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OFFICE OF THE SECRETARY

OCA-T-100
Docket No. MC2000-2

DIRECT TESTIMONY

OF

JAMES F. CALLOW

ON BEHALF OF

THE OFFICE OF THE CONSUMER ADVOCATE

JANUARY 27, 2000

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JAMES F. CALLOW

STATEMENT OF QUALIFICATIONS

My name is James F. Callow. I am a Postal Rate and Classification Specialist. I have been employed by the Postal Rate Commission since June 1993, and since February 1995 in the Office of the Consumer Advocate (OCA).

I have testified before the Commission in Docket Nos. MC98-1, R97-1, MC96-3, and MC95-1. In Docket No. MC98-1, I proposed a computer-implemented postage pricing formula for Mailing Online as an alternative to the single average discount rate, Automation Basic (within class and shape), proposed by the Postal Service for all mailings using Mailing Online. In Docket No. R97-1, I proposed a restructuring of post office box fee groups to better reflect costs of providing box service in high and low cost offices. My testimony in Docket No. MC96-3 opposed the Postal Service's non-resident surcharge on post office boxholders, and proposed alternative box fees designed to equalize inter-group cost coverages and reduce the disparity in cost coverages by box size. My testimony in the MC95-1 proceeding summarized the comments of persons expressing views to the Commission and the Office of the Consumer Advocate on postal rates and services.

As a Special Assistant to former Commissioner H. Edward Quick, I participated in Docket Nos. R94-1, MC93-2 and MC93-1. In Docket No. R94-1, I was assigned responsibility for substantive subject areas considered by the Commission in its Opinion and Recommended Decision. Specifically, I analyzed

quantitative testimony of the Postal Service with respect to the estimation of workers' compensation costs and evaluated rate design proposals of the Postal Service and other parties related to special postal services.

Prior to joining the Commission, I held positions on the legislative staff of a US Senator and a Member of Congress from Michigan, and served as an aide to the Governor of the State of Michigan in Washington.

I am an accountant by training. In 1985, I earned an MS degree in accounting from Georgetown University. My course work included cost accounting and auditing. In 1977, I obtained my BA degree from the University of Michigan-Dearborn with a double major in political science and history and a minor in economics.

I. PURPOSE AND SCOPE OF TESTIMONY

I support a Mailing Online experiment. Mailing Online holds potential for offering mailers, particularly smaller mailers, a new, convenient and low-cost method of entering mail with the Postal Service. Through its capability to "batch" (combine) similar mailings, Mailing Online will extend the benefits of postal automation to smaller mailers, permitting lower postage charges and providing greater efficiency in postal operations.

This testimony addresses the postage charges for Mailing Online during the experiment. In the absence of experience-based cost or volume data, the Postal Service proposes Automation Basic discount rates (within class and shape) for all Mailing Online mailpieces. The Commission, in its opinion on the market test, recognized the presence of a "unilateral preference" for Mailing Online mailings entered in quantities of less than the minimum volumes otherwise required for automation discounts.

In response to the Commission's concerns, I propose an alternative to the Postal Service's Automation Basic rates. Under my proposal, the Postal Service would start the Mailing Online experiment as proposed, thus avoiding any delay in the commencement and "roll-out" of the service. In the second half of the experiment, however, I propose that customers pay postage charges reflecting the historical batching and presorting experience of the Postal Service during the first 18 months of the experiment. Calculating postage charges based upon the Postal Service's actual experience would, during the second half of the experiment,

address the "unilateral preference" arising from the Postal Service's proposed exemption for small-volume mailings from the minimum volume requirements.

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. My proposed pricing formula relies on volume data showing the extent of batching and presortation actually achieved by the Postal Service during the first half of the experiment. The data would be collected in tabular form by job type to derive historical "weighted average" rates reflecting the batching and presorting experience of the Postal Service. Tables containing the historical weighted average rates would be referenced by computer, and incorporated into the proposed pricing formula. The computer-implemented pricing formula would calculate the postage charge for each Mailing Online mailing.

II. THE LIMITED BATCHING CAPABILITY OF THE MAILING ONLINE SYSTEM PRESERVES THE "UNILATERAL PREFERENCE" OF MAILING ONLINE FOR SMALL-VOLUME MAILINGS

In its "Opinion and Recommended Decision on Market Test" for Mailing Online, the Postal Rate Commission expressed concern about the competitive effects of the Mailing Online service.[1] The Commission perceived a "potentially serious flaw in [the Mailing Online] rate design."[2] Under the market test, as proposed, an assumed single average discount rate, Automation Basic (within class and shape), would apply to all mailings prepared by Mailing Online.[3] However, not all Mailing Online mailings were expected to meet (or exceed) the minimum volume requirements for Automation Basic rates.[4] Where there are "small-volume" mailings, the Commission observed, the exemption of Mailing Online mailings from the minimum volume requirements would permit the Postal Service to compete on preferential terms.[5]

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[1] *See generally* PRC Op. MC98-1, Opinion and Recommended Decision On Market Test, at 35-36. *See also* Docket No. MC98-1, Notice of Inquiry No. 1 Concerning Proposed Mailing Online Experiment, October 16, 1998, at 2. In Issue No. 1, the Commission requested that participants supplement "the record concerning the justification for, and the competitive effects of, the requested waiver . . . "

[2] PRC Op. MC98-1 at 35.

[3] As a new service offering, there is no data over an extended period of time with which to confidently estimate Mailing Online volumes. Consequently, the Postal Service assumes that "[Automation Basic rates] are expected to be more representative than any other existing rate of the type of mailpiece that will be produced through Mailing Online." Tr. 5/1137, Docket No. MC98-1.

[4] Prior to the Mailing Online market test, First-Class Mail automation rates applied only to mail that was "prepared in a mailing of at least 500 pieces;" DMCS § 221.31 (July 1, 1997). Similarly, Standard (A) Mail automation rates applied only to mail that was "prepared in a mailing of at least 200 addressed pieces or 50 pounds of addressed pieces;" DMCS § 321.231 (July 1, 1997).

[5] PRC Op. MC98-1 at 35. "By exempting Mailing Online mailings from the threshold volume eligibility requirements that apply to its competitors, the Postal Service will be able to compete for at least the small-volume portion of the market on preferential terms."

While recommending that the market test proceed, the Commission declined to require a specific alternative to this "unilateral preference."[6] Nevertheless, the Commission suggested establishment of a rebate system,[7] and requested that participants "comment on the feasibility and desirability of such [a rebate] alternative."[8]

The Commission's suggestion of a rebate system also reflected

> misgivings about extending this preference beyond the market test period. The Commission urges the Postal Service to explore other means of giving Mailing Online customers access to the economies of batching that do not require blanket exemptions for Mailing Online mailings from the eligibility requirements for automation discounts.

PRC Op. MC98-1 at 35.

With respect to the Mailing Online experiment, the Postal Service proposes to continue the exemption of Mailing Online mailings (with standardized addresses) from the minimum volume requirements otherwise applicable to Automation Basic rates.[9] While this "unilateral preference" for small-volume mailings is a fixture of the Mailing Online experiment, as proposed, it is not inherently problematic. The competitive effects of exempting Mailing Online mailings from the minimum volume

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[6] *Id.* at 35-36. "The Commission declines to require a specific alternative to this unilateral preference during the market test, because the market test is expected to be very brief, rapid volume growth may obviate the need for an alternative, and the record concerning alternatives is poorly developed."

[7] *Id.* at 27.

[8] Docket No. MC98-1, Notice of Inquiry No. 1 Concerning Proposed Mailing Online Experiment, October 16, 1998, at 3. In my view, a rebate system approaches the economic ideal in terms of product pricing and, therefore, is the best (most efficient) approach. *See* Tr. 10/ 2206-11 (OCA-T-100), Docket No. MC98-1.

[9] USPS-T-5 (Plunkett) at 11. "[T]he Postal Service proposes that automation basic rates be made available [for Mailing Online mailpieces] . . . irrespective of the number of pieces in a given

requirements can be mitigated by "batching" customer jobs.[10] The reason: batching affects the level of presortation for small-volume Mailing Online mailpieces. The greater the batching capability of the Mailing Online system, the greater the depth of sort that can be achieved.[11]

The importance of batching to the depth of sort achieved for "small-volume" mailings was revealed during the market test. The Postal Service reports a total of 217 "transactions" (*i.e.*, customer jobs) consisting of "merge mail" and "non-merge mail" jobs.[12] These 217 transactions presented a total of 50,928 merge mail and non-merge mail mailpieces.[13] Of the 217 transactions, 162, or 74.7 percent, were non-merge mail jobs. Of the 50,928 mailpieces, 44,899, or 88.2 percent, were non-merge mail mailpieces.[14] None of the 162 non-merge mail jobs, representing 44,899 mailpieces, could be batched. Since most non-merge mail jobs were small-volume

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transaction." However, "[t]he single piece First-Class Mail rate will be offered only as an option for mailpieces with addresses which cannot be standardized." USPS-T-1 (Garvey) at 2.

[10] The term "batching" has been described variously by the Postal Service. *See* Tr. 2/194, Docket No. MC98-1; Tr. 6/1553-55, Docket No. MC98-1; *see also* Tr. 2/112 (Garvey, OCA/USPS-T1-9(a)); Tr. 2/194 (Plunkett). At its most basic, "batching" is the process of aggregating jobs, presented in electronic form by different customers, that consist of like mailpieces (*i.e.*, similar printing and finishing characteristics) into a single file prior to transmission to the print site. The process of batching is performed by the Mailing Online system software in San Mateo, California. Tr. 2/189 (Plunkett).

[11] Tr. 12/2980-81, Docket No. MC98-1:

> MS. DREIFUSS: The more the Postal Service can . . . batch mailings, even non-mail-merge type mailings, generally speaking, the more presortation can be achieved; is that correct?
>
> MR. GARVEY: That's correct, yes.

[12] "Merge Mail" refers to customer documents having "fields that contain recipient-specific information." By contrast, "Non-Merge Mail" documents "contain no recipient-specific information in the contents of the document." Tr. 2/159 (Plunkett).

[13] Docket No. MC98-1, Mailing Online Weekly Report AP 2 week 3: October 23rd - October 29th, December 7, 1999, Tables 5 and 6.

[14] *Id.*

jobs, most of the non-merge mail mailpieces did not achieve a depth of sort to qualify for any automation discounts. Only larger individual non-merge mail jobs exceeding the minimum volume requirements (*i.e.*, 500 pieces for First-Class Mail, and 200 pieces for Standard (A) Mail) could be sorted to such an extent.

Table I shows the batching capability of the Mailing Online Version 2.0 system software during the market test, and the Version 3.0 system software on the first day of the experiment.[15] Cells in the table with a "Yes" indicate a batching capability for the respective versions of the system software, while cells with a "No" indicate no batching capability. The major change between Version 2.0 and Version 3.0 is the capability to batch non-merge mail documents, which is planned for the first day of the experiment.[16] Nevertheless, the batching capability of the Mailing Online system software at the beginning of the experiment, while much improved from the market test, is limited. Consider "Letter-Shaped" mail for Version 3.0 and the row labeled "Same" Job-Type, "Same" Page-Count. Only customer jobs consisting, for example, of the "Same" Job-Type (*i.e.*, letter-size (8½ x 11) paper, printed on one-side (simplex), in black ink), and the "Same" Page-Count (*i.e.*, a one-page document), can be batched with other customer jobs having the same "letter-

[15] Table I is modified from the oral cross-examination exhibit, OCA/USPS-T1-XE#1, to compare the batching capabilities of the Version 2.0 and Version 3.0 system software. *See* Tr. 2/169, OCA/USPS-T1-XE#1. It should be noted that, according to witness Plunkett, Version 3.0 will be able to batch "flat-shaped" mail having the same job-type but different page-counts. *See* Tr. 2/169, OCA/USPS-T1-XE#1, the row Flat-Shaped, "Same" Job-Type, "Different" Page-Count, containing a "Yes" for First-Class Mail and Standard (A) Mail. This batching capability for flat-shaped mail seems implausible, however, since the same capability does not exist for letter-shaped mail in Version 3.0.

[16] Tr. 2/113 (Garvey, OCA/USPS-T1-9(b)). During the market test, only merge mail documents "could be aggregated into the batches received by a printer." Tr. 2/112 (Garvey, OCA/USPS-T1-9(a)).

shaped" job-type and page count in First-Class Mail or Standard (A) Mail, respectively. Merge mail and non-merge mail customer jobs of this job-type and page-count may be batched together beginning with the experiment.

Table I
BATCHING CAPABILITY OF VERSION 2.0 SYSTEM SOFTWARE, AND VERSION 3.0 SYSTEM SOFTWARE ON THE FIRST DAY OF THE MAILING ONLINE EXPERIMENT

				FIRST-CLASS MAIL		STANDARD (A) MAIL	
		Job-Type	Page Count	Merge Mail	Non-Merge Mail	Merge Mail	Non-Merge Mail
LETTER-SHAPED	Version 2.0	Same	Same	Yes	No	Yes	No
		Same	Different	No	No	No	No
		Different	Same	No	No	No	No
		Different	Different	No	No	No	No
	Version 3.0	Same	Same	Yes		Yes	
		Same	Different	No		No	
		Different	Same	No		No	
		Different	Different	No		No	
FLAT-SHAPED	Version 2.0	Same	Same	Yes	No	Yes	No
		Same	Different	No	No	No	No
		Different	Same	No	No	No	No
		Different	Different	No	No	No	No
	Version 3.0	Same	Same	Yes		Yes	
		Same	Different	Yes		Yes	
		Different	Same	No		No	
		Different	Different	No		No	

The Postal Service claims that Automation Basic is the appropriate discount rate for Mailing Online mailings. At full implementation, the Postal Service expects to obtain sufficient volumes to permit batching and presorting at least to the automation basic level.[17] However, the limited batching capability of the planned Version 3.0 system software limits the depth of sort that can be achieved for "small-volume" mailings.[18] Consequently, the number of Mailing Online mailpieces that will qualify for Automation Basic rates may be limited.

The alternative I propose, however, is not predicated upon the batching capability of the Mailing Online Version 3.0 system software, or any subsequent version of the system software. Rather, the ability to batch more and different job-types, and thereby achieve ever greater depths of sort, is accommodated by my proposal. My proposal simply utilizes the depth of sort that is actually achieved as a result of the batching capability of the Mailing Online system during the first 18 months of the experiment. Consequently, my proposal fairly address the Postal

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[17] Tr. 2/572, Docket No. MC98-1. "[A]t full implementation, Mailing Online is expected to generate tens of thousands of pieces per printer per day on average. Thus it is expected that Mailing Online pieces will meet the aforementioned qualifications." *See also* Tr. 5/1127, Docket No. MC98-1. "In fact, we expect that in most instances, the mail may be presorted more finely and dropshipped more deeply into the system than is necessary to qualify for the proposed discounts."

[18] The Postal Service intends to increase the batching capability of Mailing Online in subsequent versions of the system software. However, no specific plan or timetable exists with respect to improving the batching capability of the system software. Tr. 2/164-65. Nevertheless, "[a] fundamental design objective of the MOL system is to combine all jobs to the greatest extent possible . . . [a]lthough differences in processing categories and handling characteristics are likely to prevent complete combination of all jobs for the foreseeable future . . ." Tr. 6/1400, Docket No. MC98-1. Some features likely to "prevent complete combination" include batching letters and flats, First-Class and Standard A letters, and mailpieces with different service levels (*i.e.*, next-day service and two-to-five day service). Tr. 6/1600-01, Docket No. MC98-1. The realization of this fundamental design objective would make most of the job-type information unnecessary for purposes of determining depth of sort. Tr. 8/1774, Docket No. MC98-1.

Service's proposed exemption from the minimum volume requirements for automation discounts otherwise applicable to small-volume mailings..

III. IT IS BOTH DESIRABLE AND FEASIBLE TO CALCULATE A POSTAGE CHARGE FOR EACH MAILING ONLINE MAILING THAT REFLECTS HISTORICAL BATCHING AND PRESORTING EXPERIENCE

In the case of Mailing Online, it is not only desirable but feasible to calculate a postage charge for each customer's mailing. The Postal Service's method of determining pre-mailing service fees for Mailing Online suggests how a unique postage charge for each customer's mailing could be calculated.

The availability of high-speed computer data processing allowed the Postal Service to propose and the Commission to recommend a "novel, 'floating' fee schedule" for pre-mailing services during the Market Test.[19] Similarly, in the experiment, computers will allow the Postal Service to manage approximately 75,000 prices of 25 commercial printers for nearly 3,000 different printing options, and to accommodate changes in contract prices and printing options without further regulatory proceedings.[20]

Such computer capabilities also make it feasible to calculate a postage charge for each Mailing Online mailing that reflects historical batching and presorting experience. The Mailing Online system software could be modified to

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[19] Decision of the Governors of the United States Postal Service on the Recommended Decision of the Postal Rate Commission on the Market Test of Mailing Online Service, Docket No. MC98-1 (herein "Governors Decision"), October 16, 1998 at 4. "The Commission recommended a novel, 'floating' fee schedule, which, in place of particular fees, displays the formula (discussed above) by which the fees are calculated based on the prices set forth in the contract between the Postal Service and the printer, rather than fixed fees for the particular contract currently in place."

[20] *Id.* "As the Commission noted, this [floating fee schedule] allows for the flexibility needed to accommodate the potential use of multiple printing contractors and to accommodate changes in individual contracts without further proceedings."

permit calculation of a postage charge based upon the batching and presorting experience of Mailing Online.

A. Setting Postage Charges For Mailing Online On The Basis Of Historical Experience Addresses The Competitive Effect Of Waiving Minimum Volume Requirements For Automation Basic Rates

The Postal Service's experience batching and presorting Mailing Online mailpieces should be the basis for setting postal charges during the experiment. Using volume data from the Mailing Online experiment, I propose a computer-implemented pricing formula, similar to that which exists for pre-mailing fees, to calculate postage charges for each Mailing Online mailing.

My postage pricing formula for Mailing Online relies upon the Postal Service's actual experience batching and presorting mailings. During the first 18 months of the experiment, the Postal Service's assumed single average discount (*e.g.*, Automation Basic for First-Class, or Automation Basic for Standard (A) Mail) applies to all mailpieces, as proposed by the Postal Service. During that same period, volume data is collected on the actual level of presortation achieved for each batched job type by print location. At the end of this period, the accumulated presort-level volume data is used to derive historical weighted average rates that reflect the actual depth of sort achieved for each job type at each print location. During the second 18 months of the experiment, the historical weighted average rate is used to calculate the postage charge for subsequent Mailing Online mailings of a given job type.

My proposal permits the Postal Service to proceed with the Mailing Online experiment as proposed during the first 18 months of the experiment. The Postal Service would offer all customers the same discount rate—Automation Basic (within class and shape)—for all Mailing Online mailpieces, as proposed. In doing so, however, the competitive advantage identified by the Commission would be preserved during the first half of the experiment. Small-volume mailings would be exempt from the minimum volume requirements for Automation Basic rates otherwise applicable to such mailings, and still applicable to the mailings of competitive service providers.

Beginning with the second-half of the experiment, my proposal addresses the competitive advantage on the part of the Postal Service and thereby promotes fairness. Mailing Online customers would pay postage charges on their mailings reflecting the Postal Service's historical batching and presorting experience during the first half of the experiment. If actual experience revealed limited batching and presorting, permitting entry of many small-volume Mailing Online mailings, postage charges would be calculated on a weighted average nearer the single-piece rate. If actual experience revealed greater batching and presorting, postage charges for small-volume mailings would be calculated on a weighted average rate nearer the Automation Basic (or deeper discount) rates.

My proposal provides ample time for the Postal Service to modify the Mailing Online software to incorporate a system of job-type tables.[21] Because the postage

[21] There is no technical barrier to modifying the Mailing Online system software. Witness Plunkett maintains that it would be "technically possible" to modify the system software to incorporate

charges rely on historical volume data, that data must be collected by presort level for each job type by class during the first half of the experiment. This volume data is collected in tables for each job type. Under my proposal, the first 18 months of the experiment allows time to modify the Mailing Online system software to incorporate a system of tables for the collection of volume data by job-type into the system software.[22] The first 18 months of the experiment also provides time to test the system modifications prior to release in the "production environment" of the second half of the experiment.[23]

My proposal also provides an incentive for the Postal Service to improve the batching capability of Mailing Online system software at the earliest possible time. During the first 18 months of the experiment, if the Postal Service is able to improve the batching capability of Mailing Online, more mailings of different job-types can be batched. The result will be fewer small-volume mailings entered below the minimum volume requirements, and greater depths of sort. This in turn will translate into

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the pricing formula proposed in my testimony (OCA-T-100) in Docket No. MC98-1. Tr. 2/174 (Plunkett). *See also* Tr. 12/2977, Docket No. MC98-1. The pricing formula I propose in this proceeding is less involved than the pricing formula proposed in Docket No. MC98-1.

[22] An 18 month period appears to be sufficient time to modify the Mailing Online system software to incorporate the proposed pricing formula and system of tables. Approximately 18 months will have elapsed since the Commission was made aware of plans for development of the Version 3.0 system software and its proposed implementation "as soon as mid-April 2000." *See* Tr. 6/1592-93, Docket No. MC98-1; *see also* Motion of the United States Postal Service for Expedition, and for Waiver of Certain Provisions of Rule [67] and Certain Provisions of Rule 64(h), November 16, 1999, at 1. This elapsed time period included the Postal Service's response to "concerns over Y2K compliance such that no development of any kind could be undertaken during a period of about six months . . ." Tr. 2/173 (Plunkett).

[23] In Docket No. MC98-1, witness Garvey indicated that "there is a minimum of six weeks of their testing . . . that must occur before [the information technology people] will place [Version 3.0] into production." Tr. 12/3000, Docket No. MC98-1. The 18 month period I propose should accommodate "a minimum of six weeks of [ ] testing" prior to release into production.

lower weighted average rates used to calculate postage charges for Mailing Online customers during the second half of the experiment.

B. It Is Possible To Offer Each Mailing Online Mailing A Postage Charge Calculated From Historical Weighted Average Rates Derived During The Experiment

The pricing formula I propose offers a postage charge for each Mailing Online mailing that is calculated from the historical weighted average rate of each mailing. The historical weighted average rate reflects the actual experience of the Postal Service batching and presorting Mailing Online mailpieces during the experiment.

During the first 18 months of the experiment, the postage rate is the same for all mailings—the assumed single average discount rate (*i.e.*, Automation Basic, within class and shape) proposed by the Postal Service. Cumulative depth of sort data is also collected for each possible job-type and page-count during that same period. At the end of the first 18 months of the experiment, a historical weighted average rate is derived for each job type and page count based upon the actual depth of sort achieved for each job type and page count during the first 18 months of the experiment. During the second half of the experiment, each customer is offered a postage charge that is calculated from the historical weighted average rate for the submitted job type.

The derivation of the historical weighted average rates requires the collection of volume data showing the extent of batching and presorting achieved by the

Postal Service.[24] Table II presents a simplified rendering of the volume data necessary by presort level for nine possible letter-size and legal-size job-type and page-count combinations.[25] Table III presents a simplified rendering of the volume data necessary for six possible newsletter-size job-type and page-count combinations.[26] In the fully operational Mailing Online experiment, the theoretical maximum number of tables would be 2,928,[27] one for each job-type and page-count combination in First Class Mail. The same number of tables would exist for Standard (A) Mail as for First-Class Mail.[28]

[24] Beginning on the first day of the experiment, the Mailing Online system software will collect in electronic form and permanently store the presort-level volume data necessary to derive the historical weighted average rate for each job-type and page-count during the first 18 months of the experiment. Tr. 2/155-56 (Plunkett).

[25] I have proposed that presort-level volume data collected during the first half of the experiment be used to derive weighted average rates. These weighted average rates in turn are used to calculate postage charges offered to Mailing Online customers during the second half of the experiment. However, the design of the "look-up" tables in Table II (and Table III) would permit the Postal Service to collect additional presort-level volume data during the second half of the experiment and periodically derive a new weighted average rate, reflecting (presumably) ever greater batching and presorting, for use in calculating postage charges.

[26] In my testimony (OCA-T-100) in Docket No. MC98-1, all possible job-type and page-count combinations for First-Class Mail could be represented in one table, *e.g.*, Table I. At that time, the maximum page-count for letter-size, legal-size and newsletter-size documents was stated as 48 pages. *See* Tr. 6/1354, Docket No. MC98-1. Because the maximum page-count for newsletter-size documents is 24 pages, Tr. 2/105, (Garvey, OCA/USPS-T1-4(a)), this change required that newsletter-size documents be shown in a separate table.

[27] The calculation is: (30 letter-size job types x 48 page count) + (30 legal-size job types x 48 page count) + (2 newsletter-size job types x 24 page count). Tr. 2/120 (Garvey, OCA/USPS-T1-16(a)-(c)).

[28] *See* Tr. 10/2261, Docket No. MC98-1.

Table II
MAILING ONLINE "LOOK-UP" TABLES CONTAINING PERIODIC AND CUMULATIVE VOLUME DATA BY JOB TYPE BY PAGE COUNT BY PRESORT LEVEL FOR FIRST CLASS MAIL (LETTER-SIZE AND LEGAL-SIZE)

Table I.A.1.
Volume by Job-Type, Page-Count and Presort Level

Job-Type A/Page-Count 1			
		Volumes	
Presort Level	Rates (cents)	Current Period	All Periods
5B	24.3		
3B	26.1		
BB	27		
SP	33		
Weighted Average Rate			

Table I.B.1.
Volume by Job-Type, Page-Count and Presort Level

Job-Type B/Page-Count 1			
		Volumes	
Presort Level	Rates (cents)	Current Period	All Periods
5B	24.3		
3B	26.1		
BB	27		
SP	33		
Weighted Average Rate			

. . .

Table I.BH.1.
Volume by Job-Type, Page-Count and Presort Level

Job-Type BH/Page-Count 1			
		Volumes	
Presort Level	Rates (cents)	Current Period	All Periods
5B	24.3		
3B	26.1		
BB	27		
SP	33		
Weighted Average Rate			

Table I.A.2.
Volume by Job-Type, Page-Count and Presort Level

Job-Type A/Page-Count 2			
		Volumes	
Presort Level	Rates (cents)	Current Period	All Periods
5B	24.3		
3B	26.1		
BB	27		
SP	33		
Weighted Average Rate			

Table I.B.2.
Volume by Job-Type, Page-Count and Presort Level

Job-Type B/Page-Count 2			
		Volumes	
Presort Level	Rates (cents)	Current Period	All Periods
5B	24.3		
3B	26.1		
BB	27		
SP	33		
Weighted Average Rate			

. . .

Table I.BH.2.
Volume by Job-Type, Page-Count and Presort Level

Job-Type BH/Page-Count 2			
		Volumes	
Presort Level	Rates (cents)	Current Period	All Periods
5B	24.3		
3B	26.1		
BB	27		
SP	33		
Weighted Average Rate			

Table I.A.48.
Volume by Job-Type, Page-Count and Presort Level

Job-Type A/Page-Count 48			
		Volumes	
Presort Level	Rates (cents)	Current Period	All Periods
3/5B	225.0		
BB	228.0		
SP	231.0		
Weighted Average Rate			

Table I.B.48.
Volume by Job-Type, Page-Count and Presort Level

Job-Type B/Page-Count 48			
		Volumes	
Presort Level	Rates (cents)	Current Period	All Periods
3/5B	225.0		
BB	228.0		
SP	231.0		
Weighted Average Rate			

. . .

Table I.BH.48.
Volume by Job-Type, Page-Count and Presort Level

Job-Type BH/Page-Count 48			
		Volumes	
Presort Level	Rates (cents)	Current Period	All Periods
3/5B	291.0		
BB	294.0		
SP	297.0		
Weighted Average Rate			

Table III

MAILING ONLINE "LOOK-UP" TABLES CONTAINING PERIODIC AND CUMULATIVE VOLUME DATA BY JOB TYPE BY PAGE COUNT BY PRESORT LEVEL FOR FIRST-CLASS MAIL (NEWSLETTER-SIZE)

Table I.BI.1.
Volume by Job-Type, Page-Count and Presort Level

Job-Type BI/Page-Count 1			
		Volumes	
Presort Level	Rates (cents)	Current Period	All Periods
5B	24.3		
3B	26.1		
BB	27		
SP	33		
Weighted Average Rate			

Table I.BJ.1.
Volume by Job-Type, Page-Count and Presort Level

Job-Type BJ/Page-Count 1			
		Volumes	
Presort Level	Rates (cents)	Current Period	All Periods
5B	24.3		
3B	26.1		
BB	27		
SP	33		
Weighted Average Rate			

Table I.BI.2.
Volume by Job-Type, Page-Count and Presort Level

Job-Type BI/Page-Count 2			
		Volumes	
Presort Level	Rates (cents)	Current Period	All Periods
5B	24.3		
3B	26.1		
BB	27		
SP	33		
Weighted Average Rate			

Table I.BJ.2.
Volume by Job-Type, Page-Count and Presort Level

Job-Type BJ/Page-Count 2			
		Volumes	
Presort Level	Rates (cents)	Current Period	All Periods
5B	24.3		
3B	26.1		
BB	27		
SP	33		
Weighted Average Rate			

Table I.BI.24.
Volume by Job-Type, Page-Count and Presort Level

Job-Type BI/Page-Count 24			
		Volumes	
Presort Level	Rates (cents)	Current Period	All Periods
3/5B	225.0		
BB	228.0		
SP	231.0		
Weighted Average Rate			

Table I.BJ.24.
Volume by Job-Type, Page-Count and Presort Level

Job-Type BJ/Page-Count 24			
		Volumes	
Presort Level	Rates (cents)	Current Period	All Periods
3/5B	225.0		
BB	228.0		
SP	231.0		
Weighted Average Rate			

The volume data collected for each job-type and page-count combination during the first 18 months of the experiment is arrayed by presort-level in each table, as shown in Tables II and III. Exhibits 1 and 2 show the rates appearing in each table associated with the presort levels for First-Class Mail and Standard (A) Mail, respectively. The presort-level volume data collected and the rate information in each table is used to derive a historical weighted average rate at the end of the 18 month period. For example, suppose that data collected during the first half of the experiment revealed the volume and proportions by presort level for letter-size Job-Type A/Page-Count 1, as shown in Table IV. The historical weighed average rate used during the second half of the experiment would be 27.6 cents ((0.25 • 24.3) + (0.25 • 26.1) + (0 • 20.3) + (0.25 • 27) + (0.25 • 33)). Table IV shows the derivation of the historical weighted average rate for Job-Type A/Page-Count 1 in the last column.

Table IV
DERIVATION OF HISTORIC WEIGHTED AVERAGE RATE

Job-Type A/Page-Count 1				
Presort Level	**Rates (cents)**	**Volume**	**Percent of Total**	**Weighted Average Rate (cents)**
5B	24.3	500	0.25	6.075
3B	26.1	500	0.25	6.525
3/5B	20.3	0	0	0
BB	27.0	500	0.25	6.750
SP	33.0	500	0.25	8.250
Total	2,000		1	27.600

The historical weighted average rates derived for each job-type and page-count are recorded in "look-up" tables, as shown in Tables II and III. The "look-up" tables are referenced by the Mailing Online computer, with the historical weighted average rates representing the discount rates used to calculate the postage charges offered to customers for each Mailing Online mailing submitted during the second half of the experiment.

Consequently, the discount rate, D_{ij}, for any mailing of a given job-type and page-count can be displayed as $D_{ij} = x_{ij}$, where x_{ij} represents the historical weighted average rate for the i^{th} job-type and j^{th} page-count.

IV. CONCLUSION

In response to Commission concerns about extending the "unilateral preference" of Mailing Online in the market for small-volume mailings beyond the market test, I propose an alternative to the Postal Service's Automation Basic rates for Mailing Online mailings. I propose a computer-implemented postage pricing formula that incorporates Postal Service batching and presorting experience during the first 18 months of experiment to calculate postage charges offered to customers during the second half of the experiment. The alternative I propose thereby addresses the Commission's concerns over the competitive effects of waiving the minimum volume requirements for Automation Basic rates during the second half of the experiment.

EXHIBITS

Exhibit 1

FIRST-CLASS MAIL RATES FOR MAILING ONLINE JOB-TYPE/PAGE-COUNT "LOOK-UP" TABLES[1/]

Rates per Piece (including Additional Ounce Rate)

Job-Type/Page Count				Additional Ounce Rate:	22.0
A-AD/1-48	AE-BH/1-48	BI-BJ/1-24			
Letter-Size (8.5x11)	Legal-Size (8.5x14)	Newsletter-Size (11x17)	Ounces	Presort Level	Rates (cents)
Letters (Pages)	Letters (Pages)	Letters (Pages)	<=	Letters	
1-4	1-3	1-2	1	5B 3B BB SP	24.3 26.1 27.0 33.0
5	4	--	2	5B 3B BB SP	46.3 48.1 49.0 55.0
Flats (Pages)	Flats (Pages)	Flats (Pages)		Flats	
6-8	5-6	3-4	2	3/5B BB SP	49.0 52.0 55.0
9-13	7-10	5-6	3	3/5B BB SP	71.0 74.0 77.0
14-18	11-14	7-9	4	3/5B BB SP	93.0 96.0 99.0
19-23	15-18	10-11	5	3/5B BB SP	115.0 118.0 121.0
24-28	19-22	12-14	6	3/5B BB SP	137.0 140.0 143.0
29-33	23-25	15-16	7	3/5B BB SP	159.0 162.0 165.0

Job-Type/Page Count					
A-AD/1-48	AE-BH/1-48	BI-BJ/1-24		Additional Ounce Rate:	22.0
Letter-Size (8.5x11)	Legal-Size (8.5x14)	Newsletter-Size (11x17)	Ounces	Presort Level	Rates (cents)
Flats (Pages)	Flats (Pages)	Flats (Pages)	<=	Flats	
34-38	26-29	17-19	8	3/5B BB SP	181.0 184.0 187.0
39-43	30-33	20-21	9	3/5B BB SP	203.0 206.0 209.0
44-48	34-37	22-24	10	3/5B BB SP	225.0 228.0 231.0
	38-41	--	11	3/5B BB SP	247.0 250.0 253.0
	42-45	--	12	3/5B BB SP	269.0 272.0 275.0
	46-48	--	13	3/5B BB SP	291.0 294.0 297.0

Notes:

1/ This attachment is not a "look-up" table. It only contains the rates appearing in the "look-up" tables. These rates, when combined with presort-level volume data collected quarterly by job-type/page count, are used to derive the experience-based weighted average rates in each "look-up" table.

STANDARD (A) MAIL RATES FOR MAILING ONLINE JOB-TYPE/PAGE-COUNT "LOOK-UP" TABLES[1/]

Minimum Piece Rate (for pieces weighing 3.2985 ounces or less)

Job-Type/Page Count				Automation	
A-AD/1-14	AE-BH/1-11	BI-BJ/1-7			
Letter-Size (8.5x11)	Legal-Size (8.5x14)	Newsletter-Size (11x17)	Ounces	Presort Level	Rates (cents)
Letters (Pages)	Letters (Pages)	Letters (Pages)	<=	Letters	
1-4	1-3	1-2	1	5B 3B BB SP	16.0 17.6 18.3 33.0
5	4	--	2	5B 3B BB SP	16.0 17.6 18.3 55.0
Flats (Pages)	Flats (Pages)	Flats (Pages)		Flats	
6-8	5-6	3-4	2	3/5B BB SP	20.3 24.5 55.0
9-13	7-10	5-6	3	3/5B BB SP	20.3 24.5 77.0
14	11	7	3.2985	3/5B BB SP	20.3 24.5 99.0

Notes:

1/ This attachment is not a "look-up" table. It only contains the rates appearing in the "look-up" tables. These rates, when combined with presort-level volume data collected quarterly by job-type/page count, are used to derive the experience-based weighted average rates in each "look-up" table.

Exhibit 2B

STANDARD (A) MAIL RATES FOR MAILING ONLINE JOB-TYPE/PAGE-COUNT "LOOK-UP" TABLES[1/]

Rates for Pound Rated Pieces (for pieces weighing more than 3.2985 ounces)

Job-Type/Page Count			Weight per Page (oz.)			Automation Flats			
A-AD/15-48	AE-BH/12-48	BI-BJ/8-24	Letter-Size	Legal-Size	Newsletter-Size	Basic Flat:	10.5	3/5-Digit Flat:	6.3
Letter-Size (8.5x11)	Legal-Size (8.5x14)	Newsletter-Size (11x17)	0.2	0.254	0.4	Presort Level	Rates (cents)	Rates (cents)	Rates (cents)
Flats (Pages)	Flats (Pages)	Flats (Pages)	Flat Envelope (9x12)		0.4		Ltr size 2/	Lgl. Size 3/	Nsltr. Size 4/
15	12	8	3.4	3.448	3.6	3/5B BB SP	20.7 24.9 99.0	20.9 25.1 99.0	21.5 25.7 99.0
16	13	9	3.6	3.702	4	3/5B BB SP	21.5 25.7 99.0	22.0 26.2 99.0	23.2 27.4 99.0
17	14	10	3.8	3.956	4.4	3/5B BB SP	22.4 26.6 99.0	23.0 27.2 99.0	24.9 29.1 121.0
18	15	11	4	4.21	4.8	3/5B BB SP	23.2 27.4 99.0	24.1 28.3 121.0	26.6 30.8 121.0
19	16	12	4.2	4.464	5.2	3/5B BB SP	24.1 28.3 121.0	25.2 29.4 121.0	28.3 32.5 143.0

Job-Type/Page Count			Weight per Page (oz.)			Automation Flats			
A-AD/15-48	AE-BH/12-48	BI-BJ/8-24	Letter-Size	Legal-Size	Newsletter-Size	Basic Flat:	10.5	3/5-Digit Flat:	6.3
Letter-Size (8.5x11)	Legal-Size (8.5x14)	Newsletter-Size (11x17)	0.2	0.254	0.4	Presort Level	Rates (cents)	Rates (cents)	Rates (cents)
Flats (Pages)	Flats (Pages)	Flats (Pages)	Flat Envelope (9x12)		0.4		Ltr size 2/	Lgl. Size 3/	Nsltr. Size 4/
20	17	13	4.4	4.718	5.6	3/5B BB SP	24.9 29.1 121.0	26.3 30.5 121.0	30.0 34.2 143.0
21	18	14	4.6	4.972	6	3/5B BB SP	25.8 30.0 121.0	27.3 31.5 121.0	31.7 35.9 143.0
22	19	15	4.8	5.226	6.4	3/5B BB SP	26.6 30.8 121.0	28.4 32.6 143.0	33.4 37.6 165.0
23	20	16	5	5.48	6.8	3/5B BB SP	27.5 31.7 121.0	29.5 33.7 143.0	35.1 39.3 165.0
24	21	17	5.2	5.734	7.2	3/5B BB SP	28.3 32.5 143.0	30.6 34.8 143.0	36.8 41.0 187.0
25	22	18	5.4	5.988	7.6	3/5B BB SP	29.1 33.3 143.0	31.6 35.8 143.0	38.5 42.7 187.0

Job-Type/Page Count			Weight per Page (oz.)			Automation Flats			
A-AD/15-48	AE-BH/12-48	BI-BJ/8-24	Letter-Size	Legal-Size	Newsletter-Size	Basic Flat:	10.5	3/5-Digit Flat:	6.3
Letter-Size (8.5x11)	Legal-Size (8.5x14)	Newsletter-Size (11x17)	0.2	0.254	0.4	Presort Level	Rates (cents)	Rates (cents)	Rates (cents)
Flats (Pages)	Flats (Pages)	Flats (Pages)	Flat Envelope (9x12)		0.4		Ltr size 2/	Lgl. Size 3/	Nsltr. Size 4/
26	23	19	5.6	6.242	8	3/5B BB SP	30.0 34.2 143.0	32.7 36.9 165.0	40.2 44.4 187.0
27	24	20	5.8	6.496	8.4	3/5B BB SP	30.8 35.0 143.0	33.8 38.0 165.0	41.8 46.0 209.0
28	25	21	6	6.75	8.8	3/5B BB SP	31.7 35.9 143.0	34.9 39.1 165.0	43.5 47.7 209.0
29	26	22	6.2	7.004	9.2	3/5B BB SP	32.5 36.7 165.0	35.9 40.1 187.0	45.2 49.4 231.0
30	27	23	6.4	7.258	9.6	3/5B BB SP	33.4 37.6 165.0	37.0 41.2 187.0	46.9 51.1 231.0
31	28	24	6.6	7.512	10	3/5B BB SP	34.2 38.4 165.0	38.1 42.3 187.0	48.6 52.8 231.0

Job-Type/Page Count			Weight per Page (oz.)			Automation Flats			
A-AD/15-48	AE-BH/12-48	BI-BJ/8-24	Letter-Size	Legal-Size	Newsletter-Size	Basic Flat:	10.5	3/5-Digit Flat:	6.3
Letter-Size (8.5x11)	Legal-Size (8.5x14)	Newsletter-Size (11x17)	0.2	0.254	0.4	Presort Level	Rates (cents)	Rates (cents)	Rates (cents)
Flats (Pages)	Flats (Pages)	Flats (Pages)	Flat Envelope (9x12)		0.4		Ltr size 2/	Lgl. Size 3/	Nsltr. Size 4/
32	29	--	6.8	7.766	--	3/5B BB SP	35.1 39.3 165.0	39.2 43.4 187.0	-- -- --
33	30	--	7	8.02	--	3/5B BB SP	35.9 40.1 165.0	40.2 44.4 209.0	-- -- --
34	31	--	7.2	8.274	--	3/5B BB SP	36.8 41.0 187.0	41.3 45.5 209.0	-- -- --
35	32	--	7.4	8.528	--	3/5B BB SP	37.6 41.8 187.0	42.4 46.6 209.0	-- -- --
36	33	--	7.6	8.782	--	3/5B BB SP	38.5 42.7 187.0	43.5 47.7 209.0	-- -- --
37	34	--	7.8	9.036	--	3/5B BB SP	39.3 43.5 187.0	44.5 48.7 231.0	-- -- --

Job-Type/Page Count			Weight per Page (oz.)			Automation Flats			
A-AD/15-48	AE-BH/12-48	BI-BJ/8-24	Letter-Size	Legal-Size	Newsletter-Size	Basic Flat:	10.5	3/5-Digit Flat:	6.3
Letter-Size (8.5x11)	Legal-Size (8.5x14)	Newsletter-Size (11x17)	0.2	0.254	0.4	Presort Level	Rates (cents)	Rates (cents)	Rates (cents)
Flats (Pages)	Flats (Pages)	Flats (Pages)	Flat Envelope (9x12)		0.4		Ltr size 2/	Lgl. Size 3/	Nsltr. Size 4/
38	35	--	8	9.29	--	3/5B BB SP	40.2 44.4 187.0	45.6 49.8 231.0	-- -- --
39	36	--	8.2	9.544	--	3/5B BB SP*	41.0 45.2 209.0	46.7 50.9 231.0	-- -- --
40	37	--	8.4	9.798	--	3/5B BB SP*	41.8 46.0 209.0	47.8 52.0 231.0	-- -- --
41	38	--	8.6	10.052	--	3/5B BB SP*	42.7 46.9 209.0	48.8 53.0 253.0	-- -- --
42	39	--	8.8	10.306	--	3/5B BB SP*	43.5 47.7 209.0	49.9 54.1 253.0	-- -- --
43	40	--	9	10.56	--	3/5B BB SP*	44.4 48.6 209.0	51.0 55.2 253.0	-- -- --

Job-Type/Page Count			Weight per Page (oz.)			Automation Flats			
A-AD/15-48	AE-BH/12-48	BI-BJ/8-24	Letter-Size	Legal-Size	Newsletter-Size	Basic Flat:	10.5	3/5-Digit Flat:	6.3
Letter-Size (8.5x11)	Legal-Size (8.5x14)	Newsletter-Size (11x17)	0.2	0.254	0.4	Presort Level	Rates (cents)	Rates (cents)	Rates (cents)
Flats (Pages)	Flats (Pages)	Flats (Pages)	Flat Envelope (9x12)		0.4		Ltr size 2/	Lgl. Size 3/	Nsltr. Size 4/
44	41	--	9.2	10.814	--	3/5B BB SP*	45.2 49.4 209.0	52.1 56.3 253.0	-- -- --
45	42	--	9.4	11.068	--	3/5B BB SP*	46.1 50.3 209.0	53.1 57.3 275.0	-- -- --
46	43	--	9.6	11.322	--	3/5B BB SP	46.9 51.1 209.0	54.2 58.4 275.0	-- -- --
47	44	--	9.8	11.576	--	3/5B BB SP	47.8 52.0 209.0	55.3 59.5 275.0	-- -- --
48	45	--	10	11.83	--	3/5B BB SP	48.6 52.8 231.0	56.4 60.6 275.0	-- -- --
	46	--	--	12.084	--	3/5B BB SP	-- -- --	57.4 61.6 297.0	-- -- --

Job-Type/Page Count			Weight per Page (oz.)			Automation Flats			
A-AD/15-48	AE-BH/12-48	BI-BJ/8-24	Letter-Size	Legal-Size	Newsletter-Size	Basic Flat:	10.5	3/5-Digit Flat:	6.3
Letter-Size (8.5x11)	Legal-Size (8.5x14)	Newsletter-Size (11x17)	0.2	0.254	0.4	Presort Level	Rates (cents)	Rates (cents)	Rates (cents)
Flats (Pages)	Flats (Pages)	Flats (Pages)	Flat Envelope (9x12)		0.4		Ltr size 2/	Lgl. Size 3/	Nsltr. Size 4/
	47	--	--	12.338	--	3/5B	--	58.5	--
						BB	--	62.7	--
						SP	--	297.0	--
	48	--	--	12.592	--	3/5B	--	59.6	--
						BB	--	63.8	--
						SP	--	297.0	--

* Under 1 lb. Priority Mail rates for mailpieces weighing more than 13 ounces but less than 16 ounces.

Notes:

1/ This attachment is not a "look-up" table. It only contains the rates appearing in the "look-up" tables. These rates, when combined with presort-level volume data collected quarterly by job-type/page count, are used to derive the experience-based weighted average rates in each "look-up" table.

2/ Calculation: piece rate + ((Letter-size ounces/16 ounces) * 67.7 cents)

3/ Calculation: piece rate + ((Legal-size ounces/16 ounces) * 67.7 cents)

4/ Calculation: piece rate + ((newsletter-size ounces/16 ounces) * 67.7 cents)