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USPS-T-7

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

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POSTAL RATE COMMISSION  
OFFICE OF THE SECRETARY

SPECIAL SERVICES REFORM, 1996

Docket No. MC96-3

DIRECT TESTIMONY  
OF  
SUSAN W. NEEDHAM  
ON BEHALF OF  
UNITED STATES POSTAL SERVICE

POSTAL RATE COMMISSION  
DOCKETED  
JUN 7 1996  
OFFICE OF THE SECRETARY

## CONTENTS

AUTOBIOGRAPHICAL SKETCH.....	ii
I. PURPOSE.....	1
II. PROPOSAL .....	2
III. CHARACTERISTICS.....	6
IV. REVENUE HISTORY.....	9
V. FEE HISTORY.....	11
VI. MARKET RESEARCH.....	11
A. COMMERCIAL MAIL RECEIVING AGENTS.....	11
B. POST OFFICE BOX INVENTORY.....	14
C. PRICE SENSITIVITY.....	17
VII. FEE DESIGN: RESTRUCTURING.....	17
A. DELIVERY OFFICES.....	17
B. NON-DELIVERY OFFICES.....	21
C. CALLER SERVICE.....	22
VIII. FEE DESIGN: NON-RESIDENT FEE.....	23
IX. POST OFFICE BOX SERVICE MEDIA ATTENTION.....	25
X. PRICING CONSIDERATIONS.....	31
A. CONSIDERATION OF FEE INCREASE PRIOR TO DOCKET NO. R94-1.....	31
B. MARKET-BASED PRICING CONSIDERATIONS.....	32
C. PRICING CRITERIA.....	34
D. CLASSIFICATION CRITERIA.....	40

**AUTOBIOGRAPHICAL SKETCH**

My name is Susan W. Needham. I am currently an economist in the Pricing Office of Marketing. I began working for the Postal Service in 1981 as a letter carrier at the McLean, Virginia post office. In that capacity, I gained hands-on experience and knowledge of post office box and caller service. I worked as a secretary at both the Research and Development Laboratories in Rockville, Maryland, and the National Test Administration Center (NTAC) in Alexandria, Virginia. I then worked in the Headquarters Personnel Division as an associate personnel management specialist. With the exception of one year, during which I worked for the Procurement Policies Division as a program analyst, I have worked since 1986 in the Pricing Office (formerly the Rate Development Division) as a staff economist, an economist, and a senior economist since 1986. In 1992, I moved into my current position. I provided substantial technical support for Dockets No. R87-1, R90-1 and R94-1, and since 1991, I have been the special services pricing expert.

Prior to joining the Postal Service, I was a financial analyst for SYSCON Corporation of America (formerly Systems Consultants, Incorporated). My responsibilities there included financial database maintenance for a shipbuilding project, and participation in the development and preparation of Department of Defense budgets.

I received bachelor's degrees in business administration and economics from Catawba College in Salisbury, North Carolina. I have been working toward a master's degree in business administration, with an emphasis in finance, at Marymount University in Arlington, Virginia.

1    **I.    PURPOSE**

2

3           The purpose of this testimony is to present proposed changes to the  
4 post office box and caller service fee structures. In addition to redesigning the  
5 fee structure, this testimony proposes both increases and decreases to  
6 current post office box fees and increases to current caller service fees.

7

8           The U.S. Postal Service has conducted extensive research aimed at  
9 pricing the premium product line of post office boxes commensurate with cost  
10 and consumer demand. This has led to a new pricing approach that considers  
11 the relatively low cost coverage of 115 percent for post office boxes  
12 recommended in Docket No. R94-1, an intent to seek higher post office box  
13 service fees prior to Docket No. R94-1, the necessity for higher fees to pay for  
14 expansion of box service to meet customer demand, a recognition that the  
15 current fee differences between city carrier and rural carrier delivery offices  
16 are no longer justified, a policy that box service should be free to local  
17 customers in offices with no carrier delivery, updated costs that show some  
18 current fees to be below cost, and the need to mitigate increases on post  
19 office box service customers.

1    **II.    PROPOSAL**

2

3           The Postal Service proposes to combine the existing fee groups I and II  
4 and replace them with four new fee groups: A, B, C and D. The Postal  
5 Service proposes to rename Group III as Group E, and supply post office box  
6 service free-of-charge to local customers in this group who are not eligible for  
7 carrier delivery. Customers currently in Group III who are eligible for carrier  
8 delivery would pay the proposed Group D fees for post office box service.  
9 Further, this testimony proposes increasing the fees in Groups A through C an  
10 average of 24 percent, and in Group D by 100 percent, over the current fees.  
11 All box fees are proposed to be collected on a semi-annual basis.

12

13           An additional fee for customers obtaining box service outside the 5-digit  
14 ZIP Code area where they reside or have a business is also being proposed.  
15 This new fee would not apply to caller service. A uniform fee for caller service  
16 is proposed to be charged by all offices, regardless of fee group. No change  
17 is proposed to the reserved number fee.

18

19           Table I outlines the fee structure proposal, without the non-resident fee,  
20 in comparison to the current fee structure.

TABLE I

COMPARISON OF CURRENT BOX AND CALLER SERVICE FEE  
 STRUCTURE WITH THE PROPOSED BOX AND CALLER SERVICE FEE  
 STRUCTURE WITHOUT THE NON-RESIDENT FEE  
 (ALL FEES EXPRESSED ON A SEMI-ANNUAL BASIS)

	<u>Current Fee</u>	<u>Proposed Fee</u>	<u>Proposed Percentage Increase/Decrease</u>
Subgroup IA		Fee Group A	
Size 1	\$ 24.00	\$ 30.00	25%
Size 2	\$ 37.00	\$ 46.00	24%
Size 3	\$ 64.00	\$ 80.00	25%
Size 4	\$105.00	\$121.00	15%
Size 5	\$174.00	\$209.00	20%
Subgroup IB		Fee Group B	
Size 1	\$ 22.00	\$ 28.00	27%
Size 2	\$ 33.00	\$ 41.00	24%
Size 3	\$ 56.00	\$ 70.00	25%
Size 4	\$ 95.00	\$109.00	15%
Size 5	\$155.00	\$186.00	20%
Subgroup IC		Fee Group C	
Size 1	\$ 20.00	\$ 25.00	25%
Size 2	\$ 29.00	\$ 36.00	24%
Size 3	\$ 52.00	\$ 65.00	25%
Size 4	\$ 86.00	\$ 95.00	10%
Size 5	\$144.00	\$150.00	4%

## TABLE I Cont'd.

COMPARISON OF CURRENT BOX AND CALLER SERVICE FEE  
 STRUCTURE WITH THE PROPOSED BOX AND CALLER SERVICE FEE  
 STRUCTURE WITHOUT THE NON-RESIDENT FEE  
 (ALL FEES EXPRESSED ON A SEMI-ANNUAL BASIS)

	<u>Current Fee</u>	<u>Proposed Fee</u>	<u>Proposed Percentage Increase/Decrease</u>
Group II		Fee Group D	
Size 1	\$ 4.00	\$ 8.00	100%
Size 2	\$ 6.50	\$ 13.00	100%
Size 3	\$ 12.00	\$ 24.00	100%
Size 4	\$ 17.50	\$ 35.00	100%
Size 5	\$ 27.50	\$ 55.00	100%
Group III		Fee Group E	
Size 1	\$ 1.00	\$ 0	(100%)
Size 2	\$ 1.00	\$ 0	(100%)
Size 3	\$ 1.00	\$ 0	(100%)
Size 4	\$ 1.00	\$ 0	(100%)
Size 5	\$ 1.00	\$ 0	(100%)
Caller Service		Caller Service	
Subgroup IA	\$250.00	Fee Group A \$250.00	--
Subgroup IB	\$240.00	Fee Group B \$250.00	4%
Subgroup IC	\$225.00	Fee Group C \$250.00	11%
Group II	\$ 67.00*	Fee Group D \$250.00	273%

\*Calculated based on an estimated 80 percent paying the current size 5 box fee and an estimated 20 percent paying the current subgroup IC caller service fee.

1 Table II outlines the fee structure proposals for non-resident post office  
2 box customers in comparison to the current fee structure.

3

4

## TABLE II

5 **COMPARISON OF CURRENT BOX FEE STRUCTURE WITH PROPOSED**  
6 **FEE STRUCTURE INCLUDING NON-RESIDENT FEE**  
7 **(ALL FEES EXPRESSED ON A SEMI-ANNUAL BASIS)**

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<u>Current Fee</u>	<u>Proposed Fee</u>	<u>Proposed Percentage Increase/Decrease</u>
Subgroup IA	Fee Group A	
Size 1 \$ 24.00	\$ 48.00	100%
Size 2 \$ 37.00	\$ 64.00	73%
Size 3 \$ 64.00	\$ 98.00	53%
Size 4 \$105.00	\$139.00	32%
Size 5 \$174.00	\$227.00	30%
Subgroup IB	Fee Group B	
Size 1 \$ 22.00	\$ 46.00	109%
Size 2 \$ 33.00	\$ 59.00	79%
Size 3 \$ 56.00	\$ 88.00	57%
Size 4 \$ 95.00	\$127.00	34%
Size 5 \$155.00	\$204.00	32%
Subgroup IC	Fee Group C	
Size 1 \$ 20.00	\$ 43.00	115%
Size 2 \$ 29.00	\$ 54.00	86%
Size 3 \$ 52.00	\$ 83.00	60%
Size 4 \$ 86.00	\$113.00	31%
Size 5 \$144.00	\$168.00	17%

1

## TABLE II Cont'd.

2

**COMPARISON OF CURRENT BOX FEE STRUCTURE WITH PROPOSED  
FEE STRUCTURE INCLUDING NON-RESIDENT FEE  
(ALL FEES EXPRESSED ON A SEMI-ANNUAL BASIS)**

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Current FeeProposed Fee

**Proposed  
Percentage  
Increase/Decrease**

Group II

Fee Group D

Size 1	\$ 4.00	\$ 26.00	550%
Size 2	\$ 6.50	\$ 31.00	377%
Size 3	\$ 12.00	\$ 42.00	250%
Size 4	\$ 17.50	\$ 53.00	203%
Size 5	\$ 27.50	\$ 73.00	165%

All fees are shown with the \$18 non-resident fee applied. The non-resident fee does not apply to caller service.

23

**III. CHARACTERISTICS**

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Post office box service generally provides an alternative to carrier mail delivery. Since the vast majority of post office boxes are used by customers eligible for carrier delivery, post office boxes are, for the most part, considered a premium service.

Post office box fees vary by fee group. Group I boxes are located in city delivery offices; this group is broken down into three fee subgroups.

1 Subgroup IA consists of 107 ZIP Code areas in Manhattan, New York, and  
2 charges the highest of all post office box fees. Subgroup IB, with the second  
3 highest post office box fees, contains specific high cost ZIP Code areas in  
4 eight large cities, and their suburbs, nationwide. Subgroup IC, with the third  
5 highest post office box fees, includes all city delivery ZIP Code areas not  
6 specified in subgroups IA and IB. Group II contains all rural carrier delivery  
7 offices. Group III consists of many community post offices, and contract  
8 stations and branches of rural delivery offices. These are generally non-  
9 delivery offices.

10

11 Post office box service is available at most post offices. Post office  
12 boxes vary in size, although all five box sizes may not be available at each  
13 post office. In some offices, customers have convenient 24-hour access to  
14 their boxes. Some offices provide access only during normal operating hours,  
15 usually because of security concerns.

16

17 Individuals use post office box service for a variety of reasons. Some  
18 individuals prefer box service near their place of employment so they can  
19 receive their mail before they arrive home after work. Other individuals  
20 appreciate the privacy features a box provides. These customers may wish  
21 that *certain pieces of mail not be delivered to their residences*. Other  
22 customers prefer the security of delivery which a post office box provides. The

1 desire for a post office box within a prestigious ZIP Code area or city is  
2 another reason for box service.

3

4       Businesses secure box service for a variety of reasons. Some  
5 businesses, like private citizens, prefer not to disclose their street addresses,  
6 or prefer the vanity addresses available in select areas or ZIP Codes. Other  
7 businesses use several boxes to separate general correspondence, billing,  
8 orders, and so forth. Businesses may opt for box service to receive their mail  
9 early in the day. For instance, this permits banking transactions to be  
10 completed before the close of the banking day, thereby maximizing float. Post  
11 office box service also helps businesses respond to mail that same business  
12 day, such as answering correspondence or filling orders.

13

14       As mentioned earlier, boxes are available in five sizes. Box customers  
15 and post office employees work together to determine the appropriate size  
16 box for customers' needs. Customers may request or be requested to move  
17 to a larger size box if their current box is too small to handle the volume of  
18 mail received. Caller service is available for customers whose mail volume  
19 exceeds the space limitations of the largest size box. Caller service mail  
20 addressed to a box number is held separately for pickup by the customer.  
21 Businesses that receive bill payments via caller service find this service

1 valuable for receiving payments early enough in the day to record and deposit  
2 before banks close.

3

4 Post office box fees are currently collected semi-annually, with the  
5 exception of the fees for all box sizes in Group III and box sizes 1 and 2 in  
6 Group II, which are collected annually. The semi-annual and annual fee  
7 collections are less costly to administer than monthly collections, and refunds  
8 are available for customers who cancel box service during their service  
9 periods.

10

#### 11 **IV. REVENUE HISTORY**

12

13 Annual post office box service revenue increased 1,106 percent from  
14 postal reorganization to 1995. Over the past 10 years, annual post office box  
15 service revenue has increased 131 percent; over the past 5 years, 35 percent;  
16 and over the past year, 9 percent.

17

18 With two exceptions over the past 25 years (in 1974 and 1984), post  
19 office box service revenue has steadily increased. Table III shows this  
20 revenue history from 1970 to 1995.

21

TABLE III

## POST OFFICE BOX SERVICE REVENUE HISTORY\*

	<u>Fiscal Year</u>	<u>Revenues</u> <u>(\$000's)</u>
1		
2		
3		
4		
5		
6		
7		
8	1970	44,106
9	1971	48,902
10	1972	58,278
11	1973	81,066
12	1974	63,134
13	1975	66,540**
14	1976	103,339
15	1977	109,030
16	1978	123,605
17	1979	152,930
18	1980	159,948
19	1981	168,339
20	1982	168,049
21	1983	202,050
22	1984	188,055
23	1985	229,891
24	1986	258,582
25	1987	273,262
26	1988	295,631
27	1989	362,318
28	1990	393,807
29	1991	412,625
30	1992	457,200
31	1993	480,969
32	1994	489,217
33	1995	531,803
34		

35 \*Source: Selected Special Service Revenue and Volume Histories  
36 (USPS LR-SSR-115).

37 \*\*Since 1975, includes caller service revenue.

1 **V. FEE HISTORY**

2

3 Since 1958, post office box service fees have increased eight times. In  
4 1970 the fees increased 20 percent, in 1975, 22 percent; in 1978, 38 percent;  
5 in 1981, 8 percent; in 1985, 15 percent; in 1988, 34 percent; in 1991, 25  
6 percent; and, in 1995, 14 percent. The fee history from 1958 to 1995 is  
7 presented in USPS LR-SSR-116.

8

9 **VI. MARKET RESEARCH**

10

11 **A. Commercial Mail Receiving Agents**

12

13 In order to develop a better understanding of the marketplace in which  
14 post office box service operates, the Postal Service contracted with Foster  
15 and Associates to conduct market research on Commercial Mail Receiving  
16 Agents (CMRAs). The purpose of the market research was to obtain general  
17 information from CMRAs on box fees, box availability, box sizes, hours of  
18 operation, and box-related or other services available. All identifiable CMRAs  
19 in Postal Service Groups IA and IB were surveyed along with 299 CMRAs in  
20 Group IC. The details of this survey, including results, appear in witness  
21 Lion's testimony, USPS-T-4.

1 Table IV compares the average fees for the lowest priced CMRA boxes  
 2 with the Postal Service's current and proposed fees for a size 1 box in the  
 3 three fee subgroups in Group I.

4  
 5 **TABLE IV**  
 6 **GROUP I FEE COMPARISONS WITH AVERAGE CMRA FEES**  
 7 **(EXPRESSED SEMI-ANNUALLY)**  
 8  
 9

<u>Fee Sub-Group</u>	<u>USPS Current Fee-Size 1 Box</u>	<u>USPS Proposed Fee-Size 1 Box</u>	<u>CMRA Average Fee for Smallest Box *</u>	<u>Percentage Difference (CMRA vs. Current)</u>	<u>Percentage Difference (CMRA vs. Proposed)</u>
IA	\$24.00	\$30.00	\$144.78	503%	383%
IB	\$22.00	\$28.00	\$ 80.82	267%	189%
IC	\$20.00	\$25.00	\$ 60.96	205%	144%

10 \_\_\_\_\_  
 11 \* USPS-T-4 at 22.

12  
 13 As exhibited in Table IV, even the Postal Service's proposed fees are  
 14 significantly lower than the average CMRA fee for the smallest size box.  
 15 According to witness Lion, moreover, the smallest CMRA boxes are  
 16 significantly smaller than the Postal Service's size 1 boxes.<sup>1</sup> On the other

1 \_\_\_\_\_  
<sup>1</sup> USPS-T-4 at 23.

1 hand, CMRAs offer, to varying degrees, services that are available only on a  
2 limited basis, if at all, in post offices.

3

4 In order to more fully compare the Postal Service's proposed fees with  
5 those of the CMRAs, Table V compares CMRA fees with proposed postal fees  
6 that include the non-resident fee. CMRA fees are still substantially higher  
7 than the Postal Service fees.

8

9

TABLE V

10 **GROUP I FEE COMPARISONS WITH AVERAGE CMRA FEES INCLUDING**  
11 **NON-RESIDENT FEE**  
12 **(EXPRESSED SEMI-ANNUALLY)**  
13

<u>Fee Sub-Group</u>	<u>USPS Proposed Size 1 Box Fee</u>	<u>CMRA Average Fee for Smallest Boxes *</u>	<u>Percentage Difference CMRA vs. Proposed</u>
IA	\$48.00	\$144.78	202%
IB	\$46.00	\$ 80.82	76%
IC	\$43.00	\$ 60.96	42%

14

15 USPS-T-4 at 22.

16

17 CMRAs often negotiate fees based on length of box service. The  
18 longer the box usage period is, the lower the monthly fee. The comparisons in

1 Tables IV and V reflect the average negotiated fees for six-month box service  
2 periods.

3

4 **B. Post Office Box Inventory**

5

6 Witness Lion presents the results of a census of all post offices.<sup>2</sup> The  
7 primary purpose of this census was to determine the total number of post  
8 office boxes by size and delivery group (installed and used). The last time the  
9 Postal Service collected any definitive information on the number of boxes by  
10 size or delivery group was 1985, when the Post Office Profile Survey (POPS)  
11 was performed.

12

13 The study also collected information on the number of post offices for  
14 which all available boxes of a given size are in use. About 38 percent of  
15 postal facilities have all installed boxes of at least one size in use. The study  
16 results show that over 36 percent of the post offices reported space available  
17 for box expansion. In addition, 14 percent of the post offices reported no  
18 unassigned boxes and room for box expansion.<sup>3</sup>

19

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<sup>2</sup> USPS-T-4.

<sup>3</sup> *Id.* at 9-10.

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1 Finally, witness Lion presents a box service cost allocation by group  
 2 and box size.<sup>4</sup> The results show that Group II box service fees currently do  
 3 not cover their costs. The costs range from 138 to 277 percent higher than  
 4 the current fees. See Table VI for the percentages by box size.

5 **TABLE VI**  
 6 **GROUP II CURRENT FEES VERSUS STUDY COSTS**  
 7 **EXPRESSED ANNUALLY**  
 8  
 9

<u>Box Size</u>	<u>Current Fee</u>	<u>Study Cost*</u>	<u>Percentage Study Cost Greater Than Current Fee</u>
1	\$ 8.00	\$ 23.85	198%
2	\$13.00	\$ 32.19	148%
3	\$24.00	\$ 57.20	138%
4	\$35.00	\$107.22	206%
5	\$55.00	\$207.25	277%

10  
 11 \*Source: USPS-T-4 at 44.

12

13 When compared to the proposed post office box service fees for Group  
 14 D customers eligible for the basic fee, the study costs are still higher than the  
 15 fees. Table VII presents a comparison of the proposed resident post office  
 16 box service fees and the study costs.

17

---

<sup>4</sup> *Id.* at 34-44.

1 Finally, witness Lion presents a box service cost allocation by group  
2 and box size.<sup>4</sup> The results show that Group II box service fees currently do  
3 not cover their costs. The costs range from 138 to 277 percent higher than  
4 the current fees. See Table VI for the percentages by box size.

5 **TABLE VI**  
6 **GROUP II CURRENT FEES VERSUS STUDY COSTS**  
7 **EXPRESSED ANNUALLY**  
8  
9

<u>Box Size</u>	<u>Current Fee</u>	<u>Study Cost*</u>	<u>Percentage Study Cost Greater Than Current Fee</u>
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3	\$24.00	\$ 57.20	138%
4	\$35.00	\$107.22	206%
5	\$55.00	\$207.25	277%

10  
11 \*Source: USPS-T-4 at 44.

12  
13 When compared to the proposed post office box service fees for Group  
14 II customers eligible for the basic fee, the study costs are still higher than the  
15 fees. Table VII presents a comparison of the proposed resident post office  
16 box service fees and the study costs.

17

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<sup>4</sup> *Id.* at 34-44.

1  
2 **TABLE VII**  
3 **GROUP II PROPOSED RESIDENT FEES VERSUS STUDY COSTS**  
4 **EXPRESSED ANNUALLY**

5	6 <b>Box</b>	7 <b>Proposed</b>	8 <b>Study</b>	9 <b>Percentage Study Cost</b>
10	11 <b>Size</b>	12 <b>Resident</b>	13 <b>Cost*</b>	14 <b>Greater Than Proposed</b>
15	16	17 <b>Fee</b>	18	19 <b>Resident Fee</b>
20	21 1	22 \$ 16.00	23 \$ 23.85	24 49%
25	26 2	27 \$ 26.00	28 \$ 32.19	29 24%
30	31 3	32 \$ 48.00	33 \$ 57.20	34 19%
35	36 4	37 \$ 70.00	38 \$107.22	39 53%
40	41 5	42 \$110.00	43 \$207.25	44 88%

45 \*Source: USPS-T-4 at 44.

46  
47 Even when compared to the proposed post office box service fees for  
48 non-resident Group II customers, the study costs are higher than the fees for  
49 box sizes 4 and 5. Table VIII presents a comparison of the proposed non-  
50 resident post office box service fees and the study costs.  
51

52  
53 **TABLE VIII**  
54 **GROUP II PROPOSED NON-RESIDENT FEES VERSUS STUDY COSTS**  
55 **EXPRESSED ANNUALLY**

56	57 <b>Box</b>	58 <b>Proposed</b>	59 <b>Study</b>	60 <b>Percentage Study Cost</b>
61	62 <b>Size</b>	63 <b>Non-Resident</b>	64 <b>Cost*</b>	65 <b>Different From Proposed</b>
66	67	68 <b>Fee</b>	69	70 <b>Non-Resident Fee</b>
71	72 1	73 \$ 52.00	74 \$ 23.85	75 (54%)
76	77 2	78 \$ 62.00	79 \$ 32.19	80 (48%)
81	82 3	83 \$ 84.00	84 \$ 57.20	85 (32%)
86	87 4	88 \$106.00	89 \$107.22	90 1%
91	92 5	93 \$146.00	94 \$207.25	95 42%

96 \*Source: USPS-T-4 at 44.

Revised September 4, 1996

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**TABLE VII**  
**GROUP D PROPOSED RESIDENT FEES VERSUS STUDY COSTS**  
**EXPRESSED ANNUALLY**

<u>Box Size</u>	<u>Proposed Resident Fee</u>	<u>Study Cost*</u>	<u>Percentage Study Cost Greater Than Proposed Resident Fee</u>
1	\$ 16.00	\$ 23.85	49%
2	\$ 26.00	\$ 32.19	24%
3	\$ 48.00	\$ 57.20	19%
4	\$ 70.00	\$107.22	53%
5	\$110.00	\$207.25	88%

15 \*Source: USPS-T-4 at 44.  
16  
17

18 Even when compared to the proposed post office box service fees for  
19 non-resident Group D customers, the study costs are higher than the fees for  
20 box sizes 4 and 5. Table VIII presents a comparison of the proposed non-  
21 resident post office box service fees and the study costs.  
22

23  
24  
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**TABLE VIII**  
**GROUP D PROPOSED NON-RESIDENT FEES VERSUS STUDY COSTS**  
**EXPRESSED ANNUALLY**

<u>Box Size</u>	<u>Proposed Non-Resident Fee</u>	<u>Study Cost*</u>	<u>Percentage Study Cost Different From Proposed Non-Resident Fee</u>
1	\$ 52.00	\$ 23.85	(54%)
2	\$ 62.00	\$ 32.19	(48%)
3	\$ 84.00	\$ 57.20	(32%)
4	\$106.00	\$107.22	1%
5	\$146.00	\$207.25	42%

36  
37 \*Source: USPS-T-4 at 44.

1           **C.     Price Sensitivity**

2

3           Witness Ellard presents the results of a price sensitivity study of post  
4 office box customers.<sup>5</sup> Witness Lyons presents further analysis of these  
5 results.<sup>6</sup> Both witnesses present evidence that most box customers can be  
6 expected to accept higher fees such as those the Postal Service is proposing.

7

8       **VII.   FEE DESIGN: RESTRUCTURING**

9

10           **A.     Delivery Offices**

11

12           The Postal Service is proposing numerous fee and classification  
13 changes to the post office box service fee structure for delivery offices. This  
14 testimony proposes to merge existing Groups I and II to emphasize the similar  
15 nature of the delivery service in these fee groups. Residential and business  
16 customers in both these fee groups are eligible for carrier delivery. Thus, as  
17 discussed below, Groups A through D of the proposed fee structure are all  
18 delivery offices, regardless of the type of delivery (city or rural carrier).

19

20           On July 1, 1958, the Post Office Department implemented a new fee  
21 structure for post office boxes which focused on the differentiation between

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<sup>5</sup> USPS-T-6.

<sup>6</sup> USPS-T-1 (Appendix).

1 city carrier delivery offices and non-city (rural) carrier delivery offices.  
2 Although many criteria were considered, the Post Office Department further  
3 divided fee groupings based on the salary levels of the postmasters. While  
4 the non-city box service fees initially were not much lower than the city fees<sup>7</sup>,  
5 the difference between non-city fees and city fees has grown to be quite  
6 substantial. For example, for box size 1, Group II fees are 20 percent of the  
7 Group IC fees.

8  
9 Any difference between city and rural carrier delivery offices does not  
10 justify such a large difference in fees. First, the salary levels of clerks putting  
11 up box mail is the same nationwide. Second, customers in both these fee  
12 groups are eligible for carrier delivery. Moreover, as developed in witness  
13 Lion's testimony, Postal Service costs for providing post office box service are  
14 only about 10 percent less in Group II than in Subgroup IC.<sup>8</sup> Finally, witness  
15 Lion shows that the usage rate for Group II boxes is comparable to the usage  
16 rate for Group I boxes, and that a greater proportion of Group II offices than of  
17 Group I offices have no vacant boxes for at least one size.<sup>9</sup> Therefore, the  
18 Postal Service is proposing to begin moving toward comparable treatment for  
19 all offices with carrier delivery.

20

---

<sup>7</sup> LR-SSR-105 at 1 [Postal Bulletin 20081 at 2 (May 1, 1958)].

<sup>8</sup> USPS-T-4 at 44.

<sup>9</sup> *Id.* at 8-9.

1           The proposed delivery office fee structure consists of four groups: A,  
2 B, C, and D.<sup>10</sup> Group A would replace the current Subgroup IA. Group B  
3 would replace the current Subgroup IB. Group C would replace the current  
4 Subgroup IC. Group D would replace the current Group II.

5  
6           The proposed fees for Groups A through C, box sizes 1 through 3, are  
7 calculated based on 25 percent increases. The actual increases vary  
8 between 24 to 27 percent (See Table I) due to whole dollar rounding  
9 constraints. The proposed fees for Groups A through C, box sizes 4 and 5,  
10 were calculated based on more modest increases of 10 and 4 percent,  
11 respectively, for Group C, and 15 and 20 percent, respectively, for both  
12 Groups A and B.<sup>11</sup>

13  
14           Smaller increases for large boxes than for small boxes promote the  
15 following pricing goals. First, many customers use boxes which are too small.  
16 This results in additional window services costs, as these customers must call  
17 at the window for the receipt of additional mail being held. Fees which

---

<sup>10</sup> The four groups are designed so that fees can be set, starting in part with this proposal, to reflect different levels of costs and demand for the variety of delivery offices.

<sup>11</sup> These increases are in part proposed to reflect costs, as presented by witness Lion. USPS-T-4 at 44.

1 encourage these customers to shift to larger boxes reduce window service  
2 costs and free up smaller boxes for individuals and small businesses.<sup>12</sup>

3  
4 Second, many large customers have low priced box alternatives.  
5 Witness Lion's results show that CMRAs often charge less than the Postal  
6 Service for their largest boxes. Moreover, even with a relatively small number  
7 of boxes, the Postal Service's vacancy rate for large boxes is generally higher  
8 than that for smaller boxes.<sup>13</sup> Correspondingly higher increases for these  
9 larger boxes would serve to induce more of these customers to alternatives.  
10 Not only would these box customers take away their box business, but limiting  
11 their need to visit postal lobbies would probably affect their inclination to  
12 purchase other postal products, such as Express Mail, Priority Mail, and  
13 Standard Mail. Conversely, even if smaller box customers leave, particularly  
14 for home delivery, they would probably continue their reliance on other postal  
15 products. The proposed pricing of larger boxes would promote their continued  
16 use and thereby help ensure the direct benefits cited earlier from use of larger  
17 boxes, along with the more indirect benefits from the purchase of other  
18 products.

19

---

<sup>11</sup> While there are regulations requiring box customers to shift to larger boxes in some instances, these requirements are not always easy to enforce.

<sup>13</sup> USPS-T-4 at 8.

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15 products. The proposed pricing of larger boxes would promote their continued

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17 boxes, along with the more indirect benefits from the purchase of other

18 products.

---

<sup>12</sup> While there are regulations requiring box customers to shift to larger boxes in some instances, those requirements are not always easy to enforce.

<sup>13</sup> USPS-T-4 at 8.

1           The proposed fees for Group D were calculated based on a 100  
2 percent fee increase for all box sizes (see Table I). Like Groups A through C,  
3 Group D fees would adhere to whole dollar rounding constraints, and would  
4 be collected on a semi-annual basis for all box sizes.

5

6           **B.    Non-Delivery Offices**

7

8           The Postal Service is proposing to eliminate the basic fee for non-  
9 delivery offices. Group III would become Group E with a new fee of \$0.00.  
10 This group would encompass all postal and contract facilities where customers  
11 are not eligible for any kind of carrier delivery. The current Group III fee is  
12 \$2.00 per year for a box, regardless of size. This fee is intended to make a  
13 token contribution to the administrative costs of the box application and  
14 service processes. The population within the ZIP Code areas of the current  
15 Fee Group III is not generally eligible for carrier delivery of mail at their  
16 residences or businesses. The Postal Service proposes that box service at  
17 non-delivery offices be free. Box service is not a premium service for this  
18 group because it is the only form of delivery available, other than general  
19 delivery.

20

21           This fee elimination proposal does not apply to those customers of  
22 proposed Group E offices who are eligible for carrier delivery or to non-

1 residents or businesses domiciled outside the service area of Group E post  
2 offices. It is proposed that resident Group E customers eligible for carrier  
3 delivery pay the Group D fee. It is also proposed that non-resident Group E  
4 boxholders eligible to receive delivery (by either city or rural carriers) be  
5 charged the newly-proposed Group D fees in addition to the non-resident fee.

6

### 7 **C. Caller Service**

8

9 The Postal Service proposes to combine the three current caller service  
10 fees for the existing IA, IB, and IC Subgroups into one uniform semi-annual  
11 fee of \$250 for caller service in new Groups A through C. This would result in  
12 no increase for the proposed Group A, a 4 percent increase for proposed  
13 Group B, and an 11 percent increase for proposed Group C. Further, the  
14 Postal Service proposes to establish a caller service fee for the proposed fee  
15 Group D offices to match the nationally proposed fee of \$250.

16

17 Currently, a form of caller service is provided in Group II offices when  
18 customers want box service, but no box of the appropriate size is available.  
19 The fee for this service is the fee for the largest box size in the facility.<sup>14</sup> This  
20 service would continue to be available at the proposed fee for the largest box  
21 size in the facility. However, some customers want regular caller service at

---

<sup>14</sup> Domestic Mail Manual § 920.4.3b (Issue 49).

1 Group II offices. The proposal is to offer this service at a fee of \$250. The  
2 uniform caller service fee would not be charged in the proposed Group E  
3 offices unless this service was provided to non-residents of the ZIP Code  
4 area.

5

6 A uniform caller service fee would simplify the fee schedule. Moreover,  
7 while most of the costs for post office box service are space-related, only  
8 about 10 percent of caller service costs are space-related.<sup>15</sup> Therefore,  
9 uniform labor costs nationwide provide support for a uniform caller service fee.

10

#### 11 **VIII. FEE DESIGN: NON-RESIDENT FEE**

12

13 As mentioned in Section III of this testimony, individuals and  
14 businesses use post office box service for a variety of reasons. The  
15 testimonies of witnesses Ellard and Landwehr, and the articles in Library  
16 Reference SSR-105, indicate that some box customers (both individuals and  
17 businesses) choose box service outside the 5-digit ZIP Code area of their  
18 residence or business street address.

19

20 For the purposes of the non-resident fee, non-residents would be  
21 defined as those individual or business boxholders whose residence or place

---

<sup>15</sup> USPS-T-4 at 35, and USPS LR-SSR-104 at 2.

1 of business is not located within the 5-digit ZIP Code area of the office where  
2 box service is obtained. In those circumstances where a local street address  
3 is not confirmed by a postal employee in the office where the box is located,  
4 individual boxholders would be asked to provide proof of residency in such  
5 form as a driver's license, voter registration card, a utility hookup (gas, electric,  
6 water, sewage, trash), a current lease, a mortgage, a deed of trust, a cable TV  
7 hook-up or bill, or any other verifiable proof of a street address. Business  
8 boxholders would also be asked to provide proof of a local street address,  
9 most commonly in the form of a lease, a mortgage, a deed of trust, or any  
10 other verifiable proof of a local address, again if postal employee confirmation  
11 of their street address is not obtained.

12

13 Boxholders would be asked to furnish recent proof of residency each  
14 time box service is renewed. Unless the individual and business boxholders  
15 provided proof of residency within the ZIP Code service area, they would  
16 automatically be charged the non-resident fee. This fee would not apply,  
17 however, to those box customers unable to secure a post office box service  
18 within their 5-digit ZIP Code delivery area office if that office had no  
19 unassigned boxes.<sup>16</sup>

20

---

<sup>16</sup> These customers would be eligible for one box at another office without payment of the non-resident fee if confirmation from their local post office of unavailability of all boxes in that office is obtained.

1           The proposed \$18.00 semi-annual fee for non-residents would be  
2 applied in all offices, and would reflect the added value of service non-  
3 residential box customers receive. The non-resident fee should also benefit  
4 those residents unable to obtain boxes in their own delivery area due to non-  
5 resident boxholders. Non-residents, facing higher fees, would be more likely  
6 to give up their boxes, thus making them available for residents. Moreover,  
7 the additional revenue from non-residents would provide funds for expansion  
8 of box service where appropriate.

9

10 **IX. POST OFFICE BOX SERVICE MEDIA ATTENTION**

11

12           Over the past few years, post office box service has been the focus of  
13 some media attention. This attention has resulted from a variety of issues  
14 primarily pertaining to unique circumstances throughout the country, such as  
15 customers seeking vanity addresses in high income areas and locations  
16 having some form of prestige or fame, along with residents of Canada and  
17 Mexico seeking box service in U.S. border cities and towns. The purpose of  
18 this section is to discuss a few of the newspaper articles detailing these  
19 circumstances, and provide examples of the high value of service from, and  
20 the demand for, post office box service.

21

1 Vanity addresses are addresses within certain towns, cities, and ZIP  
2 Code areas, associated with affluence, prestige, and celebrity residences.  
3 Any one or a combination of these characteristics may prompt customers to  
4 seek post office box service in vanity address areas.

5  
6 According to articles in USA Today and The Washington Post on the  
7 demand for vanity addresses, one of the most desirable locations for a post  
8 office box address is Beverly Hills. The 90210 ZIP Code, made famous by the  
9 television show of the same name, is used strictly for residential delivery within  
10 that ZIP Code and does not provide post office box service. However, all post  
11 office boxes in the other ZIP Code areas within Beverly Hills are in high  
12 demand. In fact, the average number of customers on a waiting list for post  
13 office box service in Beverly Hills is 400.<sup>17</sup>

14  
15 Another place where post office box service has recently gained  
16 national media attention is the town of Middleburg, Virginia. Originally named  
17 "Middle Burg" to represent its location as a rest stop between Alexandria,  
18 Virginia, and Winchester, Virginia, over 200 years ago, the town began to earn  
19 status as a fox hunting area for wealthy men at the beginning of this century.  
20 When John F. Kennedy and his family leased an estate near Middleburg  
21 during his presidency, the sleepy Virginia town became known nationwide.<sup>18</sup>

---

<sup>17</sup> LR-SSR-105 at 6.

<sup>18</sup> *Id.* at 4.

1

2 Business customers from neighboring towns that use post office box  
3 service in Middleburg find that the Middleburg address enlarges their client  
4 base. These non-resident business and individual customers from cities and  
5 towns outside of Middleburg obtain post office box service in Middleburg for  
6 the financial and/or status benefits which this box address confers. These  
7 non-resident customers use nearly half of the almost 2,000 post office boxes,  
8 while some local Middleburg residents are waiting for post office box service.  
9 Middleburg residents have become concerned about the percentage of post  
10 office boxes allocated to non-residents, and the resulting unavailability of  
11 boxes for residents.<sup>19</sup>

12

13 Rancho Santa Fe, California, home to several celebrities, is another  
14 sought-after box address for customers who cannot afford to reside or do  
15 business within the post office's ZIP Code service area. Since no boxes are  
16 available, non-resident boxholders in Rancho Santa Fe preclude new  
17 residents from obtaining post office box service. Moreover, since Rancho  
18 Santa Fe offers no carrier delivery service, all residents must receive their mail  
19 through post office box service. Therefore, the new residents have no choice  
20 but to obtain general delivery service at their post office, or post office box  
21 service at neighboring towns.<sup>20</sup>

---

<sup>19</sup> *Id.* at 3-5.

<sup>20</sup> *Id.* at 6.

1 Another vanity address area is Palm Beach, Florida, where the waiting  
2 period for a post office box of any size averages four months. In Winnetka,  
3 Illinois, an area of million-dollar lakeside estates, up to 40 percent of the post  
4 office box service is obtained by non-residents.<sup>21</sup>

5  
6 As demonstrated by the post offices mentioned above, vanity  
7 addresses attract large numbers of non-residents seeking post office box  
8 service. Towns bordering Canada and Mexico also attract large numbers of  
9 non-residents seeking post office box service. A recent article in the Arizona  
10 Republic discusses the post office box service demand of non-residents in an  
11 Arizona border town.<sup>22</sup>

12  
13 Mexican residents desire U.S. Postal Service post office box service for a  
14 variety of reasons. Mail service in Mexico is purported to be inferior to mail  
15 service in the United States. Therefore, U.S. retirees living in Mexico may prefer  
16 to collect their annuity checks at post office boxes in the U.S. Mexicans who  
17 work in the U.S. but do not reside here need to file taxes in the U.S., and may  
18 prefer to receive any income tax refunds at post office boxes in the U.S.  
19 Employment in the U.S. may eventually lead to government benefits, which may  
20 also be collected at U.S. post office boxes.<sup>23</sup>

---

<sup>21</sup> *Id.*

<sup>22</sup> *Id.* at 7-8.

<sup>23</sup> *Id.*

1           The value of post office box service to customers is noted in two other  
2 newspaper articles in the Modesto Bee and The Oregonian. In Modesto,  
3 California, post office box customers prefer the anonymity box service provides.  
4 Modesto post office box service customers feel comfortable leaving for vacations  
5 without the concern of returning to an overflowing mail box, or making  
6 arrangements to have their mail picked up by a neighbor. Additionally, box  
7 service provides these customers protection for their mail during the day when  
8 no one is home.<sup>24</sup>

9  
10           In West Linn, Oregon, and neighboring towns, customers similarly  
11 desire post office box service for its privacy features. Post office box service  
12 is also rapidly becoming popular among individuals who run businesses from  
13 home.<sup>25</sup>

14  
15           I know first-hand how valuable the privacy aspect of post office box  
16 service can be to a business. When I worked at the Postal Service's National  
17 Test Administration Center (NTAC), I obtained post office box service for the  
18 center so that our street address would not be disclosed to the thousands of  
19 applicants for Postal Service entrance examinations. As no testing was  
20 conducted in the facility, NTAC preferred not to disclose its street address to  
21 the general public. It is conceivable that the facility could have been

---

<sup>24</sup> *Id.* at 9.

<sup>25</sup> *Id.* at 10-11.

1 overwhelmed by applicants desiring permission to take entrance  
2 examinations, or by individuals who were dissatisfied with their test results.  
3 (Examinations could be re-scored only if a written request was submitted by  
4 mail.)

5  
6 In another newspaper article from the Charlotte Observer, the effect of  
7 development on the demand for post office box service is demonstrated. The  
8 post office in Davidson, North Carolina, has seen a surge in the demand for post  
9 office box service due to recent growth in the local population. Although some  
10 post office boxes become available when post office box customers request and  
11 receive carrier delivery, the supply of post office boxes still does not match the  
12 demand for this service.<sup>26</sup>

13  
14 The Davidson postmaster discussed the impact if city carrier delivery  
15 service were to begin in Davidson. Becoming a city carrier delivery office  
16 would result in higher fees for box customers, who would become responsible  
17 for paying the current Subgroup IC fee for their box service. "They [size 1  
18 post office boxes] are \$8 a year now," said the Davidson postmaster. "If the  
19 people of Davidson had to start paying \$30 a year, it would come as a shock  
20 to some people. But it would be a good deal."<sup>27</sup> As a point of reference, the  
21 proposed annual resident fee for size 1 post office box service in a proposed

---

<sup>26</sup> *Id.* at 12-14.

<sup>27</sup> *Id.* at 13.

1 considered an overall increase to match more closely the past post office box  
2 fee increases in Dockets No. R78-1 (38 percent), R87-1 (34 percent), and  
3 R90-1 (25 percent). Witness Foster best spoke to this consideration in his  
4 Docket No. R94-1 testimony, USPS-T-11, page 61, where he stated:

5

6 Under circumstances other than an across-the-board rate  
7 increase, the Postal Service would consider a more substantial  
8 increase in certain post office box and caller fees. The current  
9 fee levels appear to be out of line with the market, and in some  
10 cases remain inadequate to compensate the Postal Service for  
11 installing new boxes in high-cost areas. Misalignment of the post  
12 office box fee structure with market realities results in the needs  
13 of some customers being unfulfilled.

14

15 **B. Market-Based Pricing Considerations**

16

17 Fundamental to this testimony is the realization that the Postal Service  
18 needs to consider a market-based approach to pricing its premium post office  
19 box service. The market research discussed in Section VI of this testimony  
20 was undertaken principally to provide quantitative information about Postal  
21 Service and CMRA box service, and customer response to fee increases. The  
22 results of the market research have provided guidance for developing the fee  
23 proposals.

24

25 The fee restructuring proposed in this testimony is not directed at  
26 attracting customers away from CMRAs. To the contrary, the proposed fee

1 increases will make it less likely that CMRA customers will switch to the Postal  
2 Service for post office box service.

3

4 A main feature of the fee design of this testimony is the fairness of  
5 pricing identical services in different offices as similarly as possible. This  
6 approach applies to box service in both city and rural carrier offices. The fees  
7 in all offices where delivery to street addresses is an alternative to box service  
8 should be similar. For example, the Postal Service is proposing an equal non-  
9 resident surcharge for Groups I and II. However, differences in costs and  
10 demand justify distinct fees for proposed Groups A through D. The impact of  
11 space cost differences does not extend, however, to caller service since it  
12 generally does not require any permanently dedicated space for a particular  
13 customer. Thus, the fee for caller service should not vary by office location.

14

15 As stated earlier in this testimony, box customers are considered non-  
16 residents when they obtain box service in post offices that are not responsible  
17 for delivery to the customers' street addresses. These non-resident  
18 customers seek convenience or prestige, or both, and should pay higher fees  
19 for the inherent value of these factors. These box customers are using a  
20 service that, in some situations, residents are unable to secure because all  
21 available boxes are in use.

22

1           Finally, the Postal Service intends to provide delivery to all residents of  
2 the United States free-of-charge at their residences or business locations, to  
3 the greatest extent feasible. Since carrier delivery is not always practical, free  
4 box service in offices which do not afford carrier delivery is in the best interest  
5 of the customers in non-delivery areas.

6

7           **C. Pricing Criteria**

8

9           Section 3622(b) of Title 39, United States Code requires that postal  
10 rates and fees be set in accordance with the following factors:

11

- 12           1. the establishment and maintenance of a fair and  
13           equitable schedule;
- 14           2. the value of the mail service actually provided each class  
15           or type of mail service to both the sender and the  
16           recipient, including but not limited to, the collection, mode  
17           of transportation, and priority of delivery;
- 18           3. the requirement that each class of mail or type of mail  
19           service bear the direct and indirect postal costs  
20           attributable to that class or type plus that portion of all  
21           other costs of the Postal Service reasonably assignable  
22           to such class or type;
- 23           4. the effect of rate increases upon the general public,  
24           business mail users, and enterprises in the private sector  
25           of the economy engaged in the delivery of mail matter  
26           other than letters;
- 27           5. the available alternative means of sending and receiving  
28           letters and other mail matter at reasonable costs;
- 29           30
- 31           32
- 32           33

- 1           6. the degree of preparation of mail for delivery into the
- 2           postal system performed by the mailer and its effect upon
- 3           reducing costs to the Postal Service;
- 4
- 5           7. simplicity of structure for the entire schedule and simple,
- 6           identifiable relationships between the rates or fees
- 7           charged the various classes of mail for postal services;
- 8
- 9           8. the educational, cultural, scientific, and informational
- 10          value to the recipient of mail matter; and
- 11
- 12          9. such other factors as the Commission deems appropriate.

13           Criterion 1 requires fees to be fair and equitable. The proposed fees  
14 for Groups A, B, and C constitute a 24 percent fee increase for all box sizes.  
15 This is lower than the total recommended fee increase in Docket No. R90-1,  
16 and is also lower than the total recommended percentage increases in  
17 Dockets No. R87-1 and R84-1. History has shown that these past  
18 recommended decisions were fair and equitable. The Postal Service has  
19 designed the proposed Groups A, B, and C fees to conform with this  
20 precedent.

21

22           The proposed 100 percent fee increase for all residents using box sizes  
23 in proposed Group D is also fair and equitable, especially when taking into  
24 consideration the fact that rural delivery offices offer box and other delivery  
25 services similar to city carrier delivery offices. In fact, it is not fair or equitable  
26 to have widely disparate fees when costs and service levels are similar. The  
27 boxholders in the rural carrier delivery offices have enjoyed very low fees

1 when compared to their counterparts in city carrier offices. It is the intent of  
2 the Postal Service to be fair and equitable in adjusting these proposed Group  
3 D fees to more closely align them with the proposed fees for Group C offices.

4

5 It is also the intent of the Postal Service to mitigate the effect of  
6 increases on this group of box customers (Criterion 4). Thus, the proposed  
7 dollar increase in fees for Group II, box sizes 1 through 3, is less than the  
8 proposed dollar increase for Group I for those box sizes. Moreover, the  
9 proposed resident fees for all box sizes in Group II and the proposed non-  
10 resident fees for box sizes 4 and 5 remain below cost, recognizing the  
11 potential hardship on this segment of boxholders that still higher fees  
12 increases would bring. Additionally, the fact that the Postal Service is not  
13 proposing fees to match those proposed in Group C demonstrates sensitivity  
14 to the impact of a fee increase. Finally, the highest percentage increases  
15 apply only to non-residents at Group II offices. It is estimated that only 6  
16 percent of Group II customers are currently non-residents, and they would pay  
17 the nonresident fee only if they decide to receive box service away from their  
18 local office.<sup>28</sup>

19

20 The proposed national fee of \$250 for caller service is also fair and  
21 equitable (Criterion 1). This service does not vary significantly from post office

---

<sup>28</sup> USPS-T-1, Workpaper C at 5.

1 to post office, regardless of location. As discussed earlier, caller service  
2 generally does not require the permanently dedicated space of boxes and is  
3 primarily associated with labor as opposed to space. Since labor costs are  
4 uniform, the workhours in a current Subgroup IA office are no more costly than  
5 workhours in a current Group II office.

6  
7 Post office box service provides a high value of service (Criterion 2) to  
8 box patrons. Post office boxes offer privacy, prestige, and convenience,  
9 features that are very valuable to many customers. For businesses using box  
10 service or caller service, the value is seen in terms of revenue and orders  
11 being received sufficiently early in the day to process in an efficient manner.

12  
13 Post office box service for non-residents also provides a high value of  
14 service (Criterion 2). As mentioned earlier, non-resident box service patrons  
15 can take advantage of many opportunities for increased prestige, business,  
16 and convenience, as reflected in their choice of an address other than where  
17 they reside or have their businesses.

18  
19 Charging a fee for potential convenience opportunities available at  
20 locations other than "home-based" locations is not new to business practices  
21 in service industries. Some video rental stores within a chain charge a fee  
22 when customers rent a movie at one store and return it to another store.

1 Many banks provide Automated Teller Machine (ATM) cards to their  
2 customers which can be used at virtually all ATM machines. Many of these  
3 customers, however, will pay a transaction fee if they use their ATM card at a  
4 bank other than their own bank or branch of their main bank. Customers are  
5 willing to pay a fee for this value of service. Such a fee is similar to the  
6 proposed non-resident fee for post office box service.

7  
8 Certain recreational programs set up by local county governments in  
9 Northern Virginia provide another example of non-resident fees. Residents of  
10 certain counties enjoy recreational facilities and summer camps at lower fees  
11 than non-residents. The non-residents are benefiting from these services in  
12 counties other than their residential counties and may even be precluding  
13 residents from taking advantage of these services. Non-residents generally  
14 pay an additional fee for the convenience of these services

15  
16 Although the post office box and caller service fees overall cover costs,  
17 the very low current cost coverage of 100 percent does not allow these  
18 premium services to contribute to other costs of the Postal Service (Criterion  
19 3). Additionally, as seen in Witness Lion's testimony, the current box costs in  
20 Group II are much higher than the current fees. This segment of the box  
21 population should, at a minimum, begin to recover its costs as a group. The

1 fee proposals for Group D begin the process for this group to move closer to  
2 recovering their costs as a whole.

3

4 Adoption of the fees proposed in this testimony would provide box and  
5 caller services with a cost coverage of 128 percent that is closer to the  
6 systemwide cost coverage recommended in Docket No. R94-1. It is no  
7 surprise that, historically, premium mail classes and services have typically  
8 maintained cost coverages at least as high as the systemwide cost coverage,  
9 and boxes and caller service should no longer be an exception to this target.  
10 However, when considering the impact of a fee increase, particularly  
11 considering the fee increase for the current Group II, the Postal Service has  
12 opted for a proposed cost coverage that actually falls halfway between 100  
13 percent and the systemwide cost coverage recommended in Docket No.  
14 R94-1.

15

16 This testimony takes into consideration available alternatives at  
17 reasonable costs (Criterion 5). The market research (see Section VI.A)  
18 demonstrates that the proposed box fees are still substantially lower than  
19 CMRAs, with the exception of box sizes 4 and 5 in Group I. For the service  
20 our box customers require, the proposed fees remain a good value when  
21 compared to the CMRAs. Moreover, our current box customers may choose

1 the option of free delivery if they find our box fees and CMRA fees to be  
2 prohibitive.

3

4 The proposed fee schedule is simple (Criterion 7). It combines Groups  
5 I and II. Moreover, there are currently 29 fees for box service, caller service  
6 and the reserve number. Under the proposed fee schedule there would be 22  
7 non-zero fees, including the non-resident fee. This proposed fee schedule  
8 eliminates fees for the current Group III (five fees), and collapses Group I  
9 caller service fees (three fees) into one fee. Overall, the proposed fee  
10 schedule reduces the current non-zero fee structure cells by 24 percent.

11

#### 12 **D. Classification Criteria**

13

14 Section 3623 (c) of Title 39, United States Code requires that  
15 classification changes be made in accordance with the following factors:

16

- 17 1. The establishment and maintenance of a fair and equitable  
18 classification system for all mail;
- 19 2. the relative value to the people of the kinds of mail matter  
20 entered into the postal system and the desirability and  
21 justification for special classifications and services of mail;  
22
- 23 3. the importance of providing classifications with extremely high  
24 degrees of reliability and speed of delivery;
- 25 4. the importance of providing classifications which do not require  
26 an extremely high degree of reliability and speed of delivery;  
27  
28  
29

- 1           5.     the desirability of special classifications from the point of view of  
2                     both the user and the Postal Service; and  
3  
4           6.     such factors as the Commission may deem appropriate.  
5  
6

7           Establishing and maintaining two fee groups based on delivery or non-  
8 delivery represents a fair and equitable classification system (Criterion 1). The  
9 dichotomy which currently exists between Groups I and II (city carrier and rural  
10 carrier delivery offices, respectively) does not recognize the similarities  
11 between these fee groups. Both of the current fee groups have carrier  
12 delivery and Group II costs are only modestly lower than Subgroup IC costs  
13 (see USPS-T-4).

14  
15           It is also fair and equitable to address the difference between resident  
16 and non-resident post office box service customers with respect to fees  
17 (Criterion 1). Assessing a fee for non-residents above the base fee  
18 recognizes that non-residents have chosen to use a box away from their local  
19 post office. The non-resident fee also recognizes the greater administrative  
20 burdens that are associated with non-resident box service at some locations,  
21 as discussed by witness Landwehr.<sup>29</sup>

22  
23           Non-resident fees would be desirable from the perspective of residents  
24 seeking post office box service (Criterion 2). If the proposed non-resident fees

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<sup>29</sup> USPS-T-3.

1 motivate some non-residents to seek alternatives, there would be more boxes  
2 freed up for residents to use. Conversely, for those non-residents willing to  
3 pay the non-resident fee, the increased revenues could provide a means for  
4 box expansion, where applicable, and consequently the prospect of lower fee  
5 increases in the future. Therefore, there is perceived value to both resident  
6 and non-residents in applying a non-resident fee.

7

8 From the point of view of the Postal Service, it is desirable to combine  
9 city and rural carrier delivery office fee groups, and establish a non-delivery  
10 office fee group for post office box fees (Criterion 5). For proposed Groups A  
11 through D, the fact that the delivery is performed by either rural carriers or city  
12 carriers is no longer a distinction justifying vastly different post office box fees.  
13 Post office box service in both city and rural carrier delivery offices is  
14 unequivocally a premium service. In contrast, a zero base fee for resident  
15 customers of non-delivery offices reflects sensitivity to the fact that these  
16 customers have no alternative to post office box service for mail delivery.

17

18 Also, from the point of view of the Postal Service, it is desirable to have  
19 a fee for non-resident post office box service customers above the base fee.  
20 The Postal Service will collect additional revenues from the non-resident fee  
21 that can potentially be utilized to address box expansion. The special  
22 classification of a non-resident fee could lead to more stable post office box

- 1 costs, which in turn could lead to more stable fees and lower fee increase
- 2 proposals for post office box and caller service in the future.