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

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POSTAL RATE AND FEE CHANGES, 2000 : Docket No. 2000-1  
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:

DIRECT TESTIMONY OF DENNIS MACHARG ON BEHALF  
OF THE NATIONAL ASSOCIATION OF PRESORT MAILERS

May 22, 2000

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1        1. Statement of Experience And Qualifications.

2            I, Dennis MacHarg, am the President of the National Association of Presort Mailers  
3 ("NAPM"). I have served as a Director of the Association since 1986. My experience in mail  
4 processing dates back to 1980 when I founded Advance Presort Services, a major presort bureau  
5 based in Chicago, Illinois with a daily volume of approximately 2 million pieces. I have been an  
6 NAPM representative on MTAC for the past eight years. In 1993, I served on the MTAC  
7 Committee to rewrite the Domestic Mail Manual ("DMM") as a representative of First Class  
8 mailers. I also served on the USPS Competitive Services Task Force in 1992.

10        2. Purpose.

11            The purpose of this testimony is to provide the Commission with the perspective of  
12 presort bureaus on several aspects of the rates requested by the USPS in this case.

13            First, I will discuss the failure of the USPS to reflect in the rates it has requested in this  
14 case substantial cost savings provided by presort mailers. These avoided costs include: capital  
15 costs of handling extraordinary volumes of workshare mail if it were to revert to the USPS;  
16 providing the supplies needed to process 40 billion pieces of FCLM; customer education;  
17 deliveries of mail transportation equipment ("MTE") to customers who now pick up or receive  
18 MTE from presort bureaus rather than the USPS; costs for the USPS truck fleet to pick-up and  
19 deliver mail currently delivered by presort bureaus; and UAA costs avoided as a result of the  
20 Move Update requirements applicable to worksharing FCLM.

21            Second, I will:

22            (a) identify the benefits to the USPS of extending the 4.6¢ per piece heavyweight  
23 incentive to the second ounce for automated First Class flats to eliminate the anomalous and  
24 problematic "kink" in the rates requested for 2 ounce automated First Class flats.

25            (b) discuss the overall value of the worksharing program to the USPS.  
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1 3. Unrecognized Cost Savings of Worksharing FCLM.

2 Although I understand that the USPS methodology for measuring cost avoidance of  
3 worksharing FCLM has historically not considered various cost savings realized by the USPS, I  
4 believe it important to remind the Commission that presort bureaus and other worksharing  
5 mailers perform the following functions which significantly reduce costs incurred by the USPS:

6 (a) Capital Costs and Reversion. Since the advent of automation, the presort industry has  
7 made a very substantial investment in capital equipment, systems and workspace needed to  
8 process workshared mail. This investment has permitted the USPS to correspondingly reduce its  
9 investment in the equipment, systems, and workspace, it would otherwise have to have to  
10 process the 40 billion pieces of workshared FCLM now processed each year by worksharing  
11 mailers.  
12

13 Based on my knowledge of the presort industry, I estimate that private-sector, work  
14 sharing mailers currently own or lease approximately 5 million square feet of workspace used to  
15 process automation mail. This is space the USPS does not currently have, but would have to  
16 have to process the 40 billion pieces of workshared mail presented to it annually. If one assumes  
17 that the annual rental value of this space is at least \$10 per sq. foot, this is a capital cost of more  
18 than \$50 million per year not borne by USPS.  
19

20 We can also determine from the USPS lists of CASS/MASS Certified MLOCs that  
21 there are approximately 1000 MASS certified MLOCs in the private sector. If we assume that  
22 the average MLOC costs \$250,000, this represents an avoided capital expense of \$250 million.  
23

24 It seems highly likely that worksharing FCLM mailers have procured their plant space in  
25 a less costly manner than could have the USPS. Furthermore, the sheer size of the amount of  
26 physical plant and equipment devoted by mailers to the USPS worksharing program makes it  
27 appropriate for the Commission to consider the positive value of this contribution in determining  
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1 whether to adopt a conservative or more expansive measure of cost avoidance of worksharing  
2 FCLM. In particular, as it has in the past, the Commission should consider the total inability of  
3 the USPS to handle worksharing FCLM if it were to revert from worksharing mailers to the  
4 USPS, as a reason to adopt a less conservative and more expansive measurement of worksharing  
5 FCLM cost avoidance, and to therefore establish larger incentives for worksharing FCLM.

6  
7 (b) Avoided maintenance costs. In addition to the avoided capital costs, the USPS is also  
8 avoiding substantial costs related to the operation and maintenance of the equipment needed to  
9 process automated workshared mail.

10 (c) Avoided supply costs. USPS is also avoiding the substantial annual cost of the  
11 supplies needed to process workshare mail. For example, presorted mail must be presented in  
12 trays that are sleeved, strapped, and labeled. Thus, in addition to the equipment necessary to  
13 sleeve, strap, tray and prepare labels for the approximately 8 million trays of mail in which the  
14 40 billion pieces of FCLM are delivered to the USPS each year, the USPS is avoiding the cost of  
15 the strapping and tray lables, yet these savings are not included in the discounts the USPS has  
16 requested. If one doubts the cost of such equipment and supplies one has only to walk through  
17 the exhibit hall at a National Postal Forum to see booths of literally dozens of manufacturers of  
18 this equipment and vendors of these supplies. These cost savings should be estimated and  
19 included in the discounts for presorted mail.  
20

21 (d) Automation Compatible Mail Costs. The USPS has effectively transferred to the  
22 presort industry front-line responsibility for ensuring that the mail pieces it processes are  
23 automation compatible. In fact, the very concept of "automation compatible mail" and the  
24 related concepts of "upgradeable" and "non-upgradeable" mail reflect the fact that not all mail  
25 processed by presort bureaus is in fact BMM. Without the incentives provided for workshared  
26 mail, there would be no reason for mailers to submit mail in a form that would permit it to be  
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1 automated. Yet, the discounts reflect no measured cost saving from providing mail that is in fact  
2 automatable. Instead the USPS asks this Commission to indulge in the fantasy that all or the vast  
3 majority of the mail is and would be fully automatable without any incentive. The amount of  
4 time and effort presort bureaus expend working with customers to ensure that the mail they  
5 receive is automation compatible belies this convenient but undocumented or proven assumption.  
6 For example, full rate First Class mail does not have to protect the barcode clear zone. Without  
7 the barcode clear zone, the USPS would have difficulty barcoding such mail received by it on  
8 MLOCRs.  
9

10           This transfer of primary responsibility for the production of automation compatible mail  
11 to the presort industry should have also reduced the number of USPS Customer Service  
12 Representatives and Mail Design Analysts, needed by the USPS. While I don't know how many  
13 USPS Customer Service Representatives and Mail Design Analysts have been or could have  
14 been eliminated, I do know that the sales representatives of presort mailers as well as mail  
15 processing personnel expend a considerable amount of time and effort working with customers  
16 to avoid or resolve problems with their mail. Put another way BMM does not have to have a  
17 barcode clear zone or FIMs on return mail pieces. Nor does BMM mail have to pass a tap test to  
18 make sure that address blocks in window envelopes remain within the window and readable. Nor  
19 does it matter if BMM sticks together as result of too much water being applied when the letter  
20 was sealed and the glue ran. Without automation workshare mailers to explain the requirements  
21 and ensure they are complied with, USPS would have to have its own Customer Service  
22 Representatives and Mail Design Analysts out begging mailers to provide, out of the goodness  
23 of their hearts, mail pieces the USPS must automate. It would also have to have people to check  
24 the mail for flaws of the sort noted above.  
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1           (e) Distribution of Mail Transportation Equipment ("MTE"). In this case, the USPS has  
2 assumed that BMM mail is presented to the USPS in trays. Why is an important question.  
3 Mailers paying the full single piece first class rates are not required to enter mail in trays. Full  
4 paid FCLM can be entered in any form. However, this unproven assumption presents another  
5 unrecognized saving realized by the USPS as a result of workshared mail. If BMM mail were  
6 entered in trays, how would BMM mailers have gotten the trays? The answer is simple, the  
7 USPS would have to give them the trays. But how would it do that? To make a fair comparison  
8 between workshared FCLM and BMM, the Postal Service should have included the cost of  
9 providng trays and other MTE such as APCs to BMM mailers.  
10

11           Many presort bureaus receive mail from their customers in trays, of course, but those  
12 trays came to the mailer through presort bureaus. If it were not for presort bureaus, the Postal  
13 Service would either have to deliver the trays to BMM mailers or it would have to ask them to  
14 pick-up trays from the Post Office assuming they would take their mail to the Post Office rather  
15 than simply leave it on the dock or at a mail room in their office building or crammed in a letter  
16 box. Picking-up empty trays at a Post Office while dropping off BMM sounds easier than it  
17 would be in practice, of course.  
18

19           (f) Reduction in Peak Work Time Activities. Based on my knowledge of the industry, I  
20 estimate that the average presort bureau has about 100 customers. That means that the windows  
21 or the back docks of most post offices would be a lot busier than they are now toward the end of  
22 the normal work day when most mail is delivered to Post Offices by business mailers if the  
23 20,000 mailers who use presort bureaus were trying to get to the window or the loading dock at  
24 the end of the business day to not only deliver mail, but to pick-up MTE. The point is, the USPS  
25 would find it difficult at best to distribute empty trays during the peak hours for mail delivery to  
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1 Post Offices. The frustration might well result in BMM mailers delivering mail in miscellaneous  
2 paste-board boxes or even grocery bags.

3 Pick-up times are an important competitive issue in the presort industry. A bureau that  
4 can give a customer a later pick-up than a competitor can offer has a distinct advantage. Since  
5 BMM mail receives no discount, there is no reason for BMM mailers not to deliver all of their  
6 mail to the USPS at the close of the regular business day, when the USPS is already busy trying  
7 to collect and process the collection-box letter mail on which its performance is measured and on  
8 which management bonuses depend, at least in part. Presort mailers generally want to deliver  
9 their mail as late in the day or evening as possible thus avoiding the hours of peak mail pick-up  
10 and processing by the USPS. Moreover, the mail the presorters enter into the mail stream is  
11 almost entirely mail which the P&DC where it is deposited does not have to work.  
12

13 Since all but a very small portion of the mail presented by presort bureaus is sorted to at  
14 least the AADC level, as well as sleeved, banded and labeled, all the entry P&DC normally  
15 needs to do with this mail is cross dock it onto transportation to the next appropriate facility.  
16 Local mail, mail that will be delivered in the service area of the entry P&DC, is simply held for  
17 a secondary incoming or delivery sequence sortation which will not occur until the early hours of  
18 the next day at the earliest.  
19

20 In short, if the USPS had tried to distribute MTE for BMM it would add an additional  
21 work load to an already very busy time period. The enlarged peak load would require the USPS  
22 to build and staff much larger facilities which could accommodate the delivery of large volumes  
23 of BMM in the late afternoon and early evening along with the pick up of large amounts of  
24 MTE. Yet the avoidance of these costs is not recognized in the discounts sought by the USPS  
25 for workshared mail in this case.  
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1 (g) Reduced Truck Fleet. The foregoing discussion suggests yet another savings  
2 provided by workshared mail that is not reflected in the discounts requested by the USPS in this  
3 case, the savings represented by the pick up and delivery or, at the least, consolidation of the  
4 pick-up and delivery of vast quantities of mail. At present, most presort bureaus pick up mail  
5 from their customers. Much if not most of this mail is mail the Postal Service would have to  
6 pick-up if it were not picked-up by presort bureaus. Many presort bureaus also deliver some or  
7 all of the mail they process to the USPS. These mail pick-ups and deliveries should have allowed  
8 the Postal Service to actually reduce the number of trucks in its fleet and reduce and shorten  
9 pick-up runs they would otherwise have to make to the presort mailer customers.

11 (h) Savings from Reduced UAA Mail. The rates requested by the USPS in this case fail  
12 to include substantial reductions in the avoided cost of forwarding undeliverable-as-addressed  
13 ("UAA") mail, due to compliance by worksharing FCLM with Move Update requirements.  
14 Mailers have incurred and are incurring substantial expenses in order to comply with the Move  
15 Update requirements, made applicable to worksharing FCLM in July 1997. It is frustrating to  
16 see the USPS continue to avoid making any effort to quantify the obvious benefit which the  
17 USPS derives from these Move Updated requirements, while at the same time reaping the mail  
18 forwarding cost savings from these requirements.

20 In my company, in order to comply with move update requirements, we have currently  
21 implemented Fast Forward on all of our five MLOCRs. Use of Fast Forward should avoid most  
22 all mail forwarding costs to the USPS for that worksharing FCLM which is processed with Fast  
23 Forward.

25 Based upon my conversations with other presort bureaus and equipment manufacturers, it  
26 is my conservative estimate that at least 50 % of worksharing FCLM mail is processed with Fast  
27 Forward and will, therefore, avoid most all forwarding costs. In addition to the worksharing  
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1 FCLM mail which is processed with Fast Forward and therefore free of most all forwarding  
2 costs, all other worksharing FCLM is processed using one of the other three approved methods  
3 for meeting the Move Update requirements. The point is, workshared FCLM must comply with  
4 Move Update and, by doing so should reduce USPS mail forwarding costs substantially, but the  
5 discounts requested do not reflect any such savings.

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7 4. First Class Flats, the Non-Standard Surcharge, and the Heavyweight Presort Incentive.

8 In this case the USPS has proposed a rate for First Class flats sorted to 5-digits and a rate  
9 for First Class flats sorted to 3-digits in place of the old discount for a 3/5 sortation which  
10 required mailers to first find and sort all 5-digit bundles of flats in a mailing before they could  
11 sort the remaining flats to the 3-digit level. This change is highly desirable.

12 As the Commission knows, the USPS appears to be at a loss to explain why the cost of  
13 processing flat mail seems to be going up at such an extraordinary rate. While the cause of the  
14 increased cost of processing First Class flats may be unclear, almost everyone agrees that the  
15 single most important thing the USPS can do to address the problem is to get barcodes on flats.  
16 However, for reasons that are not at all clear the USPS has chosen to propose rates for First Class  
17 automated flats which will not encourage an increased volume of barcoded flats.

18  
19 In her testimony in R97-1 USPS Witness Daniels cited over 9 cents of mail processing  
20 and delivery cost savings of First Class automated basic flats over First Class single piece flats,  
21 and over 23 cents cost savings for First Class automated 3/5 digit flats (R97-1 USPS-T-29; ExC).  
22 We all know that since 1997 flats processing costs have done nothing but go up. Yet in this case,  
23 the USPS proposed automation discounts of only 4.5 cents and 6.5 cents for First Class  
24 automated 3-digit and 5-digit flats. Notwithstanding the enormous savings that automation  
25 obviously provides, the USPS offers discounts that are only a small fraction of the savings. Is  
26 the USPS really interested in reducing mail-processing costs?  
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1           The problem of insufficient automated flats discounts is compounded by an anomaly in  
2 the rate structure for the second ounce flat which is where much of the flats volume falls.

3           Because the 11 cent non-standard surcharge which applies to single pieces weighing one  
4 ounce or less, is reduced to 5.0 cents for presorted flats, the total discount available for First  
5 Class automated 3 digit and 5 digit flats weighing one ounce or less is 10.5 and 12.5 cents  
6 respectively. Because of the 4.6 cents Heavyweight Incentive which applies to automated First  
7 Class flats weighing more than 2 ounces, the discount for automated 3 digit and 5 digit flats  
8 weighing more than 2 ounces is 9.1 and 11.1 cents respectively. However, the 2 ounce First  
9 Class automated 3-digit and 5-digit flat gets the benefit of neither the 6.0 cents reduction in the  
10 non-standard surcharge, nor the 4.6 cents Heavyweight Incentive, and therefore has a discount of  
11 only 4.5 cents and 6.5 cents respectively.  
12

13           This discount of 4.5 cents or 6.5 cents is almost certainly inadequate. Thus, the rates  
14 requested by the USPS have a serious disincentive for automation. One way to alleviate the  
15 problem is to make the Heavyweight Incentive, which is now only applicable to First Class flats  
16 weighing more than 2 ounces, applicable to First Class flats weighing more than one ounce as  
17 well. This would make the incentive for the 2 ounce automated First Class flats and the 3 ounce  
18 automated First Class flats the same, and encourage workshare mailers to prebarcode the  
19 prevalent second ounce flat.  
20

21           In closing, let me say a word or two about the value of worksharing. The problems  
22 admitted to by the USPS in this case speak more eloquently than I ever could to the value of  
23 worksharing. In this case, when asked to explain the extraordinary increases in periodicals and  
24 Standard Mail flats, the USPS has responded that the problem is that they have not been as  
25 successful in automating flats as they have been in automating letter mail. Nevertheless, in this  
26 case, some of the most highly automated mail has received higher percentage rate increases than  
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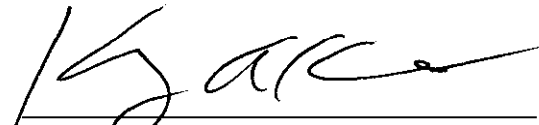
1 less automated rate categories. This is a disturbing trend. With Regard To First Class Letter  
2 Mail, the USPS has actually suggested that the savings from worksharing have turned the corner  
3 and are now declining. I believe that the testimony of Dr. James Clifton in this case will refute  
4 that assertion. It appears to us that the savings from presort and from automation mail are still  
5 growing and that is without considering all of the to date unrecognized savings I have noted in  
6 my testimony.  
7

8           What is disturbing to other presorters and me is the apparent refusal of the USPS to  
9 recognize a good thing when it sees it and work with it. Instead of encouraging more  
10 worksharing, the USPS seems determined to pull back and assert that the savings aren't there. Of  
11 course, by doing so the USPS discourages worksharing programs, programs that have the only  
12 real track record for reducing mail processing costs. We believe that the USPS should expend  
13 more effort to find and include in its measured cost savings as many cost savings as it  
14 legitimately can. In short we would expect that the Postal Service would pursue a more balanced  
15 approach to measuring worksharing savings, an approach in which it sincerely looks for  
16 unrecognized savings as hard as it looks for overstated savings. Instead, it seems intent on  
17 exploiting its considerable resources to hide or underestimate legitimate cost savings attributable  
18 to worksharing, especially in First Class Mail.  
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CERTIFICATE OF SERVICE

I hereby certify that I have this 22nd day of May, 2000, served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.

  
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