

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

POSTAL RATE AND FEE CHANGES, 2006

Docket No. R2006-1

DIRECT TESTIMONY
OF
SUSAN W. BERKELEY
ON BEHALF OF
UNITED STATES POSTAL SERVICE

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AUTOBIOGRAPHICAL SKETCH

1
2

3 My name is Susan W. Berkeley. I am an economist in Pricing at Postal
4 Service Headquarters. I began working for the Postal Service in 1981 as a letter
5 carrier at the McLean, Virginia post office. From 1983 to 1986, I worked at the
6 Research and Development Laboratories, the National Test Administration
7 Center, and the Headquarters Personnel Division before joining Pricing in 1986.

8 I provided substantial technical support for Dockets No. R87-1, R90-1,
9 R94-1, and R2005-1. In Docket No. MC96-3, appearing as witness Susan W.
10 Needham, I provided two direct testimonies and one rebuttal testimony. The
11 direct testimonies, USPS-T-7 and USPS-T-8, proposed fee and classification
12 changes for post office box service and other special services, respectively. The
13 rebuttal testimony, USPS-RT-4, focused on certified mail and post office box
14 service. I provided both direct (USPS-T-39) and rebuttal (USPS-RT-23)
15 testimonies in Docket No. R97-1, appearing as witness Susan W. Needham.
16 The direct testimony presented fee and classification proposals for many special
17 services and the rebuttal testimony addressed issues pertaining specifically to
18 post office box service pricing.

19 I testified in a Bulk Parcel Return Service complaint case, Docket No.
20 C99-4, as witness Susan W. Mayo (USPS-RT-1). In Docket No. R2000-1, also
21 appearing as witness Susan W. Mayo, I presented direct testimony (USPS-T-39)
22 with fee and classification proposals for all of the special services. In that same
23 proceeding, I also testified as a rebuttal witness (USPS-RT-22) addressing
24 several of the special services. In Docket No. R2001-1, also as witness Susan

1 W. Mayo, I presented two pieces of direct testimony. Testimony USPS-T-35
2 presented rate and classification proposals for Express Mail and testimony
3 USPS-T-36 presented fee and classification proposals for many of the special
4 services.

5 In this current Docket, I am also appearing separately as the Express
6 Mail pricing witness (USPS-T-34). Thus, this is my twelfth appearance before
7 the Commission.

8 Since 1991, I have been the special services pricing expert and in 1996
9 became the project manager for special services pricing and classification
10 issues. I am also the project manager for Express Mail pricing and classification
11 issues.

12 Prior to joining the Postal Service, I was a financial analyst for SYSCON
13 Corporation of America. My responsibilities there included financial database
14 maintenance for a shipbuilding project, and development and preparation of
15 Department of Defense budgets.

16 I received bachelor's degrees in business administration and economics
17 from Catawba College, Salisbury, North Carolina. I did graduate work in
18 business administration at Marymount University, Arlington, Virginia.

19

1 **I. PURPOSE AND SCOPE**

2 The purpose of my testimony is twofold. First, I present pricing proposals
3 for many of the Postal Service's special services. Second, my testimony
4 requests classification changes for several of these special services.

5 The scope of my testimony includes proposed pricing for the following
6 special services: account maintenance fee (for bulk parcel return service,
7 Business Reply Mail, merchandise return service, parcel return service, and
8 shipper-paid forwarding), bulk parcel return service (BPRS), Business Reply Mail
9 (BRM), certified mail, collect-on-delivery (C.O.D.), Delivery Confirmation,
10 merchandise return service, money orders, permit fees, restricted delivery, return
11 receipts, Signature Confirmation, stamped cards, and stamped envelopes.

12 My testimony includes proposed classification changes for the following
13 special services: account maintenance fee (for bulk parcel return service,
14 Business Reply Mail, merchandise return service, parcel return service, and
15 shipper-paid forwarding), merchandise return, and meter service. Specifically,
16 the proposed classification change to the account maintenance fee is to formally
17 change the name of the service from accounting fee to account maintenance fee
18 to better reflect the actual service provided. The proposed classification change
19 to merchandise return is to refine the Domestic Mail Classification Schedule
20 (DMCS) language to clarify that the service is not limited to the return of parcels,
21 but is also available for sending parcels. The proposed meter service mail
22 classification change is to remove the fee and classification schedules from the
23 DMCS, as this service was eliminated last year.

1 **II. GUIDE TO TESTIMONY AND SUPPORTING DOCUMENTATION**

2 In addition to my testimony, I provide supporting spreadsheets, in hard
3 copy and electronic format, in Library Reference L-123.

4 I relied on inputs from various witnesses in this proceeding for these
5 supporting spreadsheets. Specifically, Witness Thress (USPS-T-7) provides test
6 year volume. Deviations to witness Thress' mail category volumes were
7 provided by witnesses Taufique (USPS-T-32), Scherer (USPS-T-33), and Kiefer
8 (USPS-T-36). Witness Waterbury (USPS-T-10) provides test year before rates
9 and test year after rates volume variable costs. Witness Loutsch (USPS-T-6)
10 provides the contingency amount. Witness Abdirahman (USPS-T-22) provides
11 implicit costs for some of the special services, as do witness Page (USPS-T-23)
12 and witness Mayes (USPS-T-25). Witness Pifer (USPS-T-18) provides
13 incremental costs.

14 The summary special services pricing workpaper, WP-27 of Library
15 Reference L-123, relies on inputs from witnesses Kaneer (USPS-T-41) and
16 Mitchum (USPS-T-40).

1 **III. PRICING AND CLASSIFICATION CRITERIA**

2 Proposed fee changes presented in this testimony were designed using the
3 following pricing criteria from Section 3622(b) of Title 39, United States Code:

- 4 1. the establishment and maintenance of a fair and equitable schedule;
- 5 2. the value of the mail service actually provided each class or type of
6 mail service to both the sender and the recipient, including but not
7 limited to, the collection, mode of transportation, and priority of
8 delivery;
- 9
10 3. the requirement that each class of mail or type of mail service bear the
11 direct and indirect postal costs attributable to that class or type plus
12 that portion of all other costs of the Postal Service reasonably
13 assignable to such class or type;
- 14
15 4. the effect of rate increases upon the general public, business mail
16 users, and enterprises in the private sector of the economy engaged in
17 the delivery of mail matter other than letters;
- 18
19 5. the available alternative means of sending and receiving letters and
20 other mail matter at reasonable costs;
- 21
22 6. the degree of preparation of mail for delivery into the postal system
23 performed by the mailer and its effect upon reducing costs to the
24 Postal Service;
- 25
26 7. simplicity of structure for the entire schedule and simple, identifiable
27 relationships between the rates or fees charged the various classes of
28 mail for postal services;
- 29
30 8. the educational, cultural, scientific, and informational value to the
31 recipient of mail matter; and
- 32
33 9. such other factors as the Commission deems appropriate.
- 34

1

2 Proposed classification changes presented in this testimony were
3 developed using the following classification criteria from Section 3623(c) of Title
4 39, United States Code:

5

6

1. the establishment and maintenance of a fair and equitable
classification system for all mail;

7

8

9

2. the relative value to the people of the kinds of mail matter entered
into the postal system and the desirability and justification for
special classifications and services of mail;

10

11

12

3. the importance of providing classifications with extremely high
degrees of reliability and speed of delivery;

13

14

15

4. the importance of providing classifications which do not require an
extremely high degree of reliability and speed of delivery;

16

17

18

5. the desirability of special classifications from the point of view of
both the user and the Postal Service; and

19

20

21

6. such factors as the Commission may deem appropriate.

22

23

1 **IV. PROPOSALS**

2

3 **A. Account Maintenance (Accounting) Fee**

4 1. Proposal

5 The Postal Service is proposing to increase the account maintenance
 6 fee (now known as the accounting fee) from \$500 to \$550, representing an
 7 increase of 10 percent. The proposed cost coverage for this service is 173
 8 percent. Table 1 below presents the current and proposed fee and the proposed
 9 percentage change.

10 The Postal Service is proposing a classification change to change the
 11 term “accounting fee” to “account maintenance fee” in Fee Schedules 931, 932,
 12 935, and 936, and in DMCS 931.42, 932.51, 935.52, and 936.52. This proposed
 13 change in name would more accurately describe the service, which involves
 14 account maintenance activities, rather than accounting activities related to daily
 15 withdrawals from an account. The name “account maintenance fee” is used in
 16 place of “accounting fee” throughout this testimony.

17

18

Table 1 – Account Maintenance Fee

19

<u>Description</u>	<u>Current Fee</u>	<u>Proposed Fee</u>	<u>Percentage Change From Current to Proposed Fee</u>
Account Maintenance Fee	\$500.00	\$550.00	10%

20

1 2. Description

2 Bulk parcel return service (BPRS), Business Reply Mail (BRM),
3 merchandise return service, parcel return service, and shipper-paid forwarding
4 mailers may choose to set up a trust fund account from which the Postal Service
5 deducts postage and any applicable fees to pay for incoming mailpieces from
6 customers. The fee for establishing and maintaining this trust fund account is
7 called the account maintenance fee and it is paid on an annual basis.

8 3. Volume and Revenue Trends

9 The volume and revenue histories for the account maintenance fees for
10 BRM, merchandise return, and BPRS are discussed in their respective special
11 service sections. The shipper-paid forwarding account maintenance volume has
12 remained constant since its implementation in 2001. The revenue has increased
13 over the years due to the increase in the account maintenance fee. The revenue
14 and volume history for shipper-paid forwarding account maintenance is
15 presented in Library Reference L-75.

16 4. Fee History

17 The account maintenance fee was established on September 12, 1976
18 for customers of certain types of BRM. The initial fee was \$75. This fee has
19 risen over the years and is currently \$500 per year. The fee history for the
20 account maintenance fee is presented in Library Reference L-76.

21 5. Fee Design

22 The proposed account maintenance fee was designed with two
23 objectives in mind. Specifically, a cost coverage close to the systemwide

1 average was desired, along with a proposed percentage fee increase that is
2 close to the overall special services average increase. The account maintenance
3 fee cost of \$318.60¹ was marked up by 73 percent, resulting in a 173 percent
4 cost coverage. A five-dollar rounding constraint was applied.

5 6. Pricing Criteria

6 A trust fund account provides a significant value of service to the trust
7 fund account mailers (Criterion 2). It enables postage and/or fees to be paid for
8 various activities without the customer having to make on-site payments every
9 time a transaction occurs. BRM mailers who establish a trust fund account pay a
10 lower per-piece fee than the per-piece fee paid when there is no advanced
11 deposit account. The benefit of paying a lower piece fee makes a trust fund
12 account an even higher value to these mailers.

13 The proposed fee covers the cost of the service and provides a healthy
14 contribution to other costs (Criterion 3), with an implicit cost coverage of 173
15 percent. Because the proposal for the account maintenance fee applies to
16 several special services, fee simplicity is promoted and an identifiable
17 relationship between the advance deposit features of these services (Criterion 7)
18 is maintained. Based on the criteria discussed above, the proposed account
19 maintenance fee is fair and equitable (Criterion 1).

20 7. Classification Criteria

21 The classification change proposed in this testimony is to change the
22 term "accounting fee" to "account maintenance fee" in Fee Schedules 931, 932,
23 935, and 936, and in DMCS 931.42, 932.51, 935.52, and 936.52. The proposed

¹ Cost from USPS-T-22, including contingency.

1 name change would more accurately describe the service, which involves
2 account maintenance activities, rather than accounting activities related to daily
3 withdrawals from an account. This is desirable from the perspective of providing
4 a classification with a high degree of reliability (Criterion 4). The proposed name
5 change would correspond to the cost study², which measures the costs for
6 establishing an account and requesting that funds be added when necessary.
7 “Account maintenance,” therefore, would be the appropriate name for this service
8 (Criterion 1). Maintaining an account with which to deduct funds to pay for
9 postage is highly valuable (Criterion 2), as many mailers with advance deposit
10 accounts are eligible to pay lower postage rates and fees. Based on the
11 aforementioned criteria, the proposed classification change is justified.

12

² Cost study from USPS-T-22, including contingency.

1 **B. Bulk Parcel Return Service**

2 1. Proposal

3 The Postal Service is proposing to increase the current Bulk Parcel
 4 Return Service (BPRS) piece fee by 10.5 percent, from \$1.90 to \$2.10, resulting
 5 in a cost coverage of 169 percent. The annual permit fee is proposed to increase
 6 9.4 percent, from \$160 to \$175, with a cost coverage of 135.8 percent. The
 7 account maintenance fee is proposed to increase 10 percent, from \$500 to \$550,
 8 with a cost coverage of 173 percent. Table 2 below presents the current and
 9 proposed fees and the proposed percentage changes.

10
11
12

Table 2 – Bulk Parcel Return Service Fees

<u>Description</u>	<u>Current Fee</u>	<u>Proposed Fee</u>	<u>Percentage Change From Current to Proposed Fee</u>
Per-Piece Fee	\$1.90	\$2.10	10.5%
Annual Permit Fee	\$160.00	\$175.00	9.4%
Account Maintenance Fee	\$500.00	\$550.00	10.0%

13

14

15 2. Description

16 BPRS is a special service that provides a method for returning
 17 undeliverable or refused machinable parcels to the mailer of origin at a price
 18 significantly lower than that for other returned parcels. With BPRS, no postage is
 19 required in addition to the fee. High-volume Regular or Nonprofit Standard Mail
 20 parcel mailers may pick up their undeliverable or refused parcels at a postal

1 facility or have the Postal Service return the parcels in bulk.³ Depending upon
2 operational capabilities, the Postal Service makes the determination of how often
3 the bulk parcels are delivered or how often the mailer may pick up the bulk
4 parcels.

5 In addition to an annual permit fee and an account maintenance fee,
6 mailers pay a per-piece fee for the returned parcels. BPRS is restricted to those
7 mailers who can demonstrate they either have a high probability of receiving, or
8 do, in fact, receive 10,000 returned machinable parcels per year. BPRS can be
9 used in conjunction with shipper paid forwarding service. No other special
10 services may be used with BPRS, which enables efficient fee payment at the
11 end, as pieces do not need to be checked for special services.

12 3. Volume and Revenue Trends

13 Since the first full year's volume of BPRS was recorded in 1998, the per-
14 piece transactions volume dropped by about 50 percent over the first few years.
15 Since 2003, however the volume has risen dramatically to approximately double
16 the volume of 1998. The revenue for the per-piece transactions has mirrored the
17 trend of the volume.

18 The number of annual permits has increased, for most years, as has the
19 associated revenue from the permits. The account maintenance fee for BPRS
20 was introduced in 2001 and the volume for these account maintenance fees has
21 remained fairly stable. The associated revenue for the accounts has risen due to
22 fee increases. The BPRS revenue and volume history is presented in Library
23 Reference L-75.

³ These parcels may have been opened before being refused.

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4. Fee History

The first per-piece fee for BPRS was \$1.75 when the service was created in 1997. In 2001, the fee was reduced to \$1.62 and then increased to \$1.80 in 2001. The current fee of \$1.90 is a result of Docket No. R2005-1. The annual permit fee at the onset of the service was \$100 and subsequently increased to \$125, \$150, and the current fee of \$160 as a result of the respective omnibus rate case proceedings since 1997. The account maintenance fee was extended to BPRS in 2001 at \$375. This fee has increased twice since then; to \$475 in Docket No. R2001-1, and to the current fee of \$500 as a result of Docket No. R2005-1. The fee history for BPRS is presented in Library Reference L-76.

5. Fee Design

The fee design for the annual permit fee and account maintenance fee are discussed in their respective sections in this testimony. This section discusses the fee design for the BPRS per-piece fee only.

The proposed per-piece fee for BPRS was designed with a target 10 percent increase. The per-piece cost of \$1.24⁴ was marked up by 69 percent, resulting in a proposed 20-cent increase to the current fee.

6. Pricing Criteria

The pricing criteria discussions for the annual permit fee and account maintenance fee are presented in their respective sections in this testimony. This section discusses the pricing criteria for the per-piece BPRS fee only.

⁴ Cost from USPS-T-25, including contingency.

1 BPRS provides a high value of service to its customers – both the BPRS
2 mailers and the BPRS recipients (Criterion 2). BPRS mailers are better able to
3 offer products by utilizing a relatively low-cost return feature. BPRS recipients
4 use the convenience of the service to mail packages back to the mailer if they
5 choose not to keep the merchandise. Of significant value to the recipients is the
6 ability to return packages they have already opened, which increases customer
7 satisfaction and ultimately benefits the mailer.

8 The proposed fee covers the cost of the service and provides a
9 significant contribution to other costs (Criterion 3) as a result of the proposed 169
10 percent cost coverage. This proposed cost coverage is reasonable, especially
11 given the high value of service from BPRS and the fact that this cost coverage is
12 still below the proposed systemwide average. The effect of a 10.5 percent fee
13 increase should not prove to be burdensome to BPRS mailers, and is lower than
14 the proposed average percentage increase for all special services (Criterion 4).
15 Providers of other alternative return services should not be disadvantaged by the
16 increase in fees (Criterion 5). Based on the criteria already discussed, the
17 proposed BPRS per-piece fee is fair and equitable (Criterion 1).

18

1 **C. Business Reply Mail**

2 1. Proposal

3 The per-piece fee for the Qualified Business Reply Mail (QBRM)
4 category with the optional quarterly fee, currently \$0.008 cent, is proposed to
5 increase by 12.5 percent to \$0.009, resulting in a 194.6 percent implicit cost
6 coverage. The QBRM per-piece fee for the category without the optional
7 quarterly fee, currently \$.06, is proposed to decrease 16.7 percent to \$.05,
8 resulting in a 234.1 percent implicit cost coverage. The QBRM per-piece
9 categories would continue to qualify for the proposed QBRM postage discount.⁵
10 The QBRM quarterly fee is proposed to decrease by 5.3 percent from the current
11 \$1,900 to \$1,800, resulting in a 293.6 percent implicit cost coverage.

12 The current BRM per-piece fee of \$0.11 for regular BRM with an
13 advance deposit account is proposed to decrease by 27.3 percent to \$.08, with a
14 resulting 246 percent implicit cost coverage. The current per-piece fee for non-
15 advance deposit account BRM of \$0.65 is proposed to increase by 7.7 percent to
16 \$0.70. This proposed increase results in a 184.5 percent implicit cost coverage.

17 The weight averaged nonletter-size BRM per-piece fee of \$.01 is
18 proposed to increase by 10 percent to \$0.011. The implicit cost coverage is
19 182.4 percent. The weight averaged nonletter-size BRM monthly fee of \$790 is
20 proposed to increase to \$900, resulting in a 13.9 percent increase and a 136.8
21 percent implicit cost coverage.

⁵ Postage discount for Qualified Business Reply Mail proposed in witness Taufique's testimony, USPS-T-32.

1 The account maintenance fee for BRM is proposed to increase from
2 \$500 to \$550, a 10 percent increase. The resulting implicit cost coverage is 173
3 percent. The annual permit fee for BRM is proposed to increase from \$160 to
4 \$175, a 9.4 percent increase. The resulting implicit cost coverage is 136 percent.

5 The overall proposed cost coverage for BRM is 185.5 percent. The
6 overall proposed percentage increase for BRM is 0.14 percent. Table 3 presents
7 the current and proposed BRM fees and the proposed percentage changes.

1
2**Table 3 - Business Reply Mail (BRM) Fees**

<u>Description</u>	<u>Current Fee</u>	<u>Proposed Fee</u>	<u>Percentage Change From Current to Proposed Fee</u>
Qualified BRM (without quarterly fee) per-piece fee	\$ 0.06	\$ 0.05	-16.7%
Qualified BRM (with quarterly fee):			
Quarterly fee	\$1,900.00	\$1,800.00	-5.3%
Per-piece fee	\$ 0.008	\$ 0.009	12.5%
Regular BRM with an account maintenance fee (per-piece)	\$ 0.11	\$ 0.08	-27.3%
Regular BRM without an account maintenance fee (per-piece)	\$ 0.65	\$ 0.70	7.7%
Weight Averaged Nonletter-Size BRM:			
Monthly fee	\$ 790.00	\$ 900.00	13.9%
Per-piece fee	\$ 0.01	\$ 0.011	10%
Account Maintenance Fee	\$ 500.00	\$ 550.00	10%
Annual Permit Fee	\$ 160.00	\$ 175.00	9.4%

3

1 2. Description

2 Business Reply Mail (BRM) is a special service that allows recipients to
3 mail First-Class Mail and Priority Mail back to the companies originally initiating
4 the mail correspondence at no cost to the recipient. The BRM mailers (permit
5 holders) pay a per-piece fee plus applicable First-Class Mail or Priority Mail
6 postage only on the mail returned to them. BRM can come in the form of cards,
7 envelopes, self-mailers, cartons, and labels distributed by valid BRM permit
8 holders. BRM is not eligible to receive any other special services.

9 There are four types of BRM: Qualified BRM (QBRM), advance deposit
10 account BRM, non-advance deposit account BRM, and non-letter size weight
11 averaged BRM. Within QBRM, there are two types of mail: 1) QBRM that pays
12 a quarterly fee, usually for a high return volume, and 2) QBRM that does not pay
13 a quarterly fee, usually for a lower return volume. QBRM is First-Class Mail that
14 is letter-size, automated, and bears an appropriate barcode. A per-piece
15 postage discount is given to QBRM⁶ regardless of whether or not it pays the
16 quarterly fee. A lower per-piece fee is paid for QBRM that pays a quarterly fee.
17 Regular BRM (with and without an advanced deposit account) pays the full First-
18 Class Mail or Priority Mail postage, plus the applicable BRM fee. Likewise, non-
19 letter size weight averaged BRM pays the full applicable postage and a per-piece
20 fee.

21 In addition to the applicable postage and BRM per-piece fees, BRM
22 mailers pay an annual permit fee, and those mailers paying all but the highest
23 per-piece fee also pay an account maintenance fee. An advance deposit

1 account affords mailers the opportunity to have the postage and fees
2 automatically deducted from their accounts as mailpieces are delivered, and
3 consequently, allows these mailers to take advantage of lower BRM fees.

4 3. Volume and Revenue Trends

5 Total BRM piece volume has increased very modestly since Postal
6 Reorganization, with many fluctuations along the way. Because these volumes
7 have been so sporadic, it is not possible to identify any trends or point to any
8 obvious reasons for these volume swings. As new fee classifications have been
9 added to the BRM fee schedule, volume has shifted from the “regular” categories
10 to the more specialized categories. The new categories have served as less-
11 expensive substitutes to existing regular volume, and therefore total per-piece
12 volume has remained fairly flat. It is noteworthy that volume has not dropped,
13 particularly over the past few years as the number of available alternatives to
14 BRM have increased. The volume of advance deposit account transactions has
15 fluctuated from time-to-time, yet overall the total volume tends to remain flat.
16 However, the number of non-advance deposit transactions has increased
17 significantly over the past few years. A detailed volume history for BRM is
18 presented in Library Reference L-75.

19 Total BRM piece revenue has had far fewer fluctuations than its
20 corresponding volume. Although, as with BRM volume, no trend can be easily
21 determined for BRM revenue, revenue has increased more steadily than volume
22 since Postal Reorganization. Over the past few years, total BRM transaction
23 revenue increased significantly. The advance deposit transaction revenue has

⁶ See witness Taufique's testimony, USPS-T-32.

1 remained fairly steady with some decreases, due to lower per-piece fees
2 introduced for specialized classifications. The non-advance deposit transaction
3 revenue has increased significantly over the past few years – a sign of both the
4 volume increase, coupled with a recent substantial fee increase. The annual
5 permit revenue, though steady for a number of years, has seen, for the most
6 part, a modest rise over the past few years. A detailed revenue history for BRM
7 is presented in Library Reference L-75.

8 4. Fee History

9 Since Postal Reorganization, BRM fees have changed twelve times.
10 The original fee structure for BRM included a per-piece fee for pieces weighing
11 two ounces or less and a per-piece fee for pieces weighing over two ounces.

12 In 1976, the BRM fee structure was redesigned due to the introduction of
13 advance deposit, with the fee no longer based on the weight of the piece but
14 rather on whether or not the mailer had established a BRM trust fund. In 1976,
15 the account maintenance and annual permit fees were introduced to
16 accommodate the advance deposit accounts. In 1988, a pre-barcoded (BRMAS)
17 per-piece fee was introduced for mailers using advance deposit. Also in 1988,
18 the account maintenance and annual permit fees were combined to form one fee.
19 In 1991, the account maintenance and annual permit fees were split into two fees
20 again. In 1999, a non-letter size piece fee and an associated monthly fee for
21 mailers of this type of BRM were created. In 2001, the QBRM per-piece fee was
22 replaced by two fees, depending upon whether or not a quarterly fee was paid.

1 Hence, a quarterly fee was established in 2001 as well. A detailed fee history for
2 BRM is presented in Library Reference L-76.

3 5. Fee Design

4 The fee designs for the annual permit and account maintenance fees are
5 discussed in their respective sections in this testimony. This section discusses
6 the fee design for all other BRM fee categories.

7 Generally, the fees for BRM were designed to produce cost coverages
8 close to the systemwide average, and the reason for this is discussed in the
9 Pricing Criteria section below. The QBRM with a quarterly fee per-piece
10 proposed fee was designed by marking up the per-piece cost of \$0.0046⁷ by 95
11 percent, resulting in \$0.009, one-tenth of one-cent higher than the current fee.
12 The current one-tenth of one-cent rounding constraint was applied. The QBRM
13 without a quarterly fee proposed per-piece fee was designed by marking up the
14 per-piece cost of \$0.0214⁸ by 134 percent and applying a whole-cent rounding
15 constraint to arrive at \$0.05, \$0.01 lower than the current fee of \$0.06. The BRM
16 advance deposit per-piece fee cost of \$0.0325⁹ was marked up by 146 percent to
17 arrive at the proposed fee of \$0.08, \$0.03 lower than the current fee of \$0.11.

18 The nonletter-size per-piece cost of \$0.0060¹⁰ was marked up by 82
19 percent to arrive at the proposed fee of \$0.011, one-tenth of one cent higher than
20 the current fee of \$0.010. This proposed fee represents a departure from the
21 current whole-cent rounding constraint to a one-tenth of a cent rounding

⁷ Cost from USPS-T-22, including contingency.

⁸ Cost from USPS-T-22, including contingency.

⁹ Cost from USPS-T-22, including contingency.

¹⁰ Cost from USPS-T-22, including contingency.

1 constraint. The proposed nonletter-size monthly fee cost of \$657.98¹¹ was
2 marked up by 37 percent to arrive at the proposed \$900 monthly fee, \$150 higher
3 than the current fee of \$750. A ten-dollar rounding constraint was applied. The
4 quarterly fee cost of \$613.02¹² was marked up by 194 percent to arrive at the
5 proposed fee of \$1,800, which is \$100 less than the current quarterly fee of
6 \$1,900. A \$100 rounding constraint was applied. The nonadvance deposit per-
7 piece cost of \$0.379¹³ was marked up by 85 percent to arrive at the proposed fee
8 of \$0.70, \$0.05 higher than the current fee of \$0.65. A nickel rounding constraint
9 was applied.

10 6. Pricing Criteria

11 The pricing criteria discussions for the annual permit fee and account
12 maintenance fee are presented in their respective sections in this testimony.
13 Thus, this section discusses the pricing criteria for all other BRM fee categories.

14 All fee categories of BRM provide a very high value of service to both
15 originating mailers and secondary mailers who return BRM to the originating
16 mailers (Criterion 2). Originating BRM mailers can disseminate an unlimited
17 number of mailpieces, but are only responsible for paying return postage for the
18 mailpieces mailed back to them by their customers. BRM originating mailers
19 receive mail only from customers presumably interested in their products or
20 services. BRM originating mailers are able to solicit broad ranges of potential
21 customers; providing free postage to the secondary mailer can only be seen as a
22 positive in terms of a professional reputation.

¹¹ Cost from USPS-T-22, including contingency.

¹² Cost from USPS-T-22, including contingency.

1 The fees proposed for BRM in this testimony cover the implicit costs of
2 each category and result in an overall cost coverage just below that of the
3 proposed systemwide average (Criterion 3). The overall cost coverage is
4 appropriate for a high value service, and even more appropriate when
5 considering that the overall proposed fee increase for BRM is only one-tenth of
6 one percent.

7 Three of the seven fee categories for BRM have fee decreases
8 proposed, which should have a positive impact on the customer (Criterion 4).
9 The remaining four fee categories have proposed fee increases ranging from 7.7
10 percent to 13.9 percent. This range is close to the overall special services
11 average percentage increase and should not have a negative impact on
12 customers.

13 Available alternatives to BRM are bountiful, and, in some cases, could
14 be more costly (Criterion 5). When BRM is used to remit bill payments,
15 substitutes include First-Class Mail, on-line Internet payments, payments by
16 phone using credit cards and payments in person. With respect to BRM used by
17 customers soliciting information from a company, substitutes include toll-free
18 phone numbers, the Internet, and envelopes provided by companies with live
19 postage pre-affixed or with no postage affixed. Based on the aforementioned
20 criteria, the proposed fees for BRM are fair and equitable (Criterion 1).

¹³ Cost from USPS-T-22, including contingency.

1 Return receipts and restricted delivery are the ancillary special services that can
2 be used in conjunction with certified mail.

3 Certified mail is an ideal vehicle for customers wishing to send mail
4 when a record of mailing and delivery is needed. It is used frequently by law
5 firms, tax municipalities, police departments, banks, mortgage institutions and
6 real estate companies for important documents. For some types of
7 correspondence, it may be a legal requirement.

8 Return receipts are a very important ancillary service for certified mail.
9 Although delivery information is available with certified as part of the basic
10 service, the majority of current certified mail customers choose return receipt
11 service as an adjunct service, presumably because of a legal requirement, or
12 because return receipt service provides the recipient's signature. In 2005, 90
13 percent of all non-Postal Service initiated certified mail articles included return
14 receipt service.

15 3. Volume and Revenue Trends

16 Certified mail volume has increased substantially since Postal
17 Reorganization; however, over the past 10 years volume has remained fairly
18 constant. With the exception of several years, certified mail revenue has
19 increased every year since Postal Reorganization and has increased
20 substantially over the last few years due to fee increases. A detailed volume and
21 revenue history for certified mail is presented in Library Reference L-75.

1 4. Fee History

2 Since Postal Reorganization, the fee for certified mail has been
3 increased twelve times: twice in 1976 (to \$0.40 and \$0.60), 1978 (to \$0.80),
4 1988 (to \$0.85), 1991 (to \$1.00), 1995 (to \$1.10), 1997 (to \$1.35), 1999 (to
5 \$1.40), twice in 2001 (to \$1.90 and \$2.10), 2002 (to \$2.30), and in 2006 to the
6 current fee of \$2.40. The certified mail fee was decreased once in 1981 (from
7 \$0.80 to \$0.75). The fee history for certified mail is presented in Library
8 Reference L-76.

9 5. Fee Design

10 The proposed fee for certified mail was designed to produce an increase
11 close to the average increase for total special services. The current fee is
12 proposed to increase by \$0.25, resulting in a 157 percent proposed cost
13 coverage over volume variable costs.

14 6. Pricing Criteria

15 Certified mail continues to provide a high value of service (Criterion 2).
16 Internet access and call center access to delivery data can save many customers
17 money if they are able to obviate the need for delivery information through the
18 purchase of return receipt service. A special service requiring the recipient's
19 signature, such as certified mail, is also of high value, as it connotes a sense of
20 the mail's importance to the recipient. Because of the high value of service
21 provided by this product, a higher proposed increase could easily be justified, yet
22 the proposed fee increase was mitigated when taking into consideration the other
23 applicable criteria discussed below.

1 The effect of the proposed increase on customers (Criterion 4) was also
2 considered. It is believed that an increase of 10.4 percent should not prove to be
3 burdensome as it is below the overall special services average proposed
4 increase. The proposed fee for certified mail covers its costs, both total volume
5 variable and total incremental (Criterion 3), and results in a moderate cost
6 coverage, though still low for a high value service.

7 Available alternatives to certified mail, such as Postal Service and
8 competitor expedited services continue to be more expensive, especially for
9 letters and flats, and even more so when judging the price against original
10 signature services (Criterion 5). Postal services such as Delivery Confirmation
11 and Signature Confirmation can be considered lower-priced alternatives, though
12 these services are not available for First-Class Mail letters and flats. Further,
13 Delivery Confirmation does not have a signature feature, and Signature
14 Confirmation does not provide access to a pen and ink signature.

15 The proposed fee is simple by itself and simple when taking into
16 consideration the identifiable relationship with the proposed return receipt fees,
17 both electronic and basic, or with the proposed restricted delivery fee (Criterion
18 7). The proposed combined prices are as follows: certified mail with an
19 electronic return receipt - \$3.50; certified mail with a basic return receipt - \$4.80;
20 and, certified mail with restricted delivery - \$6.75. Based on the criteria
21 discussed above, the proposed fee for certified mail is fair and equitable
22 (Criterion 1).

1 **E. Collect-On-Delivery (C.O.D.)**

2 1. Proposal

3 The Postal Service is proposing both increases and decreases to the
4 current Collect-On-Delivery (C.O.D) fees. Specifically, the current fees up to
5 \$400 in declared value are proposed to increase from a range of 2.2 percent to
6 21.1 percent. The fee for a C.O.D mailpiece valued over \$400 up to \$500 is
7 proposed to remain unchanged. The C.O.D. fees for a mailpiece valued over
8 \$500 up to \$1,000 are proposed to decrease anywhere from 1.8 to 6.6 percent.
9 The proposed cost coverage for C.O.D. is 113 percent using volume variable
10 costs. The total change in fees is a proposed 10.6 percent increase.

11 The registered C.O.D. fee is proposed to increase from \$4.20 to \$4.60,
12 a 9.5 percent increase. The notice of non-delivery fee and the alteration of
13 C.O.D. fee, both currently \$3.15, are proposed to increase by 9.5 percent to
14 \$3.45. The restricted delivery fee (discussed later in this testimony) of \$3.70 is
15 proposed to increase by 10.8 percent to \$4.10. Table 5 below presents the
16 current C.O.D. fees, the proposed C.O.D. fees, and the proposed percentage
17 changes by value level, along with the proposals for the ancillary services.

1

Table 5 – Collect-On-Delivery Fees

<u>Description</u>	<u>Current Fee</u>	<u>Proposed Fee</u>	<u>Percentage Change From Current to Proposed Fee</u>
Up to \$50	\$4.75	\$5.75	21.1%
\$50 to \$100	\$5.80	\$6.60	13.8%
\$100 to \$200	\$6.85	\$7.45	8.8%
\$200 to \$300	\$7.90	\$8.30	5.1%
\$300 to \$400	\$8.95	\$9.15	2.2%
\$400 to \$500	\$10.00	\$10.00	0%
\$500 to \$600	\$11.05	\$10.85	(1.8%)
\$600 to \$700	\$12.10	\$11.70	(3.3%)
\$700 to \$800	\$13.15	\$12.55	(4.6%)
\$800 to \$900	\$14.20	\$13.40	(5.6%)
\$900 to \$1000	\$15.25	\$14.25	(6.6%)
Registered COD	\$4.20	\$4.60	9.5%
Notice of Non-Delivery	\$3.15	\$3.45	9.5%
Alteration of COD	\$3.15	\$3.45	9.5%
Restricted Delivery	\$3.70	\$4.10	10.8%

2

3 2. Description

4 C.O.D. is a special service whereby mailers send merchandise before
5 the addressee has paid for it. Upon delivery, the recipient pays by cash or check
6 (only one form of these two payments may be made for a single article) for the
7 merchandise plus the C.O.D. fee. The fee is based on the monetary value of the
8 merchandise or the amount of insurance coverage desired, whichever is higher.
9 The value of the C.O.D. article may not exceed \$1,000.

10 The fee for C.O.D. service covers insurance against loss, rifling or
11 damage, or failure to receive the payment. The Postal Service's liability for the
12 loss of the recipient's payment is restricted to loss in transit only. If the recipient
13 pays by cash, the Postal Service pays the mailer with a postal money order. If

1 the recipient pays by check, the Postal Service sends that check to the mailer. A
2 record of delivery including the recipient's signature is kept on file for a specified
3 period of time.

4 C.O.D. is available for First-Class Mail, Express Mail, Priority Mail, and
5 all subclasses of Package Services. Registered mail, Delivery Confirmation,
6 Signature Confirmation and special handling are special services available for
7 use with C.O.D., though both Delivery Confirmation and Signature Confirmation
8 may not be used in combination with Express Mail C.O.D. Return receipts and
9 restricted delivery are ancillary services allowed for use with C.O.D. C.O.D.
10 mailers may alter the C.O.D. charges or direct delivery to a new addressee by
11 filling out a request and paying an additional fee. Also, for an additional fee,
12 mailers may request a notice when C.O.D. mail is not delivered.

13 3. Volume and Revenue Trends

14 C.O.D. volume has declined steadily since Postal Reorganization, from
15 20 million pieces in 1970 to 1.5 million pieces in 2005. C.O.D. revenue has both
16 increased significantly and decreased significantly over the years since Postal
17 Reorganization and reached an all-time low of \$9 million in 2005. A detailed
18 volume and revenue history for C.O.D. is presented in Library Reference L-75.

19 4. Fee History

20 The fees for C.O.D. have increased eleven times since Postal
21 Reorganization. In 1974, the maximum value for C.O.D. increased from \$200 to
22 \$300. In 1976, C.O.D. fees increased an average of 33 percent. In 1978, the
23 maximum value increased to \$400 and the fees increased by an average of 32

1 percent. In 1981, fees increased by an average of 10 percent. In 1985, fees
2 increased by 1 percent and the maximum value increased to \$500. In 1988 and
3 1991, C.O.D. fees increased 39 percent and 9 percent, respectively. The
4 maximum value level was increased to \$600 in 1991. In 1995, fees increased by
5 an average of 39 percent and in 1999 fees increased by an average of 12
6 percent. In 2001, fees increased by an average of 10 percent. Also in 2001, the
7 maximum value level was increased from \$600 to \$1,000. In 2006, fees
8 increased by an average of 5 percent. A detailed fee history for C.O.D. is
9 presented in Library Reference L-76.

10 5. Fee Design

11 As the fee design for restricted delivery is discussed in its own section
12 later in this testimony, the fee design discussed in this section is for all C.O.D.
13 fees and the ancillary services of registered C.O.D., notice of non-delivery, and
14 alteration of C.O.D.

15 The proposed fees for C.O.D. were designed with several goals in mind.
16 First, the base fee for C.O.D. mail up to \$50 in value was increased by the
17 highest percentage to build a platform with which to gradually lower the amount
18 of the increase and eventually begin a decrease, as the value level of the fee
19 category increases. The proposed up to \$50 C.O.D. fee also reflects the fact
20 that, with the exception of one apparent outlier, claims as a percentage of volume
21 are highest in this fee category. Furthermore, as value levels increase, generally
22 the percentage of volume with paid claims decreases, thus suggesting a lower
23 claims cost per-piece for the higher value items. The lower costs per-piece as

1 value increases is reflected in this proposal in two ways: (1) elimination of a
2 uniform incremental fee above the \$50 base fee, and (2) a gradual decrease in
3 the incremental fee as the value of the mailpiece increases. Finally, an effort
4 was made to bring the overall percentage increase in line with the total special
5 services percentage increase.

6 6. Pricing Criteria

7 On one hand, regardless of the economic classification of the recipient of
8 C.O.D. mail, the service provides a high value of service to its customers, both
9 mailers and recipients (Criterion 2). Recipients are able to have merchandise
10 mailed to them without prepaying, which can be very desirable. At the same
11 time, the declining volume and revenue suggest less relevance in the
12 marketplace. Still, mailers may find an increased customer base consisting of
13 those individuals who otherwise would not have ordered from the company if
14 they were not able to use C.O.D. As the use of on-line purchasing continues to
15 grow, along with the increase of identity theft, C.O.D. may prove to be an
16 alternative payment vehicle when customers are leery of providing credit card
17 information for payment. Additionally, some sellers, particularly small
18 businesses, may not accept credit cards for payments. The knowledge that the
19 item will be paid for before delivery may make offering C.O.D. a good business
20 decision.

21 The proposed C.O.D. fees were designed to cover costs and make a
22 modest contribution to other costs (Criterion 3), with an overall proposed cost
23 coverage of 112 percent. The proposed C.O.D. fee changes range from

1 decreases of 2 to 7 percent and increases of 2 to 21 percent, with an overall
2 percentage fee increase of 10.6 percent, which should not have an adverse
3 effect on customers (Criterion 4). Based on the aforementioned criteria, the
4 proposed fee schedule for C.O.D. is fair and equitable (Criterion 1).

1 **F. Delivery Confirmation**

2 1. Proposal

3 The Postal Service is proposing increases for the entire Delivery
4 Confirmation fee schedule, except for the \$0.00 fees for Delivery Confirmation for
5 Priority Mail and Parcel Select electronic options, which are proposed to remain
6 at \$0.00, and will not be discussed further. Specifically, for First-Class Mail
7 parcels, the current electronic fee of \$0.14 is proposed to increase by 28.6
8 percent to \$0.18 with a resulting implicit cost coverage of 120.7 percent. The
9 current retail fee for First-Class Mail parcels of \$0.60 is proposed to increase by
10 25 percent to \$0.75 with a resulting implicit cost coverage of 106.7 percent.

11 The current \$0.50 retail option Delivery Confirmation fee for Priority Mail
12 is proposed to increase by 30 percent to \$0.65. The implicit cost coverage is
13 117.3 percent. The current \$0.14 fee for Standard Mail electronic Delivery
14 Confirmation is proposed to increase by 28.6 percent to \$0.18, resulting in a
15 proposed implicit cost coverage of 120.7 percent. The current \$0.60 retail
16 Delivery Confirmation fee for Package Services mail is proposed to increase by
17 28.6 percent to \$0.75, yielding a proposed 106.7 percent implicit cost coverage.
18 The current fee of \$0.14 for Package Services electronic Delivery Confirmation is
19 proposed to increase by 28.6 percent to \$0.18, resulting in a 120.7 percent
20 implicit cost coverage. The proposed overall cost coverage for Delivery
21 Confirmation is 115.8 percent. Table 6 presents the current and proposed fees
22 and proposed percentage changes for Delivery Confirmation.

1

2

Table 6 – Delivery Confirmation Fees

<u>Description</u>	<u>Current Fee</u>	<u>Proposed Fee</u>	<u>Percentage Change From Current to Proposed Fee</u>
First-Class Letters and Sealed Parcels:			
Electronic	\$0.14	\$0.18	28.6%
Manual	\$0.60	\$0.75	25.0%
Priority Mail Manual	\$0.50	\$0.65	30.0%
Standard Mail			
Electronic	\$0.14	\$0.18	28.6%
Package Services:			
Electronic	\$0.14	\$0.18	28.6%
Manual	\$0.60	\$0.75	25.0%

3

4

2. Description

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Delivery Confirmation provides customers with the date and time of delivery or attempted delivery and is only available at the time of mailing. The delivery data are available via the Internet for both electronic and manual users, and via a toll-free telephone number for retail users only. Delivery Confirmation is available for First-Class Mail parcels, Priority Mail, and Package Services, either manually or electronically, and Standard Mail (subject to the residual shape surcharge) electronically.

12

13

14

Retail Delivery Confirmation provides a mailing receipt, and delivery information is kept on file. With electronic Delivery Confirmation, a mailing receipt is not provided, but delivery information is kept on file. Delivery

1 Confirmation may be used in conjunction with certificates of mailing, Collect-on-
2 Delivery, insurance, registered mail, return receipts¹⁴, return receipts for
3 merchandise, restricted delivery¹⁵, and special handling.

4 3. Volume and Revenue Trends

5 Since the service was established in mid-1999, Delivery Confirmation
6 volume has increased tremendously, from 123 million transactions in 2000, the
7 first full year of volume data, to 709 million transactions in 2005. This service is
8 still continuing to gain in popularity. The associated transaction revenue for
9 Delivery Confirmation has grown substantially, from \$17 million in 2000 to \$78
10 million in 2005. The volume and revenue history for Delivery Confirmation is
11 presented in Library Reference L-75.

12 4. Fee History

13 Delivery Confirmation began in 1999 with a retail fee for Priority Mail of
14 \$0.35. This fee was increased to \$0.40 in 2001, to \$0.45 in 2002, and to the
15 current fee of \$0.50 in 2006. The retail fee for Package Services began in 1999
16 at \$0.60, decreased to \$0.50 in 2001, increased to \$0.55 in 2002 and increased
17 to the current fee of \$0.60 in 2006. The electronic fee for Package Services
18 began in 1999 at \$0.25. This fee was reduced to \$0.12 in 2001, increased to
19 \$0.13 in 2002 and increased to the current fee of \$0.14 in 2006. The electronic
20 fee for Standard Mail began in 2001 at \$0.12 and increased to \$0.13 in 2002 and
21 to the current fee of \$0.14 in 2006. The electronic fee for First-Class Mail parcels

¹⁴ The return receipt must be purchased with either numbered insurance, Collect-on-Delivery or registered mail.

¹⁵ The restricted delivery must be purchased with either numbered insurance, Collect-on-Delivery or registered mail.

1 began in 2002 at \$0.13 and increased to the current fee of \$0.14 in 2006. The
2 retail fee for First-Class Mail parcels also began in 2002 at \$0.55 and increased
3 to the current fee of \$0.60 in 2006. The fee history for Delivery Confirmation is
4 presented in Library Reference L-76.

5 5. Fee Design

6 All proposed Delivery Confirmation fees were designed to barely cover
7 the costs with small markups over the implicit costs. As the current offerings are
8 all below cost, the proposed fees were mitigated to the greatest extent possible,
9 considering the burden of a substantial fee increase on the users of this service.
10 The retail fee for First-Class Mail parcels and Package Services was designed by
11 marking up the \$0.70¹⁶ per-piece cost by 25 percent and applying a nickel
12 rounding constraint. The electronic fee for First-Class parcels, Standard Mail,
13 and Package Services was developed by marking up the \$0.15¹⁷ per-piece cost
14 by 29 percent and applying a penny rounding constraint. The retail fee for
15 Priority Mail was developed by marking up the 55-cent¹⁸ per-piece cost by 30
16 percent and applying a nickel rounding constraint.

17 6. Pricing Criteria

18 Since its implementation, Delivery Confirmation has proven to be a
19 popular special service with a high value of service (Criterion 2). For a relatively
20 low fee, delivery information may be accessed conveniently, either via the
21 Internet (for electronic and retail options, alike) or via a toll-free telephone
22 number (retail option only). The proposed fees for Delivery Confirmation cover

¹⁶ Cost from USPS-T-23, page 8, including contingency.

¹⁷ Cost from USPS-T-23, page 8, including contingency.

1 the costs of the service and contribute modestly to covering other costs (Criterion
2 3). Higher cost coverages are appropriate, but proposed increases were
3 mitigated to reduce any detrimental impact on customers (Criterion 4).

4 Postal Service alternatives to Delivery Confirmation are costly (Criterion
5 5). Such offerings include certified mail, return receipts for merchandise, and
6 Signature Confirmation. These offerings provide feature enhancements over that
7 of Delivery Confirmation, particularly with respect to a signature which is more
8 valuable than the delivery data alone, so in truth they are high-priced alternatives
9 for receiving delivery data only. Postal Service competitors offer alternatives to
10 Delivery Confirmation, many of which are built into the base price of their
11 package service offerings, so it is not always easy to compare these services
12 with Delivery Confirmation on a fee-to-fee basis.

13 The proposed Delivery Confirmation fee schedule is simple, and there
14 are identifiable relationships between all but one of the proposed fee categories
15 (Criterion 7). Specifically, all electronic fee categories have the same proposed
16 fee and the proposed First-Class Mail parcels and Package Service parcel retail
17 categories both have the same proposed fee. Based on the above criteria, the
18 proposed fees and cost coverages are fair and promote an equitable schedule
19 (Criterion 1).

¹⁸ Cost from USPS-T-23, page 8, including contingency.

1 **G. Merchandise Return Service**

2 1. Proposal

3 The proposed per-piece fee of \$0.00 for merchandise return service is
 4 proposed to remain at \$0.00. The account maintenance fee for merchandise
 5 return service is proposed to increase from \$500 to \$550, a 10 percent increase.
 6 The resulting implicit cost coverage is 172.6 percent. The annual permit fee for
 7 merchandise return service is proposed to increase from \$160 to \$175, a 9.4
 8 percent increase. The resulting implicit cost coverage is 135.8 percent. The total
 9 proposed cost coverage for these two services is 159.6 percent. Table 7
 10 presents the merchandise return service current fees, proposed fees and
 11 proposed percentage changes.

12 The Postal Service is also proposing a classification change to alter the
 13 DMCS language in Sections 932.11, 932.21, and 932.22 for merchandise return
 14 service. The proposed language changes, outlined in the Classification Criteria
 15 section, are intended to more accurately define the service provided.

16
 17 **Table 7 – Merchandise Return Service Fees**

<u>Description</u>	<u>Current Fee</u>	<u>Proposed Fee</u>	<u>Percentage Change From Current to Proposed Fee</u>
Per-piece Fee	\$0.00	\$0.00	N/A
Annual Permit Fee	\$160.00	\$175.00	9.4%
Account Maintenance Fee	\$500.00	\$550.00	10.0%

1

2 2. Description

3 Merchandise return service permits a merchandise return permit holder
4 to pay the postage and any special service fees on parcels sent to the permit
5 holder by the permit holder's customer. The applicable postage is paid by the
6 permit holder prior to delivery from an advance deposit account. Both an annual
7 permit and an advanced deposit account are required to use this service.

8 Merchandise return service is available for parcels mailed at the First-Class Mail
9 single-piece, Priority Mail, and Package Services rates. Registered mail,
10 insurance, Delivery Confirmation, return receipts for merchandise, certificates of
11 mailing and special handling are allowed to be used in conjunction with
12 merchandise return.

13 3. Volume and Revenue Trends

14 Since its introduction in 1980, merchandise return piece volume
15 remained steady for the most part, with two substantial volume increases over
16 the past two years. The permit volume has remained fairly constant over the
17 past 10 years, as has the revenue. The number of accounts, with a fee
18 introduced in 2002, has remained fairly constant, as well. However, the account
19 maintenance fee revenue has increased over the past few years due to higher
20 fee increases than the permit fee. A detailed volume history for merchandise
21 return is presented in Library Reference L-75.

1 4. Fee History

2 Merchandise return service began in 1980 with a per-piece fee of \$0.20.
3 The fee increased to \$0.30 in 1985, decreased to \$0.20 in 1988, increased to
4 \$0.25 in 1991, increased to \$0.30 in 1995, and decreased to the current fee of
5 \$0.00 in 2001. The annual permit fee was \$30 at the onset of the service and
6 was increased to \$40 in 1981, increased to \$50 in 1985, increased to \$60 in
7 1988, increased to \$75 in 1991, increased to \$85 in 1995, increased to \$100 in
8 1999, increased to \$125 in 2001, increased to \$150 in 2002, and increased to the
9 current fee of \$160 in 2006. The account maintenance fee for merchandise
10 return service was implemented in 2001 at \$375. This fee was increased to \$475
11 in 2002, and increased to the current fee of \$500 in 2006. The fee history for
12 merchandise return service is presented in Library Reference L-76.

13 5. Fee Design

14 The fee design for the annual permit fee and annual account
15 maintenance fee are discussed in their respective sections in this testimony.
16 This section discusses the fee design for per-piece merchandise return only. As
17 the cost for per-piece merchandise return is covered by postage, it still remains
18 appropriate to have a \$0.00 fee.

19 6. Pricing Criteria

20 The pricing criteria discussions for the annual permit fee and annual
21 account maintenance fee are presented in their respective sections in this
22 testimony. The justification for the \$0.00 fee presented in Docket No. R2000-1,
23 USPS-T-39, Section L is still appropriate.

1

2 7. Classification Criteria

3 The Postal Service is proposing several changes to the DMCS language
4 for merchandise return service to clarify the extent of the service provided. This
5 clarification focuses on referring to sending of parcels, rather than returning
6 them, and calling users of the service “mailers” rather than customers of the
7 merchandise return service permit holder. The following language changes are
8 requested:

9 Change Section 932.11 from:

10 Merchandise Return service enables a Merchandise Return service
11 permit holder to authorize its customers to return a parcel with the
12 postage paid by the permit holder

13

14 To:

15 Merchandise Return service enables a Merchandise Return service
16 permit holder to authorize a mailer to send parcels with the postage and
17 fees paid by the permit holder.

18

19 Change Section 932.21 from:

20 Merchandise Return service is available to all Merchandise Return
21 service permit holders who guarantee payment of postage and fees for
22 all returned parcels

23

24 To:

25 Merchandise Return service is available to all Merchandise Return
26 service permit holders who guarantee payment of postage and fees for
27 all authorized parcels.

28

1 Change Section 932.22 from:

2 Merchandise Return service is available for the return of any parcel
3 under the following classification schedules

4

5 To:

6 Merchandise Return service is available for the sending of any parcel
7 under the following classification schedules

8

9 The proposed language changes would track the actual practice of the
10 merchandise return service, as this service is not limited to the return of parcels.
11 Merchandise return service includes sending parcels with postage and fees paid
12 by the permit holder. Additionally, the mailer sending the parcel may not always
13 be a “customer” of the permit holder, so changing this term to “mailer” would
14 more accurately define the service. Based on the reasons mentioned, the
15 proposed changes would continue to maintain a fair classification system
16 (Criterion 1).

1 **H. Meter Service**

2 1. Proposal

3 The Postal Service is proposing to remove Domestic Mail Classification
4 Section 933 pertaining to the fees and classifications regarding meter service.
5 This service was discontinued on February 28, 2005.

6 2. Description

7 Meter service was a special service whereby various services were
8 provided remotely to postage meters. These services included resetting,
9 examination, and checking a meter in or out of service.

10 3. Classification Criteria

11 The Postal Service is proposing a classification change to remove the
12 fees (Fee Schedule 933) and classifications (DMCS 933) for meter service. As
13 this service was discontinued on February 28, 2005, there is no longer a need to
14 have this classification listed in the DMCS (Criterion 1). Because the service is
15 no longer offered, it is not possible to provide this classification (Criteria 2, 3
16 and 4). Based on the aforementioned, removal of the fees and classification
17 from the DMCS is necessary (Criterion 5).

1 I. Money Orders

2 1. Proposal

3 The Postal Service is proposing increases for the entire money order fee
 4 schedule. Specifically, the current fee of \$0.25 for APO-FPO money orders is
 5 proposed to increase by 20 percent to \$0.30. The current fee of \$0.95 for
 6 domestic money orders up to \$500 is proposed to increase by 15.8 percent to
 7 \$1.10. The current fee of \$1.30 for domestic money orders over \$500 up to
 8 \$1,000 is proposed to increase by 15.4 percent to \$1.50. The current fee of
 9 \$3.15 for the inquiry fee is proposed to increase by 58.8 percent to \$5.00,
 10 resulting in an implicit proposed cost coverage of 100.6 percent. The proposed
 11 cost coverage for all money orders, calculated to include the non-fee revenue
 12 generated from outstanding money orders taken into revenue and the income
 13 from float, against volume variable costs, is 159.8 percent. When compared to
 14 incremental costs, the proposed cost coverage drops to 107 percent. Table 8
 15 presents the current money order fees, the proposed fees and the proposed
 16 percentage changes.

17 **Table 8 – Money Order Fees**

18

<u>Description</u>	<u>Current Fee</u>	<u>Proposed Fee</u>	<u>Percentage Change From Current to Proposed Fee</u>
APO-FPO up to \$1,000	\$0.25	\$0.30	20.0%
Domestic up to \$500	\$0.95	\$1.10	15.8%
Domestic \$500.01 to \$1,000	\$1.30	\$1.50	15.4%
Inquiry Fee	\$3.15	\$5.00	58.8%

1

2 2. Description

3 Money orders were first introduced by the Post Office Department during
4 the Civil War so soldiers could send the equivalent of money home to their
5 families without having to mail cash. Today money orders are mainly used to
6 purchase goods and services and to pay bills. Consumers with modest incomes
7 who may not have a checking account and/or credit card are likely money order
8 purchasers. As was the case in the Civil War, money orders are also used to
9 send money through the mail without having to send cash. Finally, as discussed
10 below, money orders are a popular means of payment for many Internet
11 transactions.

12 Money orders may be purchased at post offices or from rural carriers.
13 Postal money orders are popular in rural areas where other money orders are
14 generally not readily available. A money order customer pays the face value of
15 the money order in cash, traveler's check (must be at least 50 percent of the
16 traveler's check) or with an ATM/debit card, plus a fee for the administration and
17 processing of the money order. Postal money orders may be cashed at any post
18 office for the face value, and subject to funds availability, may be cashed by a
19 rural carrier. Banks will also cash postal money orders, but generally for their
20 own customers. There is no expiration date for cashing postal money orders.
21 Postal money orders may be endorsed to a party other than the payee.

22 Postal money orders were required for payment of postal collect-on-
23 delivery items until 1987. In 1988, a \$10,000 daily limitation on money order

1 purchases per customer went into effect, as a method of preventing money
2 laundering from sales of illegal drugs.

3 For an additional fee, money order customers may purchase inquiry
4 service. Inquiry service verifies whether or not the customer's postal money
5 order was cashed.

6 3. Volume and Revenue Trends

7 The 2005 money order volume is identical to the volume at the time of
8 Postal Reorganization. Since Postal Reorganization, money order volume
9 gradually declined until the early 1980s and then gradually increased to exceed
10 the 1970 volume every year since 1993 until 2005. Total money order revenue¹⁹
11 has grown fairly steadily since Postal Reorganization until a bit of a drop over the
12 past few years. A detailed volume and revenue history for money orders²⁰ is
13 presented in Library Reference L-75.

14 4. Fee History

15 The fees for money orders have changed thirteen times since Postal
16 Reorganization. In 1976, the fees were increased twice resulting in a 100
17 percent increase for the fees for money orders valued up to \$50, and a 125
18 percent increase for the fee for money orders valued over \$50 up to \$300. In
19 1978, the fee for money orders valued from \$.01 up to \$10 was increased 10
20 percent; \$10 up to \$50, 14 percent; \$50 up to \$400 (limit increased by \$100), 22
21 percent; and APO-FPO, 33 percent. In 1981, the maximum value for the

¹⁹ Total money order revenue includes the fee revenue plus the float from money orders until they are redeemed, revenue from money orders not redeemed, and the commission on international money orders.

²⁰ Since 2001, volumes and revenues from international money orders are not included.

1 minimum value level increased to \$25 and the maximum limit increased to \$500.
2 Subsequently, the fee for money orders valued up to \$10 increased 36 percent;
3 decreased 6 percent for \$10.01 up to \$25; increased 38 percent for \$25.01 up to
4 \$50; increased 41 percent for \$50.01 up to \$500; and increased 25 percent for
5 APO-FPO.

6 In 1985, the maximum limit increased to \$700 and the inquiry fee was
7 introduced. The fees for money orders valued from \$25.01 up to \$700 were
8 consolidated into one fee, representing a 9 percent decrease for \$25.01 up to
9 \$50 and a 35 percent decrease for money orders valued from \$50.01 up to \$700.
10 In 1988, the maximum value for the minimum value level increased to \$35 which
11 represented a 25 percent fee decrease for money orders valued from \$25.01 up
12 to \$35. The inquiry fee increased 43 percent in 1988.

13 In 1991, one value level for domestic money orders, from \$.01 to \$700
14 was implemented. This resulted in a 25 percent decrease in the fee for money
15 orders valued from \$35.01 up to \$700. The inquiry fee increased 25 percent in
16 1991. In 1995, the money order fee increased 13 percent, the APO-FPO fee
17 increased 20 percent, and the inquiry fee increased 10 percent. In 1999, the
18 money order fee decreased six percent. In 2001, the money order fee changed
19 twice – first decreasing by 6 percent and then increasing by 20 percent. In 2001
20 the APO-FPO fee decreased by 17 percent. In 2002, the domestic fee was split
21 into two classifications: up to \$500 and over \$500 up to \$1,000. A new fee was
22 established for the over \$500 money order with the maximum value increased
23 from \$700 to \$1,000. The maximum value for APO-FPO was also increased

1 from \$700 to \$1,000. In 2002, the inquiry fee increased nine percent. In 2006,
2 the fee for a money order up to \$500 increased six percent, the fee for a money
3 order over \$500 up to \$1,000 increased four percent and the inquiry fee
4 increased five percent. A detailed fee history for money orders is presented in
5 Library Reference L-76.

6 5. Fee Design

7 The proposed money order fees were designed to barely cover costs,
8 incremental for the transactions and implicit for the inquiry fee. The percentage
9 increases for the transactions categories – APO-FPO, domestic up to \$500, and
10 domestic \$500 to \$1,000 - were designed to be within the same range and all
11 fees were set subject to a nickel rounding constraint. The inquiry fee per-piece
12 cost of \$4.97²¹ was marked up by less than one percent and rounded to the
13 nearest five cents.

14 6. Pricing Criteria

15 Postal money orders offer a high value of service to their customers,
16 both purchasers and recipients (Criterion 2). For purchasers, money orders can
17 be used to pay for goods or services when there may not be any other method
18 available or acceptable for payment. For recipients, postal money orders are
19 widely accepted for cashing, so this particular type of money order is of
20 significant value.

21 The proposed fees for money order transactions and the inquiry fee
22 cover their incremental costs, but do not make a meaningful contribution to other
23 costs (Criterion 3). Although money orders provide a high value and higher

1 proposed fees could undoubtedly be justified, consideration was given to the fact
2 that even higher fee increases could have an adverse impact on customers
3 (Criterion 4).

4 There are many widely-available alternatives to postal money orders,
5 such as competitors' money orders, personal checks, cashier's checks,
6 electronic payments and cash (Criterion 5). The availability of these alternatives,
7 from a competitive standpoint, also suggests minimal fee increases to just cover
8 costs. Finally, although money orders are purchased by people from all income
9 groups, money orders are still widely believed to be a public service offered by
10 the Postal Service for use by the under-banked and/or low income individuals.
11 Fee increases that just cover costs are in keeping with this belief. Based on the
12 aforementioned criteria, the proposed fees for money orders are fair and
13 equitable (Criterion 1).

²¹ Cost from USPS-T-23, page 11, including contingency.

1 2. Description

2 There are four types of Periodicals applications. First, all Periodicals
3 mailers are required to file a Periodicals application and pay a one-time original
4 entry fee. For those Periodicals mailers desiring to mail from offices other than
5 where the original entry was obtained, an additional entry fee may be paid to
6 receive an additional entry. Third, mailers can obtain a re-entry when the status
7 of the authorized publication changes due to a change in name, frequency of
8 issues, preferential rate status, or office of publication. All re-entry applications
9 are received and processed at the original entry office. Finally, the news
10 registration application is filed by authorized news agents who handle two or
11 more Periodicals by different publishers.

12 3. Revenue Trends

13 Periodicals mailing application revenue has remained fairly steady over
14 the past 25 years. A detailed revenue history for Periodicals applications is
15 presented in Library Reference L-75.

16 4. Fee History

17 Periodicals application fees have changed 10 times since Postal
18 Reorganization, in 1978, 1981, 1985, 1988, 1991, 1995, 1999, 2001, 2002 and
19 2006. Initially, original entry fees were based on the publication circulation. In
20 1978, fee increases resulted in a uniform original entry fee regardless of
21 circulation size. Also in 1978, the fee increases for the re-entry fee and the news
22 agents registry fee resulted in these two classifications having a uniform fee.
23 Finally in 1978, fee increases resulted in a uniform fee for additional entries

1 regardless of zone. In 1999, the additional entry fee became uniform with the
2 re-entry and new agents registry fee. In 2001, the news agent fee and re-entry
3 fee became the same fee, but separate from the additional entry fee. In 2006,
4 the news agent fee became different from the re-entry fee. A detailed fee history
5 for Periodicals applications is presented in Library Reference L-76.

6 5. Fee Design

7 The proposed fees for Periodicals applications were generally set to
8 cover the costs. The proposed fee for an original entry application was designed
9 by marking up the \$472.71 per-piece cost²² by six percent and rounding to the
10 nearest ten dollars. The proposed fee for a re-entry was designed by marking up
11 the \$52.14 per-piece cost²³ by five percent and rounding to the nearest five
12 dollars. The proposed fee for an additional entry was designed by marking up
13 the \$69.89 per-piece cost²⁴ by seven percent and rounding to the nearest five
14 dollars. The proposed fee for a news agent application was designed by marking
15 up the \$33.17 per-piece cost²⁵ by 36 percent and applying a five-dollar rounding
16 constraint.

17 6. Pricing Criteria

18 Periodicals mailing applications provide value in that the end result of an
19 application is the ability for publication companies to pay low Periodicals rates
20 (Criterion 2). Although there is relatively high value, the proposed cost
21 coverages do not reflect this, as, for all but one, the proposed fees just cover the

²² Cost from USPS-T-23, Table 6, including contingency.

²³ Cost from USPS-T-23, Table 6, including contingency.

²⁴ Cost from USPS-T-23, Table 6, including contingency.

²⁵ Cost from USPS-T-23, Table 6, including contingency.

1 cost of the service and make a negligible contribution to other costs (Criterion 3).
2 The effect of the fee increases on the Periodicals applications customers was
3 carefully considered, along with consideration of the Periodicals rate increases
4 these mailers would be experiencing (Criterion 4). Therefore, the fee increases
5 were mitigated to just cover costs for three fee categories and the remaining
6 category (news agent application) was given an increase similar to that of the
7 overall special services average increase. The proposed fees are simple
8 (Criterion 7) and based on the previous criteria discussed, are fair and equitable
9 (Criterion 1).

1 **K. Permit Fees**

2 1. Proposal

3 The Postal Service is proposing to increase the permit imprint fee and
 4 annual permit fee. The current fee for both of these services is proposed to
 5 increase by 9.4 percent from \$160 to \$175. The proposed implicit cost coverage
 6 is 135.8 percent. Table 10 presents the current fees, the proposed fees and the
 7 proposed percentage changes for the permit imprint fee and the annual mailing
 8 permit fee.

9 **Table 10 – Permit Fees**

<u>Description</u>	<u>Current Fee</u>	<u>Proposed Fee</u>	<u>Percentage Change From Current to Proposed Fee</u>
Permit Imprint	\$160.00	\$175.00	9.4%
Annual Mailing Permit	\$160.00	\$175.00	9.4%

10 11 2. Description

12 Permits allow mailers to mail pieces with indicia and a permit number in
 13 the upper right-hand corner of the mailpiece, instead of having to affix stamps or
 14 metered postage. The deposit time and place for permit mail is determined by
 15 the post office issuing the permit as a means of verifying that the correct postage
 16 is collected for the mailings. The fee for the permit is collected on an annual
 17 basis. Annual permits are available for First-Class Mail, Standard Mail and
 18 Package Services. In addition to a class/subclass-specific permit, a permit
 19 imprint fee is paid for mailings requiring permit indicia.

1 3. Volume and Revenue Trends

2 Since Postal Reorganization, the volume of permit imprint permits
3 gradually increased until the late 1980s and has gradually declined since that
4 time back to the volumes typical around the early 1970s. 2005 saw the lowest
5 volume ever for permit imprints. The revenue for permit imprints increased fairly
6 steadily until the mid-1990s, when it started a slow decline. A detailed volume
7 and revenue history for permit imprint permits is presented in Library Reference
8 L-75.

9 4. Fee History

10 The fee for the permit imprint and annual mailing permits at the time of
11 Postal Reorganization was \$20. This fee increased to \$30 in 1978, increased to
12 \$40 in 1981, increased to \$50 in 1985, increased to \$60 in 1988, increased to
13 \$75 in 1991, increased to \$85 in 1995, increased to \$100 in 1999, increased to
14 \$125 in 2001, increased to \$150 in 2002, and increased to the current fee of
15 \$160 in 2006. The fee history for permit imprints (and the annual mailing permit)
16 is presented in Library Reference L-76.

17 5. Fee Design

18 The proposed annual permit fee was designed with the objectives of
19 producing a modest cost coverage and keeping the fee increase close to the
20 overall special services average increase presented in this proceeding. The
21 permit imprint fee cost of \$128.85²⁶ was marked up by 36 percent, resulting in a
22 136 percent proposed cost coverage. A five-dollar rounding constraint was
23 applied.

1

2 6. Pricing Criteria

3 An annual permit or the permit imprint allows mailers to get lower rates
4 and thus provides a relatively high value of service (Criterion 2). The proposed
5 fee covers the cost of the service and makes a modest contribution to other costs
6 (Criterion 3) by way of a proposed 136 percent cost coverage.

7 The effect of the fee increase on permit users was considered, along
8 with consideration of other increases for permit users, such as mail class postage
9 increases, and the fee increase was mitigated as opposed to seeking a higher
10 cost coverage (Criterion 4). The proposed fee is simple and maintains an
11 identifiable fee relationship for all annual mailing permits and permit imprints
12 (Criterion 7). Based on the aforementioned criteria, the proposed annual mailing
13 permit/permit imprint fee is fair and equitable (Criterion 1).

²⁶ Cost from USPS-T-22, including contingency.

1 restricted delivery include return receipts, Delivery Confirmation, parcel airlift,
2 Signature Confirmation, and special handling.

3 Restricted delivery can be requested at the time of mailing or after the
4 mailing. If requested after the mailing, the sender is required to pay, in addition
5 to the restricted delivery fee, any additional costs incurred in communicating to
6 the delivery office about the restricted delivery request.

7 3. Volume and Revenue Trends

8 Since Postal Reorganization, restricted delivery volumes have fluctuated
9 frequently. During the 1970s, restricted delivery volume ranged from 1.5 to 2.6
10 million pieces. During the 1980s, volume ranged from 2.5 to 3.8 million pieces.
11 During the 1990s, volume ranged from 3 to 4 million pieces. Since 2000,
12 restricted delivery volume has decreased from 3 million to 2 million pieces and
13 appears to be on a slow and steady decline.

14 As with the volume, restricted delivery revenue has fluctuated since
15 Postal Reorganization. During the 1970s, restricted delivery revenue ranged
16 from \$762 thousand to \$1.9 million. During the 1980s, revenue ranged from \$2.2
17 million to \$7.3 million. During the 1990s, revenue ranged from \$6.8 million to
18 \$11.2 million. Over the past five years, revenue has ranged from \$7 to \$8
19 million. A detailed volume and revenue history for restricted delivery is presented
20 in Library Reference L-75.

21 4. Fee History

22 The fee for restricted delivery at the time of Postal Reorganization was
23 \$0.60. This fee was increased to \$0.80 in 1978, to \$1.00 in 1981, to \$1.25 in

1 1985, to \$2.00 in 1988, to \$2.50 in 1991, to \$2.75 in 1995, to \$3.20 in 2001, to
2 \$3.50 in 2002, and to the current fee of \$3.70 in 2006. The fee history for
3 restricted delivery is presented in Library Reference L-76

4 5. Fee Design

5 The proposed restricted delivery fee was designed to maximize the cost
6 coverage as much as possible, while keeping the proposed percentage increase
7 close to the overall special services average percentage increase proposed in
8 this proceeding. The restricted delivery cost of \$2.51²⁷ was marked up by 63
9 percent, resulting in a proposed 163 percent cost coverage. A ten-cent rounding
10 constraint was applied.

11 6. Pricing Criteria

12 Restricted delivery is a high value special service (Criterion 2).
13 Restricted delivery is a substantial enhancement over normal delivery and a
14 decided enhancement over signature-requested mail in general. The value of
15 requiring the signature of the addressee or their agent implies a high degree of
16 importance in the mailpiece.

17 The proposed restricted delivery fee covers the cost of the service and
18 makes a moderate contribution to other costs (Criterion 3). A higher fee could be
19 justified, particularly when considering the cost coverage of other high value
20 special services, and the systemwide average proposed in this proceeding, yet
21 the impact on customers was considered (Criterion 4) and the decision was
22 made to propose an increase close to that of the overall special services average
23 increase. Available alternatives to restricted delivery would be non-Postal

- 1 Service services and could be rather costly (Criterion 5). Based on the
- 2 aforementioned criteria, the proposed fee for restricted delivery is fair and
- 3 equitable (Criterion 1).

²⁷ Cost from USPS-T-23, page 14, including contingency.

1 **M. Return Receipts**

2 1. Proposal

3 The Postal Service is proposing three fee increases and one fee
4 decrease to the existing return receipts fees. The regular return receipt fee is
5 proposed to increase by 16.2 percent, from \$1.85 to \$2.15. The implicit cost
6 coverage for regular return receipts is 145.8 percent. The electronic return
7 receipt fee is proposed to decrease by 37 percent, from \$1.35 to \$0.85. The
8 proposed implicit cost coverage is 194.5 percent. The return receipt for
9 merchandise fee is proposed to increase 11.1 percent, from \$3.15 to \$3.50. The
10 proposed return receipt for merchandise implicit cost coverage is 129.3 percent.
11 The return receipt after mailing fee is proposed to increase by 10.1 percent, from
12 \$3.45 to \$3.80. The return receipt after mailing implicit cost coverage is 161.2
13 percent. The proposed overall cost coverage for return receipts is 148.7 percent.
14 Table 12 presents the current and proposed return receipt fees and proposed
15 percentage changes.

1

Table 12 - Return Receipt Fees

<u>Description</u>	<u>Current Fee</u>	<u>Proposed Fee</u>	<u>Percentage Change from Current to Proposed Fee</u>
Requested at time of mailing:			
Regular	\$1.85	\$2.15	16.2%
Electronic	\$1.35	\$0.85	(37.0%)
Merchandise (no other special service required)	\$3.15	\$3.50	11.1%
Requested after Mailing	\$3.45	\$3.80	10.1%

2

3 2. Description

4 Return receipt service provides evidence (either by postcard or
5 electronically) of delivery. The return receipt customer receives information
6 about who signed for the mailpiece (pen and ink signature on the card or
7 electronic copy of the signature) and the delivery date, as well as the address
8 where the mailpiece was delivered, if it differs from the address on the mailpiece.
9 There are four types of return receipt service: basic, electronic, requested after
10 mailing and return receipt for merchandise.

11 Other than return receipts for merchandise, return receipt service is an
12 ancillary special service requiring a host special service. It is available for
13 Express Mail, First-Class Mail and Priority Mail when purchased at the time of
14 mailing with certified mail, C.O.D., insured mail requiring a signature or registered
15 mail, for Standard Mail subject to the residual shape surcharge when bulk

1 insurance is purchased at the time of mailing, and for Package Services when
2 purchased at the time of mailing with COD or insured mail requiring a signature.
3 Additional services that can be used in conjunction with return receipt service
4 include Delivery Confirmation, parcel airlift, restricted delivery, Signature
5 Confirmation, and special handing.

6 Return receipt for merchandise service is a stand-alone special service
7 that does not require a prerequisite host special service. It is available with
8 Priority Mail, Standard Mail subject to the residual shape surcharge, and
9 Package Services mail. Additional services that can be used in conjunction with
10 return receipt for merchandise service include Delivery Confirmation, insured
11 mail not requiring a signature, parcel airlift, and special handing.

12 A return receipt after mailing provides the mailer with the name of the
13 person who signed for the mailpiece and the date the mailpiece was delivered.
14 This information comes from the delivery record, if available.

15 Return receipts (non-merchandise) are predominantly used with certified
16 mail. In 2005, 99 percent of all return receipts were attached to certified mail. In
17 2005, the composition of return receipts was as follows: electronic – 0.1 percent;
18 basic – 87 percent; merchandise – 0.3 percent; and after mailing – 13 percent.

19 3. Volume and Revenue Trends

20 For the most part, return receipt volumes rose fairly steadily since Postal
21 Reorganization until the mid-1990s. Since then, volume has remained fairly
22 constant. Return receipt revenue has increased steadily, with few exceptions,

1 since Postal Reorganization. A detailed volume and revenue history for return
2 receipts is presented in Library Reference L-75.

3 4. Fee History

4 The fees for return receipts have increased 12 times since Postal
5 Reorganization: in 1976 (twice), 1978, 1981, 1985, 1988, 1991, 1995, 1999,
6 2001, 2002 and 2006. In 1997, the return receipt showing to whom and when
7 delivered was merged with the return receipt showing to whom, when, and
8 address where delivered, for the same fee as the return receipt showing to whom
9 and when delivered. In 2002, an electronic return receipt was introduced. A
10 detailed fee history for return receipts is presented in Library Reference L-76.

11 5. Fee Design

12 The proposed fees were designed to arrive at an overall percentage
13 increase close to that of the overall special services increase. The proposed
14 electronic return receipt fee was developed by marking up the \$0.44²⁸ per-piece
15 cost by 94 percent and applying a five-cent rounding constraint. The proposed
16 basic return receipt fee was developed by marking up the per-piece cost of
17 \$1.47²⁹ by 46 percent and applying a five-cent rounding constraint. The
18 proposed fee for a return receipt for merchandise was developed by marking up
19 the per-piece cost of \$2.71³⁰ by 29 percent and applying a nickel rounding
20 constraint. The proposed fee for a return receipt after mailing was developed by

²⁸ Cost from USPS-T-23, page 15, including contingency.

²⁹ Cost from USPS-T-23, page 15, including contingency.

³⁰ Cost from USPS-T-23, page 15, including contingency.

1 marking up the per-piece cost of \$2.36³¹ by 61 percent and applying a five-cent
2 rounding constraint.

3 6. Pricing Criteria

4 Overall, return receipt service provides a relatively high value of service
5 (Criterion 2). Basic return receipt service provides an important function in
6 providing the mailer with delivery information plus the original pen and ink
7 signature, which may be a legal requirement for proof of delivery in some
8 instances. For those mailers requiring an electronic copy of the signature, along
9 with the other delivery information provided, an electronic return receipt is a lower
10 cost way of getting the high value of service. The fee for an electronic return
11 receipt is proposed to decrease by 37 percent, primarily reflecting the significant
12 decrease in the per-piece cost. This proposal should encourage more use of this
13 option. A return receipt after mailing is also valuable in obtaining a copy of the
14 signature after the mailing has been completed. A return receipt for merchandise
15 provides a high value to package mailers who benefit from obtaining the original
16 pen and ink signature without having to pay for a host special service.

17 The proposed total cost coverage of 149 percent covers the cost of the
18 service and makes a contribution to other costs (Criterion 3). There is one
19 proposed fee decrease, and the other three proposed fee increases are in line
20 with the overall special services average increase, so the effect of the individual
21 fee increases on the users of the service (Criterion 4) should be reasonable.
22 Also considered in the fee design was that non-Postal Service alternatives to

³¹ Cost from USPS-T-23, page 15, including contingency.

1 basic return receipt service (composing 87 percent of the service) whereby an
2 original pen and ink signature is provided would be more costly (Criterion 5).

3 The proposed fee structure is simple by itself and simple when taking
4 into consideration the proposed combined fees for certified mail and return
5 receipt service, both electronic and basic (Criterion 7). The proposed combined
6 prices are as follows: certified mail with an electronic return receipt - \$3.50; and,
7 certified mail with a basic return receipt - \$4.80. Based on the criteria discussed
8 above, the proposed fees for return receipt service are fair and equitable
9 (Criterion 1).

1 **N. Signature Confirmation**

2 1. Proposal

3 The Postal Service is proposing to increase all Signature Confirmation
4 fees. The current electronic fee for First-Class Mail parcels, Priority Mail and
5 Package Services is proposed to increase by 29.6 percent from \$1.35 to \$1.75.
6 For First-Class Mail parcels, the proposed implicit cost coverage is 121.3
7 percent. The proposed implicit cost coverage for both Priority Mail and Package
8 Services is 144.1 percent.

9 The current retail fee for Signature Confirmation for First-Class Mail
10 parcels, Priority Mail and Package Services is proposed to increase by 10.5
11 percent from \$1.90 to \$2.10. For First-Class Mail parcels, the proposed implicit
12 cost coverage is 124.3 percent. The proposed implicit cost coverage for both
13 Priority Mail and Package Services retail is 143.7 percent. The overall proposed
14 cost coverage for Signature Confirmation is 139.3 percent. Table 13 presents
15 the current and proposed Signature Confirmation fees and the percentage
16 changes.

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Table 13 – Signature Confirmation Fees

<u>Description</u>	<u>Current Fee</u>	<u>Proposed Fee</u>	<u>Percentage Change from Current to Proposed Fee</u>
First-Class Letters and Sealed Parcels:			
Electronic	\$1.35	\$1.75	29.6%
Retail	\$1.90	\$2.10	10.5%
Priority Mail:			
Electronic	\$1.35	\$1.75	29.6%
Retail	\$1.90	\$2.10	10.5%
Package Services:			
Electronic	\$1.35	\$1.75	29.6%
Retail	\$1.90	\$2.10	10.5%

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2. Description

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Signature Confirmation provides electronic Delivery Confirmation data (date and time of delivery or attempted delivery) and, if desired, access to the recipient's signature image by fax or mail. It is available only at the time of mailing, and no acceptance record is kept at the office of mailing. Like Delivery Confirmation, the two service options for Signature Confirmation are retail and electronic. With the retail option, a mailing receipt is provided and the delivery information is accessed via the Internet at www.usps.com or by calling 1-800-222-1811 toll-free. With the electronic option, no mailing receipt is provided and

1 mailers must establish an electronic link with the Postal Service to exchange
2 acceptance and delivery data.

3 Signature Confirmation is available for use with First-Class Mail parcels,
4 Priority Mail, and Package Services, either using electronic or retail options. The
5 special services which may be used in conjunction with Signature Confirmation
6 are certificates of mailing, Collect-on-Delivery, insurance, registered mail,
7 restricted delivery (if purchased with signature insurance, C.O.D. or registered
8 mail), and special handling.

9 3. Volume and Revenue Trends

10 Since the first full year that volume data were collected for Signature
11 Confirmation (2002), the volume has remained fairly constant. Over the past four
12 years, the total number of transactions has ranged from 8.9 million pieces to 11.2
13 million pieces. Although this is still a fairly new service, it appears that the
14 volume has reached its plateau level. The revenue for Signature Confirmation
15 has also remained fairly steady over the last four years as well, given small fee
16 increases and constant volume. The revenue and volume history for Signature
17 Confirmation is presented in Library Reference L-75.

18 4. Fee History

19 Signature Confirmation began in 2001 with a fee for Priority Mail retail of
20 \$1.75. This fee was increased to \$1.80 in 2002, and to the current fee of \$1.90
21 in 2006. The fee for Priority Mail electronic began in 1999 at \$1.25. This fee was
22 increased to \$1.30 in 2002, and to the current fee of \$1.35 in 2006. Package
23 Services retail began in 2001 at \$1.75, increased to \$1.80 in 2002, and increased

1 to the current fee of \$1.90 in 2006. The electronic fee for Package Services
2 began in 2001 at \$1.25. This fee was increased to \$1.30 in 2002 and to the
3 current fee of \$1.35 in 2006.

4 The electronic fee for First-Class Mail parcels began in 2002 at \$1.30,
5 and increased to the current fee of \$1.35 in 2006. The retail fee for First-Class
6 Mail parcels also began in 2002 at \$1.80, and increased to the current fee of
7 \$1.90 in 2006. The fee history for Signature Confirmation is presented in Library
8 Reference L-76.

9 5. Fee Design

10 The proposed fees for Signature Confirmation were designed with a goal
11 of producing cost coverages within a modest range (130 to 140 percent). The
12 proposed First-Class Mail electronic option fee was developed by marking up the
13 per-piece cost of \$1.44³² by 21 percent and applying a five-cent rounding
14 constraint. The proposed First-Class Mail retail option fee was developed by
15 marking up the per-piece cost of \$1.69³³ by 24 percent and applying a five-cent
16 rounding constraint. The proposed fees for Priority Mail and Package Services
17 electronic option were developed by marking up the per-piece cost of \$1.21³⁴ by
18 30 percent and applying a five-cent rounding constraint. The proposed fees for
19 Priority Mail and Package Services retail option were developed by marking up
20 the per-piece cost of \$1.46³⁵ by 44 percent and applying a five-cent rounding
21 constraint.

³² Cost from USPS-T-23, page 18, including contingency.

³³ Cost from USPS-T-23, page 18, including contingency.

³⁴ Cost from USPS-T-23, page 18, including contingency.

³⁵ Cost from USPS-T-23, page 18, including contingency.

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2 6. Pricing Criteria

3 Signature Confirmation is a high value special service (Criterion 2). For
4 a relatively low price compared to other signature products offered by both the
5 Postal Service and its competitors (Criterion 5), Signature Confirmation provides
6 a signature image on demand, and can be very useful for those mailers who can
7 substitute it for higher-priced signature services. Some of these alternatives
8 provide the original pen and ink signature, but if that is not necessary, Signature
9 Confirmation is a viable substitute at a lower price.

10 Overall, Signature Confirmation covers its own costs and makes a
11 modest contribution to other costs, with a 139 percent overall proposed cost
12 coverage and implicit cost coverages ranging from 121 to 144 percent (Criterion
13 3). The high value of this special service could justify a larger cost coverage,
14 both implicitly and overall. However, the effect of larger fee increases than those
15 proposed could present a hardship on the users of this service, so the proposed
16 fee increases were mitigated (Criterion 4).

17 The proposed fees for Signature Confirmation are simple and represent
18 identifiable fee relationships, as there is only one manual fee and one electronic
19 fee. The per-piece costs by mail class are close enough to keep the fees uniform
20 (Criterion 7). Based on the aforementioned criteria, the proposed Signature
21 Confirmation fees are fair and equitable (Criterion 1).

O. Stamped Cards

1. Proposal

The Postal Service is proposing to retain the current stamped card fee at \$0.02. The proposed cost coverage for all stamped cards - single cards, double reply cards and sheets of 40 cards is 135.2 percent. Table 14 below presents the current and proposed fees and percentage changes for stamped cards.

Table 14 - Stamped Card Fees

<u>Description</u>	<u>Current Fee</u>	<u>Proposed Fee</u>	<u>Percentage Change from Current to Proposed Fee</u>
Stamped Card	\$0.02	\$0.02	0%
Double Stamped Card	\$0.04	\$0.04	0%
Sheet of 40 Stamped Cards	\$0.80	\$0.80	0%

2. Description

Stamped cards are postcards sold at postal retail units and vending machines for the price of the First-Class Mail private postcard rate plus the stamped card fee. The postage is pre-affixed to the card, so the mailer does not have to purchase a stamp separately from the postcard.

Stamped cards are used by individuals and businesses alike. Individuals use stamped cards as an alternative to private postcards. After purchase of a stamped card, the card can be filled out and mailed immediately, provided the stamped card was purchased from a postal facility providing

1 collection. Businesses use stamped cards for many activities such as
2 advertisements, service reminders, and billing. When used in bulk, stamped
3 cards serve as an economical means of business mailings, as the labor-intensive
4 procedure of postage affixation is avoided.

5 Stamped cards are sold as single units, double units, and in sheets of 40
6 cards. Double stamped cards, with one card for mailing and another card with
7 postage affixed to be returned to the mailer, are available for twice the price of an
8 individual stamped card. Sheets of 40 postal cards can be purchased for forty
9 times the price of an individual stamped card.

10 3. Volume and Revenue Trends

11 Since the Postal Service began charging a per-piece fee for stamped
12 cards in 1999, volume has been sporadic without any clear trend. In 2000, the
13 reported volume for stamped cards reflected a more conservative Government
14 Printing Office (GPO) estimate, as opposed to the previously used sampling
15 estimate. As a result, the volume dropped 54 percent from 1999 (the first year a
16 fee was charged for stamped cards) to 2000. The volume from 2000 to 2005 has
17 ranged from 97 million to 234 million pieces. Attributed to the volume fluctuations
18 are revenue fluctuations, though not as pronounced since the fee increased 100
19 percent in 2001. The volume and revenue history for stamped cards is
20 presented in Library Reference L-75.

21 4. Fee History

22 The Postal Service began charging per-piece fees for stamped cards in
23 1999. The first fees were \$0.01 for a single card, \$0.02 for a double card and

1 \$0.40 for a sheet of 40 cards. As a result of Docket No. R2000-1, the cards were
2 increased to their current fees of \$0.02 for a single card, \$0.04 for a double card
3 and \$0.80 for a sheet of 40 cards. The fee history for stamped cards is
4 presented in Library Reference L-76.

5 5. Fee Design

6 The two-cent per-piece proposed stamped card fee was designed by
7 marking up the per-unit cost of \$0.012³⁶ by 65 percent and applying a one-cent
8 rounding constraint. A substantial markup is appropriate because the Postal
9 Service pays for all cards produced, even though some are not sold. The
10 resulting overall cost coverage, when comparing total incremental costs to
11 revenue, is modest - just 134 percent. The one-cent rounding constraint is
12 important for a product that is purchased individually by consumers, and,
13 therefore, a fractional-cent fee would not be viable. Although a fractional-cent
14 fee would work for the sheets of 40, it is in the best interest generally of all
15 concerned to keep a uniform fee per unit. A proposed three-cent fee would have
16 produced a 201 percent cost coverage, and is not proposed. A one-cent fee
17 increase on top of the increase proposed in the basic card rate would prove to be
18 too much of an overall increase for stamped card customers.

19 6. Pricing Criteria

20 Stamped cards provide a relatively high value to customers, both
21 individuals and businesses (Criterion 2). Stamped cards provide convenience.
22 The affixation of postage on a card makes it an ideal communications tool for

³⁶ Cost from USPS-T-23, page 19, including contingency.

1 businesses, as the labor-intensive step of putting postage on each card is
2 eliminated.

3 The proposed fee for stamped cards covers the cost of the service and
4 makes a modest contribution to other costs (Criterion 3). As there is no fee
5 increase proposed, there is no adverse impact on the users of stamped cards
6 (Criterion 4). Based on the aforementioned criteria, the proposed fee continues
7 to be fair and equitable (Criterion 1).

1 **P. Stamped Envelopes**

2 1. Proposal

3 The Postal Service is proposing to increase all of the current fees for
4 stamped envelopes. Bulk printed 6 ¾-inch envelopes are proposed to increase
5 from \$18.00 to \$20.00, an 11.1 percent increase. The resulting implicit cost
6 coverage is 200.4 percent using an average cost for this fee category and 147.2
7 percent using the highest individual cost in this fee category. Bulk printed 10-
8 inch envelopes are proposed to increase from \$21.00 to \$23.00, a 9.5 percent
9 increase. The resulting implicit cost coverage is 201.1 percent using an average
10 cost for this fee category and 165.4 percent using the highest individual cost in
11 this fee category. A pack of 50 printed household envelopes is proposed to
12 increase from \$3.75 to \$4.25, a 13.3 percent increase. The resulting implicit cost
13 coverage is 361.8 percent using an average cost for this fee category and 145.1
14 percent using the highest individual cost in this fee category.

15 The bulk fee for plain 6¾-inch envelopes is proposed to increase from
16 \$13.00 to \$14.50, an 11.5 percent increase. The proposed implicit cost coverage
17 is 206.5 percent using an average cost for this fee category and 181.3 percent
18 using the highest individual cost in this fee category. The bulk fee for plain 10-
19 inch envelopes is proposed to increase from \$15.00 to \$16.50, a 10 percent
20 increase. The proposed implicit cost coverage is 185.7 percent using an average
21 cost for this fee category and 169.5 percent using the highest individual cost in
22 this fee category. The fee for a single envelope is proposed to increase from
23 \$0.08 to \$0.09, a 12.5 percent increase. The proposed implicit cost coverage is

1 130.3 percent using an average cost for this fee category. The proposed total
 2 cost coverage for stamped envelopes is 105.7 percent, calculated by comparing
 3 total revenue to volume variable costs, and 105.4 percent when comparing total
 4 revenue to incremental costs. Table 15 presents the current fees, the proposed
 5 fees and the percentage changes for stamped envelopes.

6
 7 **Table 15 - Stamped Envelope Fees***

8

<u>Description</u>	<u>Current Fee</u>	<u>Proposed Fee</u>	<u>Percentage Change from Current to Proposed Fee</u>
Single Sale:			
Basic 6¾ or 10	.08	.09	12.5%
Printed Household:			
Basic (50) 6¾ or 10	3.75	4.25	13.3%
Printed Bulk:			
6¾ Basic (500)	18.00	20.00	11.1%
10 Basic (500)	21.00	23.00	9.5%
Plain Bulk:			
6¾ Basic (500)	13.00	14.50	11.5%
10 Basic (500)	15.00	16.50	10.0%

*Basic envelopes include regular, window, pre-canceled regular, and pre-canceled window.

9

10 2. Description

11 Stamped envelopes are provided as a convenience to customers and
 12 may be purchased individually at windows or ordered in box lots. Box lots of 50
 13 (household) and 500 (bulk) are available. Stamped envelopes come in a variety

1 of pre-affixed postage amounts, including some presort and nonprofit rates, for
2 use by both individual and business customers.

3 Sizes for stamped envelopes are six and three-quarters, nine, and ten
4 inches in length. For purposes of pricing, classification, and all other relevant
5 issues presented within this testimony and any supporting documentation, nine-
6 inch envelopes are treated as if they are 10-inch envelopes. Window and pre-
7 canceled envelopes are available. For a higher fee, stamped envelopes can be
8 pre-printed with a return address, title, company name, telephone number,
9 advertising slogan, or any other pre-approved communication.

10 Printed and plain bulk categories for both 6¾-inch and 10-inch
11 envelopes in units of 500 may come in one of four different varieties; specifically,
12 regular, window, pre-cancelled regular and pre-cancelled window. Household
13 envelopes in units of 50 may be either 6¾ inches or 10 inches and be either
14 regular or window variety.

15 3. Volume and Revenue Trends

16 For the most part, stamped envelope volume has declined slowly and
17 steadily since Postal Reorganization. The 2005 stamped envelope volume was
18 the lowest ever recorded – 267 million. The associated revenue for stamped
19 envelopes has remained relatively constant since Postal Reorganization, but this
20 is not surprising as volume decreases were offset by fee increases along the
21 way. A detailed revenue history for stamped envelopes is presented in Library
22 Reference L-75.

4. Fee History

The fees for stamped envelopes have changed nine times since Postal Reorganization, typically resulting in fee increases. In 1978, the fees increased 35 percent; in 1981, 31 percent; in 1985, 21 percent; in 1988, 8 percent; in 1991, 11 percent; and, in 1995, 12 percent. In 1999, the fees decreased, on average, one percent. In 2001 fees increased 28 percent and in 2006 fees increased 4.5 percent. A detailed fee history for stamped envelopes is presented in Library Reference L-76.

5. Fee Design

The proposed stamped envelope fees were developed with the goal of a modest overall cost coverage and reasonable implicit cost coverages for the highest cost items in the individual fee categories. The following per-piece costs referenced are the average costs for the respective fee categories. The single sale envelope cost of \$.07³⁷ was marked up by 30 percent to arrive at the proposed fee of \$.09, one cent higher than the current fee of \$0.08. The household box lot cost of \$1.17³⁸ was marked up by 262 percent to arrive at the proposed fee of \$4.25, \$0.50 higher than the current fee of \$3.75. The bulk plain 6¾-inch box lot cost of \$7.02³⁹ was marked up by 106 percent to arrive at the proposed fee of \$14.50, \$1.50 higher than the current fee of \$13.00. The bulk plain 10-inch box lot cost of \$8.89⁴⁰ was marked up by 86 percent to arrive at the proposed fee of \$16.50, \$1.50 higher than the current fee of \$15.00. The bulk

³⁷ Cost from USPS-LR-L-59, Attachment 13B, including contingency.

³⁸ Cost from USPS-LR-L-59, Attachment 13B, including contingency.

³⁹ Cost from USPS-LR-L-59, Attachment 13B, including contingency.

⁴⁰ Cost from USPS-LR-L-59, Attachment 13B, including contingency.

1 printed 6¾-inch box lot cost of \$9.98⁴¹ was marked up by 100 percent to arrive at
2 the proposed fee of \$20.00, \$2.00 higher than the current fee of \$18.00. The
3 bulk printed 10-inch box lot cost of \$11.44⁴² was marked up by 101 percent to
4 arrive at the proposed fee of \$23.00, \$2.00 higher than the current fee of \$21.00.

5 6. Pricing Criteria

6 Stamped envelopes provide a relatively high value of service to
7 customers (Criterion 2). They are convenient to use and, like stamped cards,
8 provide the postage and mailing vehicle in one purchase. Single sale stamped
9 envelopes offer exceptional convenience when needing to mail something
10 quickly, and buying a box of envelopes is not necessary, particularly if there are
11 boxes of envelopes at home or work. Also, like stamped cards, the postage is
12 pre-affixed, so businesses purchasing large quantities can avoid this labor-
13 intensive step of applying postage. A benefit of stamped envelopes over
14 stamped cards that adds to the value of this service is the ability to have the
15 envelopes pre-printed with return address, advertising, etc.

16 The proposed fees for stamped envelopes cover the individual costs for
17 each category and provide a modest cost coverage as a whole (Criterion 3). The
18 proposed fee increases are in line with the overall special services average
19 proposed increase and should not prove to be burdensome to customers
20 (Criterion 4). The proposed fee schedule continues to promote fee simplicity and
21 provides identifiable relationships between the fee categories (Criterion 7).
22 Specifically, the same incremental fee differences from 6¾ inches and 10 inches

⁴¹ Cost from USPS-LR-L-59, Attachment 13B, including contingency.

⁴² Cost from USPS-LR-L-59, Attachment 13B, including contingency.

1 for bulk printed (\$2.00) and plain (\$1.50) are maintained in this fee proposal.
2 Alternatives to stamped envelopes mainly include the purchase of envelopes and
3 postage separately (Criterion 5). While at times this could be less costly, the
4 value of the convenience is in keeping with a fair and equitable fee schedule
5 (Criterion 1).