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BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

REPOSITIONABLE NOTES
MINOR CLASSIFICATION CHANGE

Docket No. MC2006–2

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

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AUTOBIOGRAPHICAL SKETCH

My name is Kirk T. Kaneer and I am employed by the Postal Service as an economist in Pricing and Classification. I have held this position since 1998. My current duties are to develop pricing and classification proposals, cost analyses, forecasts, and implementation databases. Prior to this, I did similar work in Pricing from 1992 to 1998. Before working in Pricing, I was employed in the Labor Economics Research Division as an economist involved in labor negotiations. I have been employed by the Postal Service since 1988. I was the rate design witness for Repositionable Notes in Docket No. MC2004-5 (USPS-T-2). I was a rate design witness for post office box service, special handling, and parcel airlift in Docket No. R2001-1 (USPS-T-38), and I was a cost and classification witness for post office box service in Docket No. R2000-1 (USPS-T-40). In Docket No. R97-1, I was the Periodicals Nonprofit and Classroom rate design witness (USPS-T-35) and rebuttal witness for post office box service (USPS-RT-19). I was the pricing witness for the Classroom subclass of Periodicals in Docket No. MC96-2 (USPS-CT-3) as well.

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

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

I. PURPOSE OF TESTIMONY

The purpose of my testimony in this docket is to present the Postal Service's proposal for changing the expiration date for the provisional Repositionable Notes (RPN) classification and associated rates. The provisional service was recommended by the Commission in Docket No. MC2004-5, and implemented on April 3, 2005. In accordance with Domestic Mail Classification Schedule provisions, the provisional service will expire on April 3, 2006.

My testimony explains the reasons for the proposed expiration date change, addresses the relevant statutory criteria for evaluating this proposal, and provides an estimate of the potential magnitude of the impact on postal costs and revenues.

II. PROPOSED CHANGE OF THE RPN SERVICE EXPIRATION DATE

The Postal Service proposes to change the expiration date of the provisional Repositionable Notes classification and rates so that they remain in effect pending consideration of a further request to make substantive modifications in the service. In the event that the Postal Service decides not to make a further request, then the service would expire at a time specified by the Postal Service, not to exceed a year from the original expiration date. No substantive classification changes or changes in rates are proposed. This allows the continuation of the current RPN service without interruption for those customers who are using the service or may be planning to use it. This proposal also allows additional time for the Postal Service and other

interested parties to consider the Commission's white paper, filed as a library reference on January 9, 2006.[1]

A. Reasons for Proposed Change

While the results from the service so far, and the recommendations made by the Commission regarding further testing[2] would provide a sufficient foundation for a proposal to test alternative prices or other modifications in the service, the Postal Service has deferred a planned proposal in order to for there to be due consideration of the white paper before proposing changes. Given the timing of the issuance of the white paper, consideration of that paper, development of a request for further testing, litigation of that request, and implementation of whatever further test is authorized cannot be completed by the current expiration date of April 3, 2006. Therefore, as noted above, and as set out in Attachment A to the request, my proposal is simply to change the DMCS provisions regarding the expiration date of the current provisional service to allow time for consideration of a further request. In this regard, these provisions are similar to those that the Commission has recommended in past experiments.[3] In addition, in the event no request is filed, the Postal Service would, upon making a determination not to request further testing of RPN service, specify an expiration date for the current provisional service. In no event would that date be later than April 3, 2007. An additional one year was chosen simply to provide an outside limit for the process of consideration of the white paper,

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[1] Docket No. MC2004-5, PRC-LR-1, "Pricing Repositionable Notes (RPN) for Use in Postal Delivery Services: An Economic Analysis" by Frank A. Wolak.
[2] PRC Op., Docket No. MC2004-5, at 27, 29.
[3] The most recent example is DMCS section 937.61, recommended in Docket No. MC2005-1.

including the Commission's anticipated "public dialogue," the timing of which is not within the control of the Postal Service.[4] Although having the Postal Service specify an earlier expiration date is a novel aspect of an expiration provision, I believe it is appropriate, since that eventuality would only occur if the Postal Service were to determine not to pursue further testing of RPN service. At that point there would be no reason to continue the provisional service simply to use up the buffer built into the one-year outside limit.

B. Statutory Criteria

Because the classification language changes I propose maintain the current provisional service classifications and rates, my testimony (USPS-T-2) and the Commission's findings on the applicability of the statutory criteria in Docket No. MC2004-5 remain applicable. I also conclude that the new expiration language would be fair and equitable, and would be desirable from the point of view of both customers and the Postal Service.

C. Revenue and Cost Impact

In order to estimate the revenue impact of this proposal, I begin with the available monthly data for the eight months of the provisional service shown in Table 1 below, which displays RPN piece counts and postage by class and shape of the host piece.[5]

[4] See PRC Op., MC2004-5, at 3. As this testimony is being written, the Commission has scheduled a public briefing on the white paper for January 30, 2006.
[5] There have been no RPNs on Periodicals pieces.

Table 1: Reported RPN Market Test Pieces and Postage										
	First-Class Mail				Standard Mail				Total	
	Flat		Letter		Flat		Letter			
Date	Pieces	Postage	Pieces	Postage	Pieces	Postage	Pieces	Postage	Pieces	Postage
Apr-05	-	$ -	61,439	$ 307	-	$ -	2,102,787	$ 31,542	2,164,226	$ 31,849
May-05	866	$ 4	216,259	$ 1,081	7,807	$ 117	4,536,959	$ 68,054	4,761,891	$ 69,257
Jun-05	2,582	$ 13	1,573,881	$ 7,869	222,941	$ 3,344	7,232,348	$ 108,485	9,031,752	$ 119,712
Jul-05	330	$ 2	1,462,041	$ 7,310	179,866	$ 2,698	9,385,857	$ 140,788	11,028,094	$ 150,798
Aug-05	5	$ 0	319,168	$ 1,596	774,848	$ 11,623	6,620,089	$ 99,301	7,714,110	$ 112,520
Sep-05	8	$ 0	253,676	$ 1,268	139,518	$ 2,091	5,768,054	$ 86,521	6,161,256	$ 89,880
Oct-05	-	$ -	161,284	$ 806	287,435	$ 4,312	11,196,022	$ 167,940	11,644,741	$ 173,058
Nov-05	0	$ -	8,923,811	$ 44,619	336,585	$ 5,049	13,785,331	$ 206,780	23,045,727	$ 256,448
Total	3,791	$ 19	12,971,559	$ 64,858	1,949,000	$ 29,233	60,627,447	$ 909,412	75,551,797	$ 1,003,522
% Pieces	0.0%		17.2%		2.6%		80.2%		100.0%	
% Revenue		0.0%		6.5%		2.9%		90.6%		100.0%

Because there are only eight months of data, there is obviously uncertainty in any projections for a potential subsequent year of the provisional service. Moreover, it is anticipated that the recent changes in host piece prices effective on January 8, 2006, will result in some changes in volume. I did not attempt to adjust for these factors, given the small magnitude of this proposal. The difficulties and uncertainties in attempting a more precise volume estimate would far outweigh the need for the information at this juncture.

Therefore, for simplicity in estimating the potential change in revenue resulting from the proposed expiration date change, I first used the data in Table 1 to calculate average monthly RPN volumes, by class and shape. These results are shown in Table 2.

Table 2: Reported RPN Pieces				
	First-Class Mail		Standard Mail	
	Flat	Letter	Flat	Letter
Date	Pieces	Pieces	Pieces	Pieces
Apr-05	-	61,439	-	2,102,787
May-05	866	216,259	7,807	4,536,959
Jun-05	2,582	1,573,881	222,941	7,232,348
Jul-05	330	1,462,041	179,866	9,385,857
Aug-05	5	319,168	774,848	6,620,089
Sep-05	8	253,676	139,518	5,768,054
Oct-05	-	161,284	287,435	11,196,022
Nov-05	-	8,923,811	336,585	13,785,331
Monthly avg.	474	1,621,445	243,625	7,578,431

I then simply applied these average monthly volumes to the current RPN rates, to obtain a rough estimate of RPN revenue for a potential second year of RPN service, as follows:

1) First Class Average RPN revenue per month =

(474 flats + 1,621,445) x $0.005 = $8,110.

Projected Annual First Class RPN revenue =

12 months x $8,110 monthly average = $97,315.

2) Standard Mail Average RPN revenue per month =

(243,625 flats + 7,578,431 letters) x $0.015 = $117,331.

Projected Annual Standard Mail RPN revenue =

12 months x $117,331 monthly average = $1,407,970.

3) Total projected annual RPN revenue =

$97,315 First Class + $1,407,970 Standard = **$1,505,285**.

These calculations show the modest nature of potential revenues resulting from the expiration date change.

No impact on costs has been reported to date. Therefore, RPN revenues generated by my proposed prices go entirely toward the institutional cost burden of the subclasses of the host piece. See Docket No. MC2004-5, USPS-T-2, at 9, lines 1–4.