

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

---

EXPERIMENTAL PREMIUM  
FORWARDING SERVICE

---

Docket No. MC2005-1

INITIAL BRIEF OF THE UNITED STATES POSTAL SERVICE  
IN SUPPORT OF THE STIPULATION AND AGREEMENT  
(March 21, 2005)

Pursuant to Presiding Officer's Ruling No. MC2005-1/6, the United States Postal Service hereby files this Initial Brief in support of the Stipulation and Agreement filed on March 1, 2005.

I. PROCEDURAL HISTORY

On November 19, 2004, the Postal Service filed a Request asking the Postal Rate Commission (Commission) to issue a decision recommending the implementation of an experimental classification and fees for the provision of Premium Forwarding Service (PFS).<sup>1</sup> Under PFS, the Postal Service would reship all of the mail of a customer who has temporarily relocated for a period between two weeks and one year; most of the reshipped mail would be packaged in a weekly Priority Mail shipment. The PFS experiment would be effective for two years, with an extension if a request for a permanent classification change is pending upon conclusion of the two-year period.<sup>2</sup> The Request was accompanied by the testimonies of four witnesses: Arnetta L. Cobb (USPS-T-1), Beth B. Rothschild (USPS-T-2), Abdulkadir M. Abdirahman (USPS-T-3), and Samuel J. Koroma (USPS-T-4). In addition, the Postal Service requested that the Commission establish settlement procedures.<sup>3</sup>

---

<sup>1</sup> Request of the United States Postal Service for a Recommended Decision on Experimental Premium Forwarding Service (November 19, 2004). As part of its Request, the Postal Service asked the Commission to conduct its proceedings under its expedited procedures for considering experiments, 39 C.F.R. §§ 3001.67-67d, noting that data helpful to determining whether to request a permanent classification and fee change need to be collected. Request at 3-4.

<sup>2</sup> See Request at 4-5.

<sup>3</sup> See United States Postal Service Request for Establishment of Settlement Procedures (November 19, 2004).

In Order No. 1425, issued on November 23, 2004, the Commission noticed the Request and established settlement procedures, appointing Postal Service lead counsel as settlement coordinator. The Commission also established December 20, 2004 as the deadline for filing notices of intervention, in which participants were directed to indicate whether they would seek a hearing.<sup>4</sup> Two parties ultimately intervened in the proceeding: Mr. David B. Popkin and Mr. Douglas F. Carlson. In addition, the Commission designated the Office of the Consumer Advocate (OCA) to represent the interests of the general public. None of the participants requested a hearing or presented testimony; instead, discovery consisted entirely of interrogatories and requests for production directed to the Postal Service.

Following a settlement conference coordinated by the Postal Service on January 6, 2005, the Commission held a pre-hearing conference on January 7, 2005, in which the Postal Service indicated that the prospects for a settlement were promising.<sup>5</sup> The Chairman allowed a continuation of settlement procedures, and directed the Postal Service to inform the Commission of their progress.<sup>6</sup> The Postal Service was ultimately able to agree on the terms of a settlement with the OCA and Mr. Carlson, and on March 1, 2005 filed a motion requesting that the Commission base its recommended decision on the terms of that Stipulation and Agreement.<sup>7</sup> As noted in the Postal Service's motion, the Stipulation and Agreement embodies two revisions to the PFS proposal as originally filed: an expanded data collection plan, and a revised version of proposed

---

<sup>4</sup> The Commission also established December 20, 2004 as the deadline for participants to comment on the Postal Service's request that the Commission utilize its procedures for experimental cases, Rules 67-67d. After none of the participants objected, the Commission agreed to consider this case under those procedures. See Tr. 1/5.

<sup>5</sup> See *id.*

<sup>6</sup> See Tr. 1/7. The Postal Service ultimately filed two written reports on the status of settlement discussions. See Report of the United States Postal Service Regarding Status of Settlement Discussions (January 31, 2005); Second Written Report of the United States Postal Service Regarding Status of Settlement Discussions (February 14, 2005). A third report was due to be filed on March 2, 2005, but the Postal Service submitted the Stipulation and Agreement, attached to a Motion asking the Commission to base its recommended decision on the Stipulation and Agreement, in lieu of filing that report. See Motion of the United States Postal Service for Consideration of Attached Stipulation and Agreement as the Basis for Recommended Decision (March 1, 2005)

<sup>7</sup> See Motion of the United States Postal Service for Consideration of Attached Stipulation and Agreement as the Basis for Recommended Decision (March 1, 2005).

DMCS section 937.11. Three of the four participants have signed the Stipulation and Agreement.<sup>8</sup>

On March 11, 2005, the Presiding Officer established a final procedural schedule, calling for initial briefs to be filed by March 21, 2005.<sup>9</sup> This brief is being filed in accordance with that schedule and Paragraph 4 of the Stipulation and Agreement.

II. THE PFS EXPERIMENT SHOULD BE RECOMMENDED BASED ON THE TERMS OF THE STIPULATION AND AGREEMENT.

The signatories to the Stipulation and Agreement agree that the direct testimony accompanying the Postal Service's Request and the designated written cross-examination provide substantial evidence supporting and justifying a Commission decision recommending the proposed experimental PFS classification and fees.<sup>10</sup> The signatories also agree that the stipulated DMCS and Fee Schedule changes are in accordance with the relevant provisions of the Postal Reorganization Act.<sup>11</sup> The Commission should agree with the signatories, and should accordingly issue a recommended decision recommending the PFS experiment on the terms laid out in the Stipulation and Agreement.

A. The PFS Experiment is Consistent with § 3623 Because it Provides Benefits to Both Customers and the Postal Service.

The proposed PFS experiment is expected to be a valuable and attractive supplement to the existing options available for addressees who temporarily relocate, and is expected to provide financial benefits to the Postal Service. For these reasons, the proposed experiment is consistent with the classification criteria of § 3623.

The Postal Service expects that PFS would be attractive to many addressees who temporarily relocate because it supplements the options currently available for those addressees (temporary forwarding, permanent forwarding, and hold mail) with

---

<sup>8</sup> See *id.* (Postal Service signature page attached); Office of the Consumer Advocate Notice of Filing of Signature Page for Stipulation and Agreement (March 4, 2005); Douglas F. Carlson Notice of Filing of Signature Page to Be Appended to the Stipulation and Agreement (March 8, 2005).

<sup>9</sup> See Presiding Officer's Ruling No. MC2005-1/6.

<sup>10</sup> Stipulation and Agreement ¶ 2.

<sup>11</sup> *Id.* at ¶ 3.

service features that are not available through those options. In particular, whereas forwarding only provides for the piece-by-piece forwarding of certain classes of mail to a temporary address, PFS would involve the reshipment of all of a customer's mail, most of which would be in a single weekly shipment sent via Priority Mail each Wednesday.<sup>12</sup> The combination of these features—a weekly shipment, a designated shipment date, and the use of Priority Mail—means that PFS customers would receive substantially all of their mail in a single package that is predictably and consistently delivered, in contrast to the more sporadic results characteristic of forwarding.<sup>13</sup> Overall, PFS should prove to be a valuable and reliable service for customers who wish to “maintain their professional, personal, and community ties with their local areas while temporarily away.”<sup>14</sup>

The manner in which mail would be reshipped under PFS reflects the fact that PFS is proposed as a premium service whose intent would be to expedite the delivery of all of a customer's mail to the temporary address. Consistent with this goal, the weekly PFS shipment, as well as parcels that are not in a class that already receives a high speed of delivery (that is, parcels that are not Express Mail, Priority Mail, or First-Class Mail), would be sent via Priority Mail.<sup>15</sup>

The Postal Service also expects this proposed experiment to have a positive financial effect, though overall the impact of the experiment is expected to be minor. As noted by witness Koroma, the risk presented to the Postal Service by this experiment is slight, considering all of its costs are volume-variable.<sup>16</sup> In addition, witness Koroma calculates that the proposed experiment should result in a contribution, although one

---

<sup>12</sup> See USPS-T-1 at 1-2, 7-10.

<sup>13</sup> See Responses of Postal Service Witness Cobb to OCA/USPS-T1-8 and DBP/USPS-T1-56.

<sup>14</sup> See USPS-T-4 at 3. As such, §§ 3623(c)(2), (3), and (5) all favor the recommendation of the proposed PFS experiment.

<sup>15</sup> See Responses of Postal Service Witness Cobb to OCA/USPS-T1-12-13. Standard Mail and Package Services parcels that are reshipped outside the PFS package would be sent Priority Mail postage due. Oversized Parcel Post packages, however, would be reshipped postage due at the appropriate Parcel Post oversized rate, because they are ineligible to be sent via Priority Mail. See Response of Postal Service Witness Cobb to DBP/USPS-T1-75.

<sup>16</sup> See USPS-T-4 at 11.

that is modest,<sup>17</sup> which is reflective of the minor impact that this experiment should have.<sup>18</sup>

B. The Proposed Charges are Consistent with § 3622 and the Experimental Nature of the Proposal.

The Stipulation and Agreement endorses a one-time enrollment fee of \$10.00 and a weekly per-shipment charge of \$10.00, which consists of a repackaging fee (\$2.85) and the three pound, zone 6 Priority Mail rate (\$7.15). The enrollment fee covers the estimated one-time costs associated with processing a PFS customer's application, collecting the requisite postage and fees, and recording the customer's reshipping information into the Master Log. The per-shipment charge covers the estimated costs of separating a PFS customer's mail and preparing (which includes labeling) the weekly PFS shipment. PFS will cover its costs and provide a reasonable contribution with this price structure, which at the same time reflects the premium nature of the service and helps to promote price simplification and customer understanding. For these reasons, the charges satisfy the pricing criteria of § 3622.<sup>19</sup>

The proposed charges will cover the costs of PFS because they are based on reasonable proxies and conservative costing assumptions. As explained by witness Abdirahman, the enrollment fee is derived from reasonable proxies,<sup>20</sup> while the repackaging fee portion of the per-shipment charge is based on reasonable proxies, a reliable field study of the labor costs of re-packaging, and conservative assumptions that all PFS repackaging activities would be conducted by a carrier and that all PFS labels would be prepared manually.<sup>21</sup> The postage portion of the per-shipment charge,

---

<sup>17</sup> See *id* at 11-12.

<sup>18</sup> This experiment would have a minor impact on the Postal Service, including on the other options available for customers who temporarily relocate, *id.* at 5, as well as on competitors of the Postal Service, *id.* at 6.

<sup>19</sup> *Id.* at 8-11.

<sup>20</sup> See USPS-T-3 at 2-3; Response of Postal Service Witness Abdirahman to DBP/USPS-T3-2 (collection of postage due is a reasonable proxy for the collection of the requisite PFS payments); Response of Postal Service Witness Abdirahman to DBP/USPS-T3-3 (processing of a COA card is a reasonable proxy for recording information in the Master Log)

<sup>21</sup> See USPS-T-3 at 3-5; Response of Postal Service Witness Abdirahman to DBP/USPS-T3-4(b); Response of Postal Service Witness Abdirahman to DBP/USPS-T3-8.

meanwhile, is based on conservative assumptions about the average distance and weight of PFS shipments, as explained by witness Koroma.<sup>22</sup>

The proposed charges are also designed to provide a reasonable contribution. As noted by witness Koroma, the PFS-specific cost coverage is expected to be 121 percent.<sup>23</sup> This modest cost coverage reflects a deliberate pricing decision on the part of the Postal Service: because it is important for customer acceptance of PFS that the weekly per-shipment charge be kept relatively low, witness Koroma decided to have a low mark-up over costs for the repackaging fee component of the per-shipment charge when compared to the mark-up over costs for the enrollment fee, with the result being a relatively modest cost coverage.<sup>24</sup> In addition, this cost coverage is PFS-specific, in that it only includes the difference between the costs of setting up PFS for a customer and repackaging PFS mail compared to the estimated revenue from the enrollment and repackaging fees, and thus does not include any contribution from new Priority Mail volume.<sup>25</sup> If revenue from the postage component of the per-shipment charge is taken into account (along with the cost estimate for Priority Mail pieces), then the cost coverage rises to 151 percent; this coverage provides further support for a relatively modest PFS-specific cost coverage.<sup>26</sup>

In addition, the proposed charges are consistent with the experimental nature of this proposal. As noted by witness Cobb, minimizing the complexity of PFS was a

---

<sup>22</sup> See, e.g., USPS-T-4 at 7-8 (noting that the choice of zone 6 “constitutes a conservative, qualitative choice); Response of Postal Service Witness Koroma to DBP/USPS-T4-8 (noting that the choice of zone 6 is conservative); Response of Postal Service Witness Koroma to DBP/USPS-T4-3 (noting that the estimate of the weight of the PFS shipment is conservatively high). As explained by witness Koroma, the estimate of the average weight of the PFS shipments is based on Household Diary Study data, which is used to estimate the average weight of a household’s weekly mail. See Response of Postal Service Witness Koroma to OCA/USPS-T4-1. The study shows that the average household received about 2.5 pounds of First Class Mail, Standard Mail, and Periodicals a week in FY 2003, which drives the conservative three pound estimate. Package Services, Express Mail, and Priority Mail are not included in this estimate because the average Package Services piece is not likely to be placed in the PFS shipment, Express Mail pieces would always be reshipped outside the PFS shipment, and virtually all Priority Mail pieces are likely to be reshipped outside the PFS shipment. See, e.g., USPS-T-4, Attachment C, page 2.

<sup>23</sup> USPS-T-4 at 8.

<sup>24</sup> *Id.* at 9.

<sup>25</sup> *Id.* at 8-9.

<sup>26</sup> See Response of Postal Service Witness Koroma to OCA/USPS-T4-3. In addition, the cost savings that could arise from the fact that First-Class Mail would not be forwarded without charge under PFS, to the extent such savings arise, is an additional reason for supporting the proposed cost coverage. See Response of Postal Service Witness Koroma to OCA/USPS-T4-7.

primary design goal, and as such this proposal is for a simple experiment with a straightforward product design which relies upon manual processes for setting up PFS and reshipping PFS mail.<sup>27</sup> The dual \$10.00 price structure is also straightforward, which maintains the simplicity of the service while also promoting customer understanding.<sup>28</sup>

C. The Stipulated Data Collection Plan is Designed to Provide Solid Information Regarding the Potential Viability of a Permanent Classification Change.

Consistent with the experimental nature of this proposal, the Stipulation and Agreement contains a data collection plan that is designed to provide the Postal Service with data that will help determine whether PFS should become a permanent special service. As noted by witness Koroma, the Postal Service expects that existing data systems will provide information concerning customer demand for the service, the number of weekly shipments, the average number of weeks a customer uses PFS, and the weight and zone of PFS shipments.<sup>29</sup> The data collection plan has also been expanded to reflect the Postal Service's commitment to informing customers of the potential need to pay Priority Mail postage due for certain outside pieces.<sup>30</sup>

### III. CONCLUSION

The terms of the Stipulation and Agreement endorse 1) an experimental classification that provides real value to customers and benefits to the Postal Service, with minimal risk; 2) experimental charges that are derived from solid proxies, are conservative in light of the experimental nature of this proposal, and are designed to

---

<sup>27</sup> See, e.g., USPS-T-1 at 5-6, 7.

<sup>28</sup> USPS-T-4 at 8. Witness Koroma explains why a fixed per-shipment charge is superior to a charge that varies based on the weight and zone of the individual shipment. See *id.* at 6-7. One reason he highlights is the fact that having a fixed charge simplifies the weekly repackaging activity. *Id.*

<sup>29</sup> See Response of Postal Service Witness Koroma to OCA/USPS-T4-13. The Postal Service also recognizes the need to assess the volume or proportion of outside pieces before proposing any permanent form of PFS. See Stipulation and Agreement ¶ 8; Response of Postal Service Witness Cobb to OCA/USPS-T1-31.

<sup>30</sup> As such, the Postal Service has committed to preparing a table describing the Priority Mail postage due aspect of the product definition, and has also committed to share any market research that it conducts concerning how customer satisfaction with the service is affected by inadequate explanation of this aspect of the product definition. See Stipulation and Agreement, Attachment C.

cover costs and provide a reasonable contribution while reflecting the value provided to customers through this premium service; and 3) a data collection plan that will provide the Postal Service with data that will inform a decision whether to make this experimental classification permanent. For these reasons, the Commission should issue an opinion and recommended decision favoring the implementation of the PFS experiment according to the terms of the Stipulation and Agreement.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.  
Chief Counsel, Ratemaking

---

Kenneth N. Hollies  
David H. Rubin  
Keith E. Weidner

475 L'Enfant Plaza West, S.W.  
Washington, D.C. 20260-1137  
(202) 268-3083; Fax -3084  
March 21, 2005