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

POSTAL RATES AND FEE CHANGES, 2000

Docket No. R2000-1

Direct Testimony of

Dr. John Haldi

Concerning

PROPOSAL TO INSTITUTE A DISCOUNT
FOR FIRST-CLASS SINGLE PIECE METERED MAIL

On Behalf of

PITNEY BOWES INC.

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Autobiographical Sketch

1
2 My name is John Haldi. I am President of Haldi Associates, Inc.,
3 an economic and management consulting firm with offices at 1370
4 Avenue of the Americas, New York, New York 10019. My consulting
5 experience has covered a wide variety of areas for government, business
6 and private organizations, including testimony before Congress and state
7 legislatures.

8 In 1952, I received a Bachelor of Arts degree from Emory
9 University, with a major in mathematics and a minor in economics. In
10 1957 and 1959, respectively, I received an M.A. and a Ph.D. in
11 economics from Stanford University.

12 From 1958 to 1965, I was an assistant professor at the Stanford
13 University Graduate School of Business. In 1966 and 1967, I was Chief
14 of the Program Evaluation Staff, U.S. Bureau of the Budget. While there,
15 I was responsible for overseeing implementation of the Planning-
16 Programming-Budgeting (PPB) system in all non-defense agencies of the
17 federal government. During 1966 I also served as Acting Director, Office
18 of Planning, United States Post Office Department. I was responsible for
19 establishing the Office of Planning under Postmaster General Lawrence
20 O'Brien. I established an initial research program, and screened and
21 hired the initial staff.

1 I have written numerous articles, published consulting studies,
2 and co-authored one book. Items included among those publications
3 that deal with postal and delivery economics are an article, "The Value of
4 Output of the Post Office Department," which appeared in *The Analysis*
5 *of Public Output* (1970); a book, *Postal Monopoly: An Assessment of the*
6 *Private Express Statutes*, published by the American Enterprise Institute
7 for Public Policy Research (1974); an article, "Measuring Performance in
8 Mail Delivery," in *Regulation and the Nature of Postal Delivery Services*
9 (1992); an article (with Leonard Merewitz), "Costs and Returns from
10 Delivery to Sparsely Settled Rural Areas," in *Managing Change in the*
11 *Postal and Delivery Industries* (1997); an article (with John Schmidt),
12 "Transaction Costs of Alternative Postage Payment and Evidencing
13 Systems," in *Emerging Competition in Postal and Delivery Services* (1999);
14 and an article (with John Schmidt), "Controlling Postal Retail
15 Transaction Costs and Improving Customer Access to Postal Products,"
16 in *Current Directions in Postal Reform* (2000).

17 I have testified as a witness before the Postal Rate Commission in
18 Docket Nos. R97-1, MC96-3, MC95-1, R94-1, SS91-1, R90-1, R87-1,
19 SS86-1, R84-1, R80-1, MC78-2 and R77-1. I also have submitted
20 comments in Docket No. RM91-1.

I. Purpose and Conclusions

The purpose of my testimony is to propose the establishment of a new worksharing discount for single-piece First-Class metered mail, both letters and private post cards, in the amount of 1.0 cent per piece.

Throughout this testimony the term metered mail should be understood to include mail that is metered both through stand-alone dedicated postage evidencing devices and PC Postage meter devices, and the term First-Class "letters" should be understood to include flats and IPPs.

The proposal to adopt a discount of 1.0 cent per piece for single-piece First-Class metered mail, both letters and private post cards, represents a highly conservative passthrough, approximately 44 percent, of the avoided attributable transaction cost. The difference in transaction cost between stamped and metered single piece First-Class Mail would support a higher passthrough and a correspondingly larger discount. Implementing a larger discount at this time, however, could force the rate for the first ounce of First-Class stamped mail to increase from 34 to 35 cents.

As indicated above, the proposal is limited to First-Class single piece letters and post cards. Three other subclasses of single-piece retail mail can be stamped or metered: (i) Priority Mail, (ii) Express Mail, and (iii) parcel post. No discount is proposed in this Docket for these other

- 1 subclasses because most Priority Mail, most Express Mail, and parcel
- 2 post all are required to be entered at a window.¹

¹ Only stamped Priority Mail weighing less than one pound can be entered into a collection box.

II. Introduction

Prior to 1839, postage for letters and packets was universally paid by recipients. This “COD” arrangement provided a strong incentive to deliver the item, but it also created substantial transaction costs.

In 1839, as a result of efforts by Sir Rowland Hill, the Royal Mail introduced the first prepaid postage stamp. When printed, prepaid postage stamps were first introduced, they represented a “technological” innovation that greatly reduced transaction costs. This innovation facilitated communications, growth of industry and, coincidentally, growth of postal systems. The advantages of using this new technology to prepay postage were so great that all the world’s post offices rapidly adopted stamps as the standard method of paying for postage. Since their introduction, stamps have played a colorful and important role in the history of every national post office.

As a result of further technological developments since they were first introduced, *stamps are now the most expensive method* that a postal administration has for collecting revenues and enabling customers to evidence payment of postage. As developed in Appendix A and discussed in more detail below, the Postal Service’s attributable cost of printing and

1 distributing stamps to the public amounts to about 6.7 percent of the
2 revenues collected.²

3 In 1920, 71 years after introduction of the prepaid stamp, Arthur
4 Pitney invented the postage meter as an alternate way for mailers to
5 prepay postage and indicate payment thereof on envelopes. Since their
6 inception, postage meters have conferred substantial benefits upon
7 postal administrations, including secure payment, enhanced customer
8 convenience and satisfaction, a low cost method of collecting revenue
9 and a substantial reduction in the number of stamps that must be
10 printed and distributed annually. Postage meters continue to be
11 increasingly affordable for the average household and small business as
12 various low cost solutions are introduced into the market place.
13 Examples include low cost dedicated devices (such as the Pitney Bowes
14 Personal Post) and PC Postage devices.

15 Although widespread adoption of postage meters has conferred
16 extensive benefits on the Postal Service, meter users nevertheless have
17 borne the full cost of leasing postage meters. Since worksharing occurs
18 when mailers incur expense and perform activities that directly reduce
19 Postal Service costs, postage meters probably represent the earliest form

² This percentage reflects attributable costs only, and excludes many of the fixed costs of operating retail counters; see Section III and Appendix A, *infra*, for further details.

1 of organized worksharing, long before such efforts received formal
2 recognition in the rate structure. For reasons explained in this
3 testimony, it is proposed that some of these benefits now be given formal
4 recognition by adopting a new worksharing discount for single piece
5 metered mail.

1 **III. Stamps Are a High Cost Mode of Collecting Revenues**
2 **Compared to Meters**

3
4 The stamp program begins with commissioning of new designs
5 (including the selection committee and artist fees), then printing,
6 transportation, distribution, etc., and ends with the return and
7 destruction of unused stamps. Stamps cause the Postal Service to incur
8 both attributable and non-attributable costs. The Postal Service's full
9 cost of stamps has rarely, if ever, been compiled, with the exception of
10 one earlier study.³ Attributable costs are limited to (i) clerks' window
11 service time, including indirect costs, (ii) stamps and accountable paper
12 (iii) fees for managing the stamp consignment program, (iv) fees for credit
13 card purchases, and (v) a number of small, miscellaneous items. All
14 other costs associated with stamps, which consist of many miscellaneous
15 items, are classified as institutional. Details on the total cost of the
16 stamp program are presented in Appendix A.

17 The attributable cost associated with meters is limited to clerks'
18 window service time (*i.e.*, meters require no USPS supplies). All other

³ John Haldi and John Schmidt, "Transaction Costs of Alternative Postage Payment and Evidencing Systems," in *Emerging Competition in Postal and Delivery Systems*, edited by M. A. Crew and P. R. Kleindorfer. Boston: Kluwer Academic Publishing Co., 1999.

1 costs associated with meters are classified as institutional. Details on
2 the cost of meters is shown in Appendix B.

3 Summary data on both revenues (Appendix C) and costs from
4 stamps and meters during the Base Year, FY 1998, are shown in Table 1.
5 The attributable cost of stamps and accountable paper (\$754 million)
6 was *substantially* greater than the attributable cost of meters (\$6.3
7 million) as shown in Table 1.

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Table 1

Postal Service Revenues
and Cost of Revenues, by Source
Fiscal Year 1998
(\$, millions)

	(1)	(2)	(3)	(4)
	Revenues	Attribu- table Cost	Institu- tional Cost	Full Cost
Stamps & account- able paper	11,181	754.168	791.212	1,545.380
Meters	21,076	6.286	8.989	15.275

Sources: Stamp costs, Appendix A.
Meter costs, Appendix B.
Revenues, Appendix C; revenues shown here exclude metered postage
generated at Postal Service windows.

Postal Service costs to collect revenues, *as a percent of revenues*
collected, are shown in Table 2. As indicated by the bottom row of this

1 table, as a percentage of revenues, the attributable transaction cost
2 from using stamps exceeds the cost of meters by more than 6.7 percent.
3 The full cost of stamps exceeds the cost of meters by more than 13.7
4 percent.⁴ From another perspective, to collect each \$1 billion in revenue
5 from stamps, the Postal Service incurs costs which are more than 180
6 times greater than the costs incurred to collect the same revenue from
7 meters. Moreover, the Postal Service's net cost associated with meters is
8 declining to the point where relatively insignificant accounting costs will
9 be incurred in the future. Witness Davis notes that "Currently, over 90
10 percent of postage meters in use are remote-set electronic
11 meters...[which]...involve an electronic transaction between the licensed
12 customer and the meter manufacturer. The Postal Service has no
13 operational role in such transactions, *and therefore incurs no cost for*
14 *such settings.*"⁵

⁴ Postal administrations, including the USPS, recognize that selling stamps through postal counters consumes a far too high percentage of revenue collected, and can be inconvenient as well. Accordingly they have implemented other low cost and more convenient methods for customers to purchase stamps; e.g., stamps can be ordered by mail or telephone, or purchased at grocery stores through a consignment program. Regardless of how inexpensively stamps may be distributed through other channels, however, they still represent a high cost form of postage payment.

⁵ USPS-T-30, pages 15-16 (emphasis added).

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Table 2		
Costs of Stamps and Meters as Percent of Revenues FY 1998		
	(1)	(2)
	Attributable Cost	Full Cost
Stamps & accountable paper	6.745%	13.821%
Meters	0.030%	0.072%
	-----	-----
DIFFERENCE	6.715%	13.749%

In terms of the 34-cent rate proposed for the first ounce of First-Class Mail in this Docket, transaction costs of 6.7 percent amount to 2.3 cents.⁶

⁶ For simplicity, the discussion here focuses on the rate for the first ounce of letter mail. In FY 1998, the average revenue from each piece of First-Class single piece nonpresort letter mail was 40.2 cents, and the projected average revenue in Test Year (after rates) is 43.5 cents. Applying a 6.7 percent transaction cost to average revenue figures instead of the first ounce rate would increase the average transaction cost attributable to an average single piece of stamped First-Class Mail from 2.3 to 2.9 cents, and reduce the passthrough to 35 percent.

IV. Rationale for Proposed Discount

Businesses always find high transaction costs troublesome. They are particularly problematic where the demand for the underlying product or service, in this case single piece First-Class Mail, is flat or declining. Transaction costs are like resistance in an electrical system, or friction in a mechanical system. Such systems work more efficiently when resistance and friction are reduced. Economic systems likewise work more efficiently when transaction costs are reduced.

The very high transaction cost from using stamps to collect revenue and evidence postage is an avoidable, recurring expense. As the following subsections explain, technology has evolved, causing the postage evidencing paradigm to change. The evolution in technology provides the fundamental reason why the rate structure should recognize, encourage and reward the use of more cost-effective technology by those who originate single-piece First-Class Mail.⁷

In order to survive and remain competitive in its core business market, the Postal Service needs to reduce its high-cost inefficient methods wherever possible, and as quickly as possible. The Commission

⁷ The entire approach to retail distribution of postal services needs to be revamped in ways that take full advantage of the technology that is both available now and is rapidly evolving. For further discussion on this subject, see Haldi and Schmidt, "Controlling Postal Retail Transaction Costs and Improving Access to Postal Products" in *Current Directions in Postal Reform*, edited by M. A. Crew and P. R. Kleindorfer, Kluwer Academic Publishing; Boston, (2000).

1 should assist the Postal Service to lessen substantially its dependence
2 on stamps for postage payment by retail customers, and instead
3 encourage retail customers to use low cost, automated forms of postage
4 evidencing.⁸

5
6 **A. The Evolution of Metering Technology Has Dramatically**
7 **Reduced Costs for Meter Users, Including Small Businesses**
8 **and Households**
9

10 This section provides pertinent information concerning modern
11 metering technology that supports the rationale for the proposed
12 discount for single-piece metered First-Class Mail.

13 Postage meters, which have been a preferred method of postage
14 payment by businesses for many years, are used to meter both large
15 mailings that receive worksharing discounts for barcoding and
16 presortation and for single piece mail that pays the full rate.⁹ The
17 efficiency and cost-effectiveness of metering are long-established.
18 Indeed, the First-Class rate structure already has discounts that reflect
19 the low costs associated with accepting and processing mailings above a

⁸ The Postal Service has not undertaken any studies or other initiatives to reduce its costs of collecting revenue through the sale of stamps; see response to PB/USPS-T11-11(c), Tr. 6/2619.

⁹ Full-rate First-Class metered mail includes both single pieces that may be deposited individually in collection boxes and bulk metered mail (BMM) that is tendered to the Postal Service already faced and in trays.

1 minimum size that are barcoded and/or presorted. No additional
2 discount is proposed here for such mail.

3 In the case of single piece nonpresorted First-Class Mail, stamped
4 mail with high transaction costs and metered mail with low transaction
5 costs are averaged in the single piece rate, currently 33 cents for the first
6 ounce plus 22 cents for each additional ounce. Because of this rate
7 averaging, each single piece mailer who incurs the cost of obtaining and
8 using a metering device helps reduce the Postal Service's cost without
9 receiving any recognition or benefit.

10 Historically, businesses that used meters for single piece mail
11 tended to be those firms which generated a sufficiently large volume of
12 correspondence to justify the cost of renting a postage meter.¹⁰ Meters
13 with differing capabilities have different rates, but the lowest rate to rent
14 a meter was long a significant deterrent to most smaller and many
15 medium-size firms. With recent advancements in meter technology, low
16 volume/low cost meters are being introduced to the market at
17 substantially reduced rates to customers. Additionally, recent advances
18 in computer, printing and communications technology have provided the

¹⁰ Postal Service regulations do not permit firms to own postage meters, hence all meters are rented.

1 capability for PC Postage, which is available for as little as \$1.50 per
2 month, thus providing an affordable option for millions of households.

3 **B. Metering Technology is Now Readily Available**
4 **to the Average Household**
5

6 The development of PC Postage has extended customer options
7 beyond traditional stand alone dedicated postage meters and has
8 enabled postage evidencing through a personal computer.

9 In 1998, *Forbes* magazine estimated that 50 million households, or
10 approximately one out of every two households, had at least one PC.¹¹
11 *Information Week* magazine estimates that 77.6 percent, or 38.8 million
12 of those households, have a computer with an internet connection.¹² By
13 2003, it is estimated that some 59.8 million homes will have a computer
14 with an internet connection.¹³ The proposed discount thus is not
15 restricted to business firms. It has the potential to provide a direct
16 benefit to tens of millions of individual mailers who otherwise receive no
17 worksharing discounts from the Postal Service. Recommending the
18 proposed discount will send the right signal to the mailing public, and
19 will encourage large numbers of people to adopt and use this technology,

11 *Forbes*, May 31, 1999, page 71.

12 *Information Week*, October 18, 1999, page 97.

13 *Id.*

1 which is a far more cost-efficient way to collect revenue than through
2 the sale of stamps.

3 Finally, since widespread adoption of meter technology can provide
4 a dramatic increase in customer convenience while restraining costs, it
5 will help promote usage of the mail. Robert Reisner, USPS Vice-
6 President for Strategic Planning, recognized this in a recent article:¹⁴

7 In a networked world, entrepreneurs have been exploring the
8 opportunity to offer digital postage online for a number of
9 years....The potential for these ventures is enormous. When
10 customers do not have to go to the Post Office to fill their
11 postage meters, *they may even use more postage simply*
12 *because the new technology has made it easier for them to do*
13 *so. New customers may be drawn in.* (Emphasis added.)

¹⁴ "Strategy and the Posts: the Case of the USPS," in *Current Directions in Postal Reform*, ed. by M. A. Crew and P. R. Kleindorfer. Boston: Kluwer Academic Publishers, 2000.

1 **C. The Proposed Discount Would**
2 **Enjoy Simplicity of Execution**

3
4 This is not the first proposal to recognize cost differences within
5 single piece First-Class Mail. Qualified Business Reply Mail ("QBRM")
6 receives a lower rate in recognition of its lower mail processing and
7 delivery cost, but pays an additional fee that explicitly recognizes the
8 high transaction cost involved in counting pieces and collecting revenue.

9 For QBRM the Postal Service charges 30 cents postage plus a fee of 3.0 cents
10 per piece to cover the transaction costs. The QBRM accounting fee slightly
11 exceeds 2.3 cents, the average cost of collecting revenue via stamps for the first
12 ounce of single piece First-Class Mail. For retail mail, total system cost should
13 be considered to include transaction costs as well as mail processing and
14 delivery costs.

15 A reduced rate for Courtesy Reply Mail ("CRM") has been
16 recommended by the Commission in two prior dockets, and in each
17 instance the Governors have declined to adopt the recommendation.
18 Among reasons which the Governors cited for their action is that the
19 mailing public (i) would need to maintain an inventory of two
20 denominations of stamps, and (ii) would need to be vigilant about the
21 amount which they put on CRM and non-CRM mail, else the Postal
22 Service could have a serious problem protecting its revenues.

1 The problems which the Governors have cited with respect to
2 CRM do not arise under the discount proposed here. The mailing public
3 would not need to maintain any inventory of stamps of any
4 denomination. In fact, an important purpose of the discount is to induce
5 people to quit using stamps altogether, in favor of more cost-effective
6 metering technology.

7 Further, those mailers who opt to continue using stamps would
8 pay only one rate for the first ounce of single piece mail, just as they do
9 now. Meter users likewise would pay only one rate (1 cent less) for the
10 first ounce.¹⁵ Simplicity of the existing system would thus be preserved,
11 while providing a way to reward and promote more efficient methods
12 within single piece First-Class Mail.

¹⁵ Mailers who pay postage on their CRM by use of a meter strip would receive a discount under the proposal advanced here. Most CRM is stamped mail which, when stamps are used as the means of collecting revenue and evidencing postage, causes the Postal Service to incur high transaction costs.

1 **D. Single Piece First-Class Mail Is**
2 **Still the Postal Service's Core Product**

3
4 Single piece First-Class Mail is without question the Postal
5 Service's most important single product. This is noted in the testimony
6 of USPS witness Fronk, who states that¹⁶

7 Of the \$33.9 billion in first-Class Mail revenue in FY 1998,
8 approximately \$21.8 billion came from nonpresorted letters,
9 flats and parcels, emphasizing the continuing importance of
10 single-piece mail in the First-Class Mail stream. Cards
11 generated \$1.0 billion, or 3.0 percent, of First-Class Mail
12 revenue...

13 * * *

14 The basic one-ounce rate is the most visible and
15 important rate in the eyes of the general public. In 1998, the
16 basic rate (first-ounce only) accounted for about 30 percent
17 of domestic mail revenue, far more than any other rate
18 category in any other class of mail.

19
20 The proposed discount will help the Postal Service to promote and .
21 retain its core product, single piece First-Class Mail. Not only is this
22 mail highly profitable, it also is increasingly subject to electronic
23 diversion.

¹⁶ USPS-T-33, pages 8 and 21, respectively.

1 **V. Revenue Effect of Proposed Discount**

2
3 The proposed discount represents a de-averaging of transaction
4 costs. The revenue effects are similar to those which have occurred
5 when other worksharing discounts were implemented and rates de-
6 averaged. One effect is to reduce revenues, while the other, offsetting
7 effects are to reduce costs or increase revenues. The results of these
8 offsetting effects are summarized here; see Appendix D for a full analysis.

9
10 **A. Decrease in Revenues**

11 Mailers who now meter their single piece First-Class Mail are
12 already engaged in worksharing, hence these mailers will receive a
13 discount for savings that they are already generating for the Postal
14 Service. For existing metered mail, the revenue reduction from
15 implementation of the proposed discount will amount to approximately
16 \$245 million.

17 In addition, the Postal Service will also lose 1 cent for each piece
18 that converts from stamps to metered postage. Testimony by witness
19 Heisler, PB-T-3, estimates that about 1.119 million small businesses,
20 originating 3.518 billion pieces of mail annually, and 5.3 million
21 households, originating 1.436 billion pieces of mail annually, will switch
22 from use of stamps to metering if a 1-cent discount is adopted.

1 Conversion of these 4.954 billion pieces will result in a further revenue
2 reduction of \$49.5 million. The gross revenue reduction thus amounts to
3 \$294.5 million.

4
5 **B. Offsets: Avoided Costs and Increased Volume**

6 The gross reduction in revenue is offset by two separate effects:

- 7 (1) cost savings from adoption and utilization of metering technology, and
8 (2) increased volume from the reduced rate.

9 As indicated above, it is estimated that some 4.954 billion pieces of
10 stamped mail will convert. At a savings in attributable costs of 2.3 cents
11 per piece, this conversion is conservatively estimated to save the Postal
12 Service \$114 million in attributable transaction costs each year.¹⁷

¹⁷ The estimated savings are for attributable cost only, and are based on the estimated savings on the rate for the first ounce of First-Class letters. As indicated in footnote 7 *supra*, the projected average revenue for letters in the Test Year is about 43.5 cents, and on that basis the projected savings per letter is somewhat greater, about 2.9 cents per piece. Continued substantial conversion to metering technology could, over the long-run, help the Postal Service save some incremental costs as well as attributable costs, but any such additional savings are excluded from this analysis.

1 Witness Tolley estimates that the proposed rate increase will
2 reduce the volume of single piece First-Class letters and cards by 386
3 million pieces. The proposed discount will negate the rate effect for 181
4 million letters and 16.6 million cards, thereby avoiding this loss of
5 volume of 197.6 million pieces, which contributes an estimated \$24.1
6 million annually to the Postal Service's institutional cost. The analysis
7 here is limited to the rate effect as analyzed by witness Tolley, and in that
8 respect it takes a conservative approach. As discussed previously, the
9 increased convenience associated with metering technology could draw
10 in new customers, or lead existing customers to increase their usage of
11 Postal Service products (section IV-B, *supra*).

12

13 **C. Net Revenue Effect**

14 The net effect from implementation of the proposed 1-cent discount
15 for metered single piece First-Class letters and cards amounts to a net
16 reduction in revenue during Test Year of \$156.5 million, computed as
17 follows (millions):

1	Gross revenue reduction	(\$ 294.5)
2	Less offsets:	
3	Transaction costs avoided	113.9
4	Contribution from volume retention	<u>24.1</u>
5	Net reduction in revenue	\$ <u>156.5</u>
6		

1 **Appendix A**

2 **COST OF STAMPS**

3 The Postal Service's total cost of obtaining revenues from stamps
4 includes the cost of creating and manufacturing stamps, distributing
5 stamps to some 35,411 outlets,¹⁸ selling stamps, and recalling and
6 destroying excess stamp inventory.

7 For decades the Postal Service sold stamps through only three
8 channels: (i) post office windows; (ii) contract stations; and (iii) rural
9 carriers. In recent years, however, the Postal Service has creatively
10 introduced new channels for distributing stamps. These include: stamps
11 by phone, stamps by mail, and a stamp consignment program that
12 utilizes other retail channels such as grocery stores and bank ATMs.

13 **Costs Attributed to Stamps**

14 During FY 1998, the attributable costs of (i) stamps, and
15 (ii) stamped envelopes and cards amounted to some \$754.2 million. ¹⁹ Of
16 these costs, 96.3 percent, or \$726.6 million were attributable to stamps
17 alone. The cost to manufacture stamps was \$183 million,²⁰ while the

¹⁸ Response to PB/USPS-T-11-14, Tr. 21/9256.

¹⁹ Details on volume variable costs are contained in the testimony and workpapers of USPS witness Meehan (USPS-T-11).

²⁰ For additional information pertaining to the cost of stamps, see responses to OCA/USPS-47-50, Tr. 21/9068-9081, and 60-62, Tr. 21.9102-9105; also OCA/USPS-T9-16-17, Tr. 2/359-360.

1 cost of selling stamps (i.e., window service labor costs) amounted to
2 \$358 million of window clerk time, and \$519 million including indirect
3 piggyback costs. Details are shown in Table A-1.

4

5 **Institutional Cost of Stamps**

6 In addition to those stamp-related attributable costs shown in
7 Table A-1 that are distributed to the various classes and subclasses of
8 mail, a number of institutional costs (i) clearly can be associated with
9 stamps, but (ii) are not considered to vary with the volume of mail, hence
10 are not distributed to the classes and subclasses of mail. These
11 institutional expenses represent incremental costs that are not
12 considered to vary with volume, but which might be reduced if reliance
13 on stamps were substantially scaled back.

Table A-1

Attributable Cost of Stamps
Fiscal Year 1998 (\$, millions)

		(1)	(2)	(3)	(4)
	Cost Segment		Stamped	Stamped	Total
No.	Description	Stamps	Envelopes	Cards	Attributable
3.	Clerks/window service	357.738	3.041	7.098	367.877
16.	Supplies/stamps & accountable paper	183.398	9.123	3.208	195.729
16.	Mgt of stamp consignment prog.	4.646			4.646
16, 18	Artists	0.306			0.306
18 & 20	Stamp Advisory Committee	0.065			0.065
16.	Credit card fees	<u>19.449</u>	<u>.165</u>	<u>.386</u>	<u>20.000</u>
	SUBTOTAL	565.602	12.329	10.692	588.623
	Indirect costs, at 0.45 x clerks/window service costs	<u>160.982</u>	<u>1.368</u>	<u>3.194</u>	<u>165.545</u>
	Total attributable costs	726.584	13.697	13.886	754.168

Sources: Window service costs (stamps), response to PB/USPS-T11-26, Tr. 6/263; envelopes and cards, respectively, Meehan W.S. 3.2.6, column 4, W.S. 3.2.2, column 8.

Cost of stamps, envelopes and cards, response to PB/USPS-T11-7, 28 and 29, Tr. 6/2617, 2634-2635.

Stamp consignment costs, response to PB/USPS-T11-8, Tr. 6/2618.

Artists and stamp advisory committee, response to PB/USPS-T11-5 & 23, Tr. 6/2615, 2629-2650, using volume variability of 59.8 percent applied to pertinent account numbers.

Credit card fees, response to PB/USPS-T11-3 (referred to USPS, revised 3/13/00), Tr. 21/9250-9257, estimated at \$20 million for stamps and accountable paper.

Piggyback factor for indirect costs, response to PB/USPS-T11-12, Tr. 6/2621.

1 It has not been possible to quantify every institutional cost
2 associated with creating and selling stamps. In Fiscal Year 1998, those
3 costs that could be quantified amounted to \$791.2 million, as shown in
4 Table A-2.

5 In addition to the dollar costs shown in Table A-2, the Postal
6 Service incurs a number of other incremental costs associated with the
7 use of stamps, but which could not be quantified here with any degree of
8 precision. Those items marked "n.a." (not available) in Table A-2 are
9 elaborated on here.

10 **Costs for stamps by mail.** The Postal Service has a stamps by
11 mail program, which it manages internally. Costs of the stamps by mail
12 program include (i) printing order forms, (ii) distributing such order
13 forms to postal customers (these are widely distributed, and bear a first
14 class permit), and (iii) the business reply mail fees for all customers that
15 use the BRM envelope. Orders for stamps by mail are filled by clerks
16 and/or supervisors in local post offices. To the extent that orders may be
17 filled by clerks other than window service clerks, the cost of their time
18 represents a net additional cost of selling stamps. Some costs of the
19 stamps by mail program are segregated in the Postal Service records, and
20 are reported in row 5 of Table A-2. As indicated in rows 6 and 7,
21 however, the Postal Service did not explicitly record any cost (either the

1 rate charged First-Class or Standard A mail) for distributing some 64
2 million order forms via direct mail during 1998.²¹

3 **Costs for stamps by phone.** The Postal Service also has a
4 stamps by phone program. Customers who order stamps by phone are
5 charged a handling fee in addition to the face value of the stamps. The
6 net cost of this program is not known.

7 **Transportation cost.** Stamps (and accountable paper) are
8 transported via truck to 35,411 postal outlets. The cost for such
9 transportation is not charged to "stamps," and it is not known whether
10 TRACS distinguishes items such as stamps from other Registered or
11 First-Class Mail. In any event, providing secure transportation
12 throughout the country for billions of stamps is not an inexpensive
13 proposition.

14 **Registry costs.** Uncancelled stamps are easily negotiable. When
15 post offices need to be resupplied, the Postal Service sends them via
16 registered mail, which provides the highest available form of security. As
17 a result, a substantial portion of registered mail usage is by the Postal
18 Service itself, and much of that usage is for internal transmission of

²¹ See response to OCA/USPS-58 and 60 for additional information on saturation mailings by the Postal Service to the general public, Tr. 21/9099, 9102.

1 stamp stock. Charging the stamp program with the same registry fees
2 as the Postal Service charges others would result in a significant sum
3 annually, but data were not available for the computation. The total FY
4 1998 volume variable cost for registry was \$99,336,000.

5

6 **Cost of Obtaining Revenues From Stamps**

7 In FY 1998 the total attributable cost for stamps and accountable
8 paper (stamped envelopes and cards) amounted to \$754 million, while
9 revenues from stamps and accountable paper amounted to \$11,181
10 million. Thus, to collect \$1,000,000 in revenue from stamps, stamped
11 envelopes and cards the Postal Service incurred attributable costs of
12 \$67,400 or 6.74 percent.

13 On a full cost basis, the recurring institutional costs added
14 another \$791 million to the cost of stamps. Conservatively, the full costs
15 of stamp and accountable paper exceeded \$1,545 million. Thus, to
16 collect \$1,000,000 in revenue from stamps, stamped envelopes and cards
17 the Postal Service incurred full costs of about \$138,100 or 13.81 percent.

Table A-2

Postal Service Institutional Costs
Associated with Stamps
FY1998

Row	Cost Segment	Item	Amount
1a	3	Non-variable window service cost	\$ 417,930,000
1b		Piggyback	188,068,500
2	2, 3, 15, 20	USPS stamp vending machines	82,859,143
3	10	Rural carrier stamp sales	24,853,491
4	13	Stamp sales at contract stations	24,943,100
5a		Cost of stamps by mail	36,000,000
5b		Management of Consignment Program	3,123,414
6		Cost to distribute 64 million order forms	n/a
7		Mailing fees to distribute stamps (registry & penalty)	n/a
STAMP CREATION			
8	16, 18	Artist costs	217,829
9	15, 16, 18, 20	Stamp Advisory Committee	203,893
INTERNAL DISTRIBUTION			
10	18	Stamp Distribution Network personnel	13,012,831
11	14	Surface transportation cost to distribute stamps	n/a
12	3	Registry labor cost	n/a
TOTAL			\$ 791,212,200

Sources for Table A-2

Row	
1a.	Non-volume variable labor cost, response to PB/USPS-T11-26, Tr. 6/2631.
1b.	Piggyback factor, response to PB/USPS-T11-12 (b), Tr. 6/2621.
2.	Stamp vending machine costs.

1	Service (Seg. 3, PB/USPS-T11-12(a), revised 3/21/00),	
2	Tr. 6/2620-2621.	\$54,245,804
3	Mileage PB/USPS-T11-12(b), Tr. 6/2621.	999,973
4	Space cost (Seg. 15, PB/USPS-T11-12(b)), Tr. 6/2621	30,727,971
5	Depreciation (Seg. 20, PB/USPS-T11-9(b)(referred to	
6	USPS), Tr. 21/2621.	6,091,966
7	Total cost	\$92,065,714
8	Share assigned to stamps	90%
9	Cost assigned to stamps	\$82,859,143
10		
11	N.B. Some non-stamp products are sold through vending machines, and the amount of	
12	such items is estimated at 10 percent.	
13		
14	3. Costs associated with stamp sales by rural carriers are estimated as follows:	
15		
16	Time allowance for sale of stamps:	
17	Per week/route (Postal Bulletin No. 21952, dtd 8/14/97)	20 minutes
18	Per year/route	17.33 hours
19	Rural routes, Financial & Operating Statements, A/P 7, PFY 1998	60,731 routes
20	Rural carrier hours for stamp sales	1,052,671 hours
21	Total rural carrier hours (Nat'l Payroll Hours	
22	Summary Report, 9/11/98)	155,790,953 hours
23	Percent of total hours for stamp sales	0.675694 percent
24	Total rural carrier labor cost, USPS-T-11, Exh. W.S. 10.0.1	\$3,678,215,000
25	Rural carrier stamp sales cost	\$24,853,491
26		
27	4. Costs associated with stamp sales at contract stations are estimated as follows:	
28		
29	Total window service costs, USPS-T-11, Exh USPS-11A, p. 20	\$2,040,353,000
30	Cost of window service stamp sales,	
31	response to PB/USPS-T11-26, Tr. 6/2631.	\$755,668,000
32	Percent of window service cost attrib. to stamp sales	37.04%
33	Total contract station costs, response to PB/USPS-T11-6	
34	(Referred to USPS), Tr. 6/2616.	\$67,348,000
35	Cost of stamp sales at contract stations, at 37.04%	\$24,943,100
36		
37	5a. Stamps by mail, response to PB/USPS-T11-10 and 12, Tr. 21/9254,	
38	Tr. 6/2620-2621.	
39	5b. Response to PB/USPS-T11-8 (revised 3/21/00), Tr. 6/2618.	
40		
41	6. Order form distribution, Response to PB/USPS-T11-10, (Referred to USPS),	
42	Tr. 21/9254	
43	7. Mailing fees to distribute stamps (registry & penalty) are	
44	contained in Revenue Segment 1, Account 41118.	

Sources for Table A-2 (con't)

1		
2	<u>Row</u>	
3		
4	8.	Artist costs, response to PB/USPS-T11-5 (revised 3/21/00) and 23, Tr. 6/2615, 2629-
5		2630.
6		
7	9.	Costs for the Stamp Advisory Committee, response to PB/USPS-T11-5 (revised 3/21/00)
8		and 23, Tr. 6/2613, 2629-2630.
9		
10	10.	Costs for stamp distribution network personnel, PB/USPS-T11-5 (revised 3/21/00) and 23,
11		Tr. 6/2613.
12		
13	11.	Surface transportation is used to distribute stamps; response to PB/USPS-T11-22, Tr.
14		6/2628.
15		
16	12.	Stamps are distributed to (and returned from) 35,411 outlets via registered mail; response
17		to PB/USPS-T11-21, Tr. 6/2627.

1 **Outlook for the Cost of Stamps**

2 The costs for stamps in prior years have not been developed for
3 this analysis. In absolute amount, however, total window service costs
4 have exhibited continued growth, more or less in line with other Postal
5 Service costs; see Table A-3. If costs attributable to stamps have
6 represented a constant percentage of window service costs, then stamp
7 costs have grown in tandem with window service costs. Extrapolating
8 past experience to the future, it would appear reasonable to project that
9 the cost of manufacturing and selling stamps will continue to grow, at
10 least in absolute amount.

11
12
13 Table A-3

14
15 Cost Segment 3, Window Service Costs
16 (Selected Years, 000)

17		(1)	(2)	(3)
18				
19				
20	Fiscal			Percent
21	<u>Year</u>	<u>Total</u>	<u>Attributable</u>	<u>Attributable</u>
22				
23	1980	\$ 626,049	\$ 296,675	47.4%
24	1986	1,150,209	554,667	48.2
25	1990	1,462,003	829,372	56.7
26	1995	2,041,047	1,173,979	57.5
27	1998	2,040,353	958,225.*	47.0
28	2001	2,308,118	1,089,001.**	47.2

29
30
31 * Volume variable (actual)

32 ** Volume variable (projected)

1 **Cost of Sales by Marketing Channel**

2

3 The cost of selling stamps and stamped paper sold via the various
4 channels used to market stamps is shown in Table A-4. In this table, the
5 attributable and institutional costs shown in Tables A-1 and A-2,
6 respectively, have been distributed to the appropriate marketing channel.

7 Costs of creating and manufacturing stamps, as well as the stamp
8 distribution network, are distributed according to revenues of each
9 marketing channel.

10 The total cost of each channel, as a percent of sales revenue
11 collected from each channel, is shown in column 5. Mere perusal of
12 column 5 reveals that the lowest cost method of distribution by far is the
13 stamp consignment program. Revenues collected via this channel cost a
14 little more than 3 percent (including cost of the stamps, which on
15 average account for about 1.7 percent of the value of stamps sold),
16 versus 14 to 15 percent via most other methods of distribution, including
17 windows.²²

²² See response to OCA/USPS-76(b) & (c), where the Postal Service estimates a transaction cost (excluding the cost of printing stamps) for Stamps-by-Mail and StampsOnline of 11.4 and 9.8 percent, respectively. Tr. 21/9121

1 In a recently launched experimental program with Mail Boxes;
2 Etc., the Postal Service has entered into a contract whereby it will pay a
3 commission of 5 percent for all stamp sales.²³ Although the cost of this
4 channel promises to be lower than most methods used to sell stamps, it
5 is still far above the cost of collecting revenues via metering technology.

²³ LR-I-231, Attachment 4.

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Table A-4

Revenues and Costs of Stamps and Stamped Paper
By Sales Channel
FY 1998
(\$, 000)

	(1)	(2)	(3)	(4)	(5)
	Stamps & Stamped Paper Sales	Attribu- table Cost	Institu- tional Cost	Total Cost	Total Cost as % of Sales
Source of Sales:					
Counters (includes rural carriers)	8,857,771	705,519	641,495	1,347,014	15.2%
Contract stations	586,210	10,281	25,647	35,929	6.1
Vending machines	630,876	11,064	83,617	94,682	15.0
By mail	325,312	8,958	36,391	45,349	13.9
Consignment:					
Local	172,971	3,034	208	3,241	1.9
Amplex contract	<u>608,129</u>	<u>15,312</u>	<u>3,854</u>	<u>19,166</u>	3.2
TOTAL	11,181,269	754,168	791,212	1,545,380	13.8%

Source: W/S A.4.1

1 **Appendix B**

2 **Cost of Revenues from Metered Mail**

3 **Costs Attributed to Meters**

4 In FY 1998, window service costs attributed to meters, including
5 indirect costs, amounted to \$7.7 million, as shown in Table B-1. These
6 window service costs were primarily for time spent resetting mechanical
7 meters, but they also included time spent inspecting meters. As manual
8 re-set meters and electronic meters are phased out entirely in favor of
9 remote re-set (CMRS) meters, these window service costs can be expected
10 to diminish and, perhaps, to disappear altogether.²⁴

11 In FY 1998 the Postal Service also had \$7.5 million of attributable
12 (volume variable) costs for on-site meter resetting and examinations.
13 Directly offsetting these attributable costs, in FY 1998 the Postal Service
14 collected \$8.8 million in fees from meter users for on-site resetting and
15 examination of mechanical meters. Thus the Postal Service incurred a
16 net attributable cost of about \$6.3 million, as shown in Table B-1.

²⁴ See USPS-T-30, pp. 15-17.

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Table B-1

Costs Attributed to Meters
Fiscal Year 1998
(millions)

---- Cost Segment ----		
No.	Description	Meters
---	-----	----
3.	Clerks/window service	\$ 5.287
	Indirect costs, at 0.45 x clerk/ window service costs	<u>2.379</u>
	Subtotal	7.666
2 & 3	On-site meter resetting and examination cost	<u>7.455</u>
	GROSS ATTRIBUTABLE COSTS	15.121
2 & 3	Less: fees paid by meter users (includes \$853,918 for check in/check out service)	<u>- 8.835</u>
	NET ATTRIBUTABLE COSTS	\$ 6.286

Source: W-S B.1.1

1 **Institutional Costs of Meters**

2 The Postal Service incurs additional identifiable non-attributable
3 expenses (dealing with different aspects of meters) totaling approximately
4 \$9.0 million. These costs include the meter approval process, licensing
5 and tracking, and other miscellaneous meter-related programs, including
6 the information based indicia program ("IBIP"). Details of these
7 institutional costs for FY 1998 are shown in Table B-2.²⁵

²⁵ Costs of the Information Based Indicia Program ("IBIP") are institutional; see response to DFC/USPS-16(a)-(c) (referred to USPS), Tr. 21/8822-8824. Costs of some engineering personnel who assist in meter evaluation and approval process are not tracked separately; response to PB/USPS-T11-30, Tr. 6/2636-2637.

Table B-2

USPS Institutional Costs Associated with Meters
FY 1998

Cost Segment	Item	Amount
	Meter approval process:	
	RSE personnel costs	\$ 1,000,000
	Other costs:	
	Carnegie Mellon contract;	
	Planning Research Corp. contract;	
	CMLS (Memphis/Minneapolis centers);	
	MATS and IBIP	7,200,000
	Booz Allen contract	<u>789,000</u>
	Total Institutional Cost	\$ 8,989,000

Sources: Costs, response to PB/USPS-T11-30; USPS-T-30, page 18.

Cost of Obtaining Revenues From Meters

In FY 1998, revenues from mailer-operated meters amounted to approximately \$21.1 billion, while net costs attributed to mailer-operated meters were only \$6.3 million. To collect \$1,000,000 in revenues from meters, the Postal Service incurred attributable costs of only \$300, or about 0.03 percent

Institutional costs of meters added \$9.0 million to the Postal Service's cost of meters. The full cost of meters to the Postal Service (attributable plus institutional costs) came to about \$15.3 million. Thus,

1 the full cost of collecting \$1,000,000 in revenue from meters was only
2 \$725, or about 0.07 percent.

3

4 **Outlook for Meter Costs**

5 The phase-out of mechanical meters, principally in favor of remote
6 re-set/CMRS meters, is now virtually complete.²⁶ This has resulted in a
7 substantial reduction in postage meter costs incurred by the Postal
8 Service. As a result of this transition, the outlook for meter costs is
9 dramatically different from that for stamps. By Test Year 2001, meters
10 will no longer be reset at post office windows. Remote re-settings of
11 postage meters involve an electronic transaction between the licensed
12 customer and the meter manufacturer. The Postal Service has no direct
13 operational role in the re-setting process (other than audit and control
14 functions) and therefore incurs no cost for such settings.²⁷ An estimate
15 of \$2 million, including the piggyback factor for indirect costs, seems
16 generous for the current environment.

17 The cost of on-site meter resetting (shown in the fourth row of
18 Table B-1), which is now offset by fees paid by mailers (shown in the

²⁶ USPS-T-30, Page 15, ll. 9-16.

²⁷ *Id.* Pages 15-16.

- 1 penultimate row of Table B-1), should also diminish and disappear
- 2 altogether (along with the fees).

Appendix C

Revenues From Stamps and Meters

USPS Revenues By Source

Postal Service revenues by source are shown in Table C-1. Column 1 contains summary data for Postal Fiscal Year ("PFY") 1998. The Postal Fiscal Year does not coincide with the Government Fiscal Year ("GFY"), and operating revenues in PFY 1998 were slightly less than operating revenues in GFY 1998. Column 2 adjusts the PFY 1998 revenues to correspond with GFY 1998 total revenues.

Mailer-Applied Meter Postage

The revenues for metered mail shown in Table C-1 do not distinguish between mail that is metered by mailers and mail that has meter strips generated by Postal Service window clerks. This is an important distinction, since the analysis here seeks to compare revenues from different forms of evidencing with the cost of obtaining those revenues.

1 In FY 1998 the Postal Service applied just over \$3.7 billion of
2 metered postage to mail accepted by window service clerks.²⁸ Taking this
3 into account provides additional detail on FY 1998 revenues by source as
4 follows (millions):

5 Total metered postage	\$ 24,795.0
6 USPS-applied metered postage	<u>- 3,719.3</u>
7 Total mailer-applied metered postage	\$ 21,075.7

8

9 **Stamp Revenues By Source**

10 Table C-2 shows the revenues that are derived from sales of
11 stamps and accountable paper through the various marketing channels
12 used by the Postal Service.

²⁸ Response to PB/USPS-T11-25 (referred to USPS). Tr. 21/9261 Meters owned by the Postal Service can, in theory, be used to evidence postage for virtually any mail accepted by a window service clerk. When window service clerks use a meter to apply postage to a piece of mail, however, it is believed that such mail is usually something other than a simple First-Class letter, at least entailing extra postage; *e.g.*, certified mail or registered mail, Priority Mail, Express Mail, parcel post, insured mail, First-Class flats or parcels, etc.

Table C-1

USPS Revenue by Source
PFY & GFY 1998
(\$, millions)

	(1)	(2)
	YTD through A/P 13 PFY 1998	YTD through A/P 13 Adj'd to CRA Total FY 1998
Operating Revenue:		
Metered Postage	\$ 24,696.4	\$ 24,795.007
Stamps and Stamped Paper	11,136.8	11,181.269
Permit Imprint	14,741.6	14,800.459
Periodicals & Standard A	2,114.5	2,122.943
Official Mail	780.2	783.315
Presort 1st-Class & Std B/Permit Imprint	4,283.4	4,300.502
Box Rents	610.6	613.038
Money Order Fees	209.5	210.336
Other	1,193.0	1,197.763
Government Appropriations:		
Revenue Forgone	<u>67.1</u>	<u>67.368</u>
Total Operating Revenue	\$ 59,833.1	\$ 60,072.000
CRA Total Operating Revenue	\$ 60,072.0	
CRA Op. Revenue as % of A/P13	100.3993%	

Source: Column 1, USPS, *Financial & Operating Statements*, Accounting
Period 13, PFY 1998, Revenue by Source, page 5, Year-to-Date Actual.

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Table C-2

Revenues from Stamps and Stamped Paper
By Sales Channel
FY 1998
(\$)

	(1)	(2)	(3)
		Distri-	Stamps &
		bution	Stamped
Sales (percent)	Stamp Sales		Paper
Source Of Sales:			
Counters	8,598,083,719	79.22%	8,857,771,600
Contract Stations	569,023,632	5.24%	586,209,850
Vending Machines	612,380,000	5.64%	630,875,710
By Mail	315,774,590	2.91%	325,311,928
Consignment:			
Local	167,900,000	1.55%	172,971,083
Amplex Contract	<u>590,300,000</u>	<u>5.44%</u>	<u>608,128,828</u>
TOTAL	10,853,461,941	100.00%	11,181,269,000

Sources: Column (1), response to PB/USPS-T11-12.
Column (3), total from Table C-1, column 2, distributed by percentages in column 2.

1 **Appendix D**

2 **Revenue Effect of Proposed Discount**

3 For FY 2001 Before Rates, witness Tolley estimates that the volume
4 of single piece letters, flats and IPPs will amount to 53.214 billion pieces,
5 while the volume of single piece private cards will amount to an
6 additional 2.405 billion pieces.²⁹ These volumes are shown in Part A of
7 Tables D-1 and D-2, respectively.

8 ODIS data indicate that in FY 1998 (i) 48.5 percent of all First-
9 Class single piece letters were stamped, 44.8 percent were metered, and
10 the remaining 6.7 percent were permit or "other;"³⁰ and (ii) 52.0 percent
11 of all First-Class single piece cards were stamped, 27.5 percent were
12 metered, and the remaining 20.5 percent were permit or "other." These
13 distributions are used to compute the respective volumes, as shown in
14 Part A of Tables D-1 and D-2, respectively. The Before Rates total volume
15 of First-Class metered letters and cards (23,839.795 and 661.382
16 million, respectively) amounts to 24,501.2 million pieces. On the
17 assumption that every metered letter and card were to take advantage of
18 the proposed discount, the cost of a 1.0 cent discount would amount to
19 \$245.012 million during Test Year 2001.

29 USPS-T-6, Table 1, page 5.

30 Response to PB/USPS-T33-3. Tr. 21/9264-9265. First-Class single piece permit mail includes Business Reply Mail, Government mail, and residual pieces from bulk permit mailings.

1 For Test Year 2001 After Rates, witness Tolley projects that the
2 volume of single piece First-Class letters and private post cards will
3 decrease by a combined total of about 386 million pieces, or 0.7 percent,
4 as shown in Part A of Tables D-1 and D-2. Since the effect of the
5 discount would be to leave the rate unchanged for eligible pieces, there
6 would be no after rates effect (i) on single piece mail that is now metered,
7 or (ii) for stamped mail that converts to metered status.

8 Witness Heisler, PB-T-3, projects that a 1.0 cent discount will
9 induce a substantial number of small businesses and households to
10 adopt and use more cost-effective metering technology. In total, it is
11 anticipated that some 4.954 million pieces of First-Class Mail will convert
12 from stamped to metered status.³¹ This shift would give the Postal
13 Service a gross savings of approximately 6.7 percent of the transaction
14 costs which it otherwise would incur on account of those mailers.

³¹ See W.S.D.1, Part B.

1 The revised volume forecast for single piece First-Class letters,
2 assuming the proposed discount were to be recommended, is shown in
3 Table D-1.³² As shown in part C, the Postal Service will retain
4 approximately 181 million letters from implementation of the discount.

5 The revised volume forecast for single piece First-Class cards,
6 assuming the proposed discount were to be recommended, is shown in
7 Table D-2. As shown in part C, the Postal Service will retain
8 approximately 16.6 million cards from implementation of the discount.

9 The contribution to institutional costs from the volume of First-
10 Class single piece letters and cards retained, \$23.175 and \$0.884
11 million, respectively, is computed in Part D of Tables D-1 and D-2. The
12 combined total is \$24.059 million.

³² The volume forecast here is based solely on the data and elasticities provided in the testimony of witness Tolley, USPS-T-6.

Table D-1

Retention of Volume of First-Class Single Piece Letters
From 1-Cent Discount for Metered Mail

A. Tolley Forecast

	Distribution (%)	Volume TYBR (000)	TYAR (000)	Reduction in Volume (000)
Stamped	48.5	25,808,707	25,645,664	163,042
Metered	44.8	23,839,795	23,689,191	150,604
Other	6.7	3,565,326	3,542,803	22,523
TOTAL	100.0	53,213,828	52,877,658	336,170

B. Revised Forecast Based on 1-Cent Discount for Metered Mail

	Distribution (%)	Volume TYBR (000)	TYAR (000)	Reduction in Volume (000)
Stamped				
Not likely to change	39.5	20,988,434	20,855,843	132,591
Likely to change:				
With 1-cent discount	8.4	4,486,531	4,486,531	0
With no discount	0.6	333,741	333,741	0
Subtotal	48.5	25,808,707	25,676,115	132,591
Metered 44.8	23,839,795	23,839,795	0	
Other	6.7	3,565,326	3,542,803	22,523
TOTAL	100.0	53,213,828	53,058,713	155,115

C. Volume Saved by Virtue of Discount

Net volume saved: Tolley forecast reduction (Part A)	
less revised forecast reduction (Part B, 000)	181,055

1 D. Contribution to Institutional Costs from Single Piece Letters
2

3	Unit TYAR revenue after 1-cent discount, first ounce	0.330
4	Less: unit TY cost of first ounce, USPS-T-27, Table 1, page 11	-0.202
5	FY 2001 Contribution per letter	0.128
6	Total FY 2001 Contribution from letters not lost (\$, 000)	23.175.1

Table D-2

Retention of Volume of First-Class Single Piece Cards
From 1-Cent Discount for Metered Mail

A. Tolley Forecast

	Distribution (%)	Volume TYBR (000)	TYAR (000)	Reduction in Volume (000)
Stamped	52.0	1,250,614	1,224,553	26,061
Metered	27.5	661,382	647,600	13,782
Other	20.5	493,031	482,757	10,274
TOTAL	100.0	2,405,027	2,354,910	50,117

B. Revised Forecast Based on 1-Cent Discount for Metered Mail

	Distribution (%)	Volume TYBR (000)	TYAR (000)	Reduction in Volume (000)
Stamped				
Not likely to change	46.4	1,116,814	1,093,541	23,274
Likely to change:				
With 1-cent discount	5.2	124,469	124,469	0
With no discount	0.4	9,259	9,259	0
Subtotal	52.0	1,250,614	1,227,340	23,274
Metered 27.5	661,382	661,382	0	
Other	20.5	493,031	482,757	10,274
TOTAL	100.0	2,405,027	2,371,480	33,548

C. Volume Saved by Virtue of Discount

Net volume saved: Tolley forecast reduction (Part A)	
less revised forecast reduction (Part B, 000)	16,569

D. Contribution to Institutional Costs from Single Piece Cards

FY 1998 Contribution per card, Exh USPS 11-B	0.064
FY 2001 Contribution per card (1/1.2)	0.053333
Total FY 2001 Contribution from cards (\$, 000)	883.7