

UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Before Commissioners:

Dan G. Blair, Chairman;
Mark Acton, Vice Chairman;
Ruth Y. Goldway; and
Tony L. Hammond

Premium Forwarding Service

Docket No. MC2007-3

OPINION AND
RECOMMENDED DECISION



(Issued January 7, 2008)

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I. INTRODUCTION AND SUMMARY

The Commission adopts an unopposed settlement agreement as the basis for a favorable opinion and recommended decision on the United States Postal Service's Request to change the status of Premium Forwarding Service (PFS) from experimental to permanent. If PFS is approved as recommended, residential delivery customers — as well as many post office box customers — will continue to have the option of having the Postal Service reship their mail from a permanent address to a temporary address once a week via prepaid Priority Mail.

The permanent service will be offered on essentially the same basis that applied during the experiment. Fees will be identical to those currently charged under the experiment: \$10 for enrollment (per application) and \$11.95 to cover weekly reshipping and postage, multiplied by the designated number of service weeks and, as now, will have to be prepaid.¹ Guidelines will continue to require a customer to appear at the post office serving his or her primary address to apply for or modify PFS; however, the Postal Service stipulates that it intends to explore alternatives to this approach — and to other PFS features — as time, other resources and priorities allow.

The following PFS terms, conditions, and limitations also track those of the experiment:

- forwarding periods ranging from a minimum of two weeks to a maximum of one year;
- a restriction to domestic addresses;
- the exclusion of certain post office boxes associated with commercial use; and

¹ The weekly charge reflects a reshipping fee of \$2.85 and Priority Mail postage of \$9.10.

- a prohibition against contemporaneous use of certain other forwarding services.

The record shows that PFS is a popular and effective forwarding option, as it offers a combination of features not otherwise available from the Postal Service in one service. These include allowing individual members of a household to obtain the service, providing the predictability of a weekly shipment (typically mailed every Wednesday), offering the convenience of reshipping, and providing the visibility and recognition associated with Priority Mail packaging. The record also makes clear that PFS covers costs and, with overall cost coverage exceeding 140 percent, makes a reasonable contribution to overhead costs.

The only significant issue is the Postal Service's decision to maintain the status quo in terms of key PFS features, instead of taking this opportunity to enhance the permanent service with certain customer-friendly features, such as providing a variety of alternatives to the in-person transaction requirement and allowing customers to designate consecutive temporary addresses in one application, rather than two separate ones. The Postal Service agrees that such features are desirable, but asserts that the developmental stage of PFS, the need to adequately assess cost considerations associated with application alternatives and related implementation issues, justify retaining the "least cost, maximum efficiency" focus that marked the experiment.

The Commission finds that the Postal Service raises legitimate reasons why postponement of enhancements to PFS is warranted. The Postal Service has stipulated to its intention to address more flexible approaches as PFS matures and as time and other resources permit and has proposed revised classification language that will allow any ensuing changes to be made relatively easily. The Commission encourages the Postal Service to follow through on this representation as soon as possible, and to consider not only a full range of transaction options, but the addition of tracking capabilities, better training for postal employees, improvements that make

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forms clear and easy for customers to complete, and publicity about the service in key markets.

II. PROCEDURAL HISTORY

On July 31, 2007, the United States Postal Service filed a formal Request with the Commission, pursuant to chapter 36 of title 39 of the United States Code, seeking a recommended decision establishing Premium Forwarding Service (PFS) as a permanent classification. Request of the United States Postal Service for a Recommended Decision on Permanent Premium Forwarding Service, July 31, 2007 (Request). PFS has been available on an experimental basis since August 7, 2005.²

The Request included five attachments and was accompanied by the direct testimony of witnesses Hope (USPS-T-1), Abdirahman (USPS-T-2) and Dawson (USPS-T-3); a concurrent statement on compliance with filing requirements; and conditional motion for waiver.³ A request for authorization of settlement negotiations followed on August 2, 2007. United States Postal Service Request for Establishment of Settlement Procedures, August 2, 2007 (Settlement Request).

The Commission formally noticed the Postal Service's Request in Order No. 22 and took related preliminary steps, including appointing an officer of the Commission to

² The experimental case, assigned Docket No. MC2005-1, involved the Postal Service's Request for a two-year experiment. See Request of the United States Postal Service for a Recommended Decision on Experimental Premium Forwarding Service, November 19, 2004, and 69 Fed. Reg. 69640, November 30, 2004. The Commission issued a favorable opinion and recommended decision on April 15, 2005. The Governors subsequently approved the Commission's recommendation on May 12, 2005 and set an effective date of August 7, 2005. Upon introduction, the PFS enrollment fee was \$10 and the reshipment charge was \$10, comprised of weekly reshipping fees of \$2.85 and \$7.15 in Priority Mail postage. As a result of Docket No. R2006-1, the enrollment fee remained at \$10, but the weekly reshipping charge was increased to \$11.95. Absent the instant Request, experimental PFS would have expired August 7, 2007, given its two-year duration.

³ Attachments A and B, respectively, identify requested changes to the Domestic Mail Classification Schedule and a fee schedule. Attachment C is a compliance statement addressing Commission rules 54 and 64. Attachment D is an index of testimony. Attachment E is the certification required by Commission rule 193. See also Notice of the United States Postal Service of Filing Erratum to USPS-T-3 Testimony (Errata), August 30, 2007; Notice of the United States Postal Service of Filing Second Errata to USPS-T-3, Testimony of Witness Dawson (Errata), September 13, 2007; and Statement of the United States Postal Service Concerning Compliance with Filing Requirements and Conditional Motion for Waiver, July 31, 2007 (Motion for Waiver).

represent the interests of the general public and authorizing settlement negotiations. Notice and Order on Filing of Request for a Recommended Decision on Premium Forwarding Service, August 3, 2007 (Order No. 22). *See also* 72 Fed. Reg. 44880, August 9, 2007. The Association of Priority Mail Users (APMU), the National Newspaper Association (NNA), and David B. Popkin (Popkin) intervened.

On October 5, 2007, the Postal Service filed a detailed status report indicating settlement appeared likely and, shortly thereafter, filed a motion seeking consideration of an accompanying Stipulation and Agreement as the basis for a favorable recommendation from the Commission on the underlying Request. Notice of the United States Postal Service Regarding the Status of Settlement Discussion, October 5, 2007; Motion of the United States Postal Service for Consideration of the Stipulation and Agreement as the Basis for the Recommended Decision, October 11, 2007 (Motion on Stipulation and Agreement).⁴ The Commission received no requests for a hearing.

In Order No. 40, October 15, 2007, the Commission addressed all remaining procedural steps and set corresponding deadlines. Material for the record was subsequently filed, as were signature pages from the APMU, NNA, and the Office of the Consumer Advocate (OCA) in support of the Stipulation and Agreement. Mr. Popkin did not join in the settlement agreement. The Postal Service, Popkin, and the OCA filed initial briefs on November 14, 2007.⁵ The Postal Service's brief included a suggestion that given the Commission's issuance of certain rules implementing the Postal Accountability and Enhancement Act of 2006, the Commission include recommended changes to the new Mail Classification Schedule in its Opinion and Recommended Decision, assuming favorable action on the underlying Request. Postal Service Brief at 4. Mr. Popkin filed a reply brief on November 23, 2007.

⁴ The Commission hereby grants the Motion on Stipulation and Agreement.

⁵ *See also* David B. Popkin Motion for Late Acceptance of Reply Brief, November 23, 2007 (Motion for Late Acceptance). The Motion for Late Acceptance makes clear the late filing was inadvertent, and the Commission finds that the minor delay did not give rise to any prejudice. Accordingly, the Commission hereby grants the Motion for Late Acceptance.

III. SUMMARY OF PROPOSAL

A. Witness Hope's Testimony

Introduction. Witness Hope addresses the PFS product offering, revenue matters, the history of the PFS experiment, and internal and external feedback. She also provides certain data collection reports; correspondence from Daniel J. Foucheaux, Jr. to Commission Secretary Steven W. Williams concerning certain post-Docket No. MC2005-1 operational adjustments to the experiment; the PFS application (Form 8176); and a customer survey form. See *generally* USPS-T-1 and Attachments 1 through 4.

Hope characterizes PFS as a personalized service for residential customers who want to receive all of their mail at a temporary domestic address via Priority Mail. *Id.* at 2. She states that after receipt and acceptance of a PFS application, the Postal Service bundles and reships mail, once a week via Priority Mail, to a customer's temporary domestic address for a period of not less than two weeks and up to one year per application. She asserts that this approach offers customers who are away from their primary addresses a convenient way to receive, for a fee, substantially all their mail in one package, rather than receiving only First-Class Mail and certain other pieces one-by-one on a less predictable basis. *Id.*

Operating plan. Hope's overview indicates that the Postal Service proposes no specific changes to how PFS now operates. The two main activities will continue to entail the application for PFS and reshipment. Application activities, on the part of the customer, include applying for PFS service by filing a written application at the post office responsible for delivering mail to the individual's primary address; presenting appropriate identification and proof of residence at that address; and paying all required fees. The clerk gives the applicant one part of the application and retains two copies (one each for the master file and the carrier) at the delivery unit. Verification procedures for PFS are modeled on those for post office box applications. *Id.* at 8.

Reshipment activities involve sending substantially all mail in the weekly PFS shipment, with exceptions noted. *Id.* at 8-9. Post offices are encouraged to use the Priority Mail packaging most appropriate for each shipment, but Hope acknowledges that on occasion, especially in months where catalog mailing volumes are high, the mail volume some customers receive necessitates use of more than one box in a weekly shipment. She notes that witness Dawson adjusts for this in the proposed PFS costing. She further notes that all PFS reshipments are required to bear the G-400 label for clear operational identification and financial tracking purposes. *Id.*

Impact of certain customer choices on PFS. Hope states that an active PFS agreement forecloses a customer from filing a temporary or permanent change-of-address order (Form 3575) for a primary address. She explains that in the event both types of orders are placed for the same address and customer, the Postal Service may cancel the more recent request. She also says that a customer who wishes to pick up mail in person at the post office serving the primary address while PFS is active must cancel PFS, but notes that a refund of unused shipment fees is available. Restarting PFS requires the filing of an additional application and payment of a non-refundable enrollment fee. *Id.* at 2-3.

Classes of mail; availability. Hope says all classes of mail are reshipped, and that this feature distinguishes PFS from other forwarding options. She notes that mailpiece endorsements have no impact on the handling of PFS mail. However, Hope notes that “certain straightforward and logical operational necessities” require that some mailpieces be reshipped separately. *Id.* at 3.

Hope testifies that PFS is currently available to all domestic residential delivery customers and post office box customers, with few qualifications. She notes that PFS:

- is not available for a secondary address that is an APO, FPO, or in any U.S. territory or possession requiring a customs declaration;
- is only available to size one or size two post office box customers who have no other boxes in that facility, in the interest of limiting PFS to residential rather than business customers; and

- is available to, but not from, single point addresses, such as RV parks, hospitals and hotels.

Id.

PFS alternatives. Hope identifies a few, limited alternatives available from both the Postal Service and other providers. One postal option is a mail hold (for up to 30 days), although an individual within a household cannot have mail held separately. This contrasts to PFS, which allows individuals to use PFS from a shared primary address. Another option is temporary or permanent forwarding, which Hope notes applies to First-Class Mail on a piece-by-piece basis for one year and may include Periodicals mail for up to 60 days. *Id.* at 5. Hope says parcels may be forwarded locally, and that Standard Mail generally is not forwarded, unless the mailer agrees via an endorsement to pay forwarding postage. Alternatives outside the Postal Service include reliance upon commercial mail receiving agencies, RV associations, friends or family. *Id.*

Revenue; seasonal patterns. Hope asserts that PFS revenue has demonstrated consistent growth since its August 2005 launch, illustrating “both an ongoing increase over time and how each month’s revenue is substantially greater than the same month in a previous year.” *Id.* at 5-6. She provides a table showing, year-to-year, a total FY 2005 revenue of \$321,300, FY 2006 revenue of \$7,332,000, and FY 2007 (through June) of \$9,966,000, and total program-to-date revenue of \$17,620,000. *Id.* at 6. Hope finds that PFS usage, as reflected in revenue, has two seasonal peaks each year: one at the end of the year, coinciding with the traditional holiday season, and the other in summer travel months. *Id.* at 7 (Chart 1).

Feedback. Hope characterizes customer reception of PFS as “strongly positive.” She notes that postal employees occasionally have asked whether customers can file one application for two temporary addresses within consecutive time periods. She says: “The short-term answer is ‘no’ ... both to keep the application and operational processes simple and because a second temporary address still requires that most of the enrollment activities be undertaken for each temporary address.” *Id.* at 9. However,

she says that customers can file two separate applications for consecutive time periods. She adds: “While PFS remains a manual service at this time, the Postal Service would like to build and leverage technology tools that might enhance and simplify a PFS customer’s use of the service when time and other resources permit.” *Id.*

Hope summarizes the results of a qualitative survey of PFS customers that the Postal Service’s Office of the Consumer Advocate supervised and administered, based on a sampling of customers who provided an e-mail address on their PFS applications.⁶ She says 1,007 surveys were distributed electronically on February 5, 2007, and that 205 had been answered when the survey was closed on March 6, 2007. Two-thirds of the respondents have reported that they are “very satisfied” with PFS, and a large percentage have indicated they have used the service more than once. Moreover, two-thirds of the respondents also have said they are “very likely” to recommend PFS to someone else, and over two-thirds have said they are “very likely” to use PFS again themselves. At the same time, Hope acknowledges that many respondents have indicated they want the option of signing up online, and that “a very few customers” have suggested the need for a clearer explanation of the potential for being charged additional postage for reshipment. However, she says that less than 10 percent have reported any need to pay more postage during the term of service. *Id.* at 10.

B. Witness Abdirahman’s Testimony

Introduction. Witness Abdirahman provides cost data to support the PFS pricing structure. His methodology involves developing cost estimates based on witness Hope’s product definition and on the analysis he used for the PFS experiment.⁷ His analysis in this case estimates the average unit cost for PFS, with costs separated into two cost categories: set-up costs and per-shipment costs. Set-up costs (the one-time

⁶ A copy of the survey appears at USPS-T-1, Attachment 4.

⁷ See *generally* USPS-T-2, and Appendix.

costs associated with a single customer’s PFS enrollment and registration) consist of the costs of processing the PFS customer application; collecting fees; and creating a PFS folder and recording customer information in the PFS master log.

Abdirahman finds a proxy for each step. He assumes that most set-up functions are performed by a clerk, and therefore uses the hourly costs for a clerk. Abdirahman estimates that total one-time set-up costs, consisting of the sum of the three proxies, amount to \$4.86 for each PFS customer. His Appendix (at 2) includes detailed calculations and provides sources for each proxy cost number. *Id.* at 3. The following table summarizes his use of proxies.

Summary of Proxies Used for Developing Set-Up Cost Estimate

	Activity	Proxy and Rationale
Step One	Clerk (at post office serving applicant’s primary address) processes PFS application by: <ul style="list-style-type: none"> ▪ checking for accuracy and completeness, ▪ verifying the identity of the applicant, ▪ confirming PFS start and end dates, and ▪ ensuring that the customer has no active forwarding order in effect 	Transaction time for processing a post office box application, given that the same nature and quantity of information is required
Step Two	Clerk: <ul style="list-style-type: none"> ▪ explains composition of all fees; and ▪ collects prepayment from customer for the entire PFS service period 	Cost of collecting postage due at a call window, given similarities, serves as a good proxy for the PFS prepayment cost
Step Three	Clerk: <ul style="list-style-type: none"> ▪ creation of a PFS folder; and ▪ recording customer information in the PFS post office’s master log 	Cost of a clerk processing change-of-address cards is used as a proxy for the cost of processing the master log, as the amount of information entered by the clerk in both processes is similar
<i>Source:</i> Adapted from USPS-T-3 at 2-3.		

Per-shipment costs. Abdirahman defines per-shipment costs as the costs associated with mail separation, repackaging and dispatch. He says that PFS activities are generally performed at the delivery unit serving the customer’s permanent address by the customer’s carrier or a designated clerk. His PFS costing model “conservatively

assumes that most of the per-shipment-related activities are performed by the carrier.”
Id. at 4.

Abdirahman says that per-shipment costs begin with mail separation, and says that throughout the week, the carrier separates the PFS customer’s mail during the casing process and holds it (by setting it aside in a designated area) until it is reshipped. He uses the cost of separating the mail of a customer when mail is being held or forwarded within a delivery unit as a proxy for the mail separation cost of PFS mail given his conclusion that the activities are similar. *Id.* Abdirahman also states that once per week, the carrier gathers the PFS customer’s held mail; places it into and labels a Priority Mail box, Tyvek envelope or other Priority Mail packaging; and enters it into the outgoing Priority Mail stream. He says the carrier then updates the PDF tracking log.⁸ During field observations of the current experiment that were conducted at small, medium and large delivery units, Abdirahman found that these tasks take about three-and-one-half minutes per PFS customer.

Abdirahman says the Postal Service provides and completes the necessary PFS address labels, which are maintained with the PFS applications at a designated location in a delivery unit. He uses the cost of a carrier filling out one section of a change-of-address card as a proxy for the cost of completing the PFS label, given that the quantity and nature of information involved are comparable. He estimates the per-shipment costs, calculated by using the proxies and observations described above, at \$4.08, not including mail processing and delivery costs associated with reshipment. His Appendix at 3 includes additional details. *Id.* at 5.

Abdirahman states that based on his cost estimates of \$4.86 for enrollment and \$4.08 for per shipment (omitting costs for mail processing and delivery), witness Dawson proposes two fees: one for enrolling a customer and the other for each PFS

⁸ Abdirahman says this log is used to inform the carrier of the receipt of a PFS application and the initiation of PFS service, to ensure that reshipments are processed and mailed every Wednesday, and to record shipments sent. *Id.*

shipment. Cost elements and their sources are documented in an Appendix for USPS-T-2.

C. Witness Dawson's Testimony

Witness Dawson addresses PFS rate design, pricing, the classification rationale, the justification for permanent status, financial impacts, and the consistency of the proposal with the statutory criteria.⁹ His pricing approach and rationale entails examining three components: the one-time application fee and set-up; hold-out and repackaging; and use of Priority Mail for reshipment. *Id.* at 4.

Reshipment cost. For this component, Dawson estimates the average cost of a PFS shipment, consistent with the Docket No. R2006-1 methodology, by creating a PFS-specific rate cell using the weight, volume, distance, and packaging profile of PFS shipments. He uses the actual weight per piece and the zone distribution for PFS parcels from the Docket No. MC2005-1 Second Data Collection Report. He estimates the average cubic footage of PFS parcels based on a survey of PFS shipments. Survey results appear in Attachment 4 to his testimony. *Id.*

Adjustments to Priority Mail costs. Dawson makes two adjustments to Priority Mail costs for PFS pieces based on the particular characteristics of PFS parcels. The first adjustment increases the cost by 10 cents to account for the increased use of Priority Mail packaging by PFS compared to Priority Mail, as substantially all PFS parcels use Priority Mail packaging, while only about 50 percent of Priority Mail uses branded packaging. *Id.* at 4-5. Dawson estimates, based on conversations with Postal Service experts, that the average Priority Mail package costs about 20 cents to produce. He uses this estimate to calculate the additional charge to PFS packages as the difference between the average Priority Mail use of branded packaging and the PFS use multiplied by the average cost of the packaging ($0.5 \times .20 = .10$). *Id.* at 5.

⁹ See generally USPS-T-3 and Attachments 1-4.

Dawson's second adjustment removes Priority Mail window service costs from the PFS cost estimates, resulting in a 9.7 cent cost reduction. This is based on his observation that no PFS parcel incurs any window cost and the fact that Abdirahman's repackaging cost already includes time for labeling and entering the PFS parcels. He calculates the average window service cost by dividing the Docket No. R2006-1 test year total Priority Mail window service cost by total test year Priority Mail volume, as forecasted in that docket. *Id.*

Dawson then applies an adjustment factor to the hold-out, repackaging, and reshipping costs to account for cases when more than one parcel is used to reship a customer's mail. He says this occurs primarily when offices do not have appropriately sized Priority Mail boxes in stock and must use two smaller boxes. He notes that management instructions expressly discourage this practice, but says that anecdotal and survey evidence suggests that it happens on rare occasions. Based on the results of a special survey, he finds an approximately 1.2 percent incidence of extra packages, and includes a conservative (large) adjustment of 1.5 percent to the packaging and reshipping costs. He considers the adjustment conservative because current instructions now prohibit it, and because repeated directives and improved container stock management should further curtail the practice.¹⁰ *Id.* at 5-6.

Pricing. Dawson asserts that because overall PFS costs are similar to what was originally estimated in Docket No. MC2005-1, current prices still provide reasonable cost coverage for PFS. Because Priority Mail is used to ship PFS parcels, he applies the overall Priority Mail cost coverage of 150 percent to the shipping cost. He places the overall cost coverage at 142 percent. He considers this reasonable, given the convenience and value of the service. He also notes that since the one-time enrollment fee for PFS and the Priority Mail rate cell to which the shipping fee has been tied

¹⁰ The survey instrument and results related to package use appear in Attachment 3 of the Request.

changed recently, it would be disruptive to adjust prices once again; he therefore proposes to leave the prices for PFS unchanged. *Id.* at 6.

Statutory pricing criteria. Dawson says the proposed fees were designed using the pricing criteria from former section 3622(b) of title 39, United States Code.¹¹ He asserts that the proposed pricing is fair and equitable (criterion 1) because it is available to substantially all residential customers. He says that while PFS would definitely have value to those away from home on an extended basis, it somewhat resembles temporary forwarding, a service available at no charge for First-Class Mail. He says this has a slightly moderating influence on PFS's value of service (criterion 2). He further states that PFS is valuable to customers who want to maintain their professional, personal, and community ties since they can receive all of their mail (including, for example, community newsletters and local newspapers) when they are away from their primary address. He asserts the proposed fees cover the costs of the service and provide a reasonable contribution (criterion 3). He says the effect of the proposed price on other private sector enterprises was considered, noting that permanent PFS would compete directly with private sector alternatives to the same extent it has throughout the experiment. However, he says an unchanged price will not alter the terms of that competition (criterion 4). He also says that PFS supplements current forwarding and hold options, but that existing options remain unchanged (criterion 5). He asserts that

¹¹ The complete reference is to the following factors referenced in subsections of former 39 U.S.C. 3622(b): 3622(b)(1) — the establishment and maintenance of a fair and equitable schedule; 3622(b)(2) — the value of the mail service actually provided each class or type of mail service to both the sender and the recipient, including but not limited to, the collection, mode of transportation, and priority of delivery; 3622(b)(3) — the requirement that each class of mail or type of mail service bear the direct and indirect postal costs attributable to that class or type plus that portion of all other costs of the Postal Service reasonably assignable to such class or type; 3622(b)(4) — the effect of rate increases upon the general public, business mail users, and enterprises in the private sector of the economy engaged in the delivery of mail matter other than letters; 3622(b)(5) — the available alternative means of sending and receiving letters and other mail matter at reasonable costs; 3622(b)(6) — the degree of preparation of mail for delivery into the postal system performed by the mailer and its effect upon reducing costs to the Postal Service; 3622(b)(7) — simplicity of structure for the entire schedule and simple, identifiable relationships between the rates or fees charged the various classes of mail for postal services; 3622(b)(8) — the educational, cultural, scientific, and informational value to the recipient of mail matter; and 3622(b)(9) — such other factors as the Commission deems appropriate.

the proposed structure is simple and easy for customers to remember, consistent with criterion 7. He notes that the fixed weekly charge avoids the complexities of weighing and rating, and provides a standard weekly fee for substantially all mail reshipped via Priority Mail. *Id.* at 7-8.

Revenue, volume, and cost implications. Dawson says that because overall prices that customers will pay will not change, the Postal Service anticipates no revenue, volume, or cost implications beyond what has been reported. He says test year PFS shipment volume is projected to be 1.1 million pieces. Using the ratio of applications to shipments reported in the first two data collection reports from Docket No. MC2005-1, he projects 188,000 applications in the test year. He expects this to generate revenue of \$15.025 million on a cost of \$10.585 million, with a resulting cost coverage of 141.9 percent. *Id.* at 9.

Rationale for permanent classification. Dawson says the volume reported in the Docket No. MC2005-1 data collection reports show that customer response to PFS has been quite favorable. He notes that after accounting for the extra two months in the first reporting period, PFS volume has almost doubled in the first six months of FY 2007, compared to the same period last year. He says that as discussed by witness Hope, customer reaction has been favorable, with a high reported likelihood of using PFS again. He also says that the creation of PFS has allowed the Postal Service to standardize a previously diverse set of field practices in a manner that allows for efficient administration, tracking, and reporting, while making a positive financial contribution. *Id.* at 10.

Domestic Mail Classification Schedule (DMCS) changes. Dawson proposes five changes to the DMCS (presented in Attachment A of the Request). The first is to delete, in section 937.11, the reference to “classes of” mail in the first sentence after the word “all”. With this change, the provision reads, in pertinent part: “... the option to receive substantially all mail addressed to a primary address” Dawson characterizes this as a housekeeping change which eliminates words that “are

unnecessary and arguably incorrect[,]” as PFS involves all classes of mail, not “substantially all”. *Id.* at 11.

The second proposed change also affects section 937.11, and is also characterized as a housekeeping change. It consists of deleting the phrase “, primarily Priority Mail postage due,”. Thus, the provision reads: “... pieces may be re-routed [postage due], as specified by the Postal Service.” Dawson notes that the need for this change was addressed in correspondence from Mr. Foucheaux sent to the Commission on September 16, 2005 (provided as USPS-T-1, Attachment 2). He adds:

As the Postal Service prepared to implement the PFS experiment, it realized that reshipping Package Services and Standard Mail parcels outside the weekly PFS shipment as Priority Mail pieces constituted an upgrade from ground to air transportation that would violate aviation security regulations. While mail pieces are reshipped ‘as specified by the Postal Service,’ the previous emphasis upon use of Priority Mail for ‘outside’ pieces is no longer warranted.

Id.

The third proposed change involves deleting, in section 937.31, the phrase “to the post office responsible for delivery to that customer’s primary address” This change removes a limitation on where a customer can sign up for PFS service, while leaving control of where sign-up can occur to the Postal Service. Dawson notes that if the Postal Service develops Internet tools that enable a customer to initiate or pay for PFS, such tools could be implemented without additional classification changes. *Id.*

The fourth change involves deleting the text of existing section 937.51 and section number 937.52, thereby assigning the current text of section 937.52 the new designation of section 937.51. This recognizes that both the application and weekly PFS fees now appear in Fee Schedule 937 and that no reference to the Priority Mail rate schedule is necessary. *Id.*

The final proposed DMCS change is deletion of section 937.6, captioned “Duration of the Premium Forwarding System Experiment”. Dawson notes that since PFS will be a permanent classification, expiration provisions are inappropriate.

Postal Accountability and Enhancement Act of 2006 (PAEA) transition issues — impact on new Mail Classification Schedule (MCS). The Postal Service, on brief, observes that Order No. 43 establishes parts of the new MCS, and that the MCS recognizes the existence of PFS as an “Experiment” in three places. It asserts that these references, including the accompanying parenthesis, should be removed from:

- the Table of Contents (Appendix A, page 2 of 11) after the Premium Forwarding Service listing at 1555;
- the Market Dominant Product List under Special Services (Appendix A, page 5 of 11) after the Premium Forwarding Service listing; and
- the market Dominant Product Descriptions (Appendix A, page 8 of 11) after the Premium Forwarding Service listing.

Postal Service Brief at 5.

The Postal Service further asserts the current unique context reaches beyond the necessary DMCS and MCS changes to include two other considerations. One involves PFS fees; the other pertains to descriptive MCS language for PFS that is proposed by the Postal Service, but not reached by the Commission in Order No. 43. It explains that on September 24, 2007, it submitted draft MCS language, derived from DMCS sections 937.11 (“Definition”) and 937.21 (“Availability”), describing PFS in terms that assume the classification changes sought in this docket are approved and implemented.¹² *Id.*

The Postal Service states that the MCS language it submitted for PFS includes PFS fees, but incorrectly identifies the weekly reshipment fee as \$2.85. It suggests that if the Commission recommends PFS as requested, this should be changed to \$11.95 to

¹² The Postal Service notes that the two referenced paragraphs are located on pages 98 and 99 of the DMCS published on the Commission’s website. *Id.* at 5.

comport with the Postal Service's proposal to present the weekly reshipping and Priority Mail postage as a single fee. *Id.* at 5-6.

The Postal Service correctly notes that the Commission did not decide all issues related to the new MCS in Order No. 43, including the appropriateness of the Postal Service's draft PFS description and fee presentation. Instead, the Commission limited itself to adoption of a Table of Contents, a Market Dominant Product List, and a Competitive Product List. PFS was correctly identified (at that time) as an experiment in the Table of Contents and in the Market Dominant Product List.

Assuming the Governors approve the Commission's recommendation in this case, the overlap between the status change in PFS and the developmental stage of the MCS appears to present a unique situation in terms of implementing the PAEA. Given pertinent PAEA provisions, the Commission believes that it could make conforming changes in the MCS Table of Contents and Market Dominant Product List associated with this case on its own accord, without the need for a further formal filing, by taking official notice of an affirmative Governors' decision in this case. This conclusion is based on the absence of any dispute to date over the identification of PFS as a market dominant product; the absence of any material change in operations or fees, lending support to the assertion that PFS is not a new product in the traditional sense; and the limitation of revisions to conforming changes to the portions of the MCS published to date. Conforming changes to the fully-developed MCS could be made on the same basis, when decisions on the initial document are final. This approach appears to be consistent with the need to develop effective and efficient solutions to PAEA transition issues, and does not foreclose a challenge to placement of PFS on the Market Dominant Product List.

Classification criteria. Dawson reviews the proposal in terms of the statutory classification criteria.¹³ Dawson says the proposed permanent classification is fair and equitable (criterion 1) because the Postal Service would offer a consistent, standardized service available to substantially all residential customers, as described in witness Hope's testimony. He states customers value receiving all their mail at an alternate address when they are temporarily away from their primary residence (criterion 2). He says that by offering this service, the Postal Service is responding to customer demand. Since reshipments are processed as Priority Mail, Dawson asserts that PFS has a high degree of reliability and speed of delivery, consistent with criterion 3. He contends the stipulation of a specific day for shipments further enhances the degree of reliability, allowing customers to know when to expect their mail. He concludes PFS is a desirable special classification from the point of view of the customer and the Postal Service (criterion 5). Dawson says that with this proposal, the Postal Service would make permanent an important option for customers who want access to their hard-copy communications while away from their permanent address. He notes the proposal is also desirable from the point of view of the Postal Service, which benefits by offering a more consistent and standardized service to all customers. Finally, he says PFS is expected to generate contribution to help cover institutional costs. *Id.*

¹³ The complete set of referenced criteria are referenced in subsections of former 39 U.S.C. 3623(c): 3623(c)(1) — the establishment and maintenance of a fair and equitable classification system for all mail; 3623(c)(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; 3623(c)(3) — the importance of providing classifications with extremely high degrees of reliability and speed of delivery; 3623(c)(4) — the importance of providing classifications which do not require a high degree of reliability and speed of delivery; 3623(c)(5) — the desirability of special classifications from the point of view of both the user and of the Postal Service; and 3623(c)(6) — such other factors as the Commission may deem appropriate. USPS-T-3 at 13.

IV. REVIEW OF STIPULATION AND AGREEMENT

The Stipulation and Agreement (settlement agreement) submitted by the Postal Service on behalf of the signatories consists of two parts. Part I, captioned Background, provides a basic description of PFS, notes that PFS was introduced as a two-year experiment as a result of Docket No. MC2005-1, states that the Postal Service is seeking authorization to make PFS a permanent option, and states that no change in PFS operations will flow from permanent authorization. Settlement agreement at 1.

Part II, captioned Terms and Conditions, consists of 10 numbered paragraphs. Paragraph No. 1 states that the settlement agreement constitutes a negotiated settlement of all issues raised by the Postal Service's Docket No. MC2007-3 Request for a recommended decision on permanent PFS. *Id.* at 2.

Paragraph No. 2 states that the undersigned participants (signatories) stipulate and agree, for purposes of this proceeding only, that the following materials provide substantial evidence supporting and justifying a recommended decision recommending to the Governors of the Postal Service acceptance of the proposed permanent changes to DMCS section 937 and Fee Schedule 937: the Docket No. MC2007-3 Request together with supporting direct testimony and materials; and any written cross-examination, as revised and supplemented, that is designated before the record closes. It also notes that the proposed DMCS language and fee schedule changes are attached to the settlement agreement as Attachments A and B, respectively. *Id.*

Paragraph No. 3 states that on the basis of such record, for purposes of this proceeding only, the signatories stipulate and agree that the permanent DMCS and Fee Schedule changes set forth in the Attachment to the settlement agreement are in accordance with the policies of title 39, United States Code, and in particular, with objectives and factors of 39 U.S.C. § 3622. *Id.*

Paragraph No. 4 states that the settlement agreement is offered in total and final settlement of this proceeding. It states that the signatories agree that they will file no

further pleadings or testimony with the Commission in this proceeding, with the exception of pleadings or testimony explicitly requested by the Commission or in reply to such pleadings; pleadings or testimony filed in opposition to the settlement agreement; or pleadings, testimony or comments in support of the settlement agreement. *Id.* at 2-3.

Paragraph No. 5 states that if the Commission adopts a recommended decision that materially differs from the classification and fees as filed in the settlement agreement, or if the Governors of the Postal Service fail to approve the Commission's recommended decision adopting the classification and fees as filed by the Postal Service, each signatory reserves the right to withdraw from the settlement agreement. It provides that any signatory withdrawing under the terms of this paragraph must provide written notice of its intention to withdraw to all participants within five business days of the occurrence of the specific event giving rise to the right to withdraw. It also provides that any exercise of such right by one or more signatories shall not affect the operation of the settlement agreement as to other signatories. *Id.* at 3.

Paragraph No. 6 states that the settlement agreement pertains only to this proceeding. It states that the signatories shall not be considered as necessarily agreeing with or conceding the applicability of any ratemaking principle; any method of cost of service determination; any principle or method of rate or fee design; the validity or use of any data relied upon by the Postal Service in this docket for any other purposes or in any other classification or ratemaking proceeding; or the application of any rule or interpretation of law, that may underlie, or be thought to underlie, the settlement agreement. *Id.*

Paragraph No. 7 states that in any future negotiation or proceeding, the signatories shall not be bound or prejudiced by the settlement agreement, nor shall any participant rely for any purpose on the fact that another participant entered into or did not oppose the settlement agreement. It states that this condition shall not apply to proceedings involving the honoring, enforcement, or construction of the settlement

agreement or a complaint proceeding under 39 U.S.C. § 3662 challenging the lawfulness of the fees and classifications agreed to in the settlement agreement, recommended by the Commission, and approved by the Postal Service Governors. It further provides that this limitation on the application of this condition shall not restrict any party in an appeal or complaint proceeding from arguing that changed circumstances justify challenging the fees or classifications in whole or in part, notwithstanding this provision. *Id.* at 3-4.

Paragraph No. 8 states that PFS in its current form necessitates direct contact between a customer and a postal representative of the post office which serves the customer's primary address to establish or modify service. It states that all participants in this docket, including the Postal Service, want customer alternatives for establishing or modifying service that avoids this necessity. It further provides that the Postal Service accordingly affirms its commitment to developing, as soon as available resources and priorities permit, alternatives that do not require direct contact between the PFS customer and a representative of the post office serving that customer's primary address. *Id.* at 4.

Paragraph No. 9 states that the undersigned participants request that the Commission issue a decision recommending adoption of the DMCS and Fee Schedule provisions appended to the settlement agreement. *Id.*

Paragraph No. 10 states that the settlement agreement represents the entire agreement of the signatories, and supersedes any understandings or representations not contained in the settlement agreement. *Id.*

Attachments A and B to the settlement agreement consist, respectively, of proposed Domestic Mail Classification Schedule language and proposed Fee Schedule 937.

V. FINDINGS AND CONCLUSIONS

Nature of participation in the settlement. The Commission finds that all participants were given an opportunity to participate in the negotiations that led to the filing of the settlement agreement that forms the basis for this Opinion and Recommended Decision. It also finds that all participants have had an adequate opportunity to comment on the appropriateness of the settlement as a resolution of this case, given the Commission's express provision for initial and reply briefs. It affirmatively notes, in this regard, that the proposed DMCS language that appears in an attachment to the settlement agreement is identical to that which was filed with the Postal Service's Request on July 31, 2007. It further observes that the Postal Service stipulates (paragraph 8 of the settlement agreement) to its commitment, as soon as available resources and priorities permit, to developing alternatives that do not require direct contact between the PFS customer and a representative of the post office serving that customer's primary address. The Commission notes that this language does not limit potential alternatives to Internet-only options, and that telephone service, mailing or faxing hard-copy forms, and e-mail reasonably fall within the scope of this provision.

Consistency with statutory criteria. The Commission has reviewed witness Dawson's assessment of the consistency of the proposal with applicable statutory pricing and classification criteria, and finds his assessment sound. It adopts his assessment for purposes of this decision.

UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Before Commissioners: Dan G. Blair, Chairman;
Mark Acton, Vice Chairman;
Tony Hammond; and
Ruth Y. Goldway

Premium Forwarding Service

Docket No. MC2007-3

RECOMMENDED DECISION

(Issued January 7, 2008)

The Commission, having considered the Postal Service Request, has issued its Opinion thereon. Based on that Opinion, which is attached hereto and made a part hereof,

IT IS ORDERED:

That the Commission's Opinion and Recommended Decision shall be transmitted to the Governors of the Postal Service and the Governors shall thereby be advised that the proposed Fee Schedule (set forth in Appendix One), and the proposed amendments to the Domestic Mail Classification Schedule (set forth in Appendix Two), are in accordance with the policies of title 39 of the United States Code and the factors set forth in former 39 U.S.C. 3622(b) thereof; and they are hereby recommended to the Governors for approval.

By the Commission.

Steven W. Williams
Secretary

RECOMMENDED CHANGE IN FEE SCHEDULES

The following change represents the fee schedule recommendation of the Postal Regulatory Commission in response to the Postal Service's Docket No. MC2007-3 Request. The change requires the revision of one fee schedule. The underlined text signifies that the text is new, and shall appear in addition to all other Domestic Mail Classification Schedule text. Material appearing in brackets indicates deleted material.

**FEE SCHEDULE 937
PREMIUM FORWARDING SERVICE**

Description	Fee
Enrollment fee	\$10.00
Weekly reshipment fee	<u>\$11.95</u> [2.85]

[SCHEDULE 937 NOTE

1. The weekly reshipment fee is in addition to the postage applicable to a 3-pound parcel mailed to zone 6, as stated in Rate Schedule 223 (Priority Mail).]

RECOMMENDED CHANGES IN
DOMESTIC MAIL CLASSIFICATION SCHEDULE

The following material represents changes to the Domestic Mail Classification Schedule recommended by the Postal Regulatory Commission in response to the Postal Service's Docket No. MC2007-3 Request. Material appearing in brackets indicates deleted material.

937 Premium Forwarding Services**937.1 Definition**

937.11 Premium Forwarding Service provides residential delivery customers, and certain post office box customers, the option to receive substantially all [classes of] mail addressed to a primary address instead at a temporary address by means of a weekly Priority Mail shipment. Parcels that are too large for the weekly shipment, mailpieces that require a scan upon delivery or arrive postage due at the office serving the customer's primary address, and certain Priority Mail pieces may be re-routed as specified by the Postal Service. Re-routed Express Mail, First-Class Mail, and Priority Mail pieces incur no additional reshipping charges. Re-routed Standard Mail and Package Service pieces may be re-routed postage due[, primarily Priority Mail postage due,] as specified by the Postal Service. Mail sent to a primary address for which an addressee has activated Premium Forwarding Service is not treated as undeliverable-as-addressed.

* * *

937.3 Customer Requirements

937.31 A customer must complete and submit a Premium Forwarding Service application together with all postage and fees for the full duration of service [to the post office responsible for delivery to that customer's primary address], as specified by the Postal Service.

* * *

937.5 Rates and Fees

937.51 [The postage rate for mail reshipped by Premium Forwarding Service consists of the rate specified in Rate Schedule 223 for a three-pound parcel mailed to zone 6 on the enrollment date.

937.52] Fees for Premium Forwarding Service are specified in Fee Schedule 937.

[937.6 Duration of the Premium Forwarding Service Experiment

937.61 The provisions of section 937 expire the later of:

- a. August 7, 2007, or
- b. if, by the expiration date specified above, a request for the establishment of a permanent Premium Forwarding Service is pending before the Postal Rate Commission, the later of:
 - (1) three months after the Commission takes action on such proposal under section 3624 of title 39, or, if applicable,
 - (2) the implementation date for a permanent Premium Forwarding Service classification.]

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