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

MAILING ONLINE EXPERIMENT

Docket No. MC2000-2

DIRECT TESTIMONY  
OF  
MICHAEL K. PLUNKETT  
ON BEHALF OF  
UNITED STATES POSTAL SERVICE

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Direct Testimony  
of  
Michael K. Plunkett

**AUTOBIOGRAPHICAL SKETCH**

2           My name is Michael K. Plunkett. I am currently an economist in the  
3   Pricing Office of Marketing. I began working for the Postal Service in 1984 as a  
4   letter carrier at the Dracut, Massachusetts Post Office. In 1985, I transferred to  
5   the Manchester, New Hampshire Division where I held a number of positions in  
6   customer services operations. In 1990, I was accepted to the Management  
7   Intern program. As an intern, I rotated through a number of short to medium  
8   term assignments in various organizational units throughout the country. These  
9   assignments included positions in headquarters, area, and district offices in  
10   finance, human resources, operations, and marketing. In 1995, I transferred to  
11   the office of Budget and Financial Analysis where I served as an Economist.  
12   In February 1997, I transferred to the office of Pricing. My responsibilities  
13   include all aspects of fee design for various special services.

14           I received bachelor's degrees in finance and economics from  
15   Pennsylvania State University in University Park, Pennsylvania, and a master's  
16   degree in business administration from the Wharton School at the University of  
17   Pennsylvania, where I concentrated on finance and decision sciences.

18           I have presented pricing testimony in three previous dockets. I was the  
19   Postal Service's pricing witness in the Provisional Packaging Service case

1 (Docket No. MC97-5), and in the last omnibus rate case (Docket No. R97-1), for  
2 various special services. In addition, I presented pricing testimony in the original  
3 Mailing Online case (Docket No. MC98-1).

1   **I. PURPOSE OF TESTIMONY**

2           My testimony presents pricing and classification analyses of the Postal  
3   Service's proposals to establish an experimental classification for Mailing Online,  
4   and an appropriate means for determining fees for the experiment. I then  
5   explain how the proposals meet the rate and classification criteria of the Postal  
6   Reorganization Act.

7   **II. PROPOSAL**

8           The Postal Service proposes an experimental classification for Mailing  
9   Online. Mailing Online will allow customers who use the Postal Service's Internet  
10   site ([www.usps.com](http://www.usps.com)) to present electronic documents for printing and  
11   subsequent entry into the mail stream. Documents presented for Mailing Online  
12   service will be stored electronically, commingled electronically with other  
13   documents, and transmitted to one or more commercial printing companies who  
14   will print and prepare the documents for entry at a designated postal acceptance  
15   unit.

16          The Postal Service plans to offer Mailing Online users the opportunity to  
17   use either First-Class Mail, Priority Mail, Express Mail or Standard Mail rates,  
18   depending on the content of the document and the individual customer's service  
19   needs. Further, the Postal Service is developing a means for verifying a  
20   Standard Nonprofit customer's eligibility, so that category can be available for  
21   experimental Mailing Online service. Before the conclusion of the experiment,  
22   customers will also have access to many special services currently available to  
23   senders of letter mail, for example, certificates of mailing, certified mail, and

1 return receipts. Customers who elect to use Priority Mail for their documents will  
2 also be able to use Delivery Confirmation. In addition to choosing among these  
3 subclass and special service alternatives, customers will also identify their  
4 printing, finishing, and distribution preferences. These options and the estimated  
5 prices for two typical Mailing Online documents are presented in my Exhibit E.

6 The Postal Service offered Mailing Online service first as a market test,  
7 which was originally posited as an initial step toward an experimental service that  
8 was to run for two years. Because changes in the Postal Service's Internet  
9 strategy rendered some of the Postal Service's cost testimony in the  
10 experimental proceeding inaccurate, the request for a recommended decision to  
11 conduct an experiment was withdrawn. The market test ended on October 29,  
12 1999; however, development of a new version of Mailing Online software is  
13 ongoing. The Postal Service is now proposing a three-year experiment. Mailing  
14 Online is proposed as an independent special service that is treated as a  
15 separate product for pricing purposes. Mailing Online customers would be  
16 *charged existing postage rates plus a fee for pre-mailing services.*

17 In the market test of Mailing Online, the Postal Service proposed, and the  
18 Commission recommended, the establishment of a markup, which was applied  
19 to the actual printer costs as specified in the written contract between the Postal  
20 Service and the contractor providing pre-mailing services. Sound reasons  
21 support use of a markup as opposed to a fee schedule, the first being printer  
22 cost variations. The flexibility provided by a preset markup allows the Postal  
23 Service to signal customers correctly regarding the cost of printing. Printing

1 costs may vary substantially by region due to differences in labor, transportation,  
2 and real estate costs. As growth of Mailing Online leads to the establishment of  
3 additional printing sites, the use of a markup allows the Postal Service to reflect  
4 local printing cost variations directly in the fees charged to Mailing Online  
5 customers. The flexibility afforded by the markup also provides the Postal  
6 Service and its customers with a mechanism whereby additional pre-mailing  
7 services, such as new color or binding options, can be reflected equitably in  
8 Postal Service fees. The Commission recognized the necessity of this system in  
9 its market test Recommended Decision (Docket No. MC98-1, PRC Op. at 33),  
10 and the Postal Service proposes adoption of a similar pricing structure in this  
11 case.

### 12 **III. PROJECTED FEE REVENUES**

#### 13 **A. Premailing Revenue Estimation**

14 For the Postal Service, Mailing Online is an experimental entry into a  
15 market that has just begun to form. While it goes without saying that the Postal  
16 Service would not offer the service without the expectation that a significant  
17 number of customers would avail themselves of it, the ultimate size of the market  
18 for services like Mailing Online is unknown. In Docket No. MC98-1, Mailing  
19 Online volume and revenue forecasts were based on market research (Docket  
20 No. MC98-1, Tr. 2/429), and on the judgment of the Postal Service managers  
21 and analysts developing the product.

22 In his testimony in this docket, witness Poellnitz (USPS-T-2) relies on  
23 these same estimates in developing unit costs. In the appendix to this testimony,

1 I use the same forecast to estimate Mailing Online fee revenues. Revenue  
2 estimates are based on projected volumes, the costs presented by witness  
3 Poellnitz, and the proposed markup. The results are summarized below in  
4 Exhibit D.

## 5 **B. MARKUP BASED PRICING**

6 In the market test of Mailing Online, the Commission recommended the  
7 Postal Service's proposal to employ a markup in determining fees for Mailing  
8 Online. During the test, fees were set at 1.25 times the sum of the initial printer's  
9 document production costs and a 0.1 cent charge per impression to cover  
10 information technology costs. The advantages which led me to propose, and the  
11 Commission to recommend, a markup approach are unchanged. Mailing Online  
12 will continue to provide customers with myriad document preparation options, the  
13 costs of which will vary by location and perhaps over time. The potential  
14 complexity of a fixed fee schedule is a compelling reason for continued use of a  
15 markup system, and although modified somewhat since the previous docket, I  
16 once again propose a markup based system for setting Mailing Online fees. In  
17 particular, my proposal recognizes that the proposed experiment will involve  
18 more than one printer. I propose to apply the markup applied to the actual  
19 printing costs for each job, independently of which printer(s) prepare a particular  
20 job.<sup>1</sup>

21

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<sup>1</sup> The fee schedule in the market test (Docket No. MC98-1, PRC Op. Appendix 1, p. 2) specifies the Vestcom contract as the basis for fees.



1   **C. FEE DESIGN**

2       Practical application of the markup depends upon the costs used as the basis  
3   for the markup. In this case I am attempting to satisfy two distinct goals:  
4   compliance with the statutory criteria, and development of rates that will enhance  
5   the Postal Service's ability to draw meaningful conclusions from the experiment.  
6   The statutory criteria are examined below in a separate section; in this section I  
7   confine my discussion to the latter.

8       The portion of Mailing online costs identified by witness Poellnitz as printer  
9   costs is determined by a series of contracts at different locations.<sup>2</sup> The contracts  
10   will specify per unit prices for each element of a customer's mailing; these prices  
11   will in turn be marked up and passed on to Mailing Online customers. Witness  
12   Poellnitz's unit costs also include advertising costs, and information technology  
13   (IT) costs (developed in the testimony of witness Lim, USPS-T-3), which are  
14   distinct from those incurred by private printers. Witness Poellnitz has  
15   determined that most of these costs conform to witness Takis' definition of  
16   product-specific costs. For pricing purposes, I treat product-specific costs  
17   differently from volume variable costs.

18       The volume variable portion of IT costs, as presented by witnesses Lim and  
19   Poellnitz, constitute a recurring cost of providing Mailing Online service.  
20   Therefore, I treat these costs similarly to printer costs by adding a 0.1 cent per

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<sup>2</sup> Contracts for the print sites are not yet available. Witness Poellnitz's testimony provides a proxy for the average printing charges that will apply during the experiment.

1 impression charge to printing impression charges before marking up the sum of  
2 the two.<sup>3</sup>

3 The Postal Service typically seeks experimental classifications in order to  
4 determine customer interest in a new product. Implicit in the decision to pursue  
5 an experiment is the goal of collecting useful information on whether the service  
6 in question warrants permanent inclusion in the DMCS. Therefore, it is important  
7 to conduct the experiment under terms that are as close as practical to those  
8 that will exist under a permanent classification, notwithstanding the potential for  
9 experimental findings leading changes in the permanent service proposed. In  
10 the case of Mailing Online, this goal has specific rate design implications  
11 because a significant portion of the information technology costs in witness Lim's  
12 testimony are non-recurring product-specific costs.<sup>4</sup> While we lack the historical  
13 data necessary to produce a test year cost estimate for Mailing Online, I believe  
14 it is safe to say that prospective test year costs would exclude a significant  
15 portion of these costs. As a result, I exclude these costs when determining the  
16 basis for a markup.

17 I do include these costs to perform an incremental cost test. In Exhibit D,  
18 which summarizes experiment revenues and costs, I show that at the proposed  
19 fees, Mailing Online will produce sufficient revenues to cover the volume  
20 variable, as well as the product-specific costs of Mailing Online (Exhibit D, line 8).

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<sup>3</sup> The actual cost per unit is 64 thousandths of a cent in year 1.

<sup>4</sup> The most notable example of such costs are the System Development & Implementation costs (USPS-T-3, p. 3). Nearly half of these costs are incurred prior to the experiment, and there is a marked decline in these costs in the third  
(continued...)

1 I have also included pre-experiment costs in the incremental cost test. My  
2 understanding is that these costs were expensed in the years during which they  
3 were accrued. I further understand that, though such a treatment is consistent  
4 with generally accepted accounting principles (GAAP), one could argue that  
5 subsequent versions of Mailing Online constitute an asset with a depreciable  
6 value, and that pre-experiment costs ought therefore to be capitalized. For the  
7 reasons cited above, I do not view these costs as an appropriate basis for setting  
8 fees. However, in performing an incremental cost test, rather than treating pre-  
9 experiment costs as sunk – as would be consistent with traditional economic  
10 analysis - I instead treat them as though they had been capitalized with a three  
11 year amortization schedule. As a result, one third of the pre-experiment IT costs  
12 are included in the incremental costs for each year of the experiment.

13 I would also note that in line (9) of Exhibit D, the ratio of revenue to  
14 incremental costs increases considerably from year one to year three. Though  
15 this effect is readily apparent, it appears to be a feature of electronic products  
16 generally that is, in the instant case, diminished by the relatively high cost of  
17 printing relative to information technology for Mailing Online. In general,  
18 however, products that depend heavily on a supporting information technology  
19 infrastructure are likely to exhibit a similar pattern: after an initial investment,  
20 marginal costs, and even average costs, decrease rapidly over time.

21

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(...continued)  
year of the experiment.

1   **D. Markup/Cost Coverage**

2           In the market test of Mailing Online, a 25 percent markup was used. In its  
3   Opinion on the market test the Commission agreed that the need to help a  
4   "nascent service find its market and build volumes to the level that will support  
5   reasonable judgments about the nature of the market and the future viability of  
6   the service" (PRC Op., MC98-1, at 33) justified a markup of 25 percent.

7           However, the current proposal is different from that in the previous docket.  
8   For instance, IT start-up costs in this case are higher than those used in Docket  
9   No. MC98-1. Moreover, activation of print sites is scheduled to occur more  
10   rapidly than had originally been planned (USPS-T-1, §V). And as mentioned  
11   above, though sunk costs are typically ignored in determining the costs for  
12   markup, the Postal Service's product development plans call for recovery of pre-  
13   experiment development costs. A higher markup will facilitate recovery of the  
14   development costs incurred for earlier versions of Mailing Online, while having a  
15   minimal impact on prices.<sup>5</sup> Based on my analysis of the statutory pricing criteria,  
16   I propose a pricing formula that includes a markup of 30 percent applied to unit  
17   printer costs and the variable portion of information technology costs.

18   **E. Projected Revenues**

19           Exhibit D shows projected revenues for Mailing Online based on the cost  
20   estimates provided by witness Poellnitz. At the proposed markup of 30 percent,  
21   Mailing Online is projected to produce \$458.9 million in fee revenues during the

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<sup>5</sup> Because the markup is applied only to the Mailing Online costs, a 5 percent change in markup has a much smaller effect on the total per piece charge  
(continued...)

1 three-year experiment. The projected cost coverage of Mailing Online, consistent  
2 with the markup, is 130 percent. As Exhibit D also shows, fee revenues are  
3 sufficient to cover all of the incremental costs associated with the service,  
4 including pre-experiment costs if treated as capitalized. Moreover, at projected  
5 volumes, Mailing Online will contribute \$74.6 million to the Postal Service's  
6 institutional costs during the experiment, over and above my generous estimate  
7 of incremental costs.

8 In addition to fee revenues, Mailing Online makes an indirect contribution  
9 to recovery of institutional costs through additional mail volume that accrues to  
10 the Postal Service through Mailing Online. As we stated in the last case, we  
11 expect 38 percent of Mailing Online volume to be new to the Postal Service. As  
12 indicated in Exhibit F, at projected volume levels and at basic automation rates,  
13 Mailing Online should produce \$100.9 million in additional First-Class Mail and  
14 Standard Mail (A) postage revenue during the experiment. Though these  
15 revenues are not explicitly included in calculating a cost coverage for Mailing  
16 Online, they are an additional factor supporting the requested cost coverage.

17 The market research on which Mailing Online volume projections are  
18 based assumed a limited availability of postal services through Mailing Online.  
19 The research survey respondents were asked to choose between two  
20 alternatives: First-Class Mail and Standard Mail (A). In its experimental form,  
21 Mailing Online will also allow customers to use Priority Mail and Express Mail,

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(...continued)  
including postage.

1 along with special services otherwise available to letter mail and Delivery  
2 Confirmation for Priority Mail pieces. Because the market research contains no  
3 basis on which to project volumes for these products, I have made no explicit  
4 adjustments to the volume projections to account for them. Because mail will be  
5 entered near its destination, the service superiority typically offered by expedited  
6 services is diminished. Since Priority Mail and Express Mail rates are  
7 substantially higher than First-Class and Standard (A), we expect the majority of  
8 users to forgo expedited services. However, the premium nature of expedited  
9 services, and the expected availability of Delivery Confirmation, are reasons why  
10 substantial expedited volumes may develop. Similarly, the availability of special  
11 services with Mailing Online pieces provides no quantified basis for revising  
12 volume projections. To the extent that customers make use of expedited  
13 services and/or special services, the postage and fee revenue generated by  
14 Mailing Online will increase. However, because these revenues are not  
15 considered when determining the cost coverage of Mailing Online, they have no  
16 direct effect on the proposed markup and only underline why a low cost  
17 coverage is appropriate.

#### 18 **IV. OTHER PRICING ISSUES**

##### 19 **A. Postage Rates**

20 During the market test of Mailing Online, customers paid automation basic  
21 rates for either First-Class Mail or Standard Mail (A). Mailing Online pieces will  
22 meet all of the necessary addressing and machineability requirements necessary  
23 to use automation rates. Moreover, at projected volumes Mailing Online pieces

1 will achieve depth of sort that is, on average, much greater than required to  
2 qualify for automation basic rates. For these reasons, the Postal Service  
3 proposes that automation basic rates be made available for those classes with  
4 the requisite discount structure, irrespective of the number of pieces in a given  
5 transaction. Customers electing to use Priority Mail or Express Mail would pay  
6 the necessary single piece rates. While heavier weight Priority rates are zoned,  
7 at current page limits Mailing Online pieces would pay unzoned rates.  
8 Customers who elect to use special services would pay the existing special  
9 service fee for whichever service they choose.

10 As mentioned above, customers will be quoted a price, including postage,  
11 when they have finished specifying the features that they want for their  
12 document. The postage portion of the customer charges is calculated by the  
13 Mailing Online system based on the number of pages in the document, the  
14 finishing options selected, and the type of envelopes used. Mailing Online  
15 printers will be required to use a specific grade of both paper and envelopes,  
16 thus ensuring uniformity. Based on standard unit weights for the physical  
17 components of a customer's mail piece, the Mailing Online system will calculate  
18 a weight per piece, and apply the appropriate rate given the subclass chosen by  
19 a customer.

## 20 **V. CLASSIFICATION CRITERIA**

21 This proposal satisfies the classification criteria of section 3623 (c) of Title  
22 39, United States Code, which requires that classification changes be set in  
23 accordance with the following factors:

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

19           By offering Mailing Online, the Postal Service provides customers the  
20           opportunity to conduct transactions with the Postal Service without leaving their  
21           home or workplace. It will also extend certain worsharing discounts to smaller  
22           volume customers. As the Commission recognized in its market test Opinion,  
23           Mailing Online is an example of the kind of innovative postal service envisioned  
24           by the Act (PRC Op., at 34).

25           Mail entered via Mailing Online will have a high degree of reliability  
26           (Criterion 3). For instance, all mail pieces sent via First-Class Mail or Standard  
27           Mail (A) will be automation-compatible at the time of entry. Moreover, Postal  
28           Service software used for Mailing Online will ensure that all Mailing Online  
29           volume using these classes of mail is sorted in conformity with the most current  
30           sort plans available, and with the greatest possible depth. To the extent that  
31           Mailing Online pieces would have been mailed in the absence of the service, it is  
32           expected that many or most such pieces would have been entered at single-



1 piece rates by mailers who mail in relatively small quantities and who therefore  
2 may not have the technical expertise to utilize the existing discount structure.  
3 Consequently, Mailing Online should have a decidedly positive effect on the  
4 overall classification system by enabling a large number of diverse customers to  
5 take advantage of worksharing opportunities and the postage discounts  
6 associated therewith (Criterion 1). Mailing Online should also improve speed of  
7 delivery due to the dispersed network of printers available to Mailing Online  
8 customers. Moreover, Mailing Online should normally allow next day entry at, or  
9 near, the point of destination, thereby providing Mailing Online customers faster  
10 delivery than they would otherwise be likely to receive. In addition, customers  
11 who wish to make use of the Postal Service's expedited services will now have  
12 the opportunity to do so.

13         Subject to existing content restrictions, customers who do not require  
14 immediate delivery can choose options that will enter pieces at Standard Mail (A)  
15 rates (Criterion 4). This will allow customers whose jobs meet the necessary  
16 content restrictions and who are less concerned with delivery speed an  
17 opportunity to save on postage expense, and will allow the Postal Service to  
18 improve the match of demand with processing capacity at the point of entry  
19 (Criterion 5).

20         The Postal Service has developed Mailing Online to meet the needs of  
21 small, independent businesses. In its historical role as a public service, the  
22 Postal Service has long striven to provide mailing and communications services  
23 that meet the needs of individuals and small businesses. Since enactment of the

1 Postal Reorganization Act, the Postal Service and the Postal Rate Commission  
2 have worked together to develop products and price incentives that have allowed  
3 larger mailers to reduce mailing costs by taking advantage of worksharing  
4 opportunities. The concurrent growth of presorting and consolidation industries  
5 have further allowed small and medium-sized businesses to share in the benefits  
6 of worksharing. Mailing Online may also create a new market opportunity for  
7 such premailing service providers to expand their customer base into the small  
8 and home office (SOHO) market. Mailing Online thus both directly and indirectly  
9 extends the benefits of presorting and automation to SOHO mailers. In addition  
10 to allowing individual, SOHO, and small nonprofit customers an easier means of  
11 accessing postal services, Mailing Online offers an opportunity for these  
12 customers, who might otherwise be unable to take advantage of worksharing, to  
13 reduce their mailing costs through a form of worksharing (Criterion 5).

## 14 **VI. PRICING CRITERIA**

15 Mailing Online meets the criteria of section 3622 (b) of Title 39, United  
16 States Code, which requires that postal rates and fees be set in accordance with  
17 the following factors:

- 18 1. the establishment and maintenance of a fair and equitable  
19 schedule.
- 20 2. the value of the mail service actually provided by each class  
21 or type of mail service to both the sender and the recipient;
- 22 3. the requirement that each class of mail or type of mail service  
23 bear the direct and indirect postal costs attributable to that  
24 class or type plus that portion of all other costs of the Postal  
25 Service reasonably assignable to such class or type;  
26  
27  
28

- 1           4. the effect of rate increases upon the general public; business  
2           mail users, and enterprises in the private sector of the  
3           economy engaged in the delivery of mail matter other than  
4           letters;  
5
- 6           5. the available alternative means of sending and receiving  
7           letters and other mail matter at reasonable costs;  
8
- 9           6. the degree of preparation of mail for delivery into the postal  
10          system performed by the mailer and its effect upon reducing  
11          costs to the Postal Service;  
12
- 13          7. simplicity of structure for the entire schedule and simple,  
14          identifiable relationships between the rates or fees charged  
15          for the various classes of mail for postal services;  
16
- 17          8. the educational, cultural, scientific, and informational value to  
18          the recipient of mail matter; and  
19
- 20          9. such other factors as the Commission deems appropriate.  
21

22           The Postal Service proposes that a markup of 130 percent be established  
23           for Mailing Online. The markup would be applied to the actual premailing costs  
24           of each customer's transaction, resulting in premailing fees that would vary  
25           depending on the options selected by the customer. This markup guarantees  
26           that Mailing Online will cover its variable costs and provide a contribution to  
27           cover start-up and institutional costs.

28           Mailing Online enhances convenience. Its proposed cost coverage of 130  
29           percent is reasonable and appropriate. Several factors weigh in favor of a  
30           moderate cost coverage at this time. Mailing Online is being offered as an  
31           experimental service, the purpose of the experiment being to determine the  
32           viability of the product under conditions which are likely to obtain for a permanent  
33           service. A relatively modest markup facilitates attainment of this particular goal

1 in a number of ways. The Postal Service's market research indicates that  
2 Mailing Online's target customers are price sensitive (Docket No. MC98-1, LR-2  
3 Table 16), and a relatively low markup during the introduction of the product will  
4 help to build use among the target customers, thereby allowing the Postal  
5 Service to determine salient factors such as customer satisfaction, and product  
6 quality. In turn, this will improve the Postal Service's and the Commission's  
7 abilities to evaluate the merits of Mailing Online in the event that the Postal  
8 Service requests a permanent classification. Because the Mailing Online  
9 experiment would be available for only three years, the Commission, the Postal  
10 Service, and intervenors will have an opportunity to revisit fees soon, should the  
11 Postal Service request a permanent classification. Moreover, the introduction of  
12 Mailing Online will produce additional First-Class Mail, Standard Mail (A), Priority  
13 Mail and Express Mail volume. Therefore, in addition to providing contribution  
14 through its own markup, Mailing Online will indirectly improve postal finances to  
15 the extent that the service attracts new volume to these subclasses, and to the  
16 available special services. Finally, because Mailing Online mail will be entered  
17 close to the point of destination while maximizing automation compatibility and  
18 presortation, the cost to the Postal Service of handling these pieces will tend to  
19 be lower than would otherwise be the case.

20 As mentioned above, Mailing Online is intended to serve small mailers by  
21 offering these customers a way to take advantage of worksharing opportunities.  
22 While Mailing Online performs a service that is analogous in some respects to  
23 presorting, Mailing Online customers are unlikely to be current users of

1 presorting services, because of the size of a typical Mailing Online mailing. As a  
2 result, the effect of Mailing Online's introduction on existing presort volumes is  
3 expected to be minimal. Since Mailing Online constitutes a new channel for  
4 entering hard copy mail, it could increase use of mailing service organizations  
5 much as presort, automation, and destination entry discounts already have.  
6 Mailing Online leaves room for third party providers, should private companies  
7 see the demand, by leaving room for deeper discounts than those available via  
8 Mailing Online, and by creating the potential for service providers to assist  
9 specific customers with creation of documents for submission via Mailing Online.  
10 The effect of Mailing Online on the general public, and on business mail users, is  
11 expected to be highly beneficial (Criterion 4). Mailing Online offers mail users  
12 the convenience of bundled mail preparation and mailing services that can be  
13 accessed from the desktop. Furthermore, with the Postal Service expecting  
14 ultimately to spend over \$170 million annually on printing services (see Exhibit  
15 C), the introduction of Mailing Online will greatly benefit printing and document  
16 preparation businesses.

17       Application of Criterion 5 to Mailing Online is complicated since, with  
18 Mailing Online combining elements of both traditional and electronic mail,  
19 alternatives abound. Other postal administrations have found success with  
20 hybrid services. While domestic hybrid services do exist, none has yet  
21 demonstrated any ability to provide services comparable with Mailing Online by  
22 using a single web site that mixes customer jobs and then routes them for entry  
23 near destinations. Mailing Online customers could elect to print and prepare

1 mailings themselves, at which point they would be able to use existing mail  
2 classes consistent with their needs. There may be some difference in the rates  
3 customers would pay. However, the difference in the total cost to the customer,  
4 including preparation costs, defies precise quantification. Conversely, Mailing  
5 Online customers, by virtue of their ability to access the Postal Service's web  
6 site, are presumed to have access to electronic mail. To the extent that these  
7 customers maintain electronic address lists of their customers, e-mail constitutes  
8 a viable substitute for Mailing Online. Mailing Online may be preferable to e-mail  
9 in enhancing the appearance or impact of a document.

10 As indicated above, the Postal Service proposes to charge automation  
11 basic rates for pieces sent via Mailing Online. Because the physical mail does  
12 not exist at the time customers submit their mailing, they cannot prepare the mail  
13 directly to meet the automation requirements. In order to qualify for Mailing  
14 Online, customers are required to meet a different set of standards. They must  
15 present a document and mailing list in a form that can be used by the Postal  
16 Service's online document batching system. Preparation of documents in this  
17 manner by customers allows the Postal Service to take advantage of economies  
18 of scale to lower printing costs, and, once enough printing companies are  
19 involved, to bypass handling costs at origin as a result of Mailing Online's entry  
20 of pieces closer to their destinations (Criterion 6).

21 Mailing Online makes use, where possible, of the Postal Service's existing  
22 rate schedules and, because it relies on a markup over actual costs, will not  
23 require fee changes as a result of changes in contract costs, or the rates for mail

- 1 classes with which Mailing Online will be offered. Thus, the addition of Mailing
- 2 Online to the DMCS in the form proposed will in no way add unnecessary
- 3 complexity to the Postal Service's rate schedule (Criterion 7).

**Exhibit USPS-5A**

**Mailing Online Volumes**



**Exhibit A**  
**Mailing Online Volumes**  
**Years 1 - 3**

Paper	Note:	Year 1	Year 2	Year 3	Total	Average
(1) 8 1/2 x 11 Sheets	Source: Ex. USPS-2A, Table 5	974,426,779	1,700,834,821	2,851,488,717	5,526,689,116	1,776,519,705
(2) 8 1/2 x 14 Sheets	Source: Ex. USPS-2A, Table 5	178,480,082	307,862,788	480,136,305	966,419,165	321,513,062
(3) 11 x 17 Sheets	Source: Ex. USPS-2A, Table 5	84,417,865	147,331,826	229,708,462	461,458,134	153,819,378
(4) Total Sheets	[(1)+(2)+(3)]	1,236,283,727	2,155,918,234	3,561,343,475	6,953,589,436	2,380,862,145
<b>Impressions</b>						
(5) B&W 8 1/2 x 11 & 8 1/2 x 14	Source: Ex. USPS-2A, Table 2	913,883,467	1,884,918,673	2,486,676,101	4,885,448,242	1,886,148,747
(6) B&W 11 x 17	Source: Ex. USPS-2A, Table 2	288,645,885	447,741,418	688,083,888	1,422,371,270	487,457,090
(7) Total Black & White Impressions	[(5)+(6)]	1,170,389,332	2,042,660,091	3,184,760,089	6,397,820,512	2,132,808,837
(8) Color Impressions	Source: Ex. USPS-2A, Table 2	824,822,418	1,457,128,884	2,271,843,315	4,553,874,628	1,521,291,543
Total Impressions	[(7)+(8)]	2,005,201,751	3,499,788,965	5,456,603,403	10,961,695,139	3,653,899,380
<b>Envelopes</b>						
(9) 8.5/11<6 Sheets	Source: Ex. USPS-2A, Table 5	184,122,428	338,785,789	528,224,293	1,081,142,480	363,714,160
(10) 8.5/14<6 Sheets	Source: Ex. USPS-2A, Table 5	20,442,540	36,877,721	56,825,959	111,746,221	37,248,740
(11) 11/17<3 Sheets	Source: Ex. USPS-2A, Table 5	24,880,375	43,073,881	67,167,483	136,811,738	46,970,579
(12) Total No. 10 Envelopes	[(9)+(10)+(11)]	238,245,343	417,847,381	681,607,735	1,307,800,439	436,833,480
(13) 8.5/11>6 Sheets	Source: Ex. USPS-2A, Table 5	38,104,386	68,247,863	108,408,482	213,758,530	71,262,843
(14) 8.5/14>4 Sheets	Source: Ex. USPS-2A, Table 5	5,802,844	8,778,841	15,248,106	30,827,891	10,208,230
(15) 11/17>2 Sheets	Source: Ex. USPS-2A, Table 5	11,712,350	20,441,188	31,870,341	64,023,885	21,341,295
(16) Total Flat Envelopes	[(13)+(14)+(15)]	88,418,880	88,467,480	153,822,836	308,410,108	102,803,369
<b>Insertor Volumes</b>						
(17) 8.5/11 Letters	=(9)	184,122,428	338,785,789	528,224,293	1,081,142,480	363,714,160
(18) 8.5/14 Letters	=(10)	20,442,540	36,877,721	56,825,959	111,746,221	37,248,740
(19) 11/17 Letters	=(11)	24,880,375	43,073,881	67,167,483	136,811,738	46,970,579
(20) Subtotal - Letters	[(17)+(18)+(19)]	238,245,343	417,847,381	681,607,735	1,307,800,439	436,833,480
(21) 8.5/11 Flats	=(13)	38,104,386	68,247,863	108,408,482	213,758,530	71,262,843
(22) 8.5/14 Flats	=(14)	5,802,844	8,778,841	15,248,106	30,827,891	10,208,230
(23) 11/17 Flats	=(15)	11,712,350	20,441,188	31,870,341	64,023,885	21,341,295
(24) Subtotal - Flats	[(21)+(22)+(23)]	88,418,880	88,467,480	153,822,836	308,410,108	102,803,369
(25) Total	[(20)+(24)]	296,865,022	516,014,851	804,830,673	1,616,210,547	538,736,849
<b>Transportation Volumes</b>						
(26) First-Class Letters	Source: Ex. USPS-2A, Table 4	74,237,830	128,864,946	202,007,700	405,810,476	135,270,159
(27) First-Class Flats	Source: Ex. USPS-2A, Table 4	17,507,027	30,864,482	47,638,188	95,869,656	31,889,885
(28) Standard A Letters	Source: Ex. USPS-2A, Table 4	165,007,513	287,882,415	448,000,035	901,889,963	300,863,321
(29) Standard A Flats	Source: Ex. USPS-2A, Table 4	28,912,853	57,813,028	105,884,770	212,710,451	70,903,484
(30) Total	[(26)+(27)+(28)+(29)]	296,865,022	516,014,851	804,830,673	1,616,210,547	538,736,849

## **Exhibit USPS-5B**

### **Mailing Online Unit Costs**

**Exhibit B**  
**Mailing Online Unit Costs**  
**Years 1 - 3**

<b>Paper</b>			<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Average</b>
(1)	8 1/2 x 11 Sheets	Source: Ex. USPS-2A, Table 5	\$ 0.004700	\$ 0.004827	\$ 0.004957	\$ 0.00487
(2)	8 1/2 x 14 Sheets	Source: Ex. USPS-2A, Table 5	\$ 0.005700	\$ 0.005854	\$ 0.006012	\$ 0.00590
(3)	11 x 17 Sheets	Source: Ex. USPS-2A, Table 5	\$ 0.020080	\$ 0.020622	\$ 0.021179	\$ 0.02080
<b>Impressions</b>						
(4)	B&W 8 1/2 x 11 & 8 1/2 x 14	Source: Ex. USPS-2A, Table 2	\$ 0.0170	\$ 0.0173	\$ 0.0174	\$ 0.01730
(5)	B&W 11 x 17	Source: Ex. USPS-2A, Table 2	\$ 0.0285	\$ 0.0294	\$ 0.0290	\$ 0.02904
(6)	Color Impressions	Source: Ex. USPS-2A, Table 2	\$ 0.0226	\$ 0.0233	\$ 0.0232	\$ 0.02310
<b>Envelopes</b>						
(7)	8.5/11<6 Sheets	Source: Ex. USPS-2A, Table 5	\$ 0.0145	\$ 0.0149	\$ 0.0153	\$ 0.01502
(8)	8.5/14<5 Sheets	Source: Ex. USPS-2A, Table 5	\$ 0.0145	\$ 0.0149	\$ 0.0153	\$ 0.01502
(9)	11/17<3 Sheets	Source: Ex. USPS-2A, Table 5	\$ 0.0145	\$ 0.0149	\$ 0.0153	\$ 0.01502
(10)	8.5/11>5 Sheets	Source: Ex. USPS-2A, Table 5	\$ 0.0470	\$ 0.0483	\$ 0.0496	\$ 0.04869
(11)	8.5/14>4 Sheets	Source: Ex. USPS-2A, Table 5	\$ 0.0470	\$ 0.0483	\$ 0.0496	\$ 0.04869
(12)	11/17>2 Sheets	Source: Ex. USPS-2A, Table 5	\$ 0.0470	\$ 0.0483	\$ 0.0496	\$ 0.04869
<b>Insertor Costs</b>						
(13)	8.5/11 Letters	Source: Ex. USPS-2A, Table 3	\$ 0.0236	\$ 0.0241	\$ 0.0222	\$ 0.02307
(14)	8.5/14 Letters	Source: Ex. USPS-2A, Table 3	\$ 0.0236	\$ 0.0241	\$ 0.0222	\$ 0.02307
(15)	11/17 Letters	Source: Ex. USPS-2A, Table 3	\$ 0.0236	\$ 0.0241	\$ 0.0222	\$ 0.02307
(16)	8.5/11 Flats	Source: Ex. USPS-2A, Table 3	\$ 0.0301	\$ 0.0240	\$ 0.0244	\$ 0.02532
(17)	8.5/14 Flats	Source: Ex. USPS-2A, Table 3	\$ 0.0301	\$ 0.0240	\$ 0.0244	\$ 0.02532
(18)	11/17 Flats	Source: Ex. USPS-2A, Table 3	\$ 0.0301	\$ 0.0240	\$ 0.0244	\$ 0.02532
<b>Transportation Costs</b>						
(19)	First-Class Letters	Source: Ex. USPS-2A, Table 4	\$ 0.0002	\$ 0.0002	\$ 0.0002	\$ 0.00020
(20)	First-Class Flats	Source: Ex. USPS-2A, Table 4	\$ 0.0003	\$ 0.0004	\$ 0.0003	\$ 0.00030
(21)	Standard A Letters	Source: Ex. USPS-2A, Table 4	\$ 0.0005	\$ 0.0005	\$ 0.0004	\$ 0.00044
	Standard A Flats	Source: Ex. USPS-2A, Table 4	\$ 0.0062	\$ 0.0069	\$ 0.0049	\$ 0.00579
<b>Information Technology Costs</b>						
(22)	Variable Costs Per Impression	Source: Ex. USPS-2A, Table 6	\$ 0.00064	\$ 0.00047	\$ 0.00035	\$ 0.000439

Note: Variable IT costs are derived by dividing witness PostNet's total volume variable IT costs by the total impressions in each year.

## **Exhibit USPS-5C**

### **Mailing Online Printer Costs**

**Exhibit C**  
**Mailing Online Printer Costs**  
**Years 1 - 3**

Paper	Year 1	Year 2	Year 3	Total	Average
(1) 8½ x 11 Sheets	\$ 4,579,801	\$ 8,208,793	\$ 13,144,079	\$ 25,932,674	\$ 8,644,225
(2) 8½ x 14 Sheets	\$ 1,005,788	\$ 1,802,725	\$ 2,888,558	\$ 5,695,048	\$ 1,898,349
(3) 11 x 17 Sheets	1,885,111	3,038,300	4,884,986	9,808,397	3,199,466
(4) Total Sheets	\$ 7,280,677	\$ 13,049,819	\$ 20,895,623	\$ 41,228,119	\$ 13,742,040
<b>Impressions</b>					
(5) B&W 8½ x 11 & 8½ x 14	\$ 15,534,882	\$ 27,891,015	\$ 43,299,511	\$ 86,425,118	\$ 28,808,373
(6) B&W 11 x 17	\$ 7,319,185	\$ 13,143,827	\$ 20,267,359	\$ 40,730,481	\$ 13,576,827
(7) Black & White Impressions	22,853,787	40,734,941	63,886,870	127,186,598	42,385,200
(8) Color Impressions	\$ 18,885,548	\$ 33,927,091	\$ 52,612,893	\$ 105,435,331	\$ 35,145,110
(9) Total Impressions	\$ 41,740,335	\$ 74,662,032	\$ 116,179,563	\$ 232,590,930	\$ 77,530,310
<b>Envelopes</b>					
(10) 8.5/11<6 Sheets	2,814,775	5,045,177	8,078,435	15,938,388	5,312,796
(11) 8.5/14<5 Sheets	298,417	531,295	850,720	1,678,431	559,477
(12) 11/17<3 Sheets	357,865	641,435	1,027,078	2,026,378	675,459
(13) Total No. 10 Envelopes	\$ 3,469,057	\$ 6,217,907	\$ 9,956,233	\$ 19,643,197	\$ 6,547,732
(14) 8.5/11>5 Sheets	1,837,908	3,284,248	5,274,811	10,406,968	3,468,988
(15) 8.5/14>4 Sheets	283,338	472,005	755,784	1,491,128	497,043
(16) 11/17>2 Sheets	550,480	988,678	1,579,885	3,117,041	1,039,014
(17) Total Flat Envelopes	\$ 2,651,725	\$ 4,752,927	\$ 7,610,479	\$ 15,015,132	\$ 5,005,044
(18) Total Envelopes	\$ 6,120,782	\$ 10,970,834	\$ 17,566,712	\$ 34,658,328	\$ 11,552,776
<b>Insertor Costs</b>					
(19) 8.5/11 Letters	4,588,367	8,172,319	11,724,044	24,484,730	8,161,577
(20) 8.5/14 Letters	483,189	880,806	1,234,829	2,578,425	859,475
(21) 11/17 Letters	563,357	1,039,014	1,480,574	3,112,944	1,037,648
(22) Subtotal - Letter Folds	\$ 5,654,913	\$ 10,071,938	\$ 14,449,247	\$ 30,176,099	\$ 10,058,700
(23) 8.5/11 Flats	1,175,823	1,840,118	2,886,455	5,412,396	1,804,132
(24) 8.5/14 Flats	168,474	234,999	372,025	775,497	258,499
(25) 11/17 Flats	352,177	491,240	777,677	1,621,094	540,365
(26) Subtotal - Flat Folds	\$ 1,696,474	\$ 2,366,357	\$ 3,748,156	\$ 7,806,987	\$ 2,602,996
(27) Total Folds	\$ 7,351,387	\$ 12,438,295	\$ 18,195,404	\$ 37,985,086	\$ 12,661,695
<b>Transportation Costs</b>					
(28) First-Class Letters	15,849	31,068	34,310	81,228	27,076
(29) First-Class Flats	5,675	11,124	12,285	29,084	9,695
(30) Standard A Letters	77,370	151,863	167,488	396,522	132,174
(31) Standard A Flats	240,279	471,000	520,144	1,231,423	410,474
(32) Total Transportation Costs	\$ 339,173.41	\$ 664,855.64	\$ 734,227.24	\$ 1,738,256.29	\$ 579,418.76
<b>Total Printer Costs</b>					
(33)	\$ 62,841,355	\$ 111,785,835	\$ 173,571,529	\$ 348,198,720	\$ 116,066,240

Note: Costs are developed by multiplying Volumes (Exhibit A) times Unit Costs (Exhibit B) for each element.

## **Exhibit USPS-5D**

### **Mailing Online Cost and Revenue Summary**

**Exhibit D**  
**Mailing Online Cost and Revenue Summary**  
**Years 1 - 3**

	<u>SOURCE</u>	Year 1	Year 2	Year 3	Total
(1) Printer Costs	Exhibit C	\$ 82,841,365	\$ 111,786,636	\$ 173,571,529	\$ 348,196,720
(2) Variable IT Costs	USPS-2A, Table 8, Item 32	1,279,226	1,843,119	1,889,420	4,811,765
(3) Total Markup Costs	(1) + (2)	84,120,591	113,429,954	175,460,949	353,010,485
(4) Revenue at 30% Markup	1.3 * (3)	\$ 83,366,756	\$ 147,457,640	\$ 228,089,234	\$ 458,913,630
(5) Contribution	(4) - (3)	19,236,174	34,028,686	52,630,285	105,903,145
Other Costs					
(6) Product Specific IT Costs	USPS-2A, Table 16	\$10,426,623	\$11,470,296	\$8,406,989	\$29,063,518
(7) Advertising Costs	USPS-2A, Table 15	725,000	725,000	725,000	2,175,000
(8) Incremental Costs	(6) + (7)	\$75,272,204	\$125,624,250	\$184,592,948	\$384,289,003
(9) Experimental Revenue/Incremental Costs	(4) / (8)	110.7%	117.4%	123.6%	119.4%

(6) Product specific IT costs include pre-experiment costs which have been spread evenly throughout the three years of the experiment.

## **Exhibit USPS-5E**

### **Mailing Online Sample Fees: Year 1**



# Exhibit E

## Mailing Online Sample Fees

### Year 1

Year 1			First Class	Standard A
			Black & White 8.5X11 - 2 Page Simplex	Spot Color 8.5X11 - 8 Page Simplex
	Note			
(1)	Impression Costs	One impression per sheet	\$ 0.034	\$ 0.181
(2)	Paper Costs		\$ 0.009	\$ 0.038
(3)	Envelope Costs		\$ 0.015	\$ 0.047
(4)	Insertor Costs		\$ 0.024	\$ 0.030
(5)	Information Systems Costs		\$ 0.001	\$ 0.005
(6)	Transportation Costs		\$ 0.000	\$ 0.006
(7)	Subtotal	[(1)+(2)+(3)+(4)+(5)+(6)]	\$ 0.083	\$ 0.307
(8)	Contribution	(8)*.3	\$ 0.025	\$ 0.092
(9)	Fee	[(7)+(8)]	\$ 0.108	\$ 0.399
(10)	Postage	R-97 Rates	\$ 0.270	\$ 0.245
(11)	Total Postage & Fee	[(9)+(10)]	\$ 0.378	\$ 0.644

Note: Unit costs from Exhibit B

## **Exhibit USPS-5F**

### **Mailing Online Postage Revenue**

**Exhibit F**  
**Mailing Online Estimated Postage Revenue**  
**Year 1**

Volumes <sup>1</sup>	% of Total	Year 1	8.5/11 <sup>2</sup>	8.5/14	11/17
Total Volume	100.0%	295,665			
Rapid Volume	31.0%	91,745			
Standard Volume	69.0%	203,920			
1-2 pages	87.6%	200,490	158,167	17,663	24,660
3-4 pages	10.7%	31,547	24,888	2,779	3,883
5-6 pages	9.5%	28,059	22,135	2,472	3,454
7-10 pages	3.2%	9,432	7,441	831	1,161
11-15 pages	1.8%	5,263	4,152	464	648
More than 15 pages	7.1%	20,844	16,444	1,836	2,566
Printed on 8-1/2 x 11 paper	78.9%	233,250			
Printed on 8-1/2 x 14 paper	8.8%	26,048			
Printed on 11 x 17 paper	12.3%	36,396			

Volume By Ounce Increments		Revenue L								
	# Ozs <sup>3</sup>	Total	8.5/11	8.5/14	11/17	Rate	Revenue <sup>5</sup>	New Revenue <sup>6</sup>	Existing Volume <sup>7</sup>	Existing Rate <sup>8</sup>
First Class Letters	1	70,372	56,802	5,912	7,658	\$ 0.27	\$ 19,001	\$ 7,220	43,631	\$ 0.33
	2	9,272	6,869	1,198	1,205	\$ 0.49	\$ 4,543	\$ 1,726	5,749	\$ 0.55
	3	1,072			1,072	\$ 0.66	\$ 712	\$ 270	665	\$ 0.77
First Class Flats	1									
	2	1,796	1,732	64	0	\$ 0.52	\$ 934	\$ 355	1,114	\$ 0.55
	3	1,920	1,608	222	90	\$ 0.69	\$ 1,333	\$ 506	1,190	\$ 0.77
	4	2,223	1,957	86	180	\$ 0.91	\$ 2,032	\$ 772	1,378	\$ 0.99
	5	2,041	1,699	171	170	\$ 1.13	\$ 2,314	\$ 879	1,265	\$ 1.21
	6	1,922	1,899	142	80	\$ 1.35	\$ 2,602	\$ 989	1,192	\$ 1.43
	7	342	0	142	199	\$ 1.57	\$ 538	\$ 205	212	\$ 1.65
	8	302	0	142	159	\$ 1.79	\$ 541	\$ 206	187	\$ 1.87
	9	159			159	\$ 2.01	\$ 321	\$ 122	99	\$ 2.09
	10	159			159	\$ 2.23	\$ 356	\$ 135	99	\$ 2.31
	11	159			159	\$ 2.45	\$ 391	\$ 148	99	\$ 2.53
	12	159			159	\$ 2.67	\$ 426	\$ 162	99	\$ 2.75
Total First Class		91,899	72,365	8,082	11,452		\$ 36,043	\$ 13,696	56,977	
Standard Mail Letters <sup>1</sup>	# Ozs <3.3087	179,407	141,520	15,804	22,083	\$ 0.183	\$ 32,831	\$ 12,476	111,232	\$ 0.24
Flats	<3.3087	8,260	7,423	637	200	\$ 0.245	\$ 2,024	\$ 769	5,121	\$ 0.30
Piece/Pound										
# Pieces	>3.3087	16,596	11,903	1,522	3,171	\$ 0.105	\$ 1,743	\$ 662	10,290	\$ 0.16
# Pounds		5,333	3,312	535	1,486	\$ 0.677	\$ 3,611	\$ 1,372	3,307	\$ 0.68
Total Standard Mail							\$ 40,208	\$ 15,279		
Total Revenue							\$ 76,252	\$ 28,976		

1. USPS-T-4, Table 12

2. Assumes that relative proportions of volume by paper size are constant for all document lengths. E.g. 78.9% of 5-6 page documents are on 8.5/11 paper.

3. Letters are assumed to be all documents less than 7 pages in length.

4. For the purposes of estimating volume by ounce increment, the following paper and envelope weights are assumed.

8.5"x11" = 0.2 oz.

8.5"x14" = 0.254 oz.

11"x17" = 0.4 oz.

#10 Envelope = 0.2 oz.

Flat Envelope = 0.4 oz.

5. Revenue = Total Volume X Rate. Assumes rates after implementation of Docket No. R97-1.

6. New revenue = 0.38 X Revenue (LR-1/MC98-1, p. )

7. Existing Volume = 0.62 X Total (ibid.)

8. Existing rates assume that customers would have paid the highest applicable rate for their mail pieces. For instance, customers sending First-class pieces are assumed to have paid the

9. Rate differential is the difference between the applicable and existing rates.

10. Revenue leakage = Rate differential X Existing volume

**Exhibit F**  
**Mailing Online Estimated Postage Revenue**  
**Year 2**

Volumes <sup>1</sup>	% of Total	Year 2	8.5/11	8.5/14	11/17
Total Volume	100.0%	516,015			
Rapid Volume	31.0%	160,119			
Standard Volume	69.0%	355,895			
1-2 pages	67.8%	349,910	276,044	30,827	43,074
3-4 pages	10.7%	55,059	43,436	4,851	6,778
5-6 pages	9.5%	48,970	38,632	4,314	6,028
7-10 pages	3.2%	16,461	12,986	1,450	2,026
11-15 pages	1.8%	9,185	7,246	809	1,131
More than 15 pages	7.1%	36,379	28,699	3,205	4,478
Printed on 8-1/2 x 11 paper	78.9%	407,084			
Printed on 8-1/2 x 14 paper	8.8%	45,461			
Printed on 11 x 17 paper	12.3%	63,521			

Volume By Ounce Increments									Revenue L	
	# Ozs <sup>3</sup>	Total	8.5/11	8.5/14	11/17	Rate	Revenue	New Revenue <sup>6</sup>	Existing Volume <sup>7</sup>	Existing Rate <sup>8</sup>
First Class Letters	1	122,819	99,135	10,318	13,366	\$ 0.27	\$ 33,161	\$ 12,601	78,148	\$ 0.33
	2	16,182	11,988	2,091	2,103	\$ 0.49	\$ 7,929	\$ 3,013	10,033	\$ 0.55
	3	1,871			1,871	\$ 0.68	\$ 1,242	\$ 472	1,160	\$ 0.77
First Class Flats	1	0	-	0	0		\$ -			
	2	3,135	3,022	112	0	\$ 0.52	\$ 1,630	\$ 619	1,943	\$ 0.55
	3	3,351	2,806	388	157	\$ 0.69	\$ 2,326	\$ 884	2,078	\$ 0.77
	4	3,880	3,415	151	314	\$ 0.91	\$ 3,547	\$ 1,348	2,406	\$ 0.99
	5	3,562	2,966	299	298	\$ 1.13	\$ 4,039	\$ 1,535	2,208	\$ 1.21
	6	3,354	2,966	249	140	\$ 1.35	\$ 4,542	\$ 1,726	2,080	\$ 1.43
	7	597	0	249	348	\$ 1.57	\$ 939	\$ 357	370	\$ 1.65
	8	527	0	249	278	\$ 1.79	\$ 945	\$ 359	326	\$ 1.87
	9	278			278	\$ 2.01	\$ 560	\$ 213	172	\$ 2.09
	10	278			278	\$ 2.23	\$ 621	\$ 238	172	\$ 2.31
	11	278			278	\$ 2.45	\$ 682	\$ 259	172	\$ 2.53
	12	278			278	\$ 2.67	\$ 743	\$ 282	172	\$ 2.75
Total First Class		160,388	126,297	14,105	19,987		\$ 62,905	\$ 23,904	\$ 99,441	
Standard Mail Letters <sup>1</sup>	# Ozs <3.3087	313,113	246,990	27,582	38,540	\$ 0.183	\$ 57,300	\$ 21,774	194,130	0.235
Flats	<3.3087	14,416	12,955	1,112	348	\$ 0.245	\$ 3,532	\$ 1,342	8,938	0
Piece/Pound										
# Pieces	>3.3087	28,965	20,774	2,657	5,534	\$ 0.105	\$ 3,041	\$ 1,156	17,958	0.16
# Pounds		9,308	5,780	934	2,594	\$ 0.677	\$ 6,302	\$ 2,395	5,771	0.677
Total Standard Mail							\$ 70,174	\$ 26,666		
Total Revenue							\$ 133,080	\$ 50,570		

1. USPS-T-4, Table 12

2. Assumes that relative proportions of volume by paper size are constant for all document lengths. E.g. 78.9% of 5-6 page documents are on 8.5/11 paper.

3. Letters are assumed to be all documents less than 7 pages in length.

4. For the purposes of estimating volume by ounce increment, the following paper and envelope weights are assumed.

8.5"x11" = 0.2 oz.

8.5"x14" = 0.254 oz.

11"x17" = 0.4 oz.

#10 Envelope = 0.2 oz.

Flat Envelope = 0.4 oz.

5. Revenue = Total Volume X Rate. Assumes rates after implementation of Docket No. R97-1.

6. New revenue = 0.38 X Revenue (LR-1/MC98-1, p. )

7. Existing Volume = 0.62 X Total (ibid.)

8. Existing rates assume that customers would have paid the highest applicable rate for their mail pieces. For instance, customers sending First-class pieces are assumed to have paid

9. Rate differential is the difference between the applicable and existing rates.

10. Revenue leakage = Rate differential X Existing volume

**Exhibit F**  
**Mailing Online Estimated Postage Revenue**  
**Year 3**

Volumes <sup>1</sup>	% of Total	Year 3	8.5/11	8.5/14	11/17
Total Volume	100.0%	804,531			
Rapid Volume	31.0%	249,645,8679			
Standard Volume	69.0%	554,884,8053			
1-2 pages	67.8%	545,552	430,386	48,063	67,157
3-4 pages	10.7%	85,843	67,722	7,563	10,567
5-6 pages	9.5%	76,350	60,232	6,726	9,399
7-10 pages	3.2%	25,865	20,247	2,261	3,159
11-15 pages	1.8%	14,321	11,298	1,262	1,763
More than 15 pages	7.1%	56,719	44,746	4,997	6,982
Printed on 8-1/2 x 11 paper	78.9%	634,694			
Printed on 8-1/2 x 14 paper	8.8%	70,879			
Printed on 11 x 17 paper	12.3%	99,038			

Volume By Ounce Increments									Revenue	
	# Ozs <sup>1</sup>	Total	8.5/11	8.5/14	11/17	Rate	Revenue	New Revenue <sup>8</sup>	Existing Volume <sup>7</sup>	Existing Rate <sup>8</sup>
First Class Letters	1	191,489	154,563	16,087	20,839	\$ 0.27	\$ 51,702	\$ 19,647	118,723	\$ 0.33
	2	25,230	18,690	3,261	3,279	\$ 0.49	\$ 12,363	\$ 4,698	15,642	\$ 0.55
	3	2,916			2,916	\$ 0.66	\$ 1,936	\$ 736	1,808	\$ 0.77
First Class Flats	1	0	-	0	0	\$	-			
	2	4,887	4,712	175	0	\$ 0.52	\$ 2,541	\$ 966	3,030	\$ 0.55
	3	5,225	4,375	604	245	\$ 0.69	\$ 3,626	\$ 1,378	3,239	\$ 0.77
	4	6,050	5,325	235	490	\$ 0.91	\$ 5,529	\$ 2,101	3,751	\$ 0.99
	5	5,553	4,624	466	464	\$ 1.13	\$ 6,298	\$ 2,393	3,443	\$ 1.21
	6	5,230	4,624	388	219	\$ 1.35	\$ 7,081	\$ 2,691	3,243	\$ 1.43
	7	930	0	388	543	\$ 1.57	\$ 1,464	\$ 556	577	\$ 1.65
	8	821	0	388	433	\$ 1.79	\$ 1,473	\$ 560	509	\$ 1.87
	9	433			433	\$ 2.01	\$ 873	\$ 332	269	\$ 2.09
	10	433			433	\$ 2.23	\$ 968	\$ 368	269	\$ 2.31
	11	433			433	\$ 2.45	\$ 1,063	\$ 404	269	\$ 2.53
	12	433			433	\$ 2.67	\$ 1,159	\$ 440	269	\$ 2.75
Total First Class		250,065	196,912	21,992	31,162		\$ 98,077	\$ 37,269	\$ 155,040	
Standard Mail Letters <sup>1</sup>	# Ozs <3.3087	488,181	385,087	43,004	60,089	\$ 0.183	\$ 89,337	\$ 33,948	302,672	\$ 0.235
Flats	<3.3087	22,476	20,198	1,733	545	\$ 0.245	\$ 5,507	\$ 2,093	13,935	\$ 0
Piece/Pound	# Pieces >3.3087	45,160	32,389	4,143	8,629	\$ 0.105	\$ 4,742	\$ 1,802	27,999	\$ 0.16
# Pounds		14,512	9,012	1,456	4,045	\$ 0.677	\$ 9,825	\$ 3,733	8,998	\$ 0.677
Total Standard Mail							\$ 109,410	\$ 41,576		
Total Revenue							\$ 207,487	\$ 78,845		

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