

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

POSTAL RATE AND FEE CHANGES, 2006

Docket No. R2006-1

DIRECT TESTIMONY
OF
DREW MITCHUM
ON BEHALF OF
UNITED STATES POSTAL SERVICE

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AUTOBIOGRAPHICAL SKETCH

1
2

3 My name is Drew A. Mitchum. I am currently an economist in the office of
4 Pricing at the United States Postal Service. Prior to joining the Postal Service in
5 July, 2004, I was employed by the National Association of Home Builders
6 (NAHB), starting in 2002. At NAHB, I was the Manager, Economics and
7 Statistical Research. My responsibilities there included providing research
8 support to senior staff, researching and writing articles, and maintaining the
9 national, regional, and state forecasts. From 2001 to 2002, I worked at the
10 NASDAQ Stock Market as a Market Data Specialist. My responsibilities were
11 generally related to product management, but also included ensuring the integrity
12 of the data that were disseminated, and writing technical documents. From
13 2000 to 2001 I worked in the Economic Research department of the National
14 Association of Securities Dealers and the NASDAQ Stock Market. From 1997 to
15 1999 I was an associate in the Research department at Watson Wyatt Worldwide
16 (WWW). My work at WWW related to research on defined contribution pension
17 plans. I began my professional career as a Labor Economist at the Bureau of
18 Labor Statistics in the Office of Employment Projection, from 1994 to 1997.

19 I received a Master of Arts degree in Economics from Georgia State
20 University in 1993, and a Bachelor of Science degree in Managerial Economics
21 from Lynchburg College in Virginia in 1991.

22 This is the first time I am testifying before the Postal Rate Commission.

23

1 **I. PURPOSE AND SCOPE**
2

3 The purpose of my testimony is to propose fee and classification changes
4 for the following special services: address correction service, Certificate of
5 Mailing, Confirm[®], Insurance, Mailing List Services (Address Changes for
6 Election Boards, Address Sequencing, Correction of Mailing Lists, and ZIP
7 Coding of Mailing Lists), Parcel Air Lift, Registered Mail, and Special Handling. I
8 also present the proposal for a new approach for paying for forwarding and return
9 of Standard Mail letters and flats that bear a Forwarding Service Requested
10 endorsement.

11 The discussion on each special service in this testimony will demonstrate
12 the need for fee and classification changes by showing how each of the
13 proposals is consistent with the applicable statutory criteria.

1 II. GUIDE TO TESTIMONY AND SUPPORTING DOCUMENTATION

2

3 In addition to my testimony, supporting spreadsheets, in hard copy and
4 electronic formats, are provided in Library Reference L-124. My testimony also
5 references special service revenue and volume histories in Library Reference L-
6 75, and the special service fee history in Library Reference L-76.

7 Witness Thomas E. Thress (USPS-T-7) provided the Before and After Rates
8 volume forecasts. These forecasts were used both directly and indirectly to
9 develop the before and after rates in my workpapers.

10 Witness Lillian Waterbury (USPS-T-10) has prepared rollforwards of costs
11 to the test year under both the current rate and fee schedules, and the proposed
12 rate and fee schedules (respectively, test year before rates (TYBR) and test year
13 after rates (TYAR)) by subclass including cost estimates for certain special
14 services. I use these test year cost estimates to develop prices. In particular the
15 following special services rely on these costs:

- 16 • Insurance
- 17 • Registered Mail
- 18 • Special Handling

19
20 Witness James W. Page (USPS-T-23) prepares the costs for the following
21 services, all of which are used to develop prices:

- 22 • Certificates of Mailing
- 23 • Confirm®
- 24 • Correction of Mailing Lists
- 25 • Insurance
- 26 • Zip Coding of Mailing lists

27

1 Witness Samuel T. Cutting (USPS-T-26) provides costs associated with
2 Undeliverable as Addressed (UAA) mail. These costs are used in developing
3 prices for address correction service and the proposed Standard Mail Forwarding
4 option.

5 Witness Susan W. Berkeley (USPS-T-39) uses data from my workpapers to
6 develop her summary revenue sheets.

7 I sponsor my workpapers, which are presented in USPS-LR-L-124, Special
8 Services and Standard Mail Forwarding Pricing Spreadsheets.

1 **III. PRICING AND CLASSIFICATION CRITERIA**

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

- 5 1. the establishment and maintenance of a fair and equitable schedule;
6
7 2. the value of the mail service actually provided each class or type of
8 mail service to both the sender and the recipient, including but not
9 limited to, the collection, mode of transportation, and priority of
10 delivery;
11
12 3. the requirement that each class of mail or type of mail service bear the
13 direct and indirect postal costs attributable to that class or type plus
14 that portion of all other costs of the Postal Service reasonably
15 assignable to such class or type;
16
17 4. the effect of rate increases upon the general public, business mail
18 users, and enterprises in the private sector of the economy engaged in
19 the delivery of mail matter other than letters;
20
21 5. the available alternative means of sending and receiving letters and
22 other mail matter at reasonable costs;
23
24 6. the degree of preparation of mail for delivery into the postal system
25 performed by the mailer and its effect upon reducing costs to the
26 Postal Service;
27
28 7. simplicity of structure for the entire schedule and simple, identifiable
29 relationships between the rates or fees charged the various classes of
30 mail for postal services;
31
32 8. the educational, cultural, scientific, and informational value to the
33 recipient of mail matter; and
34
35 9. such other factors as the Commission deems appropriate.
36
37

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

- 4
5 1. the establishment and maintenance of a fair and equitable
6 classification system for all mail;
7
- 8 2. the relative value to the people of the kinds of mail matter entered
9 into the postal system and the desirability and justification for
10 special classifications and services of mail;
11
- 12 3. the importance of providing classifications with extremely high
13 degrees of reliability and speed of delivery;
14
- 15 4. the importance of providing classifications which do not require an
16 extremely high degree of reliability and speed of delivery;
17
- 18 5. the desirability of special classifications from the point of view of
19 both the user and the Postal Service; and
20
- 21 6. such factors as the Commission may deem appropriate.
22

1 **IV. PROPOSALS**

2 **A. Address Correction Service**

3 1. Proposal

4 I am proposing both pricing and classification changes for address
 5 correction service. Included in the changes will be the addition of a new
 6 automated option, with lower fees, as well as some fee differentiation by class of
 7 mail. As a result, there will be many fee changes, including both increases and
 8 decreases.

9

10

Table 1 – Address Correction

<u>Description</u>	<u>Current Fee</u>	<u>Proposed Fee</u>	<u>Percentage Change From Current to Proposed Fee</u>
Manual correction notice, each	\$0.75	\$0.50	-33%
Electronic correction notice			
First-Class Mail, each	\$0.21	\$0.06	-71%
Other Classes, each	\$0.21	\$0.25	19%
Automated correction (letters)			
First-Class Mail			
First two notices, each	N/A	\$0.00	N/A
Additional notices, each	N/A	\$0.05	N/A
Standard Mail			
First two notices, each	N/A	\$0.02	N/A
Additional notices, each	N/A	\$0.15	N/A

11

12 2. Description

13 The Postal Service provides address correction service to mailers who
 14 wish to receive a forwarding address, corrected address, or a reason why mail is

1 undeliverable. Notifications of address correction are sent to mailers by hard
2 copy for the manual option, or electronically, for the electronic option. Address
3 correction service is available alone or in combination with forwarding or return
4 requests. In order to receive address correction service, mailpieces must bear a
5 preprinted endorsement.

6 Manual address correction service provides a photocopy of the mail
7 piece with the recipient's forwarding address on a USPS Form 3547 card for
8 First-Class Mail, Standard Mail, or Package Services.

9 The electronic option is designed to provide changes of address and
10 reasons for non-delivery electronically. The electronic option relies on clerks in
11 the CFS unit to make address corrections which are then forwarded electronically
12 to the mailers.

13 In FY 2005, 84 percent of address corrections were electronic option and
14 16 percent were manual option. In 2005, Standard Mail electronic corrections
15 accounted for 99.8 percent, First-Class Mail electronic corrections accounted for
16 68.0 percent, and Periodicals electronic corrections accounted for 89.2 percent of
17 the total address correction volume.

18

19 3. Revenue, Volume and Fee History

20 A detailed revenue and volume history is presented in Library Reference
21 L-75, and the fee history is presented in Library Reference L-76.

22

1 4. Fee Design

2 The proposed fee for manual address correction service was designed
3 by applying a reasonable mark up to the test year unit cost of 40 cents with
4 appropriate rounding.¹

5 A distinction between First-Class Mail and the other classes is proposed
6 for electronic address correction service. First-Class Mail service includes
7 forwarding or returning the mail piece in the price of postage, so the additional
8 cost of providing address correction service via the electronic option is lower for
9 First-Class Mail pieces than for other classes of mail. The proposed fees for
10 electronic address correction service for these mailpieces reflect this difference,
11 with First-Class Mail having a lower price. While the electronic option for other
12 classes would have a price increase, the mailers choosing this option would
13 benefit from being charged this fee even when they receive manual notices.
14 Currently, they are charged the electronic fee for those electronic notices they
15 receive and the manual fee for the manual notices they receive.² This can result
16 in much larger than expected charges, if the number of manual notices received
17 is large.

18 A new automated option is planned. The automated option will rely on
19 address corrections being processed automatically by the Postal Automation
20 Redirection System (PARS).³ Only letters would be eligible for the new
21 automated address correction service because only letters are processed

¹ Cost from LR-L-124, WP-14, with contingency.

² The application of differential fees can happen even if the mailer has met all of the requirements necessary to receive notices electronically.

³ A detailed discussion of PARS is presented in section II(A)(2) of Witness McCreery's testimony

1 through PARS. The savings result because human intervention is not needed to
2 provide notice to the mailer.

3 The new pricing structure proposed for automated address correction
4 service would make a distinction between those letters that are mailed at First-
5 Class Mail rates, and those mailed as Standard Mail. Both the Postal Service
6 and the mailers using the automated address correction service would benefit
7 from the low fees. The lower prices are intended to encourage mailers to use
8 address correction service and then use the corrected addresses they receive to
9 improve the quality of their mailing lists. The result should be more effective
10 mailings for the mailers and lower Undeliverable as Addressed (UAA) rates for
11 the Postal Service.

12

13 5. Pricing Criteria

14 The proposed prices are modest and establish a fair and equitable fee
15 schedule. Letters which are eligible for the new automated option and First-
16 Class Mail pieces warrant lower prices, because the address correction service
17 costs associated with them are lower. The change that prohibits the manual fee
18 when the customer requests and qualifies for electronic service is more fair for
19 customers (Criterion 1).

20 Address correction service covers all of its own costs, and makes a
21 modest contribution to institutional costs, with a cost coverage of 101.4 percent
22 (Criterion 3).

1 There is only one fee increase proposed, limited to the electronic option
2 for classes of mail other than First-Class Mail. This reflects the deaveraging of
3 the fees by class, and the lower cost of providing address correction notices to
4 users of First-Class Mail. The sole fee increase is reasonable and should not
5 negatively affect the mailers using the service, especially since the automated
6 option offers a lower price for letter mailers (Criterion 4).

7 Putting low cost automated address changes in the hands of customers
8 has the potential to reduce the amount and cost of undeliverable as addressed
9 mail (Criterion 6).

10 The structure remains simple, although the structure has added
11 additional fees. The added fees are lower than existing options in all cases, and
12 provide clear, identifiable relationships between the fees charged (Criterion 7).

13

14 6. Domestic Mail Classification Schedule Changes

15 I am proposing that DMCS sections 610.12 and 911.22 change the
16 reference from “electronic address correction service” or “automated address
17 correction service” which have been used interchangeably, to “automated or
18 electronic address correction service.” This would make the sections apply to
19 both the existing electronic option and the new automated option.

20 Consistent with my proposed changes to address correction service, I
21 propose the following changes to the DMCS (in italics):

911.22 Automated or electronic address correction service is available to mailers who can receive computerized address corrections and meet the barcoding and other requirements specified by the Postal Service. Automated address correction service is limited to First-Class Mail and Standard Mail mailers who meet address hygiene requirements, as specified by the Postal Service.

911.41 Address correction service serves as a prerequisite for Shipper Paid Forwarding, and for the forwarding option for Standard Mail letters and flats in part a of section 353.

911.51 The fees for address correction service are set forth in Fee Schedule 911. These fees do not apply when the correction is provided incidental to the return of the mailpiece to the sender. The “Automated” fees are available for mailers meeting address hygiene requirements, as specified by the Postal Service.

1
2 The address hygiene requirements are included so that mailers continue to use
3 National Change of Address (NCOA) or similar systems that improve mailing lists
4 before a mailing, instead of choosing a no-fee address correction service option.

5 7. Classification Criteria

6 The proposed classification changes are fair and equitable, as they
7 better recognize that providing address correction service notices to mailers
8 using different classes and shapes of mail impose different costs on the Postal
9 Service. Making address correction service a prerequisite for the proposed
10 Standard Mail forwarding option for letters and flats also is fair and equitable,
11 because it limits the proposed option to mailers who do what is needed to make
12 the proposed option workable (Criterion 1).

13 Revising DMCS 911.22 to specify the two options other than manual for
14 which customers may be eligible reflects the separate electronic and automated
15 options that would be offered under the proposal.

1 Address correction service provides mailers with notices for inaccurate
 2 addresses. This gives the mailers an opportunity to reduce their costs by not
 3 mailing to bad addresses; this is enhanced by the new automated option. This
 4 benefits both the mailer and the Postal Service (Criterion 5).

6 B. Certificate of Mailing Service

7 1. Proposal

8 I am proposing an overall 11 percent increase to certificate of mailing
 9 fees. The proposed changes are presented in Table 5. The resulting overall cost
 10 coverage proposed for certificate of mailing service is 141 percent.

11
 12 **Table 2 – Certificates of Mailing**

<u>Description</u>	<u>Current Fee</u>	<u>Proposed Fee</u>	<u>Percentage Change From Current to Proposed Fee</u>
<u>Individual Pieces</u>			
Original Certificate	\$0.95	\$1.05	11%
Firm Mailing Book	\$0.30	\$0.35	17%
Each Additional Copy	\$0.95	\$1.05	11%
<u>Bulk Pieces</u>			
First 1,000 pieces	\$4.75	\$5.50	16%
Each additional 1,000 Pieces or fraction	\$0.55	\$0.60	9%
Duplicate Copy	\$0.95	\$1.05	11%

14 2. Description

15 Certificates of mailing are provided for mailers who wish to retain an
 16 independent verification that mail has been presented to the Postal Service for

1 mailing. This service provides evidence of mailing but does not provide a record
2 of delivery. There are three types of certificates of mailing: 1) Form 3817 for
3 verification of single-piece First-Class Mail (including Priority Mail) or Package
4 Services; 2) Form 3877 for verification of mailings of three or more pieces
5 recorded in a firm book or customer manifest, and 3) Form 3606 for verification of
6 a bulk mailing.

7

8 3. Revenue, Volume and Fee History

9 A detailed revenue and volume history is presented in Library Reference
10 L-75, and the fee history is presented in Library Reference L-76.

11

12 4. Fee Design

13 The proposed certificate of mailing fees are designed to attain a
14 moderate overall cost coverage of 141 percent. The unit cost of 75 cents⁴ for the
15 basic certificate was marked up by 30 cents to attain an implicit cost coverage of
16 140 percent; the firm mailing book unit cost of 26 cents⁵ was marked up by 9
17 cents to attain an implicit cost coverage of 133 percent; the first 1,000 bulk cost
18 of \$3.77⁶ was marked up by \$1.72 to attain an implicit cost coverage of 146
19 percent; and, the additional 1,000 bulk cost of 38 cents⁷ was marked up by 22
20 cents to attain an implicit cost coverage of 160 percent, with each fee conforming
21 to a nickel rounding constraint.

⁴ Cost from LR-L-124, USPS-T-40, WP-14 with contingency.

⁵ Ibid.

⁶ Ibid.

⁷ Ibid.

1

2 5. Pricing Criteria

3 The proposed certificate of mailing fees are fair and equitable and reflect
4 a balanced consideration of the pricing criteria (Criterion 1).

5 Certificate of mailing service provides evidence that mail has been
6 presented to the Postal Service for mailing, and thus provides a significant value
7 of service to individuals requiring evidence of mailing (Criterion 2).

8 The proposed fees individually cover the costs of the service and provide
9 a reasonable contribution to other costs (Criterion 3).

10 The lower than system-wide cost coverage and moderate increases
11 proposed ensure that the proposed fees will have little adverse effect on users
12 (Criterion 4).

13 The proposed fees maintain a simple identifiable relationship with each
14 other (Criterion 7).

15

16 **C. Confirm[®] service**

17 1. Proposal

18 I am proposing classification changes, a new pricing structure, and new
19 fees for Confirm[®] service.

20

21 2. Description

22 By providing information about mail, Confirm[®] service is an integral part
23 of the Postal Service's overall effort to provide greater value to mailers. Confirm[®]

1 service can help mailers better manage their businesses and enhance their
 2 relationships with their customers. There are two types of Confirm[®] service:
 3 *Destination* Confirm[®] service for outgoing mail, and statements; and Origin
 4 Confirm[®] service for incoming reply mail. Mailers thus can use Confirm[®]
 5 information to learn when outgoing mail is nearing delivery or when reply pieces
 6 have entered the mail stream. Mailers can use Confirm[®] to more precisely align
 7 their business processes and resources with the actual processing and delivery
 8 of the mail.

9

10 3. Fee History

11 A detailed revenue and volume history is presented in Library Reference
 12 L-75, and the fee history is presented in Library Reference L-76. This product
 13 was introduced in Docket No. MC2002-1, at which time the following price
 14 schedule was implemented:

15

Table 3 – Current Confirm[®] Fee Structure

Description	Fee
Silver Subscription	
Subscription Fee (3 months)	\$2,000
Additional ID Codes (lesser of 3 months or end of subscription term)	500
Additional Scans (block of 2 million)	500
Gold Subscription	
Subscription Fee (12 months)	4,500
Additional ID Codes (lesser of 3 months or end of subscription term)	2,000
Additional Scans (block of 6 million)	750
Platinum Subscription	
Subscription Fee (12 months)	10,000
Additional ID Codes (lesser of 3 months or end of subscription term)	2,000

16

1 4. Proposed Pricing Structure

2 The proposed pricing structure involves purchasing units, which are
3 used to obtain scans; the use of units allows the Postal Service to in effect
4 charge different fees for scans based on the class of mail. The use of units also
5 provides the Postal Service flexibility in adding other types of scans in the future,
6 which may or may not have a fee associated with them, without incurring
7 substantial programming costs. In essence, units may become the mechanism
8 for obtaining revenue for various forms of information about the mail.

9 Currently, the information available via Confirm[®] is limited to individual
10 automated piece handlings of letters and flats. A “scan,” which is the datum
11 generated by a single pass on automated mail processing equipment, is the
12 logical element to price. However, to the extent information regarding containers
13 (rather than individual pieces) becomes available, for example, and this
14 information is to be provided through the Confirm[®] infrastructure, the current
15 “scan-based” pricing structure may not be appropriate. To add flexibility, I am
16 proposing that “units” replace “scans” as the “currency” for paying for these types
17 of information. This will allow for the current Confirm[®] classification to be
18 expanded as new information becomes available, rather than creating a separate
19 new classification with yet another unit of measure for charging for new types of
20 information. For example, generating and receiving information that a container
21 has moved to a particular facility may be significantly different than today’s
22 passive scan on automated equipment. A “scan” in today’s terms may not be

1 adequate. A “unit” system would provide a mechanism to expand the types of
2 data available without creating multiple subscriptions or accounts.

3 Another advantage of a unit-based system is that it allows for other
4 differentiation, also. My proposal provides an example of this differentiation and
5 further supports the introduction of the unit-based system. In this instance, I am
6 proposing that the data provided regarding scans (as in the current Confirm®
7 service) be differentiated by class. The barcode used to generate the data
8 contains a class designation which allows for this differentiation. First-Class Mail
9 scans are proposed to be set at one unit each, while Standard Mail scans are
10 proposed to be set at 5 units each.

11 The proposed new pricing structure eliminates the three subscription tier
12 levels and replaces them with a single annual user fee of \$5,000, which includes
13 1 million units. Additional units will be available to Confirm® subscribers in blocks
14 of 1 million units at prices that decrease after certain thresholds have been met.
15 Each of the first nine blocks of additional units will cost \$70, the next 90 blocks of
16 units will cost \$35 each, and each additional block in excess of 99 will cost
17 \$17.50. Units purchased during the period covered by the user fee expire at the
18 end of the year (starting with the date that the annual user fee is paid). Upon the
19 beginning of a new year, users will again start buying blocks of units at the \$70
20 level.

1 **Table 4 – Proposed Confirm[®] Fee Structure**

2

User Fee	\$	5,000
Additional IDs		
Annual	\$	2,000
Quarterly		750
Blocks of One Million Units		
1st to 9th	\$	70.00
10th to 99th		35.00
100th or more		17.50
Units per Scan Received		
First-Class Mail		1
Other Classes		5

3

4 This new structure eliminates the subscription tiers, and therefore the
 5 unlimited scans that currently come with the Platinum tier. The declining block
 6 price structure for the units still makes the effective unit price very low (but not
 7 zero, as is the case today) at higher volumes. Also, although today's passive
 8 scans have a very low marginal cost for the Postal Service, future enhancements
 9 of scans may not, so having at least a modest price in place for all scans suits
 10 the longer term development of Confirm[®]. Furthermore, regardless of the fate of
 11 future enhancements, a modest charge for incremental units helps cover the cost
 12 of the program. This enhances fairness and equity among the users of Confirm[®].

13

14 5. Classification Changes

15 The follow changes to the Domestic Mail Classification Schedule are
 16 proposed, with the new language underlined:

17 **991.12** Mailers may purchase Confirm[®] service by
 18 subscribing to the service. Included with the subscription are
 19 one subscriber identification (ID) code and 1 million units,
 20 which are used to acquire scan information. Additional units
 21 can be purchased, but units expire at the end of the

1 subscription period [one or more of the following service
2 levels: Silver, Gold, or Platinum].
3

4 **991.31** Mailers [must] become Confirm® subscribers by
5 applying to, and being authorized by the Postal Service.
6 Authorization requires that a customer demonstrate the
7 capabilities of producing mailpieces with Confirm-compatible
8 barcodes, [and, for Destination Confirm, providing electronic
9 notice of entering Confirm prior to or contemporaneous with
10 mail entry, all] as specified by the Postal Service.
11

12 **991.32** Qualifying mail must bear a [PLANET] barcode[s] or
13 other coding, as specified by the Postal Service.
14

15 Sections 991.121, 991.122, 991.123, 991.52 are proposed for elimination
16 as they become irrelevant to the product under this proposal.

17 6. Fee Design

18 The Confirm® service pricing structure was designed such that the
19 revenues would cover costs of \$1,200,890. Most of the revenue would be
20 recovered through the annual user fee, but a significant portion would be
21 recovered through the additional unit fees. The revenues for the product are
22 estimated at \$1,517,297, resulting in a cost coverage of 126.3 percent.

23 While the Postal Service believes that this product has the potential of
24 being widely used and can greatly benefit mailers, demand for the product has
25 not met the forecast used in MC2002-3. As such, the Postal Service feels that
26 the best way to promote this product and encourage its adoption by the mailing
27 community is to offer the service at prices that produce only a modest cost
28 coverage.
29

1 7. Pricing Criteria

2 The proposed fees for Confirm[®] service are fair and equitable,
3 particularly because all users are charged the same fee for a set number of units.
4 Larger users would pay more than small users, but benefit from a pricing
5 structure that charges lower fees for blocks of scans at higher thresholds. They
6 would also pay for any level of additional usage, rather than pay no fee at all for
7 high usage levels (Criterion 1).

8 Confirm[®] service enhances the value of the host pieces for which it is
9 used. When Confirm[®] service is used to track remittances, both the consumer
10 and business benefit, because this service can verify if the “check is in the mail”.
11 For outgoing mail pieces the mailer can estimate when their service provider
12 actually deposited the mail, or when a catalog has reached a customer (Criterion
13 2).

14 The full direct and indirect costs for this service would be covered by the
15 proposed fees (Criterion 3).

16 The proposed change to the rate structure should have minimal impact
17 on business mail users and other enterprises that utilize Confirm[®] service.
18 Additionally, the modest price increases proposed are necessary to ensure that
19 the service can cover its costs and continue to be provided by the Postal Service
20 (Criterion 4).

21 The pricing structure for Confirm[®] service is simple, with easily
22 identifiable relationships between the fees charged. Three subscription levels
23 have been replaced with one pricing structure for all users (Criterion 7).

1

2 8. Classification Criteria

3 The proposed classification changes for Confirm[®] service are designed
4 to be fair and equitable. This is accomplished in part by replacing the three
5 existing subscription levels with a single annual fee that treats all Confirm[®] users
6 equally. Additionally, all users face the same set of prices for a given level of
7 units. However, once certain volume thresholds are hit the price of the next
8 block would be reduced. This price reduction is consistent with the fixed nature
9 of most of the costs for this product, which lowers average costs per unit for
10 larger users (Criterion 1).

11 The Postal Service believes that the proposed classification changes will
12 place the product on a better financial foundation, allowing the product to
13 generate adequate revenue to cover its costs. The users of the service will
14 benefit from the classification changes because the resulting pricing structure
15 enables the Postal Service to continue providing Confirm[®] service at fair and
16 equitable prices (Criterion 5).

17 The proposed change to DMCS 991.31 would eliminate the requirement
18 to provide prior electronic notice of entering the mail, for Destination Confirm[®]
19 customers, because customers found the requirement burdensome. Moreover,
20 the proposed change to DMCS 991.32 would provide mailers and the Postal
21 Service with flexibility as to the appropriate type of coding to place on Confirm[®]
22 mail so that it can be scanned.

23

1 **D. Insurance**

2 1. Proposal

3 I am proposing both fee and classification changes for insurance. The
 4 classification changes would remove the signature requirement for items insured
 5 from \$50.01 to \$200. For items insured for \$200 or less, including current
 6 “unnumbered” items insured for \$50 or less, the operational plan is to obtain a
 7 delivery scan. Additionally, I am proposing a revised pricing structure for
 8 Express Mail insurance.

9 **Table 5 – Proposed Insurance Fees and Structure**

Regular Insurance	
Amount of Insurance	Proposed Fee
\$0.01-50.00	\$1.65
\$50.01-100.00	\$2.05
\$100.01-200.00	\$2.45
\$200.01-300.00	\$4.60
Fee per Additional \$100 over \$300	\$0.90
Insurance with Bulk Discount	
Amount of Insurance	Proposed Fee
\$0.01-50.00	\$0.85
\$50.01-100.00	\$1.25
\$100.01-200.00	\$1.65
\$200.01-300.00	\$3.80
Fee per Additional \$100 over \$300	\$0.90
Express Mail Insurance	
\$0.01-100.00	Included
\$100.01 to \$200.00	\$0.75
\$200.01 to \$500.00	\$2.10
Fee per Additional \$500 over \$500	\$1.35

10

11 In response to cost changes, including cost reductions from not
 12 obtaining a signature for items insured from \$50.01 to \$200, fee changes are

1 proposed for every cell, including many fee reductions. With one exception, all
2 changes in the fees for Express Mail insurance will be reductions as well.

3

4 2. Description

5 Insurance is a special service that provides indemnity coverage for lost,
6 rifled or damaged articles. The fees for insurance are based on the value of the
7 article (from \$0.01 to \$5,000). Insurance is available for Express Mail, Package
8 Services, Standard Mail parcels (bulk insurance only), First-Class Mail (including
9 Priority Mail) containing matter mailable as Standard Mail or Package Services,
10 and government mail. A per-piece discount is available for bulk mailers who mail
11 a minimum of 10,000 insured mail pieces annually. Insurance for up to \$50 in
12 value is unnumbered, and is delivered as regular mail. Insurance for over \$50 in
13 value is numbered, using a barcode that is scanned at delivery, and the
14 recipient's signature is obtained.

15 One-hundred dollars of indemnity coverage is included with Express
16 Mail. Additional insurance is available for fees comparable to those charged for
17 regular insurance.

18 I would note that the insurance product offered by the Postal Service is
19 very labor intensive, including both window clerk and carrier costs. Most items
20 mailed with insurance are presented at the window and require the clerk to
21 interact with the customer. The indemnity portion of the costs is often less than
22 the costs associated with the clerk or the carrier.

23

1 3. Planned Changes

2 The Postal Service's plan is to include a barcode for all insured items,
3 which will be scanned at delivery. For items insured for over \$200, the recipient's
4 signature will also be obtained.

5 The addition of a barcode to items valued up to \$50 will enhance the
6 product by allowing customers to file insurance claims online, eliminating the
7 need to go to a Post Office to file a claim. Online claims filing will help the Postal
8 Service ensure that the customer has completely filled out the claim request,
9 reducing the number of incomplete claims that are filed. The ability to file claims
10 online, along with the ability to better track nearly half of insured mail volume
11 represented by those items insured for less than \$50, is in the best interest of the
12 Postal Service and its customers, and justifies a slightly higher fee for these
13 items. It is my understanding, moreover, that scanning these mail pieces at
14 delivery may help the Postal Service reduce package loss and fraudulent claims
15 for these items.

16 Delivery Confirmation, parcel airlift, Signature Confirmation, and Special
17 Handling would be available in conjunction with insurance. Return receipts and
18 restricted delivery would be available for items insured for more than \$200.
19 Return Receipt for Merchandise would be available for items insured for \$200 or
20 less.

21 The Postal Service is also proposing to charge lower fees for Express Mail
22 insurance, given the low average indemnity costs for these items. Coverage for
23 up to \$100 in value would continue to be included in postage. For additional

1 insurance, the mailer would pay \$0.75 for the first additional \$100 of insurance,
2 and \$2.10 for insurance for items valued between \$200 and \$500. The
3 incremental fee for items valued in excess of \$500 would be \$1.35 per \$500
4 increments, or fraction thereof.

5 In addition, the Postal Service seeks to have its regular insurance liability
6 for negotiable items, currency, or bullion capped at \$15. This would match the
7 limitation currently in effect for Express Mail insurance.

8

9 4. Revenue, Volume and Fee History

10 A detailed revenue and volume history is presented in Library Reference
11 L-75, and the fee history is presented in Library Reference L-76.

12

13 5. Proposed Pricing Structure

14 The proposed fee of \$1.65 for items insured for \$50 or less is an
15 increase of 19.2 percent, but results in a relatively low implicit cost coverage of
16 118 percent. Eliminating the signature for items insured from \$50.01 to \$200
17 reduces costs, allowing price reductions for items insured at these levels; see
18 LR-L-59, page 2 of attachment 6. Under the proposal, items insured from \$50.01
19 to \$100 would have a price reduction of \$0.25 to \$2.05, and an implicit cost
20 coverage of 137 percent. Items insured for a value between \$100.01 and \$200
21 would see a price reduction of \$0.90 to \$2.45, and an implicit cost coverage of
22 142 percent. As a result of the restructuring of the prices for insurance service, I
23 am proposing a 14 percent reduction in the fee for each additional \$100 of

1 insurance above \$300 from \$1.05 to \$0.90, which results in a proposed price
2 reduction for all items insured for more than \$400. The price for items insured for
3 a value from \$200.01 to \$300, the first level to still require a signature, would
4 increase by 4.5 percent, from \$4.40 to \$4.60, and those items insured for a value
5 between \$300.01 and \$400 would increase by 1 percent, from \$5.45 to \$5.50.

6 As a result of the changes to the insurance product there will be only one
7 bulk insurance discount. The amount of the proposed discount is \$0.80, which is
8 a 33 percent increase from the current “unnumbered” discount of \$0.60, and no
9 change from the current “numbered” discount. This discount reflects the cost
10 savings realized by the Postal Service. See USPS-LR-L-59, page 1 of
11 attachment 6.

12 The fees for additional Express Mail insurance are proposed to change
13 from the current \$1.05 per additional \$100 of coverage to \$0.75 for the first \$100
14 increment, \$2.10 for items insured from \$200.01 to \$500, and then \$1.35 for
15 each \$500 increment above \$500. This results in a significant fee decrease for
16 most increments, with no increase for any level of coverage.

17

18 6. Classification Changes

19 The following DMCS sections should be changed to read as follows, with
20 changes underlined:

21 **943.231** For General Insurance, the mailer is issued a
22 receipt for each item mailed. For items insured for more
23 than \$200, a record of delivery is retained by the Postal
24 Service for a specified period.
25

1 7. Pricing Criteria

2 Given the high level of value provided by this service, the proposed
3 product changes, and the price decreases for 48 of the 51 fee levels in this
4 product, the proposal satisfies Criterion 1, the establishment and maintenance of
5 a fair and equitable schedule. The proposal reflects the interests of the
6 customers by offering reduced fees in many instances and upgraded service in
7 others.

8 The value of service to insurance customers is very high, as these
9 customers can receive reimbursement for lost, stolen, or damaged articles.
10 Moreover, allowing retail customers to file claims electronically for items valued
11 under \$50 will enhance value (Criterion 2).

12 The revenue generated by insurance will cover the costs of the service
13 plus provide a modest amount of contribution toward the institutional costs faced
14 by the Postal Service (Criterion 3).

15 With only 3 of the 51 separate fees experiencing a price increase, and
16 with some fees being reduced by as much as 27 percent, I am confident that
17 customers generally would benefit, and any adverse impact on customers would
18 be minimal. I recognize that there is a significant increase for customers insuring
19 items valued below \$50. However, as previously described, I believe the
20 affected customers will experience a superior product in return (Criterion 4).

21 There are many alternatives to insurance, such as insurance offered by
22 Postal Service competitors and private insurance companies. I do not expect

1 that this proposal would have a negative impact on these competitors as the
2 competitors offer insurance with different characteristics (Criterion 5).

3 Adding a barcode to the current “unnumbered” insurance product will
4 assist in processing of the packages through the postal system, and will assist
5 the Postal Service in its efforts to reduce cost by improving organizational
6 efficiency (Criterion 6).

7 The simple pricing structure has remained basically the same and
8 continues to clearly present the fees charged. The fee structure for Express Mail
9 insurance is substantially simplified, given the proposed \$500 increments
10 (Criterion 7).

11

12 8. Classification Criteria

13 As stated above, the classification changes for this product reduce fees
14 for a significant portion of insurance customers and improves the service offering
15 for many other customers; thus, these classification changes are fair and
16 equitable (Criterion 1).

17 The changes are also desirable from the point of view of both the user
18 and the Postal Service. Moreover, they reflect the relative value to customers of
19 lower and higher value items, in terms of whether the cost of obtaining a
20 signature upon delivery is justified. For items valued from \$100 to \$200, the
21 indemnity is 43 cents, far below the \$1.32 cost of obtaining the recipient's
22 signature. For items valued over \$200, the indemnity exceeds \$1.10, justifying
23 the retention of the signature requirement (Criterion 5). See LR-L-59, page 3 of
24 attachment 6.

1

2

E. Mailing List Services – Address Changes for Election Boards

3

1. Proposal

4

5

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Table 6 – Address Changes for Election Boards

<u>Description</u>	<u>Current Fee</u>	<u>Proposed Fee</u>	<u>Percentage Change From Current to Proposed Fee</u>
Per Change of Address	\$0.28	\$0.32	14%

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2. Description

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To keep address lists current, election boards or voter registration commissions may use the "Return Service Requested" endorsement and/or the National Change of Address (NCOA) system. Alternatively election boards can request for individual postmasters provide change-of-address information through this special service for an applicable fee. An authorized official of the board or commission submits a written request to the district manager for address management systems asking for change-of-address information from specific post offices. Upon approval, an agreement is signed by the board or commission official outlining the terms under which the change-of-address information can be released. The postmasters of the individual offices in the request are responsible for providing the change-of-address information to the

1 boards and commissions. The boards and commissions pay the post offices
2 performing the service directly. Irrespective of the number of changes made on
3 the card and whether or not the individual is on the board's or commission's
4 established list, a flat fee is charged per address card change.

5

6 3. Revenue, Volume and Fee History

7 A detailed revenue history is presented in Library Reference L-75, and
8 the fee history is presented in Library Reference L-76.

9

10 4. Fee Design

11 The proposed 32-cent fee was designed by using the correction of
12 mailing lists cost of 31.8 cents⁸ as a proxy, and rounding up to the nearest whole
13 cent.

14

15 5. Pricing Criteria

16 Due to the pivotal role played by election boards in our democracy, the
17 potential adverse effect of a fee increase on election boards was a major
18 consideration (Criterion 4). However, the fee needs to increase in order to cover
19 costs. In recognition of the public service function performed by address
20 changes for election boards and voter registration, a low cost coverage is
21 proposed. The 101 percent proposed cost coverage covers the cost for this
22 service and at the same time provides a minimal contribution to institutional costs

⁸ Cost from LR-L-124, USPS-T-40, WP-14 with contingency.

1 (Criterion 3). Address changes for election boards and registration commissions
 2 provide a significant value to voter registration commissions (Criterion 2), which
 3 can maintain accurate names and address lists for their respective precincts, and
 4 further promote correct registration of voters. Also, keeping a low markup over
 5 costs for address changes helps reduce costs for the Postal Service by
 6 enhancing address quality (Criterion 6). Based on the aforementioned criteria,
 7 the proposed fee for address changes for election boards is fair and equitable
 8 (Criterion 1).

9

10 **F. Mailing List Services – Address Sequencing**

11 1. Proposal

12 I am proposing to increase the fee for address sequencing service from
 13 30 cents to 33 cents for chargeable corrections. This proposal results in a 104
 14 percent cost coverage. Table 4 below presents the current and proposed fees
 15 for address sequencing.

16

17

Table 7 – Address Sequencing

<u>Description</u>	<u>Current Fee</u>	<u>Proposed Fee</u>	<u>Percentage Change From Current to Proposed Fee</u>
Per correction	\$0.30	\$0.33	10%

18

1 2. Description

2 Address sequencing is a special service that provides mailers with
3 addresses on a route sorted into delivery sequence.

4 Mailers can choose from three levels of address sequencing service that
5 are currently being offered by the Postal Service. At the first level, basic carrier
6 route walk sequencing is performed, including the removal of undeliverable or
7 incorrect addresses. The second level includes the prescribed service of the first
8 level with the added service of indicating missing addresses. The third level
9 includes the same service as the second level plus the indication of new or
10 omitted addresses.

11 The Postal Service charges a fee for each incorrect or undeliverable
12 address removed and for each new address added. The Postal Service does not
13 charge mailers for sequencing addresses in carrier route walk sequence,
14 showing a range of missing addresses, converting a rural address to a city
15 delivery address, or for limited address corrections.⁹

16

17 3. Fee History

18 A detailed fee history is presented in Library Reference L-76.

19

⁹If obvious omissions or errors (not those omissions or errors that would affect delivery) are noticed during sequencing, corrections are allowed to be made free-of-charge. Otherwise, an incorrect address would not be corrected free-of-charge.

1 4. Fee Design

2 The proposed fee for address sequencing was developed by marking up
3 the per piece correction of mailing lists cost of 31.8 cents¹⁰. The correction of
4 mailing lists cost per correction was used as a proxy, and a reasonable rounding
5 constraint was applied.

6 5. Pricing Criteria

7 This service has a very low cost coverage reflecting the benefit the
8 service provides to both the mailer and the Postal Service. These prices are
9 both fair and equitable (Criterion 1).

10 Address sequencing provides a relatively high value to its users.
11 Address sequencing saves time and also enhances a smooth operation between
12 businesses and customers by ensuring proper addressing by businesses
13 (Criterion 2).

14 The proposed fee covers the cost of the service and makes a
15 reasonable contribution to other costs (Criterion 3).

16 To mitigate the effect of the increase on users, a lower markup is
17 justified (Criterion 4).

18 With properly sequenced addresses, mailers can prepare cleaner mail
19 that lowers processing costs for the Postal Service (Criterion 6). The proposed
20 fee maintains a simple identifiable relationship with the correction of mailing lists
21 fee (Criterion 7).

22

¹⁰ Cost from LR-L-124, USPS-T-40, WP-14 with contingency.

1 **G. Mailing List Services – Correction of Mailing Lists**

2 1. Proposal

3 I am proposing to increase the current fee by 10 percent from 30 cents
4 to 33 cents per correction. The minimum per list charge is also proposed to
5 increase from \$9.00 to \$9.90 per list. The proposed cost coverage is 103
6 percent. Table 7 below presents the current and proposed fee for correction of
7 mailing lists.

8

9 **Table 8 – Correction of Mailing Lists**

<u>Description</u>	<u>Current Fee</u>	<u>Proposed Fee</u>	<u>Percentage Change from Current to Proposed Fee</u>
Per submitted address	\$0.30	\$0.33	10%
Minimum Charge	\$9.00	\$9.90	10%

10

11 2. Description

12 Correction of mailing lists is a special service provided to eligible mailers
13 upon request. Eligible mailers may submit a name and address list, or an
14 occupant (address only) list to the Postal Service for correction. The corrections
15 and updates include crossing out names of people to whom the mail can neither
16 be delivered nor forwarded, providing new addresses when a permanent
17 forwarding order is on file, correcting misspelled addressee names and street
18 names, correcting ZIP Codes and post office box or rural box numbers, and, if
19 known, providing the name of the head of the household when two or more
20 names with the same address appear on the list. When an occupant list is

1 submitted, the corrections and updates include deleting invalid addresses,
2 providing the number of units in multiple unit dwellings, correcting ZIP Codes,
3 ZIP Coding business and rural addresses, correcting street names, and placing
4 directional signals to indicate carrier route information.

5

6 3. Revenue, Volume and Fee History

7 A detailed revenue history is presented in Library Reference L-75, and
8 the fee history is presented in Library Reference L-76.

9

10 4. Fee Design

11 The proposed fee for correction of mailing lists service was designed by
12 applying a reasonable mark up over the unit cost of 31.8¹¹ cents. The resulting
13 cost coverage is 104 percent. The minimum per list fee was designed by
14 calculating the per address fee for 30 addresses.

15

16 5. Pricing Criteria

17 Based on the review of the criteria, the proposed fee is fair and
18 equitable. It covers the associated cost and encourages the correction of mailing
19 lists which benefits both the customers and the Postal Service (Criterion 1).

20 The value of correction of mailing lists is high to the users of the service
21 (Criterion 2), who either do not have the capability or prefer not to utilize other
22 alternatives for correcting addresses.

¹¹ Cost from LR-L-124, USPS-T-40, WP-14 with contingency.

1

2 3. Revenue and Fee History

3 A detailed revenue history is presented in Library Reference L-75, and
4 the fee history is presented in Library Reference L-76.

5

6 4. Fee Design

7 The proposed ZIP Coding of mailing list fee was designed by applying a
8 reasonable markup over the cost per thousand addresses.¹² A five dollar
9 rounding constraint was applied.

10

11 5. Pricing Criteria

12 Based on the criteria below, the proposed fee is fair and equitable
13 (Criterion 1).

14 ZIP Coding of mailing list service is relatively highly valued by business
15 users (Criterion 2).

16 The Postal Service, through proper ZIP Coding of mailers' lists, improves
17 the communications potential between businesses and their customers. Proper
18 ZIP Coding results in less returned mail and a greater potential for increased
19 business. At the proposed cost coverage of 165 percent, the proposed fee
20 covers its cost and makes a reasonable contribution to institutional costs
21 (Criterion 3).

¹² LR-J-124, USPS-T-40, WP-14 with contingency.

1 Proper ZIP Coding reduces cost for the Postal Service, since it is
 2 cheaper to handle mail with a proper ZIP Code than mail not properly ZIP Coded
 3 (Criterion 6).

4

5 I. Parcel Airlift

6 1. Proposal

7 I am proposing an overall increase of the current fees by 11 percent.
 8 The zero to two pound category would be increased by 11 percent, from \$0.45 to
 9 \$0.50. The two to three pound category would increase by 11 percent, from
 10 \$0.90 to \$1.00. The three to four pound category would increase by 12 percent,
 11 from \$1.30 to \$1.45. The over-four pounds category would increase by 11
 12 percent, from \$1.80 to \$2.00. Table 9 below presents the current and proposed
 13 fees for parcel airlift service.

14

15

Table 10 – Parcel Airlift

<u>Description</u>	<u>Current Fee</u>	<u>Proposed Fee</u>	<u>Percentage Change From Current to Proposed Fee</u>
Up to 2 pounds	\$ 0.45	\$0.50	11%
2 to 3 pounds	\$ 0.90	\$1.00	11%
3 to 4 pounds	\$ 1.30	\$1.45	12%
Over 4 pounds	\$ 1.80	\$2.00	11%

16

1 2. Description

2 Parcel airlift service provides air transportation of parcels on a space-
3 available basis to or from military post offices (MPOs) outside the 48 contiguous
4 states (from the post office of origin to the appropriate port of embarkation) for
5 onward dispatch to other overseas MPOs or (from the port of embarkation for
6 onward dispatch) to a post office within the 48 contiguous states. Parcel airlift
7 service is available for Package Services mail that does not exceed 30 pounds in
8 weight or 60 inches in length and girth combined, when it is mailed at or
9 addressed to any overseas military post office outside the 48 contiguous states.

10

11 3. Revenue, Volume and Fee History

12 A detailed revenue and volume history is presented in Library Reference
13 L-75, and the fee history is presented in Library Reference L-76.

14

15 4. Pricing Criteria

16 The proposed fees for parcel airlift service are fair and equitable
17 (Criterion 1).

18 Customers who choose parcel airlift service are willing to pay the current
19 fees for the benefits this service provides. Parcel airlift is a high value service to
20 customers desiring airlift for their parcel post mailings to MPOs (Criterion 2).

21 The proposed parcel airlift fees will result in revenues that are more
22 likely to recover the associated test year costs and contingency, as well as
23 contribute to other costs. Though unit cost measurement difficulties are

1 recognized, there is no reason to believe that costs have stayed constant, or
2 declined (Criterion 3).

3 The proposed parcel airlift fees represent an 11 percent increase which
4 should not be burdensome, given the high value of the service (Criterion 4).

5 Priority Mail is another means for expediting handling and in many cases
6 is less expensive than parcel post combined with parcel airlift fees. At the same
7 time, a fee increase will not harm private sector alternatives (Criterion 5).

8 The proposed parcel airlift fee schedule is simple, composed of only four
9 fee cells distinguished by weight (Criterion 7).

10

11 **J. Registered Mail**

12 1. Proposal

13 I am proposing an average increase of 50 percent for Registered Mail
14 service in an effort to raise the revenue from this service above its cost. Under
15 the Postal Service version of the Cost and Revenue Analysis (CRA) this service
16 has been priced below costs for the past few years. The proposed cost coverage
17 for Registered Mail service is 102 percent.

18

19 2. Description

20 Registered Mail service offers the most secure method of sending
21 valuable articles through the Postal Service. To ensure that all Registered Mail
22 items are accounted for, each postal employee handling this mail signs a receipt
23 from the point of acceptance to the point of delivery. Registered Mail is

1 processed and kept in more secure areas than the normal processing area.
2 Registered Mail is also transported in sealed containers and additional
3 precautionary measures may be taken in the case of high value shipments of
4 Registered Mail. The customer is provided with a mailing receipt, and delivery
5 scan information is available. The Postal Service retains a delivery record for the
6 item.

7 Registered Mail fees are based on the declared value of the article.
8 Postal insurance is included, but the maximum insured value is \$25,000. For
9 items valued over \$25,000, there is an incremental handling charge per \$1,000 in
10 value up to \$15 million. For items valued above \$15 million, special
11 arrangements are made, and charges are determined on the basis of weight,
12 space, and value of the article. Especially for high value pieces, Registered Mail
13 shipments may require additional security service, such as armed guards.

14 Return receipt and restricted delivery services may be purchased in
15 conjunction with Registered Mail service.

16

17 3. Revenue, Volume and Fee History

18 A detailed revenue and volume history is presented in Library Reference
19 L-75, and the fee history is presented in Library Reference L-76.

20

21 4. Fee Design

22 The proposed Registered Mail fees are designed so that they reach a
23 level sufficient to cover costs. The fee for Registered Mail without monetary value

1 is proposed to increase by 51 percent to \$11.95. The next fee level is proposed
2 to increase by 50 percent to \$12.70, and the \$100.01 to \$500 fee level is
3 proposed to increase by 50 percent to \$14.00. Each remaining fee level is
4 proposed to increase by \$1.35 over the previous level, a 50 percent increase
5 over the current \$0.90 fee increment. A nickel rounding constraint was applied to
6 all of the proposed Registered Mail fees.

7

8 5. Pricing Criteria

9 Based on the criteria presented below the proposed Registered Mail
10 fees are fair and equitable (Criterion 1).

11 Registered Mail provides a high value of service. Insurance is included
12 with Registered Mail service for up to \$25,000 of the value. Articles with a
13 declared value of more than \$25,000 can be registered, but indemnity claims are
14 restricted to \$25,000. A much higher cost coverage would normally be preferred
15 given that value, but consideration of criterion 4 argues against that. In fact,
16 consideration of the impact on customers served to significantly reduce the cost
17 coverage. Otherwise a much higher coverage would have been in order
18 (Criterion 2).

19 The proposed fees cover their costs and make a contribution to
20 institutional costs (Criterion 3).

21 The proposed fee increases are likely to be accepted by the users of this
22 service due to its high value of service, though there will be some erosion in
23 demand as a result of the proposed fees. During the last year, a Registered Mail

1 task force studied Registered Mail's operations, costs, customer needs, and fee
2 structure. The task force report is provided in Library Reference L-60. While the
3 report did not reach any conclusions that would alter my proposal, it does present
4 some ideas for operational improvement that might reduce Registered Mail costs
5 in the future (Criterion 4).

6 There are available alternatives to Registered Mail. The Postal Service
7 provides mailers with two alternatives. Postal insurance and Express Mail both
8 provide insurance coverage of up to \$5,000 in value. Both of these alternatives
9 are likely to result in a quicker delivery in exchange for a decrease in the security
10 of transfer. Express Mail can provide a high level of security because it is
11 transferred from mailer to recipient so quickly. Also, other shippers offer secure
12 delivery service similar to Registered Mail, and armored guard services are also
13 available (Criterion 5).

14 The proposed fee schedule is simple (Criterion 7) and provides an
15 identifiable relationship between the incremental levels and the accompanying
16 handling charge, which are both proposed to be \$1.35. Furthermore, the
17 proposed fee for Registered Mail without value is simple and maintains an
18 identifiable relationship with the proposed fee for the first value level.

1

2 **K. Special Handling**

3 1. Proposal

4 I am proposing to increase special handling fees by 10 percent. The
5 table below presents the current and proposed special handling fees and percent
6 change.

7

Table 11 – Special Handling

<u>Description</u>	<u>Current Fee</u>	<u>Proposed Fee</u>	<u>Percentage Change From Current to Proposed Fee</u>
Up to 10 pounds	\$ 6.25	\$6.90	10%
Over 10 pounds	\$ 8.70	\$9.60	10%

8

9 2. Description

10 Special handling provides expedited handling for Package Services and
11 First-Class Mail (including Priority Mail) during processing and transportation.
12 Special handling fees vary by weight. C.O.D., insurance, and return receipt for
13 merchandise services may be added. This service is required for items
14 containing live poultry, crickets, honey bees, or similar items, unless sent at First-
15 Class Mail rates.

16

17 3. Revenue, Volume and Fee History

18 A detailed revenue and volume history is presented in Library Reference
19 L-75, and the fee history is presented in Library Reference L-76.

1

2 4. Pricing Criteria

3 The proposed fees are fair and equitable and reflect a balanced
4 consideration of the criteria below (Criterion 1).

5 Customers who choose special handling are willing to pay fees similar to
6 the current fee levels for the benefits this service provides. Special handling is a
7 high value service to customers whose mailings require extra handling effort and
8 transportation consideration, such as live animals (Criterion 2).

9 The proposed special handling fees would generate revenues that will
10 cover the associated test year costs and contingency with a cost coverage of 116
11 percent (Criterion 3).¹³

12 The proposed special handling fees represent a 10 percent increase,
13 which should not be burdensome (Criterion 4).

14 Unless sent at First-Class Mail or Priority Mail rates, certain items, such
15 as live animals, must be sent using special handling service (DMM 503.12.2.4).
16 But First-Class Mail, including Priority Mail, is an alternative means for expediting
17 handling (Criterion 5).

18 Special handling mailers must prepare items, in the case of live animals,
19 in a way that protects them from harm. Working together, mailers and the Postal
20 Service give these items additional preparation and handling that aids the
21 prevention of avoidable costs during handling, or for clean-up, or disposal
22 (Criterion 6).

¹³ My understanding is that that the accuracy concerns identified by witness Daniel (Docket No. R2000-1, USPS-T-28, at 30-31) with regard to special handling costs in the CRA have been

1 The proposed special handling fee schedule is simple, composed of only
2 two fee cells distinguished by weight (Criterion 7).

3

4 **L. Standard Mail Forwarding**

5 1. Proposal

6 I am proposing a new approach for calculating postage due for
7 forwarding Standard Mail letters and flats requesting electronic or automated
8 address correction service. Using information provided by these mailers, the
9 Postal Service has the capability of charging mailers for each mailpiece that is
10 forwarded, rather than applying a multiplicative factor to the postage due on the
11 pieces returned to the mailer, as described in DMCS 353.

12 2. Description

13 The existing method of charging mailers for forwarded Standard Mail is
14 based on an inability to count the forwarded pieces for a particular mailer. As a
15 result, a weighted rate is applied to Standard Mail pieces returned to the mailer,
16 in order to charge for the forwarded pieces as well.

17 Forwarded Standard Mail letters and flats for which automated or
18 electronic address correction service was requested can be counted for the
19 requesting mailer. In such instances, I propose that the mailer pay for forwarding
20 (if requested) in a manner other than the currently available weighted charge.

21 The charges for forwarding would be determined by the actual number of pieces
22 forwarded, as tallied by the address correction service system. The system
23 would rely on data in the key line or the barcode to identify the mailer and

resolved.

1 properly assign the charge. Returned pieces would be charged at the First-Class
2 Mail rate, instead of the weighted charge.

3 For those mailers that choose not to use either the electronic or
4 automated address correction service, forwarding and return postage will
5 continue to be assessed through the mechanism defined in the current section
6 353 of the DMCS.

7

8 3. Price Design

9 The proposed rates for forwarding the mail are based on applying a cost
10 coverage similar to that charged for First-Class Mail, roughly 230 percent, with
11 rounding constraints applied. The costs for forwarding Standard Mail letters and
12 flats are derived from the Undeliverable as Addressed (UAA) costs sponsored by
13 Witness Cutting (USPS-T-26). Those costs are 15.3 cents for letters and 45.6
14 cents for flats, which, using a roughly 230 percent cost coverage and a nickel
15 rounding constraint, result in prices of \$0.35 for letters and \$1.05 for flats.¹⁴

16

17 4. Classification Changes

18 I am proposing to amend DMCS 353, and to add DMCS sections 321.9,
19 322.9, 323.9, and 324.9, as follows:

20 **353 Forwarding and Return**

21 Undeliverable-as-addressed Standard Mail, except Regular
22 and Nonprofit Presort category mail entered as Customized
23 Market Mail under sections 321.22 and 323.22, will be
24 returned on request of the mailer, or forwarded and returned
25 on request of the mailer. Undeliverable-as-addressed

¹⁴ Witness Cutting (USPS-T-26) Appendix A

1 combined First-Class and Standard Mail pieces will be
 2 returned as specified by the Postal Service. Except as
 3 provided in section 935, the applicable First-Class Mail rate is
 4 charged for each piece receiving return only service. Except
 5 as provided in sections 935 and 936, charges for forwarding-
 6 and-return service are assessed as follows:

7 a. if used in conjunction with Address Correction Service
 8 (automated or electronic),

9 i. Returned pieces are charged the appropriate First-Class
 10 Mail rate.

11 ii. Forwarded pieces are charged as described in section
 12 321.9, 322.9, 323.9, or 324.9.

13 b. if used in conjunction with Address Correction Service
 14 (manual) or if no Address Correction Service requested,
 15 returned pieces are charged the appropriate First-Class Mail
 16 rate for the piece plus the rate multiplied by a factor equal to
 17 the number of Standard Mail pieces successfully forwarded
 18 (using this method of payment) for every one piece that
 19 cannot be forwarded and must be returned.

20 Additionally, I am proposing adding the following new sections to the DMCS:

21 321.9, 322.9, 323.9, and 324.9. Each of which would read

22 **32X.9 Standard Mail Forwarding¹⁵**

23 As described in section 353, undeliverable-as-addressed
 24 Standard Mail that is forwarded on request of the mailer who is
 25 a user of Address Correction Service (automated or electronic)
 26 is charged the appropriate rate in note 7 to Rate Schedule
 27 32X. Mail for which Standard Mail Forwarding is purchased
 28 must meet preparation requirements and bear endorsements
 29 as specified by the Postal Service. Payment for Standard Mail
 30 Forwarding is made through advance deposit account, or as
 31 otherwise specified by the Postal Service.

¹⁵ The X here and in the following sentence would be replaced with the appropriate section number, as presented in the proposed DMCS language in Attachment A to the Request.

1 I also propose to add a note 7 to Rate Schedules 321, 322, 323, and 324, to read
2 as follows:

3 7. Letters forwarded as defined in Classification Schedule
4 353(a) are charged \$0.35 per piece. Flats forwarded as
5 defined in Classification Schedule 353(a) are charged \$1.05.

6

7 5. Pricing Criteria

8 The proposed prices are fair and equitable in that they would allow
9 mailers to know the amount they will pay for the forwarding of mailpieces
10 originally mailed at the Standard Mail rate, and would offer a more accurate
11 charge for mailers whose ratio of forwards to returns differs from the average
12 (Criterion 1).

13 The prices for the forwarding of Standard Mail are based on the
14 application of the First-Class Mail cost coverage to the costs of forwarding the
15 mailpiece. As such, the prices proposed will easily cover costs (Criterion 3).

16 Depending on the individual mailer, this proposal may be a reduction in
17 the price of this service as it currently exists. Currently, mailers pay as if 1.472
18 times as many pieces are forwarded as are returned.¹⁶ Some may feel that they
19 have fewer pieces forwarded than implied by the weighted charge, and therefore
20 would benefit from the new option. Also, by using address correction service the
21 quality of mailers' address lists should improve, resulting in reduced UAA-related
22 costs (Criterion 4).

¹⁶ DMM 507.1.5.3i

1 Those mailers that choose to use this service will experience little if any
2 change to how they prepare mail for delivery into the postal system. However, if
3 they use address correction service notices to update their mailing lists, both they
4 and the Postal Service are likely to experience reductions in costs (Criterion 6).

5 The proposed structure of the prices is simple because it charges
6 directly for forwarded and returned pieces, rather than applying a weighted
7 charge to returned pieces (Criterion 7).

8

9 6. Classification Criteria

10 The modifications of the classification are fair and equitable and improve
11 the existing classification (Criterion 1).

12 The ability to forward mail with predictable costs for forwarding, along
13 with the provision of address correction service notices for those pieces being
14 forwarded, will enhance the value of Standard Mail (Criterion 2).

15 I am confident that the mailers and the Postal Service will find the option
16 of paying more directly for forwarding of Standard Mail highly desirable (Criterion
17 5).

18

19 **V. CONCLUSION**

20 The discussions of the applicable statutory criteria with respect to each
21 of the special services described above demonstrate the need for the proposed
22 fee and classification changes.