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

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POSTAL RATE COMMISSION
OFFICE OF THE CONSUMER ADVOCATE

Mailing Online Experiment

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Docket No. MC2000-2

INITIAL BRIEF

OF

THE OFFICE OF THE CONSUMER ADVOCATE

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March 15, 2000

TABLE OF CONTENTS

TABLE OF CONTENTS.....	i
TABLE OF AUTHORITIES.....	ii
EXECUTIVE SUMMARY.....	1
STATEMENT OF THE CASE.....	3
STATEMENT OF POSITION OF THE OFFICE OF THE CONSUMER ADVOCATE.....	6
ARGUMENT.....	9
I. THE INFORMATION TECHNOLOGY FEE SHOULD BE AT LEAST 0.5 CENT.....	9
A. The Product-Specific Costs of MOL Must Be Included in the IT Fee.....	9
B. The Postal Service's Volume Estimates May Be Overly Optimistic.....	14
1. Document and database file compatibility with MOL may be more limited than respondents were led to believe.....	16
2. The speed of service for MOL is likely to be slower than the survey respondents believed.....	18
3. The inadequate funds currently budgeted to advertise MOL make it unlikely that volume estimates can be realized.....	20
II. THE DATA COLLECTION PLAN SHOULD BE MODIFIED.....	22
A. Additions to and Clarifications of the Postal Service's Data Plan Are Necessary.....	22
B. A Mechanism Should Be Established for Increasing the Frequency of Reporting Should a Permanent Classification Request Be Filed.....	28
CONCLUSION.....	29
APPENDIX	

TABLE OF AUTHORITIES

Administrative Opinions

PRC Op. MC97-5.....12

PRC Op. MC98-1 (Market Test).....23-24, 27

PRC Op. R97-1.....10-11

Federal Statutes

Postal Reorganization Act, 39 U.S.C. §3622(b)(3).....10

Other Authorities

39 C.F.R. §3001.67.....4, 22

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The Office of the Consumer Advocate ("OCA"), pursuant to Rule 34 of the Rules of Practice and Procedure of the Postal Rate Commission ("Commission"), 39 C.F.R. §3001.34, and pursuant to Ruling No. MC2000-2/3,¹ hereby submits its Initial Brief on the Request of the Postal Service for a Recommended Decision on an Experimental Classification and Fee Schedule for Mailing Online.

EXECUTIVE SUMMARY

The OCA gives whole-hearted support to the Postal Service's Request to make available a Mailing Online service ("MOL") and functionally equivalent services to the public. Any individual or business (both small and large) with access to the internet may utilize MOL to have documents entered into the mailstream for delivery without ever having to leave the home or office to do so. Choosing MOL over hardcopy mailing offers postage rates that are lower for single-piece mailings and service that may be

¹ "Presiding Officer's Ruling Establishing the Procedural Schedule and Limitation of Issues," December 21, 1999.

faster than that available for hard copy entry. The addition of functional equivalence language to the DMCS markedly expands the opportunities of SOHO² and individual mailers to enjoy the convenience, discounted postage, and potentially earlier delivery by services equivalent to MOL.

The two issues of chief concern to the OCA are the amount of the information technology fee and the details of the experimental data collection plan. The technology fee should be increased to at least 0.5 cent per impression to reflect product-specific costs of MOL and the uncertainty over the volume of MOL that will materialize. With respect to the latter, the OCA questions whether the volumes that witness Rothschild estimates for MOL can ever be achieved, particularly in light of the very small advertising budget that the Postal Service now plans for MOL. The OCA is very concerned that if the Postal Service does not substantially increase its advertising budget for MOL, the service will fail and may eventually be abandoned. The Commission should advise the Service that sufficient funds must be expended to familiarize potential individual and small business customers with the distinct advantages of MOL.

The second issue that the OCA brings to the attention of the Commission is the details of the experimental data collection plan. The Postal Service describes broad data collection objectives, but has not explicitly made a commitment to collect and report data in the same level of detail that was ordered by the Commission in PRC Op. MC98-1 (Market Test). The OCA makes specific recommendations for additions to and

² *i.e.*, Small Office/Home Office.

clarifications of the plan. In addition, the OCA looks ahead to the type of reporting that would be necessary should the Postal Service file a request to create a permanent classification for MOL.

STATEMENT OF THE CASE

Docket No. MC2000-2 was initiated on November 16, 1999, when the Postal Service filed its Request for a Recommended Decision on an Experimental Classification and Fee Schedule for Mailing Online. The MOL service proposed by the Postal Service provides a means for any individual or business customer with access to the internet to upload the customer's document and address list to a Postal Service server; have the document commingled and presorted with other similar documents; have the document printed, finished, and inserted into an envelope if necessary; and entered at a specified postal facility, often by the end of the next business day.

By the end of the experimental period, the Postal Service envisions the participation of 25 commercial printing establishments, located throughout the United States, which would result in the entrance of MOL pieces close to the point where the pieces are to be delivered. The entry of the pieces close to their destinations should avoid many intermediate processing and transportation steps that are ordinarily incurred, thereby avoiding considerable costs. In addition, postal software will presort the commingled mailings of several customers (if the document types are similar) so as to be able to achieve the deepest presortation available for the volume of mail at a particular print site.

The Postal Service sought consideration of its proposal under experimental Rule 67,³ arguing that the criteria of novelty and minimal financial impact were satisfied by a service of this kind.⁴ In the "Office of the Consumer Advocate Statement Concerning Proceeding Under Rules for Experimental Changes,"⁵ the OCA agreed with the Postal Service that it is reasonable to offer MOL as a three-year experiment, since the financial impact of MOL on other postal services is not significant. The OCA continues to hold this view. Furthermore, at the prehearing conference held on December 13, 1999, Presiding Officer LeBlanc observed that: "No participant has filed an opposition to the Postal Service request that this docket be considered pursuant to Rule 67(a) through (d). The request is for a service not currently available that should have minimal impact on Postal cost and revenues."⁶

The three year length of the experiment is unprecedented, but justifiable. The Postal Service still has many software capability and implementation details to work out. It may take much of the three-year experimental period to resolve both anticipated and unanticipated difficulties.

The Postal Service accompanied its Request with a motion to use Postal Service witness Rothschild's volume estimates from Docket No. MC98-1, without updating, in

³ "Requests involving experimental changes." 39 C.F.R. §3001.67.

⁴ Postal Service Request at 4-5.

⁵ Filed December 8, 1999.

⁶ Tr. 1/9.

the instant proceeding.⁷ The Postal Service contended that there were no legal impediments to do so, and that there were important practical reasons justifying the decision not to re-do the market research. No participant (the OCA included) opposed the motion to designate these estimates in the current proceeding; and the motion was granted by P. O. Ruling No. MC2000-2/4.⁸

One of the notable achievements of this proceeding is the "Stipulation and Agreement" recently executed by the OCA, the Postal Service, and Pitney Bowes.⁹ The OCA had fully expected that it would be necessary to work through all of the procedural stages set forth in P. O. Ruling No. MC2000-2/3, including the filing of a direct case by the OCA. Indeed, the OCA filed the testimony of witness James F. Callow, OCA-T-100, on January 27, 2000. However, as a result of exemplary cooperation on the part of the OCA, the Postal Service, and Pitney Bowes, additional DMCS language was fashioned that affords a level playing field to potential Postal Service rivals for the type of business that will be provided by MOL. That, in turn, permitted the OCA to withdraw the Callow testimony and to narrow the issues left for Commission consideration.¹⁰

⁷ "Motion for Designation of Testimony and Cross Examination from Previous Docket as Evidence in Commission Docket No. MC2000-2," filed November 16, 1999. (Hereinafter, "Rothschild Motion.")

⁸ "Presiding Officer's Ruling on Designation of Testimony and Cross-Examination from Docket No. MC98-1," issued December 21, 1999.

⁹ "Stipulation and Agreement," filed February 24, 2000.

¹⁰ The OCA withdrew witness Callow's testimony in the "Office of the Consumer Advocate Notice of Withdrawal of the Testimony of Witness James F. Callow (OCA-T-100)," filed February 23, 2000. Earlier, in P.O. Ruling No. MC2000-2/8, "Presiding Officer's Ruling on February 24, 2000 Hearing," issued February 22, 2000, the Presiding Officer had stated that if the Callow testimony were withdrawn prior to the February 24, 2000, hearing, witness Callow would not need to stand oral cross-examination. Therefore, no oral cross-examination took place at the February 24, 2000, hearing.

The Stipulation and Agreement provides that services that are functionally equivalent to MOL may enter mail on the same basis as MOL. In other words, services that accept electronic files or hard copy from customers dispersed throughout the nation (perhaps even outside U.S. borders); that commingle and presort the electronic files and address lists from many customers; that transmit these commingled electronic files to print sites dispersed throughout the U.S.; and, following printing, enter these commingled batches at postal facilities also located throughout the U.S. will be eligible for a waiver of the minimum volume requirements necessary to qualify for automation presort discounts, just as these requirements are waived for MOL.¹¹ The OCA believes that the stipulated DMCS language ensures a fair result for Postal Service competitors and expands consumer and small business opportunities to enjoy the discounts usually reserved only for large mailings.

STATEMENT OF POSITION
OF THE OFFICE OF THE CONSUMER ADVOCATE

The OCA supports a Mailing Online experiment and commends the Postal Service for designing a service that will extend presort discounts to individual and business mailers of relatively small quantities of mail that normally would not qualify for discounts. MOL sets no minimum for participation in these discounts—even a single piece of mail is eligible to use it and receive a discount by virtue of the fact that it will be commingled with similar documents and become part of a larger presorted mailing. Furthermore, the OCA believes that the Stipulation and Agreement ensures a fair result

¹¹ The DMCS language proposed in the Stipulation and Agreement limits functionally equivalent

for Postal Service competitors and expands consumer and small business opportunities to enjoy the discounts usually reserved only for large mailings. The Stipulation and Agreement should be adopted.

In addition to providing access to the basic automation rate, MOL promises to expedite delivery of mail. By establishing contractual arrangements with printers dispersed throughout the U.S., the Postal Service may enable MOL customers located at great distances from recipients to enjoy more rapid processing and delivery of their mailings since they will be entered into the mailstream as hard copy near the point of delivery.

The OCA urges the Commission expeditiously to recommend that the Postal Service conduct the MOL experiment. In so doing, the OCA suggests only two modifications to the Postal Service's proposal: (1) the information technology fee of 0.1 cent per impression proposed by the Postal Service should be increased to at least 0.5 cent per impression, and (2) the Postal Service's data collection plan should be modified.

The proposed information technology fee of 0.1 cent is founded on two elements that the OCA must challenge. The first element consists of a Postal pricing policy that is inconsistent with the Commission's interpretation of 39 U.S.C. §3622(b)(3). Postal Service witness Plunkett would limit the IT fee to the volume variable IT costs projected for the experimental period, and would recover the product-specific costs of MOL only by means of the markup on volume variable costs. The Commission, on the other hand, has steadfastly adhered to the view that the incremental costs of a service, which

services to use of the basic automation rate, just as is the case with MOL.

includes the service's product-specific costs, must be the attributable cost base to which markup is applied. In harmony with this view, the OCA proposes that this be the starting point for IT fee.

The second element of the IT calculation that the OCA contests is the set of volume estimates that Postal Service witnesses use to determine the unit IT cost. Volume estimates developed by witness Rothschild in Docket No. MC98-1 are adopted in the Docket No. MC2000-2 proceeding. The OCA does not oppose the use of the earlier estimates, but questions several important assumptions that witness Rothschild made to generate them. In particular, the OCA is convinced that the level of awareness that witness Rothschild assumed would be integral to the achievement of MOL usage will not materialize given the very small amount that the Postal Service has budgeted for MOL advertising.

The second major issue addressed by the OCA on brief is the level of detail and comprehensiveness of the Postal Service's data collection plan. The OCA believes it is necessary to break out data in greater detail than proposed by the Postal Service. Furthermore, the OCA suggests an increase in the frequency of data reporting should the Postal Service file a request for a permanent classification change with the Commission in the latter part of the experiment.

ARGUMENT

I. THE INFORMATION TECHNOLOGY FEE SHOULD BE AT LEAST 0.5 CENT

As part of its Request, the Postal Service proposes a fee of 0.1 cent per impression¹² to cover volume variable information technology ("IT") costs.¹³ The unit fee is calculated by dividing the volume variable costs for the three year experiment by the volumes projected by Rothschild for each of the three years.¹⁴ This proposed fee omits product-specific costs and relies on volume projections that are highly uncertain. As the OCA will show, a fee of at least 0.5 cent per impression will better comport with Commission policy and be more likely to recover the costs during the experiment.

A. The Product-Specific Costs of MOL Must Be Included in the IT Fee

Although the Postal Service has estimated product-specific IT costs¹⁵ in addition to volume variable IT costs, witness Plunkett testifies that the IT fee should be limited to volume variable costs alone. He proposes the recovery of the product-specific IT and advertising costs solely by means of the mark-up.¹⁶

¹² Proposed Fee Schedule 981, Request, Attachment B, at 2.

¹³ USPS-T-5 at 10-11. These costs are \$4,811,764 over the course of the experiment. USPS-T-2, Table 6, at 6 ($\$2,192,811 + 615,587 + 2,003,366 = \$4,811,764$).

¹⁴ USPS-T-5, Exh. B, note.

¹⁵ Witness Poellnitz reports product-specific IT costs of \$20,669,470 over the course of the experiment. USPS-T-2, Table 7, at 6. In addition, he reports advertising costs of \$2,175,000 over the three years of the experiment that are also product-specific. *Id.*

¹⁶ USPS-T-5 at 6: "I exclude non-recurring product-specific costs. . . . I exclude these costs when determining the basis for a markup. I do include these costs to perform an incremental cost test. In Exhibit D, which summarizes experiment revenues and costs, I show that at the proposed fees, Mailing Online will produce sufficient revenues to cover the volume variable, as well as the product-specific costs of Mailing Online." (Footnote and citation omitted.)

The Postal Service's failure to treat the product-specific costs of MOL as part of the attributable base of costs to be marked up is at variance with explicit Commission statements on the proper construction of 39 U.S.C. §3622(b)(3). In Docket No. R97-1, it was necessary for the Commission to evaluate Postal Service witness Panzar's advice that, in postal ratemaking, incremental costs should only be used to test for the presence of cross-subsidies, but should not be a starting point for mark-ups.¹⁷

Witness Panzar's position, which is essentially the same as that taken by the Postal Service in Docket No. MC2000-2, was that "[M]arginal costs, not average incremental costs, are the economically correct base to which any necessary mark-ups should be applied."¹⁸ The Commission thus framed the issue: Is it "reasonable to limit the concept of attributable cost to marginal cost[?]"¹⁹

The resolution of the issue framed was that, while the Commission considers marginal cost to be the "most important element of attributable cost"²⁰ and "an important subset of attributable costs,"²¹ it disagreed that the term "attributable" only means marginal cost.²² Instead, the Commission articulated this view of attribution:

Unlike incremental costs, marginal costs have been central to microeconomic theory for a long time. The framers of the Act knew about and could have used the concept of marginal costs, but they did not. The

¹⁷ PRC Op. R97-1, ¶ 4015, *citing* USPS-T-11 at 28.

¹⁸ USPS-T-11 at 29 (Docket No. R97-1).

¹⁹ PRC Op. R97-1, ¶ 4016.

²⁰ *Id.*

²¹ *Id.*, ¶ 4017.

²² *Id.*

language of the Act requires the Commission to set rates for each subclass so that it covers its attributable cost and makes a reasonable contribution to all other costs. In interpreting this language the Commission continues to believe that the authors of the Act intended "attributable" to mean more than just marginal cost. If they had meant marginal cost, they would have said so.²³

The Commission also pointed out that it has long "included specific fixed costs under the rubric of attributable."²⁴ Numerous examples were given of nonvariable costs that were held to be attributable.²⁵

In pricing postal services, the Commission articulated this policy:

Marking up attributable cost is the means by which the Commission makes its determination of a reasonable contribution to all other costs. All other costs are the difference between total cost and attributable costs. All other costs are not the difference between total cost and marginal cost. When the Commission determines the reasonableness of a subclass' contribution to all other costs, it must use attributable cost as a base and *mark-up*.²⁶

Application of this policy requires that all of the specific fixed, *i.e.*, the product-specific, costs of MOL be added to the volume variable costs of the service and marked up.

Witness Plunkett attempts to distinguish MOL's product-specific costs from others that the Commission typically considers in an omnibus rate case. According to witness Plunkett:

[A] significant portion of the information technology costs in witness Lim's testimony is non-recurring While we lack the historical data necessary to produce a test year cost estimate for Mailing Online, I

²³ *Id.*

²⁴ *Id.*, ¶ 4016.

²⁵ *Id.*

²⁶ *Id.*, ¶ 4018. (Emphasis in original.)

believe it is safe to say that prospective test year costs would exclude a significant portion of these costs. As a result, I exclude these costs when determining the basis for a markup.²⁷

His attempt to justify treating the product-specific *start-up* costs of a new service differently from *recurring* product-specific costs must fail, however. The Commission rejected a similar argument by the Postal Service in Docket No. MC97-5, the Provisional Packaging Service (hereinafter "PPS") proceeding. In PPS, the Postal Service requested authorization from the Commission to conduct a two-year nationwide trial of a packaging service by which the Postal Service would pack customers' items and enter them into the mailstream. The Postal Service argued on brief that total start-up expenses should be recovered through the packaging service's institutional cost contribution alone, thereby avoiding the risk of cross-subsidy by other services.²⁸

Finding that the start-up costs were attributable, the Commission held that:

The Commission has adjusted packaging service costs to recover all start-up costs during the two-year life of the provisional service. . . . Reliance on the packaging service's contribution to institutional costs for recovery of these direct costs is . . . an unacceptable approach, for two reasons. First, it would be inappropriate in principle to recover an attributable cost from revenues that have been earmarked for contribution to the Postal Service's institutional costs. Second, doing so in this instance would reduce the institutional cost contribution of packaging service to an unacceptably low level.²⁹

Therefore, in conformance to well-established principles of causation consistently articulated by the Commission in earlier opinions, the product-specific IT and

²⁷ USPS-T-5 at 6.

²⁸ PRC Op. MC97-5 at 45, paraphrasing the Postal Service's brief.

²⁹ PRC Op. MC97-5 at 45.

advertising costs of MOL must be included in the attributable cost base—in this case, the IT fee—and marked up.

In response to an interrogatory of the OCA, witness Plunkett furnishes the average unit cost per impression that results from summing the volume variable IT costs, product-specific IT costs, and advertising costs of MOL.³⁰ The unit cost he computes is 0.34 cent per impression.³¹ Using the average unit cost appears to be the approach favored by the Commission and would be most representative of the MOL usage projected by the Postal Service over the three year period of the experiment.³²

The next step in developing the per impression fee is to determine how much to round up the unit cost. Witness Plunkett rounded up a Year 1 unit cost of 0.064 cent to arrive at a per impression fee of 0.1 cent.³³ This is a rounding up by 56 percent, to the nearest tenth of a cent. The OCA recommends that the 0.34 cent be rounded to 0.5

³⁰ Tr. 3/453 (witness Plunkett's response to interrogatory OCA/USPS-T5-4).

³¹ Product specific IT costs of 0.32 cent per impression are added to 0.02 cent per impression of advertising costs.

³² The Presiding Officer issued an information request on December 16, 1999, "Presiding Officer's Information Request No. 1." Among the questions posed was number 2:

In USPS T-2, Table 6 on page 6, witness Poellnitz identifies the unit volume variable information technology cost as \$0.000638. Please confirm that \$0.000638 is the unit impression cost for Year 1 and that the average for the 3 year experiment period is \$0.000439.

(Witness Poellnitz confirms that average unit impression cost for the three year experimental period is \$0.000439. Tr. 2/67.) The Presiding Officer's question strongly implies that average unit impression cost is the correct starting point, rather than the Year 1 unit cost, since it is to be expected that the average unit cost is more representative of the entire experiment. The OCA makes specific mention of the Year 1 unit cost because witness Plunkett indicates in his testimony that his approach is to round up the Year 1 unit cost of 64 thousandths of a cent to 0.1 cent to arrive at the proposed per impression charge. USPS-T-5, n. 3.

³³ *Id.*

cent (rather than 0.4 cent, which is the nearest tenth of a cent) due to serious concerns of whether the Postal Service's volume projections will materialize during the experiment. In the next subsection, the OCA will explain why the Commission should consider 0.5 cent to be the minimum level for the IT fee.

B. The Postal Service's Volume Estimates May Be Overly Optimistic

The Postal Service accompanied its Request with a motion to use Postal Service witness Rothschild's volume estimates from the Docket No. MC98-1 proceeding. The Postal Service argued that no participant in the Docket No. MC2000-2 proceeding would be denied procedural due process by this action since the active participants in the latter proceeding had had a full opportunity to evaluate and challenge the estimates in the earlier proceeding. More importantly, the Postal Service did not want to delay the filing of the MC2000-2 case in order to make updates to the volume analysis and, it is reasonable to infer, did not want to undertake a costly new project to refine the estimates.³⁴ The OCA did not oppose the motion to incorporate the Rothschild estimates in the instant proceeding. The OCA is in sympathy with a decision to save time and money by "recycling" the estimates.

³⁴ Rothschild Motion at 2:

[W]itness Rothschild's testimony has not been updated [A] practical set of reasons also applies. The Postal Service is requesting expedition . . . based upon a self-interest in launching the experiment quickly . . . and the likelihood the resources available to the Commission and postal bar are likely soon to be stretched by the filing of a new omnibus rate request. Moreover, the Postal Service has no existing contract with witness Rothschild or her firm This is entirely reasonable since she really has nothing new to add.

The Postal Service sums up its position in the following way: “[W]itness Rothschild’s testimony has not been updated and the Postal Service continues to rely upon it as the best available indication of what volume Mailing Online will produce.”³⁵ The Rothschild volume estimates are only estimates in the record, but that does not mean that they must be accepted without critical examination.

Indeed, the OCA’s review of the Rothschild volumes suggests that the estimates should be judged with a healthy dose of skepticism. There is still a great deal of uncertainty about the Postal Service’s ability to make technical improvements to MOL and even whether the Postal Service can achieve some of the modest goals it has set for the service. Furthermore, its plans to make the public aware of the service, in large part by advertisement, are so incomplete as to raise serious doubts whether the Service can ever achieve the volumes it needs to recover its investment in MOL.

In Docket No. MC98-1, several participants investigated the methodology and procedures employed to develop the volume estimates. Numerous deficiencies and inconsistencies were thereby exposed. The OCA has identified three dubious assumptions made by witness Rothschild that are integral to her formulation of the volume estimates. Each of these assumptions tends to produce an overstatement of the expected usage of MOL. First, respondents were given the impression that almost any type of file created on their computers would be a candidate for MOL service, when this is not the case. Second, respondents were led to believe that the speed of service they would receive via MOL (then called NetPost) far exceeds the speed of service that

³⁵*Id.*; see also Tr. 2/220.

the Postal Service now anticipates for MOL. Third, witness Rothschild assumed a level of awareness that is not likely to be achieved given the extremely limited advertising budget currently planned. The OCA has appended a document provided by National Analysts, witness Rothschild's research and consulting firm, to respondents to her survey that was used by respondents to understand what type of service/product was envisioned by the Postal Service as NetPost.³⁶

1. Document and database file compatibility with MOL may be more limited than respondents were led to believe

Of particular importance in understanding respondents' expectations concerning the types of files that would be accepted as MOL (NetPost) was the statement in the Concept Guide: "When you want[] to produce and send a NetPost document, you would: Produce and save your document as you ordinarily would, using *whatever word processing, office automation or desktop software you choose*."³⁷ The Concept Guide also included a representation that: "*What you see is what you get' printing*. The final printed piece will be an *exact replica of what you produced on your computer*."³⁸ The impression clearly conveyed was that virtually any type of application used to generate hard copy was suitable for MOL.

³⁶ This document is labeled "Qualitative NetPost Concept" in the library reference sponsored by witness Rothschild. USPS-LR-2/MC98-1, section C. (Hereinafter, "Concept Guide.") Relevant excerpts are included in an Appendix to the OCA brief. In addition, germane survey questions are included in the Appendix.

³⁷ Emphasis added.

³⁸ First italics in original.

Witness Garvey testified in Docket No. MC2000-2, however, that, at least initially, MOL will not accept an unlimited range of software applications. On the contrary, only "two standard word processing packages," *i.e.*, MS Word and WordPerfect, and "three popular desktop publishing packages," *i.e.*, PageMaker, Ventura, and Quark, and "generic Portable Document Format (PDF)" are accepted by MOL.³⁹

The Concept Guide also implied no restrictions on the types of mailing list databases that would be compatible with MOL: "Produce a database of recipients' names and addresses, ranging from one recipient to several thousand. *This information can be downloaded from existing databases, or entered by the end-user.*"⁴⁰ In the initial implementation of MOL, however, only "four standard PC formats" *i.e.*, MS Excel, MS Access, WordPerfect, and MS Word, as well as ASCII delimited, may be used.⁴¹ Since the restrictions on file formats and databases were not made known to MOL survey respondents, witness Rothschild's estimates are likely to be overstated with respect to this characteristic.

Another concern the OCA has about the estimates is that today common word processing documents, such as those created in Word or WordPerfect, often incorporate sophisticated graphical inserts. These may not be compatible with software licensed by the Postal Service for use in the MOL system. Users of today are more sophisticated than those polled at the time of the NetPost research. Their ostensibly

³⁹ USPS-T-1 at 3.

⁴⁰ Emphasis added.

homogeneous Word and WordPerfect files may, in fact, be hybrids of text and uncommon graphics. In cases where the Postal Service has compatible graphic software, customers' graphic inserts can be successfully converted into a format that can be processed by the Postal Service's and the printers' servers. However, the Postal Service has not stated the extent to which this capability exists. Quite possibly, due to this type of incompatibility, successful usage of MOL may be more limited than the Rothschild research would suggest.

At the time the Rothschild research was conducted, NetPost (later MOL) was envisioned to consist primarily of "five high priority applications:" (1) invoices/statements, (2) announcements/confirmations, (3) advertising mail, (4) newsletters, and (5) forms. Two of the five applications—invoices and forms—may not typically be generated by word processing or desktop publication software. Invoices in particular often need to be compatible with other financial databases and company records. The questionnaire and Concept Guide may have misled respondents into believing that their invoice files or unusual forms files were MOL-compatible.

2. The speed of service for MOL is likely to be slower than the survey respondents believed

With respect to speed of service, the Concept Guide indicated unequivocally that:

[A] First-Class letter transmitted before 11 p.m. . . . would be delivered in the next regular day's mail.

[and]

⁴¹ USPS-T-1 at 3.

Next-day delivery: Distributed printing ensures that 95% of domestic pieces will be delivered the day after transmission to the printing facility.

The representation made concerning speed of service is unambiguous: if transmission to the MOL server were made before 11 p.m. of Day 1, then *delivery* of the printed NetPost documents would almost assuredly be made the next day.

Witness Garvey's testimony in Docket No. MC98-1 and witness Plunkett's testimony in the instant proceeding, however, contradict these statements. During the experiment, there will be a 2 *p.m.* cutoff time to have MOL files uploaded to the server,⁴² not the 11 *p.m.* cutoff time stated in the Concept Guide. Furthermore, even if the 2 *p.m.* cutoff time is satisfied, the printer will merely *enter* the mail at a postal facility the next day. At the very earliest, delivery will take place the day after that, *i.e.*, Day 3. At the commencement of the experiment, when only four print sites will be participating,⁴³ delivery may take place two, or even three, days following entry at the initial facility,⁴⁴ *i.e.*, Day 4 or Day 5.

The volume estimates presented by witness Rothschild were premised on a service so rapid that the Postal Service currently offers nothing like it—same-day delivery of pieces presented at a postal facility. Currently the best, and most expensive, service offered by the Postal Service to its customers is Express Mail, which guarantees delivery of the mail piece the day after it is entered into the mailstream. By

⁴² Tr. 2/188.

⁴³ Boston, New York, Chicago, and Los Angeles. Tr. 2/94 (witness Garvey's response to interrogatory MASA/USPS-T1-5).

⁴⁴ See *generally*, response of Postal Service to interrogatory DFC/USPS-T34-8 (Docket No. R2000-1).

contrast, the MOL Concept Guide implies that if a file is uploaded by 11 p.m. on Day 1, it will be entered and delivered on Day 2—and all of this at discounted First-Class rates. It is very likely that volume estimates based upon the respondents' collective understanding that they would receive extraordinary service are larger than the volumes that can actually be achieved when customers are given accurate information about expected delivery dates.

Moreover, if transmission occurs after 2 p.m., the mailpiece is not entered at the postal facility even the next day, but only the day after that,⁴⁵ *i.e.*, on Day 3. At the earliest, such mail could be delivered on Day 4 and could be delivered as late as Day 6, while still meeting First-Class service standards.⁴⁶ This, too, could make actual volumes achieved lower than the Rothschild estimates.

3. The inadequate funds currently budgeted to advertise MOL make it unlikely that volume estimates can be realized

Witness Rothschild's volume estimates are dependent on an assumption she made (furnished by the Postal Service) concerning the degree of awareness by the public of the existence, and desirable features, of MOL.⁴⁷ However, the Postal Service has given little thought to planning its advertising of MOL: "There is not yet any

⁴⁵ Tr. 2/188.

⁴⁶ Of course, First-Class service standards are not met 100 percent of the time. Consequently, delivery of a First-Class MOL piece could occur even later than Day 6. See response of Postal Service to interrogatory DFC/USPS-T34-8 (Docket No. R2000-1).

⁴⁷ USPS-T-4 (Docket No. MC98-1) at 31. Over the course of five years, awareness in the "marketplace" was assumed to be 25 percent in year 1; 32 percent in year 2; 35 percent in year 3; 39 percent in year 4; and 41 percent in year 5.

advertising plan for Mailing Online . . . ;"⁴⁸ nor does the Postal Service have any idea whether \$725,000 per year is sufficient to generate any particular level of volume: "No analysis was performed regarding whether or not this amount would achieve any particular volumes."⁴⁹

The Service has budgeted a very small amount of money to advertise MOL service—only \$725,000 per year.⁵⁰ Given that the Postal Service spent approximately \$4.5 million⁵¹ to advertise MOL during the market test but realized an annual rate of approximately only 615,000 impressions,⁵² it is highly unlikely that MOL will generate an average 3.7 billion impressions per year⁵³ over the course of the experiment with only \$725,000 of advertising. An examination of FY 1998 advertising costs filed in Docket No. R2000-1 suggests that the Postal Service has seriously underestimated the need to advertise MOL. Since MOL is intended for small volume users, the challenge for the Postal Service is to advertise broadly to reach what is essentially a retail market. In FY 98, the Postal Service spent approximately \$6.4 million to advertise Dinero Seguro, and a little over \$2.4 to advertise Phone Cards. The Postal Service spent almost \$9.0

⁴⁸ Tr. 2/143 (response of witness Plunkett to interrogatory MASA/USPS-T1-20).

⁴⁹ Tr. 2/124 (response of witness Garvey to interrogatory OCA/USPS-T2-4).

⁵⁰ Tr. 2/97 (response of witness Garvey to interrogatory MASA/USPS-T2-7).

⁵¹ See MOL A/P 9 report, filed with the Commission on June 22, 1999. The advertising for MOL was part of a shared advertising campaign.

⁵² In the final quarter of the market test, MOL processed 89,692 simplex pages (which is equivalent to 89,692 impressions, since simplex is printed only on one side) and 31,957 duplex pages (which is equivalent to 63,914 impressions since duplex is printed on both sides). MOL Weekly Report for AP 2, Week 3 (the final weekly report), filed December 7, 1999. $89,692 + 63,914 = 153,606$. To annualize the quarterly figure, 153,606 is multiplied by 4 = 614,424 impressions over the year-long period of the market test.

million in FY 98 to advertise Money Orders, a product already very familiar to the American public.⁵⁴ These amounts suggest that a much larger advertising budget will be needed if the Postal Service is to succeed in making MOL known to its potential customer base. Either the Postal Service must reconsider the amount that it is willing to expend to advertise MOL, or MOL may be doomed to failure.

When all these factors are considered, the volume estimates that witnesses Poellnitz and Plunkett use to compute the unit IT cost may be far larger than the volumes actually realized during the experiment. For this reason, the OCA proposes that the minimum reasonable unit IT charge is 0.5 cent, and that a conservative approach may call for an even higher rate.

II. THE DATA COLLECTION PLAN SHOULD BE MODIFIED

A. Additions to and Clarifications of the Postal Service's Data Plan are Necessary

Commission Rule 67c⁵⁵ contemplates that data shall be collected over the course of an experiment, and that "the Postal Service shall include in its initial filing a detailed description of the data involved, the uses to which they would be put, and the methods to be employed in collecting them."⁵⁶ Postal Service witness Garvey did

⁵³ USPS-T-5, Exh. A.

⁵⁴ "Notice of the United States Postal Service of Filing of the Second Set of Revisions to Library Reference USPS-LR-I-150 and the Testimony and Workpapers of Witness Kay – Errata," filed March 13, 2000, at 5 and 5A.

⁵⁵ "Requests involving experimental changes—plans for data collection." 39 C.F.R. §3001.67c.

⁵⁶ Part (b) of Rule 67c.

indeed append an “Experimental Data Collection Plan”⁵⁷ to his testimony, USPS-T-1. To large extent, the Data Plan incorporates the Postal Service’s plan for data collection in Docket No. MC98-1⁵⁸ and many of the changes ordered by the Commission in its recommended decision on the market test.⁵⁹ The Postal Service’s expressed intention is “to continue with data collection as it was performed for the market test.” There are some unexplained omissions, however, that OCA would like to have the Commission rectify when it issues its recommended decision in the instant proceeding.

First, the Postal Service volunteered “Total Transactions” data in the MC98-1 proceeding, but has not listed it among the items to be recorded in the MC2000-2 Data Plan. In PRC Op. MC98-1 (Market Test), the Commission directed the Postal Service to report the number of transactions by day. If the Postal Service returns to the Commission approximately two years after the commencement of MOL with a request for a permanent MOL service (as the OCA hopes it will), transaction information, in total and by day, may be useful in projecting transaction costs for a permanent service. Furthermore, while the Postal Service’s current proposal is for a per impression IT fee, it is conceivable that the Postal Service, another participant, or the Commission may find that a per transaction fee is preferable. The OCA would not like to see the Commission foreclosed from considering such information in a future proceeding due to a failure to collect and report it. Therefore, the OCA proposes that transactions by day be added to the list of data items to be collected.

⁵⁷ Hereinafter, “Data Plan.”

⁵⁸ USPS-T-1, Appendix A (Docket No. MC98-1).

Second, the Commission directed the Postal Service to collect information on the *daily* number of users, total pages, and volume by finishing characteristics. Also, the daily volume of MOL per batch was required. For the same reasons discussed in the previous paragraph with respect to transaction data, daily counts of users, pages, volume by finishing characteristics, and volume per batch may be of great value in projecting costs or re-configuring fees in a proceeding for a permanent MOL service. Thus, the OCA asks that these items be added to the Data Plan.

Third, on a weekly basis, the Commission directed the Postal Service to collect total revenue; volume and revenue by subclass; and volume by shape. In Docket No. MC2000-2, the Postal Service indicates generally that it will collect such information, but not necessarily broken out on a weekly basis. Since this matter was previously debated in the MC98-1 proceeding and resolved satisfactorily, the OCA submits that prudence and precedent dictate the continued collection of such information on a weekly basis.

Fourth, in the introductory section of Appendix A, witness Garvey expresses the broad objectives of the Data Plan to collect information on usage, operations, and costs. Throughout the two proceedings, Dockets MC98-1 and MC2000-2, the OCA has made repeated and determined efforts to establish links between usage and operational data. Specifically, during the market test, the Postal Service, the Commission, and the participants were faced with the difficult task of determining the volumes by job-type and page count, and the depth of sort achieved, that is, linking the

usage data with the operational data. The Postal Service had not compiled this information nor would it agree to compile it when asked, claiming that the subject data “are not deemed worthy of the sort of quantitative analysis requested here.”⁶⁰ If the data had been deemed worthy, the process would have required a tedious and labor-intensive manual matching of documents.⁶¹ In some cases, the process could not have been completed at all.⁶²

By contrast, witness Plunkett maintains that, on the first day of the experiment, the Postal Service will collect and store in electronic form “all the necessary data elements to reconfigure” the mailing statements, Forms 3600 and 3602.⁶³ Moreover, witness Plunkett also confirms that the volume data collected in electronic form from the mailing statements and the USPS Qualification Reports can be used to associate the depth of sort information contained in the USPS Qualification Reports with the batch numbers of mailings.⁶⁴ This is essential. It is only through the electronic matching of the batch numbers with the USPS Qualification Reports will the Postal Service, Commission and the parties be able to determine the “profile” of mailings—that is, the volume by class for each job-type and page count, and the depth of sort achieved for each batch. The Postal Service, when it reports the Mailing Online usage data and

⁶⁰ Tr. 2/123.

⁶¹ Tr. 6/1595, (Docket No. MC98-1).

⁶² See Tr. 10A/2588 (Docket No. MC98-1). In response to OCA/USPS-26(d), the Postal Service filed the Qualification Report for Batch B0000051 which, prior to that time, had not been provided. It is likely other qualification reports and mailing statements were not provided in the Market Test Bi-Weekly Reports.

⁶³ Tr. 2/153.

⁶⁴ Tr. 2/155-56.

operational data, should be required to provide the reports in electronic form to avoid unnecessary and time-consuming manual matching of these data sets.

Fifth, the MC2000-2 Data Plan envisions reporting information on Marketing costs.⁶⁵ In response to an OCA interrogatory, witness Garvey agreed that advertising costs would be collected and reported.⁶⁶ As a clarification, the OCA asks that advertising costs be listed explicitly so as to avoid any confusion concerning whether “marketing” costs include advertising costs. Furthermore, during oral cross-examination, witness Plunkett agreed that promotional materials such as those attached to his response to OCA interrogatory 21⁶⁷ would also be provided. For the same reason, “promotional material” should be added as a clarification to the Data Plan.

The OCA has a further concern with respect to advertising costs. In his response to OCA interrogatory 1, witness Garvey was careful to limit the cost information to be collected to “advertising costs *specific to Mailing Online*.”⁶⁸ During oral cross-examination, witness Plunkett indicated that the promotional materials attached to his response to OCA interrogatory 21, while seemingly devoted exclusively to the promotion of Netpost Mailing Online, might not be collected and reported during the experiment if a “costing expert” were to render an opinion that such a cost was a shared cost not amenable to attribution. The OCA is concerned that, in applying

⁶⁵ USPS-T-1, Appendix A at 3.

⁶⁶ Tr. 2/101 (response of witness Garvey to interrogatory OCA/USPS-T1-1).

⁶⁷ Tr. 2/131-37 (response of witness Plunkett to interrogatory OCA/USPS-T1-21).

⁶⁸ Emphasis added.

principles articulated by witness Takis, the Postal Service might determine that the mere mention of another service besides MOL or the channel through which MOL is offered (e.g., usps.com) might influence the data collectors to exclude such costs from collection and reporting.

The OCA did not level a specific challenge at the testimony of witness Takis in the instant proceeding because the Postal Service had no concrete plan on how to advertise MOL. Furthermore, the usps.com channel is still in a state of flux, and it is not clear which other services, besides MOL, may also be offered through usps.com. Nevertheless, the OCA is concerned that advertising and promotional material devoted extensively or almost exclusively to MOL may be distributed during the experiment but not reported.

In PRC Op. MC98-1 (Market Test), the Commission anticipated resistance by the Postal Service to the treatment of costs incurred jointly by MOL and other services as attributable. To preserve future opportunities to allocate a share of such costs to MOL, the Commission held that:

In the meantime, joint costs that benefit Mailing Online should be considered as potentially relevant to either the attributable costs or the appropriate markup for Mailing Online. They should be collected and reported to the Commission

* * * * *

The costs of advertising and marketing that refer to Mailing Online are to be reported even when they also refer to other services. . . . [T]he Service argues that the advertising and marketing costs are joint and common to several postal services and should not be allocated, even in part, to Mailing Online. Parties argue that it may be appropriate to attribute some advertising costs to Mailing Online and that the issue should be resolved during the consideration of the experiment. In order to properly consider the issue, advertising cost data must be available. The Commission agrees on the value of the cost data without prejudging the attribution

issue. In providing advertising and marketing cost data, the Service should be comprehensive.⁶⁹

The participants and the Commission find themselves in the same position that the Commission described in the quoted portion of the opinion. Too little is known about the Postal Service's advertising plans for MOL and its operating plans for the usps.com channel at this time to rule out definitively that some portion of advertising costs shared by MOL and other services should be allocated to MOL in a permanent classification proceeding. Therefore, the OCA urges the Commission to direct the Postal Service to collect and report all advertising, marketing, and promotional costs that help to promote the usage of MOL.

B. A Mechanism Should Be Established for Increasing the Frequency of Reporting Should a Permanent Classification Request Be Filed

The Postal Service proposes to establish a six-month cycle for collecting and reporting data during the experiment. Following each six-month cycle, data will be prepared and reported after six to eight additional weeks. The OCA agrees that no unnecessary reporting burdens should be placed on the Postal Service prior to the filing of a request for a permanent MOL classification. However, the OCA believes that it is prudent to anticipate data needs in the event that the Postal Service does file a request for a permanent MOL service prior to the end of the experiment.

First, the OCA proposes that at the time a request for a permanent change is filed (if, indeed, such a request is filed), the last data cycle prior to filing the request be

⁶⁹ PRC Op. MC98-1 at 49. (Citations omitted.)

truncated, if necessary, so that all data for this partial cycle are prepared and reported at the time the permanent request is submitted to the Commission.

Second, at the time that the permanent request is filed, the OCA asks that a procedure be established in the current proceeding which would require the Postal Service then to collect and report all of the data ordered herein by the Commission within four weeks of the end of each accounting period, rather than on a six-month cycle. The Postal Service projects substantial volume increases in each succeeding year of the experiment, so that approximately half of the estimated volume is to be realized in the last year.⁷⁰ Furthermore, the OCA understands the MOL operating system to be "scalable," which suggests that additional investments in MOL hardware, software, telecommunications, and personnel will reflect this rise in volume. In order to obtain an accurate picture of MOL costs, volumes, and revenues during the consideration of a request for a permanent classification, it is essential that the most up to date information from the experiment be at the disposal of the participants and the Commission during any permanent classification proceeding.

CONCLUSION


For all the above reasons, the OCA requests the Commission to recommend a MOL experiment. In making its recommendation, the Commission should adopt the Stipulation and Agreement so that functionally equivalent services are available to the public. The Commission should also recommend an IT fee of at least 0.5 cent due to

⁷⁰ USPS-T-5, Exh. A.

serious uncertainties about the ability of the Service to attract volumes at the levels estimated by witness Rothschild. The OCA also urges the Commission to state explicitly in its recommended decision that the Postal Service should increase its planned advertising expenditures for MOL. Finally, the OCA asks that the Postal Service be directed to modify its Data Collection Plan in accordance with the specific proposals outlined above.

Respectfully submitted,

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APPENDIX
(Source: USPS-LR-2/MC98-1)

In a document described as "Qualitative NetPost Concept," potential users were informed that:

"When you wanted to produce and send a NetPost document, you would:

- Produce and save your document as you ordinarily would, using whatever word processing, office automation or desktop publishing software you choose.
- Produce a database of recipients' names and addresses, ranging from one recipient to several thousand. This information can be downloaded from existing databases, or entered by the end-user.

....

- [A] First-Class letter transmitted before 11 p.m. . . . would be delivered in the next regular day's mail.
- *'What you see is what you get' printing.* The final printed piece will be an exact replica of what you produced on your computer.
- *Next-day delivery:* Distributed printing ensures that 95% of domestic pieces will be delivered the day after transmission to the printing facility."

The germane questions included on the screening questionnaire were:

Questions concerning general business correspondence

- "Are you the office manager or administrator involved in making decisions or resolving problems associated with producing correspondence or other types of documents in your workplace, such as equipment, software, or hard copy or electronic delivery alternatives to use? (IF NECESSARY, 'Correspondence is any written communications with customers, clients, suppliers, or co-workers.')
- "Do the employees in your workplace produce business correspondence on personal computers, including either desktop or portable models?"
- "Were these documents produced on a personal computer, including either desktop or portable models?"

Questions concerning advertising catalogs and fliers

- "Does your company produce and distribute catalogs or fliers to advertise its products or services?"

- “Are your company’s advertising catalogs or fliers produced using a desktop publishing system?”

Questions concerning newsletters or other non-advertising publications

- “Does your organization design, produce and distribute newsletters, pamphlets or any other non-advertising publications?”
- “Are your company’s or organization’s newsletters, pamphlets, or other non-advertising publications produced using a desktop publishing system?”

Questions concerning forms or applications

- “Does your company or organization design, produce and distribute standardized forms, such as applications, contracts, or insurance policies?”
- “Are your company’s or organization’s forms produced using a desktop publishing system?”

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
March 15, 2000