are 1) if service cannot be provided for reasons beyond the control of the Postal Service, 2) because of changes in postal operations or facilities, or 3) if the mailer does not adhere to the terms of the agreement.

Postage is refunded for Custom Designed Express Mail shipments if the shipment is not available for the recipient to pick up at the destination or not delivered within 24 hours of mailing. Exceptions to the postage guarantee include delayed delivery due a strike or work stoppage or mailing to a destination that would require more than 24 hours to get there. Finally, the third reason for denying a postage refund would be in an instance where an item that had an

1 attempted delivery or was made available for pickup within the specified time was
2 then delayed for forwarding or return service.

3

4 D. Next Day Service Description

5

6 Next Day Service is Express Mail guaranteed for overnight delivery to
7 designated postal facilities, locations or 3-digit ZIP Code areas and is accepted
8 at designated postal facilities, specific collection boxes, or through pickup
9 service. Next Day Service is not available at or between all post offices or at all
10 times of deposit. Post offices have a directory that outlines those areas that are
11 eligible to receive Next Day Service.

12

13 Within the Next Day Service, there are two possible deliveries: Post Office
14 to Post Office and Post Office to Addressee. With Post Office to Post Office
15 Service, Express Mail is available for pickup at the destination post office by
16 10:00 a.m. the next day the office is open for business. With Post Office to
17 Addressee Service, Express Mail is delivered to an address by 12:00 p.m. or
18 3:00 p.m. the next day. If the delivery is not successful, the addressee is notified
19 and a subsequent delivery is attempted.

20

21 Customers using Next Day Service may sign a waiver allowing the Postal
22 Service to deliver the shipment without obtaining the signature of the recipient.
23 The delivery employee may use his/her discretion in leaving the mailpiece in a
24 safe place and signing for the delivery of the shipment which services as proof of

1 delivery. A signature waiver is not available for Next Day Express Mail Collect-
2 on-Delivery shipments.

3
4 Postage is refunded for Next Day Service Express Mail shipments if the
5 shipment is not available for the recipient to pick up at the destination or delivery
6 was not attempted by the guaranteed time. Exceptions to the postage guarantee
7 include delayed delivery due a strike or work stoppage or for an instance where
8 an item that had an attempted delivery or was made available for pickup within
9 the specified time was then delayed for forwarding or return service.

10 11 E. Second Day Service Description

12
13 Express Mail Second Day Service is basically the same as Next Day
14 Service with the exception that the Express Mail is guaranteed to be delivered on
15 the second day after acceptance. Second Day Service is Express Mail
16 guaranteed for second-day delivery to all postal facilities, locations or 3- or 5-digit
17 ZIP Code areas and is accepted at all postal facilities, collection boxes or through
18 pickup service. Second Day Service is available at all areas not listed as eligible
19 for Next Day Service in the Next Day Service directory.

20
21 Within the Second Day Service, there are two possible deliveries: Post
22 Office to Post Office and Post Office to Addressee. With Post Office to Post
23 Office Service, Express Mail is available for pickup at the destination post office

1 by 10:00 a.m. the second day the office is open for business. With Post Office to
2 Addressee Service, Express Mail is delivered to an address by 12:00 p.m. or
3 3:00 p.m. the second day. If the delivery is not successful, the addressee is
4 notified and a subsequent delivery is attempted.

5
6 Customers using Second Day Service may sign a waiver allowing the Postal
7 Service to deliver the shipment without obtaining the signature of the recipient.
8 The delivery employee may use his/her discretion in leaving the mailpiece in a
9 safe place and signing for the delivery of the shipment and thus serves as proof
10 of delivery. A signature waiver is not available for Second Day Express Mail
11 Collect-on-Delivery shipments.

12
13 Postage is refunded for Second Day Service Express Mail shipments if the
14 shipment is not available for the recipient to pick up at the destination or delivery
15 was not attempted by the guaranteed time. Exceptions to the postage guarantee
16 include delayed delivery due a strike or work stoppage or for an instance where
17 an item that had an attempted delivery or was made available for pickup within
18 the specified time was then delayed for forwarding or return service.

1 F. Military Service Description

2

3 Express Mail Military Service, or EMMS, is available for Department of
4 Defense personnel stationed overseas, along with other personnel entitled to use
5 APO and FPO mailings to provide expedited service between the United States
6 and designated APOs and FPOs. Custom Designed service and drop shipment
7 service are available at authorized destinations.

8

9 EMMS is only available at specific postal facilities and guarantees two- or
10 three-day service to either specific APO/FPO five-digit ZIP Codes or specific
11 three-digit destination ZIP Code areas, facilities or locations within the United
12 States. EMMS provides Post Office to Addressee service from either the United
13 States to APO/FPO or from an APO/FPO to the United States. EMMS is not
14 available at or between all post offices at all times of deposit. Similar to Next Day
15 Service, there are EMMS directories in each post office that outline service
16 availability.

17

18 Customers using EMMS may sign a waiver allowing the Postal Service to
19 deliver the shipment without obtaining the signature of the recipient. The delivery
20 employee may use his/her discretion in leaving the mailpiece in a safe place and
21 signing for the delivery of the shipment and thus serves as proof of delivery. A
22 signature waiver is not available for EMMS Collect-on-Delivery shipments.

23

1 Postage refunds are made for EMMS not delivered by guaranteed times.
2 The exceptions to a postage refund for EMMS include delays due to Customs,
3 strikes, work stoppages, non-delivery because an APO/FPO was closed on the
4 intended day of delivery, or when the mailpiece was made available for delivery
5 on time then delayed for forwarding or return service.

1 G. Rate History

2

3 Express Mail rates have changed nine times since the service became
4 permanent in 1977. In 1981, uniform two-pound Express Mail rates were
5 established and the overall rates were increased twice. In 1985, the Express
6 Mail rates increased overall by 15 percent and a uniform five-pound rate was
7 established. In 1988, the Express Mail rates increased by an average of 1.9
8 percent, unzoned rates for all weight increments were established, and a letter
9 rate for Next Day pieces eight ounces or less was implemented. In 1991, a two-
10 pound envelope rate was established, one-pound rate increments were
11 reintroduced for pieces weighing between two and five pounds and the overall
12 Express Mail rates increased 15 percent. In 1995 and 1999, Express Mail rates
13 increased by an average of 8 percent. As a result of Docket No. R2000-1, in
14 2001 Express Mail rates increased by an average of 3.6 percent. Shortly after
15 the implementation of the Docket No. R2000-1 rates, again in 2001, Express Mail
16 rates increased overall by 1.5 percent as a result of the modification. For a
17 detailed rate history for Express Mail, please see Library Reference USPS-LR-J-
18 108.

1 H. Revenue History

2

3 Total Express Mail revenue has increased fairly steadily since the service
4 began in 1971. Total annual revenue was at its lowest in 1971 at \$134,000 and
5 at its highest in 2000 at \$1.1 billion. In fact, not until recently – in 1999 – did total
6 Express Mail revenue finally exceed \$1 billion. Total Express Mail revenue
7 increased 64 percent over the past 10 years and 38 percent over the past 5
8 years. From 1999 to 2000, however, Express Mail revenue increased by only 5
9 percent.

10

11 Custom Design revenue decreased 55 percent over the last 10 years and
12 44 percent over the last 5 years. From 1999 to 2000, Custom Design revenue
13 decreased 25 percent. Next day revenue (combined post office to post office
14 and post office to addressee) increased 64 percent over the past 10 years and
15 43 percent over the past 5 years. From 1999 to 2000, next day revenue
16 increased eight percent. For the complete revenue history for Express Mail, see
17 Library Reference USPS-LR-J-108.

18

1 I. Volume History

2

3 With some notable exceptions, total Express Mail volume has increased
4 fairly consistently since its inception in 1971. The lowest volume on record was
5 8,000 pieces in 1971 and the highest volume on record was 76.3 million pieces in
6 2000. Total Express Mail volume remained somewhat flat from 1989 through
7 1995, ranging only between 55 to 62 million pieces. Therefore, it is not surprising
8 that total Express Mail volume increased 23 percent both over the past 10 years
9 and the past 5 years. From 1999 to 2000, Express Mail volume increased by two
10 percentage points.

11

12 The composition of Express Mail volume has changed considerably since
13 Express Mail first began. For the first few years of Express Mail service, Custom
14 Design Express Mail was either the entire Express Mail volume or an
15 overwhelming majority. Since 1977, next day service, either post office to post
16 office or post office to addressee, has represented the majority of Express Mail
17 volume. Next day service volume as a percentage of total Express Mail volume
18 has ranged from 89 to 93 percent over the last 17 years.

19

20 Custom Design volume decreased 66 percent over the last 10 years and
21 48 percent over the last 5 years. From 1999 to 2000, Custom Design volume
22 decreased 20 percent. Next day volume (combined post office to post office and
23 post office to addressee) increased 23 percent over the past 10 years and 26

1 percent over the past 5 years. From 1999 to 2000, next day volume increased
2 four percent. For the complete volume history for Express Mail, see Library
3 Reference USPS-LR-J-108.

4

5

1 V. PROPOSALS

2
3 A. Rate Proposals

4
5 The rate proposals for Express Mail in this testimony range from 3.5 percent
6 to 13.8 percent. The overall percentage increase I am proposing for Express
7 Mail rates is 9.4 percent. For illustrative purposes, the one-half pound rate for
8 Custom Designed is proposed to increase from \$9.40 to \$10.70, the highest
9 proposed increase at 13.8 percent. The one-half pound rate for Post Office to
10 Post Office is proposed to increase from \$9.55 to \$10.40, a 8.9 percent increase.
11 The one-half pound rate for Post Office to Addressee is proposed to increase
12 from \$12.45 to \$13.65, a 9.6 percent increase. The one-pound and two-pound
13 rates for Custom Designed are proposed to increase from \$13.95 to \$14.90, a
14 6.8 percent increase. The one-pound and two-pound rates for Post Office to
15 Post Office are proposed to increase from \$14.10 to \$14.60, the lowest proposed
16 increase at 3.5 percent increase. The one-pound and two-pound rates for Post
17 Office to Addressee are proposed to increase from \$16.25 to \$17.85, a 9.8
18 percent increase. The pickup fee that applies to Express Mail, as well as Priority
19 Mail and Package Services mail is proposed to increase by 22 percent, from
20 \$10.25 to \$12.50. Witness Scherer presents the fee proposal in his testimony,
21 USPS-T-30. Table 1 presents the current Express Mail rates, Table 2 presents
22 the proposed Express Mail rates, and Table 3 presents the percentage changes
23 from current to proposed rates.

1

Table 1 – Current Express Mail Rates			
Weight Not Exceeding (Pounds)	Schedule 122	Schedule 123	Schedule 123
	Custom Designed	Next Day and Second Day PO to PO	Next Day and Second Day PO to Addressee
0.5	\$9.40	\$9.55	\$12.45
1	13.95	14.10	16.25
2	13.95	14.10	16.25
3	16.90	17.05	19.15
4	19.75	19.90	22.05
5	22.60	22.75	24.85
6	25.45	25.60	27.70
7	28.15	28.30	30.45
8	29.40	29.55	31.65
9	30.65	30.80	32.95
10	31.85	32.00	34.15
11	33.40	33.55	35.70
12	35.85	36.00	38.10
13	37.10	37.25	39.85
14	38.50	38.65	40.80
15	39.75	39.90	42.00
16	41.10	41.25	43.40
17	42.50	42.65	44.75
18	43.75	43.90	46.05
19	45.05	45.20	47.35
20	46.45	46.60	48.70
21	47.70	47.90	50.00
22	49.00	49.20	51.30
23	50.40	50.60	52.70
24	51.65	51.80	53.95
25	53.00	53.20	55.25
26	54.30	54.45	56.60
27	55.65	55.85	57.90
28	56.95	57.10	59.25
29	58.30	58.45	60.55
30	59.65	59.80	61.90
31	60.95	61.10	63.20
32	62.25	62.40	64.55
33	63.60	63.75	65.80
34	64.90	65.05	67.20
35	66.25	66.40	68.45
36	67.55	67.70	69.85
37	68.80	68.95	71.35
38	70.40	70.35	73.00
39	72.00	71.65	74.60
40	73.65	73.10	76.25

1

Table 1 – Current Express Mail Rates (Continued)			
Weight Not Exceeding (Pounds)	Schedule 122	Schedule 123	Schedule 123
	Custom Designed	Next Day and Second Day PO to PO	Next Day and Second Day PO to Addressee
41	75.25	74.70	77.85
42	76.90	76.35	79.55
43	78.50	77.95	81.10
44	80.15	79.60	82.70
45	81.75	81.20	84.15
46	83.10	82.75	85.40
47	84.50	84.45	86.90
48	85.85	86.00	88.20
49	87.20	87.35	89.50
50	88.50	88.65	90.85
51	89.95	90.15	92.30
52	91.25	91.40	93.60
53	92.65	92.80	95.00
54	94.00	94.15	96.30
55	95.30	95.50	97.70
56	96.80	96.95	99.10
57	98.05	98.20	100.40
58	99.40	99.55	101.80
59	100.95	101.10	103.30
60	102.50	102.65	104.85
61	104.25	104.40	106.60
62	105.80	105.95	108.20
63	107.45	107.60	109.75
64	109.10	109.30	111.50
65	110.75	110.90	113.05
66	112.45	112.60	114.80
67	114.05	114.20	116.35
68	115.75	115.90	118.10
69	117.35	117.50	119.65
70	118.95	119.10	121.30
<u>Additional Fees</u>			
Pickups			\$10.25
Custom Designed			\$10.25

2

1

Table 2 – Proposed Express Mail Rates				
Weight Not Exceeding (Pounds)	Schedule 122	Schedule 123	Schedule 123	
	Custom Designed	Next Day and Second Day PO to PO	Next Day and Second Day PO to Addressee	
0.5	\$10.70	\$10.40	\$13.65	
1	\$14.90	\$14.60	\$17.85	
2	\$14.90	\$14.60	\$17.85	
3	\$18.10	\$17.80	\$21.05	
4	\$21.25	\$20.95	\$24.20	
5	\$24.35	\$24.05	\$27.30	
6	\$27.45	\$27.15	\$30.40	
7	\$30.50	\$30.20	\$33.45	
8	\$31.80	\$31.50	\$34.75	
9	\$33.25	\$32.95	\$36.20	
10	\$34.55	\$34.25	\$37.50	
11	\$36.25	\$35.95	\$39.20	
12	\$38.90	\$38.60	\$41.85	
13	\$40.80	\$40.50	\$43.75	
14	\$41.85	\$41.55	\$44.80	
15	\$43.15	\$42.85	\$46.10	
16	\$44.70	\$44.40	\$47.65	
17	\$46.20	\$45.90	\$49.15	
18	\$47.60	\$47.30	\$50.55	
19	\$49.05	\$48.75	\$52.00	
20	\$50.50	\$50.20	\$53.45	
21	\$51.95	\$51.65	\$54.90	
22	\$53.40	\$53.10	\$56.35	
23	\$54.90	\$54.60	\$57.85	
24	\$56.30	\$56.00	\$59.25	
25	\$57.70	\$57.40	\$60.65	
26	\$59.20	\$58.90	\$62.15	
27	\$60.60	\$60.30	\$63.55	
28	\$62.10	\$61.80	\$65.05	
29	\$63.55	\$63.25	\$66.50	
30	\$65.00	\$64.70	\$67.95	
31	\$66.45	\$66.15	\$69.40	
32	\$67.95	\$67.65	\$70.90	
33	\$69.30	\$69.00	\$72.25	
34	\$70.85	\$70.55	\$73.80	
35	\$72.20	\$71.90	\$75.15	
36	\$73.75	\$73.45	\$76.70	
37	\$75.40	\$75.10	\$78.35	
38	\$77.20	\$76.90	\$80.15	
39	\$78.95	\$78.65	\$81.90	
40	\$80.75	\$80.45	\$83.70	

1

Table 2 – Proposed Express Mail Rates (Continued)			
Weight Not Exceeding (Pounds)	Schedule 122	Schedule 123	Schedule 123
	Custom Designed	Next Day and Second Day PO to PO	Next Day and Second Day PO to Addressee
41	\$82.55	\$82.25	\$85.50
42	\$84.40	\$84.10	\$87.35
43	\$86.10	\$85.80	\$89.05
44	\$87.85	\$87.55	\$90.80
45	\$89.45	\$89.15	\$92.40
46	\$90.80	\$90.50	\$93.75
47	\$92.45	\$92.15	\$95.40
48	\$93.90	\$93.60	\$96.85
49	\$95.30	\$95.00	\$98.25
50	\$96.80	\$96.50	\$99.75
51	\$98.40	\$98.10	\$101.35
52	\$99.80	\$99.50	\$102.75
53	\$101.35	\$101.05	\$104.30
54	\$102.80	\$102.50	\$105.75
55	\$104.30	\$104.00	\$107.25
56	\$105.85	\$105.55	\$108.80
57	\$107.30	\$107.00	\$110.25
58	\$108.85	\$108.55	\$111.80
59	\$110.45	\$110.15	\$113.40
60	\$112.20	\$111.90	\$115.15
61	\$114.10	\$113.80	\$117.05
62	\$115.85	\$115.55	\$118.80
63	\$117.55	\$117.25	\$120.50
64	\$119.50	\$119.20	\$122.45
65	\$121.20	\$120.90	\$124.15
66	\$123.10	\$122.80	\$126.05
67	\$124.80	\$124.50	\$127.75
68	\$126.70	\$126.40	\$129.65
69	\$128.45	\$128.15	\$131.40
70	\$130.25	\$129.95	\$133.20
<u>Additional Fees</u>			
Pickups			\$12.50
Custom Designed			\$12.50

2

3

1

Table 3 – Percentage Changes from Current to Proposed Rates				
Weight Not Exceeding (Pounds)	Schedule 122	Schedule 123	Schedule 123	
	Custom Designed	Next Day and Second Day PO to PO	Next Day and Second Day PO to Addressee	
0.5	13.8%	8.9%	9.6%	
1	6.8%	3.5%	9.8%	
2	6.8%	3.5%	9.8%	
3	7.1%	4.4%	9.9%	
4	7.6%	5.3%	9.8%	
5	7.7%	5.7%	9.9%	
6	7.9%	6.1%	9.7%	
7	8.3%	6.7%	9.9%	
8	8.2%	6.6%	9.8%	
9	8.5%	7.0%	9.9%	
10	8.5%	7.0%	9.8%	
11	8.5%	7.2%	9.8%	
12	8.5%	7.2%	9.8%	
13	10.0%	8.7%	9.8%	
14	8.7%	7.5%	9.8%	
15	8.6%	7.4%	9.8%	
16	8.8%	7.6%	9.8%	
17	8.7%	7.6%	9.8%	
18	8.8%	7.7%	9.8%	
19	8.9%	7.9%	9.8%	
20	8.7%	7.7%	9.8%	
21	8.9%	7.8%	9.8%	
22	9.0%	7.9%	9.8%	
23	8.9%	7.9%	9.8%	
24	9.0%	8.1%	9.8%	
25	8.9%	7.9%	9.8%	
26	9.0%	8.2%	9.8%	
27	8.9%	8.0%	9.8%	
28	9.0%	8.2%	9.8%	
29	9.0%	8.2%	9.8%	
30	9.0%	8.2%	9.8%	
31	9.0%	8.3%	9.8%	
32	9.2%	8.4%	9.8%	
33	9.0%	8.2%	9.8%	
34	9.2%	8.5%	9.8%	
35	9.0%	8.3%	9.8%	
36	9.2%	8.5%	9.8%	
37	9.6%	8.9%	9.8%	
38	9.7%	9.3%	9.8%	
39	9.7%	9.8%	9.8%	
40	9.6%	10.1%	9.8%	

1

Table 3 – Percentage Changes from Current to Proposed Rates (Continued)				
Weight Not Exceeding (Pounds)	Schedule 122	Schedule 123	Schedule 123	
	Custom Designed	Next Day and Second Day PO to PO	Next Day and Second Day PO to Addressee	
41	9.7%	10.1%	9.8%	
42	9.8%	10.2%	9.8%	
43	9.7%	10.1%	9.8%	
44	9.6%	10.0%	9.8%	
45	9.4%	9.8%	9.8%	
46	9.3%	9.4%	9.8%	
47	9.4%	9.1%	9.8%	
48	9.4%	8.8%	9.8%	
49	9.3%	8.8%	9.8%	
50	9.4%	8.9%	9.8%	
51	9.4%	8.8%	9.8%	
52	9.4%	8.9%	9.8%	
53	9.4%	8.9%	9.8%	
54	9.4%	8.9%	9.8%	
55	9.4%	8.9%	9.8%	
56	9.3%	8.9%	9.8%	
57	9.4%	9.0%	9.8%	
58	9.5%	9.0%	9.8%	
59	9.4%	9.0%	9.8%	
60	9.5%	9.0%	9.8%	
61	9.4%	9.0%	9.8%	
62	9.5%	9.1%	9.8%	
63	9.4%	9.0%	9.8%	
64	9.5%	9.1%	9.8%	
65	9.4%	9.0%	9.8%	
66	9.5%	9.1%	9.8%	
67	9.4%	9.0%	9.8%	
68	9.5%	9.1%	9.8%	
69	9.5%	9.1%	9.8%	
70	9.5%	9.1%	9.8%	
<u>Additional Fees</u>				
Pickups				22%
Custom Designed				22%

2

1 B. Classification Proposals

2

3 I am proposing three classification changes to Express Mail in this
4 testimony. The first relates to the flat-rate. Specifically, the flat rate envelope
5 rate for Post Office to Post Office and Post Office to Addressee would be tied to
6 the half-pound rate for these categories. The second classification change is to
7 change the level of insurance included in the price of postage for both
8 merchandise and document reconstruction insurance for Express Mail. The third
9 proposed classification change is to consolidate and clarify the Express Mail
10 refund limitations. I address each of these changes in more detail below.

11

12 I begin by addressing the proposal to charge the half-pound rate for the
13 Express Mail flat rate envelope. Express Mail is a premium service and, as such,
14 denotes a high value of service (Criterion 2). The proposals to tie the flat rate
15 envelope rates for Post Office to Post Office and Post Office to Addressee will
16 add to the high value of service of Express Mail. Specifically, having only one
17 Postal Service-provided flat-sized envelope would avoid confusion about which
18 envelope to use for lighter weight shipments. It would also provide an
19 opportunity for the Postal Service to produce one less envelope. Therefore,
20 these proposed classification changes are desirable from the point of view of
21 both the customer and the Postal Service (Criterion 5). Based on the
22 aforementioned criteria, these proposed classification changes promote a fair
23 and equitable classification system for Express Mail (Criterion 1).

1
2 The next proposed classification change is to reduce the level of insurance
3 for Express Mail from \$500 to \$100. Under this proposal, customers would be
4 able to purchase merchandise insurance in \$100 increments above \$100.
5 Document reconstruction insurance would be limited to \$100.¹ Several factors
6 weigh in favor of this proposed change.

7
8 First, the proposed change to \$100 is more consistent with the insurance
9 offered by other providers. Currently, Airborne, Federal Express and UPS limit
10 liability to \$100 for their next day products.² Second, the proposed changes
11 would more closely align with paid claims data. Specifically, in FY 2000, Express
12 Mail document reconstruction insurance claims averaged \$68, which is well
13 below the proposed \$100 limit. Also, in FY 2000, Express Mail paid claims for
14 merchandise in the \$0 to \$500 range averaged \$170, which is far closer to the
15 proposed limit of \$100 than the current limit of \$500. By bringing the indemnity
16 limit closer to the paid claim figures, the proposed limit gives customers a more
17 realistic expectation of the protection offered. Also, it is important to keep in mind
18 that customers will still have the option of purchasing additional merchandise
19 insurance. Thus, those customers sending higher value articles in the \$100 to
20 \$500 range will still be able to obtain insurance coverage upon payment of a

¹ Currently, merchandise and document reconstruction insurance up to \$500 is available at no additional charge. Customers sending merchandise can also opt to purchase additional insurance coverage for a \$1.00 fee (both current and proposed) for each additional \$100 increment. See my other testimony, USPS-T-36 for the proposed insurance incremental fee.

² See Airborne website at http://www.airborne.com/using/conditions/usa_detail.asp?item=10; UPS website at <http://www.ups.com/using/services/detail/terms.html>; and Federal Express website at <http://www.fedex.com/us/services/termsandconditions/liabilitylimits.html>

1 modest incremental fee (that is not proposed to increase from the current fee in
2 this proceeding).

3
4 Third, the proposal is promotes fairness by reducing the extent to which
5 customers sending low value articles must share responsibility for the indemnity
6 costs associated with loss or damage of Express Mail. It is more equitable to
7 make those customers requiring higher coverage to pay for it through purchase
8 of the incremental merchandise insurance coverage.

9
10 The classification change relating to the service guarantee is intended to
11 clarify the circumstances in which Express Mail refunds are available. Currently,
12 the DMCS provides different exceptions for different Express Mail products. The
13 proposed change standardizes the guarantee among Express Mail products,
14 which in turn enhances consistency and promotes uniformity in product identity.
15 In addition, the list of limitations is expanded, primarily to address circumstances
16 beyond the control of the Postal Service. Specifically, the DMCS would provide
17 discretionary authority to deny refunds when delay is cause by:

- 18
19 • detention for law enforcement purposes;
20 • strike or work stoppage;
21 • late deposit of shipment, forwarding, return, incorrect address, or incorrect
22 ZIP Code;
23 • delay or cancellation of flights;
24 • governmental action beyond the control of the Postal Service or air
25 carriers;
26 • war, insurrection, or civil disturbance;
27 • breakdowns in transportation networks; or
28 • acts of God.
29

1
2
3 In addition, the DMCS would provide that the Postal Service could
4 suspend the Express Mail refund guarantee in extraordinary circumstances.
5

6 The proposed refund limitations are more consistent with service
7 guarantees offered by other providers. For instance, UPS lists a number of
8 limitations on its service guarantee.³ Federal Express reserves the right to
9 suspend its money-back guarantee.⁴ The proposed change also better protects
10 postal revenues from the risk of exposure to unforeseen liability. Recent events,
11 such as the nationwide grounding of commercial air traffic, demonstrate that
12 there are circumstances beyond the Postal Service's control which can contribute
13 to delays in Express Mail delivery. In these circumstances, it may be in the
14 Postal Service's best financial interests to limit the service guarantee so that
15 postal revenues are not placed at risk by the potential for excessive refund
16 claims. While the proposed language is quite broad, the circumstances in which
17 the guarantee would be suspended or refunds denied are expected to be quite
18 rare.
19
20
21
22

³ <http://www.ups.com/using/services/details/terms.html>

⁴ <http://www.fedex.com/us/services/termsandconditions/guarantee.html>

1 VI. RATE DESIGN
2

3 The proposed Express Mail rates in this testimony were designed with an
4 average increase of approximately 9.8 percent in mind. The proposed rates
5 result in an overall increase of 9.4 percent and a proposed 229 percent overall
6 cost coverage.
7

8 The initial Post Office to Addressee rates were designed first and the rate
9 differentials were applied across-the-board to arrive at the proposed Post Office
10 to Post Office and Custom Designed rates. The Post Office to Post Office rate
11 differential was developed by taking the cost differential of \$1.40⁵, applying the
12 expected markup of 229 percent, and rounding up to the nearest nickel for a rate
13 differential of \$3.25. The Custom Designed rate differential was developed by
14 applying a 30-cent differential to the Post Office to Post Office rate differential.
15 The 30-cent rate differential was considered a reasonable differential, and further
16 establishes a logical cost-based rate schedule. My proposed rates eliminate the
17 current inconsistency from one Express Mail rate to another and promote a
18 consistent flow. The current inconsistency is what occurs when Post Office to
19 Post Office rates become lower in the rate chart than Custom Designed rates,
20 beginning at the 37 to 38 pound range and ending at the 47 to 48 pound range.
21
22

⁵ See USPS-T-42, Appendix A.