

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

POSTAL RATE AND FEE CHANGES, 2006

Docket No. R2006-1

NOTICE OF THE UNITED STATES POSTAL SERVICE OF FILING
A REVISED TESTIMONY OF JAMES M. KIEFER (USPS-T-36) [ERRATA]
(June 21, 2006)

The United States Postal Service hereby files notice that today it is filing a revision to the Testimony of James M. Kiefer (USPS-T-36). There are two changes. First, the amended testimony of Witness Kiefer (USPS-T-36) no longer states that 50% of current DAL users would change to addressed flats. Instead the assumption is now that there is no change in mailer behavior. Second, the testimony reflects the changes to fee revenue, which the witness receives from witness Berkeley. The new fee assumptions will be reflected in a revision to witness Berkeley's testimony and associated library reference, to be filed shortly.

The revised pages of the testimony are attached hereto. The amended text is highlighted.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking

Nan K. McKenzie

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
(202) 268-3089; Fax -5402

Revised June 21, 2006

USPS-T-36

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TESTIMONY
OF
JAMES M. KIEFER
ON BEHALF OF
THE UNITED STATES POSTAL SERVICE

1 2. Flats

2 The eligibility qualifications for flats rates will be the same in ECR and
3 NECR as in the Regular and Nonprofit Regular subclasses. Pieces that do not
4 meet flats rate eligibility will become parcels and pay parcels rates. Because there
5 is no UFSM 1000 exception in ECR/NECR today, the number of pieces that will
6 lose eligibility for flats rate treatment is expected to be relatively small.

7 I am proposing only one change to the rate design for ECR and NECR flats.
8 The Postal Service has determined that it wants to encourage on-piece addressing
9 for all mail in furtherance of its goals of improving efficiency (see the discussion of
10 DALs by witness Coombs (USPS-T-44), Section 3.1). To further that policy
11 decision, I am proposing that all mail that uses detached address labels (DALs)
12 pay a surcharge of \$0.015 per piece. This rate incentive should strongly encourage
13 mailers to put addresses directly on their mail pieces.¹⁵

14 As with letters, I selected piece and pound rates for the base piece (an
15 origin-entered Basic flat) based on current rates and cost information from
16 witnesses Talmo (USPS-T-27, USPS-LR-L-84) and Kelley (USPS-T-30, USPS-LR-
17 L-67). The proposed piece rate is \$0.101 and pound rate is \$0.641 for this piece. I
18 adjusted these base rates for different density levels based on density cost
19 differentials from witness Talmo (USPS-LR-L-84) and for different entry points
20 based on information from witness Mayes (USPS-T-25, USPS-LR-L-88). I further
21 adjusted some density cost passthroughs to maintain reasonable rate relationships
22 and rate changes. Details of these rate elements and adjustments are in my
23 workpapers (USPS-LR-L-36, workbook WP-STDECR.XLS, Proposed Rates
24 worksheet).

¹⁵ However, to be consistent with rollforward cost projections, for net revenue calculation purposes, I have assumed that in the test year all of current DAL mail will pay the surcharge.

1 For Nonprofit ECR flats, I adjusted the corresponding commercial ECR flats
2 piece and pound rates as well as the density differentials as needed to achieve the
3 required 60% overall average rate ratio, while maintaining reasonable rate
4 relationships and rate changes for NECR flats. My workpapers (USPS-LR-L-36,
5 workbook, WP-STDECR.XLS, Proposed Rates worksheet) detail how I adjusted
6 the commercial ECR piece and pound rate elements to develop my NECR flats
7 rates.

8
9 3. Parcels

10 All nonletter-shaped pieces that do not meet the qualifications for flats rates
11 eligibility will pay the ECR or NECR parcels rates. It is believed that this change in
12 the flats rates eligibility requirements will affect a relatively small number of non-
13 RSS nonletters, one reason being that the ECR and NECR rates do not have the
14 UFSM 1000 exception that currently permits significant numbers of parcel-shaped
15 pieces in the Regular and Nonprofit Regular subclasses to pay flats rates.
16 Currently only a small number of pieces pay the RSS (parcels) rates in ECR or
17 NECR. Moreover, the number of parcels has been declining.

18 I have developed the rate design for ECR and NECR parcels based on the
19 assumption that, in the future, ECR and NECR parcels categories will largely
20 reflect pieces migrating from flats rates rather than pieces currently paying the
21 RSS. For this reason, I selected piece and pound rates for ECR and NECR parcels
22 that represent a fixed increment over the prices these pieces would have paid, had
23 they remained in the flats rate categories. This approach will help to mitigate the
24 impact of moving from flats-rate treatment to parcels-rate treatment.¹⁶ The rate
25 differential, \$0.200 per piece, is slightly less than the current ECR and Nonprofit

¹⁶ As with Standard Mail Regular flats, it is also expected that many ECR mailers will reconfigure their non-eligible pieces to meet the new flats definition and thereby avoid being pushed into the parcels category. The rate differential is designed, in part, to encourage such reconfiguration.

1 ECR residual shape surcharge. My proposals have the same parcels-flats rate
2 differential for both commercial and nonprofit pieces. Despite the consistent rate
3 differential in my current proposal, the parcels rate design may evolve into one that
4 is more independent of the flats rate structure as future conditions warrant. Like
5 flats, saturation parcels that address using DALs will pay the \$0.015 per piece
6 surcharge. For net revenue estimation purposes, I am assuming that all saturation
7 parcels currently using DALs will continue to do so in the test year.

1 **VII. FINANCIAL SUMMARY**

2

3 A. Standard Mail Regular

4 My proposals produce an average increase in Standard Mail Regular
5 revenue per piece of 9.6% and in Standard Mail Nonprofit Regular of 8.9%. The
6 overall increase for the Regular subclasses is 9.8%. Measured using constant
7 (TYBR) volumes the average rate changes are 10.8% for Regular, 10.0% for
8 Nonprofit Regular and 10.8% overall. My rates produce test year after rates
9 revenues of \$15.525 billion for the commercial subclass and \$1.833 billion for
10 nonprofit mail. Together the Regular subclasses generate \$17.358 billion in
11 postage and fee revenue in the test year.¹⁷

12 Witness Waterbury (USPS-T-10, Exhibit USPS-10M) reports TYAR volume
13 variable costs for the combined Regular subclasses of \$9.836 billion. The resulting
14 cost coverage is 176.5%.

15

16 B. Standard Mail Enhanced Carrier Route

17 My proposed rates result in an average revenue per piece increase of 8.1%
18 for Standard Mail ECR and 8.2% for Standard Mail Nonprofit ECR. Combined, the
19 two subclasses have an average rate increase of 7.9%. Using constant (TYBR)
20 volumes, the average rate changes are 8.4% for ECR, 8.1% for Nonprofit ECR and
21 8.4% overall. My rates generate TYAR revenues of \$5.663 billion for ECR and
22 \$293 million for NECR. Combined these two subclasses produce \$5.956 billion in
23 postage and fee revenue.¹⁸

¹⁷ These financial results include the effects of my assumption that mail formerly paying piece rated ECR and NECR Automation Basic rates will migrate to the Regular and Nonprofit Regular subclasses and pay 5-digit Automation rates.

¹⁸ ECR and NECR financial results exclude former Automation Basic letters that are assumed to migrate to Regular subclasses.

- 1 Witness Waterbury (USPS-T-10, Exhibit USPS-10M) reports TYAR volume
- 2 variable costs for the combined ECR and NECR subclasses of \$2.781 billion,
- 3 producing a cost coverage of 214.2%.