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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

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

POSTAL RATE AND FEE CHANGES, 2000

Docket No. R2000-1

**RESPONSES OF MAJOR MAILERS ASSOCIATION
WITNESS HARRISON TO INTERROGATORIES OF
THE UNITED STATES POSTAL SERVICE**

Major Mailers Association hereby provides the responses of its witness Sharon Harrison to the following interrogatories of the United States Postal Service: **USPS/MMA-T2-1-5**, filed on June 7, 2000. Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

MAJOR MAILERS ASSOCIATION



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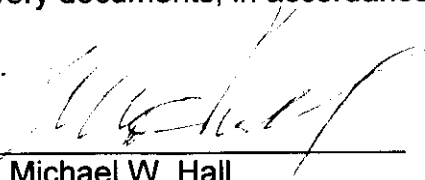
Counsel For
Major Mailers Association

Dated: Round Hill, Virginia
June 21, 2000

CERTIFICATE OF SERVICE

I hereby certify that I have served the following interrogatory responses upon the United States Postal Service, Ted P. Gerarden, the Designated Officer of the Commission, and participants who requested service of all discovery documents, in accordance with Rule 12 of the Rules Of Practice.

Dated this 21st day of June 2000.



Michael W. Hall

USPS/MMAT2-1

- (a) Please list and explain all reasons why a bulk First-Class Mail user (one with sufficient volume to qualify its mail for any one of the various First-Class Mail worksharing discounts), in the absence of a rate incentive or a Postal Service requirement, would ensure that its mailing lists contained accurate, up-to-date addresses.
- (b) Please describe all reasons why a bulk First-Class Mail user (one with sufficient volume to qualify its mail for any one of the various First-Class Mail worksharing discounts), in the absence of a rate incentive or a Postal Service requirement, would ensure that mail pieces generated from such mailing lists had addresses which met USPS machine-readability standards and barcodes which met USPS specifications.

RESPONSE

- (a) Because there is a direct correlation between inadequate addressing and undeliverable-as-addressed (UAA) mail, First-Class mailers have no incentive to send mail that they know will not be delivered to the customer. Doing so would represent a substantial additional cost to the company with no benefit. See, e.g. MMA-T-2 at 7-8.

MMA member companies are engaged primarily in billing and remittance operations. In order to support billing and revenue protection, and to provide service to customers, MMA companies maintain close connections to their customers. In addition, many MMA companies need accurate mailing addresses for product promotions and regulatory mailings. Many MMA companies need to comply with regulatory requirements that stipulate customer bills are to be mailed within a defined number of days prior to the date payment is due.

Many MMA companies, primarily, telecommunications, utilities, and insurance companies, bill their customers on a monthly basis. Mailers are required to comply with the USPS Move-Update requirements. Many of our MMA companies have identified there is no known benefit to the company, our customers, or the Postal Service in complying to this requirement. As indicated in my prepared testimony (MMA-T-2 at 10), these businesses often are the first businesses that customers notify of customer address changes.

For remittance purposes, it is critical that customers receive and pay their

bills in a timely fashion to ensure company revenue. Prompt receipt and payment of bills helps ensure that customers' service is not interrupted.

- (b) My testimony did not state that the machine-readability of addresses and barcode standards are not necessary. I simply indicated that meeting all these requirements often is difficult and expensive for mailers, and, in some cases, can be extremely complex.

There would be no reason for a mailer to meet machine-readability standards and barcodes requirements without a rate incentive. USPS First-Class mail delivery standard remains the same regardless of the mailer workshare efforts. Many MMA companies have serious frustration with the Postal Service's mail preparation requirements. At times there are discussions of whether complying with the ever-changing USPS requirements is cost effective. If the postage rate discounts for automation rates are not significant enough, then it is possible the workshare program could be in jeopardy.

USPS/MMAT2-2

Please refer to page 3 of your testimony. Please describe and quantify the difference in cost between (a) production of an outgoing bulk standard size one-ounce First-Class Mail letter piece which SBC, Pacific Bell, or a typical MMA member would produce in the absence of any mail piece design requirements currently imposed by the Postal Service and (b) production of an outgoing bulk standard letter-size one-ounce First-Class Mail piece which SBC produces to conform to current mail piece design requirements imposed by the Postal Service. In detail, please list every mail piece design characteristic and production activity SBC would not incorporate if it were not required by the Postal Service. Please estimate the costs associated with meeting each requirement and provide all documentation in support of those estimates.

RESPONSE:

It has not previously been considered to not comply with meeting USPS mail design requirements. To my knowledge no study data is available from SBC or MMA companies and no cost data is available.

However, the following are some of the SBC business/customer preferences that conflict with USPS-imposed design elements:

- Opportunity to use various paper/envelope colors;
- Opportunity to use various inks for paper/envelope designs;
- Opportunity to use paper/envelope stock that has a higher recycled paper content;
- Paper/envelope weight adjustments
- Potential change for logo/advertisement placement for envelopes and use of clear zone areas;
- Elimination of keyline information - showing payment method - this requirement has caused confusion to our marketing teams and customers;
- Potential for "extraneous" information/data through address block window if other requirements conflict
- Arrangement of address window placement based on company design preferences;

- Greater freedom in management of mailpiece dimension and clearance requirements

MMA companies work hard to ensure that mail products are USPS compliant. In numerous cases, SBC has redesigned the billing face page, remittance stub, mailing envelope and remittance (courtesy reply) envelope to comply with USPS requirements. This impact is primarily in the requirements, design, programming and testing of changes and coordination with our paper/envelope vendors. This can take several days to several months to complete.

Additionally, listed below are concerns identified by either SBC or the USPS over the last several months regarding design/production issues:

- ◆ Moisture or dry heat during production impacts final piece weight
- ◆ Glue (too much/too little) on envelopes causing equipment jams or breaking apart
- ◆ Paper and envelope vendor error tolerance for products require excessive weighing and management of products
- ◆ Enclosing machines pulling double inserts
- ◆ Slippage of insert or inability to see Delivery Point Barcode (DPBC) caused by machine cuts and/or printed production alignment
- ◆ Differing USPS requirements for mail acceptance/verification between mailing sites
- ◆ Development/maintenance of Service Agreements between SBC/USPS

The Postal Service has implemented the Business Service Network (BSN) nationally to work with mailers on service issues. USPS BSNs track postal and customer mailing issues. SBC and MMA companies work closely with the USPS BSN's to identify concerns and work to resolve them. SBC manages over 150 various mailing products and management of the various designs, supplies, production, and remittance requirements is exhaustive. SBC has developed extensive training and communication to our production employees and management teams to ensure mail quality is achieved.

USPS/MMA-T2-3

Does SBC, Pacific Bell, or any member of MMA maintain any studies, data, market research, or other information concerning any benefit to SBC or MMA members which result from their provision of courtesy reply envelopes to their customers for the return of remittances? If so, please provide copies of all records, documents, data, correspondence, reports, studies or research which discuss such benefits. If no such documents exist, please describe all benefits to SBC, Pacific Bell, and MMA members who result from their provision of such courtesy reply envelopes.

RESPONSE:

To my knowledge, neither SBC nor any other MMA company has study data that shows receipt of remittance mail is improved by using pre-barcoded business/courtesy reply envelopes. However, MMA member companies continue to be concerned regarding the service provided for prebarcoded business/courtesy reply envelopes. MMA members have been active participants in work groups with the Postal Service to work to identify delivery service problems and develop improvements related to prebarcoded business/courtesy reply envelopes. To my knowledge there is no known documented improvements resulting from this effort with the Postal Service for the past several years.

According to the Postal Service's Quick Service Guide, dated January 10, 1999, market research shows that providing barcoded envelopes makes good business sense. The referenced guide does not provide details regarding the nature or extent of the market research conducted by the Service on these topics. Based upon my inquiries to responsible officials of SBC and other MMA member companies, I am not aware of any MMA member company who participated in the USPS market research information provided.

The following are a few of the USPS claimed benefits of prebarcoding envelopes:

- ◆ Prebarcoded reply envelopes can be processed and delivered faster by the post office;
- ◆ Providers of return envelopes get remittances faster for optimum cash flow;
- ◆ Automated processing of properly prepared barcoded reply mail provides accurate sorting and eliminates mail delay.

I have no reason to agree or disagree with the Postal Service's findings.

Although not mentioned in the referenced guide, SBC has identified one benefit of using standardized courtesy reply envelopes. With uniform courtesy reply envelopes, there is a reduction in the variance of envelope size, color, and weight for remittance processing. This is important because SBC uses high-speed extraction equipment to open and remove the contents of remittance mail pieces. There are precise standards required for the equipment to operate at the expected extraction rate. Envelopes that do not meet these requirements are opened using lower-speed equipment or manual methods. Approximately 10% of SBC's customers use other "white mail" remittance envelopes, not provided by SBC. This benefit of using standardized courtesy reply mail envelopes has nothing to do with USPS requirements.

USPS/MMA/T2-4:

Please refer to page 3, lines 16-19 of your testimony. Please describe in detail each activity which is a part of the coordination between SBC's Marketing and Remittance functions, paper and envelope providers and USPS Mail Design Analysts.

RESPONSE:

The following is the high-level process within SBC for mail design/changes:

SBC Marketing identifies a desired change in an existing mail-piece product or a potential new product and develops prototypes for the concept. Artwork is developed and shared for upgrades with various internal teams. This information is provided to Billing Programming Teams and ultimately Bill Print & Remittance teams. SBC's Bill Print organization receives the change or new product request and works with the Marketing and Remittance teams, paper and envelope vendors, Billing Programming, and USPS Mail Design Analysts (MDA) to ensure all internal equipment and external requirements are met.

Once initial input has been received, specifications are sent to the vendor or Billing Programming Team. A proof or example of the product/envelope is created. Marketing signs-off on the proof to ensure all the marketing requirements are met. SBC Bill Print & Remittance ensures all internal specifications are met for inserting bills and other items into outgoing mail-pieces and that the reply mail piece and contents meet all applicable requirements of remittance processing equipment. The SBC Bill Print team includes; Bill Production, Warehousing, Vendor Relations, Application Systems, Training, and the SBC Liaison with the USPS. This team assembles to assess all design or product impacts for SBC.

Since SBC manages over 150 various products, process management and communication of design changes can be a significant management problem. Several SBC employees are USPS certified and have completed the Mailpiece Quality Control (MQC) Specialist Training Program. SBC uses various checklists developed by the USPS to identify areas of requirement concerns and assess

impacts to the USPS requirements. An example of a checklist used is available in USPS Publication 25 entitled Designing Letter Mail, dated August 1995.

All changes to envelope design, content, or new products are then provided to the USPS MDA to ensure postal requirements are met. It is critical to provide the USPS MDA with a completed product, not just a fax or example of the proposed mail piece. Exact prototypes prior to full production of a proposed mailing piece can be expensive to produce. The USPS MDA may request numerous examples of the product to run on postal equipment to validate processing capability and quality. If there are questions regarding whether the mail piece will meet postal requirements, the entire process may begin again.

Once all parties approve the proof/specifications the new item is sent to the vendor or Billing Programming Team for creation. SBC tests and reviews all products received to ensure they comply with original proofs/requirements. From the initial onset of a new product or change, it can take from one to several months to complete the cycle.

Once production test media has been developed it is again reviewed with the USPS MDA for USPS compliance. SBC devotes substantial time and expense to educating SBC personnel regarding applicable postal requirements so that they can work with USPS MDA's in our mailing sites.

USPS/MMA-T2-5:

At page 6, lines 24-26 of your testimony, you state that "ACT tagging is . . . used by many mailers for airmail. This eliminates the need for USPS to perform further scanning on airmail and can . . . expedite mail through the USPS processes. Despite the additional costs that mailers incur in meeting these requirements [such as labeling of pallets and ACT tagging] are not offset by lower postal rates."

- (a) On a unit basis, please quantify the cost to mailers of each of the activities described at lines 18-26 and the impact such activity has on postal mail processing costs.
- (b) Is it your testimony that the impact of such activities on mail processing costs is not reflected in the Postal Service's estimates of First-Class Mail processing costs?

RESPONSE:

- (a) MMA witness Richard E. Bentley informs me that section 221.23 of the Domestic Mail Classification Schedule states that First-Class presorted mail must meet "the letter machine-ability and other preparation requirements specified by the Postal Service." Unfortunately, it is my understanding there are no formal guidelines for administering many of the Postal Service's preparation requirements. Therefore, such decisions are left up to local postal officials and are not administered uniformly. This causes problems for major mailers, particularly since many of our companies have multiple locations. We are not sure what to expect from local postal officials and must continually negotiate with them as they ask us to bear increasingly more and more costs in the preparation of our mail. To my knowledge there are no definitive studies or unit cost information available on the mailer cost to support the following major worksharing activities that are routinely performed by my company and other mailers and are described below:

A. TRAY LABELS

Since Classification Reform was implemented in 1996, many mailers have implemented tray label processes that generate tray labels specific to the labeling requirements provided by the Postal Service. In the past, the Postal

Service provided tray labels to SBC. However, after Classification Reform, the tray label requirements were more complex, requiring that we develop and generate our own tray labels. There are specific, defined, requirements that mailers must meet on tray labels to ensure automation rate discounts. SBC now creates tray labels based on the USPS requirements on perforated paper stock. This change represented an additional cost to SBC, which eliminated the corresponding costs that the USPS had incurred up until that time. Mailer generated tray labeling saves the Postal Service costs since the majority of major mailers generate their own.

The cost saved by the Postal Service would include the administrative cost to manage and distribute, cost of the paper, printing, and stock warehousing. The additional costs to mailers include:

- ◆ Paper stock for tray labels;
- ◆ Special printers to support thickness of tray label requirements;
- ◆ Toner for printing label data;
- ◆ Maintenance/Support of Tray Label programming.

In addition, mailers must comply with the tray labeling requirements, or face penalties or postage adjustments. Labeling of trays expedites the handling of the trays within the postal facilities. Mailer generated and applied tray labels allow the USPS to automate processing within the Postal Service plants, thus significantly reducing the handling costs associated with tray management.

B. PALLETIZING

Palletizing rules for first-class mail are not set forth within the Domestic Mail Manual (DMM), or any other official USPS document that I know of. However, local Postal officials often require that mailers segment the trays of mail by destination on pallets to facilitate transportation of the mail within and between post offices. This bulk movement of "presorted" mail trays enables the Postal Service to save money by reducing individual handling of trays. The USPS has come to expect and depend upon having major mailers conform to the

practice of palletizing.

Mailers, over time, have developed various ways to support the USPS request for mail segmentation, palletizing, and labeling. By segmenting mail, the USPS can “cross dock” mail without having to break apart a pallet and separately handle each tray for mail distribution. Cross docking enables the USPS to eliminate the handling and separation of each tray and facilitates the movement of mail to the destination.

C. PALLET LABELING

SBC, working with our vendor, developed an automated process to separate mail trays by destination and produce labeling for the pallet. In the absence of USPS requirements specifying how to construct a pallet to specific destinations, SBC uses the USPS mail tray requirements to automate the mail segmentation. In addition, SBC creates a pallet label that identifies the specific mail destination by the ZIP Code and City/State. The pallet label provides the Postal Service with details regarding what is on the pallet; this information is used as supportive documentation to ensure all contents of a pallet are accurately combined.

These activities save the Postal Service in two ways. First, mailers perform a mail tray distribution and print and apply the appropriate pallet labels. Second, the Postal Service can move the letters quickly and efficiently throughout the mailstream until the pallets and/or trays reach the destination office.

D. STRETCH-WRAPPING

MMA companies are provided pallets by the USPS to containerize and transport mail trays. Pallets are required by the USPS to be stretch-wrapped to secure the contents of the pallet. Many major mailers prefer cages “rolling stock” to load mail. Rolling stock is easier to move, does not require specific pallet jacks or fork lifts for mail movement, and doesn’t require stretch-wrap. The Postal Service does not provide first-class mailers an option of pallets or cages/rolling stock.

There are two ways to apply stretch-wrap to a pallet: automated or manual. Mailers have identified that applying the stretch-wrap can be labor intensive, and strenuous if not done properly. While there is no organized cost data readily available, MMA companies fund the entire stretch-wrap operation as required by the Postal Service.

The stretch-wrap costs include the following:

Stretch-wrap materials;

Labor/time to wrap pallets (approximately 3 minutes each);

Purchase and maintenance on automated equipment;

Floor space for equipment;

Hand-wrapping devices.

E. ACT TAGGING FOR AIR TRANSPORT

SBC currently does not place an Air Contract Transportation (ACT) tag on airmail, but the USPS recently requested that we perform this function. SBC is currently investigating the process requirements and methods to facilitate accurately placing ACT tags onto our mailings. We are expected to fund this new activity and the Postal Service has informed me that, in return, this will help expedite our mail and eliminate USPS handling – thus reducing postal costs. Moreover, if we perform this function, the Postal Service will no longer have to bear this cost. Several MMA companies are required to ACT tag mail.

It is my understanding that placing an ACT tag onto a sleeved mail tray provides the following benefits to the Postal Service:

- ◆ It allows the USPS to bulk bill pallets of mail to specific flights and eliminates the need to break apart pallets. The USPS weighs the pallet of mail to the specific destination and assigns a Destination and Routing (D&R) tag to the specific flight for the entire pallet. D&R tags assign an airline, flight, and supports payment for air assignment.

- ◆ It eliminates the need for the USPS to break open a pallet, remove mail trays from the pallets, place on the automated D&R transport roller, scan the tray label for destination and assignment of the flight location, and create a D&R tag. The USPS AirMail Facility (AMF) has informed me that it currently takes 9 seconds to create a D&R tag. The USPS then places a D&R tag on the top of the sleeved mail tray, removes the tray from the roller, and places the tray into container for transport to the airlines.

There are several methods by which ACT tags are placed on airmail by the mailer. Some mailers have an automated system that reads the tray label and creates an ACT tag or D&R tag and automatically places this onto the sleeved mail tray. Other mailers use a device to key in the ZIP Code destination of the mail to create an ACT tag to apply to the mail. Other mailers have cased ACT tags and manually apply a USPS-provided ACT tag to their mail trays. All of these applications have different costs associated with them. All of these applications reduce bulk movement of letters within and/or between postal facilities.

The USPS is currently working with some mailers on a USPS initiative called PostalONE where transportation assignments using D&R tags for both air mail and ground transport are being developed and deployed in mailer facilities. This program will further reduce postal platform costs because data will be collected from the mailer facility that will help with improved transportation assignments for mail destination. At this time we are not sure what extra processing costs the Postal Service will ask us to bear as a result of this new program.

(b) Redirected to Major Mailers Association witness Richard E. Bentley.

DECLARATION

I, Sharon Harrison, declare under penalty of perjury that the foregoing answers are true and correct to the best of my knowledge, information, and belief.


Sharon Harrison

Dated: June 21, 2000

