

UNITED STATES OF AMERICA
Before The
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

Mailing Online Experiment

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Docket No. MC2000-2

OFFICE OF THE CONSUMER ADVOCATE
STATEMENT OF ISSUES PURSUANT TO RULE 67a(b)

(December 16, 1999)

Pursuant to Order No. 1272,¹ and Commission Rule 67a(b), the Office of the Consumer Advocate ("OCA") hereby presents its Statement of Issues involving questions of material fact.² The OCA wishes to comment, at the outset, that even though genuine issues of material fact are present in the instant proceeding, there are significantly fewer than were present in the previous docket—MC98-1. The Postal Service has done a commendable job of heeding and responding to the concerns articulated (or implied) by the Commission and the participants in the previous proceeding.

The following are the issues the OCA wishes to pursue in the instant proceeding:

¹ "Notice and Order on Filing of Request for Establishment of an Experimental Mail Classification and Fee Schedule for an Online Mailing Special Service," November 19, 1999. Ordering paragraph 3 directs the participants to submit a Statement of Issues in conformance with Rule 67a(b).

² Rule 67a applies to Postal Service Requests for experimental changes. In order to identify material issues of fact at an early stage, paragraph (b) provides that:

[T]he parties will be required to file statements of the issues they perceive in the case. Each such statement shall designate with particularity those issues the party believes to be or involve genuine issues of material fact.

Volume Estimation Issues. In the MC98-1 proceeding, witness Rothschild agreed that the price points considered by respondents to the National Analysts' market survey "were an important component in a survey respondent's decision to use the service."³ Therefore, it will be important to make a detailed comparison of the prices respondents had in mind when answering the survey questions with the prices now projected for Mailing Online ("MOL") in Docket No. MC2000-2.

Another concern about the volume estimates arises from the respondents' understanding of the speed of the MOL service. Respondents were informed that Netpost⁴ service would result in "Next-day" or "Two to Five Day" delivery times.⁵ "Next-day" and "Two to Five Day" volume estimates were later used as proxies for First-Class and Standard A volumes. However, at the commencement of MOL, and for an indeterminate period following commencement, MOL pieces will be entered at just a few postal facilities.⁶ Very likely, a large proportion of MOL pieces will not fall within the overnight service areas of the facilities where printers will enter them. Therefore, next day delivery is not likely, especially in the first year of the experiment.

Furthermore, MOL pieces that fail to make the cutoff time will not even be *entered* at a postal facility on the next day, let alone delivered the next day.⁷ Even First Class that is subject to an overnight service standard is not always delivered the day

³ Tr. 6/1273 (response by witness Rothschild to interrogatory PB/USPS-T4-1).

⁴ "Netpost" was the name of an MOL-like service employed by the Postal Service and National Analysts at the time of the market survey. USPS-LR-2/MC98-1 at 1.

⁵ E.g., questionnaire version 2, ques. 7, presented in USPS-LR-2/MC98-1.

⁶ The Postal Service will begin the experiment with a limited number of sites, although the goal is to have a "distributed network of [approximately 25] print-and-mail sites" throughout the U.S. during the second year of the experiment. USPS-T-1 at 2.

⁷ Docket No. MC98-1, Tr. 2/181-188 (response of witness Garvey to interrogatory OCA/USPS-T5-17g.).

following its entry into the postal system. Therefore, when respondents indicated an interest in purchasing a stated volume of "Next-day" service, their estimates are not necessarily a good indicator of the amount of First-Class service they would be likely to purchase through MOL. First Class that falls outside of the overnight service area is subject to either a two-day or three-day delivery window. The Postal Service's success in meeting these standards is far from perfect. This widens the gap between the survey respondents' statements of how much "Next-day" mail they would buy as compared to an amount of First-Class mail that they would actually be purchasing through MOL.

The Standard A estimates share the same infirmities. Such mail also may be brought to a postal facility up to two days after the initial MOL transaction; and many Standard A mailers complain of service far worse than a three- to five-day window for delivery.

A third volume estimation issue is that witness Rothschild assumed specific levels of awareness in each of the years for which she developed MOL volume estimates. Given the very modest expenditures that the Postal Service indicates it has budgeted to advertise MOL (only \$725,000 per year), it is doubtful that the Small Office/Home Office ("SOHO") market, which is the primary target group for MOL,⁸ will have the levels of awareness assumed by witness Rothschild.

Disparity between MOL postage and the postage of similar non-MOL mailings.

The Postal Service proposes to create an MOL exception to the minimum volume requirements to qualify for First-Class and Standard A basic automation discounts. The Service's justification for this exception is the automation compatibility of the MOL

mailpiece, the extensive batching and presortation of MOL mailings, and the entry of MOL mailings much nearer the destination than may typically occur for First Class.⁹ Allowing the Postal Service a waiver of minimum volume requirements raises questions of equity. At the outset of the experiment, the Postal Service's ability to batch and deeply presort a wide range of heterogeneous mailings is doubtful. Furthermore, volumes high enough to warrant opening 25 print sites, thereby facilitating the entry of MOL pieces far downstream (at or close to a destination mail processing center), may never materialize. Therefore, cost savings assumed to arise from destination entry may never be fully realized.

In Docket No. MC98-1, two alternatives were presented for consideration to remedy the potential unfairness of the Postal Service proposal. One was the Commission's idea of a rebate procedure, which might begin with an overpayment by an MOL customer, but which would result in a refund exactly equaling the amount of any overpayment. The OCA presented a second alternative in the testimony of witness Callow.¹⁰ Witness Callow proposed that the Postal Service track the amount of presortation and destination entry that is able to be achieved by MOL and recalculate periodically the average MOL postage charge. These averaged postage charges would be the basis for postage charges in subsequent MOL transactions.¹¹

⁸ USPS Request at 4; see also USPS-T-5 at 14.

⁹ Since the First-Class rate schedule is unzoned and offers no discounts for destination entry, the incentives to dropship mail at postal facilities close to the destination point are absent and mailing behavior can be expected to reflect the lack of such inducements.

¹⁰ OCA-T-100.

¹¹ A summary of witness Callow's proposal is:

I propose that customers pay either (1) rates for which their mailpieces would qualify if entered as hardcopy directly with the Postal Service or (2) rates reflecting the greater

Advertising Costs. The OCA questions the Postal Service's estimates of the advertising costs that will be expended to make the public aware of the desirable features of MOL. In order to obtain the volumes estimated by witness Rothschild, it is likely that the Postal Service would need to expend far more than the \$725,000/year estimated. During the market test the Postal Service expended approximately \$4.4 million to advertise MOL and the PostOffice Online ("POL") channel.¹² This yielded a total annualized volume of approximately 270,000 MOL pieces.¹³ The advertising was targeted at approximately 20 percent of the U.S. population.¹⁴ Cultivating public awareness throughout the U.S. could well require advertising expenditures considerably greater than the \$725,000 budgeted figure.

Information Technology ("IT") fees. Witness Plunkett bases the 0.1 cent impression fee on a unit cost of 0.064 cents.¹⁵ The latter unit cost figure does not include the product specific¹⁶ costs of MOL. Exclusion of the specific-fixed costs of MOL from the attributable cost base underlying the proposed fee appears to be a

depths of sort resulting from Postal Service batching and presorting during the experiment, whichever is lower. Rates based upon the Postal Service's experience would be phased in gradually, with rates entirely experience-based at the end of the experiment.

The calculation of postage charges can utilize a computer-implemented pricing formula similar to the Postal Service's pricing formula for Mailing Online pre-mailing service fees.

Id. at 3

¹² Docket No. MC98-1, Tr. 12/2909-16.

¹³ Final weekly market test report, Table 6, Total Pieces column, Total line, transmitted to the Commission on December 7, 1999. For the sake of simplicity, the OCA has used the quarterly figure reported in the final report—67,266—for the period AP 12, Week 3, through AP 2, Week 3, and multiplied by 4.

¹⁴ This proportion is an estimate of the OCA. Docket No. MC98-1, Tr. 12/2908.

¹⁵ USPS-T-5 at 6, n.3.

¹⁶ According to witness Takis, the phrase "product specific" roughly corresponds to the phrase "specific-fixed" commonly employed by the Commission. USPS-T-4 at 7, n.5.

deviation from the Commission's policy on costs that should be included in the attributable cost base.¹⁷

In addition, the OCA wishes to obtain additional information concerning the estimation of total IT costs. The Commission and the participants will want to ascertain if all MOL-caused costs have been accounted for in witness Lim's analysis.

Particular IT costs have been classified as volume variable or product specific. Interrogatories will need to be propounded to determine if such classifications are correct.

Cost coverage. The OCA will want to explore the issue of an appropriate cost coverage for the experimental service.

Revenue projections. Witness Plunkett's estimates of the revenue likely to be generated by MOL is highly dependent on the volumes estimated by witness Rothschild. If witness Rothschild has overestimated volumes, then the actual revenue generated by MOL will be considerably less than witness Plunkett calculates.

Another important element of witness Plunkett's revenue estimation is the likely size of printing fees that MOL customers will pay. Most of the total cost coverage calculated by witness Plunkett is computed as a markup of the printing fees.¹⁸

Witness Poellnitz was given the responsibility of approximating "the average printing charges that will apply during the experiment."¹⁹ The OCA will wish to probe the process and assumptions employed to generate this proxy.²⁰

¹⁷ The OCA discusses this matter at length in the OCA Response to Issue No. 5 of Notice of Inquiry No. 1, filed February 8, 1999, Docket No. MC98-1.

¹⁸ USPS-T-5, Exh. D.

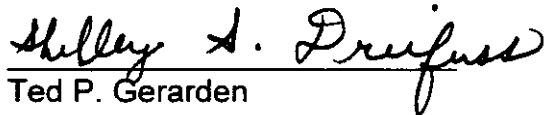
¹⁹ USPS-T-5 at 5, n.2.

USPS.com channel. One significant change from the Docket No. MC98-1 proceeding is that MOL will now be offered via the USPS.com channel, instead of the POL channel. At the present time, when an internet user visits USPS.com, the following message appears: "The future USPS.com. The US Postal Service web server, www.usps.com, is currently unavailable." The Commission and the participants will want to obtain additional information about the Postal Service's plans for the USPS.com channel, including the services to be marketed there. It will also be important to review witness Takis's and witness Lim's assumptions about whether to allocate a portion of USPS.com costs to MOL and whether the portion allocated (if any) was properly measured.²¹

²⁰ Especially the development of costs described in USPS-T-2 at 7-14.

²¹ Examples of proportions that warrant further investigation are the ratios employed by witness Lim in his Workpaper C.

The OCA intends to engage in written discovery on these subjects. It may be possible that clear and complete responses to such written discovery will satisfy the need for additional information and explanation. Therefore, it is not possible for the OCA to determine whether it will need to conduct oral cross-examination of Postal Service witnesses in this proceeding.

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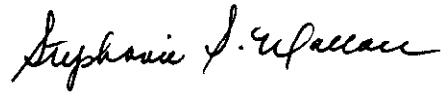
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CERTIFICATE OF SERVICE

I hereby certify that I have this date served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the rules of practice.

A handwritten signature in cursive script, reading "Stephanie S. Wallace".

STEPHANIE S. WALLACE

Washington, D.C. 20268-0001
December 16, 1999