

# DOCKET SECTION

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

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POSTAL RATE AND FEE CHANGES, 1997

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Docket No. R97-1

**NOTICE OF THE UNITED STATES POSTAL SERVICE  
CONCERNING REVISIONS  
TO THE DIRECT TESTIMONY OF WITNESS O'HARA (USPS-T-30)**

The United States Postal Service hereby files these revisions reflected in the attached list to the direct testimony of witness O'Hara (USPS-T-30). The revisions filed today are intended to reflect in the narrative portion of USPS-T-30 the handful of numerical changes which result from the earlier filed revisions to Exhibit-30B (September 19, 1997) and to Exhibit-30D (August 22, 1997).

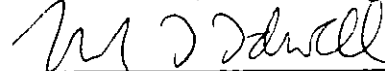
For the convenience of the Commission and participants in this proceeding, replacement pages to the narrative portion of USPS-T-30 are attached.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.  
Chief Counsel, Ratemaking



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October 3, 1997

**REVISIONS TO USPS-T-30**

10-3-97

<b><u>Page</u></b>	<b><u>Line</u></b>	<b><u>Replace</u></b>	<b><u>With</u></b>
26	22	198	192
28	7	204	205
32	11	4.8	7.2
32	16	154	155
33	11	154	155
37	5	103	104

Replacement pages follow.

1 This is partly due to the whole-cent rounding constraint for the single-piece rate; a  
2 one-cent increase represents a larger percentage increase on card rates than it  
3 does First-Class Mail letter rates. However, in view of the fact that the overall  
4 increase in card rates since Docket No. R90-1 is significantly below average, the  
5 effect of this increase on mailers is clearly acceptable (criterion 4).

6 The availability of alternatives for First-Class Mail cards is somewhat  
7 broader than for First-Class Mail letters (criterion 5). In addition to the electronic  
8 alternatives mentioned in the discussion of letters, First-Class letters can be used  
9 for personal messages and Standard (A) Mail can be used for many of the sale  
10 announcements and other advertising, which are a more significant portion of  
11 volume in cards than in letters.

12 The rate structure for First-Class Mail cards parallels that for First-Class Mail  
13 letters, so that considerations of mailer preparation (criterion 6) and simplicity  
14 (criterion 7) are also parallel.

15 At projected test-year after-rates volumes, the First-Class Mail cards  
16 revenue of \$1,089 million exceeds their estimated incremental cost of \$609 million  
17 (criterion 3).

18 The proposed rate level reflects a balanced consideration of all the relevant  
19 criteria; it is fair and equitable (criterion 1).

## 20 21 B. Priority Mail

22 The Postal Service is proposing a cost coverage of 192 percent for Priority

1 estimated incremental cost is \$2,598 million, so that revenues are comfortably  
2 above incremental cost (criterion 3).

3 The proposed rate level is appropriate in the light of all relevant criteria; it is  
4 *fair and equitable (criterion 1) to both mailers and competitors.*

5  
6 C. Express Mail

7 The Postal Service is proposing an Express Mail cost coverage of 205  
8 percent, which corresponds to an average rate increase of 3.7 percent.

9 Express Mail's value of service (criterion 2) is very high when intrinsic  
10 factors are considered. It receives the highest delivery priority, extensive air  
11 transportation, and a significant collection system, though not as extensive as the  
12 general collection system used by First-Class Mail. It also benefits from a tracking  
13 capability. On the other hand, Express Mail's price-elasticity, at -1.53, is well  
14 above 1.0 in absolute value, and is uniquely so among the subclasses and special  
15 services for which the Postal Service proposes rate levels.<sup>11</sup> This indicates an  
16 extremely low economic value of service.

17 The 3.7 percent increase will have a modest and clearly acceptable effect  
18 on mailers (criterion 4). Given Express Mail's small market share and its quite  
19 modest growth (less than 2 percent in FY 1996) even in the absence of a rate  
20 increase, the proposed rate increase should not have an unfair effect on

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21 <sup>11</sup>At -1.18, the Classroom Periodicals own-price elasticity also exceeds 1.0 in  
22 absolute value.

developed after a careful consideration of all the criteria, taking into account the effect on users that would result from the immediate application of previous cost coverages to current Periodicals costs, pending an improved understanding of why they have grown so rapidly in the past several years.

## 2. Preferred-Rate

The RFRA requires that Within County, Nonprofit, and Classroom Periodicals each have a mark-up equal to one-half that of Regular Periodicals for full rates, or a cost coverage of 103.5 percent. For the test-year, Step 5 rates will apply, with a mark-up equal to five-twelfths that of Regular Periodicals; this results in rate increases averaging 3.4 percent, 3.9 percent, and 7.2 percent respectively.<sup>12</sup>

## E. Standard A Mail

### 1. Regular

The Postal Service is proposing a cost coverage of 155 percent for the Regular subclass, which results in an average rate increase of 4.1 percent.

In common with other Standard subclasses, Regular has a relatively low

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<sup>12</sup>Witness Kaneer (USPS-T-35) describes why, given the difficulties in accurately measuring cost for very small subclasses, applying Nonprofit Periodicals rates to Classroom mail is appropriate pending further analysis to develop an improved cost framework to apply the RFRA mark-ups to Classroom. The financial summary in my workpapers, which relies strictly on the test-year cost developed from reported FY 1996 cost data, reflects the fact that this cost is greater than after-rates revenues.

1 intrinsic value of service (criterion 2) due to its deferability for delivery, ground  
2 transportation, and lack of access to the collection system. While the Postal  
3 Service often attempts to satisfy mailer requests for delivery within a specific time  
4 frame, these typically involve advance planning and coordination by the mailer in  
5 order to facilitate the achievement of these delivery requests. The price elasticity  
6 for Regular is higher than that of First-Class letters but lower than that of  
7 Enhanced Carrier Route, suggesting an intermediate economic value of service.

8         The 4.1 percent average rate increase is well below inflation and will have  
9 an acceptably small impact on the users of Regular mail (criterion 4). The fact that  
10 it is only slightly below the 4.5 percent system-average increase, together with the  
11 155 percent cost coverage, indicates that competitors are not unfairly targeted by  
12 this increase.

13         The Regular subclass is somewhat more suited to demographic targeting of  
14 commercial messages and the Enhanced Carrier Route subclass is somewhat  
15 more suited to geographic targeting. For this reason, the availability of alternatives  
16 (criterion 5) is somewhat less for Regular, but a number of alternatives for  
17 *demographically targeted advertising exist, including special-interest magazines,*  
18 *cable television channels, and internet web sites.*

19         The mail within the Regular subclass all has a substantial degree of mailer  
20 preparation (criterion 6), with some of it being both prebarcoded and sorted to 5-  
21 digit areas. Overall, however, it does not have the same degree of preparation as  
22 Enhanced Carrier Route.

1 result is a 4.8 percent decrease in average rates.

3 F. Standard B Mail

4 1. Parcel Post

5 The Postal Service is proposing a Parcel Post cost coverage of 104 percent,  
6 which corresponds to an average rate increase of 10.2 percent for the subclass.

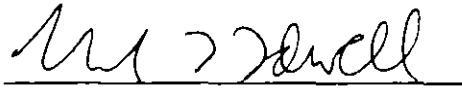
7 In general, Parcel Post exhibits a low intrinsic value of service (criterion 2); it  
8 has a low delivery priority and uses primarily ground transportation. Due to  
9 increased security concerns, it no longer enjoys its former access to the collection  
10 system. Moreover, its own-price elasticity is just below 1.0 (in absolute value),  
11 indicating a low economic value of service.

12 The proposed 10.2 percent average rate increase is one of the highest in  
13 this proceeding, and will undoubtedly have some effect on mailers who use Parcel  
14 Post (criterion 4). Unfortunately, due to cost increases and the need to ensure that  
15 revenue covered incremental cost, there was very little room to mitigate this  
16 increase. Parcel Post competitors have been able to compete successfully at  
17 current Parcel Post rates, and a 10.2 percent rate increase will not adversely affect  
18 their competitive position.

19 In one sense, alternatives to Parcel Post are plentiful, especially for large-  
20 volume business shippers. For individuals, however, these alternatives are not  
21 uniformly accessible. Direct access to competitor's services may be limited to a

# CERTIFICATE OF SERVICE

I hereby certify that I have this date served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.

A handwritten signature in black ink, appearing to read "Michael T. Tidwell", written over a horizontal line.

Michael T. Tidwell

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October 3, 1997