

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

POSTAL RATE AND FEE CHANGES, 2006

Docket No. R2006-1

DIRECT TESTIMONY  
OF  
ALTAF H. TAUFIQUE  
ON BEHALF OF  
UNITED STATES POSTAL SERVICE

1 **AUTOBIOGRAPHICAL SKETCH**

2  
3 My name is Altaf H. Taufique. I currently serve as an economist in the  
4 office of Pricing, which is a component of the Pricing and Classification  
5 Department, within the Marketing group at the United States Postal Service  
6 headquarters.

7 I have testified before the Postal Rate Commission on ten occasions. I  
8 have testified in all omnibus rate cases since Docket No. R97-1. In Docket Nos.  
9 R97-1, R2000-1, and R2001-1, I was the pricing witness for Periodicals. In  
10 Docket No. R2005-1, I was the pricing and rate design witness for all mail  
11 classes. I have also filed rebuttal testimonies in Docket Nos. MC96-3, MC97-5,  
12 and R97-1 on a variety of subjects. My testimony in Docket No. MC99-3  
13 addressed the issue of a rate anomaly affecting Nonprofit and Classroom  
14 Periodicals mailers. In Docket No. MC2000-1, I presented the Postal Service's  
15 proposal for an experimental "Ride-Along" classification for Periodicals. My  
16 testimony in Docket No. MC2002-3 proposed an experimental per-piece discount  
17 for co-palletized and dropshipped mail lacking density to make ADC pallets  
18 absent co-palletization. My testimony in Docket No. MC2004-1 supported the  
19 extension of the co-palletization experiment to high-editorial, heavier weight,  
20 small circulation publications, using a different discount structure.

21 Prior to joining the Postal Service in July 1996, I was employed by the Gulf  
22 States Utilities Company (GSU) in Beaumont, Texas, from 1980 to 1994. At  
23 GSU, I served as an economic analyst in the Corporate Planning department. I  
24 was subsequently promoted to Economist, Senior Economist, and finally to the

1 position of Director, Economic Analysis and Forecasting. My responsibilities at  
2 GSU included the preparation of the official energy, load, and short-term revenue  
3 forecasts, and the economic forecasts, for the regions served by the company. I  
4 testified before the Public Utility Commission of Texas in Austin and the Federal  
5 Energy Regulatory Commission in Washington, D.C, defending GSU's official  
6 energy and load forecasts.

7 I received a Master's Degree in Economics from Central Missouri State  
8 University in Warrensburg, Missouri, in 1976, and a Bachelor's degree in  
9 Economics & International Relations from Karachi University in Karachi,  
10 Pakistan. I have also completed thirty-three credit hours of coursework towards  
11 a Ph.D. in Economics at Southern Illinois University. I taught economics at  
12 Chadron State College in Chadron, Nebraska, between 1978 and 1980. During  
13 my employment at GSU in Texas, I taught courses in economics at Lamar  
14 University in Port Arthur, Texas.

## 15 **I. PURPOSE OF TESTIMONY**

16 The purpose of this testimony is to propose a classification change  
17 introducing a stamp that will be valid for First-Class Mail first ounce postage for  
18 single letter-shaped pieces, regardless of the prevailing first-ounce rate. This  
19 stamp will be referred to as "Forever Stamp" in the remainder of my testimony.  
20

## 21 **II. GUIDE TO TESTIMONY AND SUPPORTING DOCUMENTATION**

22 This testimony is structured as follows: In Section III, I summarize the  
23 Postal Service's proposal and provide the description of the product. Section IV  
24 provides background information, including a brief history and a summary of the

1 experiences of several foreign postal administrations with non-denominated, non-  
2 expiring stamps. Section V summarizes applicable market research. Section VI  
3 proposes specific changes to the Domestic Mail Classification Schedule (DMCS)  
4 and evaluates the classification changes in accordance with the criteria in  
5 sections 3623(c) and 3622(b) of the Postal Reorganization Act (title 39, United  
6 States Code). Section VII assesses the financial effects of the proposal. Finally,  
7 Section VIII discusses plans for monitoring and reviewing usage and effects of  
8 the Forever Stamp, should it be recommended and approved.

9 I am also sponsoring a library reference associated with this portion of my  
10 testimony. Library reference USPS-LR-L-152 provides the market research  
11 report that was conducted to gauge customer acceptance of the Forever Stamp.  
12 My testimony also refers to library reference OCA-LR-1, which is being filed by  
13 the Postal Rate Commission's Office of the Consumer Advocate (OCA). This  
14 library reference provides the details of experiences of foreign postal  
15 administration with non-denominated stamps similar to the Forever Stamp I am  
16 proposing.

### 17 **III. OVERVIEW AND DESCRIPTION**

18  
19 The Forever Stamp proposal represents a major policy decision by the Postal  
20 Service to create a means for typical households and small businesses, who use  
21 stamps to mail basic rate First-Class Mail letters, to avoid the inconvenience  
22 associated with future changes in postage rates. As explained below, the idea of  
23 a basic postage stamp purchased at the prevailing rate for single-ounce letters  
24 that would still be valid to mail such letters if the rate were to change has been

1 discussed in various forums for several years. Postal administrations in other  
2 countries have either experimented with or adopted this concept with some  
3 success. During the most recent previous omnibus postal rate case (Docket No.  
4 R2005-1), the Postal Service agreed with the OCA to undertake a study that  
5 would provide information helpful in evaluating whether a Forever Stamp should  
6 be proposed.<sup>1</sup> Together with representatives of the Greeting Card Association  
7 (GCA), the Postal Service and the OCA met prior to the filing of Docket No.  
8 R2006-1 to develop a research plan that would lead to a decision.

9 The agreement with the OCA contemplated a study period of up to one year.  
10 The Postal Service's Board of Governors (Board) determined that the policy  
11 objectives, including the potential for positive revenue impact embodied in the  
12 notion of a non-expiring stamp for letters warranted incorporating it in the current  
13 proceeding. At pages 26-27 of my testimony filed on May 3, 2006 (USPS-T-32),  
14 I introduced the Forever Stamp proposal and outlined generally the rationale for  
15 it. I now supplement that explanation, propose a specific classification change,  
16 and provide additional information supporting the proposal.

17 The Forever Stamp is intended to be a non-denominated, non-expiring stamp  
18 issued as a convenience for single-piece mailers. This stamp would be valid for  
19 the first-ounce First-Class Mail letter postage regardless of the actual rate.<sup>2</sup> The  
20 Forever Stamp's primary purpose would be to smooth the transition to new

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<sup>1</sup> Office of the Consumer Advocate Notice of Receipt of Letter from Postmaster General Potter Detailing the Agreement Reached Between the Postal Service and OCA, Docket No. R2005-1 (July 25, 2005).

<sup>2</sup> The design of the stamp is currently under review and will be determined by the Postal Service at a later date.

1 stamp prices when postal prices change. The classification would be established  
2 at the rate for the first ounce of single-piece, First-Class Mail letters  
3 recommended by the Postal Rate Commission and approved by the Postal  
4 Service's Governors in the current docket (Docket No. R2006-1). It would be  
5 implemented when the Board determines that the rate changes in Docket No.  
6 R2006-1 should become effective.

7 From that point on, the stamp itself would be available throughout the year  
8 and would be sold through all sales channels, such as retail lobbies, vending  
9 machines, stamps ordered by mail, the internet, or phone. The stamp would be  
10 available for purchase at the current rate until the effective date of a subsequent  
11 rate change. After that, it would be sold at the new, prevailing rate. For  
12 administrative purposes, and to enable reliable monitoring of usage, current  
13 plans are to limit the available format to booklets of 20 stamps. For ease of use,  
14 the stamp will also be available in vending "sheetlets" through Automated Postal  
15 Centers (APCs) and Automated Teller Machines (ATMs).<sup>3</sup>

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<sup>3</sup> APC/ATM sheetlets are special sheets of 18 self-adhesive stamps that are only dispensed by APCs and ATMs. Booklets would be available in conventional vending machines.

1 **IV. BACKGROUND**

2 **A. Recent History**

3 The inconvenience associated with the change of First-Class Mail single-  
4 piece letter rates has been a topic of discussion, speculation, and anecdotal  
5 reports for many years. Normally, when rates change comprehensively following  
6 an omnibus rate case, the Postal Service attempts to produce sufficient “make-  
7 up” stamps to bridge the difference between the old and new letter rates, so that  
8 the transition to new rates is relatively smooth. The quantities needed for such  
9 make-up stamps, however, together with the time needed to produce them,  
10 present significant challenges and expense. In addition, lack of complete  
11 certainty about what the new rate will be, substantially in advance of  
12 implementation, tends to limit the ability to ensure production and distribution of  
13 adequate denominated stamps with the new postage amount.

14 In the past, the Postal Service has issued non-denominated “alphabet”  
15 stamps (e.g., “A” stamps, “B” stamps, etc.) intended to be used for transition.<sup>4</sup>  
16 This has sometimes led to minor difficulties in identifying the appropriate rate  
17 represented by such non-denominated stamps when they were used on mail a  
18 significant amount of time after the rate increase became effective.<sup>5</sup> At other  
19 times, such as following the most recent rate changes (Docket No. R2005-1), the

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<sup>4</sup> The most recent such stamps bore the letter “H,” issued in 1998, prior to the January 10, 1998, implementation of the 33-cent rate, following Docket No. R97-1. Transitional stamps for subsequent rate changes did not use a letter of the alphabet, but were nonetheless non-denominated.

<sup>5</sup> The Domestic Mail Manual (DMM) contains a comprehensive listing of non-denominated stamps with illustrations indicating their values as postage. DMM Quick Service Guide § 604a.

1 Postal Service has issued substantial quantities of denominated stamps (2 cents)  
2 to supplement the previously applicable rate. While, for the most part, the Postal  
3 Service has successfully managed the transition to new rates in this fashion,  
4 there have been sporadic reports of shortages in particular locations, as well as  
5 delays in retail operations due to increased customer transactions.

6 As I indicated in my previous testimony (USPS-T-32, at 26-27), the burden  
7 of the transition falls differently on different types of single-piece letter mailers,  
8 and in different degrees. As noted below, recent market research shows that, for  
9 many mailers, the transition is not a serious or insurmountable problem. For  
10 many, however, it is an inconvenience. The Postal Service has always been  
11 sensitive to the problems arising out of changes in rates, particularly for the  
12 household mailer.

13 In Docket No. R2000-1, the OCA attempted to address the transition to  
14 new rates by proposing a nationwide informational mailing by the Postal Service  
15 accompanied by the provision of ten free make-up stamps to every household.<sup>6</sup>  
16 According to the OCA, providing free make-up stamps would have several  
17 benefits, including greater convenience for the customer, savings resulting from  
18 avoidance of retail transactions at the time of transition, and greater good will.<sup>7</sup>

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<sup>6</sup> Direct Testimony of Ted P. Gerarden, OCA-T-1, Docket No. R2000-1, at 7-16 (May 22, 2000).

<sup>7</sup> *Id.* at 9. The OCA also proposed providing “rate stability” for the single-piece First-Class Mail letter rate to address, among other things, the inconvenience associated with changing rates. Direct Testimony of James F. Callow on Behalf of the Office of the Consumer Advocate, OCA-T-6, Docket No. R2000-1 (May 22, 2000). Under this proposal, the single-piece rate would not change every time rates were adjusted across-the-board. Rather, the rate used by most consumers for letters would initially be set high enough to cover costs over two rate cycles

1 While the Postal Service did not challenge the OCA's conclusions, it took the  
2 position that the proposal was not suitable for inclusion in a Recommended  
3 Decision, but rather the actions proposed lay within the discretion of postal  
4 management. Initial Brief, at VII-85 to 86. The Commission found the proposal  
5 worthy of consideration, but deferred to the discretion of the Postal Service, and  
6 declined to recommend it. PRC Op. R2000-1, at 292 (Nov. 13, 2000).

7 Stability of postal rates and the frequency of omnibus rate changes were  
8 major topics for discussion at the Ratemaking Summit sponsored by the Postal  
9 Service and the Commission in May and June of 2002. Among the various  
10 proposals discussed, including phasing for rate changes and annual rate  
11 changes, the notion of a non-denominated stamp that would continue to be valid  
12 for single-piece First-Class Mail after the rates had changed was introduced by  
13 the OCA and others.<sup>8</sup> Several observers commented favorably on the concept.

14 During the discussions leading to settlement in Docket No. R2005-1, the  
15 OCA again advocated a non-denominated stamp that would survive subsequent  
16 rate changes. As noted above, the Postal Service agreed to undertake a joint  
17 study effort to help evaluate the proposal.<sup>9</sup>

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and would be held stable for one succeeding rate cycle. See OCA-T-1, at 5-6. The Postal Service objected to this proposal on several grounds, but recommended that the Commission suspend pursuit of the idea, pending further consideration by postal management. Initial Brief of the United States Postal Service, Docket No. R2000-1, at VII-86 to 89 (Sept. 13, 2000). The Commission identified significant problems with the specific proposal, and found that the record was not sufficient to support it. It concluded that the proposal needed further development. PRC Op. R2000-1, at 289-291 (Nov. 13, 2000).

<sup>8</sup> See Transcript, Ratemaking Summit, Day One, Tr. 1/20, 21, 32, 45-54 (May 28, 2002).

<sup>9</sup> See Note 1, above.

1           **B. Experiences of Foreign Postal Administrations**

2  
3           The U.S. Postal Service is not alone in experiencing customer  
4 inconvenience during the transition from old to new rates for letter mail. Other  
5 postal administrations have encountered a similar response, especially when rate  
6 changes have occurred relatively frequently. Some have adopted a non-  
7 denominated stamp that would survive rate changes, the goal the Postal Service  
8 is seeking to achieve through the Forever Stamp. The experiences of foreign  
9 posts, particularly the United Kingdom, was mentioned as a possible model at  
10 the Ratemaking Summit in 2002.<sup>10</sup>

11           In the past, the Postal Service has made inquiries of foreign postal  
12 administrations when considering options to address this situation. The OCA has  
13 also pursued inquiries independently. In connection with the joint study effort  
14 with the Postal Service and the GCA, the OCA surveyed over forty foreign postal  
15 administrations to ascertain the types and extent of this approach to the transition  
16 to new letter mail rates, as well as to identify issues that have arisen where it has  
17 been employed. In the current proceeding, the OCA has filed as a library  
18 reference materials documenting its and, in part, the Postal Service's inquiries,  
19 including a summary of the results of the OCA's most recent multi-country  
20 survey. OCA-LR-1.

21           While I do not rely on these materials as essential evidence to support the  
22 proposal, they have informed my judgment as to its justification and effects. It,  
23 furthermore, may be difficult to attempt to import this information uncritically to

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<sup>10</sup> Transcript of the Ratemaking Summit, Tr. 1/54.

1 the United States; because our postal system is unique in scope and size.  
2 Nevertheless, the results of the survey and other inquiries are instructive and  
3 generally support the Board's decision to adopt the policy embodied in the  
4 Forever Stamp.

5 The experiences of the United Kingdom (Royal Mail) and France (La  
6 Poste), in particular, have been useful guides in assessing the Forever Stamp.  
7 Both Royal Mail and La Poste introduced this approach at about the same time –  
8 1992 or 1993.<sup>11</sup> This was a period of fairly high inflation in both countries, high  
9 enough that each nation found it necessary to increase postal prices annually.  
10 Both countries also recognized that there are expenses (for the postal system)  
11 associated with changes in the rates of postage. New stamps have to be printed  
12 and distributed; and customers are forced to make extra trips to the post office to  
13 buy the new (or make-up) stamps. Both Royal Mail and La Poste encountered  
14 administrative difficulties in this annual exercise. Also, La Poste was having  
15 trouble shipping the stamps to all regions of the country in a timely fashion.  
16 Annual changes in postage were not only costly for the postal administrations,  
17 but for the stamp-buying public as well. Customers were also unhappy about  
18 having to wait in long lines to buy make-up stamps.

19 Both foreign postal services seized upon the same solution – a non-  
20 denominated, non-expiring stamp. In both countries, this stamp is sold at the  
21 current price for a lightweight letter (60 grams in the U.K., 20 grams in France).  
22 There are no restrictions placed on the time that the purchase is made, nor on

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<sup>11</sup> The OCA's survey refers to the concept as Non-Value-Indicated (NVI) stamps.

1 the quantities that can be purchased. Both countries report that there is no  
2 observable hoarding activity by the public, there do not seem to be any financial  
3 disadvantages to the use of the stamp, and the stamp-buying public is very  
4 pleased with the NVI option. According to the OCA, the experience in both  
5 countries is that such stamps have been used successfully for approximately 14  
6 years; and they are viewed as a permanent option for customers.

7 While the information received from the other countries surveyed was  
8 somewhat sporadic and inconsistent, the responses do generally support the  
9 approach. See OCA-LR-1. Several foreign postal administrations reported that  
10 adoption of a NVI stamp did mitigate the inconvenience of transition to new rates,  
11 saved costs, and avoided administrative and production difficulties. The  
12 responses also were useful in identifying potential problems and issues. These  
13 included: use of such stamps as postage on non-letter mail (Ireland); arbitrage  
14 abuses by postal clerks (Israel); adverse impact on philatelic programs (Israel,  
15 Jersey, and Zambia); and adverse customer reaction regarding additional  
16 postage on heavier pieces (Luxembourg). Furthermore, while both the United  
17 Kingdom and France reported no significant financial consequences, and even  
18 financial benefits as a result of their experiences, most of the countries surveyed  
19 who use a NVI stamp apparently do not track the financial effects as rigorously  
20 as the Postal Service is required under our ratemaking scheme. Furthermore,  
21 there is little information about whether the strict accounting rules that apply to  
22 the Postal Service are followed in these foreign systems.

1           While not conclusive, the experiences of foreign posts provide a useful  
2 and generally positive context to evaluate the Forever Stamp. In particular, they  
3 support the general conclusion that the objective of making transitions to new  
4 rates less burdensome for the average user of single-piece letter mail would be  
5 significantly furthered by the Forever Stamp.

## 6   **V.    MARKET RESEARCH**

7           Pursuant to discussions among the Postal Service, the OCA and GCA  
8 prior to filing Docket No. R2006-1, quantitative market research was conducted  
9 during the last week of April 2006 by a nationally recognized market research  
10 consulting firm, Opinion Research Corporation (ORC). A telephone survey was  
11 conducted to obtain a representative sample of households and small  
12 businesses, with a primary goal of gauging mail user attitudes toward a Forever  
13 Stamp. A description of this survey effort, as well as the details of the results of  
14 this market research, have been filed in Postal Service library reference USPS-  
15 LR-L-152.

### 16       **A.    Acceptance of the Concept**

17           The market research indicated that both households and businesses  
18 would be receptive to the concept of a Forever Stamp. There were no negative  
19 attitudes associated with the idea; however, as expected, there was great degree  
20 of price sensitivity reflected in responses indicating that consumers were less  
21 likely to favor the Forever Stamp at a premium price. Several price points that  
22 were tested for both households and businesses, based on the benchmark of the  
23 current First-Class Mail first ounce postage (39 cents). The prices that were

1 tested included one at no premium and three that incorporated a premium: 1  
 2 cent, 3 cents and 6 cents. The key findings regarding the acceptance are  
 3 summarized in the table below (See Insight #12, USPS-LR-L-152):

Consumers & Small Business - likely to purchase				
	39 cent	40 cent	42 cent	45 cent
	%	%	%	%
Consumers very/somewhat likely	80	57	45	27
Small Business very/somewhat likely	74	47	45	29

4

### 5 **B. Transition to New Rates**

6 The market research shows that customers do not perceive the usual rate  
 7 change to be a major inconvenience, but they still take special measures to be  
 8 prepared. Over 43 percent of the households in every price category tested  
 9 reported they had to make a special trip to the Post Office to purchase new or  
 10 make-up stamps. A considerably higher percentage of small business (with the  
 11 exception of the 40 cent price point category) responded affirmatively to the  
 12 special trip question. Long lines at the Post Offices, once again, were not  
 13 believed to be a big issue, but over 24 percent of the households and over 33  
 14 percent of small businesses perceived the lines to be long during the transition to  
 15 new rates resulting from Docket R2005-1, in January 2006 (See USPS-LR-L-  
 16 152, Insight # 11).

### 17 **B. Price Sensitivity**

18 Besides providing insight into the positive reception of the 'Forever Stamp'  
 19 by both households and small businesses, Insight # 12 in the study report  
 20 (USPS-LR-L-152) also gives a clear indication that both households and small

1 businesses are sensitive to the idea of charging a small premium for the Forever  
2 Stamp. A one cent premium would drop the acceptance rate from 80 percent to  
3 57 percent for households, while, for small businesses, the drop would be from  
4 74 percent to 47 percent. The Postal Service's policy decision to offer the  
5 Forever Stamp at the prevailing First-Class Mail first-ounce rate is supported by  
6 this insight.

7 **C. Availability**

8 The Postal Service's proposal contemplates making the Forever Stamp  
9 available for sale at all times, starting from the implementation of the rates that  
10 will be recommended and approved in this docket. The stamps would be  
11 available for sale through all channels in booklets of 20 stamps. For ease of use,  
12 special sheetlets of 18 stamps would be sold in APCs and ATM machines. In  
13 general, these formats are amenable to vending or other relatively inexpensive  
14 automated channels. At the same time, such sales would not be limited to those  
15 channels. Forever Stamps could be purchased in booklets at the retail window.

16 The Postal Service has determined that making the stamps available in  
17 this format would best suit production capabilities, would facilitate tracking usage,  
18 and would cause the least disruption to its regular stamp programs. In this  
19 regard, the market research supports the notion that both households and small  
20 businesses are willing to accept some reasonable restrictions, particularly in lieu  
21 of a premium. Insight # 15 of USPS-LR-L-152 highlights this trade-off. And,  
22 given that individuals and small businesses purchase and use relatively small

1 volumes of stamps (Insight # 3, USPS-LR-L-152), booklets and APC/ATM  
2 sheetlets should enable these customers to smoothly navigate rate changes.

### 3 **D. Positive Image of the Postal Service**

4 In general, the market research showed that our customers view the  
5 Postal Service in a positive light. Over 88 percent of the households and 82  
6 percent of the businesses surveyed characterized the Postal Service's  
7 performance as positive over the past 3 months (USPS-LR-L-152, Insight # 5).  
8 These proportions remain very high among the customers who indicated a  
9 likelihood of purchasing a Forever Stamps. Thus, customers who are likely to  
10 purchase the Forever Stamp view the Postal Service very positively, and the  
11 Forever Stamp should add to the positive perception.

### 12 **E. Effect on Migration**

13 Insight # 14 (USPS-LR-L-152) provides some interesting observations  
14 regarding the positive image and the use of the Postal Service by our customers,  
15 particularly households. It appears that the Forever Stamp may add to the  
16 already positive image of the Postal Service and make our products and services  
17 easier to use. It is also possible that the introduction of the Forever Stamp could  
18 help slow the downward slide of single-piece volume. Both consumers and small  
19 businesses indicated that they are more likely to use mail to pay bills, send  
20 messages and purchase stamps as gifts. By removing a significant obstacle and  
21 a source of frustration associated with the transition to new rates, the Forever  
22 Stamp should reinforce this behavior.

23

1 **VI. CLASSIFICATION PROPOSAL**

2 I propose changes to the Domestic Mail Classification Schedule to include  
3 provisions for the Forever Stamp. Specifically, I propose adding a new  
4 paragraph: Section 241. This new section would follow the section titled  
5 “Postage and Preparation”, and would read as follows:

6

7 **241 FOREVER STAMP**

8 Postage for the first ounce of a First-Class Mail Single Piece letter  
9 may be paid through the application of a Forever Stamp. The Forever  
10 Stamp is sold at the prevailing rate for Single Piece Letters, First Ounce,  
11 in Rate Schedule 221. Once purchased, the Stamp may be used for first-  
12 ounce letter postage at any time in the future, regardless of the prevailing  
13 rate at the time of use.

14

15 For clarification, I am also proposing the following addition (in underline) to  
16 Section 3030.

17 **3030 Payment of Postage and Fees**

18 Postage must be fully prepaid on all mail at the time of mailing, except as  
19 authorized by law or this Schedule. The use of the Forever Stamp, as  
20 described in section 241, is considered full prepayment of postage for the  
21 first ounce of First-Class Mail, Single Piece Letters. Except as authorized  
22 by law or this Schedule, mail deposited without prepayment.....

23

1 I also propose the addition of a fifth "Note" for Rate Schedule 221.  
2 Attachment A, page 4, to the Postal Service Request in this Docket includes four  
3 Notes. The fifth would read:

4 **SCHEDULE 221 NOTES**

5 5. The price for Single Piece, First ounce, Letters also applies to sales of  
6 the Forever Stamp at the time of purchase.

7  
8 Section 3623(c) of the Postal Reorganization Act (title 39, United States  
9 Code) requires the Commission to consider classification proposals in  
10 accordance with the following factors:

- 11 1. the establishment and maintenance of a fair and equitable  
12 classification system for all mail;
- 13  
14 2. the relative value to the people of the kinds of mail matter entered into  
15 the postal system and the desirability and justification for special  
16 classifications and services of mail;
- 17  
18 3. the importance of providing classifications with extremely high degrees  
19 of reliability and speed of delivery;
- 20  
21 4. the importance of providing classifications which do not require an  
22 extremely high degree of reliability and speed of delivery;
- 23  
24 5. the desirability of special classifications from the point of view of both  
25 the user and of the Postal Service; and
- 26  
27 6 such other factors as the Commission may deem appropriate;
- 28

29 I conclude that the Forever Stamp proposal is fully justified under these  
30 criteria, especially criterion 5: "the desirability of special classifications from the  
31 point of view of both the user and the Postal Service." As my testimony above  
32 notes, in section IV, the Forever Stamp is desirable for the user, since it eases

1 the transition to new rates. It is desirable from the point of view of the Postal  
2 Service, because it should simplify retail transactions around the time of price  
3 changes. The Postal Service would also benefit from the enhancement of the  
4 positive perception of the Postal Service, as discussed above. Finally, the  
5 proposal is fair and equitable (criterion 1), because the stamp would be widely  
6 available to all users.

7         Although the ratemaking criteria of section 3622(b) of the Act generally  
8 apply at the subclass level, the proposal for the Forever Stamp, including its  
9 price, is consistent with the criteria. I discuss the rates proposed for First Class  
10 Mail comprehensively in my testimony submitted on May 3, 2006 (USPS-T-32).

## 11 **VII. FINANCIAL EFFECTS**

12         The Postal Service is proposing the Forever Stamp for implementation at  
13 the same time as the other rate and classification changes that will be  
14 recommended by the Commission and acted upon by the Governors in Docket  
15 No. R2006-1. The Board will set the specific effective date, if the Governors  
16 approve the Commission's recommendations. Consequently, the Forever  
17 Stamp, if it is recommended and approved, will be available to consumers shortly  
18 before the rate changes for First-Class Mail become effective.<sup>12</sup> It may be used

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<sup>12</sup> Typically, the Postal Service makes the new First-Class Mail single-ounce stamp available for sale prior to the effective date for the new rate to aid in the transition to new price levels. Forever Stamps sold before the rate change will be sold at the new First-Class Mail basic rate (42-cents, if the Postal Service's proposal is recommended and approved). The stamp may be used before the rate changes, and before the classification for the Forever Stamp becomes effective with the new rate, as is normal when a non-denominated, transitional stamp is sold before the rate change takes effect. However, the additional

1 to mail a one-ounce letter at any time. After any subsequent change in the rate  
2 for single-piece First-Class Mail letters, it will still constitute valid postage for the  
3 first ounce of such letters, regardless of the new rate.

4         Since the Forever Stamp will not reflect a rate different from the rate that  
5 would be implemented as a result of Docket No. R2006-1, it would have no  
6 financial effect in the test year on revenues (after-rates) different from that  
7 estimated in the current filing for First-Class Mail. Any financial effect would take  
8 place after the next rate change, if Forever Stamps purchased at the Docket No.  
9 R2006-1 rate were to be used as postage while a new rate reflecting a higher  
10 price level applies. Although it is not possible to predict precisely when the  
11 subsequent rate change will occur, I believe it is safe to assume that it will not  
12 take place sooner than the end of the test year in this proceeding, Fiscal Year  
13 2008. I therefore conclude that the Forever Stamp proposal will have no effect in  
14 the test year on the finances of the Postal Service that the Commission must  
15 account for in its Recommended Decision.

16         Nevertheless, I believe that the long-range financial effects of the  
17 classification proposal should be considered. As noted above, the experiences  
18 of foreign postal administrations that have adopted non-expiring stamps suggest  
19 that they have had no effect, or a positive effect, on revenues and costs. In this  
20 regard, financial implications of the Forever Stamp, both positive and negative,  
21 might be predictable, although they would be difficult to quantify. For instance,  
22 as noted earlier, market research suggests that the convenience associated with

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postage over the old rate would result in overpayment, if the stamp is used on  
one-ounce letters prior to the effective date set by the Board.

1 the Forever Stamp could be an additional tool aiding Postal Service efforts to  
2 mitigate the decline in single-piece First Class Mail volumes. There would be  
3 some savings from avoidance of customer transactions to purchase new or  
4 transitional stamps before a rate change.<sup>13</sup> Furthermore, its effects on  
5 production and transaction costs might not be limited to the period of transition to  
6 new rates. Forever stamp availability could smooth out purchases throughout  
7 the next rate cycle, with resulting benefits for both the stamp distribution and  
8 retail efforts. Early purchases of Forever Stamps, prior to the subsequent rate  
9 change, would provide a modest benefit by adding cash to reserves that are  
10 invested and generate interest income. Income from these investments would be  
11 available for general use such as generating interest income or paying down  
12 existing debt, if appropriate. In either instance, the benefit goes to the bottom  
13 line, and ultimately benefits rate payers. All of these effects would be positive,  
14 but unquantifiable at this time.

15 Not all of the changes might be positive, however. Beyond the test year,  
16 the Forever Stamp would give customers an opportunity to reduce or virtually  
17 eliminate the financial impact of a subsequent rate change. It is not difficult to

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<sup>13</sup> Since the Postal Service does not measure the retail operations costs of transitional or new stamp sale transactions separately, it is difficult to estimate possible savings. Approximately \$ 400 million in accrued expenses were allocated as volume variable costs associated with the sale of stamps at retail windows in FY 2005. Any potential savings would be a small part of that total, but still a significant amount.

1 estimate a \$100 million exposure, with very little offset in terms of interest income  
2 on the cash that is collected from the sales.<sup>14</sup>

3 I recognize that not all single piece usage is from individuals or small  
4 businesses. I also recognize that the experience of some foreign posts with  
5 “hoarding” has been relatively positive, as noted above. However, given what we  
6 have learned about stamp purchases from the market research and the high  
7 volumes of First-Class letter mail in the U.S. postal system, I would not consider  
8 the expected behavior to be hoarding, but rather a reasonably predictable  
9 consumer response that could nevertheless have some negative financial  
10 impact, if consumers aggressively purchase and use the new stamp to avoid  
11 future changes in rates. We hope the Postal Service’s experience, in this regard,  
12 will more closely mirror the experiences reported by other postal administrations.

13 In the long run, the trade-offs are clear. A Forever Stamp will have  
14 benefits during the test year by easing administrative burdens and costs involved  
15 during the transition to the subsequent rate change. It will also have significant  
16 benefits for the single-piece user of First-Class letter mail by markedly reducing  
17 the inconvenience associated with rate changes. This will make the Postal  
18 Service more user-friendly, enhance its already good image, and possibly aid in  
19 the mitigation of volume declines. Conversely, given the volumes involved, there

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<sup>14</sup> There are roughly 40 billion pieces of single piece First-Class Mail in a year, or about 330 million pieces a month. One month’s revenues from a hypothetical rate increase of three cents per piece would amount to approximately \$100 million. This amount, as a possible loss from use of the Forever Stamp purchased at a lower rate, is a relatively conservative and prudent reference point, given the high volumes of First-Class Mail.

1 could be losses, if substantial quantities of Forever Stamps purchased at old  
2 rates were used after rates change.

3 Finally, as noted earlier, Israel, Jersey and Zambia indicated that they  
4 encountered adverse effects on their philatelic programs after the introduction of  
5 non-denominated stamps. Our discussions in the past with the British postal  
6 administration suggest that it, too, has experienced an impact on its philatelic  
7 program. Accordingly, the Postal Service is concerned that its philatelic  
8 programs may be subjected to some risk, as a result of the Forever Stamp. We  
9 have similar concerns about unanticipated effects on our stamp programs  
10 generally. Time and experience will tell whether these programs will be affected  
11 as a result of general availability of the Forever Stamp. In light of the excellence  
12 and high public appeal of our stamp programs, careful monitoring of Forever  
13 Stamp usage merits close attention.

14 On balance, I believe that the potential benefits outweigh these risks.  
15 Nevertheless, as discussed below, the risks warrant a moderate approach to  
16 implementation, as the Postal Service has proposed in this filing, and careful  
17 monitoring in the future, to ensure that unwanted consequences for postal  
18 finances and programs do not develop.

#### 19 **VIII. MONITORING USAGE AND SUBSEQUENT REVIEW**

20 In light of the potential risks discussed above, and the incomplete, and  
21 perhaps unsuitable, information available concerning the experiences of foreign  
22 postal administrations, I believe it would be prudent to monitor the  
23 implementation and usage of the Forever Stamp carefully. Accordingly, even

1 though the specific effects of the classification change are not likely to be evident  
2 until the next rate cycle and beyond, if the Forever Stamp is recommended and  
3 approved, the Postal Service intends to begin at once to design and execute a  
4 plan for tracking the effects as soon as they materialize. As we currently  
5 envision this monitoring and review process, at a minimum, it will include the  
6 following:

7           Stamp Sales. The revenue obtained from the sale of the  
8 Forever Stamp will be tracked by the Postal Service accounting  
9 systems. A separate account identifier code (AIC) will be created  
10 to distinguish the sale of the Forever Stamp from the sale of all  
11 other stamps. Information contained in the account will be used to  
12 monitor sales.

13           Stamp Usage. There are two ways of looking at customer  
14 usage of the Forever Stamp. The first approach is to determine  
15 total postage used in a reporting period through "Postage in the  
16 Hands of the Public" (PIHOP) for the Forever Stamp. The Postal  
17 Service will evaluate how best to estimate PIHOP, either through  
18 machine counts and/or special survey. The second approach is to  
19 estimate the usage by rate category by tracking revenue, pieces  
20 and weight. The Origin-Destination Information System (ODIS) --  
21 Revenue, Pieces and Weight (ORPW) system will be modified to  
22 measure such usage.

1           For those mail categories for which postage information is  
2 gathered, ODIS-RPW data collectors will also need to evaluate the  
3 value of the Forever Stamp when computing the total amount of a  
4 mail piece's postage. This is no different than their standard task of  
5 evaluating any non-denominated stamp's postage value when  
6 these are used on single-piece rate mail. To help data collectors  
7 accomplish this goal, the Statistical Programs organization issues  
8 training materials enumerating existing non-denominated stamps  
9 and their value. When data collectors encounter non-denominated  
10 stamps, they use this material, as needed, to reckon and enter  
11 revenue, pieces and weight.

12           In conducting and evaluating this ongoing review, the Postal Service, and  
13 the Commission, will be sensitive to any adverse developments that might cause  
14 a reconsideration of the Forever Stamp concept. Given the successes in other  
15 postal administrations, and the potentially modest expected effects in our postal  
16 system, especially in the short run, I am confident that the Postal Service's  
17 judgment in proposing the Forever Stamp will be supported by experience.  
18 Nevertheless, in light of the potential risks, vigilance is advisable. In this regard, I  
19 believe the modest restrictions on distribution and format discussed above are  
20 fully warranted while we assess the results. These conditions could be altered in  
21 the future, depending on evaluation of demonstrated effects of the actual level  
22 and patterns of usage.

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