

ORIGINAL

OCA-T-400
Docket No. MC96-3

DIRECT TESTIMONY
OF
SHERYDA C. COLLINS

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

ON BEHALF OF
THE OFFICE OF THE CONSUMER ADVOCATE

SEPTEMBER 30, 1996



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OCA-401

OCA-402

1 DIRECT TESTIMONY

2 OF

3 SHERYDA C. COLLINS

4 STATEMENT OF QUALIFICATIONS

5
6 My name is Sheryda C. Collins. I have been employed by
7 the Postal Rate Commission since January 1972. I was first
8 assigned to the Office of the Special Assistant, and later to
9 the Office of the Technical Staff, Officer of the Commission
10 (Litigation Staff), and the Office of Technical Analysis and
11 Planning. As a Rate Analyst and a Rate and Classification
12 Analyst on the Commission's advisory staff, I prepared
13 technical analyses and designed rates and classifications. My
14 work product was incorporated within the Commission's
15 Decisions in Docket Nos. R74-1, R87-1, R90-1 and R94-1, and in
16 numerous classification dockets.

17 As a Rate and Classification Analyst on the Litigation
18 Staff, I assisted in preparing testimony and exhibits on
19 pricing and rate design in Docket Nos. R76-1 and R77-1. I
20 performed technical analyses in connection with Docket Nos.
21 MC76-5 and R78-1. I was a witness in Docket Nos. MC76-4 and
22 MC79-2. In Docket No. R80-1, as a major rate design witness,
23 I proposed rates for First-Class Mail, Priority Mail, Express

1 Mail, fourth-class mail and special services. I also proposed
2 a new rate category for First-Class Mail. In Docket No.
3 MC95-1, I testified about pricing and relative cost coverage
4 levels.

5 I am a graduate of the University of Massachusetts and
6 have taken credits toward an MBA degree at George Washington
7 University. I have taken courses in economics, public utility
8 regulation, statistics, accounting, data processing, and
9 programming.

1 I. PURPOSE OF TESTIMONY

2 The purpose of my testimony is to present my
3 recommendations concerning the Postal Service's classification
4 and fee proposals for four special services: certified mail,
5 return receipt, stamped cards, and insured mail.

6 The Postal Service's certified mail proposal involves no
7 classification or fee structure changes, but is merely an
8 attempt to raise revenues. I oppose this attempt to raise
9 revenues outside an omnibus rate case. Witness Sherman and
10 witness Thompson address the principles of revenue neutrality
11 in their testimony. Another reason for my opposition to the
12 proposed increase in the fee for certified mail is the
13 disarray of the record in regard to the methodology for
14 determining the costs and revenues of this service.

15 The proposal concerning return receipt service includes a
16 modest classification fee structure change and a large fee
17 increase for most users. The small increase in cost that the
18 classification change entails cannot justify the fee increase
19 and I urge the Commission to reject it.

20 The Postal Service proposes to rename postal cards as
21 "stamped cards" and institute a fee for the "new special

1 service." Although the proposed fee structure seems to mirror
2 the current practice of charging a fee for stamped envelopes,
3 the costs of manufacturing postal cards are already included
4 in the price of post and postal cards. This proposal must be
5 rejected.

6 With regard to insured mail, I raise several areas of
7 concern about the level of fees proposed for insurance. I
8 also recommend that the Commission review the maximum
9 indemnity amount proposed for document reconstruction.

1 II. CERTIFIED MAIL

2 The Postal Service proposes to raise the certified mail
3 fee from \$1.10 to \$1.50. The only purpose of this proposal is
4 to increase the fee for certified mail outside of an omnibus
5 rate case,¹ in the guise of reclassification. One purpose of
6 witness Needham's testimony, she states, is to "justif[y] the
7 need for a fee increase to better reflect the value of this
8 product to its users." USPS-T-8 at 58.

9 I oppose the Postal Service's certified mail proposal as
10 an unjustified attempt to raise revenues. There is not even
11 the pretext of a classification change. Witness Needham
12 explicitly states that the purpose of Section IV of her
13 testimony is "to propose an increase to the current certified
14 mail fee." USPS-T-8 at 58. Witness Thompson explains why the
15 proposals in this docket should not stray from the principle
16 of contribution neutrality.

17 Over the course of the recent hearings, Postal Service
18 witnesses asserted that major changes in the costing and
19 pricing of certified mail service recently had been made.

¹ Witness Sherman explains why the piecemeal adjustment of rates is economically unsound. OCA-T-100.

1 Methodologies used to price this special service since at
2 least 1984 are now considered to be in error and invalid.
3 Under the "new, correct" methodology, certified mail service
4 has been below attributable costs since 1990. Tr. 4/1087
5 (OCA/USPS-T8-15.) However, the FY 1995 cost coverage is 107
6 percent (USPS-T-8 at 71), and witness Needham confirms that if
7 the present fee is retained through the test year after rates,
8 the cost coverage would remain at this level. Although this
9 is a low cost coverage, no fee increase for certified mail
10 should be approved until all of the evidence regarding the
11 costing of this service is fully explained on the record.

12 A. The Postal Service Gives Three Unpersuasive Reasons as
13 Justification For Its Proposed Fee Increase.

14 The Postal Service gives three reasons for the proposed
15 36-percent increase in the certified mail fee. First, the
16 Postal Service is "changing [its] historic practice" with
17 regard to certified mail cost coverage calculations. This
18 causes the cost coverage of 170 percent recommended in Docket
19 No. R94-1 to fall to 107 percent. According to witness
20 Needham, certified mail's cost coverage is now far too low for
21 a product with such a high value of service. USPS-T-8 at 71.

1 Second, witness Needham states that the prices of
2 available alternatives to certified mail are so much higher
3 (an average of \$10.68 higher) that certified mail is
4 comparatively inexpensive even after the fee increase. Thus,
5 "no severe hardship from this proposed increase should be
6 expected." Id. at 72.

7 Third, the proposed increase to \$1.50, combined with the
8 proposed increase for return receipts to \$1.50, would produce
9 a \$3.00 fee. This fee would be "simple and easy for customers
10 and postal employees to remember." Id. at 73.

11 B. The Incompleteness of The Record Necessitates Rejection
12 of the Proposal.

13 From the beginning of this proceeding, the OCA has tried
14 to elicit information from the Postal Service regarding the
15 appropriate costs and revenues, and resulting cost coverages,
16 of certified mail and return receipt service. Indeed, the
17 very first interrogatory to witness Needham addressed this
18 subject. Many more followed. (See Tr. 4/1063, 1072, 1074,
19 1083, 1127, and 1197.) Unfortunately, the record is still
20 opaque. A complete explanation of what was done in the past,

1 why it was in error, and exactly how the methodology has
2 changed has not been forthcoming.

3 It appears that the Postal Service also is confused on
4 these issues. OCA/USPS-T8-8 (Tr. 4/1072) states:

5 The purpose of this and the next interrogatory is to
6 compare the Postal Service's cost coverage proposals
7 for return receipt and certified mail in this
8 proceeding with the Postal Service's proposals in
9 prior proceedings. Please confirm, correct, or as
10 appropriate, complete the following tables
11 pertaining to certified mail and return receipt.
12 The sources of Table I are the Cost and Revenue
13 Analysis Reports, TY at proposed rates.

14
15 This interrogatory has been answered once and revised two
16 times (the last revision was received on September 9 when the
17 Postal Service witnesses were cross-examined). The cost
18 coverage figures for Docket No. R90-1 for certified mail
19 variously were reported as 65 percent, 131 percent, 127
20 percent and 65 percent.

21 In Docket No. R90-1, USPS-T-22, workpaper 6, showed the
22 development of the net attributable cost for certified mail.
23 This cost was calculated by removing costs for return receipt
24 and restricted delivery. Interrogatory OCA/USPS-T8-9 (Tr.
25 4/1074) sought the appropriate breakout for R94-1 and this
26 case, and an explanation. The answer was unclear and referred

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2 changed has not been forthcoming.

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24 and restricted delivery. Interrogatory OCA/USPS-T8-9 (Tr.
25 4/1074) sought the appropriate breakout for R94-1 and this
26 case, and an explanation. The answer was unclear and referred

1 three times to the response to interrogatory OCA/USPS-T8-8
2 discussed above.

3 Similar questions were submitted to the Postal Service
4 before oral cross-examination. See "OCA Questions to Witness
5 Needham (T8) Submitted in Advance of Oral Cross Examination,"
6 attached as OCA-401, marked for identification but not
7 transcribed at Tr. 4/1197. The purpose of the questions was
8 "to clear up confusion, discrepancies, errors,
9 misunderstandings, etc." surrounding the costs and revenues
10 for certified mail, return receipt and restricted delivery.
11 The OCA requested that witness Needham respond in writing in
12 lieu of oral cross-examination. It was also requested that
13 any extra steps necessary be taken to clarify the record. The
14 only written response to these questions was a Notice of
15 Errata and revised answers to several interrogatories of the
16 OCA. This was not totally responsive to the questions and
17 confusion still remained.

18 When witness Lyons testified on September 9, he replied
19 to a question regarding structural changes within certified
20 mail service by saying:

21 A. That is incorrect. As I indicated earlier, the
22 Certified Mail, we changed the underlying costing
23 and refined that to better reflect the cost for
24 Certified Mail and I consider that to be a

1 structural change when the basic costs or underlying
2 costs for that have been changed.

3

4 Q. But no classification proposal is associated
5 with Certified Mail?

6

7 A. There are no classifications for Certified Mail,
8 per se. But there was, again, a major structural
9 changing in the costing.

10

11 Tr. 2/153-4.

12 When witness Needham was cross-examined on this issue,
13 she stated that the methodology used in Docket No. R90-1,
14 which was the predicate for interrogatory OCA/USPS-T8-9 and
15 the cross-examination exhibit, was in error and had been in
16 error since 1984. Tr. 4/1199-2000. So at this late stage in
17 the proceeding, we are faced with a murky record with no clear
18 and complete explanation of the methodology for developing
19 certified mail costs.

20 C. I Oppose the Fee Increase Proposed for Certified Mail.

21 I recommend that the fee for certified mail not be
22 increased until the Postal Service fully explains its
23 methodology. The present cost coverage is 107 percent and
24 witness Needham confirmed that the present \$1.10 fee would
25 produce the same cost coverage in the test year. Tr. 4/1083.
26 Witness Patelunas also confirmed that the unit costs for

1 certified mail have declined 17.6 percent from FY 1994 to
2 FY 1995. Tr. 2/249. Thus, taking into account the changing
3 cost coverage determinations, the obvious negative impact of a
4 40-cent increase on users of this service, and declining
5 attributable costs, I recommend that the fee for certified
6 mail not be changed. This matter should be revisited during
7 the next omnibus rate case.

1 III. RETURN RECEIPTS

2 Currently, there are two options available for return
3 receipts purchased at the time of mailing. One shows to whom
4 and date delivered; the other shows to whom, date delivered,
5 and address. The Postal Service proposes to merge these two
6 options into a single basic service category showing to whom
7 and date delivered, and the delivery address only if it
8 differs from the address on the mailpiece. The fee for the
9 first option would be eliminated and all return-receipt
10 mailers would pay the current higher fee which always provides
11 an address. This restructuring and simplification is proposed
12 for both regular return receipt and merchandise return
13 receipt.

1 slight enhancement in service. However, the service
2 enhancement causes only a very small increase in costs which
3 can be fully covered by the lowest current return receipt fee.
4 Thus, I recommend that the Commission reject the increase in
5 the current \$1.10 fee.

6 Witness Needham advances this proposed restructuring
7 because "the change would provide better service to customers
8 who do not request delivery address information." USPS-T-8 at
9 page 86. The single option at time of mailing would provide
10 "a value enhancement" because the address would be provided if
11 changed. She claims that customers who previously purchased
12 date and signature service at time of mailing "would not be
13 paying more for the same service, but rather would pay a
14 higher fee for a service enhancement." Id. (Emphasis added.)

15 According to witness Needham, a second advantage of the
16 proposed \$1.50 fee for regular return receipt is that the sum
17 of the \$1.50 fee and her proposed increased fee for certified
18 mail will be \$3.00—a figure easy for both postal patrons and
19 employees to remember. She also states that it would continue
20 to match the certified fee, which she views as a benefit.
21 USPS-T-8 at page 86. There is no reason to tie these service

1 fees together. The notion of identical twin fees in this case
2 is arbitrary and should be rejected.

3 She also discusses the simplification of the fee
4 structure—only one fee would be offered at the time of
5 mailing, another would cover the service requested after
6 mailing. Elimination of two of the present five fees would
7 result in a 40 percent reduction in the offerings in the
8 return receipt fee structure. USPS-T-8 at page 87.

9 Witness Needham states that the proposal to limit return
10 receipt for merchandise service is a return to the original
11 intention of the service, i.e., to meet the needs of parcel
12 shippers. According to witness Needham, documents were not to
13 be included in the definition of "merchandise."

14 B. A Slight Service Enhancement Does Not Require a Thirty-
15 Six Percent Increase In The Fee.

16 The rate increase proposed by witness Needham is not
17 justified by the modest service enhancement, particularly
18 since the cost of providing the service enhancement is so
19 low.²

² See pages 18-19 infra.

1 The supposed advantages of the classification change are:
2 (a) service is enhanced by providing the delivery address when
3 it has changed; (b) a form of address correction is provided;
4 (c) customers will know whether the address the piece was sent
5 to is correct by checking to see if a new address was provided
6 in box #8 on Form 3811; (d) a customer will be alerted when a
7 mail piece is forwarded; and (e) the fee structure will be
8 simplified by elimination of two fee categories.

9 These benefits, however, must be balanced against the
10 public's demonstrated lack of interest in purchasing the
11 "address option" at the \$1.50 fee level. Approximately 98
12 percent of non-merchandise return receipt users currently do
13 not request the delivery address. Witness Needham was asked:
14 "Hasn't the customer already essentially voted against the
15 'value-added service enhancement' by not purchasing it?" She
16 replied: "Not at all. Not all customers may be aware of the
17 current option of providing the address where the mailpiece
18 was delivered."³ Tr. 4/1129-30. (Interrogatory OCA/USPS-T8-

³ It must be emphasized that witness Needham has provided no information on the proportion of the mailing public that is not "aware" of the option. Is this claimed lack of awareness limited to a handful of customers or widespread?

1 45(b).) I disagree with witness Needham's assessment.

2 Examination of Form 3811 reveals that at the top of the
3 return receipt, there is the statement:

4 I also wish to receive the following services
5 (for an extra fee):
6

7 1. Addressee's Address

8 2. Restricted Delivery

9 Consult postmaster for fee.

10 (Emphasis added.) I believe that customers receive an
11 unambiguous message that the provision of a delivery address
12 is available if desired. Also, it has been my experience when
13 purchasing a return receipt that the clerk has asked whether I
14 wished to purchase the additional services. Witness Needham's
15 statements that customers are not aware of these options or
16 that it is difficult to see that option because of the format
17 of Form 3811 are not plausible. Tr. 4/1182.

18 The 40-cent fee increase witness Needham proposes is not
19 justified by the cost increase caused by adoption of the
20 proposed "address if different" classification change.
21 Library Reference SSR-104, at 10, develops the unit
22 attributable costs for return receipts service. A weighted

1 average cost for non-merchandise has been calculated as
 2 follows:

3 TABLE 2 UPPER BOUND

4		Total Attributable	
5		<u>Cost</u>	<u>Weight</u>
6			
7	To whom and date delivered	\$0.86	97.31%
8	To whom, where & date delivered	<u>1.10</u>	<u>2.69%</u>
9	Weighted average unit cost	\$0.87	100.00%

10 When asked, witness Needham confirmed that providing customers
 11 with the "address if different" option will increase the
 12 average unit cost of return receipt by only one cent.

13 Interrogatory OCA/USPS-T8-41 (redirected to the Postal
 14 Service) and Tr. 4/1180.

15 However, this one cent must be considered an upper bound
 16 for the possible increase in attributable costs under this
 17 classification proposal. The OCA in interrogatory OCA/USPS-
 18 T8-24 asked: "What percentage of return receipts which
 19 request the addressee's address have actually been forwarded
 20 and thus, the return receipt shows an address different from
 21 that listed by the sender?" Witness Needham responded: "No
 22 statistics are available on the percentage of return receipts
 23 that have been forwarded to a different address other than the
 24 one on the mailpiece." She developed a proxy for the

1 percentage of return receipts that are forwarded based on FY
 2 1993 data using total forwarded volume (all mail classes).
 3 This Undeliverable As Addressed volume forwarded percentage is
 4 1.13 percent. Therefore, the true cost of the provision of
 5 "address if different" could be as little as 0.27 cent.

6 TABLE 3 LOWER BOUND

	Total Attributable	
	<u>Cost</u>	<u>Weight</u>
7 To whom and date delivered	\$0.8600	98.87%
8 To whom, where & date delivered	<u>1.1000</u>	<u>1.13%</u>
9 Weighted average unit cost	\$0.8627	100.00%

10 In response to interrogatory OCA/USPS-T8-45 (Tr. 4/1129)

11 witness Needham states:

12 Obviously, there is the enhancement of an address
 13 (if different) of the proposed basic return receipt
 14 service option over the current basic return receipt
 15 service option. Had the Postal Service proposed a
 16 fee increase for the current basic return receipt
 17 service option without any enhancement, this would
 18 be a pure fee increase. . . . I remain confident
 19 that, if given the choice between a pure fee
 20 increase with no enhancement and a fee increase with
 21 an enhancement, customers would opt for the
 22 enhancement.
 23

24 Because 90 percent of the return receipt users do not purchase
 25 the address option, it is more logical to add the slight
 26 service enhancement with no fee increase or, instead, maintain
 27 the status quo, i.e., no fee increase and the option to pay
 28 for the address if desired.
 29
 30

1 C. The Small Cost of The Service Enhancement Is No Reason to
2 Increase The Fee.

3 Because the proposal improves address hygiene (albeit
4 only slightly), I recommend that the proposed classification
5 change be adopted but without a fee increase. It simplifies
6 the fee schedules and provides an administrative benefit to
7 the Service. Return receipt service is currently covering its
8 attributable costs and contributing to overhead. Even without
9 the concerns, as discussed in witness Thompson's and witness
10 Sherman's testimonies, about the propriety of increasing
11 Postal Service revenues from rate increases in this docket,
12 the small cost increases which might follow adoption of this
13 classification change do not merit a fee adjustment at this
14 time.

1 IV. STAMPED CARD PROPOSAL

2 The Postal Service proposes a "new special service"
3 for postal cards with an attendant fee. On its face, the
4 classification proposal to charge a fee for a postal card is
5 analogous to the current practice of charging a fee for
6 stamped envelopes. However, when the facts surrounding the
7 proposal are examined, it is clear that this new fee is
8 without merit.

9 The nature of the proposed classification change is to
10 rename postal cards as "stamped cards." Witness Needham
11 asserts that this would reflect the parallel nature of postal
12 cards and stamped envelopes and help customers differentiate
13 the product from post cards. USPS-T-8 at 94.

14 The Postal Service proposes to amend the Domestic Mail
15 Classification Schedule to add a classification and separate
16 fee for stamped cards that would correspond to the fee for
17 stamped envelopes. This fee, two cents per card, would
18 ostensibly pay for the manufacturing costs of the cards and
19 add a markup to reflect the "value of service for purchasers
20 of these cards." USPS-T-8 at page 95.

1 A. The Proposed New Fee Is Not Justified Because The
2 Manufacturing Costs Are Already Accounted For In The Post
3 Card Rate and Postal Cards Are Less Costly to Process
4 Than Other Cards.

5 In principle, a separate fee to cover the manufacturing
6 costs of ancillary supplies provided mailers may be
7 reasonable. However, the GPO manufacturing costs are already
8 included in the attributable costs for postal cards. Witness
9 Patelunas confirms this in answer to interrogatory OCA/USPS-
10 T5-10 (Tr. 2/251). (Witness Needham reaffirms this in answer
11 to OCA/USPS-T8-37 at Tr. 4/1119.) These manufacturing costs
12 are a line item in the Cost Segments and Components Report
13 (USPS-T5, WP-A, section 16.1, column 1, page 49) and witness
14 Patelunas confirms that no manufacturing costs were treated as
15 institutional. Thus, the manufacturing costs are already
16 attributed to postal cards and are covered by the 20-cents
17 postage paid by users of postal cards. Adding these costs a
18 second time in the form of a stamped card fee cannot be
19 condoned.

20 Exhibit USPS-T-5C at page 10 shows a per-piece cost for
21 postal cards of 7.5 cents. The per-piece cost for private
22 cards is 16.2 cents. Witness Patelunas explains that there

1 are no known, certain reasons for the great difference in unit
2 costs. He states there are some speculative reasons. Postal
3 cards may be less costly to process because they are, by
4 design, of uniform size, card stock and shape, and thus are
5 more compatible with postal processing equipment than post
6 cards. Address hygiene may be better. Postal cards may be
7 more frequently used by organizations or businesses using
8 mailing lists and computer-generated labels. These addresses
9 tend to be clean and automatable whereas post cards are
10 frequently used by people on vacation and are handwritten.
11 Tr. 2/252 (Interrogatory OCA/USPS-T5-11). Witness Patelunas
12 confirms that the unit cost of postal cards has been less than
13 one-half of the unit cost of private cards at least since
14 FY 1990. Id.

15 B. The Proposed New Service and Fee Should Be Rejected.

16 Given the per-piece cost of 7.5-cents for a postal card
17 and an average revenue per piece for total postcards of
18 19.7-cents (Exhibit USPS-T-5C at page 10), the present
19 implicit cost coverage of postal cards is 263 percent. When
20 the two-cent fee proposed by the Postal Service is added to
21 the postage, the implicit cost coverage exceeds 289 percent.

1 Witness Needham attempts to obscure this point. She insists
2 on calculating a separate FY 1996 cost coverage of 170 percent
3 based on year-to-date manufacturing costs and her proposed
4 fee.⁴ She completely disregards the fact that these costs are
5 already covered by the current 263 percent implicit cost
6 coverage. Witness Needham states that the proposed new
7 special service costs and revenues "are not intended to be a
8 part of the postal card revenues and costs." Interrogatory
9 OCA/USPS-T5-25(e) (redirected to witness Needham). No matter
10 how much she protests, witness Needham cannot change the fact
11 that the costs she seeks to recover in her proposed new
12 stamped card fee are already included in postal card costs and
13 were used in determining the current 20-cent postcard rate.
14 If certain attributable costs are to be shifted from the post
15 card subclass to a special service, then the rates for post
16 and postal cards should be reexamined. If the manufacturing
17 costs are removed from the attributable costs of postal cards,
18 the implicit cost coverage for that category becomes an
19 astronomical 303 percent.

⁴ In contrast, the FY 1996 cost coverage using witness Patelunas' CRA unit costs and the 2-cent fee is 224 percent. Tr. 4/1113-15 (OCA/USPS-T8-35(e)).

1 Given the above facts, it would be unconscionable to
2 approve a rate increase, in the guise of a "new special
3 service," to a rate category which is already making one of
4 the largest contributions to institutional costs of any
5 category of mail. I recommend that the Commission not
6 institute this new special service and its attendant fee.

1 V. INSURED MAIL

2 Currently, the Postal Service offers insured mail,
3 service in the amounts of \$0.01 to \$50, \$50.01 to \$100,
4 and in \$100 increments up to \$600. DMM R900.7.0.
5 Insurance indemnification coverage up to \$500 is provided
6 for merchandise sent Express Mail at no additional
7 charge. Express Mail also provides document
8 reconstruction indemnity with a limit of \$50,000 per
9 piece, and \$500,000 per occurrence.

10 The Postal Service proposes classification changes
11 designed to increase the indemnity limit for domestic
12 insured mail and Express Mail containing merchandise.
13 Specifically, it proposes to increase the level of
14 indemnification to \$5,000 in \$100 increments. USPS T-8
15 at 28. The proposed charge is \$0.90 per \$100 of
16 insurance. It also proposes a classification change to
17 decrease the document reconstruction insurance for
18 Express Mail to \$500 per piece, and \$5,000 per
19 occurrence.

20

1 A. The Postal Service Uses Market Surveys to Justify Its
2 Proposal.

3 The indemnity levels of insurance have been raised
4 by \$100 increments in all omnibus rate cases since 1978.
5 These increases were designed to keep pace with
6 inflation, with no explicit consideration of customers'
7 needs. USPS-T-8 at 31. In response to customer requests
8 to raise the insurance indemnity limits, the Postal
9 Service conducted two market research surveys to
10 determine what the indemnity needs of its customers are
11 and what services could feasibly be offered to meet these
12 needs. USPS-T-8 at 32. Based on the findings of both
13 surveys plus comments and requests from customers, the
14 Postal Service concludes that there is significant demand
15 to raise the indemnity levels for insured mail service to
16 accommodate high value items.

17 B. There Is Little Support For The Proposed Fee Amounts.

18 The Postal Service proposes to charge \$.90 for each
19 \$100 increase in indemnity value. Witness Needham states
20 that

21 [t]he \$.90 incremental fee for each \$100 value level
22 was chosen because it merely extends the current
23 incremental insured mail fee of \$.90 per \$100 in
24 value recommended by the Commission in Docket No.

1 R94-1. No indemnity analyses were performed to
2 arrive at this fee. No other fees were considered.
3 Since this proposal is an enhancement to an existing
4 special service, the Postal Service determined that
5 continuing the existing fee structure would be the
6 most reasonable course of action.

7
8 Tr. 4/1107 (Interrogatory OCA/USPS-T8-30.)
9

10 The proposed insurance fees are all much higher than
11 competing private delivery firms' fees as shown in the
12 attached table from Library Reference SSR-109 (OCA-402).
13 The proposed fee at the \$5,000 level is \$45.70 versus
14 \$17.15 for Roadway Package Service and UPS. Witness
15 Needham is not concerned about this. She dismisses the
16 differences by claiming that current fees already exceed
17 the competition. She states that the fees should be set
18 where "the price [equals what] the market can bear"
19 because the Postal Service's customers are presently
20 willing to pay more for postal insurance. Tr. 4/1121
21 (Interrogatory OCA/USPS-T8-38).

22 However, it is not clear that survey respondents
23 were aware of the proposed fee levels when they estimated
24 the number of parcels they would mail under increased
25 indemnity limits. Question 4 of the survey asks: "Would
26 you mail parcels with values between \$2,000 to \$5,000

1 with the Postal Service if the insurance level was
2 increased to \$5,000?" The parenthetical instruction to
3 the telephone researchers was: "(If they ask a suggested
4 price tell them approximately \$.90 per \$100 in value or
5 1% of the value)." Library Reference SSR-109, Part II,
6 p. 112. How many respondents asked for a suggested
7 price? Would it have affected their response if they
8 knew the suggested price? We do not know.

9 There has been a decline in insured mail volume over
10 the years since Postal Reorganization. Witness Needham
11 attributes much of the decline to increased competition
12 from alternative parcel carriers who offer much higher
13 indemnity limits than the Postal Service.⁵ USPS-T-8 at
14 pages 39-40. One reason witness Needham gives for
15 offering this proposal is to stop or reverse the decline
16 in insurance volumes by becoming more competitive. USPS-
17 T-8 at page 40. It is not clear that the proposed
18 insurance fees will really be competitive. It seems
19 likely that somewhat lower fees might still provide a

⁵ Witness Needham does not address an alternative theory to explain the decline in insured mail volumes, i.e., that postal insurance rates higher than the competition might have driven away volume.

1 contribution to institutional costs and allow the Postal
2 Service to improve its competitive position.

3 Witness Needham was also asked about her proposed
4 insurance fees in relation to the current and proposed
5 insured registry fees. Her answer is the same—insurance
6 fees are already higher than some registry fees and
7 substantial use still is made of insurance. She expects
8 her proposal to be a viable alternative to registry.

9 Tr. 4/1108 (Interrogatory OCA/USPS-T8-31.)

10 The proposed insured mail fee levels also increase
11 the potential for diversion of insured mail to insured
12 registry. Witness Needham was asked if it is likely that
13 many customers choose insured mail over insured registry
14 service only because they are unaware that insured
15 registry is less expensive than insured mail. She
16 conceded the possibility. However, she assumes that
17 registry and insurance customers know exactly what
18 service they want. She does not know the extent to which
19 clerks explain to customers various options available,
20 even when asked. Tr. 4/1209-10.

1 C. The Commission Should Direct The Postal Service to
2 Collect Indemnification and Document Reconstruction Data.

3 The primary advantage of the proposed \$.90 charge
4 per \$100 of insurance is that it is the current
5 incremental charge. No indemnity analyses were done. I
6 am not sure that it is possible to accurately project
7 indemnity losses in this situation considering the large
8 increase in indemnity. The Postal Service's only
9 experience with such levels of indemnity are with
10 registered mail, which is a more secure service. The
11 Commission should direct the Postal Service to collect
12 appropriate data by insurance indemnity levels. This
13 will allow them to perform the necessary indemnification
14 analyses to fine tune, and hopefully lower, the fee
15 levels.

16 A reduction in Express Mail indemnification for
17 document reconstruction may be appropriate. Today, new
18 technology (photocopy machines, FAX, computers, etc.)
19 have made reconstruction easier and much less expensive
20 than it was in the 1970's. Recent claims have been
21 substantially below the present maximums. USPS-T-8 at
22 56.

1 However, to be conservative, the Commission may wish
2 to consider a lesser reduction than that proposed by the
3 Postal Service. The Postal Service's proposal is to
4 reduce indemnity to \$500 per piece. This is five times
5 the average indemnity claim of \$100. On cross
6 examination, witness Needham testified that there was no
7 information on the maximum claim paid because it is
8 considered privileged. Thus, the only figures available
9 are the sum of claims paid for all document
10 reconstruction and the total number of claims settled.
11 Tr. 4/1270-71.

12 Chairman Gleiman queried the witness to clarify this
13 issue:

14 Is it then reasonable to assume that you do not know
15 whether the proposed maximum fee for document
16 reconstruction is high enough to cover the largest
17 settled claim last year?

18
19 THE WITNESS:

20
21 Actually, this isn't a fee; it's just a proposal to
22 reduce the indemnity limit. But I don't know if the
23 proposal to reduce the indemnity limit to 500 is
24 lower than the maximum [claim].

25
26 Tr. 4/1286. Without knowledge of the amount of the
27 maximum paid claim for the most recent fiscal year, it
28 might be prudent to reduce the maximum indemnity amounts

1 in stages, rather than a single step. The Postal Service
2 should be directed to gather data on the amount of
3 maximum claims in a manner which would avoid privileged
4 matters.

OCA QUESTIONS TO WITNESS NEEDHAM (T8)
SUBMITTED IN ADVANCE OF ORAL CROSS EXAMINATION

The purpose of these questions is to clear up confusion, discrepancies, errors, misunderstandings, etc. which are making it difficult to make direct comparisons of costs and revenues for certified mail, return receipt, and restricted delivery between several cases over time. If these questions are not completely on point, please take any extra steps necessary to provide the appropriate question(s) and answer(s) which will clarify the record. It would be preferable if you would provide a written response to this request for insertion into the record rather than responding orally on the stand. The OCA will move that it be transcribed and incorporated into the record.

1. Please refer to interrogatories OCA/USPS-T8-8 and 9.

The first paragraph of OCA 9 refers to witness Larson's W/P-6, p.2, a copy of which is attached.

This workpaper shows the CRA attributable costs after rates of \$288,586, which is the figure you show in your answer to OCA 8, Table I. You later, on August 15, revised that figure to \$147,859. This number also appears on W/P-6 and is referred to

as Net Attributable Costs, which is \$288,586 less \$134,294 cost of return receipt and less \$6,433 cost of restricted delivery.

Table I of OCA 8 also shows CRA cost for certified mail for Docket No. R94-1 and this Docket of \$305.8 million and \$285.9 million, respectively.

Should some amount of costs for return receipt and restricted delivery be removed from these costs to arrive at Net Attributable Costs comparable to those shown on W/P-6?

If yes, please provide those figures for the record.

If no, please explain why not.

2. Please refer to your answer to OCA 9 (c). There you say that ancillary service revenues should be excluded from certified mail cost coverage calculations. Shouldn't ancillary costs be excluded also? Why or why not? Please explain in detail.

3. If ancillary service costs **should** be excluded, please refer to your answer to OCA/USPS-T8-43 (c). Could you supply a revised response for the record?

SPECIAL SERVICES

USPS-T-22

CERTIFIED MAIL

WP-6

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DEVELOPMENT OF NET ATTRIBUTABLE COSTS (000)'S

	TEST YEAR	
	BEFORE RATES	AFTER RATES
Attributable Costs 1/	\$292,369	\$288,586
Minus return receipt costs 2/	\$136,792	\$134,294
Minus restricted delivery costs 3/	\$6,553	\$6,433
Net attributable costs	\$149,024	\$147,859

1/ USPS-T-17.

2/ All the return receipt costs from the special study are netted out, with the exception of the return receipt returning through the mailstream. This cost is picked up separately--as forms 3811/3811A, unattached--in the cost system. See the Summary Description, LR F-2.

3/ See WP-13.

OCA-401
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005417

Competitor and Postal Service Insurance Rates

Indemnity Amount	RPS	UPS	FEDEX*	Airborne**	DHL	Express Mail	Priority	Registered
\$ 0 - 50	\$0.00	\$0.00	\$0.00	\$0.00	\$0.70	\$0.00	\$0.75	\$4.95
\$ 50 - 100	\$0.00	\$0.00	\$0.00	\$0.00	\$1.40	\$0.00	\$1.60	\$4.95
\$100 - 200	\$0.35	\$0.35	\$0.50	\$0.65	\$2.10	\$0.00	\$2.50	\$5.40
\$200 - 300	\$0.70	\$0.70	\$1.00	\$1.30	\$2.80	\$0.00	\$3.40	\$5.40
\$300 - 400	\$1.05	\$1.05	\$1.50	\$1.95	\$3.50	\$0.00	\$4.30	\$5.40
\$400 - 500	\$1.40	\$1.40	\$2.00	\$2.60	\$4.20	\$0.00	\$5.20	\$5.40
\$500 - 600	\$1.75	\$1.75	\$2.50	\$3.25	\$4.90		\$6.10	\$5.85
\$600 - 700	\$2.10	\$2.10	\$3.00	\$3.90	\$5.60			\$5.85
\$700 - 800	\$2.45	\$2.45	\$3.50	\$4.55	\$6.30			\$5.85
\$800 - 900	\$2.80	\$2.80	\$4.00	\$5.20	\$7.00			\$5.85
\$900 - 1,000	\$3.15	\$3.15	\$4.50	\$5.85	\$7.70			\$5.85
\$1,000 - 1,100	\$3.50	\$3.50	\$5.00	\$6.50	\$8.40			\$6.30
\$1,100 - 1,200	\$3.85	\$3.85	\$5.50	\$7.15	\$9.10			\$6.30
\$1,200 - 1,300	\$4.20	\$4.20	\$6.00	\$7.80	\$9.80			\$6.30
\$1,300 - 1,400	\$4.55	\$4.55	\$6.50	\$8.45	\$10.50			\$6.30
\$1,400 - 1,500	\$4.90	\$4.90	\$7.00	\$9.10	\$11.20			\$6.30
\$1,500 - 1,600	\$5.25	\$5.25	\$7.50	\$9.75	\$11.90			\$6.30
\$1,600 - 1,700	\$5.60	\$5.60	\$8.00	\$10.40	\$12.60			\$6.30
\$1,700 - 1,800	\$5.95	\$5.95	\$8.50	\$11.05	\$13.30			\$6.30
\$1,800 - 1,900	\$6.30	\$6.30	\$9.00	\$11.70	\$14.00			\$6.30
\$1,900 - 2,000	\$6.65	\$6.65	\$9.50	\$12.35	\$14.70			\$6.30
\$2,000 - 2,100	\$7.00	\$7.00	\$10.00	\$13.00	\$15.40			\$6.75
\$2,100 - 2,200	\$7.35	\$7.35	\$10.50	\$13.65	\$16.10			\$6.75
\$2,200 - 2,300	\$7.70	\$7.70	\$11.00	\$14.30	\$16.80			\$6.75
\$2,300 - 2,400	\$8.05	\$8.05	\$11.50	\$14.95	\$17.50			\$6.75
\$2,400 - 2,500	\$8.40	\$8.40	\$12.00	\$15.60	\$18.20			\$6.75
\$2,500 - 2,600	\$8.75	\$8.75	\$12.50	\$16.25	\$18.90			\$6.75
\$2,600 - 2,700	\$9.10	\$9.10	\$13.00	\$16.90	\$19.60			\$6.75
\$2,700 - 2,800	\$9.45	\$9.45	\$13.50	\$17.55	\$20.30			\$6.75
\$2,800 - 2,900	\$9.80	\$9.80	\$14.00	\$18.20	\$21.00			\$6.75
\$2,900 - 3,000	\$10.15	\$10.15	\$14.50	\$18.85	\$21.70			\$6.75
\$3,000 - 3,100	\$10.50	\$10.50	\$15.00	\$19.50	\$22.40			\$7.20
\$3,100 - 3,200	\$10.85	\$10.85	\$15.50	\$20.15	\$23.10			\$7.20
\$3,200 - 3,300	\$11.20	\$11.20	\$16.00	\$20.80	\$23.80			\$7.20
\$3,300 - 3,400	\$11.55	\$11.55	\$16.50	\$21.45	\$24.50			\$7.20
\$3,400 - 3,500	\$11.90	\$11.90	\$17.00	\$22.10	\$25.20			\$7.20

Competitor and Postal Service Insurance Rates

Indemnity Amount	RPS	UPS	FEDEX*	Airborne**	DHL	Express Mail	Priority	Registered
\$3,500 - 3,600	\$12.25	\$12.25	\$17.50	\$22.75	\$25.90			\$7.20
\$3,600 - 3,700	\$12.60	\$12.60	\$18.00	\$23.40	\$26.60			\$7.20
\$3,700 - 3,800	\$12.95	\$12.95	\$18.50	\$24.05	\$27.30			\$7.20
\$3,800 - 3,900	\$13.30	\$13.30	\$19.00	\$24.70	\$28.00			\$7.20
\$3,900 - 4,000	\$13.65	\$13.65	\$19.50	\$25.35	\$28.70			\$7.20
\$4,000 - 4,100	\$14.00	\$14.00	\$20.00	\$26.00	\$29.40			\$7.65
\$4,100 - 4,200	\$14.35	\$14.35	\$20.50	\$26.65	\$30.10			\$7.65
\$4,200 - 4,300	\$14.70	\$14.70	\$21.00	\$27.30	\$30.80			\$7.65
\$4,300 - 4,400	\$15.05	\$15.05	\$21.50	\$27.95	\$31.50			\$7.65
\$4,400 - 4,500	\$15.40	\$15.40	\$22.00	\$28.60	\$32.20			\$7.65
\$4,500 - 4,600	\$15.75	\$15.75	\$22.50	\$29.25	\$32.90			\$7.65
\$4,600 - 4,700	\$16.10	\$16.10	\$23.00	\$29.90	\$33.60			\$7.65
\$4,700 - 4,800	\$16.45	\$16.45	\$23.50	\$30.55	\$34.30			\$7.65
\$4,800 - 4,900	\$16.80	\$16.80	\$24.00	\$31.20	\$35.00			\$7.65
\$4,900 - 5,000	\$17.15	\$17.15	\$24.50	\$31.85	\$35.70			\$7.65
Maximum Liability	\$25,000	\$50,000	\$500 Letter \$50,000 Box	\$5,000	\$25,000	\$500	\$600	\$25,000+

Notes:

* Different liability limits for FEDEX Letters and Boxes.

**Airborne requires that any package with a declared value of greater than \$5,000 receive headquarter's approval for shipment.