

USPS-T-1

BEFORE THE  
POSTAL REGULATORY COMMISSION  
WASHINGTON, DC 20268-0001

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REPOSITIONABLE NOTES  
MINOR CLASSIFICATION CHANGE

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Docket No. MC2007-2

DIRECT TESTIMONY OF  
BRODERICK A. PARR  
ON BEHALF OF THE  
UNITED STATES POSTAL SERVICE





1 **I. PURPOSE OF TESTIMONY**

2 The purpose of my testimony is to present the Postal Service proposal to change  
3 the expiration date for the provisional Repositionable Notes (RPN) classifications and  
4 associated rates. The provisional service was recommended by the Commission in  
5 Docket No. MC2004-5, and implemented on April 3, 2005. Authorization for provisional  
6 RPNs was originally scheduled to terminate one year later. However, the Postal  
7 Service filed a further request in Docket No. MC2006-2 successfully seeking a one year  
8 extension of the termination date which, prior to the filing of the Request in this docket,  
9 was April 3, 2007.

10 My testimony explains why another change to the expiration date is necessary  
11 and appropriate, addresses the pertinent statutory criteria for evaluating this proposal,  
12 provides an estimate of the potential magnitude of the impact on postal costs and  
13 revenues, and addresses the impact upon competitors.

14 **II. PROPOSED CHANGE OF THE RPN SERVICE EXPIRATION DATE**

15 The principle justification for the previous extension of the RPN Provisional Test  
16 was publication on January 9, 2006, of Professor Frank Wolak's economic analysis of  
17 RPNs commissioned by the Postal Rate Commission.<sup>1</sup> The Postal Service concluded,  
18 as did the Commission, that additional time was needed to consider issues that

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<sup>1</sup> Docket No. MC2004-5, PRC-LR-1, "Pricing Repositionable Notes (RPN) for Use in Postal Delivery Services: An Economic Analysis" by Frank A. Wolak.

1 Professor Wolak's analysis raised. The Postal Service has reviewed Professor Wolak's  
2 work, but has not developed its position on his proposals or any alternatives that may  
3 be available. The primary reason for this delay was the need to dedicate resources to  
4 the preparation, litigation, and implementation of the omnibus rate case, Docket No.  
5 R2006-1.

6 In late 2006, the President signed the Postal Accountability and Enhancement  
7 Act (PAEA), Public Law 109-435, which changes how Postal Service prices are set.  
8 Implementation of the PAEA, the related rulemaking proceeding (Docket No. RM2007-  
9 1) and uncertainty surrounding the potential for a final omnibus rate case under the old  
10 ratemaking system all suggest that changes to the existing RPN options available to  
11 mailers should be forestalled for the time being. Accordingly, the Postal Service  
12 Request in this docket simply seeks to maintain mailers' current RPN options.

13 **A. Reasons for Proposed Change**

14 The Postal Service proposes to change the expiration date of the provisional  
15 RPN classifications and rates so that they remain a mailer option pending  
16 implementation of the PAEA or a possible further request to make substantive  
17 modifications to classification language or prices for RPNs. If the Postal Service  
18 decides not to make a further RPN request, then the service would expire at a time  
19 specified by the Postal Service, not later than April 3, 2008, or not later than three  
20 months after the Commission takes action on this Request. No substantive  
21 classification changes and no changes in rates are proposed in this Request. A  
22 favorable recommendation on this Request, or suspension of proceedings pending a  
23 further RPN request by the Postal Service, would retain RPNs as a mailer option

1 without interruption for current customers and those who may be planning to use it.  
2 This proposal also allows additional time for the Postal Service and other interested  
3 parties to consider Professor Wolak's white paper.

4 The Postal Service does not expect that the current proposal can have any  
5 material impact upon competitors.

6 **B. Statutory Criteria**

7 Because the classification changes I propose maintain the current provisional  
8 service classifications and rates, Mr. Kaneer's testimony (USPS-T-2) and the  
9 Commission's findings on the applicability of the statutory criteria in Docket No.  
10 MC2004-5 remain applicable. I also conclude that the new expiration language would  
11 be fair and equitable, and would be desirable from the point of view of both customers  
12 and the Postal Service.

13 **C. Revenue and Cost Impact**

14 No impact on costs has been reported to date. Therefore, RPN revenues go  
15 entirely toward the institutional cost burden of the subclasses of host pieces. See  
16 Docket No. MC2004-5, USPS-T-2, at 9, lines 1-4. To estimate the revenue impact of  
17 this proposal, I begin with the available monthly data for all of the months of the  
18 provisional service shown in Table 1 below, which displays RPN piece counts and  
19 postage by class and shape of the host piece.

1 **Table 1: RPN VOLUME AND REVENUE BY CLASS, SHAPE, AND MONTH**

Month	First-Class Mail				Periodicals		Standard Mail				Total	
	Flat		Letter		Pieces	Postage	Flat		Letter		Pieces	Postage
	Pieces	Postage	Pieces	Postage			Pieces	Postage	Pieces	Postage		
Oct-05	-	\$ -	161,284	\$ 806	23,097	\$ 346	287,435	\$ 4,312	11,196,022	\$ 167,940	11,667,838	\$ 173,405
Nov-05	-	\$ -	8,923,811	\$ 44,619	21,462	\$ 322	336,585	\$ 5,049	13,785,331	\$ 206,780	23,067,189	\$ 256,770
Dec-05	6,823	\$ 34	8,846,364	\$ 44,232	79,518	\$ 1,193	302,301	\$ 4,535	15,351,946	\$ 230,279	24,586,952	\$ 280,272
Jan-06	-	\$ -	920,438	\$ 4,602	36,288	\$ 544	1,119,476	\$ 16,792	8,699,948	\$ 130,499	10,776,150	\$ 152,438
Feb-06	3,813	\$ 19	2,980,131	\$ 14,901	12,227	\$ 183	110,432	\$ 1,656	7,346,171	\$ 110,193	10,452,774	\$ 126,952
Mar-06	4,552	\$ 23	300,976	\$ 1,505	65,694	\$ 985	396,824	\$ 5,952	9,396,780	\$ 140,952	10,164,826	\$ 149,417
Apr-06	-	\$ -	284,753	\$ 1,424	11,974	\$ 180	233,148	\$ 3,497	10,439,102	\$ 156,587	10,968,977	\$ 161,687
May-06	4,120	\$ 21	1,412,366	\$ 7,062	80,882	\$ 1,213	242,985	\$ 3,645	8,098,659	\$ 121,480	9,839,012	\$ 133,420
Jun-06	3,019	\$ 15	398,264	\$ 1,991	429,080	\$ 6,436	2,066,733	\$ 31,001	10,482,622	\$ 157,239	13,379,718	\$ 196,683
Jul-06	8,068	\$ 40	758,308	\$ 3,792	15,000	\$ 225	331,452	\$ 4,972	1,181,119	\$ 17,717	2,293,947	\$ 26,745
Aug-06	26,138	\$ 131	598,515	\$ 2,993	36,763	\$ 551	713,760	\$ 10,706	4,347,513	\$ 65,213	5,722,689	\$ 79,594
Sep-06	10,550	\$ 53	240,871	\$ 1,204	134,012	\$ 2,010	1,503,821	\$ 22,557	9,783,598	\$ 146,754	11,672,852	\$ 172,579
Oct-06	2,334	\$ 12	108,673	\$ 543	84,194	\$ 1,263	694,770	\$ 10,422	10,402,020	\$ 156,030	11,291,991	\$ 168,270
Nov-06	2,526	\$ 13	896,259	\$ 4,481	131,825	\$ 1,977	683,578	\$ 10,254	7,666,037	\$ 114,991	9,380,225	\$ 131,716
Dec-06	15,811	\$ 79	412,737	\$ 2,064	254,246	\$ 3,814	3,373,442	\$ 50,602	7,601,930	\$ 114,029	11,658,166	\$ 170,587
Jan-07	23,073	\$ 115	257,950	\$ 1,290	178,583	\$ 2,679	739,626	\$ 11,094	9,585,147	\$ 143,777	10,784,379	\$ 158,955
Feb-07	9,654	\$ 48	182,004	\$ 910	207,476	\$ 3,112	304,127	\$ 4,562	3,487,940	\$ 52,319	4,191,201	\$ 60,951
<b>Total</b>	<b>120,481</b>	<b>\$ 602</b>	<b>27,683,704</b>	<b>\$ 138,419</b>	<b>1,802,321</b>	<b>\$ 27,035</b>	<b>13,440,495</b>	<b>\$ 201,607</b>	<b>148,851,885</b>	<b>\$2,232,778</b>	<b>191,898,886</b>	<b>\$ 2,600,441</b>
% Pieces	0.1%		14.4%		0.9%		7.0%		77.6%		100.0%	
% Revenue		0.0%		5.3%		1.0%		7.8%		85.9%		100.0%

3 For simplicity in estimating the potential change in revenue resulting from the  
4 proposed expiration date change, I first used the data in Table 1 to arrive at potential  
5 revenue over the course of the renewal period. I calculated an average of the historical  
6 monthly volumes for each class and shape from the last twelve months of data, March  
7 2006 through February 2007, in Table 2 below:

8 **Table 2: ACTUAL TOTAL MONTHLY VOLUME BY CLASS**

RPN VOLUME				
Month	First-Class Mail	Periodicals	Standard Mail	Total
Mar-06	305,528	65,694	9,793,604	10,164,826
Apr-06	284,753	11,974	10,672,250	10,968,977
May-06	1,416,486	80,882	8,341,644	9,839,012
Jun-06	401,283	429,080	12,549,355	13,379,718
Jul-06	766,376	15,000	1,512,571	2,293,947
Aug-06	624,653	36,763	5,061,273	5,722,689
Sep-06	251,421	134,012	11,287,419	11,672,852
Oct-06	111,007	84,194	11,096,790	11,291,991
Nov-06	898,785	131,825	8,349,615	9,380,225
Dec-06	428,548	254,246	10,975,372	11,658,166
Jan-07	281,023	178,583	10,324,773	10,784,379
Feb-07	191,658	207,476	3,792,067	4,191,201
<b>Average</b>	<b>496,793</b>	<b>135,811</b>	<b>8,646,394</b>	<b>9,278,999</b>

9

1 I then multiplied each average monthly volume by twelve to arrive at annual figures. I  
2 applied these annualized volume calculations to the respective current RPN rates to  
3 obtain an estimate of projected RPN revenue during the extension period, April 2007  
4 through March 2008, in figure 1 below.

5 **Figure 1: RPN REVENUE DERIVATION**

<b>Mar 06 - Feb 07 VOLUME AVERAGE</b>			<b>Apr 07 - March 08 VOLUMES</b>	<b>CURRENT RATES</b>	<b>Apr 07 - March 08 REVENUES</b>			
496,793 First Class Monthly Average	X	12	=	5,961,521 First Class volume	X	\$ 0.005 rate	=	\$ 29,808 revenue
135,811 Periodicals Monthly Average	X	12	=	1,629,729 Periodicals volume	X	\$ 0.015 rate	=	\$ 24,446 revenue
8,646,394 Standard Mail Monthly Average	X	12	=	103,756,733 Standard volume	X	\$ 0.015 rate	=	\$ 1,556,351 revenue

**Total RPN Revenue = \$ 1,610,605**

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7 The total RPN revenue for the extension period April 2007 through March 2008  
8 therefore is expected to be \$1.6 million based on the sum of total First-Class Mail,  
9 Standard Mail, and Periodicals RPN revenues. These calculations show the modest  
10 nature of projected revenues resulting from the expiration date change.