

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

EXPERIMENTAL PARCEL RETURNS SERVICE

Docket No. MC2003-2

NOTICE OF UNITED STATES POSTAL SERVICE
OF FILING OF REPLACEMENT COPY OF
TESTIMONY OF USPS WITNESS JAMES KIEFER (USPS-T-3)
ERRATA (August 13, 2003)

The United States Postal Service hereby provides notice that today it is filing a replacement copy of the testimony of witness James Kiefer (USPS-T-3). There are corrections at pages iii and 13, which eliminate references to the new DMCS language appearing in an Attachment E to witness Kiefer's testimony. The new DMCS language to which witness Kiefer refers appears in Attachment A to the Request, itself, not in an attachment to his testimony.

A corrected copy of the testimony is attached, and should be substituted for the original testimony filed on May 28, 2003. These are the only changes to witness Kiefer's testimony.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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August 13, 2003

CERTIFICATE OF SERVICE

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

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

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- Attachment A Proposed Parcel Select Return Service Rates
- Attachment B Proposed Bound Printed Matter Return Service Rates
- Attachment C Proposed Fee Schedule 1000 Changes
- Attachment D Parcel Return Services Financial Impacts

AUTOBIOGRAPHICAL SKETCH

My name is James M. Kiefer. I am an Economist in Pricing and Classification, United States Postal Service. Since joining the Postal Service in 1998, I have worked on issues related to Package Services, Special Services, nonletter-size Business Reply Mail, and other pricing issues.

Prior to joining the Postal Service I worked for the Vermont Department of Public Service, first as a Power Cost Analyst, and later as a Planning Econometrician, where I investigated utility costs, rates, load forecasts and long-term plans. I also developed long range electric generation expansion plans for the State, performed economic impact studies, and contributed to a long-term energy use plan for Vermont. I have testified as an expert witness before the Vermont Public Service Board on many occasions on economic issues involving cost of power, generation expansion plans, least cost integrated planning, load forecasts, and electric utility rates.

Before working in Vermont, I was a Principal Analyst with the Congressional Budget Office. My past work experience also includes work with the U.S. Department of Commerce and work in production management in private industry.

I earned a BA in Chemistry from the Johns Hopkins University, an MBA from Rutgers University, and an MA degree in International Relations from the Nitze School of Advanced International Studies. I then returned to Johns Hopkins in Baltimore to study Economics where I earned further graduate degrees in 1983 and 1986.

I have provided testimony before the Postal Rate Commission previously in Docket No. MC99-1, Docket No. MC99-2, Docket No. R2000-1, Docket No. R2001-1 and Docket No. MC2002-1.

1 **I. PURPOSE OF TESTIMONY**

2 My testimony presents the Postal Service's pricing and classification
3 proposals for its Parcel Return Services (PRS): Parcel Select Return Service
4 (PSRS) and Bound Printed Matter Return Service (BPMRS). The testimony
5 describes the design of the new rate and classification changes, and discusses
6 the financial impacts of my proposals.

7 In developing my testimony I have relied on the testimony and work of
8 other witnesses. These witnesses are identified in my testimony and workpapers.
9 Detailed citations are given in the workpapers, which are attached to my
10 testimony.

1 **II. SUMMARY OF CLASSIFICATION AND PRICING PROPOSALS**

2 In my testimony I propose the establishment of two new sets of
3 worksharing rate categories within Package Services. For the Parcel Post
4 subclass I propose Parcel Select Return Service, consisting of worksharing rates
5 for returned parcels that are retrieved in bulk by shippers or their agents at
6 designated Postal Service delivery units or bulk mail centers. For returns
7 retrieved in bulk at delivery units (Return Delivery Unit, or RDU, parcels) I
8 propose a flat rate of \$2.00 per parcel. For parcels retrieved in bulk at the first
9 BMC they reach (Return BMC, or RBMC, parcels), I propose rates that are \$0.86
10 to \$1.51 below the non-workshared rates for regular-sized parcels.

11 In the Bound Printed Matter subclass I propose Bound Printed Matter
12 Return Service. For parcels retrieved in bulk at the first BMC they reach (RBMC
13 parcels), I propose rates that are \$0.24 below the non-workshared BPM rates.

1 III. RATIONALE FOR CLASSIFICATION AND PRICING PROPOSALS

2 A. Pricing Issues

3 The proposed Parcel Return Services are products with some novel
4 characteristics that raise several pricing issues for consideration. While Parcel
5 Return Services are commercial postal services, they differ in several aspects
6 from most existing commercial products.

- 7 • Commercial mail is commonly mailed in bulk and delivered
8 individually. PSRS and BPMRS mail pieces will be entered
9 individually and retrieved in bulk.
- 10 • PSRS and BPMRS mail pieces will receive significantly reduced
11 mail processing, handling and transportation. This applies
12 particularly to the PSRS RDU product.
- 13 • For the RBMC products, the mail will be weighed and rated by the
14 recipient or the recipient's agent. This form of rating is atypical for
15 most non-bulk-entered mail.
- 16 • Unlike outbound commercial products, PRS requires pickup, and as
17 such, could pose space utilization problems if returns are not
18 picked up promptly.

19 The Parcel Return Services have these distinguishing features, yet they remain
20 forms of worksharing, similar in many respects to other forms of worksharing
21 offered by the Postal Service. This combination of similar and diverse features
22 suggests that pricing the PSRS and BPMRS appropriately may require a blend of
23 conventional and novel pricing approaches.

24 The Postal Service is requesting approval of the PSRS and BPMRS as
25 experimental rate categories. In this case, as in other experimental cases, the
26 information available to us is limited. We do not have the usual kind of detailed

1 information on the total demand for each of the PSRS and BPMRS products. Nor
2 do we have detailed data showing how demand may break down by weight and
3 zone. These limiting factors, too, must be considered in pricing Parcel Return
4 Services products.

5 While experimental rate and classification requests may often arise
6 because the Postal Service faces certain data deficiencies, the temporary nature
7 of experimental classifications offers some countervailing pricing benefits.
8 Experiments can provide useful avenues for the Postal Service to test the
9 feasibility of different rate designs. At the same time, experiments limit risk in the
10 case where unanticipated conditions and circumstances adversely affect some
11 elements of the proposed rate designs.

12
13

B. Pricing Approaches

14 The Parcel Select Return Service consists of two products, Return
15 Delivery Unit (RDU) and Return BMC (RBMC) Parcel Post. The Bound Printed
16 Matter Return Service has only the RBMC product.¹ Witness Gullo describes the
17 salient characteristics of each of these products (USPS-T-1). Because their
18 characteristics differ significantly, each product requires its own pricing approach.

19
20

1. PSRS RDU Product Pricing

21 The RDU product is the simpler of the two new PSRS services from the
22 perspective of mail processing and transportation. Witness Gullo describes the
23 simplified mail flow for RDU parcels (USPS-T-1, Section VII). Since there is no
24 transportation required and minimal mail processing of RDU parcels following
25 acceptance, it makes sense to avoid the complexities of pound-by-pound rates.

¹ BPM mailers will, of course, be eligible to use the PSRS RDU service and rates if they choose.

1 My pricing for RDU parcels calls for a single flat rate for all weights and sizes,
2 with the exception of oversized parcels which have their own rate design. This
3 novel form of simplified pricing recognizes two features of the RDU product
4 beyond merely the absence of transportation or machine processing:

- 5 • The Postal Service will rate (that is, calculate the postage for) these
6 parcels. With a single price, rating can be accomplished for all regular-
7 sized parcels without weighing or measuring, simply by counting the
8 number of parcels being retrieved by each PSRS customer.
- 9 • Simplicity in the rate design makes the product easy to understand, both
10 for Postal Service personnel and for customers.

11 Proposing a single averaged price for all regular-sized RDU parcels does carry
12 some risk that the service might attract predominantly larger and heavier pieces.
13 While the Postal Service does not believe that large, heavy pieces will dominate
14 the RDU service, it is aware of the possibility. Since there is little handling or
15 transportation of these pieces, costs should not be affected much, if at all.

16 The Postal Service does not want its delivery facilities to become long-
17 term holding areas for returned parcels, particularly for large parcels, since space
18 is typically tight at these units. Witness Gullo describes the pickup schedules that
19 customers will be required to observe to avoid this problem (USPS-T-1, Section
20 VII). During the experiment, the Postal Service will monitor the situation at RDUs
21 where the returned parcels will be picked up, and modify pickup schedules as
22 needed to eliminate any space problems that arise. If monitoring shows that the
23 size and weight profile has tilted unacceptably toward large and heavy parcels,
24 the Postal Service could adjust the rate design accordingly at the time it may
25 request a permanent classification.

26

1 **2. PSRS RBMC Product Pricing**

2 The RBMC product is more complex and incurs more mail processing and
3 transportation costs than the RDU product. Witness Gullo describes the
4 transportation and handling of RBMC parcels in detail (USPS-T-1, Section VII). In
5 light of the increased handling and the possible range of distances traveled, it is
6 not feasible to achieve the same level of pricing simplification as I am proposing
7 for RDU parcels. Because RBMC parcels do incur some transportation and
8 several handlings, it is appropriate for pricing to recognize parcel size, distance
9 traveled, and machinability as cost drivers in RBMC pricing.

10 Nevertheless, there are still ways to simplify the rate design. For example,
11 we can use a fixed rate differential between RBMC and benchmark rates (Parcel
12 Post Intra-BMC zoned rates), at least for small and medium-size parcels. This
13 approach is a reasonable response to the following factors:

- 14 • We have only limited information to suggest the way RBMC pieces, and
15 their avoided costs, might vary between weight steps and zones.
- 16 • Smaller parcels are less likely to expose the Postal Service to space
17 problems than larger parcels.

18 As with the RDU product, the Postal Service will monitor the use of the RBMC
19 product during the term of the experiment. This monitoring should reveal any
20 problems that have arisen that might be attributable to pricing. Any necessary
21 adjustments to the rate design would then be made if a permanent classification
22 were requested.

23

24 **3. BPM RBMC Returns Pricing**

25 Bound Printed Matter parcels sent by merchants to customers currently
26 can be returned using BPM single piece rates. Unlike Parcel Post rates, the BPM
27 single piece rates do not distinguish between intra-BMC parcels and inter-BMC

1 parcels. All BPM parcel rates reflect the relatively lower cost of handling BPM
2 mail pieces, particularly as weight increases, owing to the relatively compact
3 nature of these parcels.

4 In developing a rate design for a BPM returns product we are faced with
5 two considerations:

- 6 • We do not have any data that specifically address the costs that would be
7 saved by BPM pieces if BPM mailers were to engage in the worksharing
8 activities required of PSRS RBMC mailers.
- 9 • Nevertheless, it is reasonable to believe that BPM returns parcels would
10 save the Postal Service some costs if RBMC worksharing were
11 performed.

12 For these reasons, it makes sense to offer BPM mailers a discount that reflects
13 some portion of cost savings estimated for PSRS RBMC parcels to encourage
14 this cost-saving behavior. This discount could be adjusted based on what is
15 learned during the experiment, if the Postal Service were to request a permanent
16 BPMRS classification.

17

18 **C. Rate Design**

19 **1. PSRS RDU Regular-Sized Parcels Rate Design**

20 Witness Eggleston (USPS-T-2) provided me with estimates of
21 transportation and non-transportation cost savings for RDU parcels compared to
22 the benchmark, Parcel Post Intra-BMC Local parcels. I calculated the average
23 per-piece savings for all regular-sized RDU pieces using witness Eggleston's
24 average cubic feet per piece estimates for machinable and nonmachinable
25 parcels.

1 I then estimated the revenue that the RDU pieces would have paid in the
2 absence of PSRS using current benchmark rates and the weight distribution of
3 DDU parcels from Docket No. R2001-1.² Dividing by the appropriate total volume
4 yields the revenue per piece for RDU parcels under current rates. From this
5 revenue per piece total I subtracted a portion of the average per-piece savings to
6 produce the proposed rate. Details of these calculations are shown in my
7 workpaper WP-PRS-7.

8 Based on projected PSRS volume and distribution, my proposed rates
9 pass through 62% of the expected savings from RDU worksharing. I believe that
10 it is appropriate to limit the savings passthrough in this experimental classification
11 for several reasons, some of which have been already mentioned in Section III:

- 12 • The PSRS is a new service with several novel features. This means that
13 our cost savings estimates and, therefore, our proposed rates are
14 necessarily based on imperfect knowledge. A limited passthrough of
15 estimated savings will help protect the Postal Service's revenue as it gains
16 experience with PSRS.
- 17 • While there are advantages to the unitary pricing of RDU regular-sized
18 parcels, there are also some potential risks. These include the risks of an
19 unanticipated influx of unusually heavy parcels that tax available space.
20 Reserving some of the expected savings helps provide some measure of
21 insurance against those risks.

22

² The DDU weight distribution was used, since it is expected that returning DDU-type parcels are the most reasonable proxies for parcels likely to use the RDU service.

1 **2. PSRS RBMC Regular-Sized Parcels Rate Design**

2 Witness Eggleston (USPS-T-2) provided estimates of RBMC
3 transportation and non-transportation cost savings compared to the benchmark,
4 Parcel Post Intra-BMC zoned parcels. I used her cost savings estimates for
5 machinable and nonmachinable parcels and the projected weight distribution for
6 RBMC parcels (based on Parcel Select DBMC pieces from Docket R2001-1³) to
7 calculate savings for machinable and nonmachinable RBMC parcels by weight
8 step. I calculated the average savings separately for light and medium weight
9 pieces (those with weights 0-35 pounds), and heavier pieces (those with weights
10 over 35 pounds). Details of my calculations are shown in workpaper WP-PRS-8.

11 I then developed my proposed rates for RBMC light and medium weight
12 pieces by subtracting the average savings for those pieces from their respective
13 benchmark rates. Since all PSRS pieces will be barcoded, I have included the
14 savings from barcoding developed for Docket No. R2001-1 in my proposed rates
15 for light and medium weight pieces. RBMC pieces with weights less than 35
16 pounds that are not machinable due to size would be subject to a \$1.35
17 nonmachinable surcharge, the same surcharge that the benchmark
18 nonmachinable parcels would pay.

19 Since RBMC parcels still require some transportation and handling, my
20 proposed rate design also retains “balloon rate” pricing for high-cubic-volume,
21 low-weight parcels. RBMC parcels with combined length plus girth between 84
22 and 108 inches that weigh less than 15 pounds would pay the rate for a 15-
23 pound parcel to the same zone.

³ RBMC pieces are expected to be most directly comparable to Parcel Select pieces.

1 To develop the rates for heavier pieces, I used the same rate differential I
2 applied to light- and medium-weight pieces, and added to that differential a per-
3 pound increment for pieces above 36 pounds. I then subtracted this augmented
4 rate differential from the benchmark Intra-BMC rates as a discount, and added
5 back the nonmachinable surcharge. The per-pound increment was selected to
6 recognize that savings are higher for larger pieces, while avoiding unduly sharp
7 rate jumps at the breakpoint between lighter and heavier pieces. My workpaper
8 WP-PRS-8 documents these calculations.

9 While my proposed pricing passes through most of the aggregate savings
10 projected for the RBMC rate category, the passthrough of savings for heavier
11 parcels is considerably less than 100%. In addition to the general concerns
12 discussed in Section III A, and also in the previous subsection, there is a further
13 reason for limiting the passthrough, one that applies particularly to heavier weight
14 pieces. In Docket No. R2001-1, our cost studies indicated that substantial rate
15 increases were appropriate for heavy weight Intra-BMC pieces. In order to avoid
16 rate shock, rate increases for heavy parcels were mitigated substantially.
17 Because Intra-BMC Parcel Post rates are the benchmark rates for PSRS rates, it
18 is appropriate to scale back the passthrough of cost savings for heavier pieces,
19 since the benchmark rates for heavier pieces already reflect a scaled back
20 passthrough of costs.

21

22

3. Oversized Parcels Rate Design

23 I developed the prices for both RDU and RBMC Oversized PSRS rates
24 using the following approach, documented in my workpaper WP-PSRS-9.
25 Witness Eggleston (USPS-T-2) provided the estimates of the transportation and
26 non-transportation cost savings for RDU and RBMC oversized parcels,
27 measured relative to the respective benchmarks: Intra-BMC Local and Intra-BMC

1 zoned oversized parcels. She also provided estimates of the average cubic feet
2 per piece for RDU and RBMC oversized pieces. I used witness Eggleston's
3 estimates to calculate adjusted savings per-piece elements for each of these rate
4 categories. I then deducted a portion of these adjusted savings from the
5 appropriate benchmark rates to produce my proposed oversized prices.

6
7

4. BPM Return Parcels Rate Design

8 I developed my proposed BPMRS RBMC rates by subtracting from the
9 current BPM Single-Piece rates a rate differential equal to \$0.21 of Witness
10 Eggleston's (USPS-T-2) estimated cost savings for PSRS RBMC machinable
11 parcels, plus the standard parcel barcode discount of three cents. In Section
12 III.B.3, I cited a pair of factors that make it reasonable to offer BPM RBMC pieces
13 a lower discount than Parcel Select pieces: our lack of BPM-specific savings
14 estimates, and the generally lower overall costs of handling BPM pieces. I
15 believe that it is reasonable to use the PSRS RBMC savings estimate as a
16 starting point for BPM pieces, but to propose a more limited discount of \$0.24 per
17 parcel (including the barcode discount) to reflect both our more limited
18 knowledge and BPM's lower cost profile compared to the Parcel Post
19 benchmark. The discount I propose provides a conservative cushion that should
20 avoid overstating the achievable savings while, at the same time, offering BPM
21 mailers an incentive to engage in worksharing for returns.

22 Details of the calculation of my proposed BPM RBMC rates are contained
23 in workpaper WP-PRS-11.

24

D. Financial Impacts

26 As discussed in Section IV D, below, one of the reasons the Postal
27 Service is seeking experimental classifications for PRS products is that we do not

1 have volume forecasts with the same degree of reliability and accuracy that we
2 normally require. To fill in some of our information gaps in this area, the Postal
3 Service engaged in discussions with mailers regarding the size of the market for
4 parcel returns during development of the PSRS and BPMRS products. Based on
5 those discussions I have adopted the following volume assumptions for the
6 purposes of estimating revenue and cost impacts of PSRS:

7 Total annual market for return parcels: 300 million pieces

8 Market share capturable by PSRS: 4%.

9 Based on information from these mailers I have also projected that PSRS total
10 volume would break down as follows:

11 RDU parcels: 1.8 million

12 RBMC parcels: 10.2 million.

13 I distributed RBMC pieces to postal zones based on the zone profile for
14 origin BMC pieces reported by witness Wittnebel in his Exhibit A (USPS-T-4).

15 The Postal Service's discussions also included potential usage of BPMRS.
16 Based on those discussions, I adopted a usage of 7.5 million pieces, all pieces
17 being picked up at BMCs, for the purposes of estimating total revenue impacts.

18 Using these projected volumes I have calculated the financial impacts of
19 the proposed rates. These are shown in Attachment D (also in workpaper
20 WP-PRS-13). Cost savings passthroughs for PSRS products range from 62% to
21 67%, providing a reasonable cushion of savings against unanticipated events.
22 Overall, the revenue impacts of introducing Parcel Return Services rate and
23 classification changes are small relative to their respective subclass revenues.

24

25 **E. DMCS and Rate Schedule Changes**

26 I propose that the Commission recommend the Parcel Select Return
27 Service and Bound Printed Matter Return Service as new experimental rate

1 categories within the Parcel Post and Bound Printed Matter subclasses at the
2 rates shown in Attachments A and B. I also propose that each user of Parcel
3 Return Services be required to hold a permit and pay an accounting fee. For the
4 permit I propose a fee of \$150 per year and I propose the accounting fee be set
5 at \$475 per year per account.⁴ A Parcel Return Services permit fee will allow
6 users to use either Parcel Select Return Service or Bound Printed Matter Return
7 Service rates, and the accounting fee also can apply to both services if only one
8 account is used. Proposed conforming changes to Fee Schedule 1000 and the
9 DMCS are contained in Attachment C to my testimony and Attachment A to the
10 Request.

11 I propose that the experiment be limited in scope as described in witness
12 Gullo's testimony (USPS-T-1, Section IX), and that the experimental
13 classifications expire two years after the date set for implementation by the Board
14 of Governors unless, before that date, the Postal Service requests one or more
15 permanent classification changes for substantially similar parcel return services.
16 In that situation, the experiment would continue pending litigation and
17 implementation of the Postal Service's requested classification changes, as
18 detailed in Attachment A to the Request. Justifications for treating these
19 proposed changes as experimental are set forth in the following chapter.

⁴ The Parcel Return Services permit and accounting fees will be in addition to any other permit or accounting fees required for other rates or special services.

1 **IV. DESIGNATION OF THE CLASSIFICATIONS AS EXPERIMENTAL**

2 The Postal Service is requesting experimental treatment of the proposed
3 classification changes under Section 3001.67 of the Commission's rules. The
4 following discussion provides the justifications for using the Commission's
5 experimental procedures.

6
7 **A. The Proposed Changes are Novel**

8 The proposed changes are novel in several ways:

- 9 • The Postal Service is planning to offer its customers commercial pricing
10 for non-bulk-entered mail. Typically, workshared mail is entered in bulk
11 quantities and delivered singly. PRS mail will be entered by consumers
12 singly and retrieved in bulk at USPS facilities.⁵
- 13 • The RDU component of Parcel Return Services has a flat rate for all
14 regular-sized parcels. This would be the only flat-rate Package Services
15 product offered by the Postal Service.
- 16 • The RBMC components of Parcel Return Services will require customers
17 to develop reverse manifests of each piece retrieved by them. The Postal
18 Service does not currently use reverse manifesting for postage payment
19 for any other product.⁶
- 20

⁵ I understand that some Bulk Parcel Return Service customers opt to pick up their mail at Postal Service facilities for service reasons. In contrast, customers of Parcel Return Services will be *required* to pick up their parcels at Postal Service facilities to qualify for commercial pricing.

⁶ The Postal Service did offer reverse manifesting as a payment option during the Nonletter-Sized Business Reply Mail experiment. Reverse manifesting was not pursued as a postage payment option in the permanent classification after the only customer to use it switched to using weight-averaging when the customer was acquired by another participant in the experiment.

1 **B. The Proposed Changes are Limited in Magnitude**

2 The Postal Service engaged in numerous discussions with mailers as part
3 of its efforts to develop the Parcel Return Services products. Based on
4 information from those mailer discussions, I have adopted an expected usage for
5 PSRS and BPMRS during the experiment totaling less than 20 million pieces per
6 year (see Section III.D). This magnitude represents only a limited fraction of
7 either Parcel Select or Bound Printed Matter volumes. Because both revenues
8 and costs depend on the volumes of PRS pieces, the effects of the experiment
9 on Parcel Post or Bound Printed Matter revenues and costs are also expected to
10 be limited. My workpaper WP-PRS-13 shows that the expected financial impacts
11 are, indeed, limited.

12 It is well known that the Postal Service is not the dominant carrier in the
13 ground parcels market. Since PRS is expected to produce, at most, a relatively
14 limited expansion of existing Postal Service ground parcel volumes during the
15 experiment, the overall magnitude of its impact on alternative providers and
16 users of ground parcel services is also expected to be limited.

17

18 **C. Data Collection Will be Straightforward**

19 Witness Gullo's testimony (USPS-T-1) describes the data collection plan
20 for this experiment. The plan is designed to collect detailed information on
21 volumes, revenues and certain other characteristics that should fill in many of the
22 blank spots that exist in our understanding of the market for PRS products. Most
23 of the pertinent data will be gathered electronically, from the reverse manifests
24 used for postage payment. The data from the manifests will be supplemented by
25 sampling PRS volumes.

1 The planned data collection techniques should provide an efficient and
2 easy method to assemble the information required by the Postal Service to
3 assess PRS products and decide whether to request their continuance as
4 permanent classifications.

5

6 **D. The Experiment Will Produce Data Not Currently Available**

7 It is reasonable to believe that the Postal Service network has some
8 important features, such as widespread availability of collection points and
9 almost-daily carrier visits to each address, that would make a parcel returns
10 service potentially successful. But it is difficult to assess beforehand whether
11 PRS products will be readily accepted in the marketplace.

12 One reason for the uncertainty is the lack of agreement among non-Postal
13 Service forecasters concerning the size of the total returns market. The forecasts
14 that the Postal Service has seen vary by many hundreds of millions of pieces
15 from the lowest to the highest. With lack of agreement among professional
16 forecasters, the Postal Service finds that it does not have available sufficient data
17 to forecast volumes and volume-dependent variables, such as total revenue and
18 total costs to the same degree of accuracy and reliability it requires in normal rate
19 and classification requests.

20 In contrast to these *ex ante* data difficulties, the Postal Service believes
21 that its data collection plan will readily and reasonably easily gather volume and
22 revenue data that will allow it to assess the desirability of requesting that the PRS
23 classification changes be made permanent.

1 V. CLASSIFICATION CRITERIA

2 In recommending classifications, the Commission is required to consider
3 the following factors, which I refer to in my testimony as Criteria 1 to 6:

- 4 (1) the establishment and maintenance of a fair and equitable
5 classification system for all mail;
- 6 (2) the relative value to the people of the kinds of mail matter entered into
7 the postal system and the desirability and justification for special
8 classifications and services of mail;
- 9 (3) the importance of providing classifications with extremely high degrees
10 of reliability and speed of delivery;
- 11 (4) the importance of providing classifications which do not require an
12 extremely high degree of reliability and speed of delivery;
- 13 (5) the desirability of special classifications from the point of view of both
14 the user and of the Postal Service; and
- 15 (6) such other factors as the Commission may deem appropriate.

16 The classification changes I propose for Parcel Post and Bound Printed
17 Matter are consistent with these criteria. The proposed changes will enhance
18 existing mail classifications in several ways:

- 20 • They will offer consumers who send returns using Parcel Post or Bound
21 Printed Matter a way to have simplified acceptance of their parcels, to
22 avoid putting postage on the returns, and to shorten the time between
23 when the return parcels are mailed and when the merchants (or their
24 agents) receive their parcels.
- 25 • They will offer merchants and their agents a faster way to take possession
26 of their customers' returns so that their customers' accounts can be
27 credited sooner, and they will offer commercial pricing to those who are

1 willing to collect parcels at postal facilities and, in the case of RBMC
2 parcels, weigh and rate them.

- 3 • They will offer the Postal Service a fuller parcel product line, savings on
4 the costs of weighing and rating RBMC parcels, more simplified
5 acceptance of returns parcels, as well as simplified rating of RDU parcels.

6 The Postal Service has discussed the proposed Parcel Return Services with
7 potential customers and they have indicated that the changes I propose will be
8 valuable additions that should help meet a perceived need in the mail order
9 market. PRS products are desirable to the Postal Service, and to the merchants
10 and consumers who will use them (Criteria 2 and 5).

11 Parcel Post and Bound Printed Matter are classifications for mail that do
12 not require an extremely high degree of reliability and speed of delivery. My
13 proposed classification changes will enhance and further promote Parcel Post
14 and Bound Printed Matter (Criterion 4). Criterion 3 does not apply in this case.

15 My proposed changes offer customers lower rates for certain parcel mail,
16 but require them to perform valuable services in return. The proposed Parcel
17 Return Services will produce benefits for both the Postal Service and its
18 customers without imposing any undue or unfair burden on either, or on other
19 mailers. The proposed changes recognize the needs of customers for affordable
20 return solutions. And, at the same time, competitors are not unfairly
21 disadvantaged as the experimental rate schedules are predicated upon
22 conservative passthroughs of estimated cost savings for products that are
23 already well above costs. As such, the requirements for customers and fair
24 competition are fully considered and balanced in the proposal. On the whole the
25 changes I propose are fair and equitable (Criterion 1).

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