

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

STAMPED STATIONERY AND STAMPED CARDS  
CLASSIFICATIONS

Docket No. MC2006-7

**INITIAL BRIEF OF THE  
UNITED STATES POSTAL SERVICE**

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.  
Chief Counsel, Ratemaking

Scott L. Reiter

475 L'Enfant Plaza West, S.W.  
Washington, D.C. 20260-1137  
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## I. BACKGROUND

In Docket No. C2004-3, the then-denominated Postal Rate Commission concluded that the sale by the Postal Service of decorated stationery with postage imprinted is a “postal service” subject to the Commission’s classification and ratemaking authority.<sup>1</sup> Consequently, the Postal Service filed a request to establish classifications and fees in the instant docket, which the Commission had established for such purpose.<sup>2</sup> The Postal Service requested classifications and fees to embody its existing Premium Stamped Stationery (PSS) and Premium Stamped Cards (PSC) program.<sup>3</sup> The Request was accompanied by the testimony of Nina Yeh, USPS-T-1.

Witness Yeh’s testimony follows upon observations made by the Commission in Order No. 1475. The Commission had noted that, although it found stamped stationery to be a “postal service” under the terms of the Act, it is “a specialty item, which, among other things, no mailer is required to purchase.”<sup>4</sup> Under this circumstance, the Commission further observed, “a novel pricing approach may be warranted” and identified the product “as a candidate for new, flexing pricing techniques.”<sup>5</sup> The Commission specifically noted that a “premium specialty product might be a good

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<sup>1</sup> Postal Rate Commission Order No. 1475, Docket No. C2004-3, Complaint of Douglas F. Carlson on Stamped Stationery (August 24, 2006).

<sup>2</sup> Order No. 1476 (August 24, 2006).

<sup>3</sup> Request of the United States Postal Service for a Recommended Decision to Establish Classifications and Fees for Premium Stamped Stationery and Premium Stamped Cards (February 22, 2007). The Postal Service noted in its Request that, although Premium Stamped Cards were not a subject of the complaint or of Order No. 1475, the Order’s logic would be applicable to the cards. *Id.* at 2.

<sup>4</sup> Order No. 1475, at 1-2. The Commission found that these circumstances, as well as the lack of complaints from competitors and the insignificant financial effect, made it appropriate to extend the status quo with respect to stamped stationery pending further proceedings, *i.e.*, the instant docket.

<sup>5</sup> *Id.* at 1, 2.

vehicle for testing the concept of rate bands” and suggested a structure with a “floor, e.g., recovering costs, including a *not-nominal* contribution to overhead, and a cap, e.g., a multiple of the existing first ounce First-Class Mail rate.”<sup>6</sup> The Commission expressed its expectation that creative ways could be found to develop “innovative, lawful fee structures” to accommodate the stamped stationery program. The Commission indicated that the existing price for stamped stationery (\$14.95 for twelve sheets of stationery, each with 37 cents postage) “does not appear, *a priori*, unreasonable.”<sup>7</sup> It noted: “The distinctions between this type of specialty product and market dominant essential communications may justify *substantially different [fees]* as well as a variety of novel pricing approaches.”<sup>8</sup>

The Postal Service’s proposal adopts the Commission’s suggested approach, with the modification of using postage multiples for the both the minimum and maximum points of the ranges.<sup>9</sup> As explained below, witness Yeh’s testimony fully supports the Postal Service’s proposal in this docket and should be recommended by the Commission.

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<sup>6</sup> *Id.* at 14 (emphasis added). Although the Commission also noted that price changes within the range would be permitted for a particular issuance upon notice, and while the Postal Service’s proposal permits that flexibility, it is not likely to be used, given the logistical difficulties of repricing these items. DBP/USPS-40(c). The Postal Service’s proposal maintains this language in order to provide additional flexibility in the event that situation were to change in the future, perhaps due to the use of new or different technology. In any event, the flexibility of a range is highly desirable in that it allows the Postal Service to price different issuances at different price points along the range, depending on intangibles such as the expected market demand for particular designs. See OCA/USPS-T1-23; DBP/USPS-43, 55.

<sup>7</sup> Order No. 1475, at 13.

<sup>8</sup> *Id.* (emphasis added).

<sup>9</sup> As discussed below and shown in witness Yeh’s testimony, the minimum points of the ranges assuredly cover both known and approximated costs. USPS-T-1, at 5-6.

## II. PROCEDURAL HISTORY

Following the Postal Service's filing of its request in this docket, Order No. 4 of the Postal Regulatory Commission provided public notice of the filing, and ordered, *inter alia*, that the deadline for intervention and for responses to the Postal Service's motion for waiver of certain filing requirements would be March 22, that a prehearing conference would be held,<sup>10</sup> that Postal Service counsel would serve as settlement coordinator, and that the Director of the Commission's Office of the Consumer Advocate (OCA) would represent the interests of the general public. Only two parties intervened in the proceeding: Douglas F. Carlson and David B. Popkin. No responses to the Postal Service's motion for waiver were filed.

The Postal Service conducted a settlement teleconference on April 4. All three participants joined the conference. Thereafter, the Postal Service reported to the Commission that discussions would continue, and that no participant was planning to request a hearing or file testimony in rebuttal to the Postal Service. Furthermore, the participants had agreed to a procedural schedule, which the Chairman ordered into effect at the prehearing conference. Tr. 1/4. The schedule provided for discovery, including follow-ups, to end on April 19. This provided the participants with eight weeks of discovery<sup>11</sup> and the Commission has the benefit of a robust record. The Postal Service reported on April 20 that a settlement had not been reached.

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<sup>10</sup> The date of the prehearing conference was changed to April 5 by Order No. 7 (March 9, 2007).

<sup>11</sup> In Docket No. R2006-1, the most recent omnibus rate case, there were just over 10 weeks of discovery on the Postal Service's case.

### **III. THE COMMISSION SHOULD RECOMMEND THE PROPOSED CLASSIFICATIONS AND FEES**

The Postal Service has proposed the establishment of classifications and fee structures for its Premium Stamped Stationery and Premium Stamped Cards program in accordance with the Commission's findings, observations, and suggestions in Order No. 1475. The proposal is fully supported on the record and is consistent with the applicable statutory criteria.<sup>12</sup>

#### **A. The Postal Service's Proposal Is a Logical Embodiment of the Premium Stamped Stationery and Premium Stamped Cards Products, Consistent with the Commission's Findings, Observations, and Suggestions**

Under the proposal, two classifications would be established, one for Premium Stamped Stationery and one for Premium Stamped Cards. The classification language defines the products and indicates that they are to be priced at a fee within a range of fees shown in the corresponding fee schedule times the number of pieces included in the product package plus the value of the postage imprinted.<sup>13</sup> The minimum and maximum points on the ranges are multiples of the First-Class Mail postage imprinted on the stationery or cards.<sup>14</sup> The multiples were chosen to result in ranges of prices comparable to the market prices of commercially available products that might serve as substitutes for the stationery and cards if they were not stamped.<sup>15</sup> A price within the

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<sup>12</sup> Under the Postal Enhancement and Accountability Act, effective December 20, 2006, requests for recommended decisions on market-dominant services (including special services such as those proposed in this docket) made within one year of enactment are to be completed in accordance the former provisions of subchapter II of chapter 36 of 39 U.S.C. 39 U.S.C. § 3622(f). Accordingly, subsequent references to 39 U.S.C. in this brief refer to the former provisions.

<sup>13</sup> Request, Attachment A.

<sup>14</sup> Request, Attachment B.

<sup>15</sup> USPS-T-1, at 4, 5; OCA/USPS-T1-1(b).

range would be set for each issuance, based on its particular characteristics and other factors, including expected demand, product quality, artistic value, and special design elements.<sup>16</sup> The Postal Service would compare the chosen fee with known costs to ensure that they are covered and that the fee would make a significant contribution to institutional costs. Higher-than-traditional cost coverage calculations are likely to result,<sup>17</sup> as the Commission anticipated,<sup>18</sup> due to the nature of this *product*, as distinguished from postal *services* and from “utilitarian” products like plain stamped envelopes and stamped cards.<sup>19</sup> Moreover, the likelihood that not all attributable costs can be identified, that a good deal of the costs of these products are institutional, and that costs may vary based on factors that ought not to be reflected directly in the price, such as printer workload, support the proposed pricing.<sup>20</sup> The Commission’s suggested approach of a multiple of postage has the advantage of transcending the difficulties, in the case of these unique products, of attempting to apply the traditional markup over attributable costs approach. Another advantage of the Commission’s suggested use of multiples of postage is that once set, the ranges of fees would automatically adjust as First-Class Mail rates are adjusted in the future, without the need for further updates of the fee schedule.<sup>21</sup>

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<sup>16</sup> USPS-T-1, at 4; see OCA/USPS-T1-23, DBP/USPS-43, DFC/USPS-T1-1. For a discussion of subsequent price changes, see footnote 6 above

<sup>17</sup> See, e.g., OCA/USPS-T1-20-22.

<sup>18</sup> Order No. 1475, at 13, 14.

<sup>19</sup> See *id.* at 13.

<sup>20</sup> USPS-T-1, at 5-6; see DBP/USPS-43, 50, 55.

<sup>21</sup> USPS-T-1, at 4.

**B. The Postal Service's Proposal Is Fully Supported on the Record**

Witness Yeh's testimony documents the process of developing the proposed fees for PSS and PSC and of determining their financial impact, given the information available. Witness Yeh's proposal adopts the Commission's suggestion of a range of fees.<sup>22</sup> This pricing approach affords the Postal Service's stamp experts needed flexibility in the creative and marketing processes that include designing and pricing premium stamped products.<sup>23</sup> The difference between these products and traditional postal services required a novel pricing approach and analysis, yet one which is fully justified by the factors of the Act, as discussed in the next section.

Witness Yeh began her pricing exercise by examining examples of commercially available stationery and card products to determine a range of prices for the examples most comparable to PSS and PSC.<sup>24</sup> She developed postage multipliers to result in a comparable range of fees for the postal products, so as to be consistent with the prices of commercially available products of similar quality. The prices of these products are an indication of what consumers find reasonable in the private marketplace. This information was critical, since her goals were to price the postal products reasonably, recognizing their quality and providing an appropriate price signal,<sup>25</sup> and to avoid undercutting the prices of the comparable non-postal (non-stamped) products, which would potentially harm competition.<sup>26</sup> Moreover, the proposed prices also recognize

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<sup>22</sup> USPS-T-1, at 3-4; see OCA/USPS-T1-23; DBP/USPS-25

<sup>23</sup> See DFC/USPS-T1-1, 5, 6.

<sup>24</sup> USPS-T-1, at 5 and Attachment A, PSSPSC-WP5; see OCA/USPS-T1-1. See also DFC/USPS-T1-9, 13, 23; DBP/USPS-36, 64, 65.

<sup>25</sup> See DBP/USPS-56.

<sup>26</sup> See USPS-T-1, at 9.

that the convenience of the products' being prestamped provides additional value (aside from the monetary value of the postage itself).<sup>27</sup>

Witness Yeh also obtained available information concerning the costs of the products. Given the products' historical status, their costs were not tracked in the ways and by the systems that have tracked costs for traditional postal services.<sup>28</sup> It did not appear that full information regarding printing and distribution costs was available for all of the PSS and PSC products.<sup>29</sup> In addition, it can be assumed that the costs of the research, design, and contracting process are included in the institutional costs of the Postal Service and therefore provide additional support or a higher-than-traditional cost coverage. With respect to selling costs, it was necessary to use proxies to approximate those.<sup>30</sup> The actual selling process for PSS and PSC has not been studied, and, given their small financial contribution, conducting a special study or constructing a system to do so would not appear to be economically rational. As a result, witness Yeh had available only a rough approximation of the costs of the products. She examined those costs and calculated approximated cost coverages based on them, which allowed her to conclude that the ranges of fees she developed would more than cover the costs and make an appropriately substantial contribution to overhead.<sup>31</sup>

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<sup>27</sup> USPS-T-1, at 8; see DFC/USPS-T1-26, 27.

<sup>28</sup> See DFC/USPS-T1-11.

<sup>29</sup> USPS-T-1, at 5-6.

<sup>30</sup> USPS-T-1, at 6.

<sup>31</sup> USPS-T-1, at 9.

**C. The Proposal Is Consistent with the Applicable Statutory Criteria**

Witness Yeh's testimony includes a complete discussion of the applicable classification and fee criteria. The proposed classifications are fair and equitable<sup>32</sup> in that the products are available to all customers. They are provided as an "optional convenience and premium offering [that] no customer need use ... in order to access any other postal services or specific level of service."<sup>33</sup> Customers who do not use these products are not burdened by those who do.<sup>34</sup>

PSS and PSC satisfy the criteria regarding value.<sup>35</sup> The classifications embody specialty products that have been available for a number of years and have been purchased by customers, indicating that they have been valued and desirable choices at the prices that have been charged.<sup>36</sup> The proposed fee ranges similarly reflect the value customers have found in the products' convenience and aesthetic appeal.<sup>37</sup> These features also demonstrate the desirability of the classifications<sup>38</sup> for customers; for the Postal Service, the classifications enlarge consumers' correspondence options, encourage use of the mail, and generate contribution to the institutional costs of the Postal Service.<sup>39</sup>

The proposed fee ranges have been shown, using the available information and appropriate proxies, to cover the products' costs and make an appropriately significant

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<sup>32</sup> §§ 3622(b)(1); 3623(c)(1).

<sup>33</sup> USPS-T-1, at 7, 8.

<sup>34</sup> *Id.* at 7.

<sup>35</sup> §§ 3622(b)(2); 3623(c)(2).

<sup>36</sup> *Id.*

<sup>37</sup> *Id.* at 8.

<sup>38</sup> § 3623(c)(5).

<sup>39</sup> *Id.* at 7-8.

contribution to the other costs of the Postal Service.<sup>40</sup> The proposed fees affect only mailers who chose to use them, and will have no adverse effect on the general public, business mail users, private delivery enterprises, nor will they adversely affect enterprises providing alternatives to these products.<sup>41</sup> The proposed fee structure, while novel, is not particularly complicated, and the fee ranges will automatically adjust in the future proportionally with changes in the First-Class Mail rates.<sup>42</sup>

**D. The Proposal Will Have Minimal Financial Effect**

Witness Yeh indicates that the proposed pricing flexibility, together with the difficulty of estimating future costs, make it difficult to measure precisely the expected financial benefit of the products. Using the information available, witness Yeh presents calculations showing that the PSS/PSC program's total revenues have not exceed \$2.7 million from the inception of the program in 1994 through the end of 2006. Thus, she is able to conclude that the proposed classifications and fees will have minimal financial effect on the Postal Service in the future.

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<sup>40</sup> § 3622(b)(3); USPS-T-1, at 9.

<sup>41</sup> § 3622(b)(4) & (5); USPS-T-1, at 9.

<sup>42</sup> § 3622(b)(7); USPS-T-1, at 10.

## CONCLUSION

For the reasons stated above, the Commission is respectfully requested to recommend the proposed classification and fees set forth in the Postal Service's request.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.  
Chief Counsel, Ratemaking

Scott L. Reiter

475 L'Enfant Plaza West, S.W.  
Washington, D.C. 20260-1137  
(202) 268-2999, Fax -5402  
[Scott.L.Reiter@usps.gov](mailto:Scott.L.Reiter@usps.gov)  
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