Stamps.com-T-1

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

POSTAL RATE AND FEE CHANGES, 2000	:	Docket No. R2000-1

DIRECT TESTIMONY
OF
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ON BEHALF OF
STAMPS.COM

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AUTOBIOGRAPHICAL SKETCH

My name is Frank R. Heselton. I am an independent consultant on postal rates and related matters, including: pricing; costing; data collection and reporting; rate administration; rate-setting processes and legislation. I developed my expertise in these areas as an employee of the Postal Service and its predecessor organization, the Post Office Department, for over thirty years.

Between 1988 and 1992, I was Assistant Postmaster General, Rates and Classification Department. I directed a staff of about 280 at Headquarters and related field units engaged in developing all technical aspects of postal rate and classification cases. I was responsible for presenting rate issues and for recommending rate policy to postal management and the Postal Service Board of Governors. I also presented rates and their underlying rationale to the Postal Rate Commission, Congressional Subcommittees, major mailers, and the public. I addressed issues of costing, cost coverage, rate structure, discount criteria, work-share savings, savings pass-through into rates, rate implementation, and rate administration. My position was abolished in 1992 along with 17 other officer positions in a substantial downsizing of postal management.

Between 1992 and 1996, I was Manager of Rate Case Formulation, where I coordinated the development of rate cases. I retired from the Postal Service in 1996. In 1997 and 1998 I assumed a post-retirement position of Principal Economist advising the Postal Service on pending postal reform legislation. In that capacity, I was a coauthor and a primary editor of the Postal Service's

Section-by Section Comments on the Postal Reform Act of 1997 and Its Proposed Revisions.

Between 1964 and 1988, I held a variety of positions on postal matters. From 1964 to 1965, I was employed as a research assistant to a member of the U.S. House of Representatives, with the responsibility of assisting him with postal matters in his role as a member of the Post Office and Civil Service Committee.

From 1965 to 1970, with the exception of one year in private law practice, I held various positions as an economist in the Economic Studies Division of the Office of Postal Rates. My responsibilities during that period were to prepare both short-term and long-term forecasts of postal volumes and revenues for budget and planning purposes and to evaluate the influence of economic variables on the demand for postal services.

Between 1970 and 1977, I was employed as a senior-level economist in the Revenue and Cost Analysis Division of the Department of Rates and Classification. My responsibilities included applying economic costing concepts to identify those postal costs attributable to postal rate categories and services; specifying accounting, statistical, and other data necessary to develop attributable costs; and developing procedures to estimate attributable cost levels for both current and future years. I testified as a rebuttal witness on certain costing and revenue requirement issues in Docket No. R76-1.

From 1977 to 1979, I was an attorney in the Office of Rate and Classification Law, General Counsel-Law Department. I represented the Postal Service before the Postal Rate Commission and federal courts as a senior

attorney in cases involving changes in rates and classification, such as Dockets No. R77-1 and MC78-1. In addition to participating in the full range of litigation activities, I assisted in developing plans, tactics and strategy concerning presentation and defense of postal costing testimony.

Between 1979 and 1985, I was General Manager of the Revenue and Cost Analysis Division in the Department of Rates and Classification. In that capacity I directed the development and reporting of revenue and attributable cost information for various mail and service categories and the technical preparation and presentation of testimony and exhibits concerning base-year and test-year costs for rate and classification proceedings. I testified as the rebuttal witness on attributable cost issues in Docket No. R80-1.

From 1985 until 1988, I was Director of the Office of Revenue and Cost Systems, Rates and Classification Department. In this capacity I oversaw the statistical design, data collection methodology, and development and reporting of revenue, volume, attributable cost and service performance information for the various mail and service categories, and the presentation of these data in testimony for rate and classification proceedings.

My academic background is primarily in economics, law, and business administration. I attended the Massachusetts Institute of Technology in 1959 as a student majoring in Electrical Engineering-Physics. I hold the following degrees: Bachelor of Arts in Economics from the University of Michigan, 1963; Juris Doctor, with Honors, from the George Washington University, 1968; and Master of Business Administration, with dual concentrations in managerial

economics and marketing, from the George Washington University, 1973. I participated in the annual regulatory studies program of the National Association of Regulatory Commissioners at Michigan State University in 1974, and I attended The Executive Program at the University of Virginia in 1984 and a Duke University Executive Program for postal officers in 1989.

I. PURPOSE AND SCOPE OF TESTIMONY

The purpose of this testimony is to present the evidence to support and justify a work-share discount for First Class basic-rate letters and cards addressed and paid for under the Postal Service's Information Based Indicia Program (IBIP) or equivalent process. I rely on testimonies of Stamps.com's witness Kuhr, E-Stamp's witness Jones, and jointly-sponsored witness Boggs as partial foundations for this testimony. Section II briefly summarizes my testimony. Section III indicates the magnitude of costs avoided when a piece of mail is addressed and receives indicia through IBIP procedures. Section IV presents the rationale for a work-share discount for First Class single-piece letters prepared through IBIP addressing procedures. The discount is based on a pass-through of avoided costs to the rates for First Class single-piece letter mail. Section V indicates the policy and other considerations that support such a discount.

II. SUMMARY

The Information Based Indicium Program (IBIP) permits use of software and hardware technologies to print postage from personal computers onto envelopes and labels. Commonly referred to as "PC Postage," the program has been implemented in different variations. The variation discussed in my testimony involves preparing letters to automation compatibility standards and addressing letters in accord with the Address Matching System (AMS) database, under the so-called "open" procedures. My workshare cost savings analysis is thus applicable to PC Postage produced both Stamps.com and E-Stamp.

I propose a 4 cent workshare discount for First Class single-piece letters and cards prepared and addressed according to IBIP procedures: four cents per piece when printing is directly on the piece, and 3 cents per piece when printing is on labels affixed to the piece. I base these discounts on the cost per piece avoided by IBIP mailpiece preparation to automation-compatible standards as well as savings that will be generated in reduced return-to-sender mail.

III. IBIP PREPARED AND ADDRESSED LETTERS AVOID COSTS OF 4.13 CENTS PER PIECE

IBIP prepared and addressed letters avoid costs in three areas; remote barcode system (RBCS) and mail processing cost, return-to-sender cost, and carrier delivery cost. IBIP procedures produce letters that meet standards for automated processing and avoid RBCS and mail processing costs that otherwise would be incurred. Additionally, IBIP addressing procedures produce letters with addresses matched with the Postal Service's AMS database to produce letters

with correct addresses and in the form preferred by the Postal Service to minimize processing cost. IBIP-addressed letters, therefore, prevent errors from occurring in both the delivery line and the city/state/ZIP line of an address. These errors require returning the letter to the sender or expending additional time and effort in accomplishing delivery. Eliminating the need to return letters to the sender avoids the significant manual processing costs associated with that activity. Eliminating the additional effort required to deliver pieces in the face of address deficiencies avoids significant carrier delivery cost. In the next section, I estimate the amount of cost avoided through use of IBIP procedures to prepare letters to automation compatible standards. Following the next section, I estimate the cost avoided by eliminating returns to sender and delivery inefficiencies.

A. IBIP PREPARATION AVOIDS COST OF 2.99 CENTS PER PIECE

IBIP preparation of letters to automation standards avoids cost of 2.99 cents per piece. In developing the cost avoided by IBIP preparation of letters to automation standards, I use the estimated costs avoided by Qualified Business Reply Mail (QBRM). Letters prepared under IBIP and QBRM procedures enter the postal system as single pieces and meet essentially the same standards for automated processing, and therefore avoid the same processing cost.

In this proceeding, Postal Service witness Campbell develops the cost avoided by QBRM (see USPS-T-29 at 40 and 41). He models the cost difference between a handwritten single-piece letter, the "benchmark," and a mail piece prepared as QBRM. The avoided costs primarily are in RBCS and incoming

secondary mail processing operations (compare pages 2 and 3 of USPS-LR-I-146). This processing cost is avoided by QBRM pieces because, unlike handwritten single-piece letters, they contain a POSTNET barcode and FIM code, and meet the requirements for automated processing.

I use witness Campbell's estimates of avoided cost to estimate the cost avoided by mail prepared under IBIP procedures. IBIP-prepared mail, like QBRM, is First Class letter mail. IBIP procedures result in letters prepared with eleven-digit barcodes and other features to meet standards for automated processing (see testimony of Witness Kuhr). It avoids the same RBCS and incoming processing avoided by QBRM pieces. Furthermore, the appropriate benchmark to measure cost avoided by IBIP-prepared letters is handwritten single-piece letters, the same benchmark used by witness Campbell to measure QBRM avoided cost. While the benchmark is referred to as "handwritten mail," the key aspect is not so much whether the address is handwritten or printed, but whether it contains a correct POSTNET barcode and FIM code.

QBRM pieces are letter-sized and meet the standards in the Domestic Mail Manual (DMM) for QBRM preparation. These include the standards in DMM sections E150 for preparation and in S922 for business reply mail. Reference to these DMM sections indicates that QBRM pieces also meet the standards for Facing Identification Mark (FIM) in DMM C100.5, letter and card automation compatibility in DMM C810, and barcoding in DMM C840.

Witness Kuhr indicates that Stamps.com internet postage software meets the IBIP requirements indicated in the "Performance Criteria for Information-

Based Indicia and Security Architecture for Open IBI Postage Evidencing Systems" (PCIBI-O) and in Publication 25, Designing Letter Mail, which is referenced in the PCIBI-O. Publication 25 references FIM standards and the standards in DMM sections C810 and C840. Single-piece IBIP letters, therefore, are prepared to the same automation compatibility standards as single piece QBRM letters, and will avoid the same RBCS and mail processing costs avoided by QBRM letters.

The benchmark for measuring the cost avoided by IBIP letters (hand-written letters) is the same as the benchmark used by the Postal Service to estimate the cost avoided by QBRM letters. Individuals, small offices, and home offices (SOHOs) are customers for IBIP mail preparation, and addressing. Over a third of customer letters would have been prepared with handwritten addresses had IBIP not been available. Even more would have omitted a nine-digit ZIP Code. Many more would not have had a POSTNET barcode or FIM code. For SOHOs, the majority of letter pieces is stamped. (Library Reference USPS-LR-I-299/R2000-1, Analysis of the Market for PC Postage (September, 1999) at 20.) Many of these pieces are likely to be addressed by hand.

Many of the best-prepared letters mailed by individuals are courtesy reply pieces. I anticipate that these will not convert to IBIP letters. Under IBIP preparation and addressing procedures, one cannot print an indicium without also printing an address matched to the AMS database. A courtesy reply envelope, however, already is addressed. Additionally, it is much simpler to place a stamp on a courtesy envelope than to prepare an envelope though IBIP.

It is unlikely, therefore, that IBIP-prepared pieces will replace courtesy envelope pieces. IBIP prepared and addressed letters will replace hand-addressed letters (i.e., letters without barcodes and FIM codes) and other letters not compatible with automated processing. The same benchmark used to estimate cost avoided by QBRM (handwritten letters) is therefore applicable to estimating the cost avoided by IBIP-prepared letters. Since IBIP prepared and addressed letters avoid the same costs as QBRM letters, the estimated cost avoided by QBRM and IBIP letters are identical.

Witness Campbell has developed two different estimates of the cost avoided by QBRM letters. In his testimony, his modeled cost avoidance of 3.38 cents per piece is based on the Postal Service's methodology for developing attributable costs in this proceeding. When he follows the procedure used by the Commission in Docket No. R97-1 to develop attributable costs, the modeled test-year cost avoidance is 2.99 cents per piece (USPS LR-I-146 at 2). I did not study the differences in cost-attribution methodology underlying the two cost avoidance estimates. I accept the lower estimate, 2.99 cents per piece, as a conservative estimate of the cost avoided by IBIP preparation of letters with 11-digit barcodes and other automated processing requirements.

Witness Campbell's estimate of cost avoided does not include savings from a reduction in the need to forward mail to another address or return mail to the sender (transcript Volume 14 at 6064). There are no such savings with QBRM because the recipient's address should be valid. The address would thus have no deficiencies that might cause either forwarding or return-to-sender. The

same cannot be said for First Class single-piece letters generally. Such letters, however, when prepared by IBIP addressing procedures, will have second and third line address deficiencies removed. IBIP-addressed letters will not be returned to sender for these reasons, and will avoid delivery cost that is incurred to overcome the effect of address deficiencies. I estimate the cost avoided by elimination of return-to-sender pieces in section "B," below. I discuss the cost avoided by elimination of additional delivery efforts required to deliver letters with address deficiencies in section "C," below.

B. IBIP ADDRESSING AVOIDS RETURN-TO-SENDER COST OF 1.14 CENTS PER PIECE

IBIP mail that is verified and modified through the AMS database avoids return-to-sender cost of 1.14 cents per piece. According to an Address Deficiency Study developed by PricewaterHouseCoopers for the Postal Service, 29.6 percent of First Class mail pieces contain one or more address deficiencies (see USPS-LR-I-192/R2000-1 at page 15). Many letters with address deficiencies can be delivered, although often at additional effort and related cost. Some have to be returned to sender, resulting in substantial additional expense to the Postal Service.

Witness Kuhr describes the address lookup procedure that converts an address to AMS database standards when an IBIP piece is prepared (Kuhr testimony at 12 to 15). This type of preparation eliminates address deficiencies that might otherwise occur, avoiding cost additional to that avoided through

automation compatibility alone. Below, I estimate the additional cost avoidance related to the AMS address lookup feature of IBIP postage.

Address deficiencies can occur in any of the three basic address lines: (1) addressee-name line; (2) delivery line; and (3) city/state/ZIP line. The addressee-name line or first-line contains the name of the person, business, or other organization intended to receive the mail piece. If the addressee has moved, is unknown, is deceased, or is no longer in existence, the addressee and the remaining address information do not match. This is an addressee-name line deficiency. The AMS address match performed through IBIP procedures does not currently correct for address-name line deficiencies[1]. The AMS lookup process, however, corrects deficiencies in the delivery line and the city/street/ZIP line.

The delivery line contains the street name and house number, or post office box number, or rural route and box number. Deficiencies in the delivery line can be one or more of the following: address line is missing; street name is missing, no such, or incorrect; house or PO box number is missing, no such, or incorrect; secondary number, such as an apartment or suite number is missing, no such, or incorrect; street directional or suffix, such as "N.W.," is missing or incorrect; and rural route or rural box number is missing, no such, or incorrect. IBIP address lookup software identifies the lack of such necessary information and requires the customer to supply or correct it.

[1] I understand that adding such capability, by comparing the address to the NCOA database, could be added to Stamps.com's address matching software.

The last line of an address contains the city, state and ZIP Code information and is called the city/state/ZIP line. Deficiencies in this line can include: 5-digit ZIP Code does not match street/city/state; 5-digit ZIP Code is missing or incomplete; sender-provided ZIP Plus 4 is incorrect; and the city/state is missing or incorrect. An AMS address lookup also corrects these deficiencies.

A process comparable to the address lookup process described by Stamps.com witness Kuhr also is used by other IBIP postage vendors, such as E-Stamp, when addressing letters in addition to preparing them for automation compatibility (see testimony of E-Stamp witness Jones). Potential mail processing errors and related costs associated with second- and third-line errors, therefore, are avoided through the use of IBIP's cleansing of address information through comparison to the AMS database. This cost avoidance is additional to that obtained by preparing a letter in conformance to automation standards. Below, I describe the prevalence of each address-line error and the likely potential cost savings from prevention of these deficiencies. To accomplish this, I rely on information in two studies conducted in tandem by PriceWaterhouseCoopers for the Postal Service, both completed on September 10, 1999 and provided as USPS library references in this proceeding.

One study, entitled USPS Address Deficiency Study (ADS), is available as Postal Service Library Reference USPS-LR-I-192/R2000-1. The ADS identifies address deficiencies in the mailstream by type of deficiency and estimates the percentage of mail having each deficiency type. It covers deficiencies in each of

the three address lines. It does not, however, develop system-wide volume and cost information related to the deficiencies.

The second study, entitled Volumes, Characteristics, and Costs of Processing Undeliverable-As-Addressed Mail (UAA), is available as Postal Service Library Reference USPS-LR-I-82/R2000-1. This study develops extensive information on volumes and costs of address deficiencies, but focuses almost exclusively on first-line deficiencies. Since it is much larger and more rigorous than the ADS, the ADS results for first-line deficiencies and related items were adjusted to incorporate results from the UAA study (see ADS at pages 7 and 8).

Using the two studies in tandem, I estimate the return-to-sender cost avoided by IBIP pieces prepared with an address lookup when postage is printed. First, I develop the percentage of total First Class letters that are return-to-sender:

First Class Mail	Percent
Deliver or return-to-sender[2]	100.00
Less mail deemed deliverable (ADS at 15)	93.66
Estimated return-to-sender mail	6.34

Thus, 6.34% of First Class mail is returned to sender based on address deficiencies in any of the three address lines. Next, I estimate the percentage of

[2] First Class pieces also may be sent to a dead letter office or treated as waste. The UAA study indicates that only 0.05 percent of First Class mail with a first-line deficiency is sent to a dead-letter office or is destroyed as waste (UAA at 14). Consequently, the percentage of First Class mail that neither can be delivered nor returned to sender is zero for purposes of this analysis.

First Class mail that was return-to-sender only because of errors in the first line—the addressee-name line:

First Class Mail

Percent return-to-sender or forwarded because of addressee-name deficiency		3.09[3]
Multiply by portion that is return-to-sender	x	.3852[4]
Result: percent return-to-sender from addressee name deficiency		1.19

Thus, 1.19% of First Class Mail is returned to sender because of a first-line address deficiency. Subtracting this figure (1.19 percent) from the 6.34 percent of return-to-sender mail that results from deficiencies in all three address lines leaves a figure of 5.15 percent. This is the estimated amount of return-to-sender mail from deficiencies in the delivery line and the city/state/ZIP line (6.34 less 1.19 equals 5.15).

Next, I develop the return-to-sender cost for this mail. The first step is to determine the point in the processing system from which such returns-to-sender are made. A review of the specific deficiencies in the third line -- the city/state/ZIP line -- indicates that most of these would be detected at image lift and corrected early in mail processing. This generally would not require returning the piece to sender. The 5.15 percent of return-to-sender mail from

[3] Source: ADS at 15. Mail with deficiencies in the first address line also could have deficiencies in the second and third lines. One cannot conclude, therefore, that this mail would be forwarded or returned solely because of errors in the first address line. I note, however, that only about four percent of pieces with first-line deficiencies also contain deficiencies on the other lines (see UAA study at 16). Therefore, I treated the 3.09 percent as the percent of pieces either for delivery or return-to-sender because of deficiencies in the first address line.

deficiencies in the delivery line and the city/state/ZIP line, therefore, largely reflects returns from deficiencies in the second line – the delivery line.

A review of the specific deficiencies in the second line of the address presented in the ADS at page 15 indicates that only a few would tend to be detected before reaching the delivery carrier. An entirely missing address line or street name, or missing or nonexistent rural route number, will be detected before reaching carrier processing. These account for about 4 percent of pieces with deficiencies in the delivery line. The remainder would not be detected before carrier operations. It appears, therefore, that 96 percent of return-to-sender mail would be returns from carrier processing operations. I multiply the 5.15 percent of return-to-sender mail by .96 to develop the percent of mail with delivery and city/state/ZIP line deficiencies that is returned from carrier processing operations, 4.94 percent (.96 x 5.15 equals 4.94). Next, I develop the cost per piece to return this mail from carrier operations. Then I develop the average return cost per piece avoided by eliminating address deficiencies in the delivery address line.

Mail returned from carrier operations to sender requires at least carrier preparation and mailstream processing. It may also require some processing by nixie clerks, but I am unable to estimate the amount. According to the UAA study, the per-piece costs for preparation and mailstream processing are 5.77 cents and 28.79 cents (UAA at 33, Table 5.1.2). I sum the two to obtain a return cost per piece of 34.56 cents. Since only 4.94 percent of pieces are return

[4] Source: UAA study at 16, Table 4.4. I sum the percentages of return-to-sender under the delivery unit and CFS headings to obtain .3852.

pieces, I multiply the 34.56 cents by .0494 to develop a return cost per piece of 1.71 cents avoided by eliminating delivery line address deficiencies.

I note several characteristics of the UAA study and the ADS that suggest modification of this estimate. The ADS involved First Class letter mail (ADS at 3). The UAA study, however, included all shapes of First Class mail, although machineable letters composed 91.35 percent of First Class mail (see UAA at 24, Table 4.7.1). The different shapes receive similar treatment as undeliverable as addressed mail and so were not distinguished (UAA at 11). Mailstream processing cost for return pieces also included the different shapes (UAA at 56, Table 5.2.4.1). Since return-to-sender requires manual processing of individual pieces, the effect on cost computations of mail of different shapes probably is minimal.

The ADS indicates that it "may overstate truly undeliverable mail in that it does not capture the effect of carrier knowledge in delivering deficient pieces" (ADS at 9). The study "asked AMS managers to indicate whether or not they believed a piece could be delivered despite any deficiency, but such results are not as strong as those given by carriers themselves" (ADS at 10). I believe AMS managers would know enough about the kinds of address deficiencies resolvable through carrier knowledge to assess correctly the probabilities that pieces undeliverable as addressed could be delivered with carrier knowledge. To the extent the ADS study does overstate the amount of truly undeliverable mail resulting from address deficiencies, these pieces would still require a substantial amount of additional carrier time and effort to achieve delivery.

Nevertheless, given the inclusion of nonletter shapes in the UAA study results and the possibility of overstatement of pieces requiring return in the ADS, I judgmentally reduce my estimate of the cost of returning First Class pieces containing address deficiencies by one-third, from 1.71 cents per piece to 1.14 cents per piece. This should provide sufficient allowance for the effects, if any, of the study characteristics noted above, and others caused by the use of data from two independently conducted studies.

I accept 1.14 cents per piece as a conservative estimate of the average cost per piece for returned pieces avoided by eliminating address deficiencies through preparation by IBIP procedures. Next, I examine the possible effect on the cost per piece for First Class letters of deficiencies in the delivery and last address lines of letters that receive delivery.

C. IBIP ADDRESSING AVOIDS DELIVERY COST

IBIP addressing of letters to the AMS database avoids delivery cost by eliminating address deficiencies that require effort additional to that required to deliver properly addressed letters. Substantial cost is incurred to deliver mail that contains delivery line and city/state/ZIP line address errors and omissions. Carriers often use great effort to deliver mail in the face of address deficiencies that render it difficult to deliver (ADS at 10). The most prevalent address deficiency is a missing or incorrect street directional or suffix. That is, a piece is missing a valid directional, such as "N.W." or "East," or is missing a valid suffix, such as "Blvd." or "Lane," that is required to distinguish one address from another that is identical except for the directional or the suffix. About one-third of pieces

with an address deficiency, or about ten percent of sampled pieces, contain this type of deficiency (ADS at 15). Most of these pieces are deliverable. Carriers will attempt to deliver a letter to one of the several possible addresses and, if it is returned, will try another possible address. These address deficiencies make such mail more costly to deliver than mail without address deficiencies. Below, I estimate the percentage of First Class letters that are delivered in spite of deficiencies in the delivery line and city/state/ZIP address line.

The ADS states that 29.57 percent of First Class letters sampled had at least one address deficiency (ADS at 15). From this I subtract the percentage of return-to-sender letters, 6.14, that I developed on page 14. The difference of 23.23 percent is the percentage of First Class letters with address errors, but that were deliverable. From the 23.23, I subtract the percentage of deliverable letters with addressee name deficiencies, 1.19, that I also developed on page 14. The difference of 21.33 percent is the percentage of First Class letters with address deficiencies in the delivery and city/state/ZIP lines that are deliverable in spite of the deficiencies. Thus, 1 in every 5 First Class letters contains an address deficiency in the delivery line or city/state/ZIP line. By contrast, IBIP mail contains no address deficiencies in the delivery line or city/state/ZIP line.

I am unable to estimate the effect on the cost-per-piece for First Class letters of additional carrier effort used in delivering pieces with delivery-line deficiencies. A special data collection effort underlies estimates of the costs associated with first-line address deficiencies (see the UAA study). I am unaware of comparable data collection results needed to determine costs

associated with delivering letters with delivery-line and third-line address errors and omissions. Given the prevalence of these address errors, and the efforts needed to deliver pieces that contain them, the costs are surely significant (ADS at 8). I would expect these efforts to add an average of at least several tenths of a cent to the cost of First Class letters, costs which IBIP letter mail avoids. By not including any of these cost savings in my proposed discount for IBIP letters and cards, my proposal is conservative and provides a large cushion for any unknowns or contingencies.

I conclude that mail prepared and addressed through IBIP procedures avoids 2.99 cents-per-piece in mail processing cost by preparing mail for automated processing, and avoids at least an additional 1.14 cents per piece by eliminating address deficiencies in the delivery line and third line of the address, for a total cost avoidance of at least 4.13 cents per piece. I note that this avoided-cost estimate is conservative, since I make no allowance for the avoided cost of additional efforts required to deliver letters with deficiencies in the delivery line and city/state/ZIP line.

IV. PER-PIECE WORKSHARE DISCOUNTS OF FOUR CENTS FOR PRINTED PIECES AND THREE CENTS FOR LABELS ARE JUSTIFIED

Avoided cost and other considerations justify workshare discounts of 4 cents per piece for letters prepared and addressed through IBIP procedures where indicium and addresses are printed on envelopes, and 3 cents per piece when indicium and addresses are printed on labels. In this section, I review the cost evidence and other considerations that support workshare discounts for First

Class letters prepared and addressed in accord with IBIP procedures. First, I review the evidence on costs avoided by letters prepared in this way. Then I examine IBIP mail preparation and the resulting mail processing operations to determine the likelihood that estimated cost avoidance can be achieved. I conclude that slightly less than the full avoided cost per piece associated with the worksharing effort should be passed through to a workshare discount of 4 cents per piece for directly-printed letters and 3 cents per piece when labels are used.

A. THE AVOIDED-COST ESTIMATE IS RELIABLE

The avoided cost estimate is sufficiently reliable to be passed through to a workshare discount for letters prepared and addressed through IBIP procedures. In the prior section, I indicated potential avoidable costs from letters prepared and addressed in accord with IBIP procedures from two sources: preparation to letter automation standards, and addressing by use of the AMS database.

I accept the estimated 2.99 cents per piece avoided by mail preparation to ensure compatibility with automated processing for the reasons I provide in my discussion of its applicability to IBIP-prepared letters in section III. A., above. I regard it as an appropriate estimate of cost avoided by IBIP preparation of letters to automation standards.

In developing the 1.14 cents-per-piece cost avoided by conforming addresses to those in the AMS database, I reduced the original estimate of 1.71 cents per piece by one-third to allow for the adverse effects of possible problems in estimation. I regard the 1.14 cents per piece, therefore, as a lower bound of cost avoided by eliminating return-to-sender letters. Consequently, I accept 4.13

cents per piece, the sum of 2.99 and 1.14 cents per piece, as an estimate of costs avoidable by IBIP preparation sufficiently reliable to be passed through to a workshare discount for IBIP-prepared letters.

B. NONAUTOMATED AND RETURN-TO-SENDER PROCESSING WILL BE AVOIDED

Less efficient nonautomated mail processing operations and return-to-sender processing will be avoided by IBIP-prepared and addressed letters. The Postal Service's existing processing and delivery systems will capture savings from letters prepared to automation standards and with AMS addresses. No novel or untested processing equipment or operations are required to capture the savings. This contrasts with many workshare opportunities in the past, which had to be accomplished through substantial adjustments in postal processing and transportation operations. Need for these adjustments greatly increases the risk that estimated savings will not be achieved because of problems in implementing the required adjustments to processing and transportation operations. A discount for IBIP-prepared letters does not entail this risk.

The Postal Service has substantial experience with processing QBRM letters, to which standards IBIP letters are prepared and addressed. According to witness Fronk, "in important respects, the QBRM program has been established for many years" (transcript Volume 12 at 4770). There has been no indication by the Postal Service of the existence of significant problems in capturing the mail processing savings from QBRM letters. If mailers prepare and

address letters in accord with IBIP requirements, postal processing and delivery systems will capture the savings associated with such letters.

C. IBIP LETTERS WILL BE PREPARED CORRECTLY

IBIP letters must be prepared in accord with IBIP preparation and addressing requirements. To prepare letters using IBIP, users must follow a step-by-step process designed to ensure preparation and addressing to IBIP standards. There is no evidence, furthermore, that IBIP users will mis-prepare letters to any greater degree than mailers who use other methods to prepare automation-compatible and properly addressed letters. Indeed, IBIP users have much less flexibility in mailpiece design than other users, because the software simply will not allow an envelope or label to be printed until all automation compatibility requirements are satisfied. In anticipation of possible errors in applying labels on envelopes, I suggest a slightly smaller discount for such mail pieces. Below, I discuss these points in greater detail.

IBIP users prepare letters according to procedures described by Stamps.com's witness Kuhr and E-Stamp's witness Jones. Witness Kuhr describes the process of registering with Stamps.com, the printer test, the meter license application, the quality assurance envelope check, postage formatting, Facing Identification Mark (FIM) placement, the address matching system, and the delivery point barcode features of IBIP as implemented by Stamps.com. He describes the precise steps the user follows to prepare and to address a letter

properly. The process tightly guides the user in preparing a letter and leaves almost no flexibility for the user to make errors (see Kuhr testimony).

IBIP users have incentives to prepare IBIP letters properly. They place bill payments, job applications, merchandise orders, business letters and other materials related to transactions that they want to accomplish in the envelopes that they prepare under IBIP. These mailers, like other mailers, rely on their letters being delivered correctly and expeditiously. They ordinarily do not knowingly prepare mail in ways that impede its processing and delivery. To the extent that mailers do mis-prepare mail, it most often reflects a lack of knowledge (see, for example, ADS at 11). Those who prepare and address mail through IBIP, however, do not need extensive knowledge of mail preparation and addressing. The IBIP software automatically prepares the mailpiece in a way that meets automation and address standards. As witness Kuhr describes, the IBIP-implementing programs provide the requisite steps and knowledge. Under these programs, mailers with little knowledge of mail preparation and addressing can prepare and address letters equal or superior in quality to those prepared by the most knowledgeable and sophisticated preparers.

Witnesses for the Postal Service, however, indicate various theoretical and unsubstantiated concerns that mail prepared and addressed under IBIP procedures may not qualify for an IBIP discount (see transcript Volume 12 at 4737 to 4743; 4797 to 4805; 4812 to 4830, and Volume 14 at 6056 to 6059). Both witnesses Fronk and Campbell hypothesize that IBIP users may place postage on mail that exceeds the size, shape, and weight limitations for

automation-compatible mail (transcripts Volume 12 at 4738 and Volume 14 at 6056 to 6057). While theoretically possible, this is highly unlikely. The IBIP-implementing procedures developed by Stamps.com and E-Stamp require users to select the size envelope being used or type of label being printed from a menu provided by the IBIP vendor. Envelopes that exceed the size and shape limits for certain rates will not be printed with indicium at those rates. Label use is more flexible, and below I discuss that factor in developing a discount for IBIP-prepared and addressed letters.

As witnesses Fronk and Campbell speculate, a mailer could place material in an IBIP prepared and addressed envelope that is too heavy for the postage printed. But any mailer – whether using stamps or meter strips – could theoretically make this same error. There is no reason to think, or evidence to show, that it is a significant or larger problem when IBIP indicia is used than when it is not used. Fronk and Campbell do not contend that IBIP users would be any more likely to "short-pay" mail than those using stamps and meters. Additionally, Stamps.com offers its customers low-priced electronic postage scales on a stand-alone or integrated basis to assist in computing appropriate postage.

Both witnesses Fronk and Campbell postulate other problems. They speculate on problems arising when users of IBIP are faced with a choice between putting stamps on courtesy envelopes, or generating "reply" pieces using IBIP and their own envelopes. I discuss this situation above, where I

indicate that users are likely to find it more satisfactory and convenient just to place stamps on courtesy envelopes.

Witnesses Fronk and Campbell also speculate that mailers may "push their printer cartridges a bit too far," producing envelopes too difficult for postal automated equipment to handle. Once again, to the extent such problems could possibly occur, there is no showing it occurs more frequently with IBIP users than other mailers. Moreover, the problem is unlikely to occur with significant frequency. Witness Kuhr's testimony describes the print tests, quality assurance envelope check, and the many proactive measures taken to enforce correct printing (Kuhr testimony). Also, mailers want their mail to be delivered and they generally try to prepare it correctly. While they may not fully appreciate the effects of badly printed barcodes and indicia, they do understand the effect of the badly-printed address that would be produced along with the other badly-printed items. Most IBIP users, furthermore, would be using their printers for more than just preparing IBIP letters. Business users would be printing letters, statements of account, and other materials that are part of the life-blood of their businesses. Individuals would be printing job applications, photographs, and other items in which they would have an interest in printing correctly. Under these circumstances, both businesses and individuals are highly unlikely to tolerate improper printing. They will pay attention to their printers to ensure they print properly. Moreover, if an IBIP user does occasionally misprint a mail piece, the user can obtain a refund of the postage amount from the IBIP provider.

If unanticipated problems with IBIP preparation and addressing should arise, it is likely they can be managed through the IBIP-preparation process itself. One of the advantages of IBIP preparation over other mailer interfaces is that it is accessed each time postage is printed to guide the preparation of mail pieces. If a preparation problem arises, IBIP preparation programs can be modified to guide preparers around the problem (see testimony of witness Kuhr). This provides a vehicle to implement rapidly desired changes in IBIP-prepared letters to eliminate problems should they develop. For the foregoing reasons, I conclude that IBIP letters will be prepared and addressed correctly. Next, I discuss the appropriate magnitude of discounts for IBIP-prepared and addressed letters.

D. AVOIDED COST AND OTHER CONSIDERATIONS JUSTIFY PER-PIECE DISCOUNTS OF FOUR CENTS FOR PRINTED PIECES AND THREE CENTS FOR LABELS

In this section, I bring together the avoided-cost evidence and other considerations discussed above to determine the appropriate magnitude of discounts for IBIP prepared and addressed letters. I conclude that evidence justifies per-piece workshare discounts of 4 cents for letters and card prepared and addressed through IBIP procedures when indicium and addresses are printed directly on envelopes, and 3 cents when printing is on labels.

Both the 2.99 cent-per-piece estimate of cost avoided by IBIP preparation and the 1.14 cents-per-piece estimate of costs avoided by IBIP addressing are appropriate estimates. The IBIP preparation process assures that IBIP prepared and addressed letters meet automation and AMS address standards to achieve

the estimated cost avoidance. These considerations suggest a passthrough of 100 percent of avoided cost into the discount from the First Class single-piece rate.

A passthrough of 100 percent also would provide more incentive to increase usage of IBIP preparation and addressing. Many customers find IBIP procedures inconvenient to such an extent that a discount may be required to encourage them to use the procedures (see testimony of witness Jones).

In Docket No. R80-1, the Commission recommended a one cent discount for First Class mail presorted to carrier route, even though it was slightly larger than the .91 cent cost avoidance demonstrated on the record. The Commission indicated "it sufficiently approximates that cost avoidance. In our view, a one-cent, rather than a smaller fractional discount, is also desirable in order to provide potential users with sufficient incentive to take advantage of the carrier route discount" (Opinion at 296).

In Docket No. R90-1, the Commission recommended "rates to foster automation to the extent legally feasible." The Commission passed through 100 percent of the projected cost savings to the automation discounts in the face of "equipment performance estimates which are largely unsupported by actual experience" and a calculated high level of cost savings (Opinion at V-21). The proposed IBIP discounts will increase the amount of automation compatible mail from individuals, SOHOs, and other small mailers, thereby helping to foster use of automation for mail previously not eligible for automated processing. Equipment performance is known and cost avoidance is calculated

conservatively for this newly automation-compatible mail. While the amount of the increase in the volume of this mail cannot be estimated with precision, the Commission's ability to recommend legally feasible discounts is not impaired by this factor. Revenue not obtained from the discounted mail pieces will be offset by the cost avoided by such pieces. This maintains the ability of the Commission to recommend overall rates that yield revenues equal to costs.

Also, I note that no savings from the existing use of IBIP-prepared letters are included in test-year cost estimates (see transcript Volume 12 at 4739). As a result, the Commission can recommend a discount without concern that cost avoidance already is reflected in the Service's rate recommendations. These factors support a 100 percent passthrough.

A passthrough of less than 100 percent allows for uncertainties associated with a new discount category. For the reasons I summarize above, I believe the uncertainties associated with IBIP prepared and addressed letters where indicium and addresses are printed directly on the envelope are small. For these letters, I round down the per-piece avoided cost of 4.13 cents to 4.0 cents. While IBIP procedures can handle fractional rates easily, rates used by individuals on per-piece-rate letters should be in whole integers. Individuals are used to whole-integer prices for items purchased one at a time.

I am unable to estimate precisely the percentage passthrough of avoided cost to the discount that I propose. Avoided cost consists of the estimated 4.13 cents per piece, and an additional substantial amount that I was unable to estimate. This was for IBIP-addressed letters avoiding delivery costs that they

otherwise would have incurred to be delivered in spite of their address deficiencies. When these are taken into account, I believe the effective passthrough of avoided cost to a discount of 4 cents per piece is around 90 percent or less of total avoided cost. This should be sufficient to allow for the negative effects of uncertainties when indicium and address are printed directly on the mail piece.

There are somewhat fewer controls, however, when printing indicium and addresses on labels. Given the possibility of error in applying address labels, I make an additional allowance for uncertainties by proposing a per piece workshare discount of 3 cents for IBIP prepared and addressed letters when the indicium and address are printed on labels to be placed on the envelope. This provides a large margin of protection in the unlikely event that problems arise from improper application of labels. The passthrough of avoided cost to the 3 cent discount is less than 70 percent.

There is an even further margin of safety to ensure that unanticipated problems arising from a discount for IBIP prepared and addressed letters do not shift rate burden from IBIP letters to those prepared by other means. Use of IBIP will reduce stamp usage, reducing the cost of printing, distributing, and selling stamps. The IBIP customer purchases from the home or business rather than from the post office window. Survey information indicates that Stamps.com's customers reduce their visits to post offices by as much as 1 million visits per month. (See Lawton testimony.) E-Stamp's witness Jones points out additional economies in his testimony. These savings are available to offset the negative

effects of uncertainties beyond those covered by the passthrough of less than 100 percent of avoided cost to the discount.

For these reasons, I conclude that work share discounts are justified for IBIP-addressed letters. Using IBIP procedures, a First Class single-piece letter mailer avoids more than 4 cents per piece in cost. This should be reflected in a discount of 4 cents from the First Class single-piece letter rate for letters prepared and addressed through IBIP procedures where the indicium and address are printed directly on the piece, and 3 cents when they are printed on labels that are applied to the piece.

In the next section, I indicate the other pricing guidelines in the Act and policies that support a discount for IBIP prepared and addressed letters.

V. CLASSIFICATION, RATEMAKING AND POLICY CONSIDERATIONS SUPPORT THE PROPOSED DISCOUNTS

In this section, I conclude the proposed discounts from the First Class single-piece letter rate for IBIP prepared and addressed letters meet the classification, ratemaking and policy requirements of the Act and should be recommended by the Commission. I base my conclusion on an evaluation of the proposed discounts in light of the classification and ratemaking factors of the Act and its policies. Since such discounts require the establishment of a new rate category in the Domestic Mail Classification Schedule, I evaluate them in light of the classification factors in section 3623(c) of the Act. Then I review the proposed rates in light of the rate factors in section 3622(b) of the Act. Finally, I consider them in light of the policies of the Act.

A. THE PROPOSED DISCOUNTS MEET CLASSIFICATION REQUIREMENTS OF THE ACT

Section 3623(c)(1) of the Act requires "the establishment and maintenance of a fair and equitable classification system for all mail." Individuals, small businesses, and other small mailers of First Class single-piece letters have not had the options enjoyed by mailers in other categories to obtain lower rates through mail preparation that lowers mail processing or delivery cost. In rate proceedings over the last 25 years, the Postal Service, the Commission, and various consumer advocates have proposed discounted rates for individual mailers. In Docket No. R77-1, the Postal Service proposed a rate for a new subclass of First Class letters, "Citizen's Rate Mail" (CRM). In Docket No. R84-1, the New York State Consumer Protection Board (NYSCPB) proposed another version of CRM and a "holiday" rate for First Class mail deposited between Thanksgiving Day and December 10, but not requiring delivery until December 25. In Docket No. R87-1, the Commission recommended the creation of "Courtesy Envelope Mail" (CEM). In Docket No. R90-1, the Commission recommended a "Public's Automation Rate" (PAR). In Docket No. R97-1, the Commission once again recommended a CEM rate. All these proposals have presented significant problems; none has been adopted.

All of the proposed discounts have been based on some notion of lower costs incurred by individuals when they mail pieces prepared a certain way, or at certain times, or for other reasons. These proposed reduced rates for individuals in a manner that ultimately required rates for others to be higher. In other words,

they "de-averaged" rates. Because one group of mailers would end up paying less while other groups would wind up paying more, de-averaging rates raises issues of fairness and equity.

Also, in some of the proposals, someone other than the mailer was responsible for providing the envelope that generated the cost avoidance for which the discount was proposed. Some participants in the proceedings viewed a discount for the mailer as "unearned," since the beneficiary of the discount had done little or nothing to prepare the automation-compatible features on the envelope that avoided cost. This also raises issues of fairness and equity.

These can be difficult issues to resolve. The Governors and the Commission have approached these issues differently in the same proceedings. In Docket No. R77-1, when the Governors and postal management voted to file a case requesting Citizen's Rate Mail, they presumably regarded it as fair and equitable. The Commission, however, found that the Postal Service's "implementation of CRM as proposed in this proceeding would result in unlawful rate discrimination unfairly favoring household mailers with a lower rate for [F]irst-[C]lass mail users for essentially the same service" (Opinion and Recommended Decision at 183). In Docket No. R97-1, the Commission recommended CEM, noting that that consideration of CEM must focus on, among other things, "fairness and equity" (Opinion at 322). In their Decision on CEM, the Governors quoted their Decision in MC95-1: "CEM would offer to households the new advantages of deaveraging for their low-cost mail, and the continuing advantages of averaging for their high-cost mail. We are not convinced that such a

ratemaking scheme is either fair or equitable" (Decision of the Governors on Prepaid Reply Mail and Courtesy Envelope Mail at 7).

The proposed discounts for IBIP-prepared and addressed letters do not trigger these concerns. These discounts do not de-average rates. Rather, the amount of the discounts for IBIP-prepared and addressed letters is offset by the amount of cost avoided by such letters. There is no significant rate impact on other mailers. Even if estimated avoided costs are not fully achieved, allowances in calculations of the cost avoidance and in the passthrough of cost avoidance to the discount ensure that rates for other mailers will not be adversely affected. The recipients of the discounts, furthermore, are those responsible for preparing and addressing the letters that avoid the costs. The discounts, therefore, are earned through the efforts of those receiving them, not by the efforts of others. The proposed discounts fully meet the requirements of section 3623(c)(1).

Next, I consider the requirements of section 3623(c)(2). That section requires consideration of "the relative value to the people of the kinds of mail matter entered into the postal system and the desirability and justification for special classifications and services of mail." Over 25 years ago, a discount category for presorted First Class mail was established "to encourage worksharing and to provide mailers who presort with equitable compensation for the mail processing costs which presorting saves the Postal Service" (MC73-1 Opinion at 17). In Docket No. R80-1, a second tier of discounts was added for mail presorted to carrier route. In later proceedings, workshare discounts were added for prebarcoding and Zip+4 preparation, and discounts were extended to

flat-shaped mail. Today, except for individuals, small businesses and other small mailers, First Class mailers have a wide variety of workshare categories and related rate discounts they can use. Individuals, small businesses, and other small mailers are generally unable to use these categories to obtain discounts on their mail. Requirements to meet a minimum number of pieces or other constraints limit their ability to prepare letters that qualify for mailing at one of the discounted rates.

The recent availability of IBIP preparation and addressing procedures for letters, however, changes the situation. Now, individuals, small businesses, and other small mailers have ready access at reasonable cost to tools they need to prepare letters reliably to meet automation and the highest address standards. As indicated in my testimony and that of witness Kuhr, they can prepare First Class letters that equal or exceed the address quality attained by the most sophisticated mailers. Letters produced by IBIP preparation and addressing procedures avoid the very same costs of letters prepared by other procedures that produce automation-compatible letters with valid, standard addresses. Like the preparers of those letters, IBIP preparers deserve equitable compensation for their efforts through a workshare discount. The desirability of a category for a discount rate for IBIP prepared and addressed letters, therefore, is very high, and is well justified. A discount category for First Class IBIP prepared and addressed letters fully meets the requirements of section 3623(c)(2).

Here I consider the requirements of section 3823(c)(5), which specifies consideration of "the desirability of special classifications from the point of view of

both the user and of the Postal Service." In the above paragraph, I indicated the very high desirability of a discount category for IBIP prepared and addressed letters for users. Unlike larger mailers, individuals and smaller mailers have not been able to use discount categories to lower their postage costs. This discount category permits them to lower their mailing costs.

The lower cost benefits the Postal Service by making mail less expensive to use relative to competing media. This increases the attractiveness of mail relative to competing media, and serves to preserve or increase First Class letter volume in the face of increasing alternatives to mail. The creation of the discount category also calls attention to the existence of the IBIP program and its benefits to potential users, increasing potential usage of the program, and benefits from its use to the Postal Service.

According to witness Boggs, a majority of SOHOs already have the basic equipment needed to utilize IBIP procedures and many are interested in using the program. By the test year, around 75 percent of SOHOs will have Internet access, and the percentage will continue to grow. SOHOs' interest in IBIP to prepare their mail partly reflects the fact that postage meters are not cost effective to most SOHOs given the relatively small volume associated with each mailer. As a group, however, SOHOs account for a significant amount of spending on First Class postage. A discount for IBIP – prepared mail could substantially increase SOHO participation in creating more efficiently-handled mail pieces.

Individual mailers also would benefit from IBIP. Over 50 percent of households will be Internet-connected in the test year (*The Washington Post*, May 17, 2000 at section G, page 1). Individuals, therefore, have both the connectivity and the interest to make significant use of IBIP procedures.

One of the benefits to the Postal Service will be an increase in the percentage of letters prepared for automated mail processing and with valid, standard addresses, both of which will increase processing efficiency and reduce cost. Use of IBIP by individuals and small mailers also offers an unparalleled method to educate and guide them to prepare mail correctly. Users are exposed to proper mail preparation methodology every time they print postage. This is a much more effective means of obtaining properly prepared and addressed mail than providing information on letter rates and preparation through a web site or literature.

A discount category for IBIP prepared and addressed letters will further the Postal Service's IBIP goal of making "a range of products available to mailers, thereby meeting different mailer needs" (transcript Volume 12 at 4737). Such a discount will increase the attractiveness of using IBIP, increasing vendor interest in providing IBIP products to meet different mailer needs. For example, Stamps.com and E-Stamp offer somewhat different procedures for customers to prepare letters to automation standards and to address them to AMS standards. But mailings produced by either system generate fully compatible and properly addressed mailpieces.

I conclude, therefore, that a discount category for IBIP prepared and addressed letters is highly desirable for both the mail user and the Postal Service. I do not address sections 2623(3) and (4) of the Act here because they are not applicable to the proposed discount category. Next, I review the rates proposed for such a category in light of the rate factors in section 3622(b).

B. THE PROPOSED DISCOUNTS MEET RATE REQUIREMENTS OF THE ACT

In this section of my testimony, I consider the eight rate-setting criteria in section 3622(b) of the Act. Section 3622(b)(1) requires fair and equitable rates. The proposed IBIP discounts meet the classification and rate setting criteria of the Act and is fair and equitable. Sections 3622(b)(2) and (3) are not pertinent. The proposed discounts for IBIP prepared and addressed letters are workshare discounts that do not alter basic cost and rate relationships addressed by section 3622(b)(3). Criterion (4) relates to the effect of general rate increases on the general public and business mail users. The proposed discounts provide a way for the public and business mailers to lower their postage cost to mitigate the effect of rate increases. It complies with the Act. Criterion (5) concerns the available alternative means of sending and receiving mail matter at reasonable rates. This factor has been applied in the past to hold down rate increases for First Class single-piece letter mailers, because they have few alternatives to mailing a letter. IBIP users, however, are just the type of computer-savvy mailers who are most likely to use alternative means – such as the Internet and electronic media – to send and receive messages. They have alternatives to

using the mail. The proposed discounts comply with this section. Below, I consider the two sections most applicable to IBIP discounts, 3622(b)(6) and (7).

Section 3622(b)(6) requires consideration of "the degree of preparation of mail for delivery into the postal system performed by the mailer and its effect upon reducing costs to the Postal Service." Under IBIP preparation and addressing procedures, First Class letters are prepared to meet automation mail processing standards and AMS database standards. The mailer performs the preparation, which requires some effort (see testimony of witness Jones for customer reaction to the address-lookup process). Printers attached to personal computers are set up to meet a variety of printing needs, and usually require setting up to print envelopes and labels. IBIP procedures guide the user through this process, requiring the user to indicate the size of envelope or to specify type of label. The user enters the address and the IBIP provider checks the entered address against the AMS address database. The IBIP implementing program displays the AMS version of the address and requires a confirmation from the user. Differences between the user-supplied address and the AMS version may require close examination by the user to confirm that the AMS address is, in fact, equivalent to the user-supplied address. In some instances, the AMS system cannot match the entered address, and the user is asked to choose an address from a menu of alternatives. This often requires considerable effort by the user, especially if the basic form of the address has changed, as when a rural-route box-number style of address has gone through a 911 conversion to city-type addressing. This conversion alone changed almost 2 million addresses between

1994 and 1999 (ADS at 10). As a result of the mailers efforts, however, a First Class single-piece letter avoids over 4 cents per piece in cost to the Postal Service. Consideration of section 3622(b)(6) requires this avoided cost saving to be reflected in First Class single-piece letters through discounts from the single-piece letter rate.

Next, I review section 3622(b)(7), which requires consideration of "simplicity of structure for the entire schedule and simple, identifiable relationships between the rates or fees charged the various classes of mail for postal services." The addition of a discount rate for IBIP prepared and addressed letters adds negligible complexity to the existing rate schedule. The IBIP products themselves actually provide letter mailers with tools and flexibility that reduce problems in using the existing rate structure. Unlike the case with some discounts previously proposed for First Class single-piece letters, the mailer doesn't need to keep a second denominated stamp for use on the discounted letter category. In fact, the letter mailer no longer needs to keep stamps denominated for letters weighing more than one ounce, or for nonstandard sized envelopes. The IBIP products calculate the postage needed by the mailer for the particular dimensions of the envelope being used, and for the weight of the envelope with materials to be mailed enclosed.

The First Class single-piece letter mailer probably will receive courtesy-reply envelopes in which to place bill payments, merchandise orders, and for other similar purposes. This presents no problem for the IBIP letter mailer. Such a mailer will still want to have some stamp stock for First Class single-piece

letters that the mailer may not want to prepare through an IBIP provider. The mailer can use these stamps on reply envelopes.

The proposed discounts for IBIP-prepared and addressed letters fits well with the rates proposed for the other categories of First Class letters, as shown in the following table:

Rate Category	Proposed Rate
Regular Single Piece	34 cents
Regular Presort (not automation compatible)	32 cents
IBIP (automation compatible, no presort)	30 and 31 cents (labels)
Automation Basic Presort Letters	28 cents

For these reasons, I conclude the discounts for IBIP prepared and addressed single-piece letters meet the requirements of section 3622(b)(7). Next, I review the pertinent policy considerations in the Act.

C. THE PROPOSED DISCOUNTS MEET THE POLICIES OF THE ACT

With regard to establishing classifications, rates, and fees, the Act specifies in section 403(c): "In providing services and in establishing classifications, rates, and fees under this title, the Postal Service shall not, except as specifically authorized in this title, make any undue or unreasonable discrimination among users of the mails, nor shall it grant any undue or unreasonable preferences to any such user."

For over 25 years, individuals, small businesses and other small mailers of First Class letters have not been able to use the various workshare discounts available to other First Class letter mailers. This situation reflected the inability of individuals and small mailers to prepare letters that met the requirements for the discounts, which were based on sufficient volumes to avoid costs through presortation or other types of preparation that avoided cost. The discount rates were not unduly or unreasonably discriminatory against individuals or small mailers, because they theoretically could use such rates. But practical circumstances prevented their use.

Practical circumstances have changed. Now, individuals, small businesses, and other small mailers can prepare First Class single-piece letters economically to the same or better automation and addressing standards achieved by larger mailers who receive discounts for their efforts. Discounts for IBIP prepared and addressed mail is not only consistent with section 403(c), but is required by it if there is no other reasonable basis for denying the discounts to individuals and small mailers. I see none. The proposed discounts for IBIP prepared and addressed single-piece letters and cards meets all the applicable classification and rate-setting criteria of the Act. The Commission should recommend them.

CERTIFICATE OF SERVICE

I hereby certify that I have this 22 day of May 2000, served the direct testimony of Stamps.com witness Frank R. Heselton (Stamps.com-T-1) upon all participants of record in this proceeding in accordance with the Commission's Rules of Practice.

David P. Hendel