

USPS-T-38

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

POSTAL RATE AND FEE CHANGES, 2000

Docket No. R2001-1

DIRECT TESTIMONY
OF
KIRK T. KANEER
ON BEHALF OF
UNITED STATES POSTAL SERVICE

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Sponsored Library References:

USPS-LR-J-111, Supporting Materials for the Testimony of Witness Kaneer
(USPS-T-38)

**Direct Testimony
Of
Kirk T. Kaneer**

AUTOBIOGRAPHICAL SKETCH

1 My name is Kirk T. Kaneer and I am employed by the Postal Service as an
2 economist in Classification and Product Development. I have held this position since
3 1998. My current duties are to develop pricing and classification proposals, cost
4 analyses, forecasts, and implementation databases. Prior to my move to Classification
5 and Product Development, I did similar work in Pricing from 1992 to 1998. Before
6 working in Pricing, I was employed in the Labor Economics Research Division as an
7 economist involved in labor negotiations. I have been employed by the Postal Service
8 since 1988. I was a cost and classification witness for post office boxes in Docket No.
9 R2000-1, USPS-T-40. In Docket No. R97-1, I was the Periodicals Nonprofit and
10 Classroom rate design witness (USPS-T-35) and rebuttal witness for post office box
11 service (USPS-RT-19). I was the pricing witness for the Classroom subclass of
12 Periodicals in Docket No. MC96-2, (USPS-CT-3) as well.

13 Prior to coming to the Postal Service, I worked from 1983 to 1988 at the Bureau
14 of Labor Statistics (BLS), Office of Prices and Living Conditions, Consumer Expenditure
15 Surveys Research Division. While employed at BLS, I published an article titled:
16 *Distribution of Consumption by Aggregate Expenditure Share*, MONTHLY LABOR REVIEW,
17 109(2), 50-53, April 1986.

18 In 1982, I received a Master of Science degree in Economics from Florida State
19 University in Tallahassee, Florida. In 1978, I received a Bachelor of Science Degree
20 with double majors in Economics and Business Administration from the University of
21 Central Florida in Orlando, Florida.

DIRECT TESTIMONY
OF
KIRK KANEER

I. Purpose

This testimony presents the Postal Service's proposals for Post Office Box and Caller Service, which includes a classification proposal for an additional fee group within the post office box fee structure. Proposals for Special Handling, and Parcel Airlift (PAL) are presented as well. Section II gives a guide to supporting documentation. Section III presents post office box and caller service background information and related issues. Section IV describes the current post office box classifications and presents a proposal to continue the progress made in developing cost homogenous fee groups as recommended by the Commission in Docket No. R2000-1. The proposal encourages the widespread and economically efficient provision of box service by carefully modifying the post office box fee structure to include eight groups increasingly differentiated by location costs.¹ Section V discusses the forecast of post office box counts. Section VI discusses the test year box counts and costs for the proposed classification structure. This section also discusses the tradeoff between the Postal Service's long-term goal of developing true cost-homogeneous classifications and the need to mitigate the fee impact on current customers. Section VII discusses post office box test year unit cost methodology. Section VIII proposes post office box fees and how they satisfy the statutory pricing criteria and continue to provide an optimal path for future fee development.

¹ No substantive changes are proposed in the provision of what is now called "Group E" post office box service to customers who, because of decisions by the Postal Service not to offer carrier delivery to their homes or businesses, are

Section VIII also presents the proposals for Caller Service, reserve numbers and the post office box additional key and lock replacement fees. Lastly, sections IX and X present the Special Handling and Parcel Airlift proposals.

II. Guide to Supporting Documentation

USPS-LR-J-111 supports my testimony and summary exhibits. This library reference includes Part A, my workpapers; Part B, my forecasting spreadsheets; Part C, my SAS classification program; and Part D, 1999 Facility Profile documentation. The forecast section addresses post office boxes, caller service, reserved number, special handling, and parcel airlift. My testimony also references special services domestic revenue and volume history in Library Reference USPS-LR-J-92, and the special services fee history in Library Reference USPS-LR-J-93.

III. Background

Prior to Docket No. R2000-1, the longstanding approach to classifying post office boxes for fee design purposes relied primarily on the type of carrier delivery, thus grouping boxes without much regard to costs.² In Docket No. R90-1 the Postal Service began to align fees with costs more closely by proposing two new fee groups, formerly termed Fee Groups A and B, for higher cost locations. In Docket No. MC96-3, Witness Needham recognized that the fee differences between city (Group I) and non-city offices (Group II) were too large.

ineligible for carrier delivery.

² The City/Non-City classifications appear to have originated at least as far back as 1958. Docket No. MC96-3, USPS-T-8, at 17, In. 20.

1 So, for nearly a decade, the Postal Service has recognized and sought to
2 improve the alignment of post office box fees and costs.

3 In Docket No. R97-1, Office of Consumer Advocate (OCA) witness Callow
4 proposed a Cost Ascertainment Group (CAG) based classification structure for
5 post office boxes in pursuit of the same goal.³ As a rebuttal witness in that
6 docket, I outlined a then hypothetical cost-based classification structure, and
7 proposed developing a comprehensive source of location cost information for
8 future use as the basis for optimal fee group design. The Postal Rate
9 Commission (PRC) encouraged the development of this proposed cost
10 information.⁴ Since that time, the Postal Service sponsored witness Yezer's
11 location cost research, which was used as the basis to propose a classification
12 structure in Docket No. 2000-1 that was partly cost based and, to mitigate impact
13 on the affected customers, partly based on the extant Docket No. MC96-3 fee
14 structure. The Postal Rate Commission recommended this proposal.
15 Subsequently, the recommended fees and classifications were successfully
16 implemented in January 2001 and are in effect today.

17 In this docket, the Postal Service proposes to continue the progress
18 towards more fair, cost-based post office box fees and fee groups.

³ Docket No. R97-1, OCA-T-500, p. 3 (Tr. 23/12280).

⁴ "While the Commission is rejecting the CAG proposal, it recognizes that the Postal Service presently lacks the information to optimally align box costs and fees. Consequently, we encourage the Postal Service to actually follow through on its plan to develop the cost information described in witness Kaneer's testimony." PRC Op., R97-1, Volume 1, page 566.

IV. Proposed Post Office Box Classifications

This section examines the current classifications, how cost homogeneity has been and can continue to be improved, and the long-term implications for post office box classification. The proposed post office box fee structure mitigates the impact of large fee increases through careful classification and fee level proposals.

A. The Current Post Office Box Classification Schedule

The current classification Schedule is composed of two elements. The first element is the Docket No. MC96-3 classification schedule that defined five post office box fee groups.⁵

- 1) Group A - New York ZIP Codes: 10001-10299;
- 2) Group B - Selected ZIP Codes for large cities;
- 3) Group C - "City Other": offices with at least one city delivery route not in Group A and B locations;
- 4) Group D - non-city delivery offices;
- 5) Group E - Customers ineligible for carrier delivery to their homes/offices.

The second element is the local space cost data called "Erent", developed by witness Yezer (USPS-T-31) in Docket No. R2000-1. Erent is the estimated market value, or economic rental equivalent of the cost per square foot of interior space in specific postal facilities. These data were used to delineate variations in economic space costs by five-digit ZIP Code. This allows the development of

⁵ Twenty-one transfer sites were later selected (early in 1999) for fee group reassignment as an aid in gauging the proposed classification concept.

truly cost-based post office box fee groups, while controlling for the fee impact by classifying ZIP Codes based on their previous fee group and the estimated value of the interior space in the local facility.

These Erents can be used to produce cost homogenous fee groups, but fee impact on customers considerations require some reliance on the Docket No. MC96-3 fee groups as follows.

Current Classifications

Group B2 – former Group A with cost per sq.ft. $\geq$ \$12.50,
former Group B with cost per sq.ft. $\geq$ \$12.50,

Group C3 – former Group A with cost per sq.ft. $<$ \$12.50,
former Group B with cost per sq.ft. $\geq$ \$10.00 & $<$ \$12.50,
and former Group C with cost per sq.ft. $\geq$ \$10.00,

Group C4 – former Group B with cost per sq.ft. $<$ \$10.00
and former Group C with cost per sq.ft. $\geq$ \$7.50 & $<$ \$10.00,

Group C5 – former Group C with cost per sq.ft. $<$ \$7.50,

Group D6 – former Group D with cost per sq.ft. $\geq$ \$4.00,

Group D7 – former Group D with cost per sq.ft. $<$ \$4.00,

Group E – box service at zero-fee for customers ineligible for carrier delivery.

Even though the Docket No. R2000-1 fee structure improved the alignment of fees and costs, between specific location costs and the current fee group definitions are not yet fully aligned. For example, the definition of Group C5 contains all former Group C ZIP Codes having an Erent less than \$7.50 while Group D6, which has lower fees, contains all former Group D ZIP Codes having Erents greater than or equal to \$4.00. Many ZIP Codes within the current Group

D6 have Erent values greater than \$7.50. In other words, the fee “gap” between the “old” non-city Group D locations and the “old” Group C city delivery locations is still present in the current fee structure. To date, thousands of ZIP Codes in the current “hybrid”⁶ fee groups must eventually be reassigned before fully cost-based fee groups can be achieved. Hence, further refinement of the classification schedule for post office box fees is consistent with previously established precedent and the current opportunity to progress towards cost homogeneity.

B. Increasing Fee Group Cost Homogeneity

Post office box costs can be divided into three categories: Space Provision, Space Support, and All Other. Each cost category accounts for a dimension of post office box cost. Space Provision reflects the cost of the space used for post office box service. Space Support accounts for costs that arise from custodial and maintenance services, fuel and utilities, and custodial/building supplies and services. Lastly, All Other accounts for costs arising from Postmasters, Supervisors & Technicians, Clerks, Carriers, Motor Vehicle Services, and Other Supplies and Service. These cost categorizations are the same as in past cases and follow the same assumptions. Space Provision costs are related to the cost per square foot and the space occupied by post office boxes at each facility. Therefore, the number of installed boxes, their size, and their particular location produce the total Space Provision cost, which in turn must be allocated to the boxes in use as a part of their unit cost. Space Support

⁶ The term “hybrid” is used here to reflect that the current fee groups are based

1 costs are allocated to boxes in use based on box size. Lastly, All Other costs are
2 a function of the number of boxes in use and are allocated equally to all boxes in
3 use – regardless of location or size. Cost homogeneous fee groups are based
4 on Space Provision costs, since Space Support and All other costs do not vary
5 by location.

6 Space Provision costs are distributed based on witness Yezer's Docket
7 No. R2000-1 (USPS-T-31) analysis of location space costs.⁷ The costing
8 methodology allocates attributable cost such that the TYBR number of boxes
9 estimated to be in use, times their fully allocated unit cost, yields a total dollar
10 value equaling the TYBR post office box attributable cost plus contingency.⁸ In
11 essence, post office box classification and fee design is an exercise in prorating
12 attributable costs to boxes in use. Accordingly, witness Yezer's estimated costs
13 per square foot constitute an appropriate means of allocating the attributable
14 Space Provision costs to post office box fee groups.

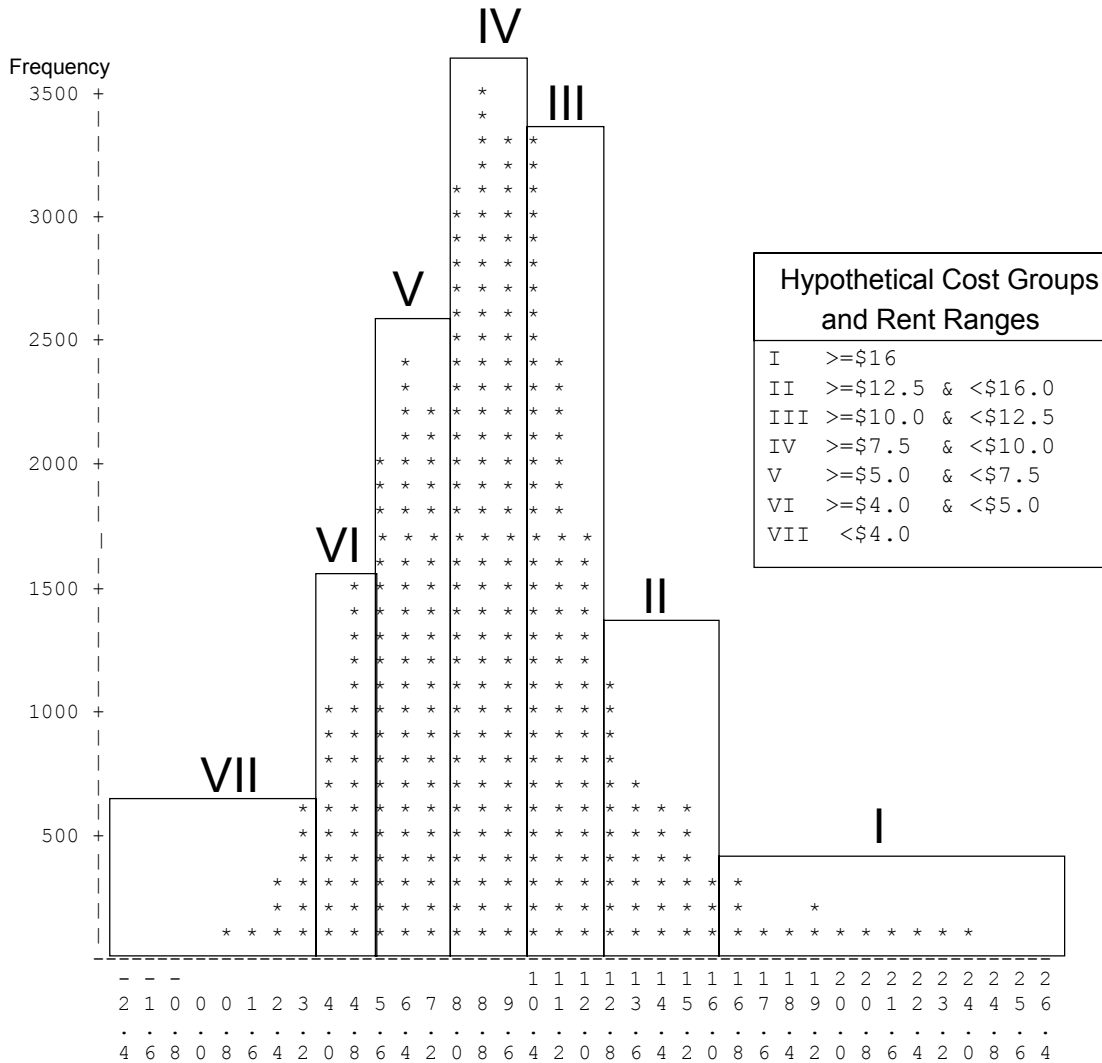
15 Figure 1 shows witness Yezer's cost per square foot frequency
16 distribution for post office box locations with an overlay of seven cost groups
17 (numbered I to VII). This figure gives a view of the longer term goal of a fully
18 cost-based post office box classification system and fee group definition. As can
19 be seen, these seven cost groups reflect the underlying location cost differences
20 and are homogenous (non-overlapping).

on both cost and the historical fee groups.

⁷ This analysis was provided under protective conditions in USPS-LR-I-241/R2000-1.

⁸ I have reduced the CRA post office box cost by an estimate of that portion of Caller Service and Reserve Number cost included in the CRA figure (see USPS-LR-J-111, Part A, WP-3).

Post Office Box Space Cost Per Square Foot Distribution
Classified Into Seven Cost Groups: I to VII



Source: SAS frequency chart of cost per square foot based on witness Yezer's estimates (see Docket No. R2000-1, USPS-LR-I-155. page 37, revised March 31, 2000).

If locations were strictly assigned to these seven fee groups based solely on cost, without regard to fee impact on current customers, average cost per square foot for each group could appropriately be used to allocate Space Provision cost to the boxes in each group. Cost group IV is constructed to be

1 centered near the mean of the cost distribution. Three additional cost groups are
2 constructed to each side of Cost Group IV based on Erent ranges of roughly
3 equal size (except for the tails) to capture the full range of cost variation. These
4 cost groupings serve in conjunction with the current fee groups to guide the cost
5 and historically based classifications proposed in this docket.⁹

6 **C. Proposed Post Office Box Classification Structure**

7 In keeping with section 3622(b), a specific aim of the post office box
8 proposal is still further alignment of fees with costs. In other words, post office
9 boxes having similar costs should be grouped together and have the same fee.
10 This is the concept of fee group “cost homogeneity”. Purely cost homogeneous
11 fee groups would require dividing the continuum of facilities with post office
12 boxes into contiguous, non-overlapping segments. Because of the large
13 difference in the current fees for Groups C5 and D6, however, true cost-based
14 post office box classifications cannot be promulgated in one simple step without
15 unacceptable fee impacts. So a new fee group has been positioned between
16 current fee Groups C5 and Group D6, while all fee groups have been renamed, 1
17 to 7.¹⁰

⁹ See WP-6, compare the distribution of total boxes between current and proposed groups.

¹⁰ Since, the Postal Service proposes to maintain existing Fee Group E, no further need mention of this group is appropriate in the discussion of cost based fees.

Proposed Classifications

The following fee classifications are proposed:

- Group 1: former Group B2 with cost per sq.ft. $\geq$ \$12.50,
and former Group C3 with cost per sq.ft. $\geq$ \$12.50,
- Group 2: former Group B2 with Cost per sq.ft. $<$ \$12.50,
former Group C3 with cost per sq.ft. $\geq$ \$10.00 & $<$ \$12.50,
and former Group C4 with cost per sq.ft. $\geq$ \$10.00,
- Group 3: former Group C3 with cost per sq.ft. $<$ \$10.00,
former Group C4 with cost per sq.ft. $\geq$ \$7.50 & $<$ \$10.00,
and former Group C5 with cost per sq.ft. $\geq$ \$7.50,
- Group 4: former Group C4 with cost per sq.ft. $<$ \$7.50,
and former Group C5 with cost per sq.ft. $\geq$ \$2.50 & $<$ \$7.50,
- Group 5: former Group C5 with cost per sq.ft. $<$ \$2.50,
and former Group D6 with cost per sq.ft. $\geq$ \$10.00,
- Group 6: former Group D6 with cost per sq.ft. $\geq$ \$4.00 & $<$ \$10.00,
and former Group D7 with cost per sq.ft. $\geq$ \$4.00,
- Group 7: former Group D7 with cost per sq.ft. $<$ \$4.00,

Exhibit A, page 1, Table 1, presents this classification proposal in tabular form as a "Transition Matrix". The Transition Matrix depicts the current and proposed fee groups as well as the Erent ranges that define the proposed fee groups. Exhibit A, page 1, Table 2 shows the recombination of boxes in use from the current fee groups to the proposed fee groups and the average Erent for each group. The proposed Fee Group 5 is composed of current Fee Group C5 ZIP Codes with Erent below \$2.50, as well as current Fee Group D6 ZIP Codes with Erent greater than \$10.00. Thus the proposed Fee Group 5 is composed of low cost city delivery and high cost non-city delivery facilities. As such, it forms a "bridge" by which high cost non-city delivery locations can advance towards

1 appropriate higher level fees over time, while lower cost city delivery locations
2 can similarly move towards appropriately lower fee levels.

3 Exhibit A, page 1, Table 2 also displays the average Erent for the current
4 and proposed fee groups. The Erent average for proposed fee Group 5 is
5 \$11.96, reflecting the high cost non-city delivery locations that are commingled
6 with lower cost locations. Proposed Fee Group 6's average Erent is \$7.15, near
7 the mid-point of the $\geq \$4.00$ & $< \$10.00$ cost range for Group 6, indicating progress
8 towards cost homogeneity. With the introduction of the proposed seven fee
9 groups, it is anticipated that increasingly cost homogeneous fee groups can be
10 attained without the introduction of more groups. Exhibit A page 2 shows the box
11 counts for each of the current and proposed groups by size.

12 Given these considerations, the Postal Service proposes to assign post
13 office box service ZIP Codes to the seven location cost-based groups shown
14 above. The proposed fee structure is developed as part of an ongoing, practical,
15 and fair process in which post office box fees are better aligned with their costs,
16 thus sending more appropriate price signals to postal customers and managers.

17 **D. Assessment of the Six Classification Criteria**

18 Section 3623(c) set forth six classification criteria for the Commission to
19 use in defining mail classifications. The proposed post office box classification
20 schedule meets the six classification criteria and will provide immediate and
21 future customer benefits. The proposed classification schedule is more in
22 accordance with the relevant classification criteria than the current schedule.

1 **1. The establishment and maintenance of a fair and equitable**
2 **classification system for all mail**

3 The proposed post office box classification schedule incorporates limits on
4 fee group assignments to mitigate impact for current box customers. It also
5 continues a process whereby post office boxes can be grouped by cost. Thus, a
6 fundamental principle of fairness, pricing in accord with cost causation, is better
7 accommodated.

8 The proposed classification schedule is based on a cost analysis that
9 considers cost at nearly all postal locations. Hence, preconceived selection
10 biases are avoided. Witness Yezer, an expert in location economics, treated
11 every available location in an evenhanded manner. This produced the basis for
12 cost-based groupings. Thus the proposed post office box classifications provide
13 for equitable pricing of post office box services.

14 **2. The relative value to the people of the kinds of mail matter**
15 **entered into the postal system and the desirability and**
16 **justification for special classifications and services of mail**

17 The proposed classification groups increase the desirability of post office
18 box service by apportioning post office box costs to each group and box size in
19 relation to the cost of the resources employed. Many box customers in low cost
20 locations will see fee decreases from the proposed classification, while fees that
21 better reflect costs encourage the efficient allocation of boxes.

22 **5. The desirability of special classifications from the point of**
23 **view of both the user and of the Postal Service**

24 Proper allocation of costs in a price schedule provides accurate price
25 signals to service providers and consumers. Furthermore, consumer choice is

1 then made in terms of the actual cost of the boxes provided while compensatory
2 box revenues will encourage postal managers to provide boxes where demand
3 warrants. On the whole, both service consumers and producers benefit by a
4 price schedule that provides accurate price signals. Thus, a classification
5 schedule that reflects costs and customer impact is desirable from the points of
6 view of the user and the Postal Service.

7 **6. Such other factors as the Commission may deem**
8 **appropriate**

9 Adding a new post office box fee group allows a closing of the fee gap
10 between former Groups C and D. In fact, new Group 5 is proposed as the first
11 group to include both former city and non-city carrier offices. Moving towards a
12 cost-based classification system will help the Postal Service justify more boxes in
13 high cost areas and improve price signals for post office box use in low cost
14 areas.

15 As in Docket No. R2000-1, the fee groups proposed herein still provide
16 immediate customer benefits upon implementation while encouraging future
17 improvements. By recommending the Postal Service's post office box fee
18 restructuring and fee levels proposed in this docket, the Commission will greatly
19 aid the Postal Service in further utilizing the best available information to better
20 meet the pricing and classification criteria of the Postal Reorganization Act.

1 **V. Forecast of Test Year Post Office Box Counts and Revenue**

2 Post office box and caller service continue to be a significant source of
3 revenue for the Postal Service. Post office box revenue¹¹ has increased
4 continuously since postal reorganization. In 1970, post office boxes accounted
5 for about \$44 million dollars. In FY 2000, revenue grew to nearly \$700 million.
6 By 2003, post office box TYBR revenue is projected to be about \$740 million,
7 with about 17 million boxes in use. The complete revenue history is provided in
8 USPS-LR-J-92.

9 Estimates of the price elasticity of demand, the effect of the proposed fee
10 changes on the number of post office boxes in use, are usually used to forecast
11 test year post office box revenue. Traditional market research has not been
12 especially effective in determining price elasticities. In Docket No. MC96-3,
13 Postal Service witness Ellard conducted an opinion survey of post office box
14 holders in an effort to gauge the response of box customers to price changes. In
15 section III, "Findings," of his testimony, he stated:

16 My experience has been that questions regarding the effect
17 of price increases are never well received by respondents.
18 There is a generally a reflexive objection to price increases
19 which turns out to overstate the degree of the objection.¹²

20 Post office box price elasticities for Docket No. R2000-1 were estimated
21 from the 1998 and 1999 POB Surveys (for details, see USPS-LR-I-155/R2001-1,
22 section D).

¹¹ Box revenue includes caller service and reserve call number revenue.

¹² Docket No. MC96-3, USPS-T-6, page 7, ln. 5-16.

1 Unfortunately, time series data counts of boxes in use have not been
2 recorded systematically. Thus statistical analysis that might have been able to
3 separate the effects of price on box use from the effects of changes in other
4 factors, such as income and economic growth, has not been undertaken. With
5 both increases and decreases in price, varying by box size, fee group, and
6 location, the data requirements and technical considerations in making price
7 elasticity estimates are quite complex. Prior attempts have reflected this lack of
8 data by either modifying survey results directly, or developing assumptions
9 concerning box count growth trends and economic factors. At present, the
10 Postal Service is exploring ways to compile post office box data that could be
11 used to discern price effects on box use.

12 Nonetheless, reasonable test year estimates of revenue can still be
13 attained. In this docket, a new approach is used to forecast test year boxes in
14 use and revenue. In essence, the number of boxes in use is forecasted to grow
15 from a baseline period of mid-June 1999 to the Test Year (GFY 2003) at the rate
16 of the population growth for individuals over the age of 22, without regard to price
17 change. In other words, the aggregate effect of the pricing changes being
18 proposed is assumed to be insignificant, compared to population growth, for the
19 purpose of forecasting test year revenue. The growth in the number of postal
20 facilities is related to the growth in population. Hence, the number of post office
21 boxes in use is causally related to the size of the population. This method yields
22 a revenue adjustment factor of 93.2 percent when multiplying estimated box
23 counts times fees -- indicating that the estimated test year box counts and

revenue collections are reasonably accurate. Workpaper 8 presents the derivation of the revenue adjustment factor.

VI. Post Office Box Counts and Costs by Fee Group

A spreadsheet model of the interactions among box counts, costs, fees, and revenues is developed in USPS-LR-J-111, Part A. The workpapers show the derivation of post office box unit costs and the impact of the proposed cost-based classification schedule. My workpapers begin with the attributable test year costs before rates, as determined by the Postal Service's rollforward model (see Workpaper 2). Workpaper 2 shows the allocation of TYBR post office box costs by their assigned cost segments into three categories: 1) Space Provision, 2) Space Support, and 3) All Other. Workpaper 3 shows the caller service and reserve numbers cost adjustments used in Workpaper 2. Workpapers 4 and 5 show similar calculations for TYAR costs. To prorate attributable costs to boxes in use, I have forecasted the number of TYBR boxes in use, by size and fee group. My Workpaper 6 displays summary test year box count data for the current and proposed fee groups based on data collected in the 1999 Facility Profile (FP). These data are used in subsequent worksheets to derive box counts and unit costs for the current and proposed fee groups.

VII. Post Office Box Unit Costs

The TYBR \$659.625 million aggregate post office box costs, including contingency, must be apportioned to the nearly 17 million post office boxes estimated to be in use during the test year to derive their unit costs. The average cost per box for each fee group and box size is calculated. These unit costs

serve as the basis for setting post office box fees. This section mathematically illustrates how aggregate post office box costs and counts are used to calculate unit costs. For any given fee group, the average cost per box is directly related to the amount of space it requires.

The calculation of unit costs begins by assigning the post office box-related test year cost segment amounts to the Space Provision, Space Support, and All Other categories (see Workpaper 2). These assignments are based on each cost segment's relationship to the three sources of cost differences among boxes. The distribution of the cost, including contingency, is:

TYBR (in thousands)	
Space Provision	\$314,656
Space Support	\$217,075
All Other	\$127,894
Total Costs	\$659,625

The equation sets and descriptions below give a generalized exposition of post office box unit cost derivation. For the specific calculations see my workpapers.

Space Provision Costs are rents paid for leased space, imputed rent for owned space, interest expenses, and depreciation costs for floor space located in postal facilities as reported in cost segments 15.1, 20.3, and 20.5. These cost segments are assigned to Space Provision because they are a function of the amount of space required for the installed box capacity at each post office box location, and the location's floor space cost per square foot. In general, these costs are allocated to fee groups and box sizes in proportion to each fee group's average location space cost and amount of installed capacity (expressed in box

1 size one equivalents).¹³ In essence, I use witness Yezer's Docket No. R2000-1
 2 analysis to assign ZIP Codes to fee groups and then to calculate average rent in
 3 each fee group for use as a distribution key in the allocation of Space Provision
 4 costs. The allocation reflects the underlying variations in space cost by ZIP
 5 Code.

6 **A. Capacity Weighted Average Location Cost Per Square Foot by**
 7 **Fee Group.**

8 This set of calculations derives the weighted average location cost per
 9 square foot for each fee group using the number of boxes installed as the
 10 weighting factor, expressed in size 1 box equivalents.

11 Let: $CSQFT_{ij}$ = location cost per square foot, ZIP Code_i, fee group_j,

12 $POBINST_{ij}$ = Installed box count, ZIP Code_i, fee group_j,

13 $CAPFAC_i = (\sum_k (NS_{ki} \times (60 \div SS_k)) \div \sum_k (NS_{ki}),$

14 = Average box size, expressed in box size 1 equivalents, ZIP Code_i,

15 Where:

16 NS_{ki} = Number of size k boxes installed, ZIP Code_i,

17 SS_k = Number of size k boxes held in a standard box section,

18 60 = Number of size 1 boxes held in a standard box section,

19 (k= Box size 1... Box size 5).

¹³ A standard box section holds 60 size one boxes, or 40 size two boxes, or 20 size three boxes, or 10 size four boxes, or 5 size five boxes. Therefore, a size two box is the equivalent of 1.5 size one boxes, a size three box is the equivalent of 3 size one boxes, a size four box is the equivalent of 6 size one boxes, and a size five box is the equivalent of 12 size one boxes.

(Note: Box size distribution is estimated from the 1999 POB sample survey, CAPFAC_i is approximated using current fee group aggregates since ZIP Code level data are not available.)

Then: $R_j = \text{WCOST}_j \div \text{EQCAP}_j$, = weighted average cost per square foot in fee group j,

Where: $\text{WCOST}_j = \sum_i (\text{POBINST}_{ij} \times \text{CAPFAC}_i \times \text{CSQFT}_{ij})$,

$\text{EQCAP}_j = \sum_i (\text{POBINST}_{ij} \times \text{CAPFAC}_i)$.

B. Square Feet Allocation for Each Box Size

The following equations derive the amount of floor space allocated to each box size given the total square feet attributed to post office boxes, the relationship between box sizes and capacity, and the number of boxes installed.

Given: TSF = Total square feet attributed to post office boxes,

POBINST = Total number of boxes installed,

IBSPDIS_k = Share of total boxes that are size k,

S1CAPEQ_k = Size 1 Capacity Equivalent, size k

(k = Box size 1... Box size 5).

Then: $\text{POBINST}_k = \text{POBINST} \times \text{IBSPDIS}_k$

= Total boxes installed, size k,

$\text{BS1EQ}_k = \text{POBINST}_k \times \text{S1CAPEQ}_k$,

= Total size k post office boxes expressed in size 1 boxes,

$\text{SFPBS1EQ} = \text{TSF} \div \sum_k \text{BS1EQ}_k$

= Square feet per size 1 equivalent box,

$$TSQFTA_k = BS1EQ_k \times SFPBS1EQ,$$

= Total square feet attributed to size k boxes,

$$SQFTPBI_k = TSQFTA_k \div POBINST_k$$

= Square feet per box size k.

C. Space Provision Unit Cost by Fee Group by Box Size

Having established the relationships between location space cost and box size in the two sets of equations above, the next set apportions space provision costs to occupied boxes, for each fee group and box size, based on box size capacity and the fee group's weighted average location space cost.

$$SP_{jk} = A(SQFT_{jk} \times R_j) \div OB_{jk}$$

= Space provision cost, by group j, by size k,

$$\text{Where: } SQFT_{jk} = SQFTPBI_k \times IB_{jk}$$

= Square feet of Installed Boxes,

fee group j, size k,

$SQFTPBI_k$ = square feet per box size k,

IB_{jk} = Number of installed boxes, fee group j, size k,

R_j = Weighted Average Cost per square foot, fee group j,

OB_{jk} = Number of occupied boxes, fee group j, size k,

$$A = SPC \div TAR$$

= Adjustment factor to convert from base year calculated space provision cost to rollforward test year rent and depreciation costs.

Where: SPC = Cost Segments 15.1 and 20,
= Total rent and depreciation,

$$\text{TAR} = \sum_k \sum_j (R_j \times \text{SQFT}_{jk})$$

= Total Annual Rent

These three sets of equations allow the aggregate Space Provision costs, as reported by the test year rollforward model, to be allocated to post office boxes in proportion to their box-weighted average location cost per square foot for each combination of fee group and box size capacity.

2) Space Support costs include custodial supplies and services, building supplies and services, maintenance of plant and building equipment (e.g., elevators, heating and air conditioning, fuel, electricity water, protection activities, internal audits, and special investigations). All of these are related to box size, yet do not directly vary by location. These costs are reported in cost segments 11.1.1, 11.1.2, 11.3, 15.2, 16.3.1, and 18.1.2. and are allocated relative to the capacity of each box as measured in cubic feet. For example, a size 5 box, which has 12 times the cubic capacity of a size 1 box, is assigned 12 times the costs for space support. (See Workpapers 15 to 22, 24 to 32, and 36 to 45 for specific Space Support allocation calculations.) Space Support costs per box are derived by first multiplying the number of boxes in each fee group and box size by a factor reflecting the relative capacity of each box size. Each box size is then allocated Space Support costs in relation to capacity. The result is a Space Support cost per box that varies only with box size (not with location).

3) All Other costs are primarily labor costs for window service, and related supervisory and personnel costs. The costs are contained in cost segments 1, 2,

1 3, 6, 7, 18 and 20. Costs in the All Other category are allocated proportionally to
2 the number of boxes because labor costs do not depend on box size or location.
3 The result is a cost per box that is constant across all fee groups.

4 Allocation factors are created for each of the above three cost categories
5 in Workpapers 14, 24, and 36. These factors are All Other Cost per box in use
6 (line 25, column g), Space Support Cost per square foot (line 27, column g), and
7 Space Provision Cost in relation to total annual rent (line 30, column g). These
8 inputs are used in Workpapers 15 to 22, 25 to 32, and 37 to 44 to apportion test
9 year attributable costs to the current and proposed fee groups, both TYBR and
10 TYAR. These workpapers calculate total unit costs by box size for each
11 proposed fee group as well.

12 Workpaper 46 gives detailed, cell level summations of test year annual
13 unit cost, box counts, and revenues.

14 **VIII. Pricing Post Office Box and Caller Service**

15 Post office box service is offered for a fee to those customers who desire
16 additional, or alternative, delivery locations and times, in addition to the free
17 carrier delivery option for which they are eligible.

Post office box fees have changed ten times since Postal Reorganization.

Table 1.

Year	Overall Average
1975	22%
1978	38%
1981	8%
1985	15%
1988	34%
1991	25%
1995	14%
1997	9%
1999	11%
2001	9%

Source: USPS-LR-J-93.

A variety of factors may motivate individuals and businesses to choose post office box service. Time and location of delivery are likely key factors. For example, some individuals may have strong location preferences, perhaps preferring to receive their mail near their place of employment, or some other convenient location. Also, some customers prefer mailing addresses within notable ZIP Codes, areas, or cities. Earlier mail receipt at a post office box may allow a business to process and ship orders sooner, or it may improve cash flow by allowing payments to be deposited earlier. For some customers, additional mail separations for specific purposes may be the salient factor. For example, some individuals may prefer a separation of their business mail from their residential mail. Some business may also prefer multiple separations -- billing and executive correspondence, or for specific departments within their

organizations. Others may appreciate a higher level of mail security in post office box service than carrier delivery receptacles, while some customers may prefer not to disclose their physical addresses. In short, numerous factors may influence individuals or businesses to value post office box service over alternatives.

Post office box service is available at over 30,000 post office locations. Boxes come in five sizes, but all five sizes are not always available at every location. Box customers and post office employees work together to determine which size is appropriate to customers' needs. Customers may ask for, or be asked to move to, a larger size box if their current box is too small to handle the volume of mail received. Caller service is available for customers whose mail volume exceeds the space limitations of the largest size box.¹⁴

A. Proposed Post Office Fees

The Postal Service is proposing the following fees for post office boxes.

Table 2.

R2000-1 Proposed Fees					
	Box Size				
Group	1	2	3	4	5
1	\$ 35.00	\$ 50.00	\$ 100.00	\$ 205.00	\$ 330.00
2	\$ 29.00	\$ 45.00	\$ 80.00	\$ 170.00	\$ 315.00
3	\$ 24.00	\$ 38.00	\$ 68.50	\$ 118.00	\$ 209.00
4	\$ 19.00	\$ 34.00	\$ 63.00	\$ 110.00	\$ 175.00
5	\$ 13.00	\$ 22.00	\$ 34.00	\$ 65.00	\$ 125.00
6	\$ 12.00	\$ 18.50	\$ 33.00	\$ 60.00	\$ 97.00
7	\$ 9.00	\$ 13.00	\$ 23.00	\$ 40.00	\$ 70.00

These fees represent both increases and decreases for current box holders when compared to their current fees. Exhibit B, page 1, contains the

1 “Transition Matrix” for the current fee groups on the left and shows the proposed
2 fee groups and fees on the right.

3 **Additional or Replacement Key Fee**

4 Post office box customers receive their first two keys at no charge.¹⁵
5 However, the key duplication or replacement fee is charged for additional keys.
6 Customers benefit from this service. For example, customers may desire
7 additional keys for more than one of their employees, or perhaps for family
8 members. The key duplication unit cost has increased by 8.7 percent from the
9 Docket No. R2000-1 cost study performed (see Workpaper 52). The Postal
10 Service proposes to increase the additional or replacement key fee by 10
11 percent, from \$4.00 to \$4.40. This proposed 10 percent fee increase is
12 reasonable and similar to other percentage increases in this subclass.

13 **Customer Initiated Post Office Box Lock Change Fee**

14 The ability to have a post office box lock changed is a highly valuable
15 service for some customers. There are many different reasons a customer could
16 have for requesting a lock change. Perhaps a key was lost, or provided to former
17 friends or colleagues, and the customer has security concerns. The availability
18 of this service adds to the total value of post office box service.

19 Cost have increased by nine percent since Docket No. R2000-1 (see
20 Workpaper 52). The Postal Service proposes to increase this fee by 10 percent,
21 from \$10 to \$11.

¹⁴ See DMM, D910.3.5, “overflow”.

¹⁵ A refundable deposit is charged for all keys, DMM D910.7.1.

B. Caller Service and Reserve Number Proposal

Caller service allows business customers to pick up their box mail at a post office call window or loading dock during the time the office is open. Caller service customers are allowed to choose the times they want to pick up their mail as it is being cased and, therefore, can have increased access to their mail if the box section is not open. Like box service, caller service enables companies to transact business early in the day.

In Docket No. R97-1, a single caller service fee was established. In Docket No. R2000-1, the caller service fee was increased from \$275 per semiannual period to \$375 per semiannual period, or 36.4 percent.¹⁶

Since Docket No. R2000-1, costs have increased by 7.3 percent (Workpaper 47). The Postal Service proposes to increase the caller service fee to \$412 per semiannual period, or 9.9 percent. This would yield an implicit cost coverage of 122.0 percent.

Reserve number is a service that allows a company to reserve a box number for future caller service use. Businesses find this useful if they are planning a promotion, campaign or advertisement and would like to know the number in advance.

The reserve call number fee increased 20 percent in 1999. In 2001, the fee decreased by 16.6 percent, from \$36 to \$30 per year.¹⁷

¹⁶ See USPS-LR-J-93 for a detailed fee history.

¹⁷ Ibid.

1 Reserve number costs have increased by 6.4 percent since Docket No.
 2 R2000-1. The Postal Service proposes to increase the reserve number fee by
 3 6.7 percent, from \$30 to \$32 annually.

4 **Table 3.**

5 **Caller Service and Reserve Number Fees**

<u>Item</u>	<u>Current Fee</u>	<u>Proposed Fee</u>	<u>Percentage Change</u>
Caller Service (semi-annual)	\$375	\$412	9.9%
Reserve Number (annual)	\$30	\$32	6.7%

6 **C. Assessment of the Nine Pricing Criteria**

7 The proposed post office box, caller service, and reserve number fees
 8 harmonize with the proposed post office box fee group classification refinements.
 9 Together, they meet the nine statutory pricing criteria for this subclass.

10 The proposed fees take into consideration the impact for current box
 11 customers by limiting fee group re-assignments from current to proposed fee
 12 groups, thereby limiting price change impacts. However, the proposed fees are a
 13 progression towards better fulfilling a fundamental principle of pricing equity, the
 14 principle of “cost causality”. Pricing a product in accordance with cost means a
 15 given consumer pays a price that covers the cost of the resources used in
 16 providing the service consumed. Applying this equitable pricing principle to post
 17 office box service means that box customers who choose services that are more

1 costly to provide, such as larger box sizes or more costly locations, pay higher
2 fees than those customers who choose less costly services and locations.

3 **1. The establishment and maintenance of a fair and equitable**
4 **schedule**

5 The proposed fees for post office boxes and caller service are fair and
6 equitable. The proposed post office box fees and fee groups represent another
7 step towards the long-term goal of cost and fee alignment, *i.e.*, in accord with the
8 principle of cost causation. The proposed fees are more “fair and equitable” than
9 the current fees, in part, because those customers who utilize box service in
10 higher cost locations will pay a larger share of the revenue burden than those
11 customers who utilize box service in lower cost locations. Furthermore, the
12 proposed fees can be considered fair and equitable since the attributable costs of
13 the total service are recovered from post office box, caller service and reserve
14 number customers.

15 The proposed additional key and lock replacement fees also satisfy the
16 statutory pricing criteria. The fees are fair and equitable, since the cost is
17 recovered from those customers who receive the benefit of the service. The
18 proposed post office box lock change fee covers the cost of the service and
19 makes a reasonable contribution to other costs. The proposed 10 percent
20 increase is reasonable in view of the valuable benefit, the cost increase, and the
21 other fee increases for this service. The customer initiated post office box lock
22 change fee is fair and equitable, since the costs are recovered from customers
23 who request the lock change.

2. The value of the mail service actually provided each class or type of mail service to both the sender and the recipient, including but not limited to the collection, mode of transportation, and priority of delivery

Customers choose post office box and caller service as an alternative to free delivery for at least some portion of their mail and are willing to pay for the benefits these services can provide. Thus, these services, including post office box additional or replacement keys, are high value services. Post office box service may provide customers with more convenience, protection, privacy, and more desirable addresses than free delivery options. Also, post office box service, when compared to carrier delivery from the same post office, can offer earlier access, or speed of delivery.

Caller service provides high value to customers who choose it as an alternative to carrier delivery. Caller service customers are able to pick up their mail early in the day to process orders and financial transactions. A caller who, as a regular practice, wants to call for mail at a postal facility more than once in any 24-hour period can do so with the postmaster's approval of the pickup schedule (see DMM D920.3.1). Caller service also provides customers with a means to receive post office box type service when their volumes are too large for post office box service, or on occasion, when post office boxes are not available at a particular location. These customers likely realize a high service value.

Reserve number customers value this service highly, since it promises to hold a specific number for their use in the future. For example, organizations preparing advertising campaigns, or product packaging items, need to inform

1 their clients and customers of the appropriate address for response to the
2 advertisement. Moreover, printing advertising materials typically requires a long
3 lead-time

4 **3. The requirement that each class of mail or type of mail**
5 **service bear the direct and indirect postal costs attributable to**
6 **that class or type plus that portion of all other costs of the**
7 **Postal Service reasonably assignable to such class or type**

8 The proposed post office box and caller service fees will generate
9 revenues that recover the attributable test year costs and contingency, as well as
10 contribute to the Postal Service's general revenue requirement.

11 In the past, low post office box cost coverage resulted from the many
12 below-cost cells. However, with the comprehensive fee group reclassification
13 introduced in Docket No. R2000-1 and the proposed further fee group refinement
14 and fees proposed in this docket, fees cells that do fall below cost do so to a
15 lesser extent. Compare Workpaper 23, lines 23-29 with Workpaper 45 lines 22-
16 29. Moreover, the implicit cost coverage for post office box service has
17 increased from only 102.5 percent to a more reasonable 120.4 percent
18 (Workpaper 33, line 31, cols g-h). Also, the proposed additional key and
19 customer initiated lock replacement fees cover the cost of these services and
20 make a reasonable contribution to other costs.

21 The proposed caller service fee revenue covers the cost of the service
22 and contributes moderately to other costs, while the proposed reserve number
23 fee revenue also recovers the cost of the service and contributes substantially to
24 other costs.

1 Post office box and caller service, including reserve number, proposal
2 increases TYAR revenue compared to TYBR revenue by 14.5%, yielding a TYAR
3 cost coverage of 129.5%.

4 **4. The effect of rate increases upon the general public,**
5 **business mail users, and enterprises in the private sector of**
6 **the economy engaged in the delivery of mail matter other than**
7 **letters**

8 The effect of the proposed fees on the various post office box customers
9 was carefully considered. Fees are proposed to both increase and decrease.
10 Overall, the proposed post office box fee changes result in a 15 percent increase
11 in revenue. Though fee cells percentage changes range between positive 39.3
12 percent to negative 32.0 percent, the proposed fees do not represent a
13 substantial outlay in absolute terms for most customers. The highest dollar
14 increase is an \$80.00 semi-annual increase for box Size 5 proposed to move
15 from fee Group C3 to Fee Group 1. Since large boxes are typically used for
16 commercial purposes, this increase should not prove too burdensome to the
17 large volume business customers who use this box size. More typically, 96
18 percent of current box holders would experience semi-annual fee changes of
19 \$10.00 or less (see Exhibit USPS-38B, page 3). Further, the effect of the
20 additional key and customer initiated post office lock change fees should not
21 present an undue hardship on customers as they only apply when necessary.
22 Also, the effect of this proposed fee's increase should not present an undue
23 hardship on customers given the fee's size. This fee would only be charged
24 when a customer needs extra keys or a lock change. It is anticipated that most

1 customers will likely never pay this fee, since most customers will be satisfied
2 with two keys and the lock originally provided.

3 The caller service fee is proposed to increase by 9.9 percent. This
4 increase is near the current system wide average of 8.8 percent, and in
5 alignment with the general level of proposed increases.

6 Given the higher cost coverage for reserve number service, with respect
7 to the other part of this service, the fee is proposed to increase by only \$2.00
8 annually, from \$30 per year to \$32 per year. The proposed fee increase should
9 not adversely affect customers while continuing to reflect reserve number's high
10 value.

11 In sum, since Docket No. R2000-1, the attributable costs, not including
12 contingency, for post office boxes and caller service have risen by 12.2 percent,
13 from \$582,879,000 to \$653,888,000. In light of the general increase in prices
14 within the economy, and the statutory requirement that this service recover its
15 cost, the proposed overall fee increases are reasonable, rising 14.5 percent. The
16 proposed fees for this sub-class should not unduly impact the general public,
17 business mail users, or organizations in the general economy.

18 **5. The available alternative means of sending and receiving**
19 **letters and other mail matter at reasonable costs**

20 There are many available alternatives for post office box service. First,
21 for eligible customers, there is free delivery. Secondly, there are many
22 commercial mail receiving agents (CMRAs) that typically charge much higher
23 service fees than the Postal Service.

24 Caller service customers have available alternatives.

7. Simplicity of structure for the entire schedule and simple, identifiable relationships between rates or fees charged the various classes of mail for postal services

The proposed post office box fee schedule is simple and promotes identifiable fee relationships to the greatest extent practical. A little additional complexity is needed to accommodate the transition to a more cost-based fee structure. For example, an additional fee group is needed to avoid undue fee impact on customers as city and non-city carrier offices converge into cost-based groups. Although one more fee group has been added, it is important to consider that the proposed fees are based on the new cost groups and represent more fair and equitable fees that are better aligned with costs.

The proposed caller service, reserve number, additional key and customer initiated lock replacement fees remain simple in design, each having only one fee cell.

9. Such other factors as the Commission deems appropriate

In its Docket No. R2000-1 Opinion, the Commission suggested that the Postal Service examine ways to introduce discounted fees at locations having a disproportionately high level of boxes not in use.¹⁸ The Postal Service has considered that suggestion and believes that the time is not yet ripe to introduce such discounts, partly due to the complexity of identifying and defining “under utilization”, while fee groups are re-aligned with costs as proposed in this docket. Assuming that the current proposals are realized, the Postal Service intends to further monitor box use in response to price change at the local level and re-

1 evaluate the efficacy of utilization discounts in the future. In any event, the
2 Postal Service realizes the need to encourage the public's full utilization of
3 currently installed boxes, as well as the need to have fees that allow for the
4 economically justified expansion of service to those customers desiring service in
5 high cost areas.

6 **D. Conclusion – Post Office Box and Caller Service**

7 The Postal Service believes the proposed classification and pricing
8 changes meet the statutory classification and pricing criteria for post office box
9 and caller service. In particular, the proposed post office box fees should be
10 evaluated in light of the ongoing need to further increase fee alignment with
11 costs. The Postal Service has used the most accurate data available in
12 preparing the proposals for this docket. However, as before, the Postal Service
13 plans to utilize the best available data at the time of implementation for actual fee
14 assignment for post office boxes. The Postal Service plans to revalidate local
15 space cost estimates and current fee assignments, accounting for any changes,
16 prior to actual implementation of the fees proposed in this docket.
17 Implementation plans call for data components, such as current fee group
18 assignment, to be verified by field personnel as well. This should ensure that
19 actual post office box fee assignments are reasonably accurate and consistent
20 with the fee structure and pricing formulae which form the foundation for the
21 proposed post office box fees proposed in this docket. Post-implementation
22 corrections may also be made. This will allow the use of the highest quality space

¹⁸ PRC Op., R2000-1, Vol. 1, at 540.

1 cost estimates and fee assignment data available, before and after
2 implementation.

3 **IX. Special Handling**

4 **A. Description**

5 Special handling provides expedited handling for Package Services and
6 First-Class Mail (including Priority Mail) during processing and transportation.
7 Special handling fees vary by weight. C.O.D., insurance, and return receipt for
8 merchandise services may be added. This service is required for items
9 containing live poultry, crickets, honey bees, or similar items, unless sent at First-
10 Class Mail rates.

11 **B. Volume and Revenue Trends**

12 Special handling volume remained fairly consistent throughout the
13 1970s. From 1978 to 1986 volume declined sharply, to 1.6 million pieces. From
14 1987 to 1998, annual volume continued to decline, remaining well below one
15 million pieces and reaching a low of 39 thousand pieces in 1998. However, with
16 the extended availability of Special Handling for First Class Mail (including
17 Priority Mail) pieces in January 1999, a sharp increase in volume was reported in
18 Revenue Pieces and Weight (RPW) statistics. Volume in FY2000 reached 1.4
19 million pieces. A complete volume and revenue history is provided in USPS-LR-
20 J-92.

21 Special handling revenue declined in conjunction with volume. In the
22 years since 1987, estimates of volume and revenue have fluctuated as volume

1 dropped below 800,000 pieces. Even though the most recent estimates indicate
2 a sharp turnaround in volume and revenue trends, perhaps due to the availability
3 of service for First-Class Mail, caution must be taken in interpreting the FY 2000
4 data.

5 **C. Cost Estimation Difficulties**

6 Difficulties in explaining special handling unit costs were noted by the
7 Commission in Docket No. R2000-1.¹⁹ In that docket, witness Daniel maintained
8 that the CRA may not accurately capture special handling costs. She noted that
9 the Postal Service had not been able to gather data for a special handling cost
10 study (Docket No. R2000-1, USPS-T-28, at 30-31). In light of the lack of cost
11 data, the Postal Service did not seek any change to the special handling fees at
12 that time.

13 Special handling costs for First-Class Mail pieces were allocated to First-
14 Class Mail costs rather than special handling in the base year CRA. On the other
15 hand, the base year RPW did recognize the special handling First-Class Mail
16 pieces when that service when that service became available in January 1999.
17 Thus, there is a mismatch between the reported aggregate cost and pieces for
18 special handling. Therefore, a reliable unit cost estimate is not currently
19 available.

¹⁹ PRC Op., R2000-1, Vol. 1, at 588.

D. Fee History

The fees for special handling have increased eight times since Postal Reorganization, in 1976 (twice), 1978, 1981, 1985, 1988, 1991, and 1995. A detailed fee history for special handling is presented in USPS-LR-J-93.

E. Proposal

Special Handling fees have not increased since 1995, nearly seven years ago. The Postal Service proposes to increase special handling fees by 10 percent. The table below presents the current and proposed special handling fees and percent change.

Table 4.

Special Handling

<u>Description</u>	<u>Current Fee</u>	<u>Proposed Fee</u>	<u>Percentage Change From Current to Proposed Fee</u>
Up to 10 pounds	\$5.40	\$5.95	10.2%
Over 10 pounds	\$7.50	\$8.25	10.0%

F. Assessment of the Nine Statutory Criteria

1. The establishment and maintenance of a fair and equitable schedule

The proposed fees for special handling service are fair and equitable. Special handling fees were last changed in 1995. A ten percent increase is modest over this time period, when system-wide price increases in January 1999, January 2001, and June 2001, were 3 percent, 4.6 percent, and 1.6

percent, respectively, representing a nearly 10 percent compounded increase. Special Handling customers should not benefit from a constant fee when most customers are incurring substantial increases. In summary, the proposed fees are fair and equitable and reflect a balanced consideration of the criteria.

2. The value of the mail service actually provided each class or type of mail service to both the sender and the recipient, including but not limited to the collection, mode of transportation, and priority of delivery

Customers who choose special handling are willing to pay fees similar to the current fee levels for the benefits this service provide. Special handling is a high value service to customers whose mailings require extra handling effort and transportation consideration, such as live animals.

3. The requirement that each class of mail or type of mail service bear the direct and indirect postal costs attributable to that class or type plus that portion of all other costs of the Postal Service reasonably assignable to such class or type

The proposed special handling fees will result in revenues that are more likely to recover the associated test year costs and contingency, as well as contribute to other costs. Though unit cost measurement difficulties are recognized, there is no reason to believe that costs have stayed constant, or declined, since 1995 – the last time the special handling fees were changed.

4. The effect of rate increases upon the general public, business mail users, and enterprises in the private sector of the economy engaged in the delivery of mail matter other than letters

The proposed special handling fees represent a 10 percent increase since they were last increased in 1995. A 10 percent increase over an 8-year period should not be burdensome.

5. The available alternative means of sending and receiving letters and other mail matter at reasonable costs

Special handling service is a requirement for certain items, such as live animals (DMM S930.1.4). Hence there are no available alternatives that the Postal Service offers. However, there are other means for expediting handling, such as the use of Priority Mail.

6. The degree of preparation of mail for delivery into the postal system performed by the mailer and its effect upon reducing costs to the Postal Service

Special handling mailers must prepare items, in the case of live animals, in a way that protects from harm. Working together, mailers and the Postal Service give these items additional preparation and handling that aids the prevention of avoidable costs during handling, or for clean-up, or disposal.

7. Simplicity of structure for the entire schedule and simple, identifiable relationships between rates or fees charged the various classes of mail for postal services

The proposed special handling fee schedule is simple, composed of only two fee cells distinguished by weight.

X. Parcel Airlift

A. Description

Parcel airlift service provides air transportation of parcels on a space-available basis to or from military post offices (MPOs) outside the 48 contiguous

1 states (from the post office of origin to the appropriate port of embarkation) for
2 onward dispatch to other overseas MPOs or (from the port of embarkation for
3 onward dispatch) to a post office within the 48 contiguous states.

4 Parcel airlift service is available for Package Services Mail that does not
5 exceed 30 pounds in weight or 60 inches in length and girth combined, when it is
6 mailed at or addressed to any overseas military post office outside the 48
7 contiguous states.

8 Certificate of mailing, insured mail, restricted delivery (if insured for more
9 than \$50), return receipt (if insured for more than \$50) and special handling
10 services may be combined with parcel airlift service if the applicable standards for
11 the services are met and the additional fees paid.

12 **B. Volume and Revenue Trends**

13 Parcel airlift volume was 6.8 million pieces in 1970 compared to about
14 8,000 pieces projected in test year 2003. Parcel airlift revenue has decreased
15 significantly since Postal Reorganization, resulting from the substantial volume
16 decrease (see USPS-LR-J-92 for a detailed listing).

17 **C. Fee History**

18 The fees for parcel airlift have decreased once and been increased three
19 times since Postal Reorganization. In 1978, separate fees based on weight were
20 established and the fee for up to 2 pounds was decreased 75 percent, the fee for
21 over 2 up to 3 pounds was decreased 50 percent, and the fee for over 3 up to 4
22 pounds was decreased 25 percent. In 1981, the fees increased 20 percent, and
23 in 1991, the fees increased 17 percent. As a result of Docket No. R94-1, in 1995

the fee for up to 2 pounds increased 14 percent, the fee for over 2 up to 3 pounds increased 7 percent, the fee for over 3 up to 4 pounds increased 10 percent, and the fee for over 4 pounds increased 11 percent. The fees have not been increased since 1995.²⁰

D. Proposal

The Postal Service proposes to increase the current fees for parcel airlift as near to ten percent as rounding considerations allow. The table below presents the current and proposed parcel airlift fees, and percentage change.

Table 5.

<u>Description</u>	<u>Parcel Airlift</u>		<u>Percentage Change from Current to Proposed Fee</u>
	<u>Current Fee</u>	<u>Proposed Fee</u>	
Up to two pounds	\$.40	\$.45	12.5%
Two to three pounds	\$.75	\$.85	13.3%
Three to four pounds	\$1.15	\$1.25	8.7%
Over four pounds	\$1.55	\$1.70	9.7%

E. Assessment of the Nine Statutory Criteria

1. The establishment and maintenance of a fair and equitable schedule

The proposed fees for parcel airlift service are fair and equitable. Parcel airlift fees were last changed in 1995. A ten percent increase is modest over this

²⁰ A detailed fee history for parcel airlift is presented in USPS-LR-I-93.

1 time period, when system-wide price increases in January 1999, January 2001,
2 and June 2001, were 3 percent, 4.6 percent, and 1.6 percent, respectively,
3 representing a nearly 10 percent compounded increase. Parcel airlift customers
4 should not benefit from a constant fee when most customers are incurring
5 substantial increases. In summary, the proposed fees are fair and equitable and
6 reflect a balanced consideration of the criteria.

7 **2. The value of the mail service actually provided each class or**
8 **type of mail service to both the sender and the recipient,**
9 **including but not limited to the collection, mode of**
10 **transportation, and priority of delivery**

11 Customers who choose parcel airlift are willing to pay fees similar to the
12 current fee levels for the benefits this service provide. Parcel airlift is a high
13 value service to customers desiring airlift for their parcel post mailings to MPOs.

14 **3. The requirement that each class of mail or type of mail**
15 **service bear the direct and indirect postal costs attributable**
16 **to that class or type plus that portion of all other costs of**
17 **the Postal Service reasonably assignable to such class or**
18 **type**

19 The proposed parcel airlift fees will result in revenues that are more likely
20 to recover the associated test year costs and contingency, as well as contribute
21 to other costs.

22 **4. The effect of rate increases upon the general public,**
23 **business mail users, and enterprises in the private sector of**
24 **the economy engaged in the delivery of mail matter other**
25 **than letters**

1 The proposed parcel airlift fees represent a 10 percent increase since they
2 were last increased in 1995. A 10 percent increase over an 8-year period should
3 not be burdensome.

4 **5. The available alternative means of sending and receiving**
5 **letters and other mail matter at reasonable costs**

6 Priority Mail is another means for expediting handling and in many cases
7 is less expensive than parcel post combined with parcel airlift fees.

8 **7. Simplicity of structure for the entire schedule and simple,**
9 **identifiable relationships between rates or fees charged the**
10 **various classes of mail for postal services**

11 The proposed parcel airlift fee schedule is simple, composed of only four
12 fee cells distinguished by weight.