

UNITED STATES OF AMERICA
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

Before:

Chairman Omas,
Vice Chairman Hammond,
Commissioners Covington,
Goldway and Tisdale

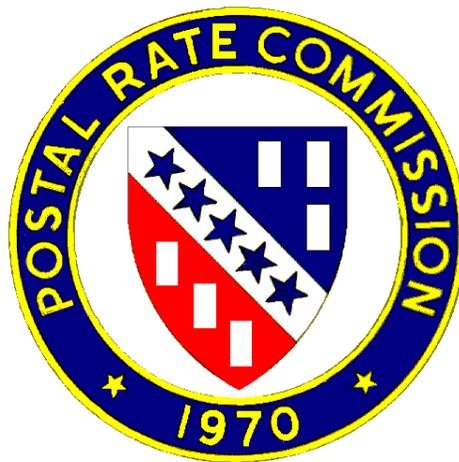
Experimental Premium Forwarding Service

Docket No. MC2005-1

OPINION AND RECOMMENDED DECISION

APPROVING

STIPULATION AND AGREEMENT



Washington, DC 20268-0001
April 15, 2005

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I. INTRODUCTION AND SUMMARY

The Commission adopts a settlement proposed by all but one of the participants as the basis for its opinion and recommended decision approving a two-year experiment to test an experimental Premium Forwarding Service. The experimental service would offer a new option to postal patrons who want incoming mail forwarded from their permanent address to a temporary address for a limited period of time.

The Postal Service will collect data pursuant to an agreed-upon data collection plan and file periodic reports during the course of the experiment. Should the Service decide to file a request to establish a permanent Premium Forwarding Service classification before the end of the two-year period, the experiment may be extended.

The Commission acknowledges and appreciates the participants' efforts to rapidly identify and resolve issues in this docket and reach a settlement. The experiment will shed light on the potential usefulness of a new temporary forwarding option for postal customers as well as on its future pricing should the Postal Service request a permanent mail classification.

II. PROCEDURAL HISTORY

On November 19, 2004, the United States Postal Service filed a Request with the Postal Rate Commission seeking a recommended decision approving an experimental mail classification and related proposed rates and fees for a new Premium Forwarding Service (PFS). In the Request, the Postal Service proposes a two-year experiment, stating this period will allow it to collect currently unavailable data about the characteristics of the service's use, as well as its preliminary estimates of demand for the service. Should the Service file a request for a permanent mail classification during the experiment, it would be extended pending action on that request.

The Postal Service's Request was submitted pursuant to Chapter 36 of the Postal Reorganization Act, 39 U.S.C. § 3601 *et seq.* It incorporates five attachments,¹ and is accompanied by the prepared direct testimony of four Postal Service witnesses² together with one library reference.

In contemporaneous filings, the Postal Service requested a conditional waiver of certain standard filing requirements and establishment of settlement procedures.³ Commission Order No. 1425 announced the filing of the experimental request and discussed related matters.⁴ Participants directed discovery requests to the Postal

¹ Attachments A and B identify requested changes to the Domestic Mail Classification Schedule and an associated fee schedule; Attachment C is the certification regarding, among other things, the accuracy of the cost statements and supporting data submitted with the Request; Attachment D is an index of testimony; and Attachment E is a compliance statement addressing the Service's satisfaction of various filing requirements or its position that certain requirements should be waived.

² Direct Testimony of Arnetta L. Cobb on Behalf of the United States Postal Service (USPS-T-1); Direct Testimony of Beth B. Rothschild on Behalf of the United States Postal Service (USPS-T-2); Direct Testimony of Abdulkadir M. Abdirahman on Behalf of the United States Postal Service (USPS-T-3); and Direct Testimony of Samuel J. Koroma on Behalf of the United States Postal Service (USPS-T-4).

³ Statement of the United States Postal Service Concerning Compliance with Filing Requirements and Conditional Motion for Waiver, November 19, 2004; United States Postal Service Request for Establishment of Settlement Procedures, November 19, 2004.

⁴ Notice and Order Concerning Postal Service Request for an Experimental Premium Forwarding Service, November 23, 2004 (Order No. 1425).

Service from November, 2004 through March, 2005; none requested a hearing or the opportunity to submit responsive testimony.

A prehearing conference was held in this docket on January 7, 2005. In a Notice issued January 13, 2005, Chairman Omas designated Commissioner Dawn A. Tisdale to serve as Presiding Officer in this proceeding. In light of the presentations of the participants during the prehearing conference, the Commission thereafter issued Order No. 1428, which established a deadline for discovery requests directed to the Postal Service, instructed the Service to file a further report on the status of settlement negotiations, and granted miscellaneous discovery-related motions.⁵ Settlement conferences, authorized in Order No. 1425, were coordinated by the Postal Service, which issued progress reports on January 31 and February 14, 2005.

On March 1, 2005, the Postal Service filed a motion in favor of consideration of a Stipulation and Agreement as the basis for the Commission's recommended decision in this proceeding.⁶ The Postal Service attached a draft copy of a Stipulation and Agreement to this pleading. The Office of the Consumer Advocate and intervenor Douglas F. Carlson submitted signature pages in support of the proposed settlement agreement.⁷

Noting these developments, and the otherwise advanced procedural posture of the case, the Presiding Officer established a procedural schedule for the final stages of the case.⁸ In accordance with that schedule, the Postal Service filed a motion requesting that the direct testimony of its four witnesses and all designated written

⁵ Order Concerning Further Discovery Directed to the United States Postal Service and Other Procedural Matters, January 11, 2005 (Order No. 1428).

⁶ Motion of the United States Postal Service for Consideration of Attached Stipulation and Agreement as the Basis for Recommended Decision, March 1, 2005.

⁷ 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.

⁸ Presiding Officer's Ruling Establishing Final Procedural Schedule, March 11, 2005 (P.O. Ruling No. MC2005-1/6).

cross-examination be entered into the record.⁹ The motion was accompanied by supporting declarations from the Postal Service witnesses. The testimony and designated written cross-examination were entered into the record on March 25, 2005, and the record was closed.¹⁰

Three participants filed pleadings on the merits of the proposed Stipulation and Agreement. OCA filed comments in support of the settlement agreement on March 21, 2005.¹¹ David B. Popkin filed a brief in which he identifies potential problems with the Postal Service proposal and suggests modifications.¹² The Postal Service filed an initial brief in support of the settlement agreement on March 21, 2005, and a reply brief on March 25, 2005.¹³

⁹ Motion of the United States Postal Service to Place Direct Testimony and Written Cross-Examination into the Evidentiary Record, March 18, 2005.

¹⁰ Presiding Officer's Ruling Receiving Testimony and Other Materials into Evidence, Disposing of Outstanding Motions, and Closing the Record, March 25, 2005 (P.O. Ruling No. MC2005-1/9).

¹¹ Office of the Consumer Advocate Comments in Support of Motion of the United States Postal Service for Consideration of Attached Stipulation and Agreement as the Basis for Recommended Decision, March 21, 2005 (OCA Comments).

¹² Initial Brief of David B. Popkin, March 21, 2005 (Popkin Brief).

¹³ Initial Brief of the United States Postal Service in Support of the Stipulation and Agreement, March 21, 2005 (Postal Service Brief); Reply Brief of the United States Postal Service in Support of the Stipulation and Agreement, March 25, 2005 (Postal Service Reply Brief).

III. SUMMARY OF PROPOSAL

A. Features of Proposal and Supporting Evidence

The Postal Service's proposal is presented by its witnesses Cobb, Rothschild, Abdirahman, and Koroma. Their testimony, together with a library reference which supports the testimony of witness Rothschild, provide evidentiary support for the Service's proposed experimental Premium Forwarding Service.

Witness Cobb's Testimony. Witness Cobb describes the experimental Premium Forwarding Service proposed in this proceeding, elucidating the features that would define the product and its anticipated operation in the postal system.¹⁴

According to witness Cobb, the Postal Service proposes PFS as a special service for forwarding nearly all classes of mail from a household customer's primary address to a temporary address through a weekly shipment via Priority Mail service. The service would be made available for a minimum of two weeks to a maximum of one year. The Postal Service proposes to charge an initial enrollment fee of \$10, plus a weekly per-shipment charge of \$10—consisting of a \$2.85 packaging fee added to the current Priority Mail rate of \$7.15 applicable to a three-pound, zone 6 piece.

Witness Cobb testifies that simplicity was a primary design goal for the PFS experiment, in order to assess its realistic potential as a permanent service. In keeping with this objective, the Service selected several critical elements for the product's definition.

Substantially all mail classes would be included in the forwarding service, in response to anticipated customer demand and in contrast with temporary forwarding and other currently available options.¹⁵

¹⁴ Witness Cobb's testimony is transcribed at Tr. 2/275 through 289.

¹⁵ Witness Cobb discusses Postal Service and private sector forwarding alternatives currently available to delivery customers. See Tr. 2/287.

Shipments would be limited to one per week to control the cost of the experimental service and maintain the design goal of simplicity.

The two-week minimum duration of service reflects anticipated demand and the operations requirements of accumulating mail. The one-year maximum matches the current ceiling on temporary forwarding service.

Separate forwarding of mail requiring a scan at delivery would avoid potential delay in delivery and thus maintain the higher level of service expected by senders and PFS customers.

The proposed Premium Forwarding Service would be limited to domestic addresses, consistent with domestic Priority Mail service and the experimental nature of the service at this time.

In keeping with current customer options for temporary and permanent forwarding, PFS would allow users to select either reshipment of mail for one individual or for the entire household at a given address.

Premium Forwarding Service would rely exclusively on Priority Mail service, which provides the best compromise of simple pricing, expeditious service, and ability to accommodate the typical weight and volume of a household's weekly mail.

Operationally, the proposed Premium Forwarding Service would center on a customer's delivery post office. There, Postal Service Sales and Service Associates (SSAs) would explain the service, receive customer applications, and verify applicant identity and other information in a process modeled after Post Office box application procedures.¹⁶ Each local post office would set up procedures to accommodate PFS, including record-keeping, mail accumulation and holding, weekly shipment preparation, and mailing on Wednesday of each week of service.

¹⁶ Certain categories of postal customers, such as individuals whose primary address is a larger Post Office box or a commercial mail receiving agency (CMRA), would be ineligible for PFS. Tr. 2/283-84.

Witness Rothschild's Testimony. Witness Rothschild sponsors a special study prepared by her employer, National Analysts, that uses survey research to evaluate the market response to the potential new Premium Forwarding Service.¹⁷

The survey research was designed to evaluate two different pricing structures for the putative service: "fixed-fee" and "variable-fee." The tested "fixed-fee" structure called for a \$20.00 enrollment fee and per-shipment fees at price levels of \$10.00, \$17.50, and \$25.00. The alternative "variable-fee" structure featured the same \$20.00 enrollment fee and per-shipment price levels consisting of applicable postage plus \$6.00, \$9.00, or \$12.00 fees.

The two parallel studies drew on past users of "Snowbird" and other forwarding programs, as well as a random digit dial (RDD) telephone sampling frame, to constitute the sample sources. Three sets of materials were developed for use in data collection. Participants in the survey were randomly assigned to either the "fixed-fee" or "variable-fee" version of the product at the time of their telephone interview. Following the interviews, data were electronically and manually checked prior to the production of tabulations. Final analysis weights were assigned to the completed interviews corresponding to the number of households in the target population that each interview represented.

The survey's results for fixed-fee Premium Forwarding Service at the \$10 price level are displayed at the conclusion of witness Rothschild's testimony.¹⁸ In order to restrict survey-derived estimates to likely users, the tally of potential users was limited to those respondents who were aware of the availability of either Temporary Forwarding or Bundled Reshipping services, and who also said they were 70 percent or more likely to use Premium Forwarding in the next 12 months.

Witness Abdirahman's Testimony. Witness Abdirahman's testimony focuses on providing cost data for Premium Forwarding Service to support the pricing structure

¹⁷ Witness Rothschild's testimony is transcribed at Tr. 2/413 through 423. The Premium Forwarding Rate Research Study appears in Library Reference USPS-LR-1/MC2005-1.

¹⁸ Tr. 2/422.

proposed in the testimony of witness Koroma.¹⁹ His cost analysis estimates the average unit cost of the proposed PFS product, separated into two categories: set-up costs and per-shipment costs. According to witness Abdirahman, all the costs of providing Premium Forwarding Service are volume variable.

Set-up costs are estimated on the modeling assumption that most of the required functions will be performed by a clerk, so that the costs of analogous clerk activities can be used as proxies. Witness Abdirahman's analysis uses three such proxies: (1) the cost of processing a Post Office box application for that of processing a customer's PFS application; (2) the cost of collecting postage due at a call window for that of collecting PFS fees and postage; and (3) the cost of processing Change-of-Address cards for that of recording customer reshipping information into the PFS Master Log at a post office. The sum of the three identified proxies yields an estimate of \$5.58 for each PFS customer.

Witness Abdirahman derives estimates of per-shipment costs somewhat differently. He uses the cost of a letter carrier separating the mail of a customer when that mail is being held or forwarded as a proxy for that of separating and holding a PFS customer's mail for reshipment. For the labor costs of repackaging mail for a PFS shipment, he relies on field observations of current, informal reshipment services, and finds that the time required to perform these tasks is about two minutes of carrier labor. Finally, for the cost of completing the necessary PFS address labels for shipments, he uses the cost of a carrier filling out one section of a Change-of-Address card as a proxy, assuming that the nature and quantity of information would be comparable. The aggregate per-shipment cost estimate equals \$2.63, not including the postage associated with Priority Mail pieces.

Thus, witness Abdirahman concludes that the cost of enrolling a PFS customer equals \$5.58, while the cost associated with each PFS shipment equals \$2.63.

¹⁹ Witness Abdirahman's testimony is transcribed at Tr. 2/69 through 81.

Witness Koroma's Testimony. In his testimony, witness Koroma presents the pricing and mail classification rationale for the PFS proposal, as well as the justification for an experiment; projects its potential financial impacts; and addresses the statutory criteria supporting the proposed changes.²⁰

According to witness Koroma, the proposed Premium Forwarding Service is responsive to the mail classification criteria of 39 U.S.C. § 3623. It is fair and equitable, he testifies, because it would be available to customers in all areas on equal terms, and without burdening other customers who do not choose to use it. Because it responds to customer demand for such a service, he claims it is valuable and desirable from the perspective of mail users. The proposed service would have a high degree of reliability and speed of delivery, he testifies, because it would utilize Priority Mail service and shipments would be sent on a specific day. Witness Koroma further testifies that the proposed service would be desirable from the Postal Service's point of view, as it would expand upon the existing range of forwarding options with a more consistent and standardized service, and potentially generate additional contribution to the Service's institutional costs.

Witness Koroma also testifies that the PFS proposal is appropriate for consideration under the Commission's rules for experimental services, as it is a novel approach to forwarding service, would be modest in its magnitude, and would generate operational experience and data that would document the potential viability of Priority Forwarding Service as a permanent mail classification.

Witness Koroma proposes the prices to be charged for the experimental Premium Forwarding Service. The proposed \$10.00 enrollment fee would recover the \$5.58 in costs estimated by witness Abdirahman, plus a markup. For the per-shipment charge, witness Koroma testifies that he proposes a single per-week price in an effort to minimize cost, adopt a structure that is easy to grasp, and simplify the product weekly shipment activity. The proposed \$10.00 charge consists of a \$2.85 fee to recover the

²⁰ Witness Koroma's testimony is transcribed at Tr. 2/347 through 369.

per-shipment repackaging cost of \$2.63 derived by witness Abdirahman, plus the postage rate of \$7.15, which corresponds to the current three-pound rate for a Priority Mail parcel mailed to zone 6. The latter charge rests on witness Koroma's assumptions that the average weight per week for reshipped mail would be less than 3 pounds, and that the average distance from a customer's primary residence to the temporary location would be between 1,000 and 1,400 miles. Overall, witness Koroma proposes a cost coverage of 121 percent for the Premium Forwarding Service, based on the costs cited above and revenues that would be generated by the level of use projected in witness Rothschild's testimony, which indicates ten weeks of likely use on average by PFS customers.²¹ He projects that the first-year financial impact of the experiment would be revenues of approximately \$13 million, costs of approximately \$11 million, and an institutional cost contribution of about \$2 million.²²

Witness Koroma testifies that the charges he proposes are compatible with the criteria of 39 U.S.C. § 3622(b), that they represent a balanced consideration of the service's value, potential impact on customers, and the simplicity of the fee structure.²³

B. Data Collection Plan

Witness Koroma also presents the Postal Service's plan for collecting data on PFS during the proposed experiment's two-year duration. He states that the Service plans to collect and report various data elements, primarily customer counts, duration of service, revenues, and weight and zone of the Priority Mail reshipments used for the service. According to the plan, the Postal Service's first preference is to derive these data from existing data systems, supplemented by post offices' Master and Tracking Logs for PFS, together with special studies if necessary. In addition to a qualitative summary of major issues that have arisen during the experiment, the Service proposes

²¹ Tr. 2/365, 422.

²² Tr. 2/361.

²³ Tr. 2/358-360.

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to file estimates of number of customers, number of mail pieces, revenue, and zone and weight of pieces, every six months.²⁴

²⁴ Tr. 2/355, 364.

IV. SUMMARY OF UNDERLYING STIPULATION AND AGREEMENT

Summary. The settlement submitted by the Postal Service on behalf of the signatories consists of two parts. Part I, captioned Background, identifies the authority for filing a request with the Commission, the filing date of the Request, and the docket designation. It also states that the basis for the Postal Service's Request is explained in the direct testimonies of witnesses Cobb, Rothschild, Abdirahman, and Koroma.

Part II, captioned Terms and Conditions, consists of ten numbered paragraphs. Paragraph No. 1 states that the agreement represents a negotiated settlement of all issues raised in the instant request.

Paragraph No. 2 provides that the signatories stipulate and agree, for purposes of this proceeding only, that certain referenced materials provide substantial evidence supporting and justifying a decision recommending the experimental changes to DMCS section 937 and Fee Schedule 937, as proposed by the Postal Service. These include direct testimony and materials filed in support of the Postal Service's Request in Docket No. MC2005-1 and designated written cross-examination, as revised and supplemented.

Paragraph No. 3 provides that on the basis of the record identified in Paragraph No. 2, for purposes of this proceeding only, the signatories stipulate and agree that the experimental DMCS and Rate Schedule changes set forth in the attachment to the settlement agreement are in accordance with the policies of title 39, United States Code and, in particular, the criteria and factors of 39 U.S.C. §§ 3622 and 3623.

Paragraph No. 4 provides that the settlement agreement is offered in total and final settlement of this proceeding. It further states that the signatories agree that they will file no further pleadings or testimony with the Commission in this proceeding, with the exception of: (a) pleadings or testimony explicitly requested by the Commission or in reply to such pleadings; (b) pleadings or testimony opposing pleadings or testimony filed in opposition to the settlement agreement; or (c) pleadings, testimony or comments in support of this settlement agreement.

Paragraph No. 5 reserves to each signatory a right to withdraw from the settlement agreement and specifies the terms and effect of exercising this right.

Paragraph No. 6 states that the settlement agreement pertains only to the instant proceeding. It further provides that signatories shall not be considered as necessarily agreeing with or conceding the applicability of any ratemaking principle; any method or principle of classification; any terms and conditions of service; any method of cost of service determination; any principle or method of rate or fee design; the validity or use of any data relied upon by the Postal Service in this docket for any other purpose or in any other classification or ratemaking proceeding; or the application of any rule or interpretation of law, that may underlie, or be thought to underlie, the settlement agreement.

Paragraph No. 7 provides that signatories shall not be bound or prejudiced by the settlement agreement in any future negotiation or proceeding (other than any proceeding involving the honoring, enforcement, or construction of the settlement agreement; a judicial appeal pursuant to 39 U.S.C. § 3628; or a complaint proceeding under 39 U.S.C. § 3662), nor shall any participant rely for any purpose on the fact that another participant entered into or did not oppose it. It also states that the foregoing limitations shall not restrict any party from arguing in an appeal or complaint proceeding that changed circumstances justify challenging the agreed-upon fees or classifications.

Paragraph No. 8 states particular actions the Postal Service undertakes to perform during the experiment to help determine the operational needs of the Premium Forwarding Service in the event permanent classification authority is requested. These actions pertain to estimating the volume of additional PFS weekly shipment packages (above the anticipated single weekly package) generated during the experiment, and the volume of packages that will be re-routed to PFS customers as separate Priority Mail pieces with postage due.

Paragraph No. 9 sets forth the signatories' request that the Commission expeditiously issue a decision recommending adoption of the experimental DMCS and Rate Schedule provisions appended to the settlement agreement.

Paragraph No. 10 provides that the settlement agreement represents the entire agreement of the signatories, and states that it supersedes any understandings or representations not contained herein.

In addition to the numbered paragraphs, the Stipulation and Agreement has three attachments. Appendix One contains the changes to the Domestic Mail Classification Schedule proposed by the Postal Service in its Request. Similarly, Appendix Two contains the Service's proposed fee schedule for Premium Forwarding Service. Lastly, Attachment C contains a description of the Postal Service's data collection plan for the experiment, which expands upon the plan described in witness Koroma's testimony.

V. FINDINGS AND CONCLUSIONS

As noted above, the Stipulation and Agreement was signed by three of four participants in this proceeding, and the only non-signatory does not actively oppose its adoption, instead suggesting measures that would “eliminate or greatly reduce” certain putative problems.²⁵ The Commission finds that all participants have had an opportunity to participate in the negotiations that led to the filing of the settlement agreement filed March 1, 2005, and that all participants have had an adequate opportunity to comment on the appropriateness of the settlement as a resolution of the issues in this case.

The Commission finds the terms of the proposed Stipulation and Agreement to be consistent with the requirements and statutory factors of the Postal Reorganization Act, and compatible with the Commission’s rules on experimental classifications.

A. Consistency with Mail Classification Criteria of § 3623(c)

The Postal Service states that the proposed Priority Forwarding Service experiment is consistent with § 3623 because it would provide mutual benefits to its customers and the Service.²⁶ Similarly, OCA characterizes the proposed service as “a valuable and desirable postal product that has heretofore only been provided without separate classification as Snowbird service....”²⁷

The record evidence proffered in support of the settlement supports the proposal’s consistency with the statutory considerations laid out in 39 U.S.C. § 3623(c). As the Postal Service notes, PFS would supplement and enhance currently available forwarding options by reshipping all of a customer’s mail to a temporary address in a manner calculated to provide predictable, consistent and expeditious service.²⁸ For this reason, the proposal is responsive to the criteria in § 3623(c)(2) and (c)(5), which direct

²⁵ Popkin Brief at 1-2.

²⁶ Postal Service Brief at 3-5.

²⁷ OCA Comments at 1.

²⁸ Tr. 2/361-62; Postal Service Brief at 3-4.

the Commission to consider the relative value of the various kinds of mail matter entered into the postal system, and the justifications for and desirability of special classifications, from both mail users' and the Postal Service's perspectives. By using Priority Mail to effect prompt forwarding, PFS is also responsive to the § 3623(c)(3) criterion, "the importance of providing classifications with extremely high degrees of reliability and speed of delivery."

The proposed experiment is also potentially desirable from the Postal Service's perspective. While its financial impact is expected to be modest, the Service hopes to realize additional institutional cost contribution from the Premium Forwarding Service. Further, the experiment presents very little risk to the Service's finances, as all its associated costs are volume-variable.²⁹

However, intervenor Popkin argues that the proposed Premium Forwarding Service "contains a number of problems" that should be ameliorated by operational changes or revisions in the DMCS provisions incorporated in the Stipulation and Agreement.³⁰ These problems arise, he argues, primarily because of the proposal to reshipe certain types of mail to PFS customers at their temporary address by Priority Mail postage due. In operation, he claims that this aspect of the PFS proposal could impose an unknown additional cost on the customer, thereby impairing the service's value; or it could impose disparate additional costs on different customers, thereby compromising its fairness and equity. To correct these anticipated detriments, he recommends that the Postal Service use orange Priority Mail pouches for Premium Forwarding Service to accommodate more contents; affix additional, external labels for contents that require a scan; and take whatever other measures may be required to assure that as much forwarded mail as possible is reshipped under the applicable \$10 fee.³¹ Mr. Popkin also challenges the Postal Service's proposal to prohibit customers from making changes in

²⁹ Tr. 2/73, 362; Postal Service Brief at 4-5.

³⁰ Popkin Brief at 1. Mr. Popkin concedes that one identified problem relating to First-Class parcels is accommodated in the agreed-upon DMCS provisions. *Id.* at 1-2.

³¹ *Id.* at 2-5.

temporary addresses under Premium Forwarding Service unless the customer appears in person at the local office from which mail is forwarded.³² Mr. Popkin proposes four changes in the DMCS provisions incorporated in the settlement agreement to accomplish his recommendations.³³

The Postal Service opposes Mr. Popkin's proposed alterations in the terms of PFS, claiming they "would either add unnecessary costs or complexities to the proposed experiment, or are unsupported by the record...."³⁴ The Service acknowledges that Mr. Popkin's arguments address legitimate concerns, particularly those of the possible additional costs to PFS customers and the importance of providing clear and adequate information to them.³⁵ However, it asserts that the approach taken in the Stipulation and Agreement "reflects a careful balance" of the considerations applicable to the proposed Premium Forwarding Service, and thus should not be altered.

The Commission agrees with the Postal Service that its policy and operational choices in conducting the PFS experiment should not be modified unless applicable statutory criteria appear to require alternative recommendations. In this case, the Commission finds no such instances.

The Postal Service has adequately explained the general guidelines and methods under which it would package PFS shipments.³⁶ It is possible that variations in local conditions could lead to different guidelines for similar mail in different locations, as the Service concedes.³⁷ However, the possibility of disparate treatment does not, in the Commission's view, warrant the recommendation of mandatory methods of containerization, such as the use of orange Priority Mail pouches. Especially in light of

³² *Id.* at 5-7.

³³ *Id.* at 7.

³⁴ Postal Service Reply Brief at 1.

³⁵ *Id.* at 2, n. 8 and 7.

³⁶ See the record materials cited in the Postal Service Reply Brief at 2-4.

³⁷ Postal Service Reply Brief at 3, n. 14.

its prior experience with the informal “Snowbird” forwarding programs,³⁸ there is a reasonable expectation that the Postal Service will use available containers to package as much of a customer’s mail as is practicable.

Further, as the Service notes, users of the Premium Forwarding Service can be expected to exercise some control over when and where items that might be charged additional postage—such as parcels—are sent to them. Provided sufficient information about the possibility of being assessed extra charges has been made available, PFS customers would have the motivation to instruct senders to mail such pieces directly to their temporary addresses, and thus receive relatively few postage due parcels. Alternatively, customers could exercise their option to refuse postage due pieces that are tendered at their temporary addresses.³⁹

Nor does there appear to be adequate justification to direct that the Postal Service depart from current practice to generate and affix a separate, external label for mail pieces requiring a scan. Witness Cobb testifies that PFS is a simple product using manual processes, and has not been designed to interact with the systems that support other services. In addition to operational uncertainties, the Service has not explored the cost consequences that such a change might entail.⁴⁰ Further, the Service argues that the benefit of this operational change would be minimal, as it would primarily affect parcels that would likely be too large to fit into the PFS shipment, and many of which would be sent directly to the temporary address anyway.⁴¹

The Postal Service also convincingly argues that allowing simultaneous use of PFS and a forwarding order for the purpose of changing a temporary address is inadvisable for the purposes of the proposed experiment. Inasmuch as Premium Forwarding Service involves wholesale redirection of a recipient’s mail flow, as well as collecting and dispensing funds, verification of the customer’s identity is particularly

³⁸ See Tr. 2/96-111.

³⁹ Tr. 2/242.

⁴⁰ Tr. 2/198.

⁴¹ Postal Service Reply Brief at 5.

important in preventing fraud and preserving the security of the mail. In addition to these concerns, the Service notes that Premium Forwarding Service has not been designed to allow remote enrollment, and adopting this feature would add complexity and possibly cost to the product's design. Should a PFS customer's temporary address change, the Service represents that it would be possible to effect a forwarding change by terminating Premium Forwarding Service—which could be done remotely⁴²—and submitting a Change of Address Order.⁴³ Thus, the classification change proposed by Mr. Popkin would also appear to be unnecessary.

Because using the proposed Premium Forwarding Service could involve costs to users that would not be included in the quoted fees for the service, the Commission believes that informing potential PFS customers fully about such potential consequences takes on a high degree of importance in this case. As noted earlier, the Postal Service acknowledges this responsibility, and states that its recognition is reflected in the expanded data collection plan incorporated in the Stipulation and Agreement, wherein the Service commits itself to preparing a table to inform customers and the public of the potential need to pay postage due.⁴⁴ Attachment C to the Stipulation and Agreement states that: "This table should be as informative as the table attached to the response to interrogatory OCA/USPS-T1-32."

The Commission has examined the table provided by the Service in response to the OCA interrogatory, and it appears that further clarification of the mail matter potentially subject to additional postage would be possible. To this end, the Commission provides the amended table in Appendix A for the Postal Service's consideration.

In summary, the Commission finds the proposed experiment to be consistent with the applicable criteria of 39 U.S.C. § 3623(c). By providing a convenient and comprehensive additional option for mail recipients who desire temporary forwarding

⁴² Tr. 2/169.

⁴³ *Id.* at 194.

⁴⁴ Postal Service Reply Brief at 2, n.8.

service, it would introduce a desirable new mail classification. To the extent PFS generates additional institutional cost contribution from its use, it is also desirable from the Postal Service's perspective. Thus, the proposal is responsive to the criteria of § 3623(c)(2) and (5). Further, in using Priority Mail service to effect expeditious reshipping, the proposal appropriately reflects the importance of this premium service, in accordance with § 3623(c)(3). Finally, with the consumer education efforts the Postal Service has agreed to perform, the proposed experiment is consistent with the maintenance of a fair and equitable classification system, in accordance with § 3623(c)(1).⁴⁵

B. Consistency with Ratemaking Factors of § 3622(b)

The Commission finds the charges proposed for the experimental Priority Forwarding Service to be consistent with the ratemaking factors of 39 U.S.C. § 3622(b). First, the rates and fees are reasonably constructed to satisfy the cost recovery standards of § 3622(b)(3). The \$10.00 per-shipment charge would recover slightly more than the sum of the estimated repackaging costs and the applicable Priority Mail rate for what is assumed to be an average shipment. While there is necessarily some uncertainty regarding the likely weight and distance characteristics of PFS shipments, the Postal Service's approach is likely to recover costs adequately, as the Priority Mail

⁴⁵ Mr. Popkin's proposal to change the fourth sentence in proposed DMCS section 937.11 "to show that it only applies to those pieces that are forwarded outside of the weekly PFS shipment container[.]" Popkin Brief at 7, appears to be unnecessary. The second sentence of that proposed section limits mail that would be re-routed to "Parcels that are too large for the weekly shipment, mail pieces that require a scan upon delivery or arrive postage due at the office serving the customer's primary address, and certain Priority Mail pieces...." Thus, Standard Mail and Package Service pieces that can be enclosed in the weekly shipment are not "re-routed," and the Commission does not understand the section to authorize the Postal Service to charge additional postage for any such pieces.

However, one source of potential confusion does occur in proposed DMCS section 937.11: the statement in its second sentence that the referenced outside-the-shipment mail pieces may be "re-rerouted." Witness Cobb's testimony states that such mail will be "rerouted." Tr. 2/279. Similarly, the following two explanatory sentences in section 937.11, which prescribe the different rate treatments applicable to various subclasses of outside-the-shipment pieces, also use the term "re-routed." In view of this apparent discrepancy, the Commission assumes that the term "re-rerouted" contains an unintentional typographical error. Therefore, the provision the Commission recommends uses "re-routed" throughout the section.

rate component significantly exceeds costs. The proposed \$10.00 enrollment fee would recover the \$5.58 in estimated costs, plus a significant contribution to institutional costs.

It is unclear whether the proposed enrollment fee would pose a significant barrier to postal customers who have used free temporary forwarding or the informal “Snowbird” program in the past. However, it is only half the \$20.00 fee tested for witness Rothschild’s testimony, which found an appreciable level of customer interest in PFS. Under these circumstances, the Commission finds the proposed charges to be compatible with the maintenance of a fair and equitable rate schedule, in keeping with 39 U.S.C. § 3622(b)(1).

With an effective overall markup of 121 percent, the proposed charges also are consistent with the value of the proposed service, in response to § 3622(b)(2). As witness Koroma testifies, the markup reflects the convenience of Premium Forwarding Service and the fact that Priority Mail is used in providing it, moderated by the fact that free services such as temporary forwarding are also available.⁴⁶

This level of coverage, and the associated charges, also accommodate § 3622(b)(4) and (5) considerations. PFS will supplement, rather than alter, currently available forwarding and mail holding options. The availability of alternative services tends to moderate whatever impact the adoption of PFS charges would otherwise have on postal customers. Since PFS is not expected to compete directly with private sector alternatives, this aspect of § 3622(b)(4) is not germane.⁴⁷

Finally, the two proposed \$10.00 charges for PFS foster the § 3622(b)(7) factor, “simplicity of structure” and “simple, identifiable relationships” between rates and fees. As witness Koroma testifies, the fixed \$10.00 weekly per-shipment charge “avoids the complexities of weighing and rating, and provides customers with advance knowledge of the total cost of service.”⁴⁸

⁴⁶ Tr. 2/359.

⁴⁷ *Id.* at 359-60.

⁴⁸ *Id.* at 360.

C. Compatibility with Regulatory Standards for Experimental Classifications

The Commission finds that the proposed Priority Forwarding Service experiment comports with the standards contained in the Commission's regulations governing experimental mail classifications, 39 CFR § 3001.67 through .67d. While other forwarding solutions are available, PFS is unquestionably novel in its comprehensive approach of reshipping all mail classes for an entire household or individual in one container. The magnitude of the proposed change is also compatible with an experiment, as the anticipated impact on the use of existing forwarding options, postal finances, and competitors of the Postal Service would be minor.⁴⁹ The desired two-year duration of the experiment is reasonable, as it is commensurate with the periods recommended for experimental classifications in the recent past.⁵⁰ Finally, the Service has demonstrated that it will be feasible to generate and gather useful data on the proposed experimental category. Thus, the Service's request satisfies the criteria established for experimental classification changes in § 67(b) of the rules of practice.

The data collection plan proposed by the Postal Service, as amended by the Stipulation and Agreement,⁵¹ satisfies the guidelines laid out in § 67c of the rules. The planned effort would collect the number of customers, number of weekly reshipments, revenue generated, and zone and weight information. The Service's intent to rely upon existing data systems—supplemented, if necessary, by special studies—to determine the average zone and weight of PFS Priority Mail shipments appears to be a sound basic approach. The planned qualitative evaluation of operations to evaluate potentially necessary changes for a permanent service would also generate information useful for the purposes of § 67c.

The Postal Service's undertaking in the Stipulation and Agreement to expand the plan's data collection and reporting functions would enhance the amounts and kinds of

⁴⁹ *Id.* at 354-55, 365.

⁵⁰ See, e.g., PRC Op. MC2004-2, October 6, 2004, at 1; PRC Op. MC2004-1, July 7, 2004, at 1; PRC Op. MC2003-2, August 26, 2003, at 1.

⁵¹ Stipulation and Agreement, *supra*, Attachment C.

information useful for evaluating PFS as a potential permanent mail classification. In addition to the previously discussed table to inform potential customers of the potential assessment of additional postage due, the Service agrees to disclose advertising and informational materials used to advise the public of the experimental Premium Forwarding Service. The Service also agrees to present the results of any market research it conducts that reflects customer satisfaction with the experimental service, and the extent to which any dissatisfaction results from inadequate explanation of the potential need to pay postage due. Together, these categories of information should shed additional light on public acceptance of the Premium Forwarding Service, and potential demand for a permanent service.

UNITED STATES OF AMERICA
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

Before Commissioners:

George Omas, Chairman;
Tony Hammond, Vice Chairman;
Dana B. Covington, Sr.;
Ruth Y. Goldway; and
Dawn A. Tisdale

Experimental Premium Forwarding Service

Docket No. MC2005-1

RECOMMENDED DECISION

(Issued April 15, 2005)

The Commission, having considered the Postal Service Request, and the Stipulation and Agreement filed and entered into the record of this proceeding, has issued its Opinion thereon. Based on that Opinion, which is attached hereto and made a part hereof,

It is ordered:

1. The Motion of the United States Postal Service for Consideration of Attached Stipulation and Agreement as the Basis for Recommended Decision, March 1, 2005, is granted. The Stipulation and Agreement filed by the Postal Service is accepted consistent with this Opinion and Recommended Decision.

2. The Commission's Opinion and Recommended Decision shall be transmitted to the Governors of the Postal Service and the Governors shall thereby be advised that the proposed rate (set forth in Appendix One) and the proposed amendments to the DMCS (set forth in Appendix Two) are in accordance with the policies of title 39, United States Code, and the factors set forth in §§ 3622(b) and 3623(c) thereof; and they are hereby recommended to the Governors for approval.

By the Commission.

(S E A L)

Steven W. Williams
Secretary

RECOMMENDED CHANGES IN RATE SCHEDULES

The following change represents the fee schedule recommendation of the Postal Rate Commission in response to the Postal Service's Docket No. MC2005-1 Request. The change appears as a new Fee Schedule 937. The text of the new schedule is underlined.

FEE SCHEDULE 937

PREMIUM FORWARDING SERVICE

<u>Description</u>	<u>Fee</u>
<u>Enrollment fee</u>	<u>\$10.00</u>
<u>Weekly reshipment fee</u>	<u>\$2.85</u>

SCHEDULE 937 NOTE

1. The weekly reshipment fee is in addition to the postage applicable to a 3-pound parcel mailed to zone 6, as stated in Rate Schedule 223 (Priority Mail).

**RECOMMENDED CHANGES IN
DOMESTIC MAIL CLASSIFICATION SCHEDULE**

The following material represents changes to the Domestic Mail Classification Schedule recommended by the Postal Rate Commission in response to the Postal Service's Docket No. MC2005-1 Request. The changes are contained in a new section 937, which would define Premium Forwarding Service, specify the conditions of its availability, set out customer requirements, describe the availability of other services, specify the applicable rates and fees, and establish the duration of the experiment. Additions to the text of the current Domestic Mail Classification Schedule are underlined. Information to be added upon approval by the Board of Governors appears in brackets and is underlined.

SPECIAL SERVICES CLASSIFICATION SCHEDULE

937 PREMIUM FORWARDING SERVICE

937.1 Definition

937.11 Premium Forwarding Service provides residential delivery customers, and certain post office box customers, the option to receive substantially all classes of mail addressed to a primary address instead at a temporary address by means of a weekly Priority Mail shipment. Parcels that are too large for the weekly shipment, mail pieces that require a scan upon delivery or arrive postage due at the office serving the customer's primary address, and certain Priority Mail pieces may be re-routed as specified by the Postal Service. Re-routed Express Mail, First-Class Mail, and Priority Mail pieces incur no additional reshipping charges. Re-routed Standard Mail and Package Service pieces may be re-routed postage due, primarily Priority Mail postage due, as specified by the Postal Service. Mail sent to a primary address for which an addressee has activated Premium Forwarding Service is not treated as undeliverable-as-addressed.

937.2 Availability

937.21 Premium Forwarding Service is available for a period of at least two weeks and not more than twelve months, as specified by the Postal Service. Customers may not use Premium Forwarding Service simultaneously with temporary or permanent forwarding orders. Premium Forwarding Service is not available to customers whose primary address consists of a size three, four or five post office box, subject to exceptions allowed by the Postal Service, or a centralized delivery point.

937.3 Customer Requirements

937.31 A customer must complete and submit a Premium Forwarding Service application together with all postage and fees for the full duration of service to the post office responsible for delivery to that customer's primary address, as specified by the Postal Service.

937.4 **Other Services**

937.41 Premium Forwarding Service may not be combined with any ancillary or special services beyond those purchased by the original mailer.

937.5 **Rates and Fees**

937.51 The postage rate for mail reshipped by Premium Forwarding Service consists of the rate specified in Rate Schedule 223 for a three-pound parcel mailed to zone 6 on the enrollment date.

937.52 Fees for Premium Forwarding Service are specified in Fee Schedule 937.

937.6 **Duration of the Premium Forwarding Service Experiment**

937.61 The provisions of section 937 expire the later of:

- a. [insert date two years after the implementation date specified by the Postal Service Board of Governors], or
- b. if, by the expiration date specified above, a request for the establishment of a permanent Premium Forwarding Service is pending before the Postal Rate Commission, the later of:
 - (1) three months after the Commission takes action on such proposal under section 3624 of title 39, or, if applicable,
 - (2) the implementation date for a permanent Premium Forwarding Service classification.

Experimental Premium Forwarding Service

DISPOSITION OF MAIL AT OFFICE SERVING PRIMARY ADDRESS FOR PFS CUSTOMER

SHAPE	FIRST-CLASS MAIL	PRIORITY MAIL	EXPRESS MAIL	PERIODICALS	STANDARD MAIL	PACKAGE SERVICES
LETTER	Y	O ²	O	Y	Y	—
FLAT	Y	O ²	O	Y	Y	—
PARCEL (fits)	Y	O ²	O	—	Y	Y
PARCEL (doesn't fit)	O ¹	O ²	O	—	PD	PD
LETTER w/ SCAN	O	O	O	—	—	—
FLAT w/ SCAN	O	O	O	—	—	—
PARCEL w/ SCAN	O	O	O	—	PD	PD

LEGEND:

- Y** = YES, included in PFS package.
- O** = Reshipped OUTSIDE PFS package; no additional postage or fees required.
- PD** = Piece sent outside PFS package POSTAGE DUE Priority Mail.
- = Not Applicable (does not occur).

¹ First-Class Mail parcels are likely to fit in PFS packages because of their 13 ounce maximum weight limit. If they do not fit into the PFS package, First-Class Mail parcels would be reshipped as First-Class Mail outside the PFS package at no additional charge. In no instance would a First-Class Mail parcel be reshipped postage due Priority Mail.

(Revised Response to OCA/USPS-T1-33).

² Priority Mail pieces are unlikely to be included in PFS packages because inclusion would usually delay the Priority Mail piece's arrival at a PFS customer's temporary address.

Postage Due Pieces Found at Office Serving Primary Address

Any pieces arriving postage due at the office serving a PFS customer's primary address would be handled in conformity with Domestic Mail Manual P011.1.0. Such pieces would not be included in PFS packages, since that would effectively preclude payment of postage due by the PFS customer at a temporary address; however, such pieces could accrue additional postage due charges depending upon the combination of shape, need for a scan, and choice of mail service as reflected in the table above.

PARTICIPANTS AND COUNSEL

(Italicized boldface type indicates that the participant has signed the Stipulation and Agreement underlying the Commission's recommendation)

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