

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

POSTAL RATE AND FEE CHANGES, 2006

Docket No. R2006-1

RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
INTERROGATORY OF DOUGLAS CARLSON
REDIRECTED FROM WITNESS TAUFIQUE
(DFC/USPS-T48-22)

The United States Postal Service hereby files this institutional response to the following interrogatory of Douglas F. Carlson, filed on August 7, 2006:

DFC/USPS-T48-22.

The interrogatory has been redirected from witness Taufique to the Postal Service for response. The interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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**RESPONSE OF THE UNITED STATES POSTAL SERVICE
TO INTERROGATORY OF DOUGLAS CARLSON
REDIRECTED FROM WITNESS TAUFIQUE**

DFC/USPS-T48-22. Please provide all documents produced by the Postal Service since January 1, 2003, that describe potential problems associated with a "Forever Stamp" for the U.S. Postal Service.

RESPONSE

The Forever Stamp proposal in this docket arose from the Postal Service's Docket No. R2005-1 agreement to explore the concept and the February 2006 determination by the Governors that a Forever Stamp proposal be included in the Docket No. R2006-1 request. Between January 2003 and the conclusion of the litigation of Docket No. R2005-1, there was no organized or formal postal examination of the concept that can be documented and, thus, no postal list of "problems" associated with it. Between the conclusion of Docket No. R2005-1 and the filing of Docket No. R2006-1, virtually all of the postal resources devoted to the concept were focused on the development and execution of the market research reflected in USPS LR L-152. In conjunction with that effort, while the proposed Forever Stamp concept was being formulated, the attached "issues" paper was generated.

Since February 2006, personnel from various headquarters departments have been brought together to explore issues related to implementing the Forever Stamp concept now reflected in USPS-T-48. These efforts are expected to generate pre-decisional and privileged communications among responsible personnel at headquarters.

Forever Stamp Issues for Consideration

This paper discusses the concept of a forever stamp that would be valid payment for first ounce First-Class Mail postage, regardless of the current rate. By definition, all stamps issued by the Postal Service are non-expiring in nature and can be used for postage based on the face value of the stamp. A forever stamp would be non-denominational and would remain valid postage for the first ounce of a First-Class Mail single-piece letter forever.

One obvious reason for such a stamp to be issued is convenience to the customers at the time of a rate change. Questions that need to be answered are:

- Do customers find rate changes inconvenient?
- Would a forever stamp add to convenience or confusion?
- Is there a demand for this product?
- Are we trying to fill another void with this product?
- Would this stamp make the use of single-piece First-Class Mail easier?
- Would this stamp make First-Class Mail correspondence more attractive to individual mailers? Will a forever stamp reduce the likelihood that customers will choose nonmail alternatives.
- Would a forever stamp increase Postal Service goodwill with consumers?

Defining the goals clearly would allow for a better focus for the ensuing study.

There are a number of operational and financial issues related to the issuance of such a product. The remainder of this paper discusses the product description and other technical issues related to this concept. This is a work in progress and the list of issues and areas of study is expected to grow before an agreed upon statement of work is prepared.

I. Product Description

A. Design:

Since the stamp is non-denominational and does not have a face value, it has to be recognizable as a forever stamp. From the perspective of both the users of the stamps and Postal Service, this particular stamp has to be recognizable at first glance. Whether it needs to have the word 'forever' written on it or some other commemorative design that makes it distinguishable needs to be studied.

- Would the design remain unchanged?

- How would customers know the value of the stamp? What methods can be used to inform customers of the availability and characteristics of forever stamps?
- How can customer confusion (about the stamp) be minimized?
- Particularly if a premium is charged, how do we fully inform customers of their options (do we need something analogous to cautionary wording on the flat rate box)?
- What is the effect of concurrently-operating forever (nondenominated) stamp program, definitive (denominated) stamp, and commemorative (denominated) stamp programs? Will the forever stamp be an additional design option or will it replace other design options (definitive or commemoratives)?

B. Rate or price (e.g., premium vs. prevailing rate)

The options are to sell this stamp at the existing First-Class Mail postage price or at an X cent premium. Initial qualitative market research (based on 2 cent premium over the existing First-Class Mail postage) suggests demand may exist and indicated that some demand on the part of customers (household and small business) may be for reasons other than convenience. For example, reasons provided had more to do with hedging against inflation and return on investments if the stamps were held for a long enough time period.

Market research results conflict with other, anecdotal observations. E.g. Customers were extremely reluctant to purchase self-adhesive stamps at a small premium. However, the product was extremely attractive with no premium. Conversely, breast cancer semi-postal stamps were popular; however, premium was widely known to go to cancer research, NOT the Postal Service. In addition, customers are often reluctant to purchase new rate postage even in anticipation of a known rate increase. Issues to be studied should include:

- Are customers willing to pay a premium?
- How much of premium are they willing to pay?
- If a premium is charged, how should it be structured? Always X cents greater than First-Class Mail, first ounce rate? Always X percent greater than First-Class Mail, first ounce rate? Should the premium change as postage rates increase over time? If the premium changes, will confusion increase?
- Since this is analogous to an option, are there any financial models that can be used to analyze the value of premium?

- What model could be used to evaluate the financial effect of no premium?

C. Restrictions on use:

As discussed to date, the forever stamp would only be used in single-piece mailings of First-Class Mail letters, flat or parcel shaped pieces weighing one ounce or less. The stamps will not be eligible for any bulk mailings or any other classes of mail.

- Could the Forever Stamp be used for the first-ounce of a First-Class Mail piece weighing more than one ounce?
- Do we need to proscribe use of the forever stamp on bulk mailings or any other classes of mail?
- Could forever stamps be used on international mail? Are there UPU or other restrictions on the use of nondenominated stamps on international mail?
- Do we need additional restrictions?

D. Availability

The availability of the forever stamp will depend, in part, on how we view the purpose of the stamp. For example, if it is seen as a “bridge” during a rate change, perhaps these stamps would be made available for sale only a few weeks before an impending rate change.

- Should forever stamps be available regularly at retail counters across the country?
- Should availability be limited to a defined period prior to a rate change?
- Should there be a limit on the quantities purchased?
- Should the forever stamp format be limited (e.g., available only in sheets, booklets, coils)? Does the format offered affect use by bulk mailers or retention?
- Should they be available to all buyers or should the sale be restricted to individuals?
- Should they be available through Stamps-by-Mail order or Stamps-Online purchasers?
- Should forever stamps be available in consignment locations? Should forever stamps be made available to other commercial resellers (e.g.,

card store, small merchants) not in the consignment program for resale to their customers?

- Should they be available in all post office-based, consumer sales channels (e.g., window, vending, APCs)?

II. Technical Issues

A. Consumer issues/demand:

As was stated earlier in the discussion of premium, preliminary market research suggests some demand for the product even at a premium price; but some anecdotal observations would suggest that customers are reluctant to pay premium for postal product whose acceptance rate is fairly high once the product is sold without a premium. Self-adhesive stamps are an example of this phenomenon. On the other hand, breast cancer semi-postal stamps were popular when it was known that the premium was to go to cancer research and NOT the Postal Service.

Benefits to the individual single-piece customers will need to be balanced by the concerns of other parties, including businesses that sell nonstamp indicia (meter imprints or online postage), or those paying postage using a permit indicia, and those using USPS nonstamp indicia products (APCs) that permit mailing of light weight pieces. Presort bureaus may have concerns as well. Both these issues may become a greater concern, especially if no premium is charged for forever stamps.

- What are the concerns of customers and postage suppliers who use nonstamp indicia?
- How can these concerns be addressed?
- What is the effect of the decision to charge a premium on these concerns?
- Are there demographic concerns that need to be addressed (e.g., minimum number offered to maintain affordability for low-income customers)?
- Will offering a forever stamp raise confusion about the value of previously-issued, nondenominated, fixed value stamps (e.g., "A" stamp etc., and makeup stamps)?
- What are the characteristics of a cost-effective educational program for consumers?

B. Financial effects (e.g., effect on total revenues, revenue requirement, contribution)

Financial benefits and risks to the Postal Service need to be analyzed in the light of following questions.

- How many stamps are in circulation outside of those retained for philatelic purposes? How would offering a forever stamp change this?
- How many stamps are actually misplaced and never used? How would offering a forever stamp change this?
- Would customers retain forever stamps for reasons other than those associated with stamp rate changes? For example, would this stamp be considered an investment tool to be left in safety deposit boxes for grandchildren?
- Will hoarding (for personal use) or arbitrage (purchase for resale following a rate change) occur and what are the potential financial effects?
- Is there any evidence that higher priced stamps are used prior to the implementation of new rates when higher denomination stamps are available at retail counters earlier?
- What number of forever stamps could be used in a future higher cost environment. What is the financial effect of this use?
- Should the stamp be sold only in a few weeks prior to the implementation of new rates?
- What additional costs are imposed by a forever stamp program (e.g., advertising, consumer education, training, stamp printing)?

C. Operations effects

In considering the forever stamp, the Postal Service will also need to consider operational issues related to retail, revenue assurance, data collection, and other operations.

- What issues exist with the retail sale of forever stamps? What clerk training will be needed?
- What is the effect on stamp destruction costs associated with a rate change?
- Are there revenue assurance issues? Consider retail sales training, postage due assessment and collection, return of spoiled stamp stock.
- Will customers change their stamp buying behavior if a forever stamp is offered? Consider changes in behavior at the time of a rate change as

well as in general. Will any behavioral changes differ depending on when the rate change occurs (near holidays or April 15, middle of year, other).

RPW data collection issues: When a piece with a forever stamp is sampled, how much was paid for the forever stamp? Accounting reconciliation issues need to be studied. What has been the experience of other postal administrations who offer a nonexpiring stamp product? Were the issues associated with the initial introduction of the product or are they ongoing? What customer education tools were used and how effective were they? Given the benefit of hindsight, would these postal administrations choose to offer a nonexpiring stamp again.