

DOCKET SECTION

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

POSTAL RATE AND FEE CHANGES, 1997

Docket No. R97-1

REBUTTAL TESTIMONY
OF
MICHAEL K. PLUNKETT
ON BEHALF OF
UNITED STATES POSTAL SERVICE

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AUTOBIOGRAPHICAL SKETCH

1 **AUTOBIOGRAPHICAL SKETCH**
2 My name is Michael K. Plunkett. I am currently an economist in the
3 Pricing Office of Marketing Systems. I began working for the Postal Service in
4 1984 as a letter carrier at the Dracut, Massachusetts Post Office. In 1985, I
5 transferred to the Manchester, New Hampshire Division where I held a number
6 of positions in customer services operations. In 1990, I was accepted to the
7 Management Intern program. As an intern, I rotated through a number of
8 assignments in various organizational units throughout the country. These
9 assignments included positions in headquarters, area, and district offices in
10 finance, human resources, operations, and marketing. In 1995, I transferred to
11 the office of Budget and Financial Analysis where I served as an Economist. In
12 February 1997, I transferred to the office of Pricing. My responsibilities include
13 all aspects of fee design for various special services.

14 I received bachelor's degrees in finance and economics from
15 Pennsylvania State University in University Park, Pennsylvania, and a Masters in
16 Business Administration from the Wharton School at the University of
17 Pennsylvania, where I concentrated on finance and decision sciences.

18 I have been the Postal Service's witness for certain special services in the
19 current proceeding, and for packaging service in Docket No. MC97-5.

1 **I. PURPOSE OF TESTIMONY**

2 In his direct testimony (DFC-T-1), Douglas F. Carlson (hereinafter referred
3 to as Mr. Carlson) opposes the Postal Service’s fee proposal for return receipts,
4 primarily because of service performance which is, in his estimation, inadequate.
5 The purpose of this testimony is to clarify the record as regards these issues,
6 and in so doing to support the Postal Service’s originally proposed fee changes
7 for return receipts.

8 **II. VALUE OF SERVICE**

9 **A. Measurement of value**

10 In my direct testimony in this docket, I stated that recent strong volume
11 growth, despite fee increases, was evidence that return receipt service was
12 highly valued by customers (USPS-T-40, p. 14).¹ This statement simply
13 acknowledges that value, as pointed out in the Commission’s Decision in Docket
14 No. MC95-1, is “an individual, often subjective, measure for which the economic
15 concepts of demand are usually considered the best proxy” (Docket No. MC95-1,
16 PRC Op., p. III-32). Moreover the Commission agreed with the position taken by
17 the Postal Service in Docket No. MC96-3, that “return receipt service has a high
18 value” (Docket No. MC96-3, PRC Op., p. 111).

19 Mr. Carlson asserts that return receipt customers do not have a
20 “reasonable selection of alternatives” to return receipt service, Tr. 24/12816,

¹ As an illustration of this growth, consider the following: from 1986-1996, the total price increases for return receipts and single piece First-Class letters were 45% and 57% respectively, however over the same period, the ratio of First-Class mail volume to return receipts fell from 545 to 409 (see exhibit A).

1 thereby implying that demand is artificially high due to the lack of available
2 substitutes. However, alternatives to return receipt service do exist. The Postal
3 Service's main competitors offer services comparable to return receipts. Though
4 their shipping rates are higher than First-Class letter rates, the additional cost for
5 the "return receipt" type of service can be less than the combined costs of the
6 Postal Service's return receipt service and the other service required, such as
7 certified mail, to provide a delivery record². Thus the total price is comparable to
8 competitor prices. For example, UPS offers signed delivery confirmation in
9 conjunction with 3-day service for a combined price of \$5.65³. Another alternative
10 is Express Mail, which provides confirmation of delivery at no additional fee.
11 While Express Mail is more costly, customers get the benefit of more expedited
12 delivery, which would generally be valuable to return receipt customers eager to
13 determine as soon as possible whether an article was received. Finally, the Postal
14 Service's proposed introduction of delivery confirmation service in this case would
15 provide customers with another service that will in some instances be an
16 alternative to return receipts at about the same total price.

17 Not only is the general inference that demand is indicative of value
18 consistent with the Commission's past decisions, the implication I have drawn
19 therefrom - that the cost coverage for return receipts should be moved closer to
20 the system average - is supported by the testimonies of Postal Service witness
21 Bernstein and Office of the Consumer Advocate witness Sherman, both of whom
22 demonstrate that, taken as a group, special service fees are relatively low, given

² Except in the case of return receipt for merchandise.

³ Source: UPS web site, www.ups.com/using/software/98rates/rates_in_us.html

1 observed price elasticities (see USPS-T-31, p. 58 and OCA-T-300, p. 21).
2 Though the Postal Service has not presented a specific price elasticity for return
3 receipts, available volume trends, when considered in relation to the fee history,
4 suggest that demand is inelastic with respect to price.

5 My fee proposal, it should be emphasized, does not depend on a finding
6 of high value for return receipt service. I am proposing a cost coverage of 147
7 percent, well below the proposed systemwide coverage. The substantial fee
8 increase I propose results in part from the low cost coverage (125 percent)
9 arising from Docket No. MC96-3.

10 **B. Sources of value**

11 The foregoing discussion of demand for return receipts implies nothing
12 specific about what features of return receipt provide value to customers. Given
13 that the product is used most often with certified mail, I think it is fair, though
14 admittedly vague, to suppose that customers use return receipts primarily to
15 obtain acknowledgment that an article has been delivered to the recipient.

16 In response to a written interrogatory from Mr. Carlson which contrasted a
17 return receipt with a stamped self addressed postcard to be signed and
18 subsequently mailed by the recipient, I noted that in providing return receipt
19 service the Postal Service acts, through its employees, as a disinterested third
20 party verifying receipt of the mail piece. I also indicated that though I could
21 speculate as to some of the reasons why customers might prefer return receipts
22 to Mr. Carlson's hypothetical service, I did not affirm that my answer could

1 encompass all of the reasons why customers might choose return receipt service
2 (see response to DFC/USPS-T-40-1, part c, Tr. 3/849-50).

3 Mr. Carlson’s testimony, which draws heavily on anecdotal evidence and
4 an inaccurate interpretation of my interrogatory response, suggests that the
5 value of return receipts is best measured by the degree of conformity between
6 the Postal Service’s regulations as specified in the Domestic Mail Manual and its
7 delivery practices as established in its many post offices and distribution
8 facilities. Citing return receipts obtained by David B. Popkin, some of which
9 contained elements that appeared to be incorrectly completed, Carlson equates
10 a delivering employee’s failure to ensure completion of particular elements of a
11 return receipt with diminished value. I do not doubt Mr. Carlson’s implicit claim
12 that he is unsatisfied with the return receipt service he has received. Nor do I
13 doubt that such occurrences would prove vexing to customers with service
14 expectations that are as exacting as those of Messrs. Popkin and Carlson, or
15 that such customers would elect not to use return receipts in the event of such
16 disappointments. However, Mr. Carlson is an avowed hobbyist (See response to
17 interrogatory USPS/DFC-T1-10, part i, Tr. 24/12835), and as such uses a
18 different set of criteria in evaluating the Postal Service’s products than most
19 other customers are likely to use. The available volume data on return receipts
20 strongly suggests that, insofar as such service problems would have an adverse
21 impact on customer use, the problems Mr. Carlson finds with return receipt
22 service are either not as widespread as he believes, or, despite such
23 deficiencies, customers continue to view return receipt service as valuable. Mr.

1 Carlson's positive contributions to the record in this proceeding notwithstanding,
2 his dissatisfaction with return receipt service is not a sufficiently compelling
3 reason to reject the Postal Service's value of service arguments, given the
4 demand evidence presented in support thereof.

5 Mr. Carlson also cites Postal Service Consumer Service Card records to
6 buttress his claims, pointing out that 4,689 complaints regarding return receipts
7 were received in FY 1996 (DFC-T-1, p. 24). He goes on to suggest that Postal
8 Service records are inaccurate and that the "actual" number of complaints is
9 likely to be much higher. If, for the nonce, one makes the extremely generous
10 assumption that the number is higher by a factor of 500, this number of
11 complaints would still be less than 1 percent of total return receipt volume.⁴
12 Clearly these data belie Mr. Carlson's claims, and thereby provide additional
13 support for the Postal Service's proposal.

14 **C. Quality of Service**

15 In his testimony, Carlson characterizes return receipt service as "plagued
16 with problems" (see DFC-T-1, p. 17, line 19). Much of the support for this claim
17 consists of reports of Postal Service delivery practices for return receipt mail
18 addressed to Internal Revenue Service Centers, gathered by Mr. Carlson and
19 Mr. Popkin, which has been presented at various points throughout the instant
20 proceedings. While I will address the merits of this information, I will first

⁴ $4,689 \times 500 = 2.344\text{M}$: FY 96 Return receipt volume is 235.7M:
 $2.344/235.7 < 1\%$.

1 describe, in general terms, how deliveries of this kind are handled by the Postal
2 Service.⁵

3 In some metropolitan areas where IRS centers are located, the Postal
4 Service employs an automated system for recording and tracking delivery
5 receipts and associated special services. Under this system, which may be
6 located in Postal Service facilities, but which is also operated in detached units
7 located on the premises of IRS service centers, Postal Service employees scan
8 the article numbers for every piece of return receipt mail. The delivering
9 employee then prints a dated manifest which lists each return receipt, by article
10 number. Before transferring control of the mail to the IRS, the Postal Service
11 obtains the recipient's signature on the manifest, acknowledging acceptance of
12 each of the articles listed thereon. The handling of return receipts is less uniform
13 from that point on. In some sites, Postal Service employees remain present
14 while the receipts are removed, stamped, and dated by IRS employees. In other
15 locations, the pieces are turned over to IRS employees who perform these tasks
16 without oversight by postal employees.

⁵ This description is based on information gathered during November 1997, via telephone from several Postal Service processing and distribution centers, specifically Memphis, TN, Sacramento, CA, Austin, TX, and Philadelphia, PA. In the case of the Philadelphia P&DC, my inquiry followed on an earlier inquiry in which I had been informed by headquarters delivery operations that all receipts were signed and detached prior to delivery. This earlier information reflected an assumption, widely held, that regulations are implemented consistently throughout the Postal Service, irrespective of differing operational conditions and customer preferences. While troubling, the misinformation is due, at least in part, to the prior lack of product management specifically for special services. This lack was eliminated with the creation of a USPS headquarters office charged solely with management of special services in FY 1997.

1 Strictly speaking, these practices are not in accordance with the Postal
2 Service's regulations (see DMM § D042.1.7). Mr. Carlson seizes on this fact and
3 uses it as the linchpin of his claim that the Postal Service does not provide a high
4 value of service. According to Mr. Carlson, this practice is bad for a number of
5 reasons: the practice results in a discrepancy between the day of delivery and
6 the date stamped on the receipt (DFC-T-1, p. 21, at lines 24-25), the practice
7 constitutes a form of fraud in that by not providing service in the exact manner
8 set forth by the DMM, the Postal Service is misleading its customers, and the
9 practice allows the Postal Service to pass on IRS costs to its customers (see
10 Douglas F. Carlson, Trial Brief pp. 8-9).

11 Mr. Carlson asserts that, due to the large volume of receipts that are
12 received at the IRS Service Center in Fresno, CA, several days may elapse
13 between the day of delivery to the Service Center, and the day on which returns
14 are opened and their attached return receipts completed. He concludes as a
15 result that some taxpayers may be subject to adverse action by the IRS in the
16 event that, due to this delay, a return is deemed late. Mr. Carlson offers no
17 explicit example of such an event ever happening, nor does he suggest how rigid
18 application of DMM regulations would prevent this from happening. In most
19 cases, I would expect that the IRS enters the date that the letter was received
20 from the Postal Service.⁶ Furthermore, the implication that the timeliness of tax
21 returns is proven by the date of acceptance is at odds with statute.⁷

⁶ The situation in LR-DFC-2 would be exceptional.

⁷ See 26 U.S.C. §7502. Tax returns are considered to be filed on time if the envelope containing the return bears a postmark with a date prior to, or coincident with, the applicable filing deadline.

1 Mr. Carlson’s second claim, that by providing a service that is not in strict
2 accordance with DMM regulations the Postal Service is defrauding the public is,
3 irrespective of its factual basis, hyperbolic and arguably inflammatory. It is
4 doubtful that many users of return receipt service consult the DMM to ascertain
5 the exact conditions under which return receipts will be delivered to the recipient.
6 I would further assert that most customers are indifferent as to whether a Postal
7 Service employee or an IRS employee puts the date on the return receipt. Some
8 may in fact consider that completion of the form by IRS employees to be better
9 evidence of the date of receipt by the agency.

10 The proposition that the Postal Service is passing IRS costs on to
11 customers is completely unsupported by any factual data, and indeed is utterly
12 implausible in that it would require that the IRS bill the Postal Service for the
13 work performed by its employees. It is my understanding that the cost study
14 used to develop return receipt costs is based on a data collection that included
15 instances when return receipts are delivered to large organizations, using
16 procedures similar to these described above.

17 In fairness to Mr. Carlson, nowhere does he explicitly claim that strict
18 adherence to DMM regulations would improve return receipt service for
19 customers sending items to the IRS. But by implying that customers are not
20 getting what they pay for, he has implicitly advanced this position. Ignoring the
21 processing bottlenecks that would be created at filing deadlines, Mr. Carlson
22 suggests that customers would be better served if the Postal Service required
23 that IRS agents review each of the thousands of pieces that may arrive in a

1 given day individually before the Postal Service transfers control over them.
2 Considering the volumes that are involved, the Postal Service's current practice,
3 which requires that a dated manifest be signed prior to delivery, is a reasonable,
4 cost effective accommodation for a unique set of circumstances. Nevertheless, I
5 will agree with Mr. Carlson that regulations ought to provide an accurate
6 description of the terms and conditions under which services are provided. In
7 the instant case, however, the appropriate remedy would not be to require rigid
8 adherence to the existing regulations, but to amend the regulations to reflect the
9 exception that may obtain when receipts are delivered to IRS service centers.

10 **D. Service Enhancement**

11 In support of its fee proposal for return receipts, the Postal Service
12 indicated that it will be making a minor modification to its return receipt forms to
13 contain a check off box that would indicate that the customer's address is the
14 same as the address on the front of the envelope (USPS-T-40, p. 11). First
15 suggested by David B. Popkin (Docket No. MC96-3, Initial Brief of David B.
16 Popkin, p. 7) and later endorsed by Mr. Carlson (Docket No. MC96-3, Initial Brief
17 of Douglas F. Carlson, p. 42) and by the Commission (see Docket No. MC96-3,
18 PRC Op., p. 111), the box should in some cases assuage doubt as to whether
19 the address is correct.

20 Mr. Carlson offers numerous reasons why the claims of added value due
21 to the addition of a check off box are dubious, and states that "the Postal Service
22 cannot base a fee increase on the added value of the address information". In
23 its Recommended Decision in Docket No. MC96-3, however, the Commission

1 disagreed, affirming that the addition of a check off box would increase the value
2 of service. Indeed, the Commission allowed that this change could “justify a
3 future increase in the level of cost coverage for return receipt” (Docket No.
4 MC96-3, PRC Op., p. 112). The Postal Service’s responsiveness to intervenor
5 and Commission suggestions for improving a service should not be dismissed so
6 lightly.

7 **SUMMARY**

8 In his testimony, Mr. Carlson admonishes the Commission to reject any
9 proposed increase in the cost coverage for return receipt service. Mr. Carlson
10 has offered no evidence to refute the Postal Service’s volume, revenue, and or
11 cost evidence. In support of his position, Mr. Carlson relies solely on the claim
12 that return receipt service is inadequate, though he has provided no specific
13 suggestions for improving return receipt service and has dismissed the Postal
14 Service’s proposed enhancement as trivial. The Postal Service contends that
15 Mr. Carlson’s testimony regarding return receipts is flawed in that it rests on
16 quality of service claims which are supported solely by anecdotal evidence, and
17 which are not indicative of value.

18 The Postal Service recognizes the value that individual intervenors add to
19 these proceedings. By calling attention to issues that are often ignored by
20 institutional intervenors, they ensure that the interests of a wide range of
21 participants are represented in rate proceedings. However, the interests and
22 standards of an individual, which are by definition of limited scope, are not
23 necessarily typical of the interests and standards of all users of a product or

1 service. Mr. Carlson's knowledge of Postal Service products and regulations is
2 indeed impressive, and it informs his testimony regarding return receipts. But
3 the Postal Service maintains that this kind of expertise is somewhat anomalous
4 and not representative of most users of this service.

5 The service problems cited by Mr. Carlson are a source of concern;
6 however, the consumer service data presented by Carlson indicates that his
7 experience is atypical. Furthermore, given the volume evidence presented in the
8 Postal Service's case, such problems are not sufficient cause for rejection of the
9 Postal Service's proposal. For these reasons, the Postal Service reaffirms its
10 proposed fee change for return receipts and urges the Commission to reject Mr.
11 Carlson's arguments in this case.

1

Comparison of Volume Histories

2

First-Class Mail & Return Receipts

Year	Return Receipt Volume (Thou.) ¹	First-Class Mail (Millions) ²	Pieces of FCM per Return Receipt ((BX1,000)/A)
	(A)	(B)	
1970	60,225	50,173	833
1971	69,368	51,492	742
1972	67,501	50,293	745
1973	67,217	52,292	778
1974	76,213	52,928	694
1975	79,115	52,482	663
1976	85,050	52,458	617
1977	83,643	53,667	642
1978	88,409	55,982	633
1979	83,432	57,926	694
1980	107,425	60,276	561
1981	99,420	61,410	618
1982	103,249	62,200	602
1983	105,863	64,247	607
1984	114,638	68,429	597
1985	124,448	72,440	582
1986	139,692	76,187	545
1987	155,265	78,869	508
1988	156,031	82,317	528
1989	161,298	84,749	525
1990	160,172	85,855	536
1991	169,185	89,270	528
1992	178,972	90,285	504
1993	189,908	90,285	475
1994	186,922	92,169	493
1995	240,735	94,333	392
1996	235,652	96,296	409

Average Annual Growth Rates

1970-1996	5.4%	2.5%
Last 10 Yrs	5.4%	2.4%
Last 5 Yrs.	6.9%	1.5%

1. Source: Docket No. MC96-3, USPS-T-8, p. 77
 2. USPS LR-H-187

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