

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

POSTAL RATE AND FEE CHANGES, 2006

Docket No. R2006-1

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

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AUTOBIOGRAPHICAL SKETCH

1
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3 My name is Susan W. Berkeley. I am an economist in Pricing at Postal
4 Service Headquarters. I began working for the Postal Service in 1981 as a letter
5 carrier at the McLean, Virginia post office. From 1983 to 1986, I worked at the
6 Research and Development Laboratories, the National Test Administration
7 Center, and the Headquarters Personnel Division before joining Pricing in 1986.
8 I have appeared before the Commission on ten previous occasions.

9 I provided substantial technical support for Dockets No. R87-1, R90-1,
10 R94-1, and R2005-1. In Docket No. MC96-3, appearing as witness Susan W.
11 Needham, I provided two direct testimonies and one rebuttal testimony. The
12 direct testimonies, USPS-T-7 and USPS-T-8, proposed fee and classification
13 changes for post office box service and other special services, respectively. The
14 rebuttal testimony, USPS-RT-4, focused on certified mail and post office box
15 service. I provided both direct (USPS-T-39) and rebuttal (USPS-RT-23)
16 testimonies in Docket No. R97-1, appearing as witness Susan W. Needham.
17 The direct testimony presented fee and classification proposals for many special
18 services and the rebuttal testimony addressed issues pertaining specifically to
19 post office box service pricing.

20 I testified in a Bulk Parcel Return Service complaint case, Docket No.
21 C99-4, as witness Susan W. Mayo (USPS-RT-1). In Docket No. R2000-1, also
22 appearing as witness Susan W. Mayo, I presented direct testimony (USPS-T-39)
23 with fee and classification proposals for all of the special services. In that same
24 proceeding, I also testified as a rebuttal witness (USPS-RT-22) addressing

1 several of the special services. In Docket No. R2001-1, also as witness Susan
2 W. Mayo, I presented two pieces of direct testimony. Testimony USPS-T-35
3 presented rate and classification proposals for Express Mail and testimony
4 USPS-T-36 presented fee and classification proposals for many of the special
5 services.

6 In this current Docket, I am also appearing separately as a special
7 services pricing witness (USPS-T-39).

8 Since 1991, I have been the special services pricing expert and in 1996
9 became the project manager for special services pricing and classification
10 issues. I am also the project manager for Express Mail pricing and classification
11 issues.

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

16 I received bachelor's degrees in business administration and economics
17 from Catawba College, Salisbury, North Carolina. I did graduate work in
18 business administration at Marymount University, Arlington, Virginia.

1 **I. PURPOSE AND SCOPE OF TESTIMONY**

2

3 The purpose of my testimony is to discuss the rate design for Express Mail
4 and to propose new Express Mail rates. Since Same Day Airport Express Mail
5 Service is currently suspended, I will not be proposing any rates for this category.
6 Thus, the new rates I am proposing are for the categories of Custom Designed,
7 Post Office to Post Office, and Post Office to Addressee. I am proposing a
8 change to the rate design to eliminate the one and two pound uniform rate and
9 replace it with separate one-pound and two-pound rates for the three Express
10 Mail rate categories.

1 **II. GUIDE TO TESTIMONY AND SUPPORTING DOCUMENTATION**

2

3 In addition to my testimony, I provide supporting spreadsheets, in hard
4 copy and electronic format, in Library Reference USPS-LR-L-127. I relied on
5 inputs from various witnesses in this proceeding for these supporting
6 spreadsheets. Specifically, Witness Thress (USPS-T-7) provides test year
7 volumes. Witness Waterbury (USPS-T-10) provides test year before rates and
8 test year after rates volume variable costs (USPS-LR-L-8), and test year before
9 rates air and surface costs (USPS-LR-L-8). Witness Kelley (USPS-T-15)
10 provides base year air and surface costs (USPS-LR-L-39). Witness Loutsch
11 (USPS-T-6) provides the contingency amount. Witness Pifer (USPS-T-18)
12 provides the incremental costs.

1 **III. EXPRESS MAIL BACKGROUND**

2

3 **A. General Description**

4 Express Mail is a premium expedited mail class, offering either overnight,
5 second day, or, in certain circumstances, second-delivery day guaranteed
6 delivery. The guarantee is backed by a refund of total postage if delivery does
7 not occur when specified by the Postal Service, with certain exceptions
8 discussed below. The postage for an Express Mail piece is determined by the
9 weight of the mailpiece, the type of service used, and, if desired, the addition of
10 fees for any special services chosen.

11 Express Mail is available for any mailable matter (including matter
12 otherwise required to be sent by First-Class Mail or Priority Mail) weighing up to
13 70 pounds and not exceeding 108 inches in length and girth combined. Express
14 Mail is available under five different service offerings: Custom Designed Service,
15 Post Office to Post Office (Next Day and Second Day), Post Office to Addressee
16 (Next Day and Second Day), Military Service, and Same Day Airport Service
17 (which is currently suspended for security reasons). Express Mail items are
18 closed against inspection.

19 Express Mail provides both document reconstruction insurance and
20 merchandise insurance. Merchandise insurance against loss, damage, or rifling
21 is provided up to \$100 at no extra charge, and additional insurance can be
22 purchased up to \$5,000. Document reconstruction insurance against loss,

1 damage, or rifling of non-negotiable documents is provided at no extra charge for
2 up to \$100 per piece and up to \$5,000 maximum liability per occurrence.

3 The Postal Service provides specially-marked envelopes and boxes as a
4 convenience to customers using Express Mail. One such envelope is the “flat-
5 rate” envelope that allows customers to fill the envelope as they please and pay
6 the one-half pound rate regardless of the weight of the envelope.

7 Upon acceptance of an Express Mail mailpiece, the customer is provided
8 a receipt showing the time and date of mailing and specifying the date and time
9 of the delivery commitment. Delivery information can be accessed either on the
10 Internet at USPS.com or by calling 1-800-222-1811 toll-free. The mailer has the
11 option of having the delivery record with the recipient’s signature either faxed or
12 mailed to them. If the mailer chooses a waiver of signature,¹ the Postal Service
13 delivery employee will sign the delivery record if the addressee or their agent is
14 not present to accept delivery; in this situation, the mailer will only be provided
15 with the delivery date. For bulk Express Mail mailers, proof of delivery is
16 available in either a CD-ROM or Signature Extract File format when the mailer
17 uses the Express Mail Manifesting Service.

18 Express Mail customers meeting certain requirements have the option of
19 establishing a corporate account. A corporate account allows the mailer to pay
20 Express Mail postage and applicable fees from an advance deposit. The mailer
21 receives a statement for each accounting period the account is active. The
22 statement details the activity within the account.

¹ Signature waiver is not available for Express Mail Collect-On-Delivery, Express Mail Custom Designed, or Express Mail with insurance over \$100.

1 Various additional and special services may be used in conjunction with
2 Express Mail. Mailers may have their outgoing Express Mail picked up by the
3 Postal Service under an arrangement whereby a pickup fee is charged (Pickup
4 On-Demand®). For Custom Designed items, a fee is charged for each delivery
5 stop for items presented for delivery to the addressee. Special services that can
6 be used with Express Mail include address correction service, return receipt
7 service, Collect-on-Delivery service (for Next Day and Second Day service only),
8 and merchandise insurance (above \$100 in value).

9 Express Mail is also a way of expeditiously drop shipping other classes of
10 mail between domestic postal facilities. The drop shipped mailpiece is enclosed
11 in an Express Mail pouch and receives Express Mail service from the origin
12 postal facility to the destination postal facility, where the enclosed mail is
13 processed and delivered under the service standards for the appropriate mail
14 class. The mail enclosed in the drop shipment mailpiece must be entirely single-
15 piece rate matter or entirely presorted matter that is part of the same mailing
16 unless an exception is granted. Express Mail postage is paid based on the
17 weight of the entire Express Mail pouch.

18 If an Express Mail dropshipment is used, the contents of each pouch are
19 considered one mailpiece for purposes of indemnity coverage and the special
20 services that can be used vary by the class of the enclosed mail, although no
21 special service may be added to the Express Mail mailpiece. First-Class Mail
22 letters and parcels may be used with certified mail or special handling and First-
23 Class Mail parcels may use electronic option Delivery Confirmation or electronic

1 option Signature Confirmation. Priority Mail mailpieces may use certified mail,
2 special handling, electronic option Delivery Confirmation, or electronic option
3 Signature Confirmation. Standard Mail mailpieces subject to the residual shape
4 surcharge (with the exception of Customized MarketMail) may use electronic
5 option Delivery Confirmation. Package Services mailpieces may use special
6 handling and Package Services parcels may use electronic option Delivery
7 Confirmation or electronic option Signature Confirmation.

8 As stated earlier, postage is refunded for Express Mail when delivery or
9 attempted delivery does not occur by the guaranteed time. Exceptions to a
10 postage refund when delivery or attempted delivery does not occur within the
11 guaranteed time include the following:

- 12 • properly detained for law enforcement purposes
- 13 • strike or work stoppage
- 14 • delayed because of an incorrect ZIP Code or address
- 15 • forwarding or return service was provided after the item was made
- 16 available for claim
- 17 • delay or cancellation of flights
- 18 • governmental action beyond the control of the Postal Service or air
- 19 carriers
- 20 • war
- 21 • insurrection
- 22 • civil disturbance
- 23 • breakdown of a substantial portion of the Postal Service
- 24 transportation network resulting from events or factors outside the
- 25 control of the Postal Service
- 26 • act of God
- 27

28 **B. Same Day Airport Service Description**

29 Currently, Same Day Airport Service is suspended for security reasons.

30 Prior to the suspension of service, Same Day Airport Service provided same-day

1 Express Mail delivery to designated airport mail facilities. A refund was provided
2 if the mailpiece was not available for recipient pickup at the destination airport
3 facility by the time specified by the Postal Service at acceptance, with certain
4 exceptions. The Postal Service proposes to retain this service in the Domestic
5 Mail Classification Schedule (DMCS), in the event that future circumstances
6 permit it to be resumed.

7 **C. Custom Designed Service Description**

8 Custom Designed Service is based on a service agreement entered into
9 by the Postal Service and a mailer that provides for a customized schedule for
10 the pickup and delivery of Express Mail. This service is available to and from any
11 location nationwide. The service agreement between the Postal Service and the
12 mailer specifies the place and date or day of origination for each shipment, the
13 place and date or day of delivery for each shipment, and the times of day the
14 shipments can be presented at the origin and claimed or delivered at the
15 destination. This service agreement may be terminated by the mailer at any time
16 for any reason. The Postal Service may terminate the agreement upon 10 days
17 written notice if service cannot be provided 1) for reasons beyond the control of
18 the Postal Service, 2) because of changes in postal operations or facilities, or 3)
19 because the mailer fails to adhere to the terms of the agreement.

20 Postage is refunded for Custom Designed Express Mail shipments if the
21 shipment is not available for the recipient to claim at the destination, or is not
22 delivered, within 24 hours of mailing, unless the service agreement provides for
23 claim or delivery more than 24 hours after acceptance. In addition, postage is

1 not refunded if the shipment is delayed for the reasons specified in Section III.A
2 above.

3 Custom Designed Service volume is a very small portion of total Express
4 Mail volume. In 2005, Custom Designed was 0.24 percent of total Express Mail
5 volume.

6 **D. Next Day and Second Day Post Office to Addressee Description**

7 Next Day Post Office to Addressee service provides guaranteed next day
8 delivery to an addressee from designated originating locations to designated
9 destination 3-digit ZIP Code delivery areas, facilities and locations. Second Day
10 Post Office to Addressee Service, which provides guaranteed second day (or, in
11 certain circumstances, second-delivery day) service, is available to any domestic
12 address to which Next Day Service is not available from a particular originating
13 location. Post Offices have a directory that outlines those destination ZIP Codes
14 that are eligible to receive Next Day Service from that office. In addition to the
15 destination ZIP Code, the delivery commitment that a particular mailpiece
16 receives depends on the time at which it is presented: every office has “cut-off
17 times” by which Express Mail must be presented in order to receive particular
18 service commitments.

19 The Postal Service will refund postage for Next Day Post Office to
20 Addressee shipments if delivery to the addressee is not made or attempted by
21 noon or 3:00 PM of the next day, depending on the service guaranteed to the
22 particular address. The Postal Service will refund postage for Second Day Post
23 Office to Addressee shipments if delivery is not made or attempted by noon or

1 3:00 PM of the second day (or, in certain circumstances, the second delivery
2 day), depending on the service guaranteed to the particular address. If delivery
3 is not successful, the addressee is notified and a second delivery is attempted.
4 Postage is not refunded if the shipment is delayed for the reasons specified in
5 Section III.A above.

6 Post Office to Addressee accounts for the vast majority of total Express
7 Mail. In 2005, 99.7 percent of all Express Mail was Post Office to Addressee.
8 More specifically, 83.7 percent of all Post Office to Addressee mail was sent at
9 the one-half pound rate (37.2 percent at the flat envelope rate and 46.5 percent
10 at the one-half pound rate, which is equal to the flat rate in terms of price).

11 **E. Next Day and Second Day Post Office to Post Office Description**

12 Post Office to Post Office Service provides guaranteed delivery to
13 designated post offices for pickup by 10:00 AM of the next day, second day, or,
14 in certain circumstances, the second delivery day. Postage is refunded if the
15 shipment is not available for claim by 10:00 AM on the date specified by the
16 Postal Service, subject to the exceptions noted in Section III.A above.

17 Post Office to Post Office Express Mail represents the smallest rate
18 category volume percentage of total Express Mail. In 2005, Post Office to Post
19 Office was 0.1 percent of total Express Mail.

20 **F. Military Service Description**

21 Express Mail Military Service (EMMS) provides expedited service between
22 the United States and designated APOs and FPOs for Department of Defense

1 personnel stationed overseas and other personnel entitled to use APO and FPO
2 mailings. EMMS is available at designated postal facilities for guaranteed two- or
3 three-day service to designated APO/FPO 5-digit ZIP Codes or at designated
4 APO/FPO facilities for two- or three-day service to designated domestic 3-digit
5 destination ZIP Codes. EMMS postage rates correspond to the type of service
6 requested (e.g., Post Office to Addressee) and the weight of the piece.

7 Postage refunds are made for EMMS articles that are not delivered by
8 guaranteed times. The exceptions to a postage refund for EMMS include delays
9 due to Customs, non-delivery because an APO/FPO was closed on the intended
10 day of delivery, or if the delay is due to one of the reasons discussed in Section
11 III.A above.

12 **G. Rate History**

13 Express Mail began as an experimental service in 1970, and became a
14 permanent part of the DMCS in 1977; since then, Express Mail rates have
15 changed 11 times. In 1981, as a result of Docket No. R80-1, rates were
16 increased twice, for a total average increase of nine percent, and uniform two-
17 pound rates were established. In 1985, as a result of Docket No. R84-1, rates
18 were increased by an average of 15 percent and uniform five-pound rates,
19 supplementing the uniform two-pound rates, were established. In 1988, as a
20 result of Docket No. R87-1, rates were increased by an average of 1.9 percent,
21 unzoned rates for all weight increments were established, and a letter rate was
22 introduced. In 1991, as a result of Docket No. R90-1, rates were increased an
23 average of 15 percent, a flat rate envelope rate was introduced (at the two-pound

1 rate), and one-pound rate increments were re-introduced for pieces weighing
2 between two and five pounds. In both 1995 and 1999 (as a result of Docket Nos.
3 R94-1 and R97-1, respectively), rates were increased by an average of 8
4 percent. In 2001, as a result of Docket No. R2000-1, rates were increased twice:
5 first by an average of 3.6 percent and then by an average of 1.5 percent. In
6 2002, as a result of Docket No. R2001-1, rates were increased by 9.4 percent,
7 and the flat rate envelope rate was set at the half-pound rate. Finally, rates were
8 increased by 5.5 percent in 2006 as a result of Docket No. R2005-1. For a
9 detailed rate history for Express Mail, please see Library Reference USPS-LR-L-
10 73.

11 **H. Revenue History**

12 From its inception in 1970 through 2001, total Express Mail revenue
13 increased fairly steadily. Since FY 2001, however, Express Mail total revenue
14 has declined steadily, primarily due to a decline in volume (discussed in the next
15 section). Express Mail revenue reached its apex at close to \$1 billion in both
16 2000 and 2001. By FY 2005, however, Express Mail revenue had dropped to
17 \$872 million. Therefore, in a five-year period total annual revenue dropped
18 approximately 14.2 percent. Custom Designed revenue, which has been fairly
19 constantly decreasing for years, decreased 56 percent from FY 2000 to FY 2005.
20 Next Day revenue (combined Post Office to Post Office and Post Office to
21 Addressee) decreased 12 percent from FY 2000 to FY 2005. For the complete
22 revenue history for Express Mail, see Library Reference USPS-LR-L-74.

1 **I. Volume History**

2 With some notable exceptions, which generally occurred following a rate
3 increase, total Express Mail volume increased fairly consistently on an annual
4 basis from its inception until FY 2000. In the period since FY 2000, however,
5 total volume has steadily declined. From FY 2000 to FY 2005, total Express Mail
6 volume decreased from 71 million pieces to 55 million pieces, a 22 percent
7 decrease. Custom Designed volume decreased 58 percent in that time period,
8 and Next Day volume decreased 22 percent in that time period.

9 The composition of Express Mail volume has changed considerably since
10 Express Mail first began. For the first few years of Express Mail service, Custom
11 Designed Service comprised the bulk of the Express Mail volume. Since 1977,
12 however, Post Office to Addressee has represented the majority of Express Mail
13 volume. In 2005, Post Office to Addressee volume was 99.7 percent of total
14 Express Mail volume. For the complete volume history for Express Mail, see
15 Library Reference USPS-LR-L-74.

1 **IV. RATE PROPOSALS**

2

3 I propose rate increases for Express Mail that range from 3.7 percent to
4 27.7 percent, with an overall percentage increase of 12.5 percent, and resulting
5 in an overall cost coverage of 191 percent. The one-half pound rate for Custom
6 Designed is proposed to increase from \$11.30 to \$14.15, a 25.2 percent
7 increase. The one-half pound rate for Post Office to Post Office is proposed to
8 increase from \$10.95 to \$13.85, a 26.5 percent increase. The one-half pound
9 rate for Post Office to Addressee is proposed to increase from \$14.40 to \$16.25,
10 a 12.8 percent increase.

11 In this rate proceeding, the Postal Service is proposing separate rates for
12 the one-pound and two-pound rate cells. Therefore, the one-pound rate for
13 Custom Designed is proposed to increase from \$15.70 to \$17.40, a 10.8 percent
14 increase. The two-pound rate for Custom Designed is proposed to increase from
15 \$15.70 to \$19.30, a 22.9 percent increase. The one-pound rate for Post Office to
16 Post Office is proposed to increase from \$15.40 to \$17.10, an 11 percent
17 increase. The two-pound rate for Post Office to Post Office is proposed to
18 increase from \$15.40 to \$19.00, a 23.4 percent increase. The one-pound rate for
19 Post Office to Addressee is proposed to increase from \$18.80 to \$19.50, a 3.7
20 percent increase. The two-pound rate for Post Office to Addressee is proposed
21 to increase from \$18.80 to \$21.40, a 13.8 percent increase.

1 The pickup fee that applies to Express Mail, as well as Priority Mail and
2 Package Services mail, is proposed to increase by 7.5 percent, from \$13.25 to
3 \$14.25, as presented by witness Scherer (USPS-T-33).

4 Table 1 presents the current Express Mail rates, Table 2 presents the
5 proposed Express Mail rates, and Table 3 presents the percentage changes from
6 current to proposed rates.

1

Table 1 – Current Express Mail Rates			
Weight Not Exceeding (Pounds)	Schedule 122	Schedule 123	Schedule 123
	Custom Designed	Next Day and Second Day PO to PO	Next Day and Second Day PO to Addressee
0.5	\$11.30	\$10.95	\$14.40
1	15.70	15.40	18.80
2	15.70	15.40	18.80
3	19.10	18.75	22.20
4	22.40	22.10	25.50
5	25.65	25.35	28.75
6	28.95	28.60	32.05
7	32.15	31.85	35.25
8	33.50	33.20	36.65
9	35.05	34.75	38.15
10	36.40	36.10	39.50
11	38.20	37.90	41.30
12	41.00	40.70	44.10
13	43.00	42.70	46.10
14	44.10	43.80	47.20
15	45.50	45.15	48.60
16	47.10	46.80	50.20
17	48.70	48.40	51.80
18	50.15	49.85	53.30
19	51.70	51.40	54.80
20	53.25	52.90	56.35
21	54.75	54.45	57.85
22	56.30	55.95	59.40
23	57.85	57.55	60.95
24	59.35	59.00	62.45
25	60.80	60.50	63.95
26	62.40	62.10	65.50
27	63.85	63.55	67.00
28	65.45	65.15	68.55
29	67.00	66.65	70.10
30	68.50	68.20	71.60
31	70.05	69.70	73.15
32	71.60	71.30	74.75
33	73.05	72.75	76.15
34	74.70	74.35	77.80
35	76.10	75.80	79.20
36	77.75	77.40	80.85
37	79.45	79.15	82.60
38	81.35	81.05	84.50
39	83.20	82.90	86.30
40	85.10	84.80	88.20

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Table 1 – Current Express Mail Rates (Continued)			
Weight Not Exceeding (Pounds)	Schedule 122	Schedule 123	Schedule 123
	Custom Designed	Next Day and Second Day PO to PO	Next Day and Second Day PO to Addressee
41	87.00	86.70	90.10
42	88.95	88.65	92.05
43	90.75	90.45	93.85
44	92.60	92.30	95.70
45	94.30	93.95	97.40
46	95.70	95.40	98.80
47	97.45	97.15	100.55
48	98.95	98.65	102.10
49	100.45	100.15	103.55
50	102.05	101.70	105.15
51	103.70	103.40	106.80
52	105.20	104.85	108.30
53	106.80	106.50	109.95
54	108.35	108.05	111.45
55	109.95	109.60	113.05
56	111.55	111.25	114.70
57	113.10	112.80	116.20
58	114.75	114.40	117.85
59	116.40	116.10	119.50
60	118.25	117.95	121.35
61	120.25	119.95	123.35
62	122.10	121.80	125.20
63	123.90	123.60	127.00
64	125.95	125.65	129.05
65	127.75	127.45	130.85
66	129.75	129.45	132.85
67	131.55	131.20	134.65
68	133.55	133.25	136.65
69	135.40	135.05	138.50
70	137.30	136.95	140.40
<u>Additional Fees</u>			
Pickups			\$13.25
Custom Designed			\$13.25

1

Table 2 – Proposed Express Mail Rates			
Weight Not Exceeding (Pounds)	Schedule 122	Schedule 123	Schedule 123
	Custom Designed	Next Day and Second Day PO to PO	Next Day and Second Day PO to Addressee
0.5	\$14.15	\$13.85	\$16.25
1	\$17.40	\$17.10	\$19.50
2	\$19.30	\$19.00	\$21.40
3	\$22.40	\$22.10	\$24.50
4	\$25.50	\$25.20	\$27.60
5	\$28.60	\$28.30	\$30.70
6	\$31.70	\$31.40	\$33.80
7	\$34.80	\$34.50	\$36.90
8	\$37.90	\$37.60	\$40.00
9	\$41.00	\$40.70	\$43.10
10	\$43.15	\$42.85	\$45.25
11	\$45.30	\$45.00	\$47.40
12	\$47.45	\$47.15	\$49.55
13	\$49.60	\$49.30	\$51.70
14	\$51.75	\$51.45	\$53.85
15	\$53.90	\$53.60	\$56.00
16	\$56.05	\$55.75	\$58.15
17	\$58.20	\$57.90	\$60.30
18	\$60.35	\$60.05	\$62.45
19	\$62.50	\$62.20	\$64.60
20	\$64.65	\$64.35	\$66.75
21	\$66.80	\$66.50	\$68.90
22	\$68.95	\$68.65	\$71.05
23	\$71.10	\$70.80	\$73.20
24	\$73.25	\$72.95	\$75.35
25	\$75.40	\$75.10	\$77.50
26	\$77.55	\$77.25	\$79.65
27	\$79.70	\$79.40	\$81.80
28	\$81.85	\$81.55	\$83.95
29	\$84.00	\$83.70	\$86.10
30	\$86.15	\$85.85	\$88.25
31	\$88.30	\$88.00	\$90.40
32	\$90.45	\$90.15	\$92.55
33	\$92.60	\$92.30	\$94.70
34	\$94.75	\$94.45	\$96.85
35	\$96.90	\$96.60	\$99.00
36	\$99.05	\$98.75	\$101.15
37	\$101.20	\$100.90	\$103.30
38	\$103.35	\$103.05	\$105.45
39	\$105.50	\$105.20	\$107.60
40	\$107.65	\$107.35	\$109.75

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Table 2 – Proposed Express Mail Rates (Continued)			
Weight Not Exceeding (Pounds)	Schedule 122	Schedule 123	Schedule 123
	Custom Designed	Next Day and Second Day PO to PO	Next Day and Second Day PO to Addressee
41	\$109.80	\$109.50	\$111.90
42	\$111.95	\$111.65	\$114.05
43	\$114.10	\$113.80	\$116.20
44	\$116.25	\$115.95	\$118.35
45	\$118.40	\$118.10	\$120.50
46	\$120.55	\$120.25	\$122.65
47	\$122.70	\$122.40	\$124.80
48	\$124.85	\$124.55	\$126.95
49	\$127.00	\$126.70	\$129.10
50	\$129.15	\$128.85	\$131.25
51	\$131.30	\$131.00	\$133.40
52	\$133.45	\$133.15	\$135.55
53	\$135.60	\$135.30	\$137.70
54	\$137.75	\$137.45	\$139.85
55	\$139.90	\$139.60	\$142.00
56	\$142.05	\$141.75	\$144.15
57	\$144.20	\$143.90	\$146.30
58	\$146.35	\$146.05	\$148.45
59	\$148.50	\$148.20	\$150.60
60	\$150.65	\$150.35	\$152.75
61	\$152.80	\$152.50	\$154.90
62	\$154.95	\$154.65	\$157.05
63	\$157.10	\$156.80	\$159.20
64	\$159.25	\$158.95	\$161.35
65	\$161.40	\$161.10	\$163.50
66	\$163.55	\$163.25	\$165.65
67	\$165.70	\$165.40	\$167.80
68	\$167.85	\$167.55	\$169.95
69	\$170.00	\$169.70	\$172.10
70	\$172.15	\$171.85	\$174.25
<u>Additional Fees</u>			
Pickups			\$14.25
Custom Designed			\$14.25

2

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Table 3 – Percentage Changes from Current to Proposed Rates			
Weight Not Exceeding (Pounds)	Schedule 122	Schedule 123	Schedule 123
	Custom Designed	Next Day and Second Day PO to PO	Next Day and Second Day PO to Addressee
0.5	25.2%	26.5%	12.8%
1	10.8%	11.0%	3.7%
2	22.9%	23.4%	13.8%
3	17.3%	17.9%	10.4%
4	13.8%	14.0%	8.2%
5	11.5%	11.6%	6.8%
6	9.5%	9.8%	5.5%
7	8.2%	8.3%	4.7%
8	13.1%	13.3%	9.1%
9	17.0%	17.1%	13.0%
10	18.5%	18.7%	14.6%
11	18.6%	18.7%	14.8%
12	15.7%	15.8%	12.4%
13	15.3%	15.5%	12.1%
14	17.3%	17.5%	14.1%
15	18.5%	18.7%	15.2%
16	19.0%	19.1%	15.8%
17	19.5%	19.6%	16.4%
18	20.3%	20.5%	17.2%
19	20.9%	21.0%	17.9%
20	21.4%	21.6%	18.5%
21	22.0%	22.1%	19.1%
22	22.5%	22.7%	19.6%
23	22.9%	23.0%	20.1%
24	23.4%	23.6%	20.7%
25	24.0%	24.1%	21.2%
26	24.3%	24.4%	21.6%
27	24.8%	24.9%	22.1%
28	25.1%	25.2%	22.5%
29	25.4%	25.6%	22.8%
30	25.8%	25.9%	23.3%
31	26.1%	26.3%	23.6%
32	26.3%	26.4%	23.8%
33	26.8%	26.9%	24.4%
34	26.8%	27.0%	24.5%
35	27.3%	27.4%	25.0%
36	27.4%	27.6%	25.1%
37	27.4%	27.5%	25.1%
38	27.0%	27.1%	24.8%
39	26.8%	26.9%	24.7%
40	26.5%	26.6%	24.4%

1

Table 3 – Percentage Changes from Current to Proposed Rates (Continued)			
Weight Not Exceeding (Pounds)	Schedule 122	Schedule 123	Schedule 123
	Custom Designed	Next Day and Second Day PO to PO	Next Day and Second Day PO to Addressee
41	26.2%	26.3%	24.2%
42	25.9%	25.9%	23.9%
43	25.7%	25.8%	23.8%
44	25.5%	25.6%	23.7%
45	25.6%	25.7%	23.7%
46	26.0%	26.0%	24.1%
47	25.9%	26.0%	24.1%
48	26.2%	26.3%	24.3%
49	26.4%	26.5%	24.7%
50	26.6%	26.7%	24.8%
51	26.6%	26.7%	24.9%
52	26.9%	27.0%	25.2%
53	27.0%	27.0%	25.2%
54	27.1%	27.2%	25.5%
55	27.2%	27.4%	25.6%
56	27.3%	27.4%	25.7%
57	27.5%	27.6%	25.9%
58	27.5%	27.7%	26.0%
59	27.6%	27.6%	26.0%
60	27.4%	27.5%	25.9%
61	27.1%	27.1%	25.6%
62	26.9%	27.0%	25.4%
63	26.8%	26.9%	25.4%
64	26.4%	26.5%	25.0%
65	26.3%	26.4%	25.0%
66	26.1%	26.1%	24.7%
67	26.0%	26.1%	24.6%
68	25.7%	25.7%	24.4%
69	25.6%	25.7%	24.3%
70	25.4%	25.5%	24.1%
<u>Additional Fees</u>			
Pickups			7.5%
Custom Designed			7.5%

2

1 **V. RATE DESIGN**

2

3 The proposed Express Mail rates in this testimony were designed to
4 achieve an overall increase in revenue of 12.5 percent. These proposed rates
5 result in an overall cost coverage of 191 percent when compared to volume
6 variable costs.² Following is a discussion of the rate design beginning with rate-
7 setting for the Post Office to Addressee rate category and moving to rate-setting
8 for the Custom Designed and Post Office to Post Office rate categories.

9 The Post Office to Addressee one-half pound rate was designed first.
10 Since 83.5 percent of all Express Mail is charged to this rate cell, I applied the
11 target percentage increase of 12.5 percent to the current rate and then applied a
12 quarter rounding constraint. The result is a proposal for the most well-known
13 Express Mail rate (\$16.25) which is fairly easy to remember as it is rounded to
14 the nearest quarter.

15 New to the Express Mail rate design is a proposed rate structure with
16 different rates for the one-pound rate cells and the two-pound rate cells for each
17 rate category, as opposed to the current uniform rate for one and two pounds in
18 each rate category. Until Docket No. R90-1, Express Mail rates were set at two
19 pounds and five pounds before individual pound increments began. Since
20 Docket R90-1, Express Mail rates have been at one-pound increments to match
21 Priority and Package Services rates, yet the first-pound and second-pound rates
22 are still uniform for Express Mail, whereas these rates are not uniform for Priority

² When compared to incremental costs, the overall Test Year after rates proposed cost coverage for Express Mail is 150 percent.

1 Mail and Package Services. Express Mail remains the only Postal Service retail
2 product with a uniform one and two pound rate and it is time to bring the rate
3 design more in line with the other mail classes. In addition, ungrouping the
4 uniform one and two pound rate would be consistent with the expedited delivery
5 market in general. Finally, the differences in per-piece costs per pound from one
6 to two pounds should be recognized and are significant enough to warrant
7 separate rates for one and two pounds. As an example, the Post Office to
8 Addressee Test Year after rates cost per piece for one pound is \$8.65 and for
9 two pounds is \$10.05, a difference of \$1.40.³ This difference is in line with the
10 other differences between pound increments where separate rates are charged.

11 The proposed one-pound rate was set to be close to the mid-point
12 between the proposed one-half pound rate and the proposed two-pound rate.
13 The two-pound rate was designed to have an increase reasonably close to the
14 overall target percentage increase.

15 For the remaining Post Office to Addressee rate cells, per-pound
16 increments were used to design the rates. From three to nine pounds, a per-
17 pound increment of \$3.10 was applied. From 10 pounds through 70 pounds, a
18 per-pound increment of \$2.15 was applied. The \$3.10 and \$2.15 increments
19 were chosen in an effort to reduce the range of cost coverages for the individual
20 rate cells while maintaining the goal of an overall target percentage increase of
21 12.5 percent.

22 After the Post Office to Addressee rates were designed, rate differentials
23 were applied across-the-board to arrive at the proposed Custom Designed rates

³ USPS-LR-L-127, WP-3.

1 and Post Office to Post Office rates. The Post Office to Post Office rate
2 differential was developed by taking the cost differential of \$1.22,⁴ applying the
3 initial target markup of 196.36 percent, and rounding up to the nearest nickel for
4 a rate differential of \$2.40. The Custom Designed rate differential was developed
5 by applying the current 30-cent differential to the Post Office to Post Office rate
6 differential, resulting in a \$2.10 rate differential. The current 30-cent rate
7 differential continues to be a reasonable differential as it reflects the additional
8 cost plus markup of Custom Designed over Post Office to Post Office service.

9 In its R2005-1 Opinion and Recommended Decision, the Postal Rate
10 Commission made the following statement at ¶ 6009: “Express Mail rate design
11 warrants closer examination in the next omnibus rate proceeding. In particular,
12 the application of minimum and maximum constraints causes deviations from
13 cost based rates and creates an uneven application of the markup. Interested
14 persons should be forewarned that elimination of constraints may result in large
15 increases in certain rate cells.” The proposed rate structure presented in this
16 testimony is the result of both a closer examination of the rate design (as
17 demonstrated by the proposal for different one and two pound rates in the rate
18 categories) and a reasonable attempt to move away from a close range of
19 minimum and maximum constraints.

20 The changes in rate design proposed in this testimony bring the proposed
21 cost coverages closer together. The proposed overall cost coverages,
22 presented in WP-3, range from 122 percent for the 70-pound rate cell to 225
23 percent for the one-pound rate cell. This range is closer than that which was

⁴ USPS-T-23, page 13.

- 1 proposed in Docket No. R2001-1; in that proceeding, the range of proposed
- 2 overall cost coverages spanned from 131 percent to 287 percent (USPS-T-35,
- 3 WP-3). Any further movement towards more equal application of markups would
- 4 have lead to dramatic rate increases for certain rate cells.