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Before the
UNITED STATES POSTAL RATE COMMISSION

In the Matter of: **POSTAL RATE AND FEE CHANGE**

Docket No. **R2000-1**

VOLUME 23

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BEFORE THE
POSTAL RATE COMMISSION

- - - - -X
In the Matter of: :
POSTAL RATE AND FEE CHANGE : Docket No. R2000-1
- - - - -X

Third Floor Hearing Room
Postal Rate Commission
1333 H Street, N.W.
Washington, D.C. 20268

Volume XXIII
Friday, July 7, 2000

The above-entitled matter came on for hearing,
pursuant to notice, at 9:31 a.m.

BEFORE:

HON. EDWARD J. GLEIMAN, CHAIRMAN
HON. GEORGE A. OMAS, VICE CHAIRMAN
HON. W.H. "TREY" LeBLANC, COMMISSIONER
HON. DANA B. "DANNY" COVINGTON, COMMISSIONER
HON. RUTH GOLDWAY, COMMISSIONER

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P R O C E E D I N G S

[9:30 a.m.]

CHAIRMAN GLEIMAN: Good morning. Today we continue our hearings to receive the direct cases of participants other than Postal Service in Docket R2001. Ten witnesses are scheduled to appear today.

The witnesses are: Hezelton, Kuhr, Lawton, Martin, Heisler, Buc, Willette, Karls, Glick, and Thompson.

Although that sounds like a daunting schedule, I have been informed that in some instances, counsel have agreed to forego cross examination, specifically, counsel for Stamps.com had advised us that the Postal Service does not wish to conduct oral cross examination of Witnesses Kuhr and Lawton.

Additionally, no requests to conduct oral cross examination of either RIAA Witnesses Glick or OCA Witness were filed. Therefore, consistent with the procedure that I announced when I established the schedule for the appearance of witnesses, I will allow for admission of testimony of these four witnesses at the beginning of today's hearing, and then we'll proceed from there, and hopefully I'll get the scorecard right during the course of the day.

Yes, sir?

MR. TIDWELL: Mr. Chairman, I will confirm that it may be also likely that the Postal Service won't have any

1 cross examination for Pitney Bowes' Witness, Martin, as
2 well. I can check on that and report back to you in a
3 matter of minutes.

4 CHAIRMAN GLEIMAN: Well, that takes care of the
5 one potential problem that I was going to raise, so I'll
6 just sit on that one until we hear back from you.

7 Does any participant have a matter, a procedural
8 matter that they'd like to raise today?

9 [No response.]

10 CHAIRMAN GLEIMAN: If not, then let's proceed to
11 the testimony of today's witnesses who, at least we
12 understand at this point are not going to be cross examined:
13 First, we'll deal with the two witnesses sponsored by
14 Stamps.com.

15 Mr. Hendel, if you have two corrected copies of
16 the Direct Testimony of Thomas Kuhr, and an appropriate
17 declaration of authenticity, we can proceed.

18 MR. HENDEL: Yes, Your Honor, I have that. Mr.
19 Chairman, I've got that here.

20 CHAIRMAN GLEIMAN: Thank you. People who know me,
21 know that you shouldn't call me Your Honor, under any
22 circumstances.

23 [Laughter.]

24 CHAIRMAN GLEIMAN: You do have that material?

25 MR. HENDEL: I have two copies. There were no

1 corrections for the Direct Testimony of Thomas C. Kuhr on
2 behalf of Stamps.com, designated Stamps.com T-2, submitted
3 May 22nd, 2000. I have an affirmation from Mr. Kuhr.

4 CHAIRMAN GLEIMAN: All right, is there any
5 objection to us accepting this material into the record?

6 [No response.]

7 CHAIRMAN GLEIMAN: If not, then the Testimony of
8 Thomas C. Kuhr will be received into evidence, and, counsel,
9 if you would provide two copies to the Reporter, along with
10 the affirmation, the testimony will be transcribed into the
11 record and received into evidence.

12 [Written Direct Testimony of Thomas
13 C. Kuhr, Stamps.com T-2, was
14 received into evidence and
15 transcribed into the record.]
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Stamps.com-T-2

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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May 22, 2000

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1 **I. Introduction**

2 My name is Thomas C. Kuhr. I have been a full time employee of
3 Stamps.com, Inc. for over a year, previously as the Director of Product Management
4 - Server Technologies, and currently as the Vice President of Technology
5 Operations. Stamps.com is one of the four vendors that are approved for full
6 commercial distribution of PC Postage under the Information Based indicium
7 Program (IBIP). I have been working with the USPS and the IBIP group since the
8 Beta 2 stage of IBIP testing, and have worked through many iterations of our product
9 through Beta 3, Final Approval and commercial launch of the Stamps.com Internet
10 Postage service. I have been directly responsible for designing much of
11 Stamps.com's Internet Postage software product, concentrating on the functionality
12 of the Stamps.com Postage Servers - including communications, security, Postal
13 Service reporting and address verification. I have a background in product
14 management, program management and product marketing, and have worked for
15 other software and internet companies designing and documenting feature
16 requirements and functionality.

17 One of the main functions of my job is to translate program, customer, and
18 vendor requirements into useable systems. I have also worked with many different
19 departments within the Postal Service to define and meet the IBIP or meter related
20 criteria of their respective areas. To this end, I have extensively reviewed,
21 commented on, and interpreted the specification created for the IBIP Program,
22 entitled *Performance Criteria for Information-Based Indicia and Security Architecture*

1 for *Open IBI Evidencing Systems* (PCIBI-0). This document outlines the majority of
2 the requirements and restrictions to which each vendor must adhere to be considered
3 for commercial approval under the IBIP program. A copy of this document is
4 provided as a library reference. (See Stamps.com-LR-1.)

5 **II. Purpose of Testimony**

6 The purpose of this testimony is to explain the requirements of the Information
7 Based Indiciu Program (IBIP) and how Stamps.com Internet Postage software
8 enables postal customers to print postage. There are many requirements of the IBIP
9 program and many of them pertain to meeting USPS mailpiece automation
10 requirements. This testimony describes the process of: registering to use the
11 Stamps.com Internet Postage software and service; submitting addresses for
12 verification and correction according to USPS's AMS database; and printing postage
13 using the software. In essence, the use of Stamps.com software ensures that
14 USPS's automation standards are met on each mailpiece produced by our
15 customers.

16 **III. The Information Based Indicia Program**

17 The USPS started the Information Based Indiciu Program (IBIP) as early as
18 1995. The program was formally kicked off in 1996 and the first Beta test
19 commenced in March 1998. The primary document defining the parameters of the
20 program is called the *Performance Criteria for Information-Based Indicia and Security*

1 *Architecture for Open IBI Evidencing Systems, (PCIBI-O).* The program allows postal
2 customers to use software and/or hardware technologies to print postage directly
3 from their personal computers onto standard laser or inkjet printers.

4 **A. Stamps.com's Compliance with the IBIP program**

5 Stamps.com first joined the IBIP program in 1996. We were the first company
6 to attempt the program with a software-only solution. This means that our customers
7 do not need any special hardware for postage value storage or for printing. Our
8 customers can use their home PC and standard printer to print postage when they
9 connect to the Internet.

10 Stamps.com, like all IBIP vendors, was required to go through three beta
11 phases of product testing before being allowed to release the service commercially.
12 The first part of the beta test was concerned with general functionality. We tested the
13 software in the field with 25 beta customers to ensure the software met all basic
14 functionality. The second test was with 500 beta customers and focused on financial
15 integrity and accountability. We were audited by the USPS to ensure proper
16 accounting practices and accountability for postage sold through our system. The
17 Beta 3 test involved about 1,500 customers and was the final phase of testing. The
18 USPS did final testing on the software and subjected Stamps.com to a review of the
19 entire security system.

20 We completed the required Beta Phases on August 9, 1999 -- about 3 years
21 after our first software release. On this date, the USPS approved the Stamps.com
22 Internet Postage software for commercial launch, making Stamps.com an official "PC

1 Postage" vendor, the consumer name used for vendors operating under the IBIP
2 program.

3 Stamps.com released its Internet Postage Software to the public on October
4 24, 1999. During our first quarter financial results announcement on April 10, 2000,
5 we reported 187,000 licensed and active customers using our service, and the
6 number of new customers continues to grow each day.

7 **B. IBIP Program Regulations**

8 The IBIP program's PCIBI-O documentation primarily focuses on three
9 features: security, payment accountability, and mailpiece formatting for automation.
10 While security is the primary concern, the PCIBI-O also specifically states that all
11 IBIP mail must be automation-ready. The document describes a new postage mark,
12 called an 'indicium' (described in Section A of the PCIBI-O), which contains several
13 pieces of information to ensure the security and uniqueness of the postage mark.
14 Because all of the human-readable information is encoded into a 2-dimensional
15 barcode, the indicium can be scanned by the USPS to quickly verify its authenticity,
16 value, weight, origination point, and destination. Each indicium is unique. This
17 ensures that any duplicates can be caught as soon as they are scanned, no matter
18 where they enter the mail stream. Since each indicium indicates its origin, both
19 location (the Licensing Post Office ZIP code) and owner (the customer's device ID
20 and meter number), fraudulent activity can be detected and traced more readily and
21 rapidly than with a traditional postage meter mark. In addition, since the Stamps.com
22 servers are responsible for generating the indicium, users can be remotely disabled

1 from using the service if fraud is suspected, even if their physical location is
 2 unknown. This is inherently superior to a traditional postal meter, since there is no
 3 way to disable improper use of a traditional meter short of confiscating the meter from
 4 the customer.

5 Section A of the PCIBI-O, and supporting documents such as USPS
 6 Publication 25, *Designing Letter Mail*, describe general mailpiece preparation for the
 7 program. An IBIP indicium is required to meet the placement, printing, and
 8 reflectance standards listed in Section A of the PCIBI-O. In addition, the indicium,
 9 POSTNET barcode, delivery, address, and FIM (when required), must meet the
 10 requirements described in Publication 25, *Designing Letter Mail* for all domestic mail.
 11 All of these standards ensure that IBIP mail can be processed by USPS automated
 12 equipment with little or no manual intervention. The illustration in Figure 1 below
 13 shows the relative placement of an IBIP indicium and FIM, as well as their design.
 14 As part of the IBIP program, the Stamps.com indicium meets all these standards.

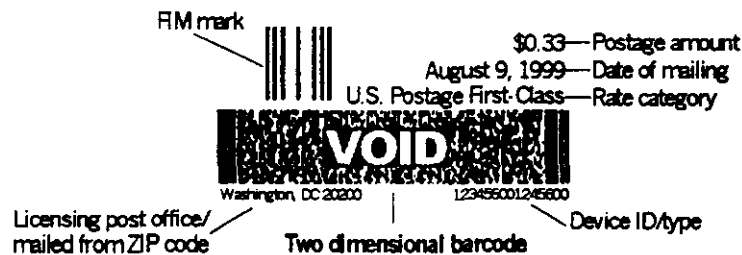


Fig 1. Sample of IBIP Indicium.

The indicium replaces a traditional meter imprint or postage stamp and contains mailpiece routing information as well as postage value.

1 IV. Registering with Stamps.com

2 Before a customer may use Stamps.com, they must first install our software
3 on their computer and apply for a USPS meter license. When customers install and
4 launch Stamps.com's software, they are guided through a Registration Wizard which
5 captures all the information necessary for their PS-3601-A Meter License Application.
6 The following steps must be taken before a customer is permitted to print postage
7 using our software:

- 8 • Apply for a Stamps.com Internet Postage account
- 9 • Apply and be approved for a USPS Meter License
- 10 • Provide valid payment information to purchase postage
- 11 • Pass a Printer Verification test
- 12 • Print a Quality Assurance envelope and mail it to Stamps.com
- 13 • Have their Quality Assurance envelope pass all checks for compliance

14 Only customers that the USPS approves through the traditional Meter License
15 Application process may use our software to print postage. The application asks the
16 customer for their mailing address, the physical address at which they will be printing
17 postage, telephone number, and other contact information. Stamps.com does not let
18 a customer complete the license application unless the following checks are passed:
19 (1) the physical address cannot be a P.O. Box; (2) the physical address must have a
20 valid city - state combination; and (3) the mailing address must have a valid ZIP+4
21 and delivery point.

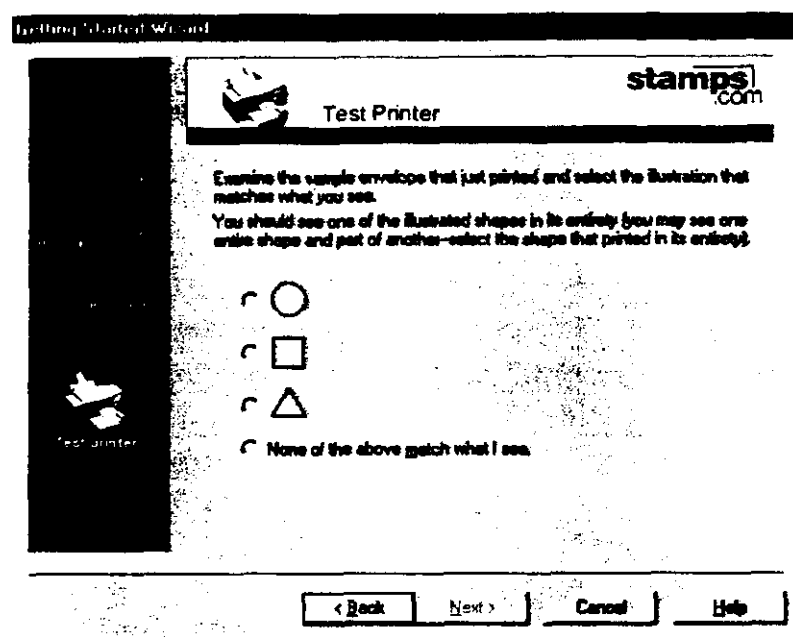
1 The Registration Wizard also has the customer select a Stamps.com service plan
2 and initiate their first postage purchase, although the purchase is not processed until
3 after the customer has received their license. The customer can choose between
4 Visa, MasterCard, Discover Card, American Express, Diners Club, Carte Blanche,
5 and Direct Account Withdrawal (ACH) for their payment method. Payments for
6 postage are sent directly to the Postal Service's authorized banking agent.

7 **a) Registration Wizard - Print Test**

8 After the license and purchase information has been captured, Stamps.com
9 requires the customer to complete a printer test to verify that they can print envelopes
10 that meet IBIP specifications. It is important to note that if the customer does not
11 complete the print test, they will not be able to continue to apply for a meter license.
12 Before the test begins, Stamps.com's software looks on the customer's machine for
13 installed printer drivers. It compares the selected printer driver and computer
14 operating system to a printer driver database on Stamps.com's postage servers.

15 If the customer's printer driver is in the database -- and in most cases it is --
16 the customer skips to the next printer verification step. In the few cases where the
17 customer's particular printer driver and operating system combination is not found in
18 our printer database, a Print Alignment Test is required to see how the printer feeds
19 envelopes. To test printer feed, the customer is asked to load a test envelope and
20 then verify which shape prints completely (see *Fig. 2 "Printer Configuration Dialog*
21 *Box"* below). If the customer selects the "None of the above match what I see"
22 option, they are given another opportunity to print an envelope and verify the shape.

- 1 If they cannot pass this test, they are only allowed to print on labels as it is most likely
 2 that envelopes do not feed correctly with their printer.



3
 4 Fig 2. Printer Configuration Dialog Box

5
 6 *This is one of the tests used in the registration process to*
 7 *ensure proper printer configuration and media output while*
 8 *using Stamps.com Internet Postage Software.*

- 9
 10 After it has been determined that the customer's printer driver is in our printer
 11 database, or after the customer successfully passes the Print Alignment test, the
 12 customer is asked to print a test envelope. The customer is asked to feed a standard
 13 No. 10 envelope into their printer and hit the 'Print' button. They are then asked to
 14 compare that envelope to a sample envelope shown on screen (see Fig. 3, "Print
 15 Test Verification Dialog Box," below). If the customer selects, 'No', they are only
 16 allowed to print on labels, as they have printed an envelope out of specification that

- 1 will not pass as a valid IBIP envelope. If the customer selects 'Yes' they will be able
- 2 to print on all envelopes and labels supported by their printer.

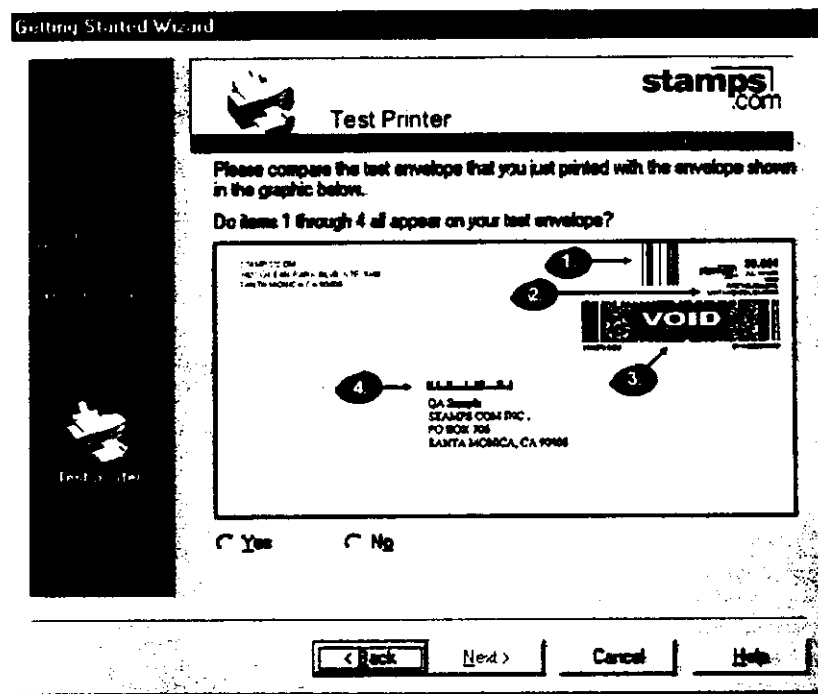


Fig 3. Print Test Verification Dialog Box

Asks the customer to check all the parts of the printed envelope to ensure that FIM, the indicium, destination address, and POSTNET barcode are in the correct location.

b) Submitting the Meter License Application

- Once the customer has completed their print test, they are able to submit their Meter License Application. At this point, the customer can open the Stamps.com software, but they cannot print postage until their meter license has been approved and their first postage purchase has been approved.

1 **c) QA Envelope Check**

2 As a further check on correct printing, Stamps.com verifies the customer's
3 print test results with a Quality Assurance (QA) Envelope check. The PCIBI-O
4 specifies that each PC Postage customer is required to send in a QA envelope to
5 Stamps.com immediately upon registration and again every 180 days thereafter. The
6 Stamps.com software prompts the customer each time a QA envelope is due. This is
7 the final check in the registration process to ensure the customer is printing postage
8 in compliance with the IBIP program.¹

9 When we receive QA envelopes, our personnel examine both the address and
10 POSTNET barcode, and ensure that the ZIP code in the address matches the ZIP
11 code in the indicium. If the customer's sample is slightly out of specification, we flag
12 that customer's record and notify them that they must send in a new sample that is
13 compliant. If the customer's sample is severely out of specification, their account is
14 restricted from printing until they send in a QA Envelope that passes specification.
15 They are not able to print anything but a QA envelope.

16 The IBIP program also requires Stamps.com to keep a valid and scannable
17 QA Envelope on file at all times for every customer. We are subject to audits by the
18 Postal Service to check compliance on the quality and presence of all QA Envelopes.

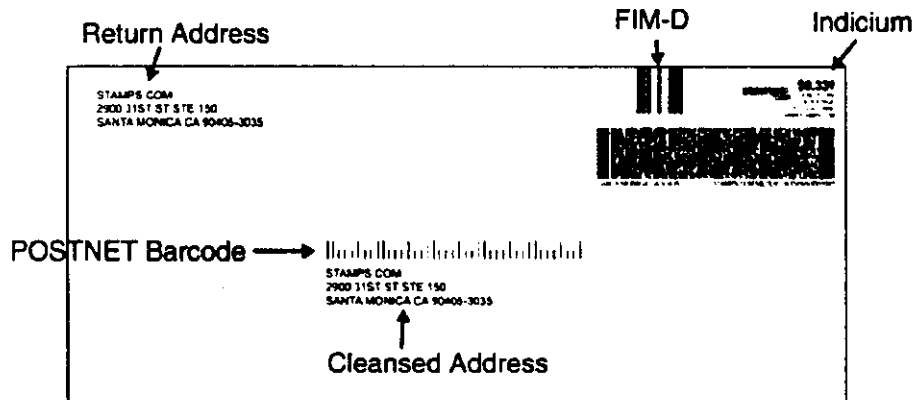
¹ Version 2.0 of Stamps.com's software (due to be released this summer) requires customers to print their QA Envelopes before they can use the software to print anything else.

1 V. Mailpiece Formatting Requirements

2 A. Formatting for Automation

3 Stamps.com currently supports First Class, Priority Mail, Express Mail, and
 4 Parcel Post. We take several measures to ensure that the Stamps.com Internet
 5 Postage Software can print automation-ready mailpieces for all classes. We adhere
 6 to all the tolerances specified by Notice 67, the Automation Template, and use the
 7 USPS Automation Gauge (Model 007) to enforce these tolerances when reviewing
 8 Quality Assurance envelopes. Stamps.com ensures that all of the elements in this
 9 automation-ready envelope are selected and printed properly.

10 (See Fig. 4 below.)



11
 12 Fig 4. Example of envelope produced by Stamps.com software.

13
 14 Envelopes printed using Stamps.com's Internet Postage
 15 software possess a verified and automation compatible
 16 address and pre-printed POSTNET barcode, as well as
 17 security features embedded in the BIP indicium.

1 **a) The Indicium**

2 The Stamps.com indicium meets the specifications described in Section A of
3 the PCIBI-O. This includes positioning requirements so that the indicium does not
4 infringe on the OCR read area. In addition, the indicium is placed within the area
5 required by the automation template. The Stamps.com print engine automatically
6 adjusts the position and size of the indicium and associated graphics according to the
7 size of the envelope to ensure correct positioning. The indicium includes many
8 different pieces of information that are not available through a traditional meter
9 stamp. This information in the indicium includes data for the following 19 fields.

Data Element	Human-Readable Data	Machine-Readable Data
Indicia Version Number	No	Yes
Algorithm ID	No	Yes
Certificate Serial Number	No	Yes
Device ID		
PSD Manufacture ID	Yes	Yes
PS Model ID	Yes	Yes
PSD Serial ID	Yes	Yes
Ascending Register	No	Yes
Postage	Yes	Yes
Date of Mailing	Yes	Yes
Originating Address		
City, State	Yes	No
ZIP Code	Yes	Yes
Destination Delivery Point	No	Yes
Software ID	No	Yes
Descending Register	No	Yes
Mail Class or Category		
Rate Category	No	Yes
Endorsement (Mail Class)	Yes	No
Digital Signature	No	Yes
Reserved Field	No	Yes
Reserved Field	No	Yes

Fig 5. Elements of the IBIP Indicium.

The IBIP indicium contains 17 separate data elements, as well as 2 fields reserved for future use.

b) FIM Placement for Automation

Stamps.com software places a FIM code on all envelopes. The purpose of the FIM is to "allow letter mail that does not contain luminescent stamps or meter imprints to be faced (oriented) and canceled (postmarked) by machine." See page 59 of Publication 25, Designing Letter Mail. The PCIBI-O specifies that vendors in the IBIP

1 program must use a specially designated FIM-D for all mailpieces. Stamps.com
2 designed our software to properly design and position the FIM-D according to the
3 specifications described on page 61 in Designing Letter Mail. The requirements for
4 FIM placement state that the FIM must be no more than 1/8th of an inch from the top
5 edge of the mailpiece. We have painstakingly tested hundreds of the most popular
6 printers and printer drivers on the market to ensure that we are compliant with this
7 requirement. As a result, all mailpieces created through Stamps.com that use the
8 FIM can be processed with the USPS processing equipment (facer - cancelers). To
9 ensure that all mailpieces requiring a FIM have one, version 2.0 of Stamps.com's
10 software forces the user to print a FIM each time they print on an envelope.²

11 **c) FIM Substitute - Fluorescent Labels**

12 When using the Stamps.com service, all First Class envelopes and postcards
13 must have either a FIM or fluorescent stripe to orient the mailpiece with existing
14 Postal facer-canceler machines. For mailpieces using address labels, the fluorescent
15 stripe acts as a replacement for a FIM-D. Since there is no way to guarantee that a
16 FIM printed on a label will be placed by a customer within the 1/8" of the edge
17 tolerance required by Publication 25, the fluorescent stripe is used to orient the
18 mailpiece. In cases where customers choose to print on labels for a First Class
19 envelope or postcard, Stamps.com's software requires the customer to select labels

2 Version 2.0 is now undergoing beta tests and is expected to be released early this summer. Once released, the previous version will no longer be useable. Currently, our software allows the customer to turn off the FIM code.

1 that contain a USPS-approved fluorescent stripe. The customer cannot override the
2 label options to use a non-fluorescent label. These labels are specially sized, so the
3 customer may not substitute other, non-fluorescent mass-produced labels in their
4 place.

5 **d) Address Area**

6 Stamps.com ensures that the delivery address placement and format meets
7 the standards listed in section 4 of Publication 25, Designing Letter Mail.
8 Stamps.com controls the mailpiece options available in the software. Because of this
9 control, the Stamps.com print engine is able to utilize the dimensions of the mailpiece
10 to correctly position the address within the OCR read area, directly under the
11 POSTNET barcode. The customer cannot modify the address position.

12 Stamps.com supports up to a 6-line address with the delivery address line as
13 the second to last line and the city, state ZIP+4 as the last line. The address is
14 always left-aligned to ensure that the OCR can properly read and interpret the
15 address data. The customer is not allowed to include any logos or other non-address
16 printing anywhere in the OCR read area.

17 **e) Delivery Point POSTNET Barcode**

18 Stamps.com automatically and correctly positions the 11-digit delivery point
19 POSTNET barcode on all mailpieces created through our software. The POSTNET
20 is a barcode that can be read by sorting equipment, and contains the mailpiece's
21 routing information down to the carrier code (the ZIP+4+2). For letters and flats,
22 Stamps.com uses the barcoding standards described in section C840 of the

1 Domestic Mail Manual as well as the requirements in Publication 25, Designing Letter
2 Mail. For packages, Stamps.com uses the standards described in section C850 of
3 the *DMM*. This ensures that the format, design, and content of the POSTNET always
4 meet the standards for automated mail and further eliminates undeliverable address
5 issues.

6 **VI. Printing Postage using Stamps.com**

7 Before a customer may use Stamps.com to print postage, the customer must
8 start up the software and provide their username and password. To print postage
9 with Stamps.com software, the customer clicks a button that says "Print Postage."
10 This opens the "Print Postage" dialog box (see Fig. 6 below) that contains all of the
11 options the customer has in printing a mailpiece or label.

Stamp's.com: Internet Postage Available Postage: \$26.36

www.stamps.com Buy Supplies Customer Support Feedback Help About

Print Postage

Return Address:
Kuhn
3420 Ocean Park Boulevard
Suite 1040
Santa Monica, CA 90405
☐ Do not print the return address

Delivery Address:
PETER R. CORBELL
STAMPS.COM
3420 OCEAN PARK BLVD STE 1040
SANTA MONICA CA 90405-3324
[Address Book...](#)

Postage Information:
Mail Piece: Letter
Print On: Envelope #10 (4 1/8 x 9 1/2 inc)
Weight: 0 1 Scale
Mail Class:
☐ First-Class Mail \$0.33
☒ Priority Mail \$3.20
☐ Express Mail \$11.75

Layout Preview:

Available Postage: \$26.36
Cost of mailing: 1 recipients @ \$3.20 = \$3.20

Fig 6. Print Postage Dialog Box.

The Print Postage dialog box presents all the options available to the customer for producing their mailpiece. The customer does not set the postage amount, but rather chooses the appropriate criteria and services desired. The desktop software automatically calculates the correct postage amount based on the customer's choices.

- Each parameter in the Print Postage dialog box has its own constraints, which may be 'hard' (fixed) or 'dynamic' (variable, depending on other options). All of these parameters must be specified before the customer can print postage, and before they will be presented with postage rates.

1 **A. Selecting a Recipient**

2 Usually, the first thing a customer does when printing postage is select a
3 recipient or a group of recipients. The customer may either manually enter a
4 recipient name and address directly in the Print Postage window, or select a single
5 recipient or group of recipients from an address book. The user may also opt to
6 import a mailing list into the Stamps.com address book from an external file or
7 database. This allows the customer to make efficient large group mailings from
8 customer lists. For each recipient that is selected, the software checks to see if the
9 recipient's address has been recently cleansed against the AMS database. For
10 manually entered addresses, the software automatically verifies and cleanses the
11 address against USPS's AMS database. The Stamps.com address book technology
12 keeps a record of the last time an address has been checked against AMS. If the
13 AMS database has been updated on the servers since the last time the address was
14 used, it is checked again.

15 **B. Address Matching System**

16 The PCIBI-O requires that all addresses must be verified and corrected
17 against a CASS certified address database (CASS stands for Coding Accuracy
18 Support System). The verification and correction process ensures that an address
19 has all the proper elements required for delivery, including the appropriate ZIP+4 and
20 POSTNET barcode. *The customer cannot print the address or postage indicia*
21 *unless the address has been verified and corrected.* Stamps.com uses our own
22 proprietary CASS certified software combined with the USPS's Address Matching

1 System (AMS) database and programming tools (APIs) to provide the best possible
2 address match and properly correct the address. The AMS system always provides
3 the most up to date ZIP+4 for all addresses. Stamps.com updates the AMS
4 database on our server monthly, within 7 days of issue by the USPS.

5 The first address check is to see if there is an exact address match, meaning
6 that no changes are required. If there is an exact match then the same address is
7 returned and the customer can continue producing the mailpiece.

8 If there is a single address match but changes are required, the "Modified
9 Address" dialog opens (see *Fig 7*). The customer must click the 'OK' button to
10 accept the address and continue producing the mailpiece. The dialog box shows
11 what the customer entered and the suggested correction. Stamps.com's AMS
12 software is able to correct addresses that have been entered with very little
13 information and formatting. Any part of the address that needs to be changed is
14 highlighted so that the customer can quickly identify differences.

15

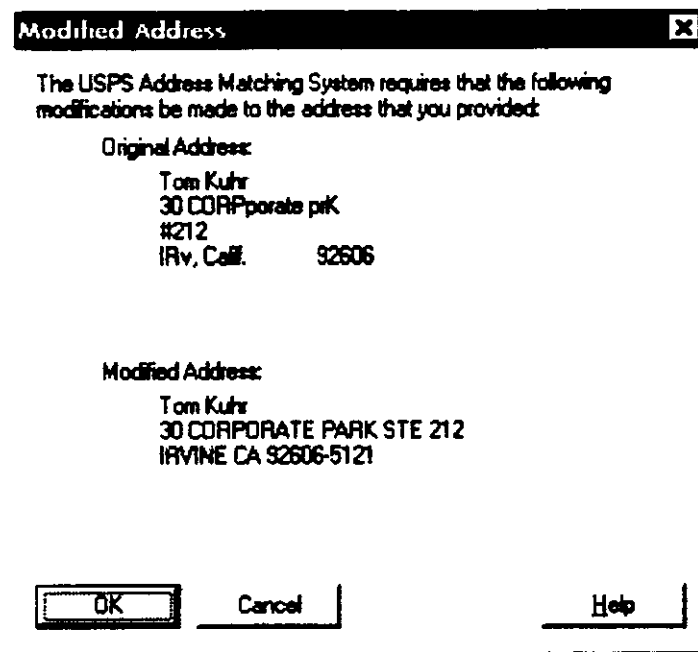


Fig 7. Modified Address Dialog Box.

The original address is cleansed via Stamps.com's CASS-certified software and the USPS's AMS database. Changes are highlighted and must be accepted or the mailpiece cannot be printed.

If there are several potential address matches, the "Choose an Address" dialog box opens (see Fig 8). The addresses are ranked, with the best matches listed first. The customer must select an address and click 'OK' to continue producing the mailpiece.

Choose an Address

The USPS address database has indicated that the address you have provided has a number of possible variations. This could be because your address is missing a suite number or has a different Zip + 4. If the actual address is below, select it and then click OK. If not, and you are sure your address is correct, for example, it is a billing or government organization address, then click the Resubmit button to limit the number of possibles.

RANK	Company	Address	City	S...	Zip Code
Better	AUSSIE MEATS	30 CORPORATE PARK	IRVINE	CA	92606-5131
Better	AUSSIE MEATS	30 CORPORATE PARK	IRVINE	CA	92606-5131
Possible	AUSSIE MEATS	30 CORPORATE PARK STE 400	IRVINE	CA	92606-3102
Possible	AUSSIE MEATS	30 CORPORATE PARK STE 200	IRVINE	CA	92606-3106
Possible	AUSSIE MEATS	30 CORPORATE PARK STE 106	IRVINE	CA	92606-5116
Possible	AUSSIE MEATS	30 CORPORATE PARK STE 108	IRVINE	CA	92606-5116
Possible	AUSSIE MEATS	30 CORPORATE PARK STE 314	IRVINE	CA	92606-5117
Possible	AUSSIE MEATS	30 CORPORATE PARK STE 309	IRVINE	CA	92606-5117
Possible	AUSSIE MEATS	30 CORPORATE PARK STE (207-212)	IRVINE	CA	92606-5121
Possible	AUSSIE MEATS	30 CORPORATE PARK STE 304	IRVINE	CA	92606-5130
Possible	AUSSIE MEATS	30 CORPORATE PARK STE 310	IRVINE	CA	92606-5130
Possible	AUSSIE MEATS	30 CORPORATE PARK STE 307	IRVINE	CA	92606-5130
Possible	AUSSIE MEATS	30 CORPORATE PARK STE (100-104)	IRVINE	CA	92606-5132
Possible	AUSSIE MEATS	30 CORPORATE PARK STE 110	IRVINE	CA	92606-5132
Possible	AUSSIE MEATS	30 CORPORATE PARK STE 107	IRVINE	CA	92606-5132
Possible	AUSSIE MEATS	30 CORPORATE PARK STE (300-303)	IRVINE	CA	92606-5133
Possible	AUSSIE MEATS	30 CORPORATE PARK STE 306	IRVINE	CA	92606-5133

OK Resubmit Cancel Help

Fig 8. Choose an Address Dialog Box.

The original address entered has several potential matches after CASS/AMS cleansing. The customer must choose the correct match before the mailpiece can be printed.

If no match is found, the customer is advised that a match could not be found and is asked to try to correct the address (see Fig 9). When the customer clicks 'OK' they are taken back to the Print Postage screen. They must modify the existing delivery address and go through address checking again before they can continue producing the mailpiece.

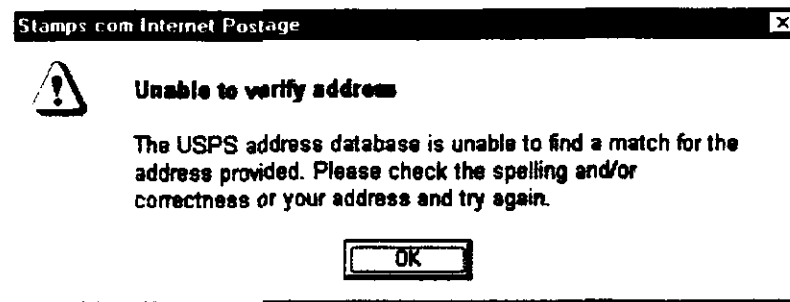


Fig 9. No Address Match – Unable to Verify Address Dialog Box.

When an address cannot be found in USPS's address database, the address cannot be printed. Instead, the customer must modify the address and go through the address checking process again.

The latest version of the AMS programming tools (APIs) provided by the Postal Service gives Stamps.com the ability to recognize unique ZIP codes (e.g., a ZIP assigned to a single building or campus). If an address contains a unique ZIP code, the AMS will ignore the street address if one was not submitted. The city, state and ZIP will still be verified and the verified address is returned to the customer. This is an added convenience to our customers because many government agencies and private companies do not use street addresses, and thus cannot be found in the AMS database. However, it also ensures that the mailpiece is still automation compatible because of the cleansing of the city, state and ZIP.

It is important to note that some hardware-based versions of IBIP postage, such as Neopost's "Simply Postage" product, do not require cleansing for addresses. Unlike Stamps.com and E-Stamp, these systems use specialized printing hardware, and do not cleanse addresses against a CASS certified AMS database. Moreover, the indicia that these systems print do not contain all the data found in the Stamps.com indicium, and these systems do not ensure that a mailpiece is

1 automated. Stamps.com is not seeking a discount for mailpieces produced by these
2 systems.

3 **C. Selecting a Mail Type and Print Media**

4 While in the Print Postage dialog box, the customer must select a mailpiece
5 type from a drop-down list of available options. Selections are letter, large envelope,
6 USPS flat rate envelope, package, large package, oversized package, and postcard.
7 Each one of these options features a picture icon and a text description to further
8 emphasize the mailpiece type.

9 The customer must also select a media type based on the mail type selected
10 and the printer the user has configured. Stamps.com limits the 'Print On' options to
11 media that support the automation standards listed in sections C810-850 of the
12 *Domestic Mail Manual (DMM)* Issue 55. For envelopes and postcards, this means
13 limiting the 'Print On' options to either the envelope or postcard itself, or a fluorescent
14 label that uses the fluorescent stripe replacement for the FIM. For flats, large
15 envelopes, and packages, the print options are dynamically limited to labels that
16 meet the standards described in the *DMM*. All selections are further limited
17 according to the printer the customer has configured. If the printer is known not to
18 print on a certain size envelope or label, that selection will not appear in the list of
19 options presented to the customer. The software intelligently controls the print media
20 in this manner.

21 To further educate our customers about the standards for automation-ready
22 mailpieces, the software's Help file includes information from the *DMM* describing the

1 standards and requirements for automation and explains in detail what each function
2 of the Print Postage dialog box means.

3 **D. Weighing the Mailpiece**

4 The Print Postage dialog box requires that the customer enter the weight of
5 the mailpiece so that the software can correctly calculate the postage rate. They can
6 enter the weight in pounds and ounces directly into the software. Stamps.com also
7 separately sells two different scales for use with our software, which have been
8 popular purchase options for our customers. One scale can be connected directly to
9 the computer through a communications port and directly interfaces with the Internet
10 Postage software. To weigh a mailpiece, the customer simply needs to click the
11 "Scale" button in the Print Postage window. The scale then calculates the weight and
12 reports the weight back to the software, entering it automatically. If a scale is
13 integrated with the software, the user may not override the scale's input.
14 Stamps.com also offers a scale that does not need to be connected to the computer.
15 The customer places the mailpiece onto the scale, and then manually enters the
16 weight directly into the software. Both of these scales are easy to use and ensure
17 that our customers can obtain accurate weights for their mail.

18 **E. Calculating the Postage Cost**

19 After the weight has been entered the final step in printing postage is to select
20 a mail class. The software will again intelligently limit the mail classes available to
21 the user based on the weight and type of the mailpiece. We currently only support
22 mail classes outlined by the IBIP program, including First Class, Priority, Express,

1 and Parcel Post. Once the mail class has been selected, the software automatically
2 calculates the postage rate instantly on the customer's machine, including any
3 applicable surcharges. The customer has no ability to manipulate or override this
4 rate, so it is guaranteed to be correct. The rates are stored on the Stamps.com
5 postage servers so that they may be easily and quickly updated for the entire
6 Stamps.com customer base at any time, ensuring all customers are only using the
7 most current rates. After these selections have been made, the customer is now
8 ready to print, and can click the 'Print' button. A "Printer" dialog box appears asking
9 the customer to confirm the printer. When the customer clicks 'OK' the software
10 generates the print job and sends it directly to the print driver for a successful print.

11 **VII. Enforcing Correct Printing**

12 Stamps.com has taken many steps to ensure that customers comply with the
13 automated mail requirements when printing IBIP postage. There are many different
14 ways to control which customers may print, what they may print on, and what
15 equipment they may use. In addition, printing issues that arise after software is
16 distributed to the customer base may be corrected through a few different methods.
17 The following sections describe each method Stamps.com employs to enforce the
18 printing of automation-ready mail.

1 **A. Proactive Measures for Correct Printing**

2 **a) Stamps.com Printer Database**

3 To give our customers maximum flexibility, Stamps.com allows customers to
4 print on any 300 dpi or better laser or inkjet. We do not require the user to buy
5 additional printing hardware and have found greater acceptance in the marketplace
6 because of this.

7 Before the commercial release of the Stamps.com Internet Postage software,
8 we tested hundreds of printers and printer drivers to ensure that our printing
9 technique would meet the requirements listed in Section A of the PCIBI-O and the
10 corresponding requirements listed in Publication 25. We tested each of these
11 printers with various drivers separately on Windows 95, Windows 98, and Windows
12 NT 4.0, and have been subsequently testing on Windows 2000. In addition, we also
13 tested these printers and drivers with #10, #11, #12, Personal, and Monarch size
14 envelopes, as well as every label supported by the Stamps.com software. As a
15 result, we built a comprehensive database of the media that could be supported by
16 each printer, driver, and operating system combination. This database has been
17 painstakingly compiled by testing printers in our print labs and is updated monthly
18 with new data from the latest printer models. This knowledge has helped us in
19 designing our software to work with printers that haven't been tested by Stamps.com
20 while still meeting the requirements in the PCIBI-O, *DMM* and Publication 25,
21 Designing Letter Mail.

1 The Stamps.com Printer Database is updated regularly, at least once per
2 month, with the latest test results for the newest printers on the market. We are
3 confident that our database contains specific information on the top 90% of all laser
4 and inkjet printers on the market today. Stamps.com continues to test printers,
5 drivers, and operating systems to ensure that our database information stays current
6 as new printers, drivers, and operating systems are created. In addition,
7 Stamps.com captures the results from each customer's print test so that our
8 customer's tests augment our own. If we see repeated problems with a printer on
9 customers' machines, we can globally prevent it from printing with our software until
10 we can specifically test it ourselves.

11 If we detect that a customer is using a printer that has been found to print out
12 of specification with a certain type of media (e.g. if #9 envelopes don't feed correctly),
13 we are able to globally restrict the media options available in the Stamps.com
14 software based on the printer, driver, and OS combination for our entire customer
15 base. Just as Stamps.com can globally restrict a specific printer from being used
16 with the software by all customers if it cannot print within specification, we can also
17 instantly globally turn off a specific media type for all customers, allowing almost
18 complete control over what can be printed from our software.

19 **b) Continuous Printer Tests**

20 When a customer first registers with Stamps.com, their printer information as
21 well as the results of their print test, is stored in the customer's Windows registry files.
22 Every time a customer prints, their registry files are checked. If anything about the
23 current printer's information (printer, driver, or OS) does not match what is in the

1 registry, the customer must go through the same printer configuration test they went
2 through during registration. The results of this new test are stored in the registry,
3 along with the original test. This way, Stamps.com can maintain a history of each
4 printer the customer uses and impose the appropriate media restrictions, if any.
5 Each time a driver or printer is changed, that printer or driver is verified separately,
6 ensuring accurate printing all the time.

7 **c) QA Envelopes**

8 Stamps.com is committed to ensuring that all of our customers can print within
9 IBIP and Publication 25 specifications. Stamps.com uses the Automation Template
10 designed to work with Publication 25, Designing Letter Mail to verify that each QA
11 Envelope meets all automation standards for FIM, POSTNET, indicium, and address
12 placement. We also use this template to verify that the indicium and human-readable
13 information are in specification as described in section A.5.2 of the PCIBI-O. The
14 vast majority of all the Quality Assurance Envelopes we receive from our customers
15 are within specification. If an envelope is even slightly out of specification, the
16 customer is asked via email to resend an envelope to make sure that they can print
17 within specification. The Internet Postage software will also prompt them each time
18 they log in to print another compliant QA envelope.

19 If an envelope is completely out of specification or if information is missing,
20 which is the case for less than 1% of all envelopes, that customer is automatically
21 suspended from printing with the Stamps.com Internet Postage software. As soon as
22 the customer is suspended, a Stamps.com Customer Support Representative calls
23 them to further troubleshoot and correct the problem that is causing the customer to

1 fail. The Support Representative will work with them on the problem until it is
2 resolved and walk them through the steps to print another QA envelope. The
3 customer is not allowed to print again until Stamps.com receives, evaluates and
4 approves another QA Envelope.

5 In the same manner, if a customer is suspected of fraudulent activity or non-
6 payment on their postage account, we will suspend them from printing. Since our
7 service is controlled by our postage servers, we have this control over all accounts on
8 an individual basis.

9 **d) Reimbursing Customers For Misprints**

10 Occasionally, a user will encounter a problem when printing postage, even
11 after correctly printing envelopes for any period of time. Different issues may arise;
12 from a paper jam in the printer to an envelope flipped the wrong way on the paper
13 feeder. Stamps.com has a generous policy for misprinted postage and we strongly
14 encourage our customers to get credit for their misprinted postage. Our policy is to
15 reimburse 100% of the value of the misprinted mailpiece to the user, whether we can
16 scan the indicium or not. In return, the USPS will reimburse us for some misprinted
17 mail, but to obtain reimbursement from USPS we must have proof of the misprint and
18 must be able to verify and scan the indicium. Our customer policy is a blanket policy.
19 We do not differentiate between scannable and non-scannable postage. We thus
20 assume the costs associated with credits for misprinted postage that the USPS will
21 not reimburse us for.

1 We've found that misprint problems usually occur with novice users, and have
2 designed our refund program to accommodate this. We will refund up to \$2.00 of
3 misprinted postage, no questions asked, and no proof of the misprint required. A
4 customer can contact our Customer Support department via phone, email or website
5 chat to take advantage of this refund. They are asked for each misprinted
6 mailpiece's value, and the ZIP code for accounting purposes. Stamps.com refunds
7 100% of all misprints to customers by adding this value directly into their postage
8 account. This is fast, easy, and no paperwork is required. After the \$2.00 limit is
9 reached for a customer, they must send us the physical evidence of the misprinted
10 postage to be eligible for further refunds. All of these processes are completely and
11 fully explained on our website.

12 **B. Reactive Measures for Correct Printing**

13 **a) Auto-Update**

14 Stamps.com continually strives to improve our knowledge of printers and our
15 control over their output. As a result, we may make minor changes to our software
16 before our next major release. To ensure that our users are always current with
17 these changes, we utilize a software package designed to update software remotely,
18 without user intervention. The Auto-Update software has the ability to detect the
19 difference between the change and the customer's current software down to the byte
20 level, and only install what the user is missing. Each time a customer logs in, Auto-
21 Update checks to see if there any differences between the customer's current version
22 and the latest version available on the Stamps.com Postage Servers. If a change

1 has been made on the Servers (such as an update to the print engine) the Auto-
2 Update downloads and installs this change or new version before the customer can
3 proceed with using the software. This ensures that the customer will always have
4 and use the latest version of the software, no matter when they last logged in. If we
5 ever found a problem with our print engine, we could globally update our customers
6 with a new version almost invisibly.

7 **b) Globally Restricting Printers**

8 Because of our printer database and the way our server architecture has been
9 designed, Stamps.com can globally restrict a printer type from being used with our
10 software. In addition, we can also globally restrict any printer driver or media type
11 from being used by our customer base. This gives us a very granular level of control
12 over print output from the Stamps.com software across hundreds of printer
13 combinations.

14 **c) Suspending Individual Accounts**

15 In addition to printer restrictions, Stamps.com can suspend a particular
16 account from printing if there are repeated problems. This ability to restrict accounts
17 ensures that the majority of our customers do not have to be affected due to isolated
18 problems that aren't global factors.

VIII. Future Support

In the future, there are many things that Stamps.com can do to give the user control over what is printed on the mailpiece. We could easily make any or all of the mailpiece automation features optional to the user, such as AMS cleansing, FIM printing, and POSTNET printing, etc. Each of these items could affect the end postage rate that is available to the customer after that feature is selected or deselected and the software could calculate a rate based on the amount of automated areas of the mailpiece. For example, we could give the user the option to turn off AMS address cleansing and calculate the postage rate for that piece at the full retail, non-automated single piece postage rate. We could also allow the user to turn off the FIM or the POSTNET and also pay the full rate. We could also give the user the option to remove their address from the indicium (but still keep the meter number for tracking purposes) and charge the customer a rate higher than the current single piece rate. This would have no effect on IBIP security requirements. As a user selects or deselects any of these options, the software would re-calculate the postage rate automatically. Even though these options would allow the user to create non-automation mail, these pieces would still guard against postal fraud because the indicium could still be scanned and verified by USPS equipment. In addition, the OCR could still process the printed address.

If the user has these options to control the look of their mailpiece and the time they dedicate in its preparation, they will use Stamps.com service more often. It would make it more attractive for people who hand-write envelopes right now, as they are people who do not see an advantage to spending extra time with one-time

1 mailpiece preparation. It would also make it more attractive to higher volume mailers
2 if they felt they could benefit from a discounted automation rate when printing a fully
3 automated mailpiece. Stamps.com (and the USPS) could ultimately increase
4 demand for our service, and our customer's mail volume with this additional
5 convenience, flexibility, and cost savings as compared to other package delivery
6 services.


Before the
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

Postal Rate and Fee Changes, 2000

Docket No. R2000-1

AFFIRMATION OF DIRECT TESTIMONY BY STAMPS.COM
WITNESS THOMAS KUHR (STAMPS.COM-T2)

I hereby affirm that my direct testimony, submitted on May 22, 2000, was prepared by me or under my direct supervision; is the testimony I would give today if I were giving testimony orally; and that the contents of my testimony are true and correct, to the best of my knowledge, information, and belief.



Thomas Kuhr

Dated: _____

7/6/2000

1 CHAIRMAN GLEIMAN: I think if you just put them
2 there on the edge of the table, we can work out the
3 logistics in a moment.

4 Also, have you reviewed the Designated Written
5 Cross Examination that was made available earlier this
6 morning, to assure that it reflects the answers to discovery
7 provided in writing by Witness Kuhr, also under declaration?

8 MR. HENDEL: Mr. Chairman, we haven't reviewed
9 that packet, but all the answers that had been provided were
10 provided with the declaration, so those -- any answers that
11 were designated would be under that declaration.

12 CHAIRMAN GLEIMAN: Okay, do you have copies of the
13 material? If not, I think I have copies up here.

14 [Pause.]

15 If you'd just put those copies on the stack for
16 the Reporter there, I'll direct that the Designated Written
17 Cross Examination be received into evidence and transcribed
18 into the record.

19 [Designated Written Cross
20 Examination of Thomas C. Kuhr was
21 received into evidence and
22 transcribed into the record.]

23
24
25

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

Postal Rate and Fee Changes, 2000

Docket No. R2000-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION
OF STAMPS.COM
WITNESS THOMAS C. KUHR
(STAMPS.COM-T-2)

Party

E-Stamp Corporation

United States Postal Service

Interrogatories

USPS/Stamps.com-T2-6, 9

OCA/Stamps.com-T2-1, 3, 7

USPS/Stamps.com-T2-1-11

Respectfully submitted,



Cyril J. Pittack
Acting Secretary

INTERROGATORY RESPONSES OF
STAMPS.COM
WITNESS THOMAS C. KUHR (T-2)
DESIGNATED AS WRITTEN CROSS-EXAMINATION

<u>Interrogatory</u>	<u>Designating Parties</u>
OCA/Stamps.com-T2-1	USPS
OCA/Stamps.com-T2-3	USPS
OCA/Stamps.com-T2-7	USPS
USPS/Stamps.com-T2-1	USPS
USPS/Stamps.com-T2-2	USPS
USPS/Stamps.com-T2-3	USPS
USPS/Stamps.com-T2-4	USPS
USPS/Stamps.com-T2-5	USPS
USPS/Stamps.com-T2-6	E-Stamp, USPS
USPS/Stamps.com-T2-7	USPS
USPS/Stamps.com-T2-8	USPS
USPS/Stamps.com-T2-9	E-Stamp, USPS
USPS/Stamps.com-T2-10	USPS
USPS/Stamps.com-T2-11	USPS

OCA/STAMPS.COM-T2-1

Please describe the current end users (e.g., small businesses, home offices, households, etc.) of Stamps.com's PC postage products and services. Include discussions of business demographics, household demographics, average mail volumes, and type of mail to which PC postage is applied. Provide copies of all supporting documentation.

RESPONSE:

Stamps.com has a substantial number of users in each of four categories: household, home office, small business (1 – 5 employees), and large business (more than 5 employees). Pursuant to Postal Service requirements, the maximum credit balance that a PC Postage customer may maintain is \$500. This feature makes it unlikely that PC Postage will attract many large volume mailers.

OCA/STAMPS.COM-T2-3

You indicate that Stamps.com rolled its product out nationwide in October 1999 (Stamps.com-T-2 at 7). Provide the number of active Stamps.com customers by month from October 1999 to the present. Include only customers making postage purchases through Stamps.com in each month.

RESPONSE:

As of March 31, 2000, Stamps.com reported a customer base of 187,000 customers. By press release dated June 20, 2000, Stamps.com reported that it has more than 200,000 customers.

OCA/STAMPS.COM-T2-7

For customers applying First-Class postage to one ounce letter mailpieces through Stamps.com, please state the costs (over and above the cost of postage) to mail (a) 20 letters and (b) 80 letters each month. If there are choices of plans at different prices, indicate the most economical for the customer. Provide copies of rate plans.

RESPONSE:

Stamps.com charges a monthly service fee to our customers over and above any postage the customer purchases. This service fee is calculated from the total amount of postage the customer prints in a billing period (approximately every 30 days, starting from the date they sign up for service). Stamps.com has offered multiple service plans to consumers and small businesses since the launch of our service, and these service plans will continue to change as we attract more and different types of customers. Currently (as of June 28, 2000), we offer a choice of two service plans. The plan that is most economical to a particular consumer is the one that fits their postage consumption the best. The "Simple Plan" is more economical for a low volume consumer, where the "Power Plan" is more economical for a high volume consumer. The details of all current plans are always available on our website (<http://www.stamps.com/postage/>).

Assuming one-ounce first class letters only, a customer printing 20 letters would require \$6.60 in postage, and 80 letters would require \$26.40 in postage. Both scenarios would be considered "low volume," so the most economical plan for this customer would be the "Simple Plan." In calculating the service fee for sending 20 letters, we start with the basis of 10% of the total printed postage value, or \$.66 (20 letters times \$.33 per letter, times 10%). However, there is a \$1.99 minimum charge per month with this plan, so the customer would be billed at this minimum rate, as it is higher than the \$.66 calculated using the 10% charge. The service fee would be \$1.99. Using the same assumptions, but sending 80 letters with the Simple plan, the 80 letter customer will be billed \$2.64, which is 10% of the total postage printed.

USPS/STAMPS.COM-T2-1 On page 7 lines 14 through 16 you state "because all of the human-readable information is encoded into a 2-dimensional barcode, the indicium can be scanned by the USPS to quickly verify its authenticity, value, weight, origination point, and destination." Please explain how the weight can be verified by scanning the 2-dimensional barcode.

Response:

Clarification: The weight of the mailpiece cannot be verified, but the weight that was entered by the customer while printing the indicium can be verified.

USPS/STAMPS.COM-T2-2 On page 7 lines 18 through 21 you state "since each indicium indicates its origin, both location (the Licensing Post Office ZIP code) and owner (the customer's device ID and meter number), fraudulent activity can be detected and traced more readily and rapidly than with a traditional postage meter mark." Please confirm that a traditional postage meter mark also indicates its origin, both location (the Licensing Post Office ZIP code) and owner (the customer's device ID and meter number). If not confirmed, please explain.

Response:

Confirmed, although there is no device ID in a traditional meter mark. Note also that unlike a traditional meter, an IBI meter can be traced to an individual user. Thus, the Postal Service allows IBI meter users – but not users of traditional meters – to deposit packages weighing over 16 ounces in USPS collection boxes.

USPS/STAMPS.COM-T2-3 On page 17 lines 7-8 you state that, "all mail pieces created through Stamps.com that use the FIM can be processed with the USPS processing equipment (facer - cancelers)."

a. Please confirm that all such letter and card shaped mail pieces would contain a FIM D marking. If not confirmed, please explain.

b. Please provide the results and all supporting documentation for any tests that may have been performed on postal cancellation machines.

Response:

- a) Confirmed, as long as the customer prints directly onto an envelope. If the customer chooses to print on a label, there is no FIM. Note that during Beta testing we applied a FIM C marking on envelopes, and currently we apply a FIM D marking pursuant to USPS specifications. If necessary, we could revise the software to apply a FIM C code or other FIM marking.
- b) I do not have copies of these tests. They were performed by the USPS IBIP team prior to the creation of the PCIBI-C document and I have only heard of the results through communication with this team. Stamps.com itself did not perform tests with USPS owned equipment.

USPS/STAMPS.COM-T2-4 On page 17 lines 14 and 15 you state "for mailpieces using address labels, the fluorescent stripe acts as a replacement for the FIM-D." Please explain how the Postal Service's processing equipment will differentiate IBIP postage when it is applied to a label placed on an envelope from a traditional meter imprint?

Response:

To my knowledge, the USPS equipment will not differentiate IBIP postage from other postage labeled with a fluorescent label. I am not an expert on USPS equipment, however, and cannot say this is true. Note that an IBI mailpiece will have a cleansed address, a 9-digit ZIP Code, and a pre-applied 11-digit POSTNET barcode.

USPS/STAMPS.COM-T2-5 On page 27 lines 4-5 of your testimony you state, "The Print Postage dialog box requires that the customer enter the weight of the mailpiece so that the software can correctly calculate the postage rate." On page 28 lines 3-4 you further state that, "The customer has no ability to manipulate or override this rate, so it is guaranteed correct."

- a. Please confirm that the Stamps.com end users are not required to integrate a scale into their PC system. If not confirmed, please explain.
- b. Please confirm that the Stamps.com end users that do not have a scale would pay the postage for additional ounces (for mail pieces weighing over one ounce) on an "honor" basis. If not confirmed, please explain.
- c. Please confirm that if a Stamps.com end user does not have a scale and incorrectly enters the mail piece weight, the postage on the mail piece would not be correct. If not confirmed, please explain.
- d. Please confirm that situations similar to those described in (c) could occur such that the postage paid for a given mail piece by a Stamps.com end user would not always be "guaranteed correct." If not confirmed, please explain.

Response:

- a) Confirmed. Users are not required to use an integrated scale, however, when they do, they may not override the scale value.
- b) Not confirmed. All postal patrons are required by law and USPS regulations to pay the appropriate amount of postage, even if they do not have a postal scale. USPS can return under-paid mailpieces to the sender or assess the recipient for postage due. Thus, Stamps.com users, like other postal patrons, do not pay for additional ounces simply on an "honor" basis.
- c) Confirmed. The end user is responsible for placing the correct value on the mailpiece, regardless of the method used. Note that a user without a postal scale could mistakenly overpay as well as underpay. Note also that an IBIP user cannot under-pay the one ounce First Class postage rate, which is set at a minimum postage of \$0.33. A postal patron who used a traditional meter or stamps to pay for postage could, however, under-pay for the one ounce First Class rate.

- d) Theoretically, users without an integrated postal scale could apply postage for a lower weight than the actual weight of the mailpiece. But an IBIP user could not underpay on a one ounce letter or postcard, as the minimum postage is set automatically by the software.

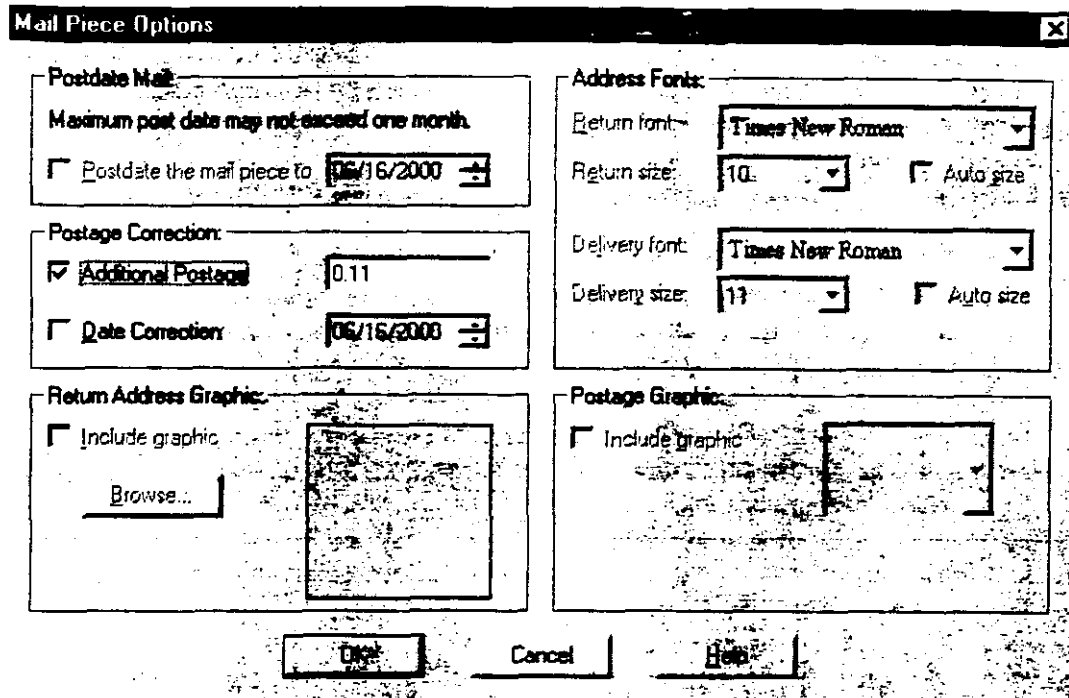
USPS/STAMPS.COM-T2-6 On page 28 lines 1-3 of your testimony you state, "Once the mail class has been selected, the software automatically calculates the postage rate instantly on the customer's machine, including any applicable surcharges." Please confirm that the Stamps.com product can be used to apply the nonstandard surcharge to First-Class nonstandard mail pieces weighing less than one ounce. If not confirmed, please explain.

- a. Please describe the procedure (i.e., list the steps) necessary for a Stamps.com end user to apply the proper nonstandard surcharge postage to a First-Class nonstandard mail piece that exceeds the thickness requirement (i.e., is > 0.25").
- b. Please describe the procedure (i.e., list the steps) necessary for a Stamps.com end user to apply the proper nonstandard surcharge postage to a First-Class nonstandard mail piece that exceeds the length requirement (i.e., is > 11.5").
- c. Please describe the procedure (i.e., list the steps) necessary for a Stamps.com end user to apply the proper nonstandard surcharge postage to a First-Class nonstandard mail piece that exceeds the height requirement (i.e., is > 6.125").
- d. Please describe the procedure (i.e., list the steps) necessary for a Stamps.com end user to apply the proper nonstandard surcharge postage to a First-Class nonstandard mail piece that does not meet the aspect ratio (length/height) requirement (i.e., is < 1.3 or >2.5).

Response:

Confirmed.

- a) In the unlikely event that a standard-size envelope is somehow so over-stuffed that it exceeds the maximum thickness yet still weighs less than one ounce, the end user can add a postage correction indicium for the additional value required. This is currently \$0.11. On the Print Postage screen, the user can click the "Options" button. On the Mail Piece Options screen (*Fig. 1* below) the user checks the "Additional Postage" box and enters the amount, then clicks "OK". The customer can then print the additional postage indicium on a label or on the back of the envelope.



Mail Piece Options

Postdate Mail:
Maximum post date may not exceed one month.
☐ Postdate the mail piece to: 06/16/2000

Postage Correction:
☒ Additional Postage: 0.11
☐ Date Correction: 06/16/2000

Return Address Graphic:
☐ Include graphic
Browse...

Address Font:
Return font: Times New Roman
Return size: 10 Auto size
Delivery font: Times New Roman
Delivery size: 11 Auto size

Postage Graphic:
☐ Include graphic

OK Cancel Help

Fig 1. Mail Piece Options screen.

This screen is used to enter the standard surcharge to a business size envelope if it is so over-stuffed it exceeds the maximum thickness but still weighs less than one ounce.

- b) If the user selects 'Envelope' for the mailpiece, the only 'Print On' options are labels or standard envelope sizes where no surcharge is applied. If the Mail Piece selected is 'Large Envelope', the software automatically adds the \$0.11 surcharge if the item is less than once ounce. (There is no standard surcharge assessed by USPS for items weighing over one ounce.) If the dimensions indicate that it is non-standard (length exceeds 11 1/2 inches, height exceeds 6 1/8 inches; or if the aspect ratio (length divided by height) is less than 1.3 or more than 2.5), the software informs the user that this will require an \$0.11 surcharge.
- c) Same as (b) above.
- d) Again, when the user selects Large Envelope, an \$0.11 surcharge is added to the postage amount. See answer to (b) above. Stamps.com does not currently support non-standard aspect ratio envelopes, so a label must be applied to this type of mailpiece.

USPS/STAMPS.COM-T2-7 On page 29 lines 3-6 you state that "Stamps.com allows customers to print on any 300 dpi or better laser inkjet. We do not require the user to buy additional printing hardware and have found greater acceptance in the marketplace because of this."

- a. Which of the following two characteristics do you feel should dictate the mail piece quality requirements if a given mail piece is to be awarded a postage discount: "level of acceptance" or printer quality? Please explain your answer.
- b. Did you conduct any tests and/or studies in order to determine the level to which the "lower quality" printers create mail pieces that can be successfully processed on postal equipment? If so, please provide all supporting data from those tests and/or studies.
- c. How did you determine the "lower bound" in terms of the quality of printers that are allowed to use the Stamps.com product?

Response:

- a) Neither. A discount should be awarded on the basis of cost avoidance or savings attributable to mailer preparation activities which make mailpieces less costly for USPS to process and deliver.
- b) Stamps.com did not explicitly test print quality, although with our experience in scanning numerous QA envelopes to date we have extensive field training. From what I understand, the USPS IBIP group is currently testing print quality on samples vendors have supplied, on different labels and envelope types. In addition, Hewlett-Packard conducted a print quality study in 1997 while the IBIP program was being refined, titled Scan Reliability of PDF417 Two Dimensional Symbology for Postal Evidencing Using Thermal Inkjet Technology. In this study, they verified that 300dpi printers (at the time) were capable of printing barcodes that scan over 95% of the time. The USPS IBIP team should have copies of this study.
- c) Stamps.com did not determine the bounds of the program. The 300dpi parameter (200dpi for thermal label printers) was determined by the USPS. The 300dpi parameter is noted in the PCIBI-O specification, and the 200dpi parameter was noted in a letter address to IBIP vendors, to be updated in the next version of the PCIBI-O specification.

USPS/STAMPS.COM-T2-8 On page 30 lines 11-14 you state, "If we detect that a customer is using a printer that has been found to print out of specification with a certain type of media (e.g., if #9 envelopes don't feed correctly), we are able to globally restrict the media options available in the Stamps.com software..."

- a. Please describe the "detection" process and what steps are taken to ensure a defective mail piece does not enter the mail stream. For example, if there is a quality problem on a given mail piece that occurs as a result of the printer itself, how is this problem detected if a Stamps.com end user enters that mail piece into a blue collection box that is routed directly to a postal facility? How is the Postal Service notified of the discrepancy?
- b. If the print quality on a given mail piece is poor because a toner cartridge is running out, does the Stamps.com software prohibit the end user from applying the postage? If your answer is affirmative in any way, please explain how this process would occur.
- c. Please confirm that the 2-dimensional barcode allows Stamps.com to determine the time and date that a "QA envelope check" mail piece was printed. If not confirmed, please explain.

Response:

- a) Stamps.com can detect a printer problem in a number of ways, but this does not exclude the end customer from printing on that printer until the Stamps.com printer database is updated with these findings. We can detect printer problems in our printer lab, through our customer support department, from third party partners like Hewlett Packard, or from customer QA envelopes. Any suspected problems are immediately tested for confirmation in our printer lab, and we will purchase a particular printer immediately to test it.

Once Stamps.com has determined that a particular printer, printer driver or operating system cannot print on a particular piece of media, Stamps.com updates the universal printer database and disallows that printer from being used from that point forward. Each time a user logs on to the system, the printer database is checked to ensure the printer they have selected is valid, and the parameters and media have not changed. Thus, any updates immediately affect the customer base.

The Postal Service is not necessarily notified of any such discrepancy. We are held accountable for ensuring that each customer is printing within specification through the QA envelope requirement. It is our responsibility to ensure

customers are able to print a compliant QA envelope. If a significant number of customers were ever found to be non-compliant, we would notify the USPS at that time. This situation has not occurred with Stamps.com in the 4 years we have been working with the IBIP group.

- b) I do not know of a way for a computer program to detect if printer toner is low in most low to mid-end printers on the market today. It is thus possible for a user to print IBI envelopes when the toner cartridge is "running out." Even if toner is "running out," the print quality is still likely to be sufficient for the mailpiece to be read and processed as automation compatible mail. I think it extremely unlikely that a user will print out IBI envelopes (which contain live postage) if the toner cartridge is so low that it produces a mailpiece that is unreadable by USPS's automation equipment. I agree with witness Heselton's testimony that users want their mailpieces delivered and will thus prepare their mailpieces so they can be read. (Heselton testimony, p. 27.)
- c) Confirmed.

USPS/STAMPS.COM-T2-9 On page 31 lines 13 through 15 you state "the vast majority of all the Quality Assurance Envelopes we receive from our customers are within specification."

- a. Please explain what is meant by "vast majority" (i.e. the number and percentage of Quality Assurance Envelopes that are within specification).
- b. Of the envelopes that are not within specification, what types of problems are noted (i.e. FIM placement, Postnet, etc.).
- c. What percentage of the non-specification envelopes are of each problem type?

Response:

- a) Over 85% of the QA envelopes we receive are within specifications and have no problems. Approximately 14% of the envelopes we receive are not quite up to specification, and we request the customers to send us another one. Most problems are corrected after the second envelope is sent. Only 0.3% of the envelopes we receive are seriously out of specification, and we immediately suspend printing for those customers until a customer support representative can help to correct the issue.
- b) There are a variety of reasons for an envelope not passing. By far the most common, accounting for 13% of all QA envelopes received, is the FIM falling below the 1/8-inch tolerance from the top of the envelope. This problem is usually attributed to the printer envelope guides that are too far apart, and is easily corrected. Other problems are illegible indicia due to damaged envelopes, ink jet smudging, light toner.
- c) See (a) and (b) above. Aside from the FIM falling below the 1/8 inch tolerance, all other reasons constitute less than 1 percent of the envelopes we receive.

USPS/STAMPS.COM-T2-10

USPS/STAMPSCOM-T2-10 On page 7, lines 4-6, you state that Stamps.com, reported 187,000 licensed and active customers using its service at the end of the first quarter. You further state that the number of customers continues to grow each day.

(a) Please confirm that the end of the first quarter for Stamps.com was March 31,2000. If not confirmed, please explain.

(b) How many of these 187,000 customers were businesses and how many were households?

(c) How much daily IBIP mailpiece volume did these 187,000 customers generate? If possible, please provide the volumes separately for businesses and households.

(d) Please provide the most recent estimate available for the number of Stamps.com customers, breaking those customers out by households and businesses.

(e) How much daily IBIP mailpiece volume are the customers in part (d) above generating? If possible, please provide the volumes separately for businesses and households.

Response:

(a) Confirmed.

(b) This question was objected to by counsel. Stamps.com has a substantial number of users in both categories.

(c) This question was objected to by counsel.

(d) This question was objected to by counsel. We can say that, as of our last press release, dated June 20, 2000, we had "more than 200,000 customers."

(e) This question was objected to by counsel.

USPS/STAMPS.COM-T2-11

On page 5 of your testimony, you state "[i]n essence the use of Stamps.com software ensures that USPS's automation standards are met on each mailpiece produced by our customers."

(a) Is a Stamps.com customer able to apply postage to a mail piece that exceeds size, shape, and weight limitations for automation-compatible mail, for example, a letter weighing 4 ounces or a parcel?

(b) Please confirm that the use of Stamps.com postage on a mail piece will guarantee its automation compatibility? Explain your response in detail.

(c) Would you agree that a PC-postage mailpiece should be potentially eligible for the discount proposed by Stamps.com only if that piece is automation-compatible? Fully explain your response.

RESPONSE:

(a) If labels are used, it is possible that postage may be misapplied to a package or envelope that is different in character than specified in the software by the customer. If envelopes are used, this is not possible, as the size of the envelope is enforced by the software and the printer.

(b) Confirmed. Each IBIP mailpiece contains the two elements required for automation: an orienting mark (FIM for envelopes or fluorescent stripe for labels), and a POSTNET barcode. Both elements are printed in the required manner, resolution and layout as specified in USPS Publication 25, Designing Letter Mail.

(c) No, because even if not automation-compatible, the address of a PC Postage mailpiece will be cleansed, resulting in cost savings to USPS from reduced return-to-sender mail.

1 CHAIRMAN GLEIMAN: Now, moving on to Witness
2 Lawton.

3 MS. DREIFUSS: Mr. Chairman?

4 CHAIRMAN GLEIMAN: I'm sorry.

5 MS. DREIFUSS: Mr. Chairman, there were two
6 interrogatory responses of Witness Kuhr that were not
7 designated by the Postal Service. These are OCA
8 Interrogatories, and we would like to add those to materials
9 entered into evidence.

10 CHAIRMAN GLEIMAN: Most certainly. I assume that
11 they were also filed with a declaration when they were
12 filed?

13 MR. HENDEL: That's correct.

14 CHAIRMAN GLEIMAN: If that is the case, counsel,
15 if you would please put -- no changes. If you could please
16 add those to the stack, Mr. Handel.

17 Mr. Tidwell will tell you that we pay very well
18 for administrative assistants during hears. He's been a
19 help over the years since I've been here, and we appreciate
20 your helping us this morning.

21 The two corrected copies of the Additional
22 Designated Cross Examination will be transcribed into the
23 record and received into evidence.

24 [Additional Designated Written
25 Cross Examination of Thomas C.

1 Kuhr, OCA/Stamps.com-T2-4, was
2 received into evidence and
3 transcribed into the record.]
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OCA/STAMPS.COM-T2-4

Provide Stamps.com's estimate of the number of active customers it expects to have by the end of the test period in this Docket No. R2000-1 (September 2001). Break down the estimate by the categories of end users given in response to OCA/STAMPS.COM-T2-1. Indicate specifically how many of the total number of projected customers are (a) households and (b) home offices?

RESPONSE:

According to witness Raymond Boggs of IDC, from the start-up year of 1999, when total postage spending (equipment plus postage) will reach \$8.2 million, annual spending will grow by a factor of roughly 200 to reach \$1.3 billion in 2003. IDC believes that PC Postage will come to represent over 10% of total postage spending by small businesses and income-generating home offices. (See Boggs testimony, p. 35.)

OCA/STAMPS.COM-T2-5

Currently, what is the average amount of postage purchased by a Stamps.com customer monthly? What is the average number of mailpieces to which a Stamps.com customer applies Stamps.com postage monthly?

RESPONSE:

As stated in response to question 1 above, the Postal Service limits the amount of postage that a customer may maintain as a credit balance in his PC Postage account to \$500. This feature makes it unlikely that PC Postage will attract many large volume mailers, because the \$500 balance would be exhausted rapidly. At each \$500 increment, additional postage would have to be purchased, the transaction would have to clear, and confirmation would have to be received, before the mailer could resume use of PC Postage.

1 CHAIRMAN GLEIMAN: Moving to Witness Lawton,
2 again, the question is, with respect to the Direct Testimony
3 of that witness, do you have two copies, corrected copies,
4 and an appropriate declaration of authenticity?

5 MR. HENDEL: Yes, Mr. Chairman.

6 CHAIRMAN GLEIMAN: Is there any objection to this
7 material being entered into the record?

8 [No response.]

9 CHAIRMAN GLEIMAN: If not, I would appreciate it
10 if you would just add that to the stack, also, and I'll
11 direct, counsel, that the Court Reporter receive that
12 material into evidence and transcribe it into the record.

13 [Written Direct Testimony of Leora
14 E. Lawton was received into
15 evidence and transcribed into the
16 record.]

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Stamps.com-T-3

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

POSTAL RATE AND FEE CHANGES, 2000

Docket No. R2000-1

DIRECT TESTIMONY
OF
LEORA E. LAWTON
ON BEHALF OF
STAMPS.COM

David P. Hendel, Esquire
Wickwire Gavin, P.C.
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Facsimile: (703) 448-1801

May 22, 2000

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1 **Introduction**

2
3 My name is Leora E. Lawton. I am Director of Research at Informative,
4 Inc. in South San Francisco, California. For the last 7 years, I have been
5 involved in conducting various kinds of business research, with a specialization in
6 online survey methodologies, and a focus on high tech industries, including
7 telecommunications, information technology (IT), electronics manufacturing, and
8 related industries. My focus is on both consumer behavior and business-to-
9 business (B2B) markets. At Informative, I manage a team of researchers. I also
10 provide direction to research design and analysis and conduct ongoing
11 continuing education courses in business research. I also provide support to the
12 account management, project management, marketing and engineering
13 departments regarding research services and products.

14 In my work at Informative, Inc., I am in charge of enhancing the quality of
15 research services to clients, as well as developing a set of services that can be
16 provided consistently to our client base. In addition, I oversee and conduct
17 custom research as required for our clients. Typical research objectives sought
18 by our clients are customer requirements, web site evaluations, e-commerce,
19 customer satisfaction, advertising effectiveness, and brand awareness. I also
20 seek out new developments in the world of online research by conducting original
21 primary research and attending professional meetings of peers. My key area of
22 expertise is customer satisfaction for software and other technology companies.

23 Prior to joining Informative, I was Senior Research Consultant at
24 NFO/Prognostics in Palo Alto, CA. I developed new forms of analysis for our

1 clients, developed research agenda, carried out the more complex analyses, and
2 provided consulting to clients based on the results of their survey research
3 projects. Before Prognostics, I worked as an independent consultant and
4 published a training handbook, *The Primer on the Electronics Manufacturing*
5 *Industry: Processes and Markets*. I also worked at Bellcore (now Telcordia
6 Technologies) in Morristown and Piscataway, NJ, where I designed and fielded
7 one of the first household surveys regarding Internet use. By the end of 1995, I
8 was able to identify 'internet addiction' as the result of qualitative studies on chat
9 rooms, and predicted a variety of future practices, such as downloading music
10 from the Internet onto CDs.

11 I have written numerous articles for major trade magazines and scholarly
12 journals, and contributed several chapters for scholarly and layperson texts. I
13 was an invited speaker to several international conferences in both industry and
14 academia, and have given dozens of trade and scholarly presentations. I am on
15 the Council for the Sociological Practice Section of the American Sociological
16 Association. I taught at Montclair State University and John Jay College of
17 Criminal Justice (CUNY). My undergraduate work was at the University of
18 California, Berkeley, and I earned a doctorate at Brown University.

19 Informative, Inc. is an online business intelligence research company,
20 specializing in online survey fielding and reporting methodologies. Founded in
21 1997, Informative has been the leader in online survey methods, and has fielded
22 thousands of online surveys.

23

I. Report Background and Summary

A. Background

The purpose of this study is to provide a description of how use of Stamps.com services has affected how customers process their outgoing mail. Specifically, as a result of Stamps.com:

(1) Do customers use USPS postal services more while frequenting the actual post offices less?

(2) Do customers address their mail with greater accuracy and automation compatibility?

B. Methodology

A quantitative survey instrument was designed that covered the following basic areas relevant to this proceeding:

- Use of USPS services
- Practices around addressing envelopes with and without address labels, specifically addressing ZIP Codes, POSTNET barcodes, and FIM codes.

C. The Survey Instrument

The questionnaire was designed with input from Stamps.com regarding the kind of information necessary to indicate processes for addressing, postage and barcodes prior to use of Stamps.com service.

The survey variables are straightforward questions about behavior. The method of analysis is simple, consisting of distributions or frequencies of the

1 variables. No hypothetical model is being tested, the research is rather a
2 description of behavior; the implicit (untested) causal relationship is that use of
3 Stamps.com has altered this former behavior.

4

5 **D. Sources of Error**

6 The design was a retrospective study, that is, customers were asked to
7 record the ways in which they carried out postal activities prior to their use of
8 Stamps.com. Retrospective data is always at risk for response error due to poor
9 recall. The ideal study design for capturing change in behavior is to interview
10 while the respondents are still engaged in the first situation, and then re-interview
11 the identical respondents when they are in a different situation.

12 In addition, there was some measurement error attributed to defining the
13 frequencies of behavior, with some people recording discrete numbers, others
14 stating a range, and still others giving verbatim comments. However, taking split
15 samples of the data revealed consistency within the sub-sample means, so the
16 estimates obtained in this study are reliable.

17 Some people were confused concerning the time orientation of questions
18 on past practices in addressing. When asked how they addressed letters in the
19 past (before they started using Stamps.com), these respondents stated that they
20 used Stamps.com. Clearly, these respondents believed they were being asked
21 about their *current* addressing practices. The effect of this orientation error is
22 that the reported past use of typed or printed addresses, 9-digit ZIP Codes,
23 POSTNET codes, and FIM codes is higher than what was actually used. This

1 error results in the survey understating the ways in which Stamps.com has
2 improved address quality from the respondent's previous addressing methods.

3 4 **E. Sample**

5 As of March 31, 2000, Stamps.com reported a customer base of 187,000
6 customers. Based on this total population, and the need for a statically valid
7 sample, the sample population was designated at 2400, which yields a margin
8 error of +/- 2 for proportions, at a 95% confidence level. The sample frame was
9 the Stamps.com registered customers. The sample was pulled randomly from
10 the Stamps.com customer list using the following criteria.

- 11 • Respondents were given at least one month of experience before being
12 surveyed.
- 13 • No respondent was selected who had participated in a previous customer
14 survey.
- 15 • The service only started in October: respondents were selected by
16 registration dates. While not a probability sample per se, respondents
17 were chosen from those who registered in select days for the months of
18 November 1999, December 1999, February 2000 and March 2000. The
19 following table lists the days for each month:

Table 1: Selection of Respondents for Sample

Respondents Selected From:
November 13-15, 1999
December 20-25, 1999
February 23-28, 2000
March 1-5, 2000.

Customers were invited by email to take the survey, which could be accessed by either clicking on the URL directly or by cutting and pasting the URL into the browser window. The online survey was designed to take less than 15 minutes. A total of 11,990 email invitations were sent out to Stamps.com customers, resulting in 2,432 completed surveys as of the date of this analysis. A reminder was sent to ensure the target number of completes. The response rate of 20.4 is typical for a customer invitation to an online survey for a software product. The survey commenced on May 10, 2000 and was closed on May 17, 2000.

F. Key Findings

The results of this survey indicate clearly that:

- Stamps.com customers are more aware of USPS services, use more USPS Express and Priority Mail than previously, and yet use the local Post Office less (an estimated 1,000,000 fewer visits each month).

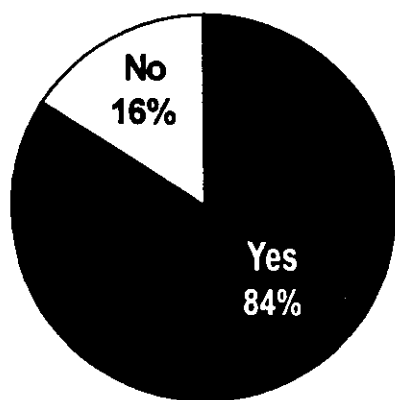
- Practices prior to use of Stamps.com indicate that their addressing and postage procedures usually did not include POSTNET barcodes, FIM codes, or 9-digit ZIP Codes. When the ZIP Code was used, it was gleaned in often laborious ways. When the POSTNET barcode was used, it was mostly generated by Microsoft or WordPerfect.

II. Use of USPS Services

In this section we examine how enrollment in the Stamps.com program has affected customer's awareness and use of USPS services. As the Figures 1, 2, and 3 clearly show, Stamps.com has noticeably altered the manner in which customers conduct their postal business.

Figure 1: Reduction of Trips to Post Office

Has Stamps.com reduced the number of trips you have to make to the post office?



Base = All respondents (n = 2,424)

1 The overwhelming majority, 84 percent, state that Stamps.com reduces the
2 number of trips they take to the US Post Office (see Figure 1). On the average,
3 about 4.5 fewer trips were reported by those giving specific numbers, with
4 several people reporting 100% reduction in trips to the post office:

5 "I don't go at all anymore."

6 "Haven't been to post office since I installed software."

7 "The only time I go now is to drop my mail in the box."

8 "I don't have to go to the post office at all now and it saves me
9 time."

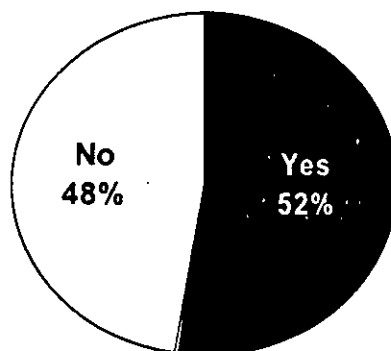
10 "Only go for packages that weigh more than my scale is able to
11 weigh."

12 Thus we see that use of Stamps.com reduces customer visits and use of
13 postal services at local post offices.

14 About half of the respondents note that Stamps.com has increased their
15 awareness of USPS Express and Priority mail services (Figure 2).

1 **Figure 2: Increased Awareness of USPS Services**

2
3 **Has Stamps.com increased your awareness of USPS Express and**
4 **Priority Mail services?**
5

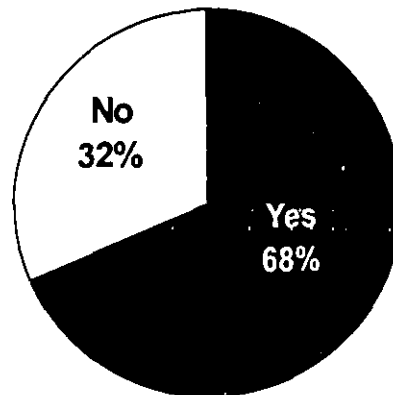


6 Base ■ All respondents (n = 2,421)
7
8
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10 Not surprisingly, it becomes easier for Stamps.com customers to use USPS
11 Express and Priority Mail, with about 2/3 reporting greater ease (Figure 3,
12 below). In Figure 4 (below), we see that a third now report a greater use of
13 USPS Express and Priority Mail that they did prior to Stamps.com.

Figure 3: Easier Usage of USPS Services

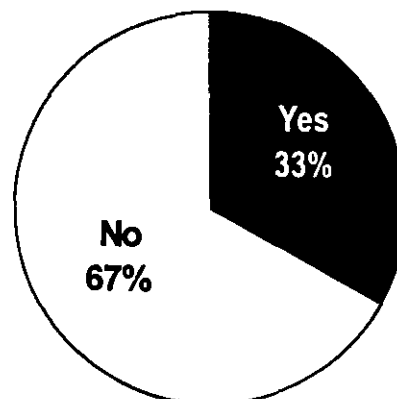
Has Stamps.com made it easier for you to use USPS Priority and Express Mail?



Base = All respondents (n = 2,410)

Figure 4: Increased Usage of USPS Services

Has Stamps.com increased your use of USPS Priority and Express Mail?



Base = All respondents (n = 2,409)

III. Practices around addressing envelopes with and without address labels

In this section, customers were probed regarding their practices for outgoing mail prior to use of Stamps.com. They were given two sets of questions, one for business-size (#10) envelopes where they did use an address label on the envelope, and one for business envelopes that did not have address labels. Because there are similarities between practices among both kinds of envelopes, the summary data is juxtaposed and discussed concurrently.

Table 2: Usage of 9-digit ZIP Code

Please estimate what percentage contained a 9-digit ZIP Code.

Percent That Contained 9-digit ZIP Code	Letters with Address Labels on #10 Envelope	Letters without Address Label on #10 Envelope
0%	38%	24%
1% - 25%	30%	35%
26% - 50%	8%	10%
51% - 75%	6%	10%
76% - 100%	19%	21%
	Base = Those who used address labels (n = 1,991)	Base = Those who did not use address labels (n = 2,304)

Approximately one quarter of mail sent without a label never contained a 9-digit ZIP Code (see Table 2). For mail sent with a label, that percentage increases to one-third. Respondents stated that only about one-fifth of letters, with or without labels, always or nearly always had a 9-digit ZIP Code. Two-thirds of respondents stated that business letter never or infrequently had a 9-digit ZIP Code.

Regardless of whether the envelope had an address label or not, the sources for 9-digit ZIP Codes were the same: slightly over half grabbed it off an existing envelope, about 15 percent used mailing lists or directories, about one-fifth said they referred to the USPS address database (Table 3).

Table 3: Obtaining ZIP Codes

How did you obtain the ZIP Code?

Where 9-digit ZIP Code is Obtained	Letters with Address Labels on #10 Envelope	Letters without Address Label on #10 Envelope
Off an envelope	54%	53%
From directory/mailling list	14	16
With USPS address database	22	20
Other: Total	10	11
	Base = Those who mailed letters with address labels & 9-digit ZIP Code (n =2242)	Base = Those mailed letters without address labels & used 9-digit ZIP Code

One-half to two-thirds of respondents said that their #10 envelopes never had a POSTNET barcode (Table 4). Only about 20 percent of respondents said that all or nearly all of their business letters had a POSTNET barcode.

Table 4: Usage of POSTNET Barcode

Please estimate what percentage contained a POSTNET barcode.

Percent That Contained POSTNET Barcode	Letters with Address Labels on #10 Envelope	Letters without Address Label on #10 Envelope
0%	63%	53%
1% - 25%	10%	13%
26% - 50%	5%	6%
51% - 75%	4%	6%
76% - 100%	18%	22%
	Base = Those who used address labels (n = 1,957)	Base = Those who did not use address labels (n = 2,348)

Table 5: Software Used for POSTNET Code

If any of your letters contained a POSTNET code, which software did you use?

Software for POSTNET Code	Letters with Address Labels on #10 Envelope	Letters without Address Label on #10 Envelope
<i>Stamps.com</i>	128	152
Microsoft Word	110	202
WordPerfect	46	59
Avery	2	6
Dazzle	1	2
Lotus	3	6
All Others	27	35

Here is where some confusion regarding the time period is evident, because 128 respondents said they used Stamps.com software for envelopes with labels, and 152 for envelopes without labels. These respondents clearly believed that they were being asked about their *current* addressing practices, not

what they used before Stamps.com. Thus, it is very likely that this survey over-reports the past amount of use of printed or typed addresses, ZIP+4 Codes, POSTNET barcodes, and FIM Codes. Not surprisingly, the next most common software used for obtaining the POSTNET code was Microsoft Word, outnumbering other software choices combined by 2:1 (Table 5).

Occasionally business direct mail involves acquisition of a mailing list from a third-party vendor, who provides pre-printed envelopes with the POSTNET codes. This source was mentioned in about a dozen cases.

Table 6: Usage of FIM Barcode

What percentage of your mail contained a FIM barcode?

Percent That Contained FIM Barcode	Letters with Address Labels on #10 Envelope	Letters without Address Label on #10 Envelope
0%	75%	69%
1% - 25%	8%	10%
26% - 50%	3%	4%
51% - 75%	3%	4%
76% - 100%	12%	14%
	Base = Those who used address labels (n = 1,903)	Base = Those who did not use address labels (n = 2,264)

Three-quarters of respondents stated that all their mail lacked a FIM code (Table 6). Only about 13 percent of outgoing mail always or nearly always had a FIM barcode.

Again, it is quite possible that the respondents who stated they used a FIM Code most of the time were thinking of their current practice, not their previous practice prior to using Stamps.com. Whether the letters had an address label or

not, about 13-15 percent previously had postage applied using a meter, 8-9 percent with a permit, and 78 percent with stamps (Table 7).

Table 7: Posting Process

What percentage of letters were prepared with:

Posting Process	Letters with Address Labels on #10 Envelope	Letters without Address Label on #10 Envelope
Postage meter	15%	13%
Permit	8%	9%
Stamps	78%	78%
	Base = Those who used address labels (n = 1,837)	Base = Those who did not use address labels (n = 2,265)

Thus, over three-quarter of respondents reported that they used stamps as postage for their envelopes prior to using Stamps.com.

V. Discussion

Throughout the results of this survey it is apparent that the impact of Stamps.com services on customer use of postal services is substantial. Patron use of USPS's Express and Priority Mail has increased as a result of Stamps.com, yet at the same time, patrons are using postal services in a way that is more efficient and cost-effective than previously. There is a substantial increase in use of POSTNET barcodes, FIM barcodes and 9-digit ZIP Codes, and far fewer visits to the local post office service window. Stamps.com is responsible for an estimated million fewer visits to post office windows each month.

1 I was informed by Stamps.com that the service has existed since October
2 1999, and that customers start using Stamps.com services at differing rates, with
3 some relying on it completely almost as soon as they register, while others may
4 take a couple of months to be proficient. Nevertheless, as borne out by the
5 comments in the survey, it is obvious that Stamps.com has completely changed
6 how customers run their postal processes, and has the potential to significantly
7 cut costs for the USPS while increasing patronage.

Before the
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

Postal Rate and Fee Changes, 2000

Docket No. R2000-1

AFFIRMATION OF DIRECT TESTIMONY BY STAMPS.COM
WITNESS LEORA LAWTON (STAMPS.COM-T3)

I hereby affirm that my direct testimony, submitted on May 22, 2000, was prepared by me or under my direct supervision; is the testimony I would give today if I were giving testimony orally; and that the contents of my testimony are true and correct, to the best of my knowledge, information, and belief.



Leora Lawton

Dated: July 6 2000

1 CHAIRMAN GLEIMAN: Again, Designated Written Cross
2 Examination, you've had a chance to review that material?

3 MR. HENDEL: Yes, I have, Mr. Chairman.

4 CHAIRMAN GLEIMAN: And it also was submitted
5 originally with declarations?

6 MR. HENDEL: That's correct.

7 CHAIRMAN GLEIMAN: If you would please add that to
8 the stack, then we will direct the Court Reporter to have
9 that material transcribed into the record, and it will be
10 entered into evidence.

11 [Designated Written Cross
12 Examination of Leora E. Lawton was
13 received into evidence and
14 transcribed into the record.]

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BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

Postal Rate and Fee Changes, 2000

Docket No. R2000-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION
OF STAMPS.COM
WITNESS LEORA E. LAWTON
(STAMPS.COM-T-3)

Party

United States Postal Service

Interrogatories

USPS/Stamps.com-T3-1-4

Respectfully submitted,



Cyril J. Pittack
Acting Secretary

INTERROGATORY RESPONSES OF
STAMPS.COM
WITNESS LEORA E. LAWTON (T-3)
DESIGNATED AS WRITTEN CROSS-EXAMINATION

Interrogatory

USPS/Stamps.com-T3-1

USPS/Stamps.com-T3-2

USPS/Stamps.com-T3-3

USPS/Stamps.com-T3-4

Designating Parties

USPS

USPS

USPS

USPS

USPS/STAMPS.COM-T3-1 Did you conduct any research that quantified the demographics of Stamps.com customers? (e.g., number of businesses/SOHOs/ households, industry classifications for businesses, number of employees, etc.) ? If so, please list each demographic and provide all supporting data and documentation.

RESPONSE:

Yes. Survey results indicated that Stamps.com had a substantial amount of customers in the following categories: households, home office, small office (1-9 employees), and large office (10+ employees). Because the survey results could potentially affect or harm Stamps.com's competitive position, Counsel has objected to providing more detailed information.

USPS/STAMPS.COM-T3-2 Did you conduct any research that quantified the mail piece characteristics for the mail pieces to which postage has been applied using Stamps.com software? If so, please list each mail piece characteristic and provide all supporting data and documentation.

RESPONSE:

No such research was conducted.

USPS/STAMPS.COM-T3-3 On page 19 lines 6-7 of your testimony you state that "it is obvious that Stamps.com has completely changed how customers run their postal processes, and has the potential to significantly cut costs for the USPS while increasing patronage."

a. Please confirm that you did not conduct any cost studies as part of your testimony. If not confirmed, please explain.

b. Please confirm that you did not develop volume forecasts in the test year, or future years, for mail pieces processed using Stamps.com software. If not confirmed, please explain.

RESPONSE:

(a) Confirmed.

(b) Confirmed.

USPS/STAMPS.COM-T3-4

Please provide a copy of the questionnaire used in conducting the survey that underlies your testimony, and please provide a copy of any workpapers associated with developing the results set forth in your testimony.

RESPONSE:

The questionnaire is being provided as Library Reference Stamps.com-LR-2. Also being provided in that Library Reference are the Excel spreadsheets showing the numerical results to the survey questions that were relied upon in my testimony.

1 CHAIRMAN GLEIMAN: Is there any Additional
2 Designated Written Cross Examination for Witness Lawton?

3 [No response.]

4 CHAIRMAN GLEIMAN: If not, I think that takes care
5 of those two witnesses. Thank you, Mr. Hendel.

6 Counsel for RIAA, Mr. Wiggins, do you want to
7 proceed in the same manner, rather than call your witness?

8 MR. WIGGINS: I certainly do.

9 CHAIRMAN GLEIMAN: And you have two corrected
10 copies of Witness Glick's testimony and an appropriate
11 declaration?

12 MR. WIGGINS: I do.

13 CHAIRMAN GLEIMAN: I'm going to ask you to add
14 that to the stack, please. And when we finish all this --
15 the Court Reporter just looked at me and sighed. We're
16 going to give him a chance to sort out all the paper.

17 [Written Direct Testimony of Sander
18 A. Glick, RIAA-T-1, was received
19 into evidence and transcribed into
20 the record.]

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24
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RIAA-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 SANDER A. GLICK
ON BEHALF OF THE
RECORDING INDUSTRY ASSOCIATION OF AMERICA, INC.**

Communications regarding this document should be served on

Ian D. Volner
N. Frank Wiggins
Venable, Baetjer, Howard & Civiletti, LLP
1201 New York Avenue, N.W.
Suite 1000
Washington, DC 20005-3917

Dated: May 22, 2000

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1 **Autobiographical Sketch**

2 My name is Sander A. Glick. I co-manage the Economic Systems practice
3 at Project Performance Corporation (PPC), a consulting firm based in McLean,
4 Virginia. PPC provides economic and technology consulting services to private
5 and public sector clients. I joined PPC in 1994 as an Analyst and am now a
6 Program Manager. At PPC, I have worked on a number of economic and cost
7 issues for mailer associations, the Department of Defense, and the Department
8 of Energy.

9 In Docket No. R97-1, I testified on behalf of the Magazine Publishers of
10 America (MPA) regarding the special service fee for Qualified Business Reply
11 Mail (QBRM) and the appropriate method for distributing rural carrier costs to
12 mail classes and subclasses. In this case, I am also testifying on behalf of the
13 Association for Postal Commerce (PostCom) and MPA. I am currently serving as
14 an industry representative on the Mailers' Technical Advisory Committee's
15 (MTAC) Package Integrity Work Group.

16 I attended the Maxwell School of Citizenship and Public Affairs at
17 Syracuse University, where I received a Masters of Public Administration in 1994,
18 and Carleton College, where I received a Bachelors Degree, magna cum laude,
19 in Physics in 1993. I am a member of the American Economic Association and
20 the System Dynamics Society.

1 **I. Purpose and Scope of Testimony**

2 In Docket No. R97-1, the Postal Service proposed and the Rate
3 Commission recommended a residual shape surcharge for Standard (A) mail. In
4 that case, the issue of whether to consider revenue differences between flats and
5 parcels when determining the appropriate surcharge received considerable
6 attention. In its decision, the Commission chose to ignore revenue differences
7 because there was not a sufficient theoretical basis to justify its use.

8 There remains a serious equity problem where the Service
9 has demonstrated that letters and flats cross-subsidize
10 parcels. However, the *record does not provide sufficient*
11 evidence to determine whether revenue should be
12 included because no party has discussed this issue within
13 the overall context of shape differentials within Standard A
14 mail. Clearly, reducing the cost difference between flats
15 and parcels by the corresponding revenue difference
16 departs from the traditional procedure for setting the rate
17 differential between letters and nonletters. Departing from
18 tradition is not a sufficient cause to reject the consideration
19 of revenue as, generally, the theory of setting Postal rates
20 at the rate category level has evolved over time. Further,
21 this issue arose because parcels revenues were not
22 compensatory and continue to be non-compensatory.
23 Consequently, the Commission cannot permanently rule
24 out the use of revenues; however, in the instant case,
25 there is not a sufficient theoretical basis justifying its use.
26 Accordingly, the Commission will use the traditional
27 method of treating the surcharge as a passthrough of
28 shape-related cost differences. Op. R97-1 at 426.

29 In this testimony, I provide a theoretical basis for using revenue
30 differences in determining the rate differential.

1 **II. Theoretical Basis**

2 In Docket No. MC95-1, the Commission articulated the appropriate
3 theoretical basis for determining worksharing-related cost avoidances, stating:

4 The clearly capturable cost avoidance standard involves a
5 comparison of unit costs between two pieces of mail that
6 have exactly the same cost characteristics, except that one
7 has a worksharing feature for which the discount is offered.
8 Basing the cost differential on the "exact piece"
9 comparison is intended to limit the incentive to workshare
10 to the amount that worksharing actually saves the Postal
11 Service, **all else being equal** (emphasis added). Op.
12 R97-1 at IV-94.

13 Mr. Moeller testifies that he has used this "traditional passthrough"
14 approach in setting the residual shape surcharge in this case. USPS.T-35 at 7.
15 The analogy to work sharing cost savings is inapposite. The more appropriate
16 analogy is to the methods used by the Commission to reflect cost (and rate)
17 differences resulting from shape, among the other cost-causing characteristics,
18 of different recognizable types of mail pieces. In this type of analysis, to perform
19 the equivalent of an "exact piece" comparison, one must control for cost
20 differences caused by all characteristics other than shape.

21 In the particular case of determining the cost difference between Standard
22 (A) flats and parcels, the cost characteristics that must be held equal include
23 depth of presort and depth of dropship as well as weight. The fact that the
24 Standard (A) rate design is based on all three of these characteristics is evidence
25 that all three are important cost characteristics.

26 **III. Witness Crum's Method**

27 Witness Crum's general method for determining the nonletter cost
28 difference was to first estimate the full cost difference between flats and parcels
29 using costs from Cost and Revenue Analysis (CRA) systems and then to perform
30 a correction to account for differences in cost characteristics. While I have not
31 examined his methods or his data in detail, this general approach is reasonable.
32 There was, however, a problem in his implementation: although he adjusted the

1 cost difference for depth of presort and depth of dropship, he did not correct it for
2 differences in weight. USPS-T-27 at 8-11.

3 While his omission may be reasonable for comparisons of mail of
4 approximately the same weight, it is inappropriate in this case because the
5 average Standard (A) Commercial parcel weighs 2.5 times as much as the
6 average Standard (A) Commercial flat. USPS-T-27, Attachment F, Table 5 at 1.
7 Having a pound rate as well as including weight-related cost differences in
8 setting the residual shape surcharge amounts to double-charging parcels for
9 weight-related costs.

10 **IV. Correcting for Differences in Weight**

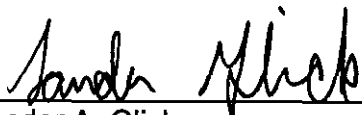
11 Lacking reliable cost data by shape and weight increment, the appropriate
12 approach for correcting the nonletter cost difference for differences in weight is to
13 use the weight-related revenue difference between flats and parcels as a proxy
14 for the weight-related cost difference. Based upon current rates, this weight-
15 related revenue difference is approximately 20 cents per piece.¹

16 Furthermore, this method for considering weight-related revenue
17 differences is fully consistent with the "traditional procedure for setting the rate
18 differential between [Standard (A)] letters and nonletters." Op. R97-1 at 426. In
19 that situation, however, there is no weight-related revenue difference because
20 the Standard (A) letter-nonletter differential is only relevant for piece-rated mail.
21 Since there is no pound rate for piece-rated mail, there is no weight-related
22 revenue difference.

¹Calculated by multiplying the .32-pound (5.1 ounce) weight difference between Standard (A) Commercial flats and parcels (USPS-T-27, Attachment F, Table 5 at 1) by the Standard (A) pound rates for Basic, DBMC, and DSCF, which contain 99 percent of Standard (A) Commercial parcels.

**DECLARATION
OF
SANDER A. GLICK**

I declare under penalty of perjury that the foregoing Direct Testimony of Sander A. Glick on Behalf of the Recording Industry Association of America Inc. (RIAA-T-1) was prepared by me and that if called upon to testify under oath, it would be my testimony.



Sander A. Glick

Executed
July 7, 2000

1 CHAIRMAN GLEIMAN: There was also some Designated
2 Written Cross Examination for Witness Glick, and you have
3 copies of that material, corrected or otherwise, with a
4 declaration or affirmation?

5 MR. WIGGINS: I have two copies. All of the
6 answers were initially filed under oath. I do not have
7 another declaration.

8 CHAIRMAN GLEIMAN: I think that we can accept
9 that. If you would add those to the stack also, we will
10 direct that that material be received into evidence and
11 transcribed into the record.

12 [Designated Written Cross
13 Examination of Sander A. Glick was
14 received into evidence and
15 transcribed into the record.]

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BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

Postal Rate and Fee Changes, 2000

Docket No. R2000-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION
OF RECORDING INDUSTRY ASSOCIATION OF
AMERICA, INC.
WITNESS SANDER A. GLICK
(RIAA-T-1)


Party

United States Postal Service

Interrogatories

USPS/RIAA-T1-1-2

Respectfully submitted,


Cyril J. Pittack
Acting Secretary

INTERROGATORY RESPONSES OF
RECORDING INDUSTRY ASSOCIATION OF AMERICA, INC.
WITNESS SANDER A. GLICK (T-1)
DESIGNATED AS WRITTEN CROSS-EXAMINATION

Interrogatory

USPS/RIAA-T1-1

USPS/RIAA-T1-2

Designating Parties

USPS

USPS

USPS/RIAA-TI-1. Please refer to page 2, lines 2-14 of your direct testimony. On line 14, you cite page 7 of witness Moeller's testimony regarding use of a "traditional passthrough" approach described in the Recommended Decision in Docket No. MC95-1. Please provide the specific language from witness Moeller's testimony that refers to "traditional passthrough" as it is used in the cited passage from Docket No. MC95-1.

RESPONSE:

1. In the cited statement, I was making the point that Moeller used the Commission passthrough approach (i.e., ignoring revenue differences between flats and parcels) in determining the appropriate level of the surcharge. Moeller stated that he used this approach in lines 10-11 of page 7 of his testimony. It would have been clearer if I made reference to the PRC quotation on page 1 of my testimony.

The quotation on page 2 made the point that unless one performs an exact-piece comparison, one must correct for differences in cost-causing characteristics between the two types of mail being compared.

USPS/RIAA-TI-2. Is it your testimony that revenues will exceed costs for Standard Mail (A) parcels with the proposed surcharge? If so, please provide complete documentation of your calculations of the pertinent unit revenue and unit cost.

RESPONSE:

My testimony does not address this subject. Because I have not performed a detailed analysis of witness Crum's method for estimating Standard (A) nonletter costs by shape, I don't know whether Standard (A) parcel revenues exceed the true cost of Standard (A) parcels.

1 CHAIRMAN GLEIMAN: Is there any Additional
2 Designated Written Cross Examination for Witness Glick?

3 [No response.]

4 CHAIRMAN GLEIMAN: If not, then I want to thank
5 you, Mr. Wiggins.

6 MR. WIGGINS: Thank you, Mr. Chairman.

7 CHAIRMAN GLEIMAN: Your check for administrative
8 assistance will also be in the mail.

9 [Laughter.]

10 CHAIRMAN GLEIMAN: Moving on to Witness Thompson,
11 I don't know, counsel, do you want to call your witness to
12 the stand, or move the materials in directly yourself?
13 Either way is fine with us.

14 MR. RICHARDSON: To prevent undue concern for
15 Witness Thompson, I can move them in myself. We have the
16 Direct Testimony of Pamela Thompson, OCA-T-9, which consists
17 of Exhibits 1-A through 1-D, and 2-A and 2-B; and also
18 Supplemental Direct Testimony of Pamela Thompson, filed June
19 12th.

20 And we have two copies of each of those that I can
21 hand to the Reporter.

22 CHAIRMAN GLEIMAN: It may be, if you do not have a
23 declaration or affirmation, that at this point it would be
24 easier to call the witness and have her sworn.

25 MR. RICHARDSON: It may be. I do not have a

1 declaration.

2 CHAIRMAN GLEIMAN: Well, let's do it that way and
3 move this along.

4 Whereupon,

5 PAMELA A. THOMPSON,
6 a witness, having been called for examination and, having
7 been first duly sworn, was examined and testified as
8 follows:

9 DIRECT EXAMINATION

10 BY MR. RICHARDSON:

11 Q Would you please state your name for the record?

12 A My name is Pamela A. Thompson.

13 Q And do you have before you the direct testimony of
14 Pamela A. Thompson filed of behalf of the Office Consumer
15 Advocate in this proceeding?

16 A I do.

17 Q And was that prepared under your direction?

18 A Yes, it was.

19 Q And if you were asked those questions today, would
20 your answers be the same?

21 A For the designations, yes.

22 Q Yes, and for the testimony?

23 A For the testimony, yes.

24 Q And you also have supplemental direct testimony of
25 Pamela Thompson that was filed in this case?

1 A Yes, I do.

2 Q And that was prepared also under your direction?

3 A Yes, it was.

4 MR. RICHARDSON: Okay. Mr. Chairman, I ask that
5 it be copied into the record. I will hand two copies to the
6 court reporter.

7 CHAIRMAN GLEIMAN: If you could please do that. I
8 will direct that -- is there any objection?

9 [No response.]

10 CHAIRMAN GLEIMAN: Hearing none, I will direct
11 that the testimony of Witness Thompson, both the original
12 and supplemental testimony, be transcribed in the record,
13 received as evidence.

14 [Direct Testimony and
15 Supplemental Direct Testimony
16 of Pamela A. Thompson,
17 OCA-T-9, were received into
18 evidence and transcribed into
19 the record.]

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OCA-T-9
Docket No. R2000-1

DIRECT TESTIMONY
OF
PAMELA A. THOMPSON

ON BEHALF OF
THE OFFICE OF THE CONSUMER ADVOCATE

MAY 22, 2000

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APPENDIX A

APPENDIX B

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

Postal Rate and Fee Changes, 2000)

Docket No. R2000-1

DIRECT TESTIMONY
OF
PAMELA A. THOMPSON

1 I. STATEMENT OF QUALIFICATIONS

2 My name is Pamela A. Thompson. I am a senior Postal Rate and Classification
3 Specialist for the Office of the Consumer Advocate (OCA). I have been employed at
4 the Postal Rate Commission since March 1990. I have testified previously before this
5 Commission in Docket Nos. R97-1, R94-1, R90-1, MC96-3, MC95-1, and MC93-1. In
6 Docket No. R97-1, my testimony provided documentation on operating the
7 Commission's cost model. In R94-1, I proposed a new methodology for the recovery of
8 prior years' losses. I also proposed a change in the amount of, and the allocation
9 methodology for, a contingency provision. In Docket No. R90-1, my testimony
10 proposed the adoption of two discounted single-piece rate categories within First-Class
11 Mail. A three-cent discount was proposed for Courtesy Envelope Mail (CEM), an
12 automation-compatible prebarcoded envelope. The second category, Automation
13 Compatible Envelope (ACE), consisted of mail pieces to be produced and sold by the
14 Postal Service as a specialized form of the stamped envelope products currently
15 offered by the Postal Service. In Docket No. MC96-3, my testimony proposed to show

1 that the Postal Service was attempting to misuse the classification reform framework to
2 target a few special services for price increases. In Docket No. MC95-1, my testimony
3 proposed a Courtesy Envelope Mail (CEM) rate category and a 12-cent per piece
4 discount for qualifying First-Class single-piece courtesy reply envelopes. In Docket
5 No. MC93-1, my testimony reviewed the Postal Service's cost coverage for the new
6 BSPS classification proposal.

7 Prior to my employment with the Postal Rate Commission, I was an Assistant
8 Controller for Chemical Waste Management (CWM). Prior to CWM, I was a Staff
9 Business Planner for a division of International Business Machines (IBM) working
10 principally in the areas of strategic planning, pricing and implementation.

11 I received my MBA from Wright State University in Dayton, Ohio, in 1979, and a
12 BA, in 1975, from the Christopher Newport College of the College of William and Mary.
13 I have taken additional computer science courses from the University of Colorado.

14 II. PURPOSE AND SCOPE OF TESTIMONY

15 The purpose and scope of my testimony is three-fold. First, I replicate the USPS
16 costs as provided in USPS witness Kashani's testimony and workpapers (USPS-T-14).
17 Then, I incorporate the corrections proposed by USPS witness Kashani. Finally, I
18 incorporate, into the base year cost model, the changes OCA witnesses Smith (OCA-T-
19 4) and Ewen (OCA-T-5) propose. Exhibits to my testimony provide results through the
20 test year after rates with the workyear mix adjustment.

21 Due to the problems encountered in replicating USPS cost data as well as the
22 time frame needed to incorporate the proposals for OCA witnesses Smith and Ewen, I

1 was unable to prepare the test year after rate PESSA allocations. However, the test
2 year after rate PESSA allocations will be provided as a supplement to my testimony. In
3 addition to this testimony, I sponsor a library reference, OCA-LR-I-1, a category 2
4 library reference.

5 III. THE COST MODEL PROGRAM

6 A. Replicating USPS Witness Kashani's Cost Data Requires Using Five
7 Programs

8 The five programs used to replicate the USPS cost data are DATAFILE,
9 GRMAT, COSTMOD, LRCOST, and PRCREDIT. DATAFILE reads data from a base
10 year data file into a binary matrix and writes out the data to a file called
11 BASEYEAR.BIN. Subsequently, the cost model uses BASEYEAR.BIN.
12 (BASEYEAR.BIN contains data equivalent to that used by USPS witnesses Meehan
13 and Kashani to generate the USPS Base Year Manual Input Requirement report.)
14 Starting with the data file, BASEYEAR.BIN and several "script" files that I create to
15 replicate the USPS cost model input, I use the COSTMOD.EXE and LRCOST.EXE
16 programs to replicate the base year cost data.¹

17 I incorporate the USPS's proposal to move segment 9 components to segment 3
18 using the LRCOST program and a "script" file called "MOVESDM.FAC." After moving
19 the former segment 9 components to segment 3, I produce the base year file,
20 BASE_SDM.BIN. I use BASE_SDM.BIN as the starting point for my replication of
21 USPS witness Kashani's (USPS-T-14) workpapers.

¹ The instructions in my "script" files come from information provided by the USPS in USPS-LR-I-6.

1 COSTMOD and LRCOST build distribution keys and use the Postal Service's
2 variabilities. I use GRMAT to view results on the computer screen and to save my
3 results to a temporary output file for future printing. In the interim year 2000, the
4 USPS eliminates the subclass Standard Mail (A), single piece rate. I use
5 PRCEDIT.EXE to edit the binary data file, FY99SPA.BIN, to zero-out residual Standard
6 Mail (A), single piece rate costs. The amounts zeroed-out were values less than
7 positive or negative one.²

8 B. OCA Replicates USPS Costs And Incorporates USPS Corrections

9 In this docket, I updated all associated program files to reflect the USPS costing
10 methodology. A copy of the updated programs and my data files are provided on the
11 diskette accompanying OCA-LR-I-1. Electronic copies of my replication of USPS
12 witness Kashani's workpapers are provided in the subdirectory USPSREP. I also
13 provide a component cross-walk of the segments 21 and 22 components I use, in the
14 "cross_walk.xls" EXCEL spreadsheet. A cross-walk for segments 1 through 20 is not
15 needed as the cost model uses the USPS component numbering scheme.

16 The VBL2 files provided to the PRC for FY 99, FY 00, and FY 01, in USPS-LR-I-
17 6, indicate that component 907 receives a direct and indirect mail volume effect. USPS
18 witness Kashani indicated in his response to P.O. Information Request 10, that
19 component 907 should not receive two mail volume effects in FY 99, FY 00 and FY 01.³

² The components affected are: 2:9, 2:29, 2:30, 2:32, 2:678, 3:228, 6:45, 16:177, 18:199, 18:201, and 18:204. I also used PRCEDIT to input the stamped envelope and P.O. box volumes provided by USPS witness Kashani. See Docket No. R2000-1, Tr. 2/645.

³ P.O. Information Request No. 10 (April 25, 2000), POIR-10-1.

1 However, in replicating USPS witness Kashani's workpapers, I found that the only
2 instance where his workpapers actually appear to incorporate the indirect and direct
3 mail volume effect for component 907 is in FY 99.

4 In preparing the OCA cost proposal, I eliminated the indirect mail volume effect
5 for component 907 in FY 99, by eliminating the DOS batch file CFS.BAT. A list of the
6 cost model commands used is provided in Appendix A of this document. I compare
7 witness Kashani's results with my results in Exhibits 1A-1D of Appendix B to this
8 document.

9 After having replicated USPS witness Kashani's workpapers, I incorporated the
10 following USPS corrections: (1) periodical volumes for FY 99, FY 00 and FY 01;⁴ (2)
11 component 30's treatment with respect to Higher Level Supervisors;⁵ (3) component
12 907 receives only a direct mail volume effect;⁶ (4) "to better approximate the results of
13 the COBOL model, the total cost reduction amount distributed on component 253
14 (-102,342 thousand) is multiplied by 1.003;"⁷ (5) include component 41 in "the list of
15 independent components for the mail volume effect for component 678 in VBL2 of
16 fy99rcc;"⁸ (6) in the roll forward for the Standard (A) Single Piece and International Mail

⁴ Id. at 646.

⁵ P.O. Information Request No. 6 (April 10, 2000), POIR-6-2.

⁶ P.O. Information Request No. 10 (April 25, 2000), POIR-10-1.

⁷ Id., POIR-10-2.

⁸ Id., POIR-10-5.

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OCA-T-9

1 volume adjustment, FY99RCC, component 1453 receives only one mail volume
2 adjustment.⁹

3 Prior to my initial cost model runs, I compared USPS cost model data input from
4 Docket R97-1 with the current USPS data input. Thus, in my initial cost model runs, I
5 assumed that component 331, mentioned in P.O. Information Request 10-4, was
6 intended to be 131. Additionally, I assumed that component 41 was erroneously left out
7 of the list of independent components for the mail volume effect of component 678 in
8 VBL2 of USPS-LR-I-6, \FY99RCC; therefore, the OCA mail volume ripple file,
9 VBL2RIP.DAT, includes component 41. In replicating the USPS data, OCA component
10 21:173 (USPS component 1453) did not receive a duplicate mail volume adjustment.¹⁰
11 In the OCA proposal, I adjusted the FY 99, FY 00 and FY 01 "ripple" files to reflect the
12 correct treatment of component 30's, Higher Level Supervisors.¹¹

13 I experienced several difficulties in replicating USPS witness Kashani's
14 workpapers. Many of the difficulties I experienced are similar to those reflected in P.O.
15 Information Requests 6 and 10. In USPS witness Kashani's response to P.O.
16 Information Request 10, interrogatories 2 and 3, he indicates that to more closely
17 replicate the USPS COBOL cost model results in his spreadsheet, he multiplies the
18 component 253 amount of \$102,342,000 by 1.003.¹²

⁹ Id., POIR-10-6.

¹⁰ Id., POIR-10-6.

¹¹ Id., POIR-6-2.

¹² Id., POIR-10-2.

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1 In the cost model, the method of multiplying the cost reduction of
2 (\$102,342,000) by 1.003 to allocate an additional component 35 cost reduction of
3 \$240,173 will not produce the intended results. Increasing the \$102,342,000 by 1.003
4 and implementing the method USPS used to allocate the \$102,342,000 results in
5 components other than segment 3, component 35 receiving additional cost reduction
6 amounts. Thus, I isolate the cost reduction amount of \$102,342,000 and run the cost
7 model with this as the only segment 3 cost reduction. The result indicates a cost
8 reduction of \$82,201,000 for component 35 and a cost reduction amount of \$213,000
9 for component 66. The \$82,201,000 cost reduction is allocated to component 35 using
10 the cost model functions "di" and "ds." The \$213,000 cost reduction is allocated to
11 component 66 using the cost model functions "di" and "ds." The remaining portion of
12 the \$102,342,000 cost reduction, \$19,928,000 ($102,342 - 82,201 - 213$ – trailing zero's
13 omitted), is allocated to the following segment 3 components: 40, 421, 422, 423, 467,
14 468, 469, 470, 471, 41, 227 and 228, using the cost model function "cl."

15 A similar problem exists for segment 6, component 43 and segment 7,
16 component 46. Again, I ran the cost model to isolate the cost reduction amount of
17 \$124,496,000 and determined that the intended cost reduction amount of \$32,363,000
18 be allocated to component 43. The cost reduction amount to be allocated to
19 component 46 was \$27,534,000. Both the \$32,363,000 and the \$27,534,000 cost
20 reduction amounts are distributed to their respective components using "di" and "ds"
21 commands. The remaining cost reduction amount of \$64,599,000 ($124,496 - 32,363 -$
22 $27,534$ – trailing zero's omitted) was allocated to the remaining segment 6 and 7
23 components: 6:44, 6:45, 7:48; 7:49; 7:50; 7:52; 7:53; and 7:54 using the "cl" function.

1 Another instance of a dual distribution to one component in a given cost level
2 effect occurs in "other programs" for segment 3, component 35.¹³ A cost reduction of
3 \$798,000 is allocated to fourteen segment 3 components. A cost increase of
4 \$60,637,000 is allocated to segment 3, component 35. In order to properly reflect the
5 component 35 cost effect, I isolate the \$798,000 cost reduction and run the cost model
6 to determine that \$638,000 is the amount to be assigned to component 35. The
7 remaining \$160,000 (798,000 – 638,000) is allocated to the following segment 3
8 components: 40, 66, 421, 422, 423, 467, 468, 470, 471, 41, 227 and 228 using a "cl"
9 command.

10 I incorporate USPS corrections and the changes proposed by OCA witnesses
11 Smith (OCA-T-4) and Ewen (OCA-T-5) (discussed in the next section of my testimony)
12 into the cost model. Appendix B, Exhibits 2A – 2B reflect my results. Due to time
13 constraints, I was unable to complete the test year after rate PESSA allocation.
14 Electronic copies of my results are provided in OCA-LR-I-1.

15 C. The OCA Incorporates OCA Witnesses Smith's and Ewen's Cost
16 Proposals

17 After updating for the previously mentioned USPS changes, I incorporate OCA
18 witness Smith's (OCA-T-4) proposed mail processing variabilities and OCA witness
19 Ewen's (OCA-T-5) proposed changes to elemental load. OCA witness Smith proposed
20 changing several of the MODS variabilities proposed by USPS witness Van-Ty-Smith

¹³ See USPS-LR-I-6, the USPS FY 00 VBL6 file.

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1 (USPS-T-17).¹⁴ OCA witness Smith's proposed changing the following MODS POOLS
2 to 100 percent: BCS, OCR, FSM, LSM, SPBS OTH, SPBSPRIO, MANF, MANL, MANP,
3 PRIORITY, and 1CANCMP. ¹⁵ Using information from USPS-LR-I-106, Table II-1A, as
4 a source for USPS inputs into the USPS-LR-I-80 Base Year worksheet for the
5 development of mail processing intermediate cost distributions, I approximate the mail
6 processing MODS 1 and 2 office costs.¹⁶ After opening all the EXCEL spreadsheets
7 provided in USPS-LR-I-80 that reference USPS cost segments, I manually key the
8 results obtained from implementing OCA witness Smith's proposal into the USPS
9 EXCEL spreadsheet I_Forms.xls, worksheet "MODS-BASED." I make no other
10 changes to I_Forms.xls for OCA witness Smith (OCA-T-5).

11 OCA witness Ewen's proposal eliminates the fixed time stops for SDR, MDR,
12 and BAM stop types. Using USPS witness Baron's response to OCA interrogatory
13 OCA/USPS-T12-10,¹⁷ I updated the USPS EXCEL file I_Forms.xls, worksheet "CS 6&7
14 Factors," the category for "Miscellaneous Load Factors, Fixed Time/Stops" entry for
15 SDR, MDR, and BAM. After updating the cost segment EXCEL spreadsheets in
16 USPS-LR-I-80, I compared the results of the updated worksheets labeled "Outputs for
17 CRA" with the USPS base year manual input. Where there were differences, I updated
18 the OCA's base year manual input data file, OCABASEYR.BIN. In general terms, the

¹⁴ See USPS-T-17, Table 1: Cost Segment 3 Clerk and Mailhandler Cost Pools – Part 1 of 2 at 24.

¹⁵ OCA witness Smith does not distinguish between the MODS POOLS SPBS OTHER and SPBSPRIO, because USPS witness Bozzo does not.

¹⁶ See OCA-LR-1, MODS.xls.

¹⁷ Tr. 18/7210.

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1 following changes occurred in the OCABASEYR.BIN: (1) Segment 2, component 14's
2 total costs increased from \$181,344,000 to \$199,305,000; (2) Segment 2, component
3 16's total costs ^{de} increased from \$113,101,000 to \$95,140,000; (3) Segment 3,
4 component 35's variable costs increased from \$11,858,958,000 to \$13,154,698,000,
5 while other costs declined from \$2,333,800,000 to \$1,038,060 – total costs remained
6 unchanged; (4) Segment 4, component 42's cost distribution to classes and subclasses
7 of mail changed, however, total variable, other, and total costs remained unchanged;
8 (5) Segment 7, component 46's variable costs increased from \$1,747,386,000 to
9 \$1,910,470,000, "fixed" costs increased from \$880,255,000 to \$977,417,000, and total
10 costs increased from \$2,627,641,000 to \$2,887,887,000; (6) Segment 7, component
11 48's variable costs declined from \$234,818,000 to \$215,884,000, "fixed costs declined
12 from \$1,403,993,000 to \$1,162,683,000, and total costs declined from \$1,638,811,000
13 to \$1,378,567,000; (7) Segment 7, component 50's total costs increased from
14 \$455,580,000 to \$500,391,000; (8) Segment 7, component 52's total costs declined
15 from \$303,839,000 to \$259,027,000; (9) Segment 12, component 91's total costs
16 increased from \$18,228,000 to \$21,537,000; (10) Segment 12, component 94's total
17 costs decreased from \$86,554,000 to \$75,349,000; (11) Segment 12, component 95's
18 total costs increased from \$136,180,000 to \$144,076,000; (12) Segment 12, component
19 101's total costs increased from \$6,819,000 to \$7,503,000; (13) Segment 12,
20 component 103's total costs decreased from \$4,416,000 to \$3,733,000; (14) Segment
21 12, component 83's total costs increased from \$16,746,000 to \$19,786,000; (15)
22 Segment 12, component 85's total costs decreased from \$79,518,000 to \$69,224,000;
23 (16) Segment 12, component 86's total costs increased from \$125,110,000 to

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1 \$132,364,000; (17) Segment 14, component 681's costs decreased from \$96,829,000
2 to \$96,823,000 – the difference is in Standard Mail (B) Parcels Zone Rate; (18)
3 Segment 20, component 222's total costs increased from \$11,309,000 to \$13,362,000;
4 (19) Segment 20, component 224's total costs decreased from \$53,698,000 to
5 \$46,746,000; (20) Segment 20, component 225's total costs increased from
6 \$84,485,000 to \$89,384,000; (21) the premium cost calculations for platform and non-
7 platform costs were updated; and (22) incorporation of the OCA proposals increased
8 the Standard (A) single piece costs in FY99, thus, I changed the amount the USPS
9 reallocated from \$4,131,000 to \$4,392,000, for segment 16, component 177.

10 Base year manual input changes were input to the cost model using the
11 PRREDIT program. OCA witness Smith's proposed variabilities were further
12 incorporated into the cost model through changes in the SR1116.FAC file, which
13 ultimately impacted the allocation of PESSA costs.

14 My results are provided in Appendix B to this testimony, Exhibits 2A and 2B.
15 Electronic copies of my results are provided in OCA-LR-I-1, subdirectory, \OCAPROP.

16 IV. CONCLUSION

17 Using the updated cost model programs, I replicate USPS witness Kashani's
18 workpapers. However, I am unable to determine how the Postal Service's cost model
19 performed the calculations involving component 35 and component 43.¹⁸ Thus, my
20 results differ slightly from those presented by USPS witness Kashani. I believe the

¹⁸ In OCA-LR-I-1, I provide written explanations and examples of the calculations performed by the cost model programs COSTMOD and LRCOST.

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1 differences relate to how the two different cost model programs handle a situation
2 involving one component receiving multiple cost changes within a given cost level
3 effect. See, for example, segment 3, components 35 and 66; segment 6; component
4 43; and segment 7, component 46. Witness Kashani's response to P.O. Information
5 Request No. 10 responds to workpaper data corrections. I incorporate his
6 recommended changes into the OCA cost presentation. I have used my updated cost
7 model files to incorporate the cost changes provided to me by OCA witnesses Smith
8 and Ewen. Due to time constraints, I was unable to produce the allocation of the test
9 year after rate PESSA costs, which will be filed as a supplement to my testimony.

APPENDIX A

General Instructions

1 Create a "\tmp" directory on the root of the computer drive you are using. The
2
3 "LP" program called by the batch file PRTROLL requires the "\tmp" directory. The files
4 used by the OCA to replicate USPS cost workpapers, incorporate USPS corrections,
5 and calculate OCA witnesses Smith and Ewen's proposals are provided on the diskette
6 included in OCA-LR-1. To facilitate the cost roll forward process, I used the same DOS
7 "batch" files in separate subdirectories. Each row of instructions listed below represents
8 one batch file. Follow each instruction with a carriage return (<ENTER>). The files
9 requested by the program during execution are enclosed in quotation marks. Again,
10 follow each response with a carriage return.
11

1 Commands Used To Replicate USPS Results:

2 **C1;**

3 **L1;**

4 **C2 – “OCARIP1.DAT;”**

5 **L2;**

6 **C3 – “OCARIP2.DAT;”**

7 **L3;**

8 **C4 – “OCARIP3.DAT;”**

9 **L4** (Includes FY 98 PESSA costs);

10 **R99;** and

11 **R99SPA.**

12 Then, use PRCEDIT.EXE to eliminate (zero-out) residual amounts in Standard A Single
13 Piece Mail (row 12) for the following USPS components:

14 2:9, 2:29, 2:30, 2:32, 2:678, 3:228, 6:45, 16:177, 18:199, 18:200, 18:201, and 18:204.

15 Continue the costing model process by executing the following DOS batch files:

16 **CFS – “VBL2RCR.DAT ;”**

17 **R99ADJ –** (Contains Workyear Mix Adjustment);

18 **R00;**

19 **R00ADJ –** (Contains Workyear Mix Adjustment);

20 **R01;**

21 **R01ADJ –** (Contains Workyear Mix Adjustment);

1 Commands Used To Implement The OCA's Proposal:

2 **C1;**

3 **L1;**

4 **C2 – "OCARIP1.DAT;"**

5 **L2;**

6 **C3 – "OCARIP2.DAT;"**

7 **L3;**

8 **C4 – "OCARIP3.DAT;"**

9 **L4** (Includes FY 98 PESSA costs);

10 **R99;** and

11 **R99SPA.**

12 Then, use PRCEDIT.EXE to eliminate (zero-out) residual amounts in Standard A Single
13 Piece Mail (row 12) for the following USPS components:

14 2:9, 2:29, 2:30, 2:32, 2:678, 3:228, 6:45, 16:177, 18:199, 18:200, 18:201, and 18:204.

15 Continue the costing model process by executing the following DOS batch files:

16 **R99ADJ** – (Contains Workyear Mix Adjustment);

17 **R00;**

18 **R00ADJ** – (Contains Workyear Mix Adjustment);

19 **R01;**

20 **R01ADJ** – (Contains Workyear Mix Adjustment);

1

APPENDIX B

2

Exhibits 1A, 1B, 1C, and 1D show the OCA's replication of the USPS proposal.

3

Exhibits 2A and 2B provide the results of the OCA's proposal with the incorporation of

4

the USPS changes.

Exhibit 1A

USPS A Report w/o PESSA - (\$000)

Description	USPS Base Year	FY99RCM USPS FY 99	FY00RCM USPS FY 00	FY01RCAM USPS FY 01
First-Class Mail				
Single-Piece Letters	10,476,569	10,640,036	10,670,257	10,753,101
Presort Letters	3,563,118	3,847,776	4,063,517	4,312,056
TTL Letters	14,039,687	14,487,812	14,723,774	15,065,157
Single-Piece Cards	442,717	436,316	442,216	444,422
Presort Cards	127,258	126,237	136,380	144,783
TTL Cards	569,975	562,553	578,596	589,205
TTL First-Class	14,609,662	15,050,365	15,302,370	15,654,362
Priority Mail	2,162,218	2,400,991	2,463,890	2,591,142
Express Mail	330,974	364,063	376,131	400,557
Mailgrams	845	839	817	737
Periodicals:				
In-County	68,825	66,744	66,590	68,241
Outside County:				
Regular	1,524,818	1,605,462	1,663,508	1,666,523
Non-Profit	317,425	304,017	312,645	329,324
Classroom	12,024	12,085	12,110	11,603
TTL Periodicals	1,920,892	1,988,308	2,056,853	2,075,891
Standard Mail (A)				
Single-Piece Rate	181,787	-	-	-
Commercial Std:				
Enhanced Carr Rte	1,934,251	1,929,634	1,972,722	2,058,435
Regular	4,700,745	5,362,838	5,808,482	5,835,650
TTL Commercia	6,634,996	7,292,472	7,781,204	7,894,085
Aggregate Non-Profit				
NonProf Enh Carr Rte	144,519	163,004	167,047	165,625
NonProfit	959,024	1,020,335	1,059,912	1,099,427
TTL Aggreg Non-Profit	1,103,543	1,183,339	1,226,959	1,265,052
TTL Standard (A)	7,920,326	8,475,811	9,008,163	9,159,137
Standard Mail (B)				
Parcels Zone Rate	847,352	887,868	987,358	1,036,444
Bound Printed Matter	337,981	356,025	374,334	396,763
Special Standard	214,008	232,936	245,501	251,503
Library Mail	35,969	37,817	39,267	40,149
TTL Standard (B)	1,435,310	1,514,646	1,646,460	1,724,859
US Postal Service	218,870	228,034	219,887	219,506
Free Mail - Bld, Hndcpd & Serv	28,304	29,362	30,903	32,813
International Mail	1,224,054	1,109,196	1,254,793	1,290,920
TTL Mail	29,851,453	31,181,815	32,380,267	33,149,724
Special Services:				
Registry	77,336	72,581	69,121	62,110
Certified	341,944	343,310	367,761	375,263
Insurance	54,139	66,823	65,873	65,253
COD	12,234	13,293	12,909	12,530
Special Delivery	1	1	1	1
Money Orders	102,243	112,582	120,571	123,357
Stamped Cards	3,208	3,136	3,146	3,360
Stamped Envelopes	12,420	10,754	10,872	11,513
Special Handling	1,523	1,546	1,588	1,636
Post Office Box	79,394	85,269	89,586	93,168
Other	72,548	62,539	103,574	111,175
TTL Special Services	758,990	791,634	845,002	859,368
TTL Vol Variable	30,608,443	31,953,249	33,225,269	34,009,090
Other	28,958,076	30,627,210	31,704,655	33,458,068
Total Costs	59,566,519	62,580,459	64,929,924	67,467,158
Source: USPS-T-14 Wkp No.	A	D	F	J

Exhibit 1B Revised 6-30-00

OCA Replication Of The "A" Report w/o PESSA (\$000)

Description	OCA Base Year	With Workyr Adjustment OCA FY 99	With Workyr Adjustment OCA FY 00	With Workyr Adjustment OCA FY 01
First-Class Mail				
Single-Piece Letters	10,476,565	10,640,038	10,670,011	10,752,860
Presort Letters	3,563,114	3,847,773	4,053,572	4,311,741
TTL Letters	14,039,679	14,487,811	14,723,583	15,064,601
Single-Piece Cards	442,720	436,312	442,216	444,450
Presort Cards	127,257	126,241	136,386	144,784
TTL Cards	569,977	562,553	578,602	589,234
TTL First-Class	14,609,656	15,050,364	15,302,185	15,653,835
Priority Mail	2,162,214	2,400,997	2,483,876	2,591,114
Express Mail	330,973	364,067	376,140	400,569
Mailgrams	848	839	816	738
Periodicals:				
In-County	66,620	66,742	68,586	68,240
Outside County:				
Regular	1,524,821	1,605,473	1,663,553	1,666,664
Non-Profit	317,423	304,009	312,650	329,339
Classroom	12,023	12,082	12,103	11,599
TTL Periodicals	1,920,887	1,988,306	2,056,892	2,075,842
Standard Mail (A)				
Single-Piece Rate	181,795			
Commercial Std:				
Enhanced Carr Rte	1,934,253	1,929,631	1,972,740	2,058,495
Regular	4,700,751	5,362,859	5,808,614	5,836,023
TTL Standard (A)	6,635,004	7,292,490	7,781,354	7,894,518
Aggregate Non-Profit				
NonProf Enh Carr Rte	144,519	163,014	167,059	165,650
NonProfit	959,022	1,020,328	1,059,934	1,099,473
TTL Aggreg Non-Profit	1,103,541	1,183,342	1,226,993	1,265,123
TTL Standard (A)	7,920,340	8,475,832	9,008,347	9,159,641
Standard Mail (B)				
Parcels Zone Rate	847,349	887,873	987,372	1,036,473
Bound Printed Matter	337,986	356,038	374,354	396,796
Special Standard	214,005	232,927	245,496	251,503
Library Mail	35,971	37,836	39,210	39,876
TTL Standard (B)	1,435,311	1,514,674	1,646,432	1,724,648
US Postal Service	218,869	228,041	219,899	219,528
Free Mail - Bld, Hndcpd & Serv	28,300	29,370	30,920	32,844
International Mail	1,224,054	1,109,204	1,254,807	1,290,938
TTL Mail	29,851,452	31,161,694	32,380,314	33,149,697
Special Services:				
Registry	77,336	72,579	69,119	62,105
Certified	341,941	343,310	367,763	375,266
Insurance	54,137	66,622	65,874	65,249
COD	12,237	13,296	12,904	12,527
Special Delivery	1	1	1	1
Money Orders	102,244	112,592	120,580	123,365
Stamped Cards	3,208	3,135	3,145	3,359
Stamped Envelopes	12,420	10,755	10,875	11,515
Special Handling	1,523	1,543	1,586	1,635
Post Office Box	79,394	85,269	89,592	93,178
Other	72,551	82,538	103,567	111,177
TTL Special Services	756,992	791,640	845,006	859,377
TTL Vol Variable	30,608,444	31,953,334	33,225,320	34,009,074
Other	28,958,077	30,627,211	31,704,771	33,458,344
Total Costs	59,566,521	62,580,545	64,930,091	67,467,418
Source: OCA-LR-I-1	by98lps.bin	FY99adj.bin	FY00adj.bin	FY01adj.bin

Exhibit 1C

Delta USPS- OCA w/o PESSA (\$000)

Description	Delta USPS - OCA Base Year	Delta USPS - OCA FY 99	Delta USPS - OCA FY 00	Delta USPS - OCA FY 01
First-Class Mail				
Single-Piece Letters	4	(2)	246	241
Presort Letters	4	3	(55)	315
TTL Letters	8	1	191	556
Single-Piece Cards	(3)	4	-	(28)
Presort Cards	1	(4)	(6)	(1)
TTL Cards	(2)	-	(6)	(29)
TTL First-Class	6	1	185	527
Priority Mail	2	(6)	14	28
Express Mail	1	(4)	(9)	(12)
Mailgrams	(3)	-	1	(1)
Periodicals:				
In-County	5	2	4	1
Outside County:				
Regular	(3)	(11)	(45)	(141)
Non-Profit	2	8	(5)	(15)
Classroom	1	3	7	4
TTL Periodicals	5	2	(39)	(151)
Standard Mail (A)				
Single-Piece Rate	(8)	-	-	-
Commercial Std:				
Enhanced Carr Rte	(2)	3	(18)	(60)
Regular	(6)	(21)	(132)	(373)
TTL Standard (A)	(8)	(18)	(150)	(433)
Aggregate Non-Profit				
NonProf Enh Carr Rte	-	(10)	(12)	(25)
NonProfit	2	7	(22)	(46)
TTL Aggreg Non-Profit	2	(3)	(34)	(71)
TTL Standard (A)	(14)	(21)	(184)	(504)
Standard Mail (B)				
Parcels Zone Rate	3	(5)	(14)	(29)
Bound Printed Matter	(5)	(13)	(20)	(33)
Special Standard	3	9	5	-
Library Mail	(2)	(19)	57	273
TTL Standard (B)	(1)	(28)	28	211
US Postal Service	1	(7)	(12)	(22)
Free Mail - Bid, Hndcpd & Serv	4	(8)	(17)	(31)
International Mail	-	(8)	(14)	(18)
TTL Mail	1	(79)	(47)	27
Special Services:				
Registry	-	2	2	5
Certified	3	-	(2)	(3)
Insurance	2	1	(1)	4
COD	(3)	(3)	5	3
Special Delivery	-	-	-	-
Money Orders	(1)	(10)	(9)	(8)
Stamped Cards	-	1	1	1
Stamped Envelopes	-	(1)	(3)	(2)
Special Handling	-	3	2	1
Post Office Box	-	-	(6)	(10)
Other	(3)	1	7	(2)
TTL Special Services	(2)	(6)	(4)	(11)
TTL Vol Variable	(1)	(85)	(51)	16
Other	(1)	(1)	(116)	(276)
Total Costs	(2)	(86)	(167)	(260)

Source: Exhibits 1A and 1B

Exhibit 1D

USPS and OCA Comparisons of Base Year w/PESSA

	A	B	C	D	E
Description	USPS Base Year With PESSA	OCA-Replication Base Year With PESSA	DELTA B - A	OCA - Proposal w/ USPS Chgs Base Year W/Pessa	DELTA D - A
First-Class Mail					
Single-Piece Letters	12,412,946	12,412,942	(4)	13,414,669	1,001,723
Presort Letters	4,167,656	4,167,652	(4)	4,361,722	194,066
TTL Letters	16,580,602	16,580,594	(8)	17,776,391	1,195,789
Single-Piece Cards	519,574	519,574	-	561,901	42,327
Presort Cards	147,145	147,142	(3)	154,654	7,509
TTL Cards	666,719	666,716	(3)	716,555	49,836
TTL First-Class	17,247,321	17,247,310	(11)	18,492,946	1,245,625
Priority Mail	2,395,877	2,395,874	(3)	2,606,230	210,353
Express Mail	384,614	384,614	-	391,124	6,510
Mailgrams	1,105	1,105	1	1,179	74
Periodicals:					
In-County	76,873	76,869	(4)	79,052	2,179
Outside County:					
Regular	1,749,726	1,749,727	1	1,826,013	76,287
Non-Profit	362,146	362,146	-	376,760	14,614
Classroom	13,991	13,991	-	14,548	557
TTL Periodicals	2,202,736	2,202,733	(3)	2,296,373	93,637
Standard Mail (A)					
Single-Piece Rate	213,627	213,633	6	224,447	10,820
Commercial Std:					
Enhanced Carr Rte	2,234,485	2,234,490	5	2,312,424	77,939
Regular	5,535,163	5,535,170	7	5,850,910	315,747
TTL Commercia	7,769,648	7,769,660	12	8,163,334	393,686
Aggregate Non-Profit					
NonProf Enh Carr Rte	169,833	169,833	-	177,218	7,385
NonProfit	1,130,549	1,130,550	1	1,204,247	73,698
TTL Aggreg Non-Profit	1,300,382	1,300,383	1	1,381,465	81,083
TTL Standard (A)	9,283,657	9,283,676	19	9,769,246	485,589
Standard Mail (B)					
Parcels Zone Rate	861,780	861,774	(6)	962,068	100,288
Bound Printed Matter	394,443	394,450	7	404,826	10,383
Special Standard	247,598	247,593	(5)	254,317	6,719
Library Mail	41,051	41,052	1	41,904	853
TTL Standard (B)	1,544,872	1,544,869	(3)	1,663,115	118,243
US Postal Service	262,798	262,798	-	278,369	15,571
Free Mail - Bld, Hndcpd & Serv	33,441	33,437	(4)	35,563	2,122
International Mail	1,311,481	1,311,483	2	1,334,068	22,587
TTL Mail	34,667,902	34,667,900	(2)	36,868,213	2,200,311
Special Services:					
Registry	99,336	99,335	(1)	99,980	644
Certified	402,771	402,768	(3)	417,210	14,439
Insurance	61,658	61,656	(2)	62,339	681
COD	14,171	14,172	1	14,487	316
Special Delivery	1	1	-	1	-
Money Orders	122,800	122,803	3	122,691	(109)
Stamped Cards	3,208	3,208	-	3,208	-
Stamped Envelopes	13,111	13,114	3	13,110	(1)
Special Handling	2,221	2,223	2	2,352	131
Post Office Box	473,477	473,475	(2)	470,479	(2,998)
Other	90,832	90,834	2	93,764	2,932
TTL Special Services	1,283,586	1,283,589	3	1,299,621	16,035
TTL Vol Variable	35,951,488	35,951,489	1	38,167,834	2,216,346
Other	23,615,029	23,615,031	2	21,398,680	(2,216,349)
Total Costs	59,566,517	59,566,520	3	59,566,514	(3)
Sources: USPS-T-14 Workp	A				
OCA-LR-I-1		BY98LPS.LR			

Exhibit 2A
Incorporation Of OCA witnesses Smith's and Ewen's Cost Proposals w/o PESSA Costs

Description	Base Year	OCA Adjustment	With Workyr Adjustment	OCA Adjustment	With Workyr Adjustment	FY 01
First-Class Mail	11,340,472	11,524,395	11,565,982	11,565,982	11,653,745	11,653,745
Single-Piece Letters	3,730,367	4,027,943	4,241,861	4,241,861	4,509,479	4,509,479
Presort Letters	15,070,839	15,552,338	15,807,843	15,807,843	16,163,224	16,163,224
Single-Piece Cards	479,746	473,093	479,783	479,783	481,880	481,880
Presort Cards	133,930	132,847	143,520	143,520	152,304	152,304
TTL Cards	613,676	605,940	623,303	623,303	634,184	634,184
TTL First-Class	15,684,515	16,158,278	16,431,146	16,431,146	16,797,408	16,797,408
Priority Mail	2,353,358	2,602,866	2,696,438	2,696,438	2,812,923	2,812,923
Express Mail	336,962	370,545	382,934	382,934	407,906	407,906
Mailgrams	914	905	880	880	796	796
Periodicals:	68,570	68,708	70,611	70,611	70,292	70,292
In-County						
Outside County:						
Regular	1,593,774	1,678,956	1,744,333	1,744,333	1,779,447	1,779,447
Non-Profit	330,580	316,562	323,336	323,336	320,528	320,528
Classroom	12,524	12,591	12,614	12,614	12,048	12,048
TTL Periodicals	2,005,448	2,076,817	2,150,894	2,150,894	2,182,315	2,182,315
Standard Mail (A)	191,220					
Single-Piece Rate						
Commercial Std:						
Enhanced Carr Rte	2,002,788	1,998,098	2,042,881	2,042,881	2,131,781	2,131,781
Regular	4,980,967	5,684,503	6,158,164	6,158,164	6,190,107	6,190,107
TTL Standard (A)	6,983,755	7,682,601	8,201,045	8,201,045	8,321,888	8,321,888
Aggregate Non-Profit	151,006	170,370	174,590	174,590	173,089	173,089
NonProfit Enh Carr Rte	1,024,137	1,089,963	1,132,474	1,132,474	1,175,010	1,175,010
NonProfit	1,175,143	1,260,333	1,307,064	1,307,064	1,348,099	1,348,099
TTL Aggreg Non-Pro	8,350,118	8,942,934	9,508,109	9,508,109	9,669,987	9,669,987
Standard Mail (B)	859,748	900,924	1,001,982	1,001,982	1,052,828	1,052,828
Parcels Zone Rate						
Bound Printed Matter	347,283	365,891	384,783	384,783	407,972	407,972
Special Standard	220,029	239,512	252,481	252,481	258,734	258,734
Library Mail	36,724	38,632	40,043	40,043	40,739	40,739
TTL Standard (B)	1,463,784	1,544,959	1,679,289	1,679,289	1,760,273	1,760,273
US Postal Service	232,795	242,614	233,994	233,994	233,649	233,649
Free Mail - Bid, Hndcpd &	30,198	31,346	33,019	33,019	35,084	35,084
International Mail	1,243,928	1,128,703	1,276,406	1,276,406	1,312,756	1,312,756
TTL Mail	31,702,020	33,099,967	34,393,109	34,393,109	35,213,097	35,213,097
Special Services:						
Registry	78,000	73,201	69,717	69,717	62,651	62,651
Certified	354,730	356,156	381,666	381,666	389,580	389,580
Insurance	54,760	67,392	66,639	66,639	66,020	66,020
COD	12,517	13,602	13,203	13,203	12,821	12,821
Special Delivery	1	1	1	1	1	1
Money Orders	102,224	112,568	120,564	120,564	123,338	123,338
Stamped Cards	3,208	3,135	3,145	3,145	3,359	3,359
Stamped Envelopes	12,420	10,754	10,874	10,874	11,514	11,514
Special Handling	1,590	1,598	1,642	1,642	1,693	1,693
Post Office Box	79,378	85,251	89,672	89,672	93,158	93,158
Other	74,725	84,768	105,830	105,830	113,405	113,405
TTL Special Services	773,553	808,426	862,843	862,843	877,540	877,540
TTL Vol Variable	32,475,573	33,908,393	35,255,952	35,255,952	36,090,637	36,090,637
Other	27,090,940	28,695,709	29,738,797	29,738,797	31,452,116	31,452,116
Total Costs	59,566,513	62,604,102	64,994,749	64,994,749	67,542,753	67,542,753
See OCA-LR-1-1						
VOCAPROP						

Includes USPS Changes

Exhibit 2B

Delta OCA - USPS w/o PESSA (\$000)

Description	Delta OCA - USPS Base Year	Delta OCA - USPS FY 99	Delta OCA - USPS FY 00	Delta OCA - USPS FY 01
First-Class Mail				
Single-Piece Letters	863,903	884,359	895,725	900,644
Presort Letters	167,249	180,167	188,344	197,423
TTL Letters	1,031,152	1,064,526	1,084,069	1,098,067
Single-Piece Cards	37,029	36,777	37,567	37,458
Presort Cards	6,672	6,610	7,140	7,521
TTL Cards	43,701	43,387	44,707	44,979
TTL First-Class	1,074,853	1,107,913	1,128,776	1,143,046
Priority Mail	191,142	201,875	212,548	221,781
Express Mail	5,988	6,482	6,803	7,349
Mailgrams	69	66	63	59
Periodicals:				
In-County	1,945	1,964	2,021	2,051
Outside County:				
Regular	68,956	73,494	80,825	112,924
Non-Profit	13,155	12,545	10,691	(8,796)
Classroom	500	506	504	445
TTL Periodicals	84,556	88,509	94,041	106,624
Standard Mail (A)				
Single-Piece Rate	9,433	-	-	-
Commercial Std:				
Enhanced Carr Rte	68,537	68,464	70,159	73,346
Regular	280,222	321,665	349,682	354,457
TTL Standard (A)	348,759	390,129	419,841	427,803
Aggregate Non-Profit				
NonProf Enh Carr Rte	6,487	7,366	7,543	7,464
NonProfit	65,113	69,628	72,562	75,583
TTL Aggreg Non-Pr	71,600	76,994	80,105	83,047
TTL Standard (A)	429,792	467,123	499,946	510,850
Standard Mail (B)				
Parcels Zone Rate	12,396	13,056	14,624	16,384
Bound Printed Matter	9,302	9,866	10,449	11,209
Special Standard	6,021	6,576	6,980	7,231
Library Mail	755	815	776	590
TTL Standard (B)	28,474	30,313	32,829	35,414
US Postal Service	13,925	14,580	14,107	14,143
Free Mail - Bld, Hndcpd	1,894	1,984	2,116	2,271
International Mail	19,874	19,507	21,613	21,836
TTL Mail	1,850,567	1,938,352	2,012,842	2,063,373
Special Services:				
Registry	664	620	596	541
Certified	12,786	12,846	13,905	14,317
Insurance	621	769	766	767
COD	283	309	294	291
Special Delivery	-	-	-	-
Money Orders	(19)	(14)	(17)	(19)
Stamped Cards	-	(1)	(1)	(1)
Stamped Envelopes	-	-	2	1
Special Handling	67	52	54	57
Post Office Box	(16)	(18)	(14)	(10)
Other	2,177	2,229	2,256	2,230
TTL Special Services	16,563	16,792	17,841	18,174
TTL Vol Variable	1,867,130	1,955,144	2,030,683	2,081,547
Other	(1,867,136)	(1,931,501)	(1,965,858)	(2,005,952)
Total Costs	(6)	23,643	64,825	75,595

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

Postal Rate and Fee Changes, 2000)

Docket No. R2000-1

SUPPLEMENTAL DIRECT TESTIMONY
OF
PAMELA A. THOMPSON

1 The purpose of my supplemental direct testimony is three-fold. First, I use the
2 cost model to replicate the Postal Service's test year after rate costs with the PESSA
3 allocations. My results are shown in the attached Exhibit 3C, columns B and C. Then, I
4 incorporate into the OCA's cost proposal the Additional Workday cost effect correction
5 for FY 00 and FY 01 as noted in the Postal Service's response to P.O. Information
6 Request 6 (April 10, 2000), POIR-6-3. The results are shown in Exhibits 3A through
7 3C. Finally, I incorporate the OCA's proposed variability changes into the test year after
8 rate PESSA allocations. My results are shown in Exhibit 3C, columns D and E.
9 Copies of my files are provided as a supplement to OCA-LR-I-1. Due to time
10 constraints, I did not incorporate the following USPS corrections: (1) Rehabilitation
11 program costs (Tr. 2/660-662); (2) Labor cost changes (P.O. Information Request No.
12 7 (April 6, 2000), POIR-7-1); and (3) Mail volume changes due to reclassifying from
13 Priority to First-Class those pieces weighing more than 11 ounces but not more than 13
14 ounces (Tr. 9/3578).

15 The commands I used to replicate the Postal Service's costs as well as the
16 commands used to produce the OCA costs are provided below.

17

18 General Instructions:

19 Create a "tmp" directory on the root of the computer drive you are using. The
20 "LP" program called by the batch file PRTROLL requires the "tmp" directory. The files

1 used by the OCA to replicate the USPS test year PESSA costs, incorporate the USPS
2 Additional Workday correction, and calculate the effect of OCA witnesses' proposals
3 are provided on a diskette that supplements OCA-LR-I-1. To facilitate the cost roll
4 forward process, I use DOS "batch" files to replicate the cost model commands issued.
5 The new DOS based commands are **highlighted** in the instructions provided below.
6 Follow each command with a carriage return (<ENTER>). The files requested by the
7 program during execution are enclosed in quotation marks.

8

9 Commands Used To Replicate USPS Results:

10 **C1;**

11 **L1;**

12 **C2 – "OCARIP1.DAT;"**

13 **L2;**

14 **C3 – "OCARIP2.DAT;"**

15 **L3;**

16 **C4 – "OCARIP3.DAT;"**

17 **L4** (Includes FY 98 PESSA costs);

18 **R99;** and

19 **R99SPA.**

20 Then, use PRCEDIT.EXE to eliminate (zero-out) residual amounts in Standard A Single
21 Piece Mail (row 12) for the following USPS components:

22 2:9, 2:29, 2:30, 2:32, 2:678, 3:228, 6:45, 16:177, 18:199, 18:200, 18:201, and 18:204.

23 Continue the costing model process by executing the following DOS batch files:

24 **CFS – "VBL2RCR.DAT ;"**

25 **R99ADJ** – (Contains Workyear Mix Adjustment);

26 **R00;**

27 **R00ADJ** – (Contains Workyear Mix Adjustment);

28 **R01;**

29 **R01ADJ** – (Contains Workyear Mix Adjustment); and

30 **L5.**

1 Commands Used To Implement The OCA's Proposal And The USPS Additional
2 Workday Correction:

3 **C1;**

4 **L1;**

5 **C2 – "OCARIP1.DAT;"**

6 **L2;**

7 **C3 – "OCARIP2.DAT;"**

8 **L3;**

9 **C4 – "OCARIP3.DAT;"**

10 **L4** (Includes FY 98 PESSA costs);

11 **R99;** and

12 **R99SPA.**

13 Then, use PRCREDIT.EXE to eliminate (zero-out) residual amounts in Standard A Single
14 Piece Mail (row 12) for the following USPS components:

15 2:9, 2:29, 2:30, 2:32, 2:678, 3:228, 6:45, 16:177, 18:199, 18:200, 18:201, and 18:204.

16 Continue the costing model process by executing the following DOS batch files:

17 **R99ADJ** – (Contains Workyear Mix Adjustment);

18 **SR00;**

19 **SR00ADJ** – (Contains Workyear Mix Adjustment);

20 **SR01;**

21 **SR01ADJ** – (Contains Workyear Mix Adjustment); and

22 **SL5.**

Exhibit 3A

Incorporation Of OCA Witnesses Smith's and Ewen's Cost Proposals w/o PESSA Costs (\$000)
Includes USPS Changes and USPS Additional Workday Correction

Description	OCA Base Year	With Workyr Adjustment OCA FY 99	With Workyr Adjustment OCA FY 00	With Workyr Adjustment OCA FY 01
First-Class Mail				
Single-Piece Letters	11,340,472	11,524,395	11,565,982	11,653,745
Presort Letters	3,730,367	4,027,943	4,241,861	4,509,479
TTL Letters	15,070,839	15,552,338	15,807,843	16,163,224
Single-Piece Cards	479,746	473,093	479,783	481,880
Presort Cards	133,930	132,847	143,520	152,304
TTL Cards	613,676	605,940	623,303	634,184
TTL First-Class	15,684,515	16,158,278	16,431,146	16,797,408
Priority Mail	2,353,358	2,602,866	2,696,438	2,812,923
Express Mail	336,962	370,545	382,934	407,906
Mailgrams	914	905	880	796
Periodicals:				
In-County	68,570	68,708	70,611	70,292
Outside County:				
Regular	1,593,774	1,678,956	1,744,333	1,779,447
Non-Profit	330,580	316,562	323,336	320,528
Classroom	12,524	12,591	12,614	12,048
TTL Periodicals	2,005,448	2,076,817	2,150,894	2,182,315
Standard Mail (A)				
Single-Piece Rate	191,220	-	-	-
Commercial Std:				
Enhanced Carr Rte	2,002,788	1,998,098	2,042,881	2,131,781
Regular	4,980,967	5,684,503	6,158,164	6,190,107
TTL Standard (A)	6,983,755	7,682,601	8,201,045	8,321,888
Aggregate Non-Profit				
NonProf Enh Carr Rte	151,006	170,370	174,590	173,089
NonProfit	1,024,137	1,089,963	1,132,474	1,175,010
TTL Aggreg Non-Pro	1,175,143	1,260,333	1,307,064	1,348,099
TTL Standard (A)	8,350,118	8,942,934	9,508,109	9,669,987
Standard Mail (B)				
Parcels Zone Rate	859,748	900,924	1,001,982	1,052,828
Bound Printed Matter	347,283	365,891	384,783	407,972
Special Standard	220,029	239,512	252,481	258,734
Library Mail	36,724	38,632	40,043	40,739
TTL Standard (B)	1,463,784	1,544,959	1,679,289	1,760,273
US Postal Service	232,795	242,614	233,994	233,649
Free Mail - Bld, Hndcpd &	30,198	31,346	33,019	35,084
International Mail	1,243,928	1,128,703	1,276,406	1,312,756
TTL Mail	31,702,020	33,099,967	34,393,109	35,213,097
Special Services:				
Registry	78,000	73,201	69,717	62,651
Certified	354,730	356,156	381,666	389,580
Insurance	54,760	67,392	66,639	66,020
COD	12,517	13,602	13,203	12,821
Special Delivery	1	1	1	1
Money Orders	102,224	112,568	120,554	123,338
Stamped Cards	3,208	3,135	3,145	3,359
Stamped Envelopes	12,420	10,754	10,874	11,514
Special Handling	1,590	1,598	1,642	1,693
Post Office Box	79,378	85,251	89,572	93,158
Other	74,725	84,768	105,830	113,405
TTL Special Services	773,553	808,426	862,843	877,540
TTL Vol Variable	32,475,573	33,908,393	35,255,952	36,090,637
Other	27,090,940	28,695,709	29,738,855	31,452,129
Total Costs	59,566,513	62,604,102	64,994,807	67,542,766

See OCA-LR-I-1 USUPP by98lps.bin FY99adj.bin SFY00adj.bin SFY01adj.bin

* Incorporates the additional workday USPS correction for segment 18, component 192.

See P.O. Information Request No. 6 (April 10, 2000), POIR-6-3.

Exhibit 3B

Delta USPS - OCA A Report w/o PESSA and With USPS Changes and
Additional Workday Correction (\$000)

Description	Delta OCA - USPS Base Year	Delta OCA - USPS FY 99	Delta OCA - USPS FY 00	Delta OCA - USPS FY 01
First-Class Mail				
Single-Piece Letters	863,903	884,359	895,725	900,644
Presort Letters	167,249	180,167	188,344	197,423
TTL Letters	1,031,152	1,064,526	1,084,069	1,098,067
Single-Piece Cards	37,029	36,777	37,567	37,458
Presort Cards	6,672	6,610	7,140	7,521
TTL Cards	43,701	43,387	44,707	44,979
TTL First-Class	1,074,853	1,107,913	1,128,776	1,143,046
Priority Mail	191,142	201,875	212,548	221,781
Express Mail	5,988	6,482	6,803	7,349
Mailgrams	69	66	63	59
Periodicals:				
In-County	1,945	1,964	2,021	2,051
Outside County:				
Regular	68,956	73,494	80,825	112,924
Non-Profit	13,155	12,545	10,691	(8,796)
Classroom	500	506	504	445
TTL Periodicals	84,556	88,509	94,041	106,624
Standard Mail (A)				
Single-Piece Rate	9,433	-	-	-
Commercial Std:				
Enhanced Carr Rt	68,537	68,464	70,159	73,346
Regular	280,222	321,665	349,682	354,457
TTL Standard (A)	348,759	390,129	419,841	427,803
Aggregate Non-Profit				
NonProf Enh Carr Rt	6,487	7,366	7,543	7,464
NonProfit	65,113	69,628	72,562	75,583
TTL Aggreg Non	71,600	76,994	80,105	83,047
TTL Standard (A)	429,792	467,123	499,946	510,850
Standard Mail (B)				
Parcels Zone Rate	12,396	13,056	14,624	16,384
Bound Printed Matter	9,302	9,866	10,449	11,209
Special Standard	6,021	6,576	6,980	7,231
Library Mail	755	815	776	590
TTL Standard (B)	28,474	30,313	32,829	35,414
US Postal Service	13,925	14,580	14,107	14,143
Free Mail - Bld, Hndcp	1,894	1,984	2,116	2,271
International Mail	19,874	19,507	21,613	21,836
TTL Mail	1,850,567	1,938,352	2,012,842	2,063,373
Special Services:				
Registry	664	620	598	541
Certified	12,786	12,846	13,905	14,317
Insurance	621	769	766	767
COD	283	309	294	291
Special Delivery	-	-	-	-
Money Orders	(19)	(14)	(17)	(19)
Stamped Cards	-	(1)	(1)	(1)
Stamped Envelopes	-	-	2	1
Special Handling	67	52	54	57
Post Office Box	(16)	(18)	(14)	(10)
Other	2,177	2,229	2,256	2,230
TTL Special Serv	16,563	16,792	17,841	18,174
TTL Vol Variable	1,867,130	1,955,144	2,030,683	2,081,547
Other	(1,867,136)	(1,931,501)	(1,965,800)	(2,005,939)
Total Costs	(6)	23,643	64,883	75,608

Exhibit 3C

USPS and OCA Comparisons of Test Year w/PESSA (\$000)

	A	B	C	D	E
	USPS	OCA - Replica.	DELTA	OCA - Proposal	DELTA
	Test Year	USPS Test Yr	B - A	w/ USPS Chgs	D - A
Description	With PESSA	With PESSA	Over / (Under)	Test Year	OCA
				W/Pessa	Over / (Under)
First-Class Mail					
Single-Piece Letters	12,925,691	12,925,514	(177)	13,947,925	1,022,234
Presort Letters	5,098,247	5,097,851	(396)	5,325,150	226,903
TTL Letters	18,023,938	18,023,365	(573)	19,273,075	1,249,137
Single-Piece Cards	526,750	526,814	64	568,977	42,227
Presort Cards	168,719	168,697	(22)	177,108	8,389
TTL Cards	695,469	695,511	42	746,085	50,616
TTL First-Class	18,719,407	18,718,876	(531)	20,019,160	1,299,753
Priority Mail	2,887,653	2,887,600	(53)	3,130,229	242,576
Express Mail	469,253	469,246	(7)	476,966	7,713
Mailgrams	976	977	1	1,039	63
Periodicals:					
In-County	79,412	79,364	(48)	81,612	2,200
Outside County:					
Regular	1,933,256	1,933,448	192	2,059,988	126,732
Non-Profit	379,093	379,083	(10)	368,566	(10,527)
Classroom	13,692	13,660	(32)	14,139	447
TTL Periodicals	2,405,453	2,405,555	102	2,524,305	118,852
Standard Mail (A)					
Single-Piece Rate	-	-	-	-	-
Commercial Std:					
Enhanced Carr Rte	2,398,626	2,398,739	113	2,478,441	79,815
Regular	6,971,212	6,971,645	433	7,357,415	386,203
TTL Commercial	9,369,838	9,370,384	546	9,835,856	466,018
Aggregate Non-Profit					
NonProf Enh Carr Rte	196,943	196,978	35	205,132	8,189
NonProfit	1,312,948	1,312,963	15	1,395,840	82,892
TTL Aggreg Non-	1,509,891	1,509,941	50	1,600,972	91,081
TTL Standard (A)	10,879,729	10,880,325	596	11,436,828	557,099
Standard Mail (B)					
Parcels Zone Rate	1,067,100	1,067,154	54	1,084,238	17,138
Bound Printed Matter	467,516	467,523	7	479,590	12,074
Special Standard	293,849	293,797	(52)	301,567	7,718
Library Mail	46,287	45,990	(297)	46,894	607
TTL Standard (B)	1,874,752	1,874,464	(288)	1,912,289	37,537
US Postal Service	266,649	266,685	36	283,373	16,724
Free Mail - Bld, Hndcpd	39,364	39,355	(9)	41,808	2,444
International Mail	1,395,040	1,395,059	19	1,418,698	23,658
TTL Mail	38,938,276	38,938,142	(134)	41,244,695	2,306,419
Special Services:					
Registry	83,275	83,269	(6)	83,685	410
Certified	447,087	447,125	38	462,912	15,825
Insurance	75,121	75,125	4	75,952	831
COD	14,674	14,673	(1)	14,991	317
Special Delivery	1	1	-	1	-
Money Orders	150,239	150,251	12	150,099	(140)
Stamped Cards	3,360	3,359	(1)	3,359	(1)
Stamped Envelopes	12,238	12,241	3	12,236	(2)
Special Handling	2,421	2,420	(1)	2,474	53
Post Office Box	574,855	574,868	13	574,565	(290)
Other	135,967	135,971	4	140,130	4,163
TTL Special Service	1,499,238	1,499,303	65	1,520,404	21,166
TTL Vol Variable	40,437,514	40,437,445	(69)	42,785,099	2,327,585
Other	27,029,645	27,029,971	326	24,777,666	(2,251,979)
Total Costs	67,467,159	67,467,416	257	67,542,765	75,606

Sources: USPS-T-14 W

J

OCA-LR-I-1 USUP

FY01PES.BIN

SFY01PES.BIN

1 CHAIRMAN GLEIMAN: Ms. Thompson, have you had
2 opportunity to examine the packet of designated written
3 cross-examination that was made available earlier today?

4 THE WITNESS: Yes, I have.

5 CHAIRMAN GLEIMAN: And if those questions were
6 asked of you today, would your answers be the same as those
7 you previously provided in writing?

8 THE WITNESS: Yes, they would.

9 CHAIRMAN GLEIMAN: That being the case, counsel,
10 if you could provide two copies of the designated written
11 cross-examination.

12 MR. RICHARDSON: Yes, I will, Mr. Chairman. I
13 have one other point I want to make.

14 CHAIRMAN GLEIMAN: Is it with respect to the
15 designated written cross?

16 MR. RICHARDSON: No, it is not.

17 CHAIRMAN GLEIMAN: Okay. Well, if you would
18 provide the designated written cross to the court reporter,
19 I will direct that it be transcribed into the record and
20 received in evidence.

21 [Designated Written
22 Cross-Examination of Pamela A.
23 Thompson, OCA-T-9, was received
24 into evidence and transcribed into
25 the record.]

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

Postal Rate and Fee Changes, 2000

Docket No. R2000-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION
OF OFFICE OF THE CONSUMER ADVOCATE
WITNESS PAMELA A. THOMPSON
(OCA-T-9)


Party

United States Postal Service

Interrogatories

USPS/OCA-T9-1-8

Respectfully submitted,


Cyril J. Pittack
Acting Secretary

INTERROGATORY RESPONSES OF
OFFICE OF THE CONSUMER ADVOCATE
WITNESS PAMELA A. THOMPSON (T-9)
DESIGNATED AS WRITTEN CROSS-EXAMINATION

<u>Interrogatory</u>	<u>Designating Parties</u>
USPS/OCA-T9-1	USPS
USPS/OCA-T9-2	USPS
USPS/OCA-T9-3	USPS
USPS/OCA-T9-4	USPS
USPS/OCA-T9-5	USPS
USPS/OCA-T9-6	USPS
USPS/OCA-T9-7	USPS
USPS/OCA-T9-8	USPS

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES USPS/OCA-T9-1-8

USPS/OCA-T9-1. Please refer to page 4, lines 5-6 of your testimony. You state that you used PRCEdit.EXE "to zero-out residual Standard Mail (A), single piece rate costs[.]"]

- a) Why was it necessary to edit the results? What caused the residuals? Please explain fully.
- b) If the residuals were the result of rounding, please explain fully the rounding function you used in your program. Please provide an arithmetic example of how the rounding function is performed.

RESPONSE TO USPS/OCA-T9-1. (a) When the USPS transferred out of Standard Mail (A) single piece costs, it moved integer values. I replicated this process. However, in moving integer values in my cost model, decimal values (residuals) remained in the Standard Mail (A), single piece cost category. The residuals that remained resulted in GRMAT.EXE printing a negative zero (-0). To eliminate the negative zero (-0) display, I manually edited the Standard Mail (A) single piece costs for segment 2, components 9, 29, 30, 32, 678; segment 3, component 228; segment 6, component 45; segment 16, component 177; and segment 18, components 199, 201 and 204 by inputting zero (0) into the data file.

(b) My cost model does not restrict the amounts stored in the data files it produces to integers values, rather the program supports reals. GRMAT.EXE does not alter the data file values. However, GRMAT.EXE does round the amounts to integers prior to printing and displaying them. For example, assume a data value of "x." If "x" is a value that is greater than or equal to 0.5 and is less than 1.0, "x" will be rounded up to the nearest integer (in this example, 1) before GRMAT.EXE displays the value. If "x" is less than 0.5, GRMAT.EXE rounds "x"

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES USPS/OCA-T9-1-8

down (in this example, 0) before the value is displayed. To maintain as much accuracy as possible, segment totals are calculated on the basis of the actual data file values and are not based upon the rounded printed values.

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES USPS/OCA-T9-1-8

USPS/OCA-T9-2. Please refer to page 4, lines 10-12. Please confirm that you provided no hard copy version of your programs and data files (or, stated otherwise, you provided only the electronic version of your programs and data files). If you do not confirm, please explain fully.

RESPONSE TO USPS/OCA-T9-2. Confirmed.

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES USPS/OCA-T9-1-8

USPS/OCA-T9-3. Please refer to page 4, line 15 of your testimony. You state "[a] cross-walk for segments 1 through 20 is not needed as the cost model uses the USPS component numbering scheme." Please refer to page 6, lines 9-10 of your testimony. You state "[i]n replicating the USPS data, OCA component 21:173 (USPS component 1453) did not receive a duplicate mail volume adjustment." Please explain fully how the parenthetical explanation on page 6 is necessary if the USPS component numbering scheme is used in OCA's cost model. If the Postal Service's numbering scheme is not used, please provide the cross-walk for segments 1 through 20 described on page 4.

RESPONSE TO USPS/OCA-T9-3. An OCA cross-walk is not needed for segments 1 through 20 as the cost model uses the same numbering scheme as does the Postal Service in those segments. For example, USPS segment 2, component 4 is identified in my model as 2:4 or 2 4. Input into the OCA model must indicate the segment number as well as the applicable component number. An OCA cross-walk was necessary for segments 21 through 23 because those segments are similar to a "scratch pad." Segments 21 through 23 are used to store USPS distribution keys and results of program calculations. Thus, the components in segments 21 through 23 do not use USPS numbers. In the OCA cross-walk file (OCA-LR-I-1, subdirectory USPSREP, file name cross_walk.xls), the segment and component you refer to "21:173" is in segment 21 and is component 173. Depending on the year under review, segment 21, component 173 is similar to USPS component 1339 and 1453. Also, please refer to OCA-LR-I-1, the printed copy of "Postal Rate Commission Cost Model Functions For Analyzing United States Postal Service Costs" at 26-27 and footnote 33 at 27.

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES USPS/OCA-T9-1-8

USPS/OCA-T9-4. Please refer to page 7, lines 1-3 of your testimony. You state "[i]n the cost model, the method of multiplying the cost reduction of (\$102,342,000) by 1.003 to allocate an additional component 35 cost reduction of \$240,173 will not produce the intended results." Are you referring to the USPS cost model or the OCA cost model? If you are referring to the USPS cost model, please provide the source you used to decide that the total amount of \$102,342,000 be multiplied by 1.003.

RESPONSE TO USPS/OCA-T9-4. I am referring to the OCA cost model.

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES USPS/OCA-T9-1-8

USPS/OCA-T9-5. Please refer to page 7, lines 16-23 of your testimony.

- a) You state "I ... determined that the intended cost reduction amount of \$32,363,000 be allocated to component 43." Why do you use the term "intended" to describe the cost reduction amount of \$32,363,000? Please explain fully.
- b) Please provide all calculations showing "the cost reduction amount to be allocated to component 46 was \$27,534,000."
- c) The remaining \$64,599,000 was "allocated to the remaining segment 6 and 7 components" and this appears to be your last step. Were the three steps outlined in parts a), b) and c) discrete and sequential? Please explain fully.
- d) If you[r] response to part c) is affirmative, is it necessary in the OCA's cost model to execute[] each step whenever a cost reduction change is made that involves more than a single component? Please explain fully.

RESPONSE TO USPS/OCA-T9-5. (a) In FY 00 the Postal Service indicated that a cost reduction amount of \$124,496,000 was to be distributed to all segment 6 and segment 7 components. According to Webster's Ninth New Collegiate Dictionary, the word "intended" means "to have in mind as a purpose or goal." Thus, I used the term "intended" to indicate that of the total cost reduction amount of \$124,496,000, it was the Postal Service's goal that segment 6, component 43 receive a total cost reduction amount of \$32,363,000.

(b) In USPS witness Kashani's workpaper E, at 326, elemental load, segment 7, component 46, received a total cost reduction amount of \$30,828,000. The \$30,828,000 was the total of two cost reduction amounts. One cost reduction amount was \$3,294,000 for "Delivery Confirm Scan" (see USPS-LR-I-6 \FY00rcr\Ben2fact – factor 244) and \$27,534,000 for "LIM-00" (see USPS-LR-I-6 \FY00rcr\Ben2fact – factor 245; note factor 245 is \$124,496,000). According to the USPS VBL5 file, \$124,496,000 is allocated to the following ten components: segment 6, components 43, 44, and 45; segment 7, components

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES USPS/OCA-T9-1-8

46, 48, 49, 50, 52, 53, and 54. The \$124,496,000 is allocated among the ten previously mentioned components on a weighted average basis. In other words, total costs for each component (after adjusting for any applicable cost level effects, mail volume effects, non-volume workload effects, and additional workday effects) are summed. Then, each component's total costs are divided by the sum of the ten specified components' total costs. The result is a weighted average. The weighted average is subsequently multiplied by the total cost reduction amount (\$124,496,000) to yield the amount allocated to each of the ten specified components. Of the total \$124,496,000, the amount of the cost reduction allocated to segment 7, component 46 was \$27,534,000; and the amount allocated to segment 6, component 43 was \$32,363,000. According to information in USPS-LR-I-6 and witness Kashani's workpapers, the distribution of the \$27,534,000 was based upon the then existing distribution of segment 7, component 46 costs. The remaining cost reduction amount of \$64,599,000 ($\$124,496,000 - \$27,534,000 - \$32,363,000$) is allocated to the remaining nine components based upon their weighted average. Another way to explain the calculation is as follows: \$30,828,000 presented in USPS witness Kashani's workpaper (see USPS-T-14, workpaper E at 326) minus \$3,294,000 equals \$27,534,000.

(c)-(d) I am not sure I understand your question. Computers by their very nature process and execute code sequentially and thus, one instruction at a time. However, if you are asking whether or not my cost model

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES USPS/OCA-T9-1-8

can allocate a "lump" sum among several different components, then my response is affirmative. For more information, please see OCA-LR-I-1, the printed document entitled "Postal Rate Commission Cost Model Functions For Analyzing United States Postal Service Costs" at 26 - 32. Please see my response to part (b) of this interrogatory.

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES USPS/OCA-T9-1-8

USPS/OCA-T9-6. Please refer to page 8, lines 1-6 of your testimony.

- a) Please provide the source of the "cost increase of \$60,647,000" referred to at line 4.
- b) Please explain fully the relationship between the "cost reduction of \$798,000" and the "cost increase of \$60,647,000.["]
- c) Why does the \$798,000 cost reduction need to be "isolated" as stated at line 5? Please explain fully.
- d) Is the allocation of the "remaining \$160,000" described at lines 7-9 discrete and sequential in relation to the steps listed at lines 4-6? Please explain fully.
- e) If you[r] response to part d) is affirmative, is it necessary in the OCA's cost model to execute[] each step whenever a cost reduction change is made that involves more than a single component? Please explain fully.

RESPONSE TO USPS/OCA-T-9-6. (a) The \$60,647,000 should be \$60,637,000 (\$6,896,000 "Delivery Confirm Scan" + \$48,350,000 "Priority Proc Center" - \$518,000 "Int'l Clerks & MH" + \$13,000 "DBCS MP Costs" + \$5,896,000 "SPBS MP Costs"). Please see USPS-LR-I-6, the USPS FY00 VBL6 and BEN2FACT files. Apparently, I made an addition error when I summed the five amounts for my testimony, however, the exhibits in my testimony do not change as I used the five amounts indicated in this response when I ran the cost model.

(b)-(c) Of the \$798,000 other programs cost reduction the Postal Service identified, my cost model program run indicated that (\$638,000) was allocated to segment 3, component 35. Thus, I chose to isolate (or, list separately) the (\$638,000) from the total (\$798,000). Additionally, the Postal Service allocated an additional net other programs cost increase of \$60,637,000 to segment 3, component 35. For a break-out of the \$60,637,000, please see my response to part (a) of this interrogatory. The only relationship I am aware of

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES USPS/OCA-T9-1-8

is that both the \$638,000 cost reduction and the net total \$60,637,000 cost increase impact segment 3, component 35.

(d)-(e) Again, I am not sure I understand what you mean by discrete and sequential. If you review the electronic file, FY00RCR.FAC, you will note that the other programs' cost reduction of \$160,000 is allocated to the remaining segment 3 components (40, 66, 421, 422, 423, 467, 468, 469, 470, 471, 41, 227, and 228) using one "cl" command. The "cl" command precedes the six "di" and one "ds" commands used to allocate other program costs to segment 3, component 35. The computer program executes one instruction at a time and, thus, would execute the "cl" instruction first.

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES USPS/OCA-T9-1-8

USPS/OCA-T9-7.

- a) Please refer to Exhibit 1A that accompanies your testimony. Please confirm that the USPS Base Year amount shown in the first column for Total Costs is \$59,566,519. If you do not confirm, please explain fully.
- b) Please refer to Exhibit 1B that accompanies your testimony. Please confirm that the OCA Base Year amount shown in the first column for Total Costs is \$59,384,726. If you do not confirm, please explain fully.
- c) Please refer to Exhibit 1C that accompanies your testimony. Please confirm that the Delta USPS – OCA Base Year amount shown in the first column for Total Costs is (2). If you do not confirm, please explain fully.
- d) If subparts a) – c) are confirmed, please fully explain the differences in Total Costs in the two models.

RESPONSE TO USPS/OCA-T-9-7. (a) Confirmed.

(b) Confirmed.

(c) Confirmed.

(d) A difference in total costs of (2), or (\$2,000) is 0.000003 percent and is not significant. Therefore, I did not pursue examining the cause of the difference and I do not know the reason for the difference.

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES USPS/OCA-T9-1-8

USPS/OCA-T9-8.

- a) Please refer to Exhibit 1B that accompanies your testimony. Please confirm that the OCA with Workyr Adjustment FY 01 amount shown in the last column for Total Costs is \$67,467,418. If you do not confirm, please explain fully.
- b) Please refer to USPS witness Kashani's Workpaper, WP-j, Table A, Table 8, page 20. Please confirm that the Workyear Adjustment FY01 amount for Total Costs is \$67,467,158. If you do not confirm, please explain fully.
- c) If subparts a) – b) are confirmed, please fully explain the differences in Total Costs in the two models.

RESPONSES TO USPS/OCA-T9-8. (a) Confirmed

(b) Confirmed.

(c) Exhibit 1C shows the difference between my results and USPS witness Kashani's. A difference in total costs of (260) or (\$260,000) is less than 0.0004 percent and is not significant. Therefore, I did not pursue examining the cause of the difference and I do not know the reason for the difference.

1 CHAIRMAN GLEIMAN: Is there any additional
2 designated written cross for this witness?

3 [No response.]

4 CHAIRMAN GLEIMAN: If not, you had another point,
5 counsel.

6 MR. RICHARDSON: Yes. With respect to Ms.
7 Thompson's direct testimony, I neglected to ask her if she
8 had any additions or corrections to make to her testimony,
9 and I believe she has one correction that has been made in
10 the copies that were provided to the court reporter.

11 CHAIRMAN GLEIMAN: Just so everyone will know that
12 we are playing from the same scorecard here, would you let
13 us know what that correction is?

14 THE WITNESS: On page 10, line 3 of my
15 testimony --

16 CHAIRMAN GLEIMAN: The supplemental or the
17 original?

18 THE WITNESS: The original, the direct testimony,
19 please change the word "increased" to "decreased." Item 2
20 would now read, "Segment to Component 16's total cost
21 decreased from \$113,101,000 to \$95,140,000.

22 CHAIRMAN GLEIMAN: Thank you.

23 Is there anything else?

24 MR. RICHARDSON: No.

25 CHAIRMAN GLEIMAN: I want to thank you, Ms.

1 Thompson. That completes your appearance here today. It is
2 the shortest one that I have ever known you to have to put
3 up with. We appreciate your contributions to our record and
4 you are excused.

5 THE WITNESS: Thank you.

6 [Witness excused.]

7 CHAIRMAN GLEIMAN: At this point, we are going to
8 take a five minute break so that the court reporter can
9 organize the other materials that were submitted under
10 affirmation or certification. And when we pick up in five
11 minutes, Mr. Hendel, you will be calling your first witness.
12 Thank you.

13 [Recess.]

14 CHAIRMAN GLEIMAN: Mr. Hendel, would you call your
15 witness, please?

16 MR. HENDEL: Yes, Mr. Chairman, Stamps.com calls
17 Frank Heselton.

18 Whereupon,

19 FRANK R. HESELTON,
20 a witness, having been called for examination and, having
21 been first duly sworn, was examined and testified as
22 follows:

23 CHAIRMAN GLEIMAN: Counsel, you may proceed.

24 DIRECT EXAMINATION

25 BY MR. HENDEL:

1 Q Mr. Heselton, do you have two copies of a document
2 entitled "Direct Testimony of Frank Heselton on Behalf of
3 Stamps.Com," designated Stamps.com-T-1, dated May 22nd,
4 2000?

5 A Yes, I do.

6 Q Was this testimony prepared by you?

7 A Yes, it was.

8 Q If you were to testify orally here today, would
9 this be your testimony?

10 A Yes, it would.

11 MR. HENDEL: I ask that two copies be provided to
12 the reporter and that this testimony be entered into
13 evidence in this docket.

14 CHAIRMAN GLEIMAN: Is there any objection?

15 [No response.]

16 CHAIRMAN GLEIMAN: If there is no objection, if
17 counsel would provide two copies of the testimony to the
18 reporter, of Witness Heselton, I will direct that the
19 testimony be transcribed into the record and received into
20 evidence.

21 [Direct Testimony of Frank R.
22 Heselton, Stamps.com-T-1, was
23 received into evidence and
24 transcribed into the record.]

25

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
FRANK R. HESELTON
ON BEHALF OF
STAMPS.COM**

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May 22, 2000

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AUTOBIOGRAPHICAL SKETCH

1
2
3
4 My name is Frank R. Heselton. I am an independent consultant on postal
5 rates and related matters, including: pricing; costing; data collection and
6 reporting; rate administration; rate-setting processes and legislation. I developed
7 my expertise in these areas as an employee of the Postal Service and its
8 predecessor organization, the Post Office Department, for over thirty years.

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

20 Between 1992 and 1996, I was Manager of Rate Case Formulation, where
21 I coordinated the development of rate cases. I retired from the Postal Service in
22 1996. In 1997 and 1998 I assumed a post-retirement position of Principal
23 Economist advising the Postal Service on pending postal reform legislation. In
24 that capacity, I was a coauthor and a primary editor of the Postal Service's

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

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

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

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

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

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

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

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

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

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

6

7 **I. PURPOSE AND SCOPE OF TESTIMONY**

8

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

1 **II. SUMMARY**

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

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

16
17 **III. IBIP PREPARED AND ADDRESSED LETTERS AVOID COSTS OF 4.13**
18 **CENTS PER PIECE**

19
20 IBIP prepared and addressed letters avoid costs in three areas; remote
21 barcode system (RBCS) and mail processing cost, return-to-sender cost, and
22 carrier delivery cost. IBIP procedures produce letters that meet standards for
23 automated processing and avoid RBCS and mail processing costs that otherwise
24 would be incurred. Additionally, IBIP addressing procedures produce letters with
25 addresses matched with the Postal Service's AMS database to produce letters

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

13
14 **A. IBIP PREPARATION AVOIDS COST OF 2.99 CENTS PER PIECE**

15
16 IBIP preparation of letters to automation standards avoids cost of 2.99
17 cents per piece. In developing the cost avoided by IBIP preparation of letters to
18 automation standards, I use the estimated costs avoided by Qualified Business
19 Reply Mail (QBRM). Letters prepared under IBIP and QBRM procedures enter
20 the postal system as single pieces and meet essentially the same standards for
21 automated processing, and therefore avoid the same processing cost.

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

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

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

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

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

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

8 The benchmark for measuring the cost avoided by IBIP letters (hand-
9 written letters) is the same as the benchmark used by the Postal Service to
10 estimate the cost avoided by QBRM letters. Individuals, small offices, and home
11 offices (SOHOs) are customers for IBIP mail preparation, and addressing. Over
12 a third of customer letters would have been prepared with handwritten addresses
13 had IBIP not been available. Even more would have omitted a nine-digit ZIP
14 Code. Many more would not have had a POSTNET barcode or FIM code. For
15 SOHOs, the majority of letter pieces is stamped. (Library Reference USPS-LR-I-
16 299/R2000-1, Analysis of the Market for PC Postage (September, 1999) at 20.)
17 Many of these pieces are likely to be addressed by hand.

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

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

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

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

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

9

10 **B. IBIP ADDRESSING AVOIDS RETURN-TO-SENDER COST OF**
11 **1.14 CENTS PER PIECE**

12

13 IBIP mail that is verified and modified through the AMS database avoids
14 return-to-sender cost of 1.14 cents per piece. According to an Address
15 Deficiency Study developed by PricewaterHouseCoopers for the Postal Service,
16 29.6 percent of First Class mail pieces contain one or more address deficiencies
17 (see USPS-LR-I-192/R2000-1 at page 15). Many letters with address
18 deficiencies can be delivered, although often at additional effort and related cost.
19 Some have to be returned to sender, resulting in substantial additional expense
20 to the Postal Service.

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

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

3 Address deficiencies can occur in any of the three basic address lines:
4 (1) addressee-name line; (2) delivery line; and (3) city/state/ZIP line. The
5 addressee-name line or first-line contains the name of the person, business, or
6 other organization intended to receive the mail piece. If the addressee has
7 moved, is unknown, is deceased, or is no longer in existence, the addressee and
8 the remaining address information do not match. This is an addressee-name line
9 deficiency. The AMS address match performed through IBIP procedures does
10 not currently correct for address-name line deficiencies¹. The AMS lookup
11 process, however, corrects deficiencies in the delivery line and the city/street/ZIP
12 line.

13 The delivery line contains the street name and house number, or post
14 office box number, or rural route and box number. Deficiencies in the delivery line
15 can be one or more of the following: address line is missing; street name is
16 missing, no such, or incorrect; house or PO box number is missing, no such, or
17 incorrect; secondary number, such as an apartment or suite number is missing,
18 no such, or incorrect; street directional or suffix, such as "N.W.," is missing or
19 incorrect; and rural route or rural box number is missing, no such, or incorrect.
20 IBIP address lookup software identifies the lack of such necessary information
21 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.

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

6 A process comparable to the address lookup process described by
7 Stamps.com witness Kuhr also is used by other IBIP postage vendors, such as
8 E-Stamp, when addressing letters in addition to preparing them for automation
9 compatibility (see testimony of E-Stamp witness Jones). Potential mail
10 processing errors and related costs associated with second- and third-line errors,
11 therefore, are avoided through the use of IBIP's cleansing of address information
12 through comparison to the AMS database. This cost avoidance is additional to
13 that obtained by preparing a letter in conformance to automation standards.
14 Below, I describe the prevalence of each address-line error and the likely
15 potential cost savings from prevention of these deficiencies. To accomplish this,
16 I rely on information in two studies conducted in tandem by
17 PriceWaterhouseCoopers for the Postal Service, both completed on September
18 10, 1999 and provided as USPS library references in this proceeding.

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

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

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

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

	<u>First Class Mail</u>	<u>Percent</u>
16	Deliver or return-to-sender ²	100.00
17		
18	Less mail deemed deliverable (ADS at 15)	93.66
19		
20	Estimated return-to-sender mail	6.34
21		

22 Thus, 6.34% of First Class mail is returned to sender based on address
23 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.

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

3	<u>First Class Mail</u>		
4	Percent return-to-sender or forwarded		
5	because of addressee-name deficiency		3.09 ³
6			
7	Multiply by portion that is return-to-sender	x	.3852 ⁴
8	Result: percent return-to-sender from		
9	addressee name deficiency		1.19
10			

11 Thus, 1.19% of First Class Mail is returned to sender because of a first-line
 12 address deficiency. Subtracting this figure (1.19 percent) from the 6.34 percent
 13 of return-to-sender mail that results from deficiencies in all three address lines
 14 leaves a figure of 5.15 percent. This is the estimated amount of return-to-sender
 15 mail from deficiencies in the delivery line and the city/state/ZIP line (6.34 less
 16 1.19 equals 5.15).

17 Next, I develop the return-to-sender cost for this mail. The first step is to
 18 determine the point in the processing system from which such returns-to-sender
 19 are made. A review of the specific deficiencies in the third line -- the
 20 city/state/ZIP line -- indicates that most of these would be detected at image lift
 21 and corrected early in mail processing. This generally would not require
 22 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.

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

3 A review of the specific deficiencies in the second line of the address
 4 presented in the ADS at page 15 indicates that only a few would tend to be
 5 detected before reaching the delivery carrier. An entirely missing address line or
 6 street name, or missing or nonexistent rural route number, will be detected
 7 before reaching carrier processing. These account for about 4 percent of pieces
 8 with deficiencies in the delivery line. The remainder would not be detected
 9 before carrier operations. It appears, therefore, that 96 percent of return-to-
 10 sender mail would be returns from carrier processing operations. I multiply the
 11 5.15 percent of return-to-sender mail by .96 to develop the percent of mail with
 12 delivery and city/state/ZIP line deficiencies that is returned from carrier
 13 processing operations, 4.94 percent (.96 x 5.15 equals 4.94). Next, I develop the
 14 cost per piece to return this mail from carrier operations. Then I develop the
 15 average return cost per piece avoided by eliminating address deficiencies in the
 16 delivery address line.

17 Mail returned from carrier operations to sender requires at least carrier
 18 preparation and mailstream processing. It may also require some processing by
 19 nixie clerks, but I am unable to estimate the amount. According to the UAA
 20 study, the per-piece costs for preparation and mailstream processing are 5.77
 21 cents and 28.79 cents (UAA at 33, Table 5.1.2). I sum the two to obtain a return
 22 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.

1 pieces, I multiply the 34.56 cents by .0494 to develop a return cost per piece of
2 1.71 cents avoided by eliminating delivery line address deficiencies.

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

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

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

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

13

14 **C. IBIP ADDRESSING AVOIDS DELIVERY COST**

15

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

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

8 The ADS states that 29.57 percent of First Class letters sampled had at
9 least one address deficiency (ADS at 15). From this I subtract the percentage of
10 return-to-sender letters, 6.14, that I developed on page 14. The difference of
11 23.23 percent is the percentage of First Class letters with address errors, but that
12 were deliverable. From the 23.23, I subtract the percentage of deliverable letters
13 with addressee name deficiencies, 1.19, that I also developed on page 14. The
14 difference of 21.33 percent is the percentage of First Class letters with address
15 deficiencies in the delivery and city/state/ZIP lines that are deliverable in spite of
16 the deficiencies. Thus, 1 in every 5 First Class letters contains an address
17 deficiency in the delivery line or city/state/ZIP line. By contrast, IBIP mail
18 contains no address deficiencies in the delivery line or city/state/ZIP line.

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

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

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

17
 18 **IV. PER-PIECE WORKSHARE DISCOUNTS OF FOUR CENTS FOR**
 19 **PRINTED PIECES AND THREE CENTS FOR LABELS ARE JUSTIFIED**
 20

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

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

8

9 **A. THE AVOIDED-COST ESTIMATE IS RELIABLE**

10

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

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

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

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

4
5 **B. NONAUTOMATED AND RETURN-TO-SENDER PROCESSING**
6 **WILL BE AVOIDED**
7

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

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

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

3

4 **C. IBIP LETTERS WILL BE PREPARED CORRECTLY**

5

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

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

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

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

18 Witnesses for the Postal Service, however, indicate various theoretical
19 and unsubstantiated concerns that mail prepared and addressed under IBIP
20 procedures may not qualify for an IBIP discount (see transcript Volume 12 at
21 4737 to 4743; 4797 to 4805; 4812 to 4830, and Volume 14 at 6056 to 6059).
22 Both witnesses Fronk and Campbell hypothesize that IBIP users may place
23 postage on mail that exceeds the size, shape, and weight limitations for

1 automation-compatible mail (transcripts Volume 12 at 4738 and Volume 14 at
2 6056 to 6057). While theoretically possible, this is highly unlikely. The IBIP-
3 implementing procedures developed by Stamps.com and E-Stamp require users
4 to select the size envelope being used or type of label being printed from a menu
5 provided by the IBIP vendor. Envelopes that exceed the size and shape limits for
6 certain rates will not be printed with indicium at those rates. Label use is more
7 flexible, and below I discuss that factor in developing a discount for IBIP-
8 prepared and addressed letters.

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

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

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

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

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

12
13 **D. AVOIDED COST AND OTHER CONSIDERATIONS JUSTIFY**
14 **PER-PIECE DISCOUNTS OF FOUR CENTS FOR PRINTED**
15 **PIECES AND THREE CENTS FOR LABELS**
16

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

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

1 the estimated cost avoidance. These considerations suggest a passthrough of
2 100 percent of avoided cost into the discount from the First Class single-piece
3 rate.

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

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

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

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

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

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

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

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

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

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

1 effects of uncertainties beyond those covered by the passthrough of less than
2 100 percent of avoided cost to the discount.

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

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

12
13 **V. CLASSIFICATION, RATEMAKING AND POLICY CONSIDERATIONS**
14 **SUPPORT THE PROPOSED DISCOUNTS**
15

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

1
2 **A. THE PROPOSED DISCOUNTS MEET CLASSIFICATION**
3 **REQUIREMENTS OF THE ACT**
4

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

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

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

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

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

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

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

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

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

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

22 Here I consider the requirements of section 3623(c)(5), which specifies
23 consideration of "the desirability of special classifications from the point of view of

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

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

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

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

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

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

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

6

7 **B. THE PROPOSED DISCOUNTS MEET RATE REQUIREMENTS**
8 **OF THE ACT**
9

10 In this section of my testimony, I consider the eight rate-setting criteria in
11 section 3622(b) of the Act. Section 3622(b)(1) requires fair and equitable rates.
12 The proposed IBIP discounts meet the classification and rate setting criteria of
13 the Act and is fair and equitable. Sections 3622(b)(2) and (3) are not pertinent.
14 The proposed discounts for IBIP prepared and addressed letters are workshare
15 discounts that do not alter basic cost and rate relationships addressed by section
16 3622(b)(3). Criterion (4) relates to the effect of general rate increases on the
17 general public and business mail users. The proposed discounts provide a way
18 for the public and business mailers to lower their postage cost to mitigate the
19 effect of rate increases. It complies with the Act. Criterion (5) concerns the
20 available alternative means of sending and receiving mail matter at reasonable
21 rates. This factor has been applied in the past to hold down rate increases for
22 First Class single-piece letter mailers, because they have few alternatives to
23 mailing a letter. IBIP users, however, are just the type of computer-savvy mailers
24 who are most likely to use alternative means – such as the Internet and
25 electronic media – to send and receive messages. They have alternatives to

1 using the mail. The proposed discounts comply with this section. Below, I
2 consider the two sections most applicable to IBIP discounts, 3622(b)(6) and (7).
3 Section 3622(b)(6) requires consideration of "the degree of preparation of
4 mail for delivery into the postal system performed by the mailer and its effect
5 upon reducing costs to the Postal Service." Under IBIP preparation and
6 addressing procedures, First Class letters are prepared to meet automation mail
7 processing standards and AMS database standards. The mailer performs the
8 preparation, which requires some effort (see testimony of witness Jones for
9 customer reaction to the address-lookup process). Printers attached to personal
10 computers are set up to meet a variety of printing needs, and usually require
11 setting up to print envelopes and labels. IBIP procedures guide the user through
12 this process, requiring the user to indicate the size of envelope or to specify type
13 of label. The user enters the address and the IBIP provider checks the entered
14 address against the AMS address database. The IBIP implementing program
15 displays the AMS version of the address and requires a confirmation from the
16 user. Differences between the user-supplied address and the AMS version may
17 require close examination by the user to confirm that the AMS address is, in fact,
18 equivalent to the user-supplied address. In some instances, the AMS system
19 cannot match the entered address, and the user is asked to choose an address
20 from a menu of alternatives. This often requires considerable effort by the user,
21 especially if the basic form of the address has changed, as when a rural-route
22 box-number style of address has gone through a 911 conversion to city-type
23 addressing. This conversion alone changed almost 2 million addresses between

1 1994 and 1999 (ADS at 10). As a result of the mailers efforts, however, a First
2 Class single-piece letter avoids over 4 cents per piece in cost to the Postal
3 Service. Consideration of section 3622(b)(6) requires this avoided cost saving to
4 be reflected in First Class single-piece letters through discounts from the single-
5 piece letter rate.

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

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

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

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

6	<u>Rate Category</u>	<u>Proposed Rate</u>
7		
8	Regular Single Piece	34 cents
9	Regular Presort (not automation compatible)	32 cents
10	IBIP (automation compatible, no presort)	30 and 31 cents (labels)
11	Automation Basic Presort Letters	28 cents

12

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

16

17 **C. THE PROPOSED DISCOUNTS MEET THE POLICIES OF THE**
18 **ACT**

19

20 With regard to establishing classifications, rates, and fees, the Act

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

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

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

1 CHAIRMAN GLEIMAN: Mr. Heselton, have you had an
2 opportunity to examine the packet of designated written
3 cross-examination that was made available earlier today?

4 THE WITNESS: Yes, I have, Mr. Chairman.

5 CHAIRMAN GLEIMAN: And if the questions in that
6 packet were asked of you today orally, would your answers be
7 the same as those you previously provided in writing?

8 THE WITNESS: Yes, they would.

9 CHAIRMAN GLEIMAN: That being the case, if counsel
10 would provide two copies of the designated
11 written-cross-examination of Witness Heselton to the court
12 reporter, I will direct that the material be received into
13 evidence and transcribed into the record.

14 [Designated Written
15 Cross-Examination Frank R.
16 Heselton, Stamps.com-T-1, was
17 received into evidence and
18 transcribed into the record.]

19
20
21
22
23
24
25

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

Postal Rate and Fee Changes, 2000

Docket No. R2000-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION
OF STAMPS.COM
WITNESS FRANK R. HESELTON
(STAMPS.COM-T-1)

Party

E-Stamp Corporation

United States Postal Service

Interrogatories

USPS/Stamps.com-T1-1, 4, 7, 15, 17

DFC/Stamps.com-T1-1-2, 5-6, 8

USPS/Stamps.com-T1-1, 4, 6-7, 9-10, 12-13, 15,
20-21, 25-26

Respectfully submitted,


Cyril J. Pittack
Acting Secretary

INTERROGATORY RESPONSES OF
STAMPS.COM
WITNESS FRANK R. HESELTON (T-1)
DESIGNATED AS WRITTEN CROSS-EXAMINATION

<u>Interrogatory</u>	<u>Designating Parties</u>
DFC/Stamps.com-T1-1	USPS
DFC/Stamps.com-T1-2	USPS
DFC/Stamps.com-T1-5	USPS
DFC/Stamps.com-T1-6	USPS
DFC/Stamps.com-T1-8	USPS
USPS/Stamps.com-T1-1	E-Stamp, USPS
USPS/Stamps.com-T1-4	E-Stamp, USPS
USPS/Stamps.com-T1-6	USPS
USPS/Stamps.com-T1-7	E-Stamp, USPS
USPS/Stamps.com-T1-9	USPS
USPS/Stamps.com-T1-10	USPS
USPS/Stamps.com-T1-12	USPS
USPS/Stamps.com-T1-13	USPS
USPS/Stamps.com-T1-15	E-Stamp, USPS
USPS/Stamps.com-T1-17	E-Stamp
USPS/Stamps.com-T1-20	USPS
USPS/Stamps.com-T1-21	USPS
USPS/Stamps.com-T1-25	USPS
USPS/Stamps.com-T1-26	USPS

DFC/STAMPS.COM-T1-1.

Please refer to your testimony at page 10, lines 4–7.

- (a) Please confirm that QBRM mail is prepared using FIM "C". If you do not confirm, please explain.
- (b) Please confirm that an AFCS machine sorts FIM "C" mail to the stackers for pre-bar-coded mail and that pre-bar-coded mail is taken directly to a BCS. If you do not confirm, please explain.
- (c) Please confirm that IBIP mail proposed for a discount would be prepared using FIM "D". If you do not confirm, please explain.
- (d) Please confirm that an AFCS machine sorts FIM "D" mail to the stackers for typewritten mail, not the stackers for pre-bar-coded mail. If you do not confirm, please explain.
- (e) Please confirm that IBIP mail receives its outgoing primary sortation either through the RBCS system (if the AFCS machine is set in the "lift everything" mode) or on an MLOCR (if the AFCS machine is set to lift script mail only). If you do not confirm, please explain.
- (f) Please identify the mail-processing costs that QBRM mail avoids when it bypasses RBCS or an MLOCR for outgoing primary sortation.
- (g) Please confirm that both IBIP mail and typewritten mail flow to the same next step (MLOCR or BCS OSS) in processing after being faced and cancelled on an AFCS machine. If you do not confirm, please explain.
- (h) Suppose the AFCS is set in "lift everything" mode. Two envelopes pass through the AFCS machine: (1) an IBIP envelope printed with a delivery-point bar code, and (2) a typewritten, stamped envelope with no bar code. Please confirm that the RBCS system will not use the delivery-point bar code already printed on the IBIP envelope, will resolve each address using OCR recognition technology to determine the correct bar code, and will spray a bar code onto each envelope. If you do not confirm, please explain.
- (i) Suppose two envelopes pass through an MLOCR: (1) an IBIP envelope printed with a delivery-point bar code, and (2) an OCR-readable, typewritten, stamped envelope with no bar code. Please explain how, if at all, the IBIP envelope will avoid mail-processing costs compared to the typewritten envelope during MLOCR processing.

RESPONSE:

(a) Confirmed.

(b) Confirmed.

(c) Confirmed.

(d, e, g, h, i) I am not a mail processing expert. However, I believe the most efficient way to process IBIP letters is for the AFC to sort all FIM mail to a FIM mail stacker, and for that mail to receive outgoing processing on barcode readers. I understand that some offices do in fact use that approach. Since IBIP mail is currently a small portion of the mailstream, other offices may find other approaches more economical. As IBIP volumes grow, however, I anticipate that IBIP letters will be processed like other FIM mail.

(f) USPS LR-I-146, prepared by USPS witness Campbell, contains the documentation supporting the QBRM discount calculation using the Commission's costing methodology. The following information appears at pages 3 and 4, column 9:

<u>Outgoing Operation</u>	<u>Handwritten</u>	<u>Cents per Piece</u> <u>QBRM</u>
RBCS		
ISS	0.0313	0.0000
RCR	0.5042	0.0000
REC	1.3392	0.0000
OSS	0.6052	0.0000
LMLM	0.2033	0.0000
Primary		
Automation	0.0212	1.1435
Manual	0.4788	0.3836

DFC/STAMPS.COM-T1-2.

Please refer to your testimony at page 10, lines 11–14.

- (a) Please state the basis for your statement that over one third of customer letters would have been prepared with handwritten addresses had IBIP not been available.
- (b) Please confirm that automation can fully resolve a substantial percentage of handwritten addresses. If you do not confirm, please explain.
- (c) Please confirm that omission of a ZIP+4 Code in a typewritten, OCR-readable address is inconsequential for mail processing because the MLOCR will perform a database lookup and spray a correct delivery-point bar code. If you do not confirm, please explain.

RESPONSE

- (a) At the time I prepared my testimony, I understood that a survey showed that at least one-third of customer letters would have been prepared with handwritten addresses. My estimate is also based on information in the testimony of Stamps.com's witness Leora E. Lawton (Stamps.com-T-3). Dr. Lawton states that her survey of Stamps.com customers shows that over three-fourths used stamps as postage prior to using Stamps.com (page 18). Customers also indicated that, prior to their use of Stamps.com, their business letters never or infrequently had a nine-digit ZIP Code (page 14). One-half to two-thirds of those surveyed indicated their #10 envelopes never had a POSTNET Code (page 15), and three-quarters stated that their mail lacked a FIM Code (page 17). I also note the survey is believed to overstate customers' prior use of 9-digit ZIP Codes, POSTNET Codes, and FIM Codes, thereby understating the amount of mail that lacked these features (page 7). Based on the high usage of stamps and high percentage of mail preparation that omitted automation features, I conclude that at least one-third of letters probably were hand addressed.

- (b) According to the Decision Analysis Report on "Remote Reader 2000

Handwriting Recognition Upgrade" of January 28, 1999, the Remote Computer Reader (RCR) handwriting recognition rate was expected to be 53 percent (USPS-I-164 at 5). I note that costs still are incurred to resolve handwriting by automation, even though these costs are less than those incurred by other features of RBCS processing. In addition, even if a handwritten mailpiece can be read by RCR technology, it still will not have gone through all of the address cleansing and matching procedures required for IBIP mail, and thus may contain address deficiencies.

- (c) I do not know whether omission of a ZIP+4 Code in a typewritten, OCR-readable address is "inconsequential." I can confirm that the MLOCR will perform a database lookup and spray a correct delivery-point bar code. The MLOCR, however, cannot provide the type of address deficiency corrections among multiple possible choices that is performed for IBIP mail.

DFC/STAMPS.COM-T1-5.

Please refer to your testimony at page 20, lines 17–18.

- (a) Would you consider a letter addressed to a nonexistent house number on a valid street to be a delivery-line deficiency? If not, please explain.
- (b) Please confirm that Stamps.com software will allow a customer to print an IBIP mail piece addressed to some nonexistent house numbers on valid streets. If you do not confirm, please explain. (For example, using Stamps.com software, I successfully printed an IBIP envelope addressed to 243 Calvin Place in Santa Cruz, California, even though no house on Calvin Place has the number 243. The number 243 falls in a valid number range — this street has numbers 101 through 268 — but number 243 does not exist.)

RESPONSE

- (a) Yes.
- (b) The Stamps.com software will allow a customer to print an IBIP mail piece to any address in the Postal Service's AMS database. While that database is very accurate, it is not 100 percent accurate. CASS certification requires 98 percent accuracy in a number of different tests, indicating a very high degree of reliability, but not perfection. This degree of error is not significant to my calculation of cost avoided by IBIP preparation and addressing.

DFC/STAMPS.COM-T1-6.

- (a) Please confirm that your cost-avoidance analysis is based on the costs that QBRM mail avoids, with adjustments for additional reduced costs associated with UAA mail. If you do not confirm, please explain.
- (b) Please confirm that QBRM mail typically is deposited loose in the collection stream. If you do not confirm, please explain.
- (c) Please confirm that customers may properly bundle IBIP letters. If you do not confirm, please explain.
- (d) Please confirm that the Postal Service should handle properly bundled IBIP letters as bundled metered mail. If you do not confirm, please explain.
- (e) Please discuss the amount of mail-processing costs (per letter) that are avoided in processing bundled metered letters compared to the benchmark of loose, handwritten letters.

RESPONSE

- (a) Confirmed. See my testimony at lines 20 to 25 on page 7 and lines 1 to 8 on page 8.
- (b) Confirmed. QBRM mail typically is deposited loose in the collection stream, as is IBIP mail.
- (c) Confirmed. I am not aware of any restriction on bundling IBIP mail, but there is no rate incentive to encourage customers to bundle such mail.
- (d) Not confirmed. In many cases, it would be more expeditious for the Postal Service to take such mail directly to a barcode reader for processing, which could not be done with bundled metered mail.
- (e) I cannot discuss this subject area because I have not studied it.

DFC/STAMPS.COM-T1-8.

Please refer to your testimony at page 25, lines 18–23 and page 26, lines 1–8.

- (a) Do the Postal Service's limitations on envelope size, shape, and weight for automation compatibility apply for loose mail that must pass through the culling, facing, and cancelling system? Please provide any citations to the record, postal manuals, or postal regulations that would support an affirmative answer to this question.
- (b) Do you believe that #10 envelopes that weigh three ounces will be sufficiently thin that they will be processed successfully through the culling system and the AFCS? Please explain.
- (c) Should IBIP letters receive a four-cent discount based on automation compatibility if the letters are rejected from the culling system for being too thick? Please explain.

RESPONSE

- (a) Mail that must pass through culling, facing and canceling operations is not limited to that which meets the Postal Service's standards for envelope automation compatibility.
- (b) Yes. I believe automated equipment can handle letters weighing three ounces. For example, automation non-carrier route presort letters are limited to 3.3103 ounces. As a practical matter, the percentage of letters that weigh over three ounces is too small to influence estimates of the costs avoided by IBIP letters.
- (c) IBIP letters should receive a discount for automation compatibility if they meet the preparation standards for automated processing. I doubt that a letter thick enough to be culled would meet automation compatibility standards.

USPS/STAMPS.COM-T1-1

On page 9 lines 10-12 you state "the appropriate benchmark to measure cost avoided by IBIP-prepared letters is handwritten single-piece letters." On page 10 lines 11-13 you state "[o]ver a third of customer letters would have been prepared with handwritten addresses had IBIP not been available."

- (a) Please state the data source and provide copies of all supporting data and/or documentation related to the statement that "over a third" of customer letters would have been prepared with handwritten addresses.
- (b) Given that only "over a third" of customers' letters would have been prepared with handwritten addresses, please explain why a handwritten mail piece is the appropriate benchmark for the measured cost avoidance.

RESPONSE

- (a) Please see my response to Interrogatory of Douglas F. Carlson,

DFC/STAMPS.COM-T1-2 (a).

- (b) As indicated in the testimony of Stamps.com's witness Kuhr, Stamps.com has implemented IBIP under the parameters specified in the *Performance Criteria for Information-Based Indicia and Security Architecture for Open IBI Evidencing Systems*, or PCIBI-O. (See Stamps.com-T-2 at 5 and 6). The PCIBI-O requires a mail piece formatted for automation compatibility. This includes an indicium, FIM placement for automation or a FIM substitute for labels, appropriate address area, and delivery point POSTNET barcode (Ibid. at 14 to 19).

Also required is an address verified and corrected against a CASS certified address base (Ibid. at 21 and 22). These requirements are bundled together; each one must be met to produce a piece of mail prepared and addressed to IBIP requirements. The appropriate benchmark mail piece for

measuring the cost avoided by an IBIP mail piece is one that does not contain any of the required IBIP features. A handwritten envelope does not contain any of the requirements specified for IBIP. It is, therefore, the benchmark against which to measure the cost avoided by an IBIP prepared and addressed piece.

The selection of the benchmark is not defined by how mail is being prepared currently. It is defined, rather, by how the mailpiece would be prepared in the absence of all the preparation requirements, taken together, that must be met to obtain the proposed discount.

A handwritten piece not only is the appropriate benchmark for determining the cost avoided by an IBIP prepared and addressed piece, but also is the benchmark USPS has determined is appropriate for the cost avoidance for a QBRM piece. A QBRM piece must meet the same preparation requirements as an IBIP prepared and addressed piece. The example is consistent with the Commission's acceptance of a handwritten benchmark for QBRM in Docket No. R97-1 with the position of Postal Service witness Campbell in this Docket. Thus, USPS applies the handwritten mail benchmark for QBRM even though it is highly unlikely that any of this mail would have had handwritten addresses if there were no QBRM discount. If there were no QBRM discount, such mailer-provided courtesy reply envelopes would still contain printed addresses, and very likely would contain 9-digit ZIP Codes and POSTNET barcodes. Nonetheless, USPS correctly continues to apply handwritten mail as the appropriate benchmark for determining cost savings for QBRM.

USPS/STAMPS.COM-T1-4

On page 10 lines 18-23 you state, "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, is already addressed. Additionally, it is much simpler to place a stamp on a courtesy envelope than to prepare an envelope through IBIP."

- (a) Did you conduct a study that sought to determine the extent to which CRM mail volumes could migrate to IBI mail volumes? If so, please provide all supporting data and/or documentation related to that study.
- (b) Do you consider simplicity of use to be a key element of your proposal? Please explain.
- (c) In terms of the application of the postage itself, assuming a customer has equal access to postage stamps and PC postage, wouldn't it always be "simpler" to use stamps for postage rather than IBI software/hardware, regardless of the mail piece type? Please explain any negative response.

RESPONSE:

(a) I did not consider such a study necessary, for the reasons presented in my testimony and quoted above in the question. Furthermore, even if it were possible to print an indicium without printing an address, I doubt that the holder of a CRM envelope would utilize IBIP preparation and addressing procedures. To complete preparation of a CRM envelope, a mailer needs only to stick on a stamp. To complete preparation of an envelope through IBIP under PCIBI-O, the mailer needs to access a computer, access the IBIP provider program, enter information required by the program, insert the envelope in a printer, and print it out. I doubt very much that most single-piece mailers would go through those steps, or even some portion of them, to save 4 cents on postage.

(b) No. I consider simplicity of rate administration to be a key element of Stamps.com's proposal, but not simplicity of use compared to hand addressing and placing a stamp on an envelope. That said, preparation and addressing mail through use of IBIP providers is simple enough to be used by anyone who can send e-mail and surf the Internet. While simple to use, the address checking and cleansing requirement for IBI mail can be a strong disincentive toward such use.

(c) No. For courtesy reply mail, a self-addressed envelope has already been provided to the mailer. The only remaining step for the mailer to take is to apply postage. In this circumstance, it is more convenient to simply apply a postage stamp rather than produce a new envelope and postage using the IBIP. For all other outgoing mail, the mailer must obtain an envelope, obtain the correct address, print the address on the envelope, and then apply postage. In this circumstance, when mailers must supply and address their own envelope, it becomes practical and convenient to use PC Postage for addressing and application of postage. Also, customers may have an inventory of First Class stamps on-hand for day-to-day mailing needs, but likely do not have an inventory of postage needed for other mail, such as packages, Priority Mail, and Express Mail. The use of PC Postage in these circumstances is thus very convenient as it saves on a special trip to the post office to obtain postage for such items.

USPS/STAMPS.COM-T1-6

On pages 13 and 14 of your testimony you describe various address deficiencies that can occur when a mailer does not apply the appropriate address to a given mail piece.

- (a) Please confirm that mail pieces with address deficiencies can incur additional processing costs. If not confirmed, please explain.
- (b) Please confirm that individual mailers should take responsibility to ensure that their mailing lists and addresses are current and up-to-date. If not confirmed, please explain who the responsible party should be.
- (c) If a mailer were responsible for ensuring that a mail piece address is correct and up-to-date, please explain why a discount, or portion of a discount, should be based on the costs associated with a mailer simply performing a task that is obviously its responsibility.
- (d) Please confirm that some of the "address deficiencies" you describe (e.g., missing street directionals) can be corrected by postal automation equipment, such as the Remote Bar Code System (RBCS). If not confirmed, please explain.
- (e) Please confirm that any costs related to address deficiencies that have been corrected by postal automation equipment would already be included in the measured cost avoidance of 2.99 cents as described on page 8 of your testimony. If not confirmed, please explain.
- (f) Please confirm that you did not perform an "exact piece comparison" for address deficiency related costs (i.e., you did not compare the address deficiency related costs for a mail piece before it converted to PC postage to those same costs for the same mail piece after it converted to PC postage). If not confirmed, please explain.

RESPONSE:

- (a) Confirmed.
- (b) Confirmed. But as a practical matter, many individual mailers do not do this, and the Postal Service does not require it of them.
- (c) First, as a practical matter, many individual mailers do not take responsibility for ensuring that their mailing lists and addresses are current and

up to date. Thus, a discount is appropriate to provide an incentive for these mailers to take such action, which also reduces USPS processing and delivery costs. Second, many single-piece mailers do not have the tools needed to ensure that their mailing lists and addresses are current and up to date, or it would be uneconomical for such users to acquire and use such tools. Under these circumstances, a discount that encourages them to use IBIP technology in preparing correct addresses is justified. A discount would help offset the greater effort that is required to produce current and accurate addresses. It also is advantageous to the Postal Service, because it results in lower USPS processing and delivery costs. The Postal Service's own Address Deficiency Study (ADS) indicates that incorrect addressing by users is a substantial problem that USPS faces. The ADS states that, "many people simply do not know their correct, full, standardized address." ADS at 11 (USPS-LR-I-192/R2000-1 at 11). If people do not know their own correct address, they cannot provide it to those sending them mail, which contributes to difficulty in preparing correct addresses.

(d) Confirmed. The RBCS, however, cannot correct an address deficiency when there are multiple possible choices for address correction.

(e) Confirmed. I have not included such cost avoidance in my calculation of the cost avoided by use of IBIP to address letters and cards.

(f) It was not necessary. Additionally, performing the kind of study the question suggests may not be practical.

USPS/STAMPS.COM-T1-7

Please confirm that your proposal would result in a revenue loss that would have to be recovered in order for the Postal Service to meet its revenue requirement target. If not confirmed, please explain.

- (a) Please quantify the revenue loss associated with the Stamps.com proposal.
- (b) Please explain how this revenue loss should be recovered.

RESPONSE:

Not confirmed. I anticipate that lower revenue received by the Postal Service as a result of a 4 cent discount for IBIP prepared and addressed mail will be more than offset by IBIP's lower processing and delivery cost, leaving a net revenue gain.

Letters that otherwise would have been handwritten will avoid at least 4.13 cents in cost per piece from IBIP preparation and addressing, 2.99 cents per piece from preparation, and 1.14 cents per piece from addressing. Since over one-third of IBIP prepared and addressed letters otherwise would have been handwritten, at least one-third of IBIP letters will avoid cost that will more than offset the reduced revenue associated with such pieces.

The remaining letters, those with machine-prepared addresses, already would avoid some preparation cost relative to that for handwritten letters. Machine-addressed letters can be read and barcoded with an eleven digit barcode more easily than handwritten-addressed letters. The cost avoided through this easier processing already is reflected in the Postal Service's mail processing cost. To the extent that these letters otherwise would have received a discount that reflected their easier processing, the effect of this avoided cost

already is reflected in revenue, and no further cost avoidance is necessary to offset it. See the example in my response to USPS/STAMPS.COM-T-1-1.

Conservatively, I assume that no IBIP prepared and addressed letters that otherwise would have been machine addressed would have received a discount. Any processing cost that would have been avoided by these letters because of their machine addressing, therefore, already is reflected in the Service's processing cost. Additional cost avoidance is required to offset this amount.

These letters will avoid a per piece cost of 1.14 cents from IBIP addressing. I conclude they also avoid about one-third of the cost avoided by handwritten letters in RBCS and outgoing processing. That leaves about another 2 cents per piece of cost avoidance needed to offset the proposed 4 cents per piece IBIP discount for letters that otherwise would have been addressed by machine. The 2 cents per piece will come from the following sources.

In my testimony, I estimate that, at the very least, several tenths of a cent per piece in delivery cost will be avoided by IBIP addressed pieces. I did not include this amount in calculating the proposed discount. It is available, therefore, to provide part of the needed 2 cents cost avoidance. Since the portion of the cost avoidance related to hand-addressed letters is not needed as a reserve for that category, it can be applied toward the avoidance needed for machine-addressed letters. This provides about 0.5 cents per piece of the needed 2.0 cents per piece.

Dr. Haldi indicates that metered and PC postage (IBIP) mail avoid at least 1 cent per piece in transaction cost (see testimony of Dr. John Haldi, PB-T-2).

This avoidance, like that for delivery cost, can be applied toward that needed for machine-addressed letters. This provides 1.5 cents per piece, which adds to the 0.5 cent per piece delivery cost avoidance to achieve the 2.0 cents per piece cost avoidance needed to make the proposed discount for IBIP prepared and addressed letters revenue neutral.

Additionally, in developing the cost avoided by IBIP addressed letters, I judgmentally reduced the estimated mail processing cost by one-third to produce a very conservative estimate of 1.14 cents per piece. This cost avoidance probably is greater than the amount underlying the proposed discount for IBIP addressing, providing cost avoidance in excess of the needed 2.0 cents per piece. Furthermore, in developing the proposed discount for IBIP preparation and addressing when labels are used, I conservatively pass through only 70 percent of their avoided cost to the discount. This is more allowance than needed for possible errors in applying labels to envelopes. I would have passed through more avoided cost to the discount, but that would have resulted in a fractional rate, which I think is undesirable in rates used by the general public. This provides further cost avoidance in excess of the needed 2.0 cents per piece for machine-printed mail.

(a) – (b) Any revenue loss will be more than offset by costs avoided. See my answer above.

USPS/STAMPS.COM-T1-9

On page 26 lines 9-12 you state, "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." On page 27 lines 3-7 you also state "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."

- (a) Please confirm that if either of these situations were to occur, an IBIP user would be receiving a discount (were the Stamps.com proposal approved), while a mailer that used stamps or meter strips would not be receiving a discount. If not confirmed, please explain.
- (b) Do you feel that mailers receiving discounts should be held to a higher mail preparation standard than mailers not receiving discounts? Please explain any negative response.

RESPONSE:

(a) Confirmed, but the IBI mailpiece would contain a cleansed address; a verified, current, and accurate POSTNET barcode; and a FIM code. I am also not aware of any study showing that either of these theoretical problems would occur frequently enough to impact the proposed discount.

(b) No. Mailers should prepare their mailings to comply with all the requirements associated with the rate category for which their mail is paid. This applies equally to all mailers, regardless of whether or not they receive discounts. A mailer not receiving a discount has the same responsibility to mail at rates correct for the weight being mailed as does a mailer receiving a discount.

USPS/STAMPS.COM-T1-10

On page 31 lines 8 through 13 you state "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."

- (a) Please list and describe the types of possible errors in applying labels on envelopes that led you to make such an allowance?
- (b) What type of labels do you propose for use with IBIP postage placed on an envelope?
- (c) Is a FIM D required when the IBIP postage is applied to a label?
- (d) How will the Postal Service's processing equipment recognize IBIP postage when it is applied to a label placed on an envelope?

RESPONSE:

(a) In making an allowance for the possibility of error in applying address labels, I have in mind errors in positioning labels in the correct location and alignment, and in applying them so that they properly adhere to and remain in place.

(b) I do not propose any particular type of label. Label specifications are determined by the Postal Service so their operating needs can be met. Currently, the Postal Service requires that IBI users print labels on special florescent-striped labels.

(c) No. The label contains fluorescent marks that permit it to be detected by USPS processing equipment.

(d) USPS's processing equipment detects the florescent marking on the label..

USPS/STAMPS.COM-T1-12

In this docket, a "CEM" discount for courtesy reply mail has been proposed by witness Willette (OCA-T-7), a "P" rate discount has been proposed by witness Clifton (ABA&NAPM-T-1), and a meter mail discount has been proposed by witness Haldi (PB-T-2).

- (a) In your opinion, is it possible for all four of these single-piece discount proposals to be implemented? Please explain any affirmative response.
- (b) If your response to (a) was negative in any way, please explain why the Stamps.com proposal should be given special consideration over the other single-piece proposals. Include a discussion of "fairness and equity."
- (c) If both the Stamps.com and the "P" rate discounts were approved and implemented, a mailer could take advantage of both discounts. How would you envision the proposed Stamps.com discount fitting in with the "P" rate discount were both to be approved?

RESPONSE:

(a) Yes, but only one discount could be applied to a single piece of mail.

(b) I do not contend that Stamps.com's proposal be given special consideration over other single-piece discount proposals. The proposal, and any others, should be evaluated on their merits in accord with the requirements of the Postal Reorganization Act. In requesting a discussion on "fairness and equity," I assume you mean with regard to "special consideration." Since I do not propose such consideration, I do not think an issue of its fairness and equity is raised.

(c) I do not see how a mailer could take advantage of both discounts on the same mailpiece as they are proposed. As currently proposed, an IBIP prepared and addressed letter could not also have a "P" stamp affixed.

USPS/STAMPS.COM-T1-13

On page 9, lines 13-15, you state that with respect to a handwritten benchmark, "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."

- (a) Please explain why the "key aspect" is not whether the address is handwritten or printed.
- (b) Please provide your understanding of how a mail piece without a barcode actually receives a barcode.
- (c) Please confirm that a handwritten address may be more difficult to decipher than a machine printed address.
- (d) Please confirm that barcoding a mail piece with a sloppy handwritten address may be more costly than barcoding a mail piece with a clean machine printed address.
- (e) Please confirm that the mail processing cost difference between a prebarcoded mail piece and a handwritten mail piece, on average, would be greater than the cost difference between a prebarcoded mail piece and a machine printed mail piece.

RESPONSE:

(a) For ease of processing, an important feature of IBiP prepared and addressed letters and cards is that they contain a FIM and an eleven-digit POSTNET barcode. This permits their identification at the AFC as mail that already has an eleven-digit bar code that can be processed on bar-code readers without further processing, avoiding RBCS cost. Even if a mailpiece is typed and contains a perfect address and ZIP Code, it will not avoid RBCS processing or proceed directly to barcode sorters unless it has a FIM. Handwritten mail and perfectly printed mail are in this way treated the same.

(b) In general, the address information is read by OCR equipment. If the OCR equipment is able to read the address, a barcode is printed out. If the OCR

cannot read the address, the piece is rejected and sent to RBCS processing. If required, the image is sent to a remote encoding center, where a person provides the missing information, and the barcode is printed out. Note that an ID tag is printed on the backside of the envelope to identify the mailpiece so a barcode can be printed on it after the RCR or remote encoding equipment returns the necessary information.

(c) Confirmed.

(d) Confirmed.

(e) Confirmed.

USPS/STAMPS.COM-T1-15

- (a) Please confirm that IBIP letters prepared using labels for indicia and addresses are processed along with metered mail (i.e., the same operations).
- (b) Please confirm that the cost difference between a metered mail piece and a handwritten mail piece is 1.282 cents, based on the modeled mail processing cost of a First-Class metered mail piece (see USPS/STAMPS.COM-T1-X) and a handwritten mail piece.
- (c) Based on part (b), please explain how you can justify a worksharing discount of 3 cents per piece for IBIP letters prepared using labels when a handwritten mail piece is the benchmark.
- (d) Please confirm that when a metered mail piece is the benchmark, the modeled mail processing cost difference is zero cents between a metered letter and an IBIP letter prepared with labels. If you cannot confirm, please explain.

RESPONSE:

General response: Currently, IBIP prepared and addressed letters often, but not always, are processed along with metered mail. This processing may be appropriate during the introduction of IBIP prepared and addressed letters, when such letters are not familiar to postal personnel and are processed infrequently. The relevant consideration, however, is not how IBIP prepared and addressed letters are processed currently, but how they will be processed in the test year and beyond. The Postal Service requires that users of IBIP mail incur the expense of preparing letters to essentially the same automation-compatible standards as QBRM letters. This degree of preparation permits the Service to process these letters in exactly the same way that QBRM letters are processed, and to avoid the same cost avoided by QBRM letters.

I do not believe the Service would require IBIP users to expend the effort and expense of meeting IBIP preparation and addressing requirements if they did not intend to use the results of that preparation in mail processing. Furthermore, I believe the Service pursues opportunities to decrease mail processing cost. It will take advantage of the presence of IBIP prepared and addressed letters in the mailstream, and process them to avoid the same cost as currently avoided by QBRM letters. I believe some offices already are doing such processing. If the Postal Service did not intend to process IBI mail to take advantage of the cost savings that can be achieved from automation-compatible mail, then it would not have required IBI letter mail to be automation-compatible.

(a) See my general response, above. Labels for IBIP prepared and addressed letters can be designed to permit orientation of the piece and to substitute for a FIM, so these letters will be processed like IBIP pieces prepared without labels.

(b) I assume that your reference to USPS/STAMPS.COM-T1-X is intended to be USPS/STAMPS.COM-T1-14 and the materials referenced therein. I accept for purposes of my response that the modeled cost difference between a metered piece and a handwritten mail piece is 1.282 cents.

(c) See my general response, and my response to (a), above. I anticipate that IBIP prepared and addressed letters with labels will be processed in the test year and beyond just as QBRM letters are processed, and will thus avoid the same cost.

(d) Not confirmed. See my general response, and my responses to (a) and (c), above. Furthermore, an additional per piece cost of 1.14 cents will be avoided through addressing letters to IBIP standards.

USPS/STAMPS.COM-T1-17

On page 35, line 4, you state that, unlike prior courtesy envelope mail (CEM) proposals, the discounts proposed for IBIP-prepared and addressed letters "do not de-average rates." Please explain the different rationale for a postage discount for IBIP users as oppose to the rationale for a CEM discount. Please provide specific cost figures to support your answer. In doing so, please fully explain your use of the term "de-average."

RESPONSE:

The mailer of an IBIP prepared and addressed letter obtains the envelope, addresses it in accord with the AMS address database, and prints the address, FIM, eleven-digit barcode and indicium on the appropriate places on the envelope. The piece, when processed in accord with these attributes, avoids per piece processing and delivery cost of over four cents. This cost avoidance offsets a per piece reduction in revenue of four cents from the proposed discount for IBIP prepared and addressed letters. See my testimony and interrogatory responses, including my response to USPS/STAMPS.COM-T1-7, for a discussion of the cost avoidance and discount development. Since avoided cost matches the discount, no rates for other mailers need be adjusted because of this proposed discount. There is no rate de-averaging.

In contrast, a CEM letter is prepared largely by the distributor of the CEM envelope, not by its mailer. The envelope distributor obtains the envelope, addresses it with an address matched to an AMS address database, and prints the address, FIM, eleven-digit barcode, and box for a stamp on the envelope, and distributes the envelope to the mailer. The mailer affixes a First-Class basic letter-rate stamp on the letter and mails it. The preparation of the envelope by its distributor permits it to avoid the same processing and delivery cost avoided by

an IBIP prepared and addressed letter. Since this cost avoidance is not offset by a matching discount, it is reflected through lower First-Class letter rates for all mailers in this category. The distributor of the envelope benefits from these lower rates in its First-Class letter mailings. The mailer not only benefits from lower First-Class letter rates, but also avoids the expense of purchasing an envelope and the effort of preparing it, except for the simple act of affixing a stamp.

A CEM discount would obviously lower the rate paid by the mailer of the CEM letter. But a CEM discount would result in USPS incurring substantial additional costs relating to: the production and distribution of CEM-rated stamps, educating all mailers concerning the proper use of CEM, and possible misuse or mistaken use of CEM stamps on non-CEM envelopes. (None of these costs or confusion would arise from the proposed IBI discount.) Also, the discount would not be offset by the cost avoided through preparation by the envelope distributor, because the cost avoidance already is reflected in First-Class letter rates. Consequently, rates for First-Class letter mailers would have to be increased to offset the discount. The benefit of the avoided cost would no longer be averaged across First-Class letter rates, which would have to be de-averaged to offset the discount. A CEM discount inherently involves rate de-averaging. For an example of the costs involved, see the Commission Opinion in Docket No. R97-1, at pages 315 to 326.

USPS/STAMPS.COM-T1-20

On page 9, lines 13-15 you state "[w]hile 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." On page 10, lines 13-14, you state "had IBIP not been available...[m]any more (letters) would not have had a POSTNET barcode or FIM code."

- (a) Please define and quantify "many more." Additionally, provide the data used to make that assumption.
- (b) In your opinion, would a small business not currently using a PC postage product be more likely to produce handwritten mail pieces or mail pieces with machine-printed addresses? Please explain.

RESPONSE:

- (a) By "many more", I mean a large, indefinite number. See my response to DFC/STAMPS.COM-T1-2 (a) for the basis for my assumption. Also note Leora Lawton's testimony concerning the survey she conducted, in which she found that only about 20 percent of Stamps.com's customers regularly applied a POSTNET barcode to their mail prior to using Stamps.com. She also believes that the survey over-reported this figure. See Lawton testimony, pp. 16 - 17.
- (b) A substantial percentage of their pieces would be handwritten, but I would expect a higher percentage would be produced with machine-printed addresses.

USPS/STAMPS.COM-T1-21

On page 10, line 19, with regards to courtesy reply mail pieces, under your discount proposal, you state "I anticipate that these will not convert to IBIP letters." One of the reasons you cite for this conclusion is that under IBIP preparation and addressing procedures, one cannot print an indicium without also printing an address matched to the AMS database. Would it be possible for a PC postage user to print both a valid address label and a corresponding indicium label, and then affix the indicium with discounted postage to the courtesy reply mail piece while discarding the address label?

RESPONSE:

It is possible, but highly unlikely, easily detected, and directly traceable back to the customer. First, the IBIP user would need to access a computer, access the Internet and the IBIP provider program, enter the information required by the program, print out the required labels, and apply the indicium label to the courtesy reply envelope. It is unlikely that a user would go through this process to save a few cents on a courtesy reply mail piece. The cost of the label (special fluorescent labels are required for IBIP postage) would probably offset or exceed the savings in postage.

Second, even if the user were inclined to do this, such action would be readily detectable because the label would be applied over, but likely would not completely cover, the markings on the reply envelope. Additionally, the user would be violating the usage agreement with the IBIP provider and jeopardizing his postage meter license. And the postage indicia he uses can be traced back directly to him. The possibility that IBIP users will bypass the required procedures is not significant to my estimated cost avoidance from IBIP preparation and addressing. I also note that individuals could also improperly apply a postcard-rated stamp to a letter.

USPS/STAMPS.COM-T1-25

On page 37, at lines 6-9, you state, "[t]he lower cost [of IBIP with a discount] benefits the Postal Service by making the mail less expensive to use relative to competing media, and serves to preserve or increase First Class letter volume in the face of increasing alternatives to mail."

- (a) Did you conduct any market research or a study to support this statement? If yes, please provide a copy. If not, please explain the basis of the statement, focusing in particular on the role that IBIP can play in creating letter volume.
- (b) Can you quantify the volume of First-Class Mail that will be preserved or increased as a result of this proposal? If yes, please provide the data.

RESPONSE:

- (a) No. The basis of the statement is an economic assumption that the lower the price of a product relative to its substitutes, the greater the quantity demanded of the product.
- (b) No. With respect to the increased use of Priority Mail and Express Mail by IBI users, please see the testimony of Leora Lawton at pp. 12 – 13.

USPS/STAMPS.COM-T1-26

On page 24 of your testimony, you state "[i]ndeed, 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."

- (a) Is a Stamps.com customer able to apply postage to a mail piece that exceeds size, shape, and weight limitations for automation-compatible mail, for example, a letter weighing 4 ounces or a parcel?
- (b) Please confirm that the use of Stamps.com PC-postage on a mail piece will guarantee its automation compatibility.
- (c) Would you agree that a PC-postage mailpiece should be eligible for the discount proposed by Stamps.com based solely on whether that piece is automation-compatible? Please explain, in detail, your response.

RESPONSE:

- (a) A Stamps.com customer, like a postal customer using stamps, or a meter user applying a meter strip, could apply postage to such a mail piece.
- (b) The use of Stamps.com PC-postage program to prepare a mail piece will make its automation compatibility highly likely, but will not guarantee it. I note that even the largest and most sophisticated volume mailers produce some discounted mailpieces that are rejected by USPS's automated equipment, and this is anticipated and permissible under standards set out in the DMM.
- (c) Stamps.com has proposed a discount only for automation compatible mail. But I do not agree with the statement that only automation-compatible IBI pieces should be eligible for a discount. Even if a particular IBI mailpiece is not automation compatible, it still avoids an estimated cost avoidance of 1.14 cents per piece from reduced return-to-sender rates achieved by IBIP address cleansing. This cost avoidance does not depend on whether the piece is automation compatible.

1 CHAIRMAN GLEIMAN: Is there any additional
2 designated written cross-examination for this witness?

3 [No response.]

4 CHAIRMAN GLEIMAN: If not, that brings us to oral
5 cross. The Postal Service is the only party that has
6 requested oral cross-examination of this witness.

7 Does anyone else wish to cross-examine the
8 witness?

9 [No response.]

10 CHAIRMAN GLEIMAN: If not, then, Mr. Moore,
11 welcome aboard.

12 MR. MOORE: Thank you, Mr. Chairman.

13 CROSS-EXAMINATION

14 BY MR. MOORE:

15 Q Good morning, Mr. Heselton.

16 A Good morning.

17 Q I am Joseph Moore and I represent the Postal
18 Service. Would you please turn to your response to your
19 DFC-T1-2(a)?

20 A I have that.

21 Q Okay. There you discuss letters that have since
22 converted to IBIP, is that correct? That is mail that was
23 previously sent regularly through the Postal Service, but is
24 now using either Stamps.com or an e-stamp type product, a PC
25 postage type product, is that correct?

1 A That's correct.

2 Q Okay. You state that of the pre-IBIP mail pieces,
3 you understood that a survey showed that at least one-third
4 of customer letters had been prepared with handwritten
5 addresses, is that correct?

6 A That's correct.

7 Q Do you know who conducted that survey?

8 A No, I do not. This was information that I
9 received when I was working with Stamps.com. They alluded
10 to the existence of a survey that they had conducted. This
11 particular survey that I am referring to here was not the
12 survey that was done by Dr. Lawton.

13 Q So you are aware that Dr. Lawton conducted a
14 survey?

15 A Yes, I am.

16 Q And did you discuss that survey with Dr. Lawton?

17 A No, I did not.

18 Q And can you tell me why you didn't use that survey
19 in your testimony?

20 A That survey was conducted during the last week
21 that my testimony was being prepared and it simply was
22 arriving too late for me to rely on it for purposes of this
23 case.

24 Q Okay. Well, let's just say that you commissioned
25 a study to empirically measure the conversion of mail to

1 IBIP, would you expect that study to show that prior to IBIP
2 conversion, businesses generated more printed and/or typed
3 mail pieces than handwritten mail pieces?

4 A Well, I think the answer to that would depend on
5 the types of businesses surveyed. I am assuming that your
6 question intends to refer to a cross-section of businesses
7 that would be representative of businesses in general. I am
8 thinking, for instance, that there are some businesses that
9 are very intensive when it comes to the preparation of
10 handwritten mail, such as the real estate business.

11 Q Well, I am speaking more in terms of the
12 businesses that are currently customers of Stamps.com.

13 A Probably you would find that as a whole and on the
14 average that businesses would tend to have a higher degree
15 of machine-addressed mail than individuals would.

16 Q Okay. And would you expect that study to show
17 that prior to IBIP conversion, individuals generated more
18 printed and/or typed mail pieces than handwritten mail
19 pieces?

20 A Well, I am less clear on what a survey would show
21 in that circumstance. When I look at the amount of mail
22 that was run through RBCS, Remote Bar Coding System, in
23 1998, the figures included in the comprehensive statement on
24 operations of the Postal Service for 1998, some 25 billion
25 pieces, and I look at the volume of individually prepared

1 letters, nonpresort kinds of letters in First Class, around
2 50 billion pieces. That suggests to me that the percentage
3 of handwritten pieces could be as high as 50 percent. It is
4 probably a little lower than that because there would be
5 some machine-addressed pieces that would have to go through
6 RBCS. But I would not be surprised to see a survey result
7 that showed a 50 percent degree of handwritten.

8 Q So, would you agree that, on average, the typical
9 business generates more mail pieces than the typical
10 individual?

11 A Well, I expect that that is true.

12 Q So, therefore, to properly estimate the mix of
13 handwritten, typed and machine-printed mail that converted
14 to IBIP, wouldn't you need to gather information reflecting
15 the actual pre-IBIP volume of handwritten, typed and
16 machine-printed mail generated by mailers in your study?

17 A Well, I think mailers in the study is perhaps
18 different than typical business. We are looking at IBIP as
19 being particularly attractive to small office, home office
20 situations and smaller mailers and individuals, not to
21 businesses, typically, or generally. So, I would be looking
22 at the characteristics of the mail that is currently
23 generated by SOHOs and the smaller businesses, rather than
24 businesses generally.

25 Q But if you wanted to make a proper assessment,

1 wouldn't you have to give some weight to business mail as
2 opposed to individual mail in order to correctly assess --
3 to make a correct assessment in the study?

4 A Well, not necessary. That depends on the
5 composition of mailers who are going to utilize IBIP
6 preparation and addressing, and at this point there is a
7 substantial percentage of individuals who are using that
8 service. And therefore, any study of preparation of mail,
9 how it was prepared before customers used IBIP and how it
10 was prepared afterwards, would, I think, reflect a pretty
11 high percentage of individual mailers.

12 Q Do you know of Stamps.com customers -- you don't
13 have to give me actual numbers, but are there more business
14 customers than individual customers, or is the opposite
15 correct?

16 MR. HENDEL: I am going to object to that
17 question, Mr. Chairman. We are fighting that right now.

18 MR. MOORE: Well, I am not asking for actual
19 percentages. I am just asking Mr. Heselton to give me a
20 comparison.

21 MR. HENDEL: Even in a general sort of way, we
22 would object to the answer to that question on the
23 confidentiality grounds.

24 MR. MOORE: You have already agreed that you would
25 give me a qualitative assessment as opposed to a

1 quantitative, and that is really all I am asking Mr.
2 Heselton.

3 CHAIRMAN GLEIMAN: I think, in light of the fact
4 that they are not looking for specific numbers, I am going
5 to allow the witness to go ahead if he can answer the
6 question.

7 THE WITNESS: Well, after all that, I hate to be
8 anticlimactic, but, as a matter of fact, I don't know.

9 MR. MOORE: Thank you.

10 BY MR. MOORE:

11 Q Could you possibly find out and let us know within
12 the next week or so?

13 MR. HENDEL: Mr. Chairman, we would -- again --
14 object to any kind of disclosure about the customer make. I
15 know our competitors are sitting in this room right now and
16 they don't disclose that to us.

17 CHAIRMAN GLEIMAN: Again, you know, the question
18 is with respect to qualitative, and the material can be
19 filed under seal. You can ask for protective conditions and
20 I think at this point what I would do is ask the Postal
21 Service to put their request in writing and then we will
22 take it under advisement when we see what your response is.

23 BY MR. MOORE:

24 Q Let's move on to the benchmark itself. You
25 selected a handwritten single piece mail piece for the

1 benchmark in determining the appropriate IBIP discount, is
2 that correct?

3 * A That's correct.

4 Q And before I continue I just want to establish
5 that when I address the benchmark I am referring to the
6 manner in which an envelope is addressed, not the actual
7 content of the envelope itself, okay?

8 Now let's turn to your response to USPS-T1-7(a).

9 A Yes, I have that.

10 Q There you state that an IBIP mail piece should
11 receive a 4 cent discount, is that correct?

12 A That's correct.

13 Q And part of that discount includes an estimated
14 avoided return of forward costs of 1.14 cents per piece, is
15 that correct?

16 A That is correct.

17 Q Now if you would please refer to your response to
18 USPS-T1-6(f).

19 A Yes, I have that.

20 Q There you state that you did not think it
21 necessary to analyze the extent to which mail pieces are
22 returned or forwarded both and after conversion to IBIP, is
23 that correct?

24 A That's correct.

25 Q Therefore you have no empirical basis to estimate

1 the percentage of pre-IBIP mail that was returned or
2 forwarded, is that correct?

3 A I had no basis to make that determination and so I
4 assumed the percentage of IBIP mail that was returned before
5 was proportional or equal to or equivalent to the percentage
6 of other kinds of mail that were returned.

7 Q But comparing pre-IBIP mail to IBIP mail you made
8 no sort of study or analysis?

9 A That is correct.

10 Q And you have no empirical basis to estimate the
11 percent of IBIP mail that is currently being returned or
12 forwarded, is that correct?

13 A I didn't think it was necessary to make that
14 calculation because mail that is prepared under IBIP and
15 addressed under IBIP has an address that has been matched
16 against the Postal Service's AMS, Address Matching System,
17 data file, and that address should not only be a valid
18 address but it should be in the exact form that the Postal
19 Service likes to see it.

20 I don't see any occasion under which that mail
21 would be subject to return.

22 Q Well, is it possible that when you compare
23 pre-IBIP mail to IBIP mail that the return and forward rate
24 could be equal?

25 A Well, we have two separate issues here.

1 The preparation on IBIP and the match to the AMS
2 system would correct for deficiencies in the second and
3 third line of the address. It would not correct for
4 deficiencies in the first line of the address, which is the
5 name line, which would result in forwarding, and I haven't
6 assumed any savings in fact in IBIP from that preparation.

7 Instead, the preparation would fix any problems in
8 the second and third lines of the address so that no return
9 of an IBIP should ever be required.

10 Q Okay. If you would, would you turn to your
11 response to DFC-T1-5(b)?

12 A That is DFC -- stamps.com -- T1-5?

13 Q 5(b).

14 A (b) -- yes, I have that.

15 Q There you acknowledge that PC Postage will allow
16 customers to direct a mail piece to a nonexistent address,
17 is that correct?

18 A That's correct.

19 Q In that situation wouldn't you expect a mail piece
20 to be returned to the sender?

21 A I would expect in that instance it would, yes.

22 Q Okay, so back to the previous question, where you
23 said using IBIP that a mail piece would never be returned or
24 forwarded. I don't think that was a correct statement.

25 A Well, I think in fact any statement that I have in

1 my testimony should be taken as allowing for having a
2 certain small percentage or small number of exceptions to
3 it.

4 This happens to be one of them. Overwhelmingly an
5 IBIP prepared piece would not be returned but there are
6 cases where there are deficiencies in the Postal Service's
7 Address Matching System which would require the return of
8 that piece, but those would be a very small number of
9 occasions.

10 Q Now the benchmark that you selected was based on
11 the assumption that one-third of pre-IBIP mail pieces were
12 prepared with handwritten addresses, is that correct?

13 A No, that is not correct.

14 Q Well, can you give me the basis for the benchmark
15 that was selected then?

16 A Yes. I have it in an interrogatory response I am
17 now looking through. This may take a minute.

18 The best statement that I have given here is in
19 USPS/Stamps.Com-T1-1, part (b).

20 I indicate in that response that the selection of
21 the benchmark is not defined by how mail is being prepared
22 currently. It is defined rather by how the mail piece would
23 be prepared in the absence of all the preparation
24 requirements taken together that must be met to obtain the
25 proposed discount.

1 Q Okay, in the absence of the requirements as you
2 just stated, one-third of the mail pieces according to your
3 assumptions would be handwritten, is that correct?

4 A I assume that one-third of the mail pieces are
5 handwritten but my selection of handwritten pieces as a
6 benchmark would have been made even if zero percent of the
7 pieces were handwritten at this point.

8 In QBRM where the benchmark is handwritten pieces,
9 handwritten addresses, I think it is pretty well understood
10 that a piece that would convert to a QBRM piece is likely to
11 be a courtesy envelope and that there would be very few
12 handwritten pieces that would in fact be converting to QBRM
13 mail, so the selection of the benchmark is not dependent on
14 the percentage in the mail stream of handwritten mail at
15 this point. It is dependent on other factors.

16 Q Mr. Helselton, in developing your testimony did
17 you consider using a typewritten, machine-printed or
18 PC-generated benchmark?

19 A No, I did not.

20 Q Why not?

21 A I didn't because the IBIP requirements require the
22 application of a FIM.

23 They require a machine-printed address that has
24 been certified against the AMS address file for validity.

25 They require an indicium to be printed on the

1 piece.

2 Those requirements taken together are the ones
3 that one looks at in determining the composition of the
4 benchmark.

5 One takes the requirements for IBIP and indicates,
6 okay, what piece of mail do you have that eliminates these
7 or does not have them, and that takes you back to a
8 handwritten piece, probably stamped but not necessarily,
9 without any of the features.

10 Q And wouldn't you agree that a number of the
11 pre-IBIP mail pieces were typewritten, machine printed and
12 PC generated and could also have had a nine-digit zip code
13 FIM and a barcode?

14 A Yes, I agree with that but it is not relevant to
15 my selection of the benchmark.

16 It is relevant, however, to the issue of whether
17 there is a rate averaging problem that needs to be addressed
18 when one determines what the magnitude of the discount
19 should be, but it does not affect the selection of the
20 benchmark.

21 Q Did you consider a weighted benchmark where
22 one-third of the benchmark would have consisted of
23 handwritten mail pieces and two-thirds would have consisted
24 of typewritten, machine-printed or PC generated mail pieces?

25 A That would have been one way to address the issue

1 that I just raised, which would be recognition of the fact
2 that there are some mailers now who are already preparing
3 mail in such a way that it saves some of the costs that
4 would be avoided by the use of IBIP.

5 I think that a better way, however, of addressing
6 the situation is to select the appropriate benchmark,
7 handwritten, which is necessary to get a discount which
8 would motivate a mailer to in fact undertake all the kinds
9 of preparation required by IBIP.

10 That is the rationale for selecting handwritten
11 pieces the benchmark, so you get the proper depth, the
12 proper measure of the cost avoidance involved.

13 After one does that, one has to look at the
14 problem of is there mail out there that is already being
15 prepared in more refined fashion than handwritten and
16 therefore is already having savings that aren't reflected in
17 a discount, and one has to take into account the effects on
18 revenue and costs of that.

19 I handle that differently in my testimony. I
20 handle that by indicating that there are costs avoided by
21 IBIP that I have not recognized in my 4 cent discount to
22 allow for that fact.

23 Q Well, let's assume that you use the weighted
24 average that I just described. What impact would that have
25 had upon your proposed discount?

1 A If one uses a weighted average such as you
2 describe, it could have if not handled properly the effect
3 of rolling back the discount to a smaller amount than would
4 be required to encourage mailers who could in fact use IBIP
5 to prepare mail and therefore permit the Postal Service to
6 avoid certain costs.

7 It would result in their not being a great enough
8 incentive to bring those mailers on board and therefore
9 would not generate the economic efficiency that is
10 available.

11 That is why I believe strongly that the
12 appropriate benchmark has to be handwritten in this case, as
13 it was for QBRM appropriately and the kinds of
14 considerations that you are talking about have to be
15 factored in another way.

16 The way that I chose to factor those in in my
17 testimony was to indicate that there were avoidable costs
18 that I had not counted in that 4 cent discount.

19 Q Well, let's turn to your response to DFC-T1-3.

20 A Yes, I have that.

21 Q Okay, there you say that the percentage of IBIP
22 envelopes that replace non-IBIP envelopes that would have
23 been typewritten or fully OCR-readable, is considerably less
24 than the percentage of QBRM envelopes that replaced non-QBRM
25 envelopes that would have been typewritten and fully

1 OCR-readable; is that correct?

2 A Before I proceed with the answer, has this
3 response been designated in the package?

4 MR. HENDEL: Mr. Chairman, on my list, it's not
5 listed. I've referred -- for DFC, I've got 1, 2, 5, 6, and
6 8.

7 MR. MOORE: Mr. Hendel, what was that again?

8 MR. HENDEL: The list that I have?

9 MR. MOORE: Yes.

10 MR. HENDEL: For DFC to Stamps.com is listed as 1,
11 2, 5, 6, and 8. I believe you asked him about Number 3.

12 MR. MOORE: Okay. Okay, let's move on.

13 CHAIRMAN GLEIMAN: Do we agree that it's not in
14 the package?

15 MR. MOORE: I don't have my list of designated
16 responses with me, so --

17 CHAIRMAN GLEIMAN: Give me the interrogatory again
18 that you're asking about.

19 MR. MOORE: DFC-T1-3.

20 CHAIRMAN GLEIMAN: That's not designated.

21 MR. MOORE: Sorry.

22 CHAIRMAN GLEIMAN: Just to clarify. I'm not sure
23 what difference that makes, but it's not designated.

24 MR. MOORE: We're going to move on.

25 BY MR. MOORE:

1 Q Mr. Hezelton, if I can have you turn to
2 USPS-T1-4(a)?

3 A Okay, I have that one.

4 Q There you state that even if it were possible to
5 print an indicium without printing an address, I doubt that
6 the holder of a CRM envelope would utilize IBIP preparation
7 and addressing procedures.

8 To complete preparation of a CRM envelope, a
9 mailer needs only to stick on a stamp; is that correct?

10 A That's correct.

11 Q Okay. And in this response, you were saying that
12 it's -- you were saying that convenience is more important
13 to the mailer than price; is that correct?

14 A I don't think I mentioned price at all in my
15 interrogatory response, other than at the bottom here, I
16 raised the question as to whether a person would use IBIP to
17 print an indicium on a piece of mail, just to save four
18 cents postage.

19 Q And so when you mention a four-cents cost savings,
20 you're not talking about the price, then, the price of a
21 stamp as compared to the price of using Stamps.com products?

22 A Well, I don't make that comparison explicitly.
23 All I'm indicating is that I regard four cents as de minimis
24 enough so that the price effect is minimal and probably not
25 a factor.

1 Q Okay. Well, if we can turn to your response to
2 USPS-T1-4(c) --

3 A Yes.

4 Q Okay, you state that simplicity is not always an
5 advantage that stamped postage methods have compared to IBIP
6 postage methods; is that correct?

7 A Well, I think it depends on the context that
8 you're looking at. If you're faced with the situation where
9 you've got a piece of mail that has been prepared in all
10 respects except that it needs a stamp applied, then the
11 simple thing in that context is to apply the stamp.

12 If you're faced with a situation where you have a
13 blank envelope and you need to put a return address on that,
14 you need to address it in correct fashion, you need to put a
15 stamp on it and get an indicium on it, in that case, you're
16 looking at the preparation that you want to use, may, in
17 fact, be simpler to use IBIP.

18 Q Okay.

19 A These are just two distinctly different
20 situations.

21 Q Right. But now, in your response to Subparagraph
22 (b) of T1-4, you state that the addressing checking and
23 cleansing requirement of IBIP mail can be a strong
24 disincentive towards its use?

25 A Yes.

1 Q Okay, given that this address check and cleansing
2 requirement applies to all IBIP mail pieces, but does not
3 apply to most mail pieces to which stamps are affixed, can
4 you please explain why simplicity of use would not always be
5 an advantage that stamp postage offers over IBIP postage?

6 A When I addressed simplicity in my response here, I
7 indicate that I'm looking at simplicity of rate
8 administration to be a key element of Stamps.com's proposal.

9 And in that sense, it is. The customer doesn't
10 have to maintain different supplies of stamps.

11 There's a lot of checks and balances on an IBIP
12 mail piece that permit the Postal Service to determine that
13 such pieces are, in fact, legitimate, contain legitimate
14 postage made up properly and so on.

15 That's a different kind of simplicity than is
16 faced by the mailer in addressing a piece of mail or
17 preparing a piece of mail.

18 In that sense, IBIP -- the use of IBIP is
19 obviously more complex than simply sticking a stamp on a
20 piece of mail.

21 MR. MOORE: Mr. Chairman, I have no further
22 questions.

23 CHAIRMAN GLEIMAN: Is there any follow-up? I
24 think there's some questions from the bench. I know I have
25 a few.

1 Mr. Heselton, focusing just on cost avoidance and
2 cost avoidance only, would you agree that CRM cost
3 avoidances are at least comparable to Internet stamp, if you
4 will, cost avoidances?

5 THE WITNESS: Yes, the cost avoidances should be
6 about the same.

7 CHAIRMAN GLEIMAN: Okay. Now you have used
8 handwritten mail as a benchmark.

9 THE WITNESS: Yes, I have.

10 CHAIRMAN GLEIMAN: Which is the benchmark that you
11 used for QBRM. Isn't QBRM more closely related to CRM mail
12 than to IBIP mail?

13 THE WITNESS: Well, I think, Mr. Chairman, that
14 that would depend on what you mean by more closely related.

15 CHAIRMAN GLEIMAN: In terms of the processing that
16 it undergoes by the Postal Service.

17 THE WITNESS: Okay, that is helpful, because in
18 terms of the way the piece looks, pieces from the three
19 categories would look very similar.

20 In terms of the processing that is undergone, I
21 think there, to focus in on your question, we would have to
22 talk about the processing that is relevant for the
23 characteristics that you are looking for, and here we are
24 talking about the processing I think that is the same
25 through outgoing mail processing and into incoming there

1 would be some variations in processing on the incoming side.

2 CHAIRMAN GLEIMAN: What about in delivery?

3 THE WITNESS: Certainly there would be some
4 variations in delivery.

5 CHAIRMAN GLEIMAN: QBR mail is generally not
6 delivered to a particular address? It is held out?

7 THE WITNESS: A lot of that mail is held out or is
8 in box sections.

9 CHAIRMAN GLEIMAN: CRM mail?

10 THE WITNESS: I would expect that there would be a
11 lot of Courtesy Reply Mail that would also be held out or in
12 box sections.

13 CHAIRMAN GLEIMAN: IBIP mail is the proper term
14 for it? I mean this is new to a lot of us.

15 THE WITNESS: Mr. Chairman, different people use
16 different terms when they are addressing IBIP mail.

17 Some people say it is PC Postage is what the
18 Postal Service has designated. I used IBIP because PC
19 Postage comes in two variations or two forms. The one that
20 I am talking about is the one that involves not only
21 printing the indicia on but also printing on the FIM, doing
22 the address check and so on.

23 CHAIRMAN GLEIMAN: Well, let me use a term that
24 maybe characterizes the type of mail that I am talking
25 about, and that is postage via the Internet, that is put

1 onto an envelope.

2 I mean that mail that is being -- and you used the
3 term before -- SOHOS that's being sent by SOHOS to someone
4 is mail that is going to be delivered more -- is it more or
5 less likely that that mail is going to be delivered by a
6 letter carrier than QBRM or CRM mail?

7 THE WITNESS: It is probably more likely that it
8 will be delivered by a letter carrier.

9 CHAIRMAN GLEIMAN: Okay, and one last question. I
10 was a bit confused before and it may be that I was
11 distracted for a moment, but in answer to a question from
12 the Postal Service counsel I heard you say something about 4
13 cents being de minimis.

14 I am trying to reconstruct the context in which
15 you said that -- if you could help me, I think you were
16 talking about people wouldn't print out Internet postage to
17 save 4 cents on a CRM envelope or something like that, but I
18 may have misunderstood the context in which you made that
19 statement.

20 THE WITNESS: No, I think you had the gist. As I
21 was understanding counsel's question there, we were looking
22 at a situation where a person has an envelope, a Courtesy
23 Reply envelope that has been prepared in all respects by the
24 distributor of that envelope, and all it needs is a stamp
25 added to complete its preparation, and the simplicity of

1 that versus simplicity of IBIP, which requires a person to
2 access his computer, access the Internet or access, in
3 E-Stamp's case, not the Internet, but at least the CD-ROM,
4 the program, and prepare the piece of mail, print it out and
5 so on, is obviously a more complex procedure than simply
6 putting a stamp on a piece of mail.

7 And I indicated that there is enough of a
8 difference between the two situations that I wouldn't expect
9 that the opportunity to save 4 cents, where somebody had a
10 CRM piece and just could put a stamp on it, I wouldn't
11 expect that that person would try to use IBIP under those
12 circumstances to do a total piece preparation when he didn't
13 have to.

14 CHAIRMAN GLEIMAN: Well, I know that you are not
15 testifying about Courtesy Reply Mail or CEM type mail, but
16 let me ask you a question, and I apologize for going on. I
17 said that that was my last question, but now you have --
18 this is part 2 of my question.

19 THE WITNESS: We will interpret it that way.

20 CHAIRMAN GLEIMAN: Well, Mr. May and I have an
21 understanding that questions can have many, many parts, that
22 last question especially. He has taught be well over the
23 years.

24 The question I guess I have here is, if you don't
25 think that people would go to the trouble of booting up the

1 computer to save 4 cents, do you have any idea about whether
2 people would go to great lengths to use a special reduced
3 rate CEM stamp, say, or non-CEM type mail just to avoid
4 maybe 4 cents of postage, or are we dealing with different
5 things here?

6 THE WITNESS: I think we are dealing with
7 different things here. I don't see them as parallel
8 situations.

9 CHAIRMAN GLEIMAN: So you think people would be
10 more inclined to cheat if they had stamps and less inclined
11 to cheat if they had to boot up their computer?

12 THE WITNESS: Well, I don't think that that can be
13 concluded from the answer I gave, Mr. Chairman. At least I
14 didn't intend that to be the conclusion.

15 CHAIRMAN GLEIMAN: Four cents is more diminimus
16 when you are dealing with a CRM envelope than it is if you
17 are dealing with another type of envelope.

18 THE WITNESS: The 4 cents that I was referring to
19 is where the person actually has two alternatives in front
20 of them, they can simply put a stamp on a CRM piece, or they
21 can go through IBIP and go through that and address a piece
22 and save 4 cents. Probably not worth it for them to go
23 through that procedure to save 4 cents. Most people
24 probably value their time more highly than that. That is
25 all I am indicating with regard to that.

1 CHAIRMAN GLEIMAN: Okay. I think you have
2 answered the questions I had. Thank you.

3 I don't know if there are other questions or not.
4 My colleagues don't have any questions.

5 Follow-up to questions from the bench?

6 [No response.]

7 CHAIRMAN GLEIMAN: If not, then that will bring us
8 to the point in time where you can have some time if you
9 wish, counsel, to prepare your witness for redirect?

10 MR. HENDEL: Yes, just a minute.

11 [Recess.]

12 CHAIRMAN GLEIMAN: Mr. Hendel.

13 MR. HENDEL: Thank you, Mr. Chairman. I am just
14 going to go over one or two things here. I will use your
15 counting system, Mr. Chairman.

16 CHAIRMAN GLEIMAN: You have to get seniority at
17 the Commission before you do that.

18 [Laughter.]

19 REDIRECT EXAMINATION

20 BY MR. HENDEL:

21 Q You were asked about, Mr. Heselton, DFC, I believe
22 it was 5(b) to you. And Mr. Carlson raised the possibility,
23 a theoretical possibility, that there are some addresses out
24 there in the Postal Service's own database that are not
25 correct, and, therefore, if an IBIP customer used such an

1 address, it would be returned back to him. Remember being
2 asked about question?

3 A Yes, I do.

4 Q I just wanted to confirm -- and those are
5 situations where the Postal Service's address database is
6 saying it is a correct and good address, is that true?

7 A That's correct.

8 Q And so the IBIP customer is submitting the address
9 through the software to the Postal Service's database, and
10 the database is saying, yeah, that is a good address?

11 A That's correct.

12 Q So, to correct that problem, the Postal Service
13 would merely need to correct its database just to indicate,
14 no, that is not a good address?

15 A Well, yes, that is the situation. The return in
16 that case of the piece to sender would result not because of
17 any preparation failure on the part of the IBIP user, the
18 return would result because the Postal Service's master
19 address list had an error in it.

20 Q So it would have to be a situation where someone
21 doesn't know the address, puts the address in, gets back
22 some choices, and some of those choices are incorrect,
23 invalid addresses that just happened to be floating in the
24 Postal Service's address database system?

25 A That's correct.

1 Q How often do you think that is actually going to
2 happen?

3 A I think it would be a rare event.

4 Q Turning to the questions that you had on this 4
5 cents issue with Courtesy Reply Mail, and you were asked
6 about your statement that people would simply apply a stamp
7 to a Courtesy Reply piece rather than go through the process
8 of IBI savings to save 4 cents. Do you see differences
9 between the situation of getting a Courtesy Reply piece and
10 generating your own correspondence?

11 A Well, I think there is a very large difference.
12 In the case where I have a Courtesy Reply piece, I have the
13 piece in hand, I am going to -- the easiest thing for me to
14 do is to put a stamp on it and send it on its way. But I
15 have a broader problem which is there a number of pieces of
16 mail that I am going to have to prepare that are not
17 Courtesy Reply. I am going to have to have some means of
18 addressing them, some means of -- I am going to have to have
19 stamp stock to put on these pieces. And I may not need the
20 same kind of stamp, depending on the pieces that I am
21 mailing, so I have to have a variety of stamps of mailing
22 Priority Mail and Parcel Post.

23 The advantage that I have of using IBIP is that it
24 is a general preparation program that permits me to prepare,
25 in very refined fashion, a number of different types of

1 pieces involving different types of postage and so on. And
2 in that situation, a 4 cent discount for each piece that I
3 mail would be a factor in my utilization of that program.

4 Q Aren't the differences in the situation -- when
5 you are getting a Courtesy Reply piece such as, typically,
6 say, a bill, and you are given an envelope to pay the bill,
7 you are already given the envelope, you are given the
8 address, the only thing that needs to be done is apply
9 postage.

10 A That's correct.

11 Q Do you see that as a separate situation from when
12 you are doing your own correspondence where you need to find
13 the address, apply the address somehow and then apply the
14 postage to your own envelope?

15 A I see them as much different circumstances. In
16 one situation, the one that you describe, I am actually
17 preparing the piece. And in the other situation, the
18 Courtesy Reply piece, I am actually finishing a preparation
19 that has mostly been done by the distributor of that piece
20 of mail.

21 Q And in the former situation, you think the 4 cents
22 savings, given that, where you may have one or two pieces a
23 day, would be not enough to make somebody use PC Postage,
24 for that piece?

25 A For that piece, that's correct.

1 Q You were asked by the Commission about comparing
2 QBRM with IBI mail, and I wanted to go through some of those
3 comparisons with you. You were asked about, or you
4 testified about the appearance of QBRM and a PC Postage
5 piece. Do both QBRM and PC Postage have PostNet bar codes?

6 A Yes.

7 Q FIM codes?

8 A Zip Plus 4 codes? Yes.

9 Q And are both QBRM piece and IBI piece, are those
10 single piece entries into the system?

11 A Generally, yes.

12 Q Sometimes you could have IBI pieces mailed not
13 just singly, but when you are comparing these in the entry,
14 do you see any differences, really, in how those are
15 entered?

16 A Generally, they would tend to be entered the same
17 way.

18 Q Now, you testified that there would be a tendency
19 for QBRM pieces to go to, say, a Post Office Box or
20 something so it wouldn't require delivery cost by a letter
21 carrier.

22 A That's correct.

23 Q When the Postal Service proposed the discount for
24 QBRM in 97-1 and in this proceeding, did the Postal Service
25 include any of the cost savings from that in its QBRM

1 discount?

2 A No, they did not.

3 Q So none of those savings that a QBRM piece might
4 get because it isn't being delivered the last mile, none of
5 that is in the Postal Service's zone discount proposal?

6 A That is my understanding.

7 MR. HENDEL: Nothing further.

8 CHAIRMAN GLEIMAN: Is there any recross?

9 [No response.]

10 CHAIRMAN GLEIMAN: If there is none, then, Mr.
11 Heselton, that completes your testimony here today. We
12 appreciate your appearance, your contributions to our
13 record. We thank you, and you are excused.

14 THE WITNESS: Thank you, Mr. Chairman.

15 [Witness excused.]

16 CHAIRMAN GLEIMAN: I think at this point we are
17 going to take our mid-morning break and come back at five
18 minutes of the hour. And we will pick up at that point with
19 Pitney Bowes' witness. I believe the next witness for
20 Pitney Bowes is Ms. Martin. And I understand that the
21 Postal Service has concluded that it does not have
22 cross-examination for this witness, but we will find that
23 out for sure when we get back. Thank you.

24 [Recess.]

25 CHAIRMAN GLEIMAN: Mr. Wiggins, if you are

1 prepared to introduce your witness?

2 MR. WIGGINS: I am, Mr. Chairman. Pitney Bowes
3 calls Judith Martin.

4 CHAIRMAN GLEIMAN: Ms. Martin, if you would please
5 stand and raise your right hand.

6 Whereupon,

7 JUDITH MARTIN,
8 a witness, was called for examination by counsel for Pitney
9 Bowes and, having been first duly sworn, was examined and
10 testified as follows:

11 CHAIRMAN GLEIMAN: Please be seated.

12 DIRECT EXAMINATION

13 BY MR. WIGGINS:

14 Q Ms. Martin, you have in front of you two copies of
15 a document styled Direct Testimony of Judith Martin on
16 behalf of Pitney Bowes, Inc. and marked as PB-T-1.

17 Was that document prepared under your supervision
18 and for your approval?

19 A Yes, it was.

20 Q And if under oath here today would your testimony
21 be the same as that?

22 A Yes, it would.

23 MR. WIGGINS: Mr. Chairman, I would like to
24 provide two copies of that document to the reporter and have
25 it entered into the evidence in the record.

1 CHAIRMAN GLEIMAN: Is there any objection?

2 Hearing none, counsel will indeed provide the two
3 copies to the reporter. I will direct that the testimony be
4 transcribed into the record and received into evidence.

5 [Direct Testimony of Judith Martin,
6 PB-T-1, was received into evidence
7 and transcribed into the record.]
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PB-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 JUDITH MARTIN
ON BEHALF OF PITNEY BOWES INC.**

Communications regarding this document should be served on

Ian D. Volner
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Counsel for Pitney Bowes Inc.

Dated: May 22, 2000

1 **TESTIMONY OF JUDITH MARTIN**
2 **ON BEHALF OF PITNEY BOWES**
3
4

5 Biographical Sketch and Purpose of Testimony
6
7

8 My name is Judith Martin and I am Vice President, Strategic Marketing at
9 Pitney Bowes Inc. ("Pitney Bowes"). I have served with the company in
10 increasingly responsible positions for the past 12 years and assumed my current
11 position in 1997. My responsibilities include the development, enhancement and
12 marketing of postal-related products and services to customers in the United
13 States and worldwide.

14 The purpose of my testimony is to describe, from a business person's
15 perspective, why Pitney Bowes believes that the Commission should recommend
16 the institution of a one-cent discount applicable to the first-ounce rate for mailers
17 (overwhelmingly small business and residential mailers) who use metering
18 technology as the means of affixing postage to their single-piece First-Class
19 mailings. My testimony serves as an introduction to the testimony of Dr. John
20 Haldi (PB-T-2) who demonstrates the economic benefits of our proposal and to
21 Dr. James Heisler (PB-T-3) who has performed a market survey to assess mailer
22 reaction to the proposal. Our evidence establishes that there is a need to
23 provide innovative service to small office, home office and residential mailers,
24 that the evolution of metering technology now makes it possible to recognize the
25 worksharing efforts of users of this technology, and that the discount we seek will
26 encourage small mailers to migrate from stamps -- the most costly method of

1 evidencing payment of postage -- to metering, to the benefit of the mailer and the
2 Postal Service.

3

4 **The Evolution Of Metering Technology Makes It Possible To Respond To**
5 **The Needs of Smaller Business and Home Mailers**
6

7 The Postal Service and this Commission have long recognized that single-
8 piece First-Class mail is the Postal Service's most important -- core -- product. It
9 is, however, the product to which the least attention has been given, particularly
10 as the service is used by smaller business and residential mailers. The Postal
11 Service has done a very credible job in developing service innovations
12 responsive to the needs of its large volume First-Class mailers. The introduction
13 of the presort rates, automation discounts and of refinements in its business reply
14 mail products are just some examples of this.

15 There is, however, a sizeable population of small businesses, home office
16 users and residential mailers whose individual mailings are too small to qualify
17 for bulk discounts. In aggregate, this community counts for a very significant
18 proportion of the Postal Service's core, single-piece First-Class mail product,
19 amounting to more than 50 billion pieces per year. Despite its importance to the
20 mailer community and the Postal Service's current and future well-being, the
21 First-Class, single-piece rate structure remains static. It has been unchanged
22 certainly since the passage of the Postal Reorganization Act thirty years ago.

23 While the rate structure has remained static, the technology mailers can
24 use to affix postage to these single-piece mailings has not. Technological

1 developments in the means of affixing postage have made the stamp the most
2 expensive method that a postal administration has for collecting revenues and
3 enabling its customers to evidence payment of postage.¹ The cost of creating,
4 distributing and selling stamps is, as Dr. Haldi's testimony shows, very
5 substantial in absolute terms and as a percentage of revenues collected by the
6 Postal Service.

7 By contrast, the Postal Service's net cost of collecting revenues when
8 postage is evidenced through metering technology has and continues to decline
9 from an already low base. This is the result of technological innovation in the
10 metering technology field, including migration from mechanical to electronic and
11 now digital meters.

12 An important metering innovation occurred in the late 1960s and early
13 1970s. Pitney Bowes developed the technology that is now generally referred to
14 as computerized meter resetting and that Pitney Bowes offers under the trade
15 name Postage By Phone®. Computerized meter resetting (or CMRS) represents
16 a convergence of telecommunications technology with postage evidencing
17 technology initially made possible by the development of the touch-tone
18 telephone. CMRS has become more efficient and easier to use as the result of
19 the development of the computer modem. Simply put, CMRS enables a meter
20 user to reset the meter at any time of the day or night, seven days per week,
21 without leaving his home or office. CMRS makes it unnecessary for customers to

¹ See, Haldi and Schmidt "Transaction Costs of Alternative Postage Payment and Evidencing Systems" and "Controlling Postal Retail Transaction Costs and Improving Customer Access to Postal Products." Copies of these articles are being submitted as Pitney Bowes Library Reference 1 in this case.

1 take their meter to a post office to be reset or to request onsite meter resetting by
2 Postal Service employees. This is not only a great convenience to meter users;
3 it also yields substantial cost savings to the Postal Service. The Postal Service's
4 data shows that about 92% of meters in the field today are reset without Postal
5 Service involvement.

6 Although CMRS enables the Postal Service to avoid huge costs, it is not
7 free to either the meter company or its customers. In order to provide Postage
8 By Phone®, our company maintains a telecommunications/data center (and a
9 separately located back-up center) to which all reset requests are routed. Postal
10 Service regulations require us to perform all of the accounting functions to ensure
11 that the customer has on deposit with the Postal Service sufficient funds to reset
12 the meter and to reconcile our records with those of the lockbox bank that
13 supports the Postal Service's CMRS revenue collection function. Further, Pitney
14 Bowes has made and continues to make substantial investments in automated
15 voice response units and fully computerized technology to speed the reset
16 process. We also provide toll-free numbers and live operator attendants for
17 account balance inquiries and assistance in the resetting process. Remote
18 meter resetting is also accessible through the Internet now at
19 postagebyphone.com.

20 The development of the electronic meter and of Postage By Phone® have
21 had three very important consequences that bear directly upon our proposal in
22 this case. First, recognizing that the smaller mailer has been under-served in
23 terms of the availability of efficient means of obtaining and evidencing postage,

1 Pitney Bowes has developed and is actively marketing meter models -- including
2 ClickStamp® and Personal Post™ -- expressly designed to serve that market.
3 Second, we have developed products that complement and enhance the use of a
4 meter while at the same time benefiting the Postal Service. An example of these
5 products is a computer software program that we call Smart Mailer®. Among
6 other things, Smart Mailer®, which is a CASS-certified program, provides USPS
7 National Address Databases updates six times each year to insure address
8 accuracy, detects and corrects addresses and zip codes, converts addresses to
9 the Postal Service's recommended format and enables mailers to create and
10 apply delivery point barcode to their mailpieces. Third, Pitney Bowes offers a
11 variety of financial packages, including, in appropriate cases, extensions of credit
12 for postage which facilitate use of the mail. These financial offerings enable
13 mailers to reset their meters and thereby continue to make use of the meter
14 despite fluctuations in their own cash flow.

15 The most recent technological innovation of metering technology is the IBI
16 device generally referred to as PC Postage. The IBI device is simply a form of
17 metering technology that relies upon a multi-purpose computer rather than a
18 dedicated computerized unit as the engine for applying postage. Earlier this year
19 Pitney Bowes was authorized by the Postal Service to market ClickStamp®, its
20 internet-based postage evidencing system, and the company is now doing so.
21 ClickStamp® gives small business and residential mailers the capability and
22 convenience of metering their mail. For purposes of this case, what is important
23 is that -- whether offered by Pitney Bowes or others -- PC postage systems share

1 an essential and indistinguishable characteristic in common with CMRS meters:
2 These forms of postage technology do not burden the Postal Service with the
3 cost of manufacturing, distributing and selling postage stamps and they all can
4 be reset or recharged without taking the device to a post office. Our discount
5 would apply to all metering regardless of the technology employed by the mailer.

6
7 **A Metering Technology Discount for Single-Piece First-Class Mail Would**
8 **Enable the Postal Service to Better Serve its Core Customers**
9

10 Pitney Bowes believes that the metering technology discount we seek is
11 justified because it serves the interests of single-piece mailers and of the Postal
12 Service itself.

13 An examination of the testimony of Dr. Haldi and Dr. Heisler shows why
14 this is the case. As Dr. Heisler's market research shows, the discount
15 encourages smaller mailers to convert from stamps to the vastly more efficient
16 and cost effective metering technology. Dr. Haldi's analysis shows that the
17 Postal Service will realize substantial cost savings when stamp users switch to
18 metering technology. Fairness is also due to existing metering technology users
19 who for years have incurred the cost of obtaining and using a metering device
20 that helps reduce the Postal Service's cost, but have never received recognition
21 for the worksharing efforts they provide to the Postal Service. Thus, the
22 proposed discount will enable the Postal Service to offset the loss of single-piece
23 First-Class mail volume that would otherwise result from the rate increase
24 proposed in this case. It will also empower the Postal Service to capture and

1 retain mail that is highly profitable but increasingly susceptible to electronic
2 diversion.

3 In advancing our proposal, we have deliberately been conservative. Dr.
4 Haldi points out that the one-cent discount represents less than half of the
5 measured cost savings the Postal Service realizes from metering technology.
6 Similarly, the market research Dr. Heisler performed very conservatively
7 estimates the extent to which the metering technology discount will stimulate
8 migration from stamps to metering technology. The very conservative approach
9 that our economist and market analyst have taken assures that the introduction
10 of this metering discount will not unreasonably burden the population of single-
11 piece First-Class mailers who, for whatever reason, choose not to, or are unable
12 to, take advantage of the evolution in metering technology that underlies the
13 proposed discount.

14 There is a very real sense in which those single-piece First-Class mailers
15 who continue to use stamps after the introduction of the discount will nonetheless
16 benefit from it. The collateral benefits of increased use of metering technology --
17 reduced pressure on the Postal Service's window operations and an increase in
18 what is widely recognized to be cleanest type of mail in the First-Class
19 mailstream -- will serve to improve the Postal Service's overall efficiency in the
20 acceptance, processing and delivery of all single-piece First-Class.

21 For these reasons, as more fully developed in the testimony of the Pitney
22 Bowes-sponsored witnesses, we urge the Commission to recommend the

- 1 adoption of a discount of one-cent applicable to mailers who use metering
- 2 technology to pay the First-Class/First-Ounce single-piece rate.

1 CHAIRMAN GLEIMAN: Ms. Martin, have you had an
2 opportunity to examine the packet of designated written
3 cross-examination that was made available to you earlier
4 today?

5 THE WITNESS: Yes, I have.

6 CHAIRMAN GLEIMAN: And if those questions were
7 asked of you today, would your answers be the same as those
8 you previously provided in writing?

9 THE WITNESS: Yes.

10 CHAIRMAN GLEIMAN: That being the case, if counsel
11 would provide two copies of the designated written cross
12 examination to the reporter I will direct that the material
13 be received into evidence and transcribed into the record.

14 [Designated Written
15 Cross-Examination of Judith Martin,
16 PB-T-1, was received into evidence
17 and transcribed into the record.]

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BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

Postal Rate and Fee Changes, 2000

Docket No. R2000-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION
OF PITNEY BOWES INC.
WITNESS JUDITH MARTIN
(PB-T-1)

Party

United States Postal Service

Interrogatories

USPS/PB-T1-2-4

USPS/PB-T2-4-5, 16a redirected to T1

Respectfully submitted,


Cyril J. Pittack
Acting Secretary

INTERROGATORY RESPONSES OF
PITNEY BOWES INC.
WITNESS JUDITH MARTIN (T-1)
DESIGNATED AS WRITTEN CROSS-EXAMINATION

<u>Interrogatory</u>	<u>Designating Parties</u>
USPS/PB-T1-2	USPS
USPS/PB-T1-3	USPS
USPS/PB-T1-4	USPS
USPS/PB-T2-4 redirected to T1	USPS
USPS/PB-T2-5 redirected to T1	USPS
USPS/PB-T2-16a redirected to T1	USPS

**PITNEY BOWES WITNESS MARTIN RESPONSE TO INTERROGATORY OF
UNITED STATES POSTAL SERVICE**

USPS/PB-T1-2. On page 6 lines 21-24 you state that "the proposed discount will enable the Postal Service to offset the loss of single-piece First-Class mail volume that would otherwise result from the rate increases proposed in this case. It will also empower the Postal Service to capture and retain mail that is highly profitable but increasingly susceptible to electronic diversion." Did you conduct any market research or other studies that sought to determine how the Pitney Bowes and/or PC Postage discount proposals would affect the extent to which First-Class single-piece mail would be prevented from diverting to other (e.g., electronic) alternatives? If so, please provide copies of all documentation associated with those studies and discuss the conclusions you reached. If not, upon what evidence do you base your claim?

Response:

This is a compound question which requires separate answers. As it relates to "the loss of single-piece First-Class mail volume that would otherwise result from the rate increase" proposed, the statement you quoted is based upon the testimony of Dr. Haldi at page 25. As Dr. Haldi's testimony and workpapers establish, his conclusion is based upon the analysis provided by the Postal Service's volumetric witness, Dr. Tolley. We did not, therefore, conduct any independent market research to determine the extent to which the proposed discount would enable the Postal Service to offset the loss of single-piece First-Class mail volume that would otherwise result from the rate increases proposed in this case.

As to that part of the statement that the discount will enable the Postal Service to capture and retain mail that is highly profitable but susceptible to electronic diversion, please see the article by Robert Reisner, USPS Vice

President for Strategic Planning quoted and cited at page 19 of Dr. Haldi's testimony. See also PB-LR-4. This response is confined to the Pitney Bowes metering technology discount proposal; I do not understand the apparent reference in the interrogatory to other proposals ("and/or PC Postage discount proposals").

**PITNEY BOWES WITNESS MARTIN RESPONSE TO INTERROGATORY OF
UNITED STATES POSTAL SERVICE**

USPS/PB-T1-3. Have you conducted any market research or other studies that sought to determine whether the general public actually wants de-averaged First-Class single-piece rates (compared to the one current 33-cent rate for a first-ounce mail piece)? If so, please provide copies of all documentation associated with those studies and discuss the conclusions you reached.

Response:

No. The only study that we performed in conjunction with this case is that presented by Dr. Heisler. Testimony of Dr. James Heisler; PB-T-3.

**PITNEY BOWES WITNESS MARTIN RESPONSE TO INTERROGATORY OF
UNITED STATES POSTAL SERVICE**

USPS/PB-T1-4. On page 7 lines 18-19 of your testimony you state that the increased use of metering technology will result in "an increase in what is widely recognized to be cleanest type of mail in the First-Class mailstream."

(a) Please explain what you mean by the term "cleanest type of mail."

(b) Please provide the basis for your assertion that this mail is "widely recognized to be the cleanest type of mail in the First-Class mailstream."

(c) Please provide or reference some quantitative data that you feel supports this statement. If no data is provided or referenced, please explain how your assertion is valid.

Response:

In context, my statement that the use of metering technology will produce an increase in the "cleanest type of mail in the First-Class mailstream" should be understood to refer to single-piece First-Class mail.

(a) Use of metering technology produces mail that is "clean" in the sense that the pieces generally feature typewritten, computer applied or pre-printed addresses and that, particularly when used in conjunction with products such as SmartMailer® (see page 5 of my testimony), display a high degree of address and zip code accuracy in the Postal Service's recommended format with delivery point barcode applied to the mail piece. The contrast, therefore, is to "dirty" mail featuring handwritten and more frequently incorrect or incomplete addresses.

(b) My conclusion that the use of metering technology produces the "cleanest type of First-Class mail" in the sense described in my response to

subpart (a) is, I believe, consist with the views expressed by the Postal Service witnesses in this case.

(c) I do not know of any studies that quantitatively measure the percentage of metered mail that is clean in the sense described in subpart (a). However, since my conclusion appears to be consistent with the views of the Postal Service and those of the Postal Rate Commission, I believe it to be both widely recognized and valid.

**PITNEY BOWES WITNESS MARTIN RESPONSE TO INTERROGATORY OF
UNITED STATES POSTAL SERVICE (REFERRED)**

USPS/PB-T2-4.

(a) Identify and describe all factors other than changes in postal rates which would motivate mailers to use meters to affix postage instead of stamps.

(b) Have any studies, surveys, or market research been conducted by or for Pitney Bowes on this subject? If so, please provide copies of all documents related to such studies, surveys, and research.

Response:

(a) It is impossible to "identify and describe all factors" other than changes in postal rates which would motivate mailers to use metering technology to affix postage instead of stamps. The studies provided in response to subpart (b) of this interrogatory, as well as other interrogatories propounded to Pitney Bowes witnesses provide some indication of the considerations, and the weight given by mailers to the considerations, that might prompt stamp users to migrate to metering technology. Dr. Heisler's testimony certainly establishes that a rate incentive is a significant factor to mailers in making this choice.

(b) See Library Reference 4, and 5-7 (Motion for Protective Conditions Pending).

**PITNEY BOWES WITNESS MARTIN RESPONSE TO INTERROGATORY OF
UNITED STATES POSTAL SERVICE (REFERRED)**

USPS/PB-T2-5. What percentage of current users of postage meter technology use it, in part, to minimize their own costs associated with obtaining and maintaining a stamp inventory and affixing stamps to mail pieces?

Response:

I know of no studies that are directly responsive to the two issues addressed in this interrogatory. Certainly, one of the factors a mailer may very well take into account in electing to use metering technology is the problem of maintaining (and securing) stamp inventory and the inconvenience of individually affixing stamps to mail pieces. See my response to USPS/PB-T2-4 (a).

**PITNEY BOWES WITNESS MARTIN RESPONSE TO INTERROGATORY OF
UNITED STATES POSTAL SERVICE (REFERRED)**

USPS/PB-T2-16. On page 25 lines 8-10 of your testimony you state that "the increased convenience associated with metering technology could draw in new customers, or lead existing customers to increase their usage of Postal Service [products]."

(a) Have you conducted any market research or other studies to determine whether this would, in fact, happen? If so, please provide copies of all supporting documentation.

Response:

(a) See my response to USPS/PB-T1-2. See also PB-LR-4.

1 CHAIRMAN GLEIMAN: Is there any additional written
2 cross examination for this witness?

3 MS. DREIFUSS: I do have a question, Mr. Chairman.
4 The OCA posed some questions to Ms. Martin and they were
5 referred to Pitney Bowes for an answer and Pitney Bowes
6 indeed gave the answer.

7 Do you want to put them in today's transcript of
8 save them for a later one?

9 CHAIRMAN GLEIMAN: I think we will save them for
10 later when we put in all the institutional responses.

11 MS. DREIFUSS: All right.

12 CHAIRMAN GLEIMAN: Okay. That is the way the coin
13 came up this time.

14 Is there any additional designated written cross
15 examination for this witness?

16 If not, that brings us to oral cross examination
17 and the Postal Service did request oral cross examination of
18 the witness.

19 Mr. Tidwell?

20 MR. TIDWELL: Mr. Chairman, the Postal Service
21 does not have any cross examination for this witness but we
22 would like to take the occasion to introduce to the
23 Commission and to the Postal bar its newest member, Mark Ro,
24 who is sitting to my left.

25 CHAIRMAN GLEIMAN: Welcome aboard, Mr. Ro. You

1 know, we are beginning to feel overwhelmed with the number
2 of attorneys you are throwing at us here. We are beginning
3 to believe there may be an unfair advantage. Mr. Sharfman
4 has approached me and asked when we can start hiring.

5 [Laughter.]

6 MR. TIDWELL: We just like to have lots of
7 attorneys in the room in case anything comes down to a vote.

8 [Laughter.]

9 CHAIRMAN GLEIMAN: But, you know, this is a
10 democracy. We each have a vote up here and nobody else
11 does -- until the Governors get it, of course.

12 If there is no cross examination by the Postal
13 Service, that brings us up to a point where I ask if there
14 are any questions from the bench, and it doesn't appear that
15 there are any questions from the bench. You can't have any
16 redirect. Sorry, Mr. Wiggins.

17 Ms. Martin, I want to thank you for your testimony
18 and for your appearance here today. We appreciate your
19 contributions to the record, and you are excused.

20 THE WITNESS: You're welcome.

21 [Witness excused.]

22 CHAIRMAN GLEIMAN: Mr. Wiggins, when you are
23 prepared you can call your next witness.

24 MR. WIGGINS: Pitney Bowes calls James T. Heisler.

25 CHAIRMAN GLEIMAN: If I can catch you before you

1 settle in, Mr. Heisler, if you would raise your right hand.
2 Whereupon,

3 JAMES T. HEISLER,
4 a witness, was called for examination by counsel for Pitney
5 Bowes and, having been first duly sworn, was examined and
6 testified as follows:

7 CHAIRMAN GLEIMAN: Please be seated

8 DIRECT EXAMINATION

9 BY MR. WIGGINS:

10 Q Dr. Heisler, I handed you on the way by two copies
11 of a document styled Direct Testimony of James T. Heisler,
12 Ph.D., on behalf of Pitney Bowes, and marked as PB-T-3.

13 Was that document prepared by you or under you
14 supervision?

15 A Yes, it was.

16 Q And do you adopt that as your sworn testimony in
17 the proceeding here today?

18 A I do.

19 MR. WIGGINS: Mr. Chairman, I would like to
20 provide two copies of that document to the reporter and I
21 ask that it be entered into evidence in the case.

22 CHAIRMAN GLEIMAN: Is there any objection?

23 Hearing none, I will direct counsel to provide the
24 two copies to the court reporter and Dr. Heisler --

25 THE WITNESS: Heisler.

1 CHAIRMAN GLEIMAN: -- Heisler's testimony will be
2 transcribed into the record and received into evidence.

3 [Direct Testimony of James T.
4 Heisler, PB-T-3, was received into
5 evidence and transcribed into the
6 record.]

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PB-T-3

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

POSTAL RATE AND FEE CHANGES, 2000

Docket No. R2000-1

DIRECT TESTIMONY
OF
JAMES T. HEISLER, Ph.D.
ON BEHALF OF
PITNEY BOWES

Communications regarding this document should be served on

Ian D. Volner
N. Frank Wiggins
Venable, Baetjer, Howard & Civiletti, LLP
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Suite 1000
Washington, DC 20005-3917

Counsel for Pitney Bowes Inc.

Dated: May 22, 2000

1 AUTOBIOGRAPHICAL SKETCH
2
3

4 My name is James T. Heisler. I have been employed in the Marketing
5 Research Industry for 32 years. I currently am Executive Vice President of
6 Opinion Research Corporation International. I joined ORC International as Vice
7 President and Manager of its Washington DC office in 1982, was named Senior
8 Vice President in 1988 and Executive Vice President in 1993. I relocated to the
9 Princeton headquarters in 1993. My current duties include Director of the
10 company's Interactive Services. I also am a member of the corporate board of
11 directors. At various times, I have also been responsible for professional
12 practices serving the IT/Telecommunications industries and Market Assessment
13 issues area.

14 Opinion Research Corporation, founded in 1938, is one of the world's
15 larger survey research organizations. It has been has been an independent
16 corporation since 1991 and publicly traded since 1993.

17 I hold a Ph.D. in Social Psychology from Illinois Institute of Technology.

1 **Purpose and Scope of Testimony**

2 The purpose of my testimony is to sponsor and explain market research
3 conducted on behalf of Pitney Bowes Inc. that measures household and non-
4 household customer reactions to possible discounts for certain single piece rate
5 First-Class Mail for which postage is metered, either by postage meter or by a
6 personal computer via the Internet (referred to hereafter as PC postage.) The
7 research results have been used by Pitney Bowes, together with other
8 information, to shape its request for discounted postage for such single piece
9 rate First-Class Mail that complies with metering requirements.

10 I present the conclusions from this research then describe the design and
11 execution of the research and then discuss and characterize the research
12 results.

13

14 **Conclusions**

15 The results of this study indicate that there is a substantial market interest
16 in PC postage and postage meters when a one cent discount on First-Class
17 postage is associated with the use of these services. This interest has been
18 evidenced by mailers, in households and in small businesses, who are currently
19 not using meters.

20 The data from the household portion of this study indicate that PC
21 postage, with a one cent discount will attract up to 1.4 billion pieces of First-
22 Class Mail currently using stamps. The non-household portion of the study
23 referencing PC Postage indicates that 2.6 billion pieces from small businesses

1 will divert from stamps. The non-household portion of the study referencing
2 stand-alone meters indicates that implementation of a one cent discount for First-
3 Class Mail prepared with postage meters is calculated to divert up to 3.5 billion
4 pieces of mail from stamps.

5

6 **The Research Design**

7 **A. Overview**

8 ORC International conducted two telephone studies. One study was with
9 representatives of qualifying households (the Household Study). The other study
10 was with representatives of qualifying small businesses (the Non-Household
11 Study).

12

13 **1. The Household Study**

14 To qualify for the Household Study, respondents had to come from
15 households that use stamps and have personal computers and Internet access
16 and inkjet or laser printers. The respondent had to be the individual most
17 responsible for preparing First-Class Mail for the household.

18 Representatives of qualifying households were asked about their
19 reactions to discounts on PC postage for First-Class Mail.

20 **2. The Non-Household Study**

21 To qualify for the Non-Household Study, a business had to use stamps
22 and spend at least ten dollars on postage per month. Respondents to the Non-

1 Household Study were those individuals responsible for decisions regarding
2 mail.

3 Approximately half the non-household respondents were asked about
4 their reaction to discounts for PC postage and half about their reaction to
5 discounts for metered postage.

6 **B. The Samples**

7 **1. The Household Study**

8 The underlying sample for the Household Study was a random sample of
9 U.S. telephone households. ORC International is a licensee of the Genesys
10 Sampling System created and maintained by Marketing Systems Group of Fort
11 Washington PA. This is one of a few standard sources for samples of U.S.
12 telephone households. A sample of households in the forty-eight contiguous
13 states was drawn using the Genesys Sampling System.

14 **2. The Non-Household Study**

15 Pitney Bowes, using their licensed copy of the Dun & Bradstreet database
16 of business establishments, generated the non-household sample. As a first
17 step, Pitney-Bowes customers were removed from the database, thus removing
18 users of Pitney Bowes postage meters from the population. No attempt was
19 made to remove users of other meters from the population. The resulting
20 universe count was 9,255,550 non-household locations of which 9,008,956 had
21 25 employees or less and 246,604 had 26-50 employees. The target number of
22 interviews was set at 200 for each of these sub-populations, or 400 interviews in

1 total. The samples for the study were then systematically selected from the
2 database..

3 **C. The Questionnaires**

4 The questionnaires for the household and Non-Household Study were
5 similar, with minor differences to accommodate the household and non-
6 household settings. The questionnaires are included in Library Reference PB-2.

7 Each questionnaire included qualifying questions and a question about
8 current First-Class Mail piece volume. Once a respondent qualified, he or she
9 was read a concept statement. In the Household Study the concept statement
10 described PC postage. In the Non-Household Study the statement described
11 either postage meters or PC postage. In the Non-Household Study, the
12 determination of which concept would be used was made systematically during
13 the sample selection process. Approximately half the respondents were to see
14 each concept.

15 Respondents were then asked how likely they would be to use the
16 concept described at three price levels: no discount on First-Class postage, a
17 one-cent discount, and a two-cent discount. Once a respondent said she or he
18 would be extremely likely to use the service described in the concept statement
19 at a given price level, they were not asked about higher price levels.

20 **D. Interviewing**

21 Interviewing by telephone was conducted from ORC International's
22 Telephone Center in Tucson AZ. Computer Assisted Telephone Interviewing
23 (CATI) was utilized. The CATI system can be programmed to facilitate the

1 handling of complex interviews, letting the interviewer see only the appropriate
2 next question while the software follows simple or complex instructions.

3 The average interview length was under ten minutes, a target length set to
4 encourage respondent cooperation.

5 Interviewing took place between February 15 and March 6, 2000.

6 **E. Data Processing and Weighting**

7 Data were transferred from the CATI system to the table processing
8 software.

9 Simple weighting procedures were used to bring results into line with
10 known population parameters.

11 The household sample contacted for the study was balanced against
12 population gender, age, income, and region proportions.

13 The non-household samples were weighted to population counts by broad
14 Standard Industrial Classification (SIC) groupings.

15 Weighted cross tabulations were produced.

16 **Results**

17 **1. The Household Study**

18 Of the households contacted, 41% qualified for the interview. Using a
19 current estimate of 99 million U.S. households, this corresponds to 40.8 million
20 households.

21 The following concept was read to qualifying household respondents:

As you may know, there are ways to affix postage to mail you send through the US Postal Service besides using postage stamps. One way to do it is electronically via the Internet using standard word-processing programs and an inkjet or laser printer. With Internet postage...

- You can refill postage over the Internet or by phone 24 hours a day, 7 days a week, so you no longer have to make trips to the Post Office to purchase stamps
- Postage can be printed directly from your printer onto envelopes or labels as they are being addressed using standard word-processing programs
- You don't have to worry about keeping track of single stamps
- Your addresses are checked and corrected against the US Postal Service database

Then the respondents were asked their likelihood of subscribing to the PC postage service, with no mention of a postage discount.

Q1 If you could have access to all the features I've just described for a monthly access fee of just \$5.00, plus the regular cost of first-class postage you actually use (IF NECESSARY: 33 cents for a regular first-class letter), how likely would you be to subscribe to this service? Please use a scale where "5" means you would be extremely likely to subscribe and "1" means you would be not at all likely to do so. Of course, you may use any number between 1 and 5.

Unweighted Base	200
-----------------	-----

Weighted Base	205
---------------	-----

5	Extremely likely	7%
4		7
3		12
2		10
1	Not at all likely	65
6	Don't know/Refused	0

1 Those who did not say they would be "extremely likely" to subscribe to the
 2 service were asked a similar question which now included reference to a per
 3 piece discount of one cent on First-Class postage.

	Unweighted Base	189
	Weighted Base	192
5	Extremely likely	10%
4		9
3		11
2		1
1	Not at all likely	55
6	Don't know/Refused	0

4 There are a variety of ways to handle intent data. If a great deal of
 5 historical data are available for the product or service in question, it is possible to
 6 tailor an adjustment that is specific for the product or service in question. The
 7 necessary historical data are not available in this case

8 I have chosen to use 80% of the extremely likely respondents as an
 9 estimate of the likely user population. This is an adjustment that is regularly
 10 used in consumer research when no historical data are available. This
 11 adjustment also offers some computational advantages for the approach
 12 followed in this questionnaire when multiple price levels are investigated. There
 13 are other options. For example, we might use 60 percent of the extremely likely
 14 (5) responses, 40% of the (4) responses and 20% of the (3) responses. The two
 15 approaches generally produce recognizably similar results.

1 The adjusted intent estimates can then be converted to volume estimates
2 by including reported mail volume for appropriate respondents in the equation.
3 The total estimated pieces affected by a one cent discount is 1.436 billion. The
4 actual calculation is appended.

5 **1. The Non-Household Study**

6 The computations associated with the Non-Household Study are like those for
7 the Household Study, with two important additions. The Non-Household Study
8 consists of two populations; establishments with 25 employees or less and
9 establishments with 26-50 employees. These two populations were sampled at
10 different rates and, therefore, the calculations must be made separately for each
11 population. Moreover, the Non-Household Study is, in reality two studies; one
12 concerning reactions to possible discounts for use of postage meters and one
13 concerning possible discounts for use of PC postage. Potential respondents
14 were systematically assigned to one of these populations when the sample was
15 drawn. Of the total of four hundred respondents, approximately half would be
16 found in each of the two studies. The calculations of potential effect need to be
17 made separately.

18 The structure of the study assumes that only one concept is considered
19 by a respondent. Therefore, at the point at which they begin to consider one of
20 the concepts, the subset of the respondents for one concept may represent half
21 of the original sample, but they represent all of the sample considering that
22 concept. Calculations concerning potential impact are thus projected to the full
23 qualifying population for each concept. The concept estimates are not additive,

1 they are independent. Since each concept is alone in the world described in
2 these studies, no means of establishing overlap between the concepts is
3 available.

4 Of the population of 9.008 million establishments with 25 employees or
5 less, 5.415 million (60%) qualified for this study. Of the population of 246,604
6 establishments with 26-50 employees, 123,006 (50%) qualified.

7 The PC Postage concept statement for the Non-Household Study was:

8 As you may know, there are ways to affix postage to First-Class Mail you
9 send through the US Postal Service besides using postage stamps. One way
10 to do it is electronically from your computer via the Internet using standard
11 word-processing programs and an inkjet or laser printer. With Internet
12 postage...

- 13 • You can refill postage over the Internet or by phone 24 hours a day, 7
14 days a week, so you no longer have to make trips to the Post Office to
15 purchase stamps
- 16 • Postage can be printed directly from your printer onto envelopes or
17 labels as they are being addressed using standard word-processing
18 programs
- 19 • An Internet metering system keeps track of the postage you use, so
20 you have an accurate record of postage expenses for tax purposes
- 21 • Barcoding can be applied to your mail simultaneously, ensuring faster
22 and more accurate mail processing
- 23 • Your mail projects a more professional "business" image, and each
24 piece is dated

- 1 • And the postage meter concept statement was:

2

3 As you may know, there are ways to affix postage to First-Class Mail you
4 send through the US Postal Service besides using postage stamps. One way
5 to do it is to lease a postage meter. With a postage meter...

- 6 • You can refill postage on your meter via modem or phone 24 hours a
7 day, 7 days a week, so you no longer have to make trips to the Post
8 Office to purchase stamps
9 • The meter handles small and large envelopes and prints pressure-
10 sensitive postage tapes for packages
11 • A postage meter keeps track of the postage you use, so you have an
12 accurate record of postage expenses for tax purposes
13 • Metered mail projects a more professional "business" image and dates
14 each piece

15

16 The intent question was in much the same form as for the Household

17 Study, but adjusted to match the concept that was read.

18 Q1 If you could have all the features I've just described for a monthly
19 (lease cost of less than \$20/access fee of \$5.00), plus the regular
20 cost of first-class postage (IF NECESSARY: 33 cents for a regular
21 first-class letter), how likely would you be to (lease a postage
22 meter/subscribe to the Internet postage service)? Please use a
23 scale where "5" means you would be extremely likely to (lease a
24 postage meter/subscribe to the service) and "1" means you would
25 be not at all likely to do so. Of course, you may use any number
26 from 1 to 5.

1 The responses to the intent questions were as follows:

		Number of Employees	
PC Postage		<u>25 or less</u>	<u>26-50</u>
Unweighted Base		93	97
Weighted Base		86	99
5	Extremely likely	5%	7%
4		5	3
3		13	13
2		12	6
1	Not at all likely	63	67
6	Don't know/Refused	3	4

		Number of Employees	
Postage Meters		<u>25 or less</u>	<u>26-50</u>
Unweighted Base		107	103
Weighted Base		114	101
5	Extremely likely	0%	2%
4		1	3
3		10	7
2		9	4
1	Not at all likely	80	82
6	Don't know/Refused	1	1

2

3 As in the Household Study, those who did not say they would be
 4 "extremely likely" to subscribe to the service were asked a similar question which
 5 included reference to a per piece discount of one cent on First-Class postage.

1

		Number of Employees	
PC Postage		<u>25 or less</u>	<u>26-50</u>
Unweighted Base		88	92
Weighted Base		82	92
5	Extremely likely	25%	29%
4		8	13
3		12	12
2		5	10
1	Not at all likely	49	32
6	Don't know/Refused	1	4

		Number of Employees	
Postage Meters		<u>25 or less</u>	<u>26-50</u>
Unweighted Base		107	100
Weighted Base		114	99
5	Extremely likely	23%	30%
4		6	11
3		18	9
2		8	8
1	Not at all likely	41	40
6	Don't know/Refused	3	2

2

3 The detailed calculations of the potential First-Class Mail volume to be
 4 affected resulted in the following estimates.

1

Calculation of Pieces of First-Class Mail Affected

	<u>PC Postage</u>	
	<u>25 employees or less</u>	<u>26-50 employees</u>
No discount	216 million	29 million
One cent discount	2.3 billion	71 million
Total	2.5 billion	100 million

	<u>Postage Meter</u>	
	<u>25 employees or less</u>	<u>26-50 employees</u>
No discount	0	7 million
One cent discount	3.4 billion	111 million
Total	3.4 billion	118 million

2 The detailed calculations are available in the Appendix.

3

1 APPENDIX

2 PC Postage (Households) – No Discount

	Sampled households extremely likely to subscribe to the PC postage service at no discount (7%)	13 respondents
X	.8 intent estimate adjustment	10 respondents
		5% of sampled households
	Qualifying households	40.8 million
X	Adjusted percent extremely likely to subscribe to the PC postage service at no discount (5%)	2.0 million
X	Average pieces of mail sent per household per year	168
	Total estimated pieces affected	336 million

3 Those who did not say they were extremely likely to subscribe to the service
 4 were those asked the intent question with the addition of a one cent per piece
 5 discount.

1 The volume estimates for a one-cent discount are shown below.

Sampled households extremely likely to subscribe to the PC postage service at a one-cent discount (10%)		19 respondents
X	.8 intent estimate adjustment	15 respondents
		8% of sampled households
+	Assumption that sampled households who would subscribe at no discount would do so at one cent	5% of sampled households
	Qualifying Households	40.8 million
X	Adjusted percent extremely likely to subscribe to the PC Postage at a one-cent discount (13%)	5.3 million
X	Weighted average pieces of mail sent per household per year (168 pieces sent by those who would convert at no discount and 324 pieces sent by those who would convert at one-cent discount but not at no discount)	271
	Total estimated pieces affected	1.436 billion

2

1

2 PC Postage (25 Employees or Less) – No Discount

Sampled businesses extremely likely to subscribe to the PC postage service at no discount (5%)	4 respondents
---	---------------

X .8 intent estimate adjustment	3 respondents
	4% of sampled businesses

Qualifying businesses	5.4 million
-----------------------	-------------

X Adjusted percent extremely likely to subscribe to the PC Postage at no discount (4%)	216,000
--	---------

X Average pieces of mail sent per business per year	1,000
---	-------

Total estimated pieces affected	216 million
---------------------------------	-------------

3 PC Postage (26-50 Employees) – No Discount

Sampled businesses extremely likely to subscribe to the PC postage service at no discount (7%)	6 respondents
---	---------------

X .8 intent estimate adjustment	5 respondents
	5% of sampled businesses

Qualifying businesses	123,000
-----------------------	---------

X Adjusted percent extremely likely to subscribe to the PC Postage at no discount (5%)	6,150
--	-------

X Average pieces of mail sent per business per year	4,750
---	-------

Total estimated pieces affected	29 million
---------------------------------	------------

4

1 PC Postage (25 Employees or Less) – One-Cent Discount

Sampled businesses extremely likely to subscribe to the PC postage service at a one-cent discount (25%)		21 respondents
X	.8 intent estimate adjustment	16 respondents
		19% of sampled businesses
+	Assumption that sampled businesses who would subscribe at no discount would do so at one cent	4% of sampled businesses
	Qualifying businesses	5.4 million
X	Adjusted percent extremely likely to subscribe to the PC Postage at a one-cent discount (23%)	1.2 million
X	Weighted average pieces of mail sent per household per year (1,000 pieces sent by those who would convert at no discount and 2,250 pieces sent by those who would convert at one-cent discount but not at no discount)	2,103
	Total estimated pieces affected	2.5 billion

2

1 PC Postage (26-50 Employees) – One-Cent Discount

Sampled businesses extremely likely to subscribe to the PC postage service at a one-cent discount (29%)		27 respondents
X	.8 intent estimate adjustment	22 respondents
		23% of sampled businesses
+	Assumption that sampled businesses who would subscribe at no discount would do so at one cent	5% of sampled businesses
	Qualifying businesses	123,000
X	Adjusted percent extremely likely to subscribe to the PC Postage at a one-cent discount (28%)	34,440
X	Weighted average pieces of mail sent per business per year (4,750 pieces sent by those who would convert at no discount and 2,500 pieces sent by those who would convert at one-cent discount but not at no discount)	2,904
	Total estimated pieces affected	100 million

2

1 Postage Meter (25 Employees or Less) – No Discount

Sampled businesses extremely likely to subscribe to the PC postage service at no discount (0%)

0 respondents

X .8 intent estimate adjustment

Qualifying businesses

X Adjusted percent extremely likely to subscribe to the PC Postage at no discount (4%)

X Average pieces of mail sent per business per year

Total estimated pieces affected

0

2 Postage Meter (26-50 Employees) – No Discount

Sampled businesses extremely likely to subscribe to the PC postage service at no discount (2%)

2 respondents

X .8 intent estimate adjustment

2 respondents

2% of sampled businesses

Qualifying businesses

123,000

X Adjusted percent extremely likely to subscribe to the PC Postage at no discount (2%)

2,460

X Average pieces of mail sent per business per year

2,750

Total estimated pieces affected

6.8 million

3

1 Postage Meter (25 Employees or Less) – One-Cent Discount

Sampled businesses extremely likely to subscribe to the PC postage service at a one-cent discount (23%)		26 respondents
X	.8 intent estimate adjustment	21 respondents
		18% of sampled businesses
+	Assumption that sampled businesses who would subscribe at no discount would do so at one cent	0% of sampled businesses
	Qualifying businesses	5.4 million
X	Adjusted percent extremely likely to subscribe to the PC Postage at a one-cent discount (18%)	972,000
X	Average pieces of mail sent per business per year	3,500
	Total estimated pieces affected	3.4 billion

2

1 Postage Meter (26-50 Employees) – One-Cent Discount

Sampled businesses extremely likely to subscribe to the PC postage service at a one-cent discount (30%)	30 respondents
---	----------------

X .8 intent estimate adjustment	24 respondents
	24% of sampled businesses

+ Assumption that sampled businesses who would subscribe at no discount would do so at one cent	4% of sampled businesses
---	--------------------------

Qualifying businesses	123,000
-----------------------	---------

X Adjusted percent extremely likely to subscribe to the PC Postage at a one-cent discount (28%)	34,440
---	--------

X Weighted average pieces of mail sent per business per year (2,750 pieces sent by those who would convert at no discount and 3,750 pieces sent by those who would convert at one-cent discount but not at no discount)	3,430
---	-------

Total estimated pieces affected	118 million
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2

1 CHAIRMAN GLEIMAN: Dr. Heisler, have you had an
2 opportunity to review the packet of designated written
3 cross-examination that was made available earlier today?

4 THE WITNESS: Yes, I have, Mr. Chairman.

5 CHAIRMAN GLEIMAN: And if those questions were
6 asked of you today, would your answers be the same as those
7 you previously provided in writing?

8 THE WITNESS: Yes, they would.

9 CHAIRMAN GLEIMAN: That being the case, counsel,
10 if you would please provide two copies of the material to
11 the reporter that material will be received into evidence
12 and transcribed into the record.

13 [Designated Written
14 Cross-Examination of James T.
15 Heisler, PB-T-3, was received into
16 evidence and transcribed into the
17 record.]

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BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

Postal Rate and Fee Changes, 2000

Docket No. R2000-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION
OF PITNEY BOWES INC.
WITNESS JAMES T. HEISLER
(PB-T-3)

Party

United States Postal Service

Interrogatories

USPS/PB-T3-1-10, 12-17

USPS/PB-T2-16b redirected to T3

Respectfully submitted,



Cyril J. Pittack
Acting Secretary

INTERROGATORY RESPONSES OF
PITNEY BOWES INC.
WITNESS JAMES T. HEISLER (T-3)
DESIGNATED AS WRITTEN CROSS-EXAMINATION

<u>Interrogatory</u>	<u>Designating Parties</u>
USPS/PB-T3-1	USPS
USPS/PB-T3-2	USPS
USPS/PB-T3-3	USPS
USPS/PB-T3-4	USPS
USPS/PB-T3-5	USPS
USPS/PB-T3-6	USPS
USPS/PB-T3-7	USPS
USPS/PB-T3-8	USPS
USPS/PB-T3-9	USPS
USPS/PB-T3-10	USPS
USPS/PB-T3-12	USPS
USPS/PB-T3-13	USPS
USPS/PB-T3-14	USPS
USPS/PB-T3-15	USPS
USPS/PB-T3-16	USPS
USPS/PB-T3-17	USPS
USPS/PB-T2-16b redirected to T3	USPS

**PITNEY BOWES WITNESS HEISLER RESPONSE TO INTERROGATORY OF
UNITED STATES POSTAL SERVICE**

USPS/PB-T3-1.

(a) Please confirm that your market research results can be applied to postage that is purchased using a "personal computer via the Internet (referred to hereafter as PC postage)" as stated on page 2 line 6 of your testimony. If not confirmed, please explain.

(b) Please confirm that this market research would therefore pertain to firms such as E-Stamp and Stamps.com. If not confirmed, please explain.

(c) Please confirm that E-Stamp charges a monthly "convenience fee" that is 10% of the postage amount. If not confirmed, please explain.

(d) Please confirm that Stamps.com charges a monthly "service fee" that is 10% of the postage amount. If not confirmed, please explain.

(e) Given the rate structure that both E-Stamp and Stamps.com are currently using to sell PC postage over the Internet, please explain why your study uses a rate structure that includes a "monthly access fee" of \$5.00 for households (page 7 line 14) and a "lease cost" of less than \$20/"access fee" of \$5.00 for non-households (page 11 line 19).

(f) Given that the rate structure in your survey does not match the rate structure currently used by E-Stamp and Stamps.com, doesn't this lead you to question the results as they pertain to PC postage for those firms? Please explain any negative response.

RESPONSE:

(a) Confirmed.

(b) The research on which I have provided testimony uses a generic product description.

(c) I have no familiarity with this.

(d) I have no familiarity with this.

- (e) See response to question (b) above.
- (f) The Pitney Bowes study is applying its results to a generic situation only.

**PITNEY BOWES WITNESS HEISLER RESPONSE TO INTERROGATORY OF
UNITED STATES POSTAL SERVICE**

USPS/PB-T3-2. Assume that a PC postage/meter mail customer wants to save money on their net postage costs. If these customers were to be charged a minimum fee of \$5 per month (page 7 line 14), please confirm in parts (a) through (c) that they would have to mail the following average monthly breakeven mail volumes for each pricing level before they would begin achieving any net savings. If not confirmed for a given pricing level, please explain.

(a) No Discount: There would never be any net postage savings since no discount would be offered.

(b) 1-Cent Discount: $\$5.00/\$0.01\text{-Discount per Mail Piece} = 500 \text{ Mail Pieces}$

(c) 2-Cent Discount: $\$5.00/\$0.02\text{-Discount Per Mail Piece} = 250 \text{ Mail Pieces}$

(d) Please confirm that a household mailer that mails either 500 mail pieces per month or 250 mail pieces per month sends more mail than the average household mailer that mails 14 pieces per month (168 pcs per year/12 months per year) as shown on page 15 of your testimony. If not confirmed, please explain.

(e) Please confirm that a household mailer that mails either 500 mail pieces per month or 250 pieces per month sends more mail than the average household mailer that mails 23 pieces per month (271 pieces per year/12 months per year) as shown on page 16 of your testimony. If not confirmed, please explain.

(f) Please reference the figures below and confirm that a household mailer that mails 271 pieces per year is never going to achieve any net savings as a result of using the product described in your questionnaire, regardless of the price level (i.e., the access fee charges per year will always exceed the postage savings per year). If not confirmed, please explain.

Access Fee: $\$5 \text{ per month} * 12 \text{ months per year} = \60 per year

Postage Savings:

(0 Cents) $271 \text{ pieces per year} * 0 \text{ cents per piece} = \0.00

(1 Cents) $271 \text{ pieces per year} * 1 \text{ cents per piece} = \2.71

(2 Cents) $271 \text{ pieces per year} * 2 \text{ cents per piece} = \5.42

RESPONSE:

The Pitney Bowes' study considers only the issue of a fee. We did not consider the issue of net savings. Hence, I have no information responsive to questions (a) to (f).

**PITNEY BOWES WITNESS HEISLER RESPONSE TO INTERROGATORY OF
UNITED STATES POSTAL SERVICE**

USPS/PB-T3-3.

(a) Do you agree that a market research questionnaire should ask questions in an objective manner so as not to affect the responses given by participating households? Please explain any negative responses.

(b) Please explain how the term "just \$5.00" (page 7 line 14) is objective and would not affect the responses given by household mailers.

RESPONSE:

(a) I agree.

(b) I agree that it would have been better if the word "just" had not been used.

**PITNEY BOWES WITNESS HEISLER RESPONSE TO INTERROGATORY OF
UNITED STATES POSTAL SERVICE**

USPS/PB-T3-4. On page 2 line 15 of your testimony, you state that there is "substantial market interest in PC postage." Please explain why you consider the following results to reflect "substantial market interest." Include a discussion of the specific percentage results that would be required before you considered the results to be less than substantial.

RESPONSE:

The term "substantially" was used in a descriptive, rather than in a quantitative, fashion.

**PITNEY BOWES WITNESS HEISLER RESPONSE TO INTERROGATORY OF
UNITED STATES POSTAL SERVICE**

USPS/PB-T3-5. On page 5 lines 13-15 of your testimony you state, "Respondents were then asked how likely they would be to use the concept described at three price levels: no discount on First-Class postage, a one-cent discount, and a two-cent discount." Please provide the results of the survey which reflect the respondents' reactions to the two-cent discount and provide citations to where those results are.

RESPONSE:

These results are being submitted as a library reference.

**PITNEY BOWES WITNESS HEISLER RESPONSE TO INTERROGATORY OF
UNITED STATES POSTAL SERVICE**

USPS/PB-T3-6.

(a) Please confirm that Opinion Research Corporation International conducted a market research study for the Postal Service in Docket No. R97-1. See the testimony of witnesses Ellard (USPS-RT-14; Tr. 35/19058 et. Seq.) and Miller (USPS-RT-17, at 12-16; Tr. 33/17457-62). If not confirmed, please explain.

(b) Please confirm that the results from this study involved a 3-cent discount as opposed to the 1-cent discount proposed by Pitney Bowes in Docket No. R2000-1. If not confirmed, please explain.

(c) Please confirm that the Ellard study contained evidence that a majority of households preferred that First-Class single-piece rates not be de-averaged. (Question P9; Tr. 35/19083; Tr. 33/17457-60). If not confirmed, please explain.

(d) Please confirm that the Ellard study contained evidence that a substantial majority of households preferred that First-Class single-piece rates not be de-averaged, especially when they were informed that such de-averaging could result in an increase in the rate for regular First-Class Mail letters (the results from Questions P9 and P10 were combined; see Tr. 35/19083-84; Tr. 33/17462). If not confirmed, please explain.

RESPONSE:

(a) Opinion Research Corporation International did conduct the study referenced.

(b) The referenced study did use a 3-cent discount, but it had nothing to do with metering or PC postage. Hence, it has no relevance to the Pitney Bowes study.

(c) The referenced study did provide evidence as stated, but the study had nothing to do with metering or PC postage. Hence, it has no relevance to the Pitney Bowes study.

(d) The referenced study did provide evidence as stated, but the study had nothing to do with metering or PC postage. Hence, it has no relevance to the Pitney Bowes study.

**PITNEY BOWES WITNESS HEISLER RESPONSE TO INTERROGATORY OF
UNITED STATES POSTAL SERVICE**

USPS/PB-T3-7. On page 2 of your testimony, you state that data from the household portion of your study indicate that PC postage, with a discount of one cent, will attract up to 1.4 billion pieces of First-Class Mail currently using stamps.

(a) Please confirm that this 1.4 billion pieces includes 336 million pieces of household mail that would be attracted to PC postage at no discount (per pages 15 and 16 of your testimony).

(b) Since these 336 million pieces would shift without offering a discount, please explain why you include these 336 million pieces in your estimate of the impact of a discount.

(c) How long will it take for the estimated volume shift of 336 million pieces to occur?

(d) How long will it take for the volume shift of the entire 1.4 billion pieces to occur?

(e) PC postage products were formally introduced nearly a year ago in August 1999. How much household stamped volume have these products attracted to date?

(f) Please quantify how much the average household will save in net postage on a monthly basis when using a PC postage product. Please include any monthly and per piece fees in developing your estimate.

(g) According to your study, a discount of 1-cent attracts approximately 1 billion new household pieces from stamps to PC postage (1.4 billion less 336 million). In your opinion, is the magnitude of this increase reasonable in light of the net savings you calculated in part (f) above.

(h) According to your study, how much additional household volume is attracted from stamps to PC postage with a discount of 2 cents?

RESPONSE:

- (a) Confirmed.
- (b) The Pitney Bowes' case postulates that the USPS will save money in a cumulative fashion from the proposed metering and PC Postage offerings. The 336 million pieces are inherent to the USPS' potential savings.
- (c) The study did not produce information responsive to this question.
- (d) The study did not produce information responsive to this question.
- (e) The study did not produce information responsive to this question.
- (f) The study did not produce information responsive to this question. See also my response to USPS/PB-T3-2.
- (g) In light of my answer to item (f) above, I have no opinion on this matter.
- (h) The information is being submitted as a Library Reference.

**PITNEY BOWES WITNESS HEISLER RESPONSE TO INTERROGATORY OF
UNITED STATES POSTAL SERVICE**

USPS/PB-T3-8. On page 2 of your testimony, you state that data from the non-household portion of your study indicate that PC postage, with a discount of one cent, will attract up to 2.6 billion pieces of First-Class Mail currently using stamps.

(a) Please confirm that this 2.6 billion pieces includes approximately 245 million pieces of non-household mail that would be attracted to PC postage at no discount (per page 14 of your testimony, the sum of 216 million plus 29 million).

(b) Since these 245 million pieces would shift without offering a discount, please explain why you include these 245 million pieces in your estimate of the impact of a discount.

(c) How long will it take for the estimated volume shift of 245 million pieces to occur?

(d) How long will it take for the entire volume shift of 2.6 billion pieces to occur?

(e) PC postage products were formally introduced nearly a year ago in August 1999. How much non-household stamped volume have these products attracted to date?

(f) Please quantify how much the average household will save in net postage on a monthly basis when using a PC postage product. Please include any monthly and per piece fees in developing your estimate.

(g) According to your study, a discount of 1-cent attracts approximately 2.4 billion new non-household pieces from stamps to PC postage (2.6 billion less 245 million). In your opinion, is the magnitude of this increase reasonable in light of the net savings you calculated in part (f) above.

(h) According to your study, how much additional household volume is attracted from stamps to PC postage with a discount of 2 cents?

RESPONSE:

- (a) Confirmed.
- (b) The Pitney Bowes' case postulates that the USPS will save money in a cumulative fashion from the proposed metering and PC Postage offerings. The 245 million pieces are inherent to the USPS' potential savings.
- (c) The study does not produce information responsive to this question.
- (d) The study does not produce information responsive to this question.
- (e) The study does not produce information responsive to this question.
- (f) The study does not produce information responsive to this question. See also my response to USPS/PB-T3-2.
- (g) In light of my answer to item (f) above, I have no opinion on this matter.
- (h) The information is being submitted as a Library Reference.

**PITNEY BOWES WITNESS HEISLER RESPONSE TO INTERROGATORY OF
UNITED STATES POSTAL SERVICE**

USPS/PB-T3-9. On page 3 of your testimony, you state that data from the non-household portion of your study indicate that stand-alone meters, with a discount of one cent, will attract up to 3.5 billion pieces of First-Class Mail currently using stamps.

(a) Please confirm that the references to "PC postage service" that appears in the bolded sections on pages 20-22 should refer to stand-alone meters.

(b) How long will it take for the estimated volume shift of 3.5 billion pieces to occur?

(c) Please quantify how much the average non-household will save in net postage on a monthly basis when using a stand-alone meter postage product. Please include the lease costs in developing your estimate.

(d) According to your study, a discount of 1-cent attracts approximately 3.5 billion new non-household pieces from stamps to stand-alone meter postage (3.5 billion less 7 million attracted with no discount). In your opinion, is the magnitude of this increase above 7 million reasonable in light of the net savings you calculated in part © above?

(e) According to your study, how much additional non-household volume is attracted from stamps to stand-alone meters with a discount of 2 cents?

RESPONSE:

(a) Confirmed.

(b) The study provides no information responsive to this question.

(c) The study provides no information responsive to this question. See also my response to USPS/PB-T3-2.

(d) The study provides no information responsive to this question. See also my response to USPS/PB-T3-2.

(e) The information is being submitted as a Library Reference.

**PITNEY BOWES WITNESS HEISLER RESPONSE TO INTERROGATORY OF
UNITED STATES POSTAL SERVICE**

USPS/PB-T3-10. Please provide coefficients of variation for each of the volume estimates presented on page 14 of your testimony.

RESPONSE:

PC Postage				
	25 Employees or less—lower bound	25 employees or less—upper bound	26-50 employees -- lower bound	26-50 employees -- upper bound
No discount	0	454 million	12 million	46 million
1 cent discount	1.4 billion	3.2 billion	49 million	86 million
2 cent discount	820 million	1.7 billion	98 million	147 million
Total	2.22 billion	5.534 billion	159 million	279 million
Postage Meter				
	25 Employees or less—lower bound	25 employees or less—upper bound	26-50 employees -- lower bound	26-50 employees -- upper bound
No discount	0	0	2.8 million	10.7 million
1 cent discount	2.1 billion	4.7 billion	76 million	136 million
2 cent discount	745 million	1.5 billion	42 million	94 million
Total	2.845 billion	6.2 billion	120.8 million	240.7 million

**PITNEY BOWES WITNESS HEISLER RESPONSE TO INTERROGATORY OF
UNITED STATES POSTAL SERVICE**

USPS/PB-T3-12.

On page 6, lines 11-12, you state that the household sample contacted for the study was balanced against population gender, age, income, and region proportions."

(a) Please confirm that the above-referenced "population" consists of all U.S. telephone households in the 48 contiguous states. If not confirmed, please explain.

(b) Please confirm that the above-referenced "household sample" consists of a random sample of all U.S. telephone households in the 48 contiguous states. If not confirmed, please explain.

(c) If available, please provide the average age and household income of the above-referenced study population. If not available, please explain.

(d) If available, please provide the average age and household income of the above-referenced "household sample". If not available, please explain.

(e) If available, please provide the average age and household income of the 41 percent of households who qualified for the interview. If not available, please explain.

(f) If available, please provide the average age and household income of the 13 percent of sample households (as shown on page 16 of your testimony) who are "extremely likely" to subscribe to PC Postage at a one-cent discount. If not available, please explain.

RESPONSE:

(a) Confirmed.

(b) Confirmed.

(c) Average age: 44.8 years

Average income: \$59,002

(d) We do not have average demographics, since we asked age and household in terms of ranges. On that basis, the profile is as follows:

Age

▪ Under 35 years	23%
▪ 35-54 years	44%
▪ 55+ years	31%
▪ Refused	2%

Household Income

▪ Under \$50,000	42%
▪ \$50,000 to \$74,999	17%
▪ \$75,000 to \$99,999	10%
▪ \$100,000+	9%
▪ Refused	22%

(e)

Age

▪ Under 35 years	27%
▪ 35-54 years	56%
▪ 55+ years	16%
▪ Refused	1%

Household Income

▪ Under \$50,000	26%
▪ \$50,000 to \$74,999	23%
▪ \$75,000 to \$99,999	17%
▪ \$100,000+	16%
▪ Refused	18%

(f) We do not have this information. The data were not cross-tabulated by these variables.

**PITNEY BOWES WITNESS HEISLER RESPONSE TO INTERROGATORY OF
UNITED STATES POSTAL SERVICE**

USPS/PB-T3-13. According to the data presented at pages 15 and 16 of your testimony, 5% of the population of "qualified" households will convert from stamps to PC Postage if the monthly access fee for PC Postage is \$5.00.. No discount is necessary for this conversion. If a discount of 1 cent per piece is offered, an additional 8% of the population will convert. The discount saves the average household 27 cents per month (1 cent x 324 mailpieces/year + 12 months/year), lowering the net monthly cost from \$5.00 to \$4.73. In your opinion, is it reasonable for monthly savings of 27 cents to cause 8% of all qualified households to convert from stamps to PC Postage? Please explain.

RESPONSE:

The study speaks for itself.

**PITNEY BOWES WITNESS HEISLER RESPONSE TO INTERROGATORY OF
UNITED STATES POSTAL SERVICE**

USPS/PB-T3-14. According to the data presented at pages 17 and 18 of your testimony, 4% of the population of "qualified" small businesses with 0 – 25 employees will convert from stamps to PC Postage if the monthly access fee for PC Postage is \$5.00. No discount is necessary for this conversion. If a discount of 1 cent per piece is offered, an additional 19% of the population will convert. The discount saves the average small business with 0 – 25 employees \$1.88 per month (1 cent x 2,250 mailpieces/year + 12 months/year), lowering the net monthly cost from \$5.00 to \$3.12. In your opinion, is it reasonable for monthly savings of \$1.88 to cause 19% of all qualified small businesses with 0 – 25 employees to convert from stamps to PC Postage? Please explain.

RESPONSE:

The study speaks for itself.

**PITNEY BOWES WITNESS HEISLER RESPONSE TO INTERROGATORY OF
UNITED STATES POSTAL SERVICE**

USPS/PB-T3-15. According to the data presented at pages 17 and 19 of your testimony, 5% of the population of "qualified" small businesses with 26 – 50 employees will convert from stamps to PC Postage if the monthly access fee for PC Postage is \$5.00. No discount is necessary for this conversion. If a discount of 1 cent per piece is offered, an additional 23% of the population will convert. The discount saves the average small business with 26 – 50 employees \$2.08 per month (1 cent x 2,500 mailpieces/year + 12 months/year), lowering the net monthly cost from \$5.00 to \$2.92. In your opinion, is it reasonable for monthly savings of \$2.08 to cause 23% of all qualified small businesses with 26 – 50 employees to convert from stamps to PC Postage? Please explain.

RESPONSE:

The study speaks for itself.

**PITNEY BOWES WITNESS HEISLER RESPONSE TO INTERROGATORY OF
UNITED STATES POSTAL SERVICE**

USPS/PB-T3-16. According to the data presented at pages 20 and 21 of your testimony, 0% of the population of "qualified" small businesses with 0 – 25 employees will convert from stamps to postage meters if the monthly lease cost for postage meters is \$20.00 and no discount is offered. If a discount of 1 cent per piece is offered, 18% of the population will convert. The discount saves the average small business with 0 – 25 employees \$2.92 per month (1 cent x 3,500 mailpieces/year + 12 months/year), lowering the net monthly cost from \$20.00 to \$17.08. In your opinion, is it reasonable for monthly savings of \$2.92 to cause 18% of all qualified small businesses with 0 – 25 employees to convert from stamps to postage meters? Please explain.

RESPONSE:

The study speaks for itself.

**PITNEY BOWES WITNESS HEISLER RESPONSE TO INTERROGATORY OF
UNITED STATES POSTAL SERVICE**

USPS/PB-T3-17. According to the data presented at pages 20 and 22 of your testimony, 2% of the population of "qualified" small businesses with 26 – 50 employees will convert from stamps to postage meters if the monthly lease cost for postage meters is \$20.00. No discount is necessary for this conversion. If a discount of 1 cent per piece is offered, an additional 24% of the population will convert. The discount saves the average small business with 26 – 50 employees \$3.13 per month (1 cent x 3,750 mailpieces/year + 12 months/year), lowering the net monthly cost from \$20.00 to \$16.87. In your opinion, is it reasonable for monthly savings of \$3.13 to cause 24% of all qualified small business with 26 – 50 employees

RESPONSE:

The study speaks for itself.

**PITNEY BOWES WITNESS HEISLER RESPONSE TO INTERROGATORY OF
UNITED STATES POSTAL SERVICE (REFERRED)**

USPS/PB-T2-16. On page 25 lines 8-10 of [Dr. Haldi's testimony] you state that "the increased convenience associated with metering technology could draw in new customers or lead existing customers to increase their usage of Postal Service [products]."

(b) Please confirm that it is possible that the volume of meter mail could remain unchanged if your discount proposal were approved. If not confirmed, please explain.

RESPONSE:

(b) The study speaks for itself. However, it is within the realm of the "possible" that the volume of meter mail could remain unchanged.

1 CHAIRMAN GLEIMAN: Is there any additional
2 designated written cross examination for this witness?

3 If there isn't, then that brings us to oral cross
4 examination.

5 As I understand it, no party has requested oral
6 cross examination of this witness, but I could be mistaken.

7 MR. RO: The Postal Service requests oral cross.

8 CHAIRMAN GLEIMAN: Well, given the amount of paper
9 that flies around here, sometimes we lose a piece
10 occasionally in the middle of a pile somewhere, and I'm sure
11 that next week we will have you cross examining somebody
12 that you didn't ask to cross examine.

13 [Laughter.]

14 CHAIRMAN GLEIMAN: Is there any other party that
15 would like to cross examine this witness?

16 If not, then Mr. Ro, you may proceed when you are
17 ready.

18 MR. RO: Thank you.

19 CROSS EXAMINATION

20 BY MR. RO:

21 Q Good morning, Mr. Heisler.

22 A Good morning.

23 Q Please turn to your response to USPS-T3-2.

24 A USPS --

25 Q T3-2.

1 A Yes. I have it.

2 Q In this question we asked you about the savings in
3 net postage costs that a PC Postage customer would realize,
4 assuming a monthly fee of \$5, a certain volume of mail and a
5 one cent discount.

6 In the response you state that you have no
7 information responsive to this question because the survey
8 considered only the issue of a fee. Is that correct?

9 A That's correct.

10 Q In your response are you saying that a potential
11 customer does not evaluate how much he or she is likely to
12 save with the discount?

13 A I am not saying that, that they do or they don't.
14 I am just simply responding in terms of what the study
15 focused on and for which we have data.

16 Q Okay. In your opinion is it reasonable, isn't it
17 reasonable for a customer to evaluate how much a discount is
18 likely to save him?

19 A It may be one of the things that they take into
20 consideration.

21 Q Your study indicates that both businesses' and
22 households' reaction to a one cent discount is significant.
23 Would you agree with that statement?

24 A I think I used the word "substantial."

25 Q Substantial? Would you agree that this reaction

1 to the discount occurs because respondents think they will
2 save postage?

3 A As I said earlier, I think there are a lot of
4 things that a respondent would take into consideration in
5 terms of evaluation the concept. Price may be one thing but
6 there would be other factors probably as well.

7 Q Okay. Assuming a monthly fee of \$5 and a one cent
8 discount, wouldn't a household need to mail at least 500
9 pieces of mail a month to break even on postage?

10 A In terms of simply the math, I believe so.

11 Q Do you know how many households mail 500 pieces of
12 mail a month?

13 A I have no information to answer that, no.

14 Q How do you explain 1.1 billion pieces attracted to
15 a one cent discount given the requirement of 500 pieces of
16 mail required a month?

17 A I am not sure I -- can you clarify what your
18 question is?

19 Q Well, I guess the study that 1.1 billion pieces of
20 mail would be attracted to a one cent discount and given the
21 requirement of 500 pieces per month, how do you explain that
22 1.1 billion pieces would -- 500 million pieces a month to
23 break even?

24 A I think the answer to that question lies in the
25 calculations that were submitted in my original testimony in

1 terms of how we get to that ultimate number.

2 Q In your opinion do you think households really
3 understand how little they would save or indeed lose if they
4 mailed a normal volume of mail?

5 A I have no professional opinion on that.

6 Q Okay. Turning to your response to USPS-T3-3(b) --

7 A T3-3(b)?

8 Q (b) as in boy.

9 A Okay.

10 Q This question refers to your phrase where
11 household mailers were told that a PC Postage product would
12 have a monthly access fee of, quote, "just five dollars."

13 In your response to our interrogatory you agreed
14 that it would have been better if the word "just" had not
15 been used?

16 A It would have been better not to use the word
17 "just" but I don't think it had any appreciable impact on
18 how the respondents responded to this study, to the
19 question.

20 Q Okay, so in your opinion you do not think it
21 biased the responses in favor of Pitney Bowes?

22 A No, I don't.

23 Q Next, if you turn to your response to
24 USPS-T3-7(d).

25 A T3-7(d).

1 Q (d) -- this part of the question asked you how
2 long it would take to track the PC Postage products, the 1.4
3 billion pieces of stamped household mail. Your response
4 said that your study did not collect information responsive
5 to this question, is that correct?

6 A That is correct.

7 Q In your expert opinion, do you think that the
8 shift of the 1.4 billion pieces is likely to take place
9 fairly quickly, say in a year or two, or over a longer
10 period of time?

11 A I have no professional basis to judge -- to make a
12 judgment on that.

13 Q And the final question I have is, the Postal
14 Service asked a series of questions in USPS-T3-13 through
15 17, which basically talked about the volume of household or
16 business mail that would shift to PC Postage or
17 traditionally metered mail at a discount of one cent.

18 And your response to each of these questions was
19 the same: Basically it was the study speaks for itself.

20 Looking at one of the questions, in particular,
21 Number T3-14, which deals with businesses with zero to 25
22 employees --

23 A Correct.

24 Q -- we asked whether, in your opinion, it was
25 reasonable for a monthly savings of \$1.88 to cause 19

1 percent of such qualified businesses to convert from stamps
2 to PC Postage.

3 And then in your response you state that the study
4 speaks for itself.

5 A That's correct.

6 Q Okay, when you conduct a study, don't you take a
7 look at the results to see if they seem reasonable?

8 A Again, you asked a question and you hope that you
9 did a good job of posing the questions, and the data
10 literally speak for themselves.

11 And as I said earlier, I think a respondent,
12 whether they're a non-household or a household, would take
13 many things into consideration in terms of the relative
14 appeal of the concept under question.

15 Q So you had no reason to question the results of 19
16 percent of qualified businesses switching, converting to PC
17 Postage, based on the net monthly savings of \$1.88?

18 A I have no basis to question the validity of that
19 response.

20 Q Okay, thank you.

21 MR. RO: Mr. Chairman, we have no further
22 questions.

23 CHAIRMAN GLEIMAN: Is there any followup?

24 [No response.]

25 CHAIRMAN GLEIMAN: Questions from the Bench?

1 [No response.]

2 CHAIRMAN GLEIMAN: Would you like some time for
3 redirect?

4 MR. WIGGINS: We have no redirect, Mr. Chairman.

5 CHAIRMAN GLEIMAN: If that is the case, then, Dr.
6 Heisler, that completes your testimony here today. We
7 appreciate your appearance and your contributions to the
8 record.

9 We thank you, and you are excused.

10 [Witness Heisler excused.]

11 CHAIRMAN GLEIMAN: Mr. Horowitz, when you are
12 ready, you can introduce your witness.

13 MR. TIDWELL: Mr. Chairman, before we proceed to
14 the next witness, the Postal Service would like to request
15 to take a five-minute break.

16 CHAIRMAN GLEIMAN: Most certainly, we can
17 accommodate you on that.

18 MR. TIDWELL: Thank you.

19 [Recess.]

20 CHAIRMAN GLEIMAN: We are going to extend the
21 break for a little bit. We have had transportation problems
22 with counsel and witnesses today, and, in an attempt to
23 accommodate everybody and get the right people here at the
24 right time, we're going to take about another ten minutes
25 right now, and at that point, we'll proceed with Mr. Buc on

1 the witness stand.

2 [Recess.]

3 CHAIRMAN GLEIMAN: Mr. Horowitz, would you care to
4 introduce your witness?

5 MR. HOROWITZ: Good morning, Mr. Chairman.

6 Mr. Buc, please state your name.

7 MR. BUC: Lawrence G. Buc.

8 CHAIRMAN GLEIMAN: Before you go any further, I
9 know that this is not Mr. Buc's first appearance, but if
10 somebody checked the transcript carefully from yesterday,
11 they would find out that when I swore him in, I swore him in
12 with respect to the testimony that he was going to give,
13 quote, "today in this proceeding."

14 And, therefore, he's technically not under oath
15 for the rest of the proceeding, so I'm going to swear him in
16 again, just so that no one raises any questions later on, on
17 what is undoubtedly going to be a very important piece of
18 testimony.

19 Whereupon,

20 LAWRENCE G. BUC,
21 a witness, having been called for examination, and, having
22 been first duly sworn, was examined and testified as
23 follows:

24 DIRECT EXAMINATION

25 BY MR. HOROWITZ:

1 Q Mr. Buc, do you have two copies of the document
2 styled Direct Testimony of Lawrence G. Buc on Behalf of
3 Continuity Shippers Association and Direct Marketing
4 Association, Association for Postal Commerce and Parcel
5 Shippers Association, designated CSA-T1, dated May 19, 2000?

6 A Yes, I do.

7 Q And did you prepare this testimony.

8 A Yes.

9 Q And would your oral testimony be the same as that
10 shown in the written testimony?

11 A Yes, it would.

12 MR. HOROWITZ: Mr. Chairman, I request that this
13 testimony of Lawrence Buc be entered into the record in this
14 docket.

15 CHAIRMAN GLEIMAN: Is there any objection?

16 [No response.]

17 CHAIRMAN GLEIMAN: Hearing none, I'll direct
18 counsel to provide the Court Reporter with two copies of the
19 Direct Testimony of Witness Buc, and that testimony will be
20 transcribed into the record and received into evidence.

21 [Written Direct Testimony of
22 Lawrence G. Buc, CSA-T-1, was
23 received into evidence and
24 transcribed into the record.]

25

CSA-T-1

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

POSTAL RATES AND FEE CHANGES

DOCKET NO. R2000-1

DIRECT TESTIMONY OF
LAWRENCE G. BUC
ON BEHALF OF THE
CONTINUITY SHIPPERS ASSOCIATION,
DIRECT MARKETING ASSOCIATION,
ASSOCIATION FOR POSTAL COMMERCE,
AND PARCEL SHIPPERS ASSOCIATION

Dated: May 19, 2000

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1 **AUTOBIOGRAPHICAL SKETCH**

2 My name is Lawrence G. Buc. I am the President of Project Performance
3 Corporation (PPC), a consulting firm headquartered in McLean, Virginia. PPC
4 provides management, information technology, and environmental consulting
5 services to private and public sector clients. At the firm, I co-direct a practice that
6 focuses on economic and cost analysis, usually in a postal or environmental
7 context. I am also responsible for the overall finances of the firm.

8 I attended Brown University and graduated in 1968 with an AB with honors
9 in mathematics and economics. In 1978, I received an MA degree in economics
10 from the George Washington University of America. While there, I was a
11 member of Omicron Delta Upsilon, the national honorary economics society. I
12 am a member of the American Economic Association.

13 I have participated in United States Postal Service (USPS or Postal
14 Service) rate and classification cases for over 25 years. I joined the Revenue
15 and Cost Analysis Division of the Postal Service in March of 1975 and have
16 analyzed postal issues ever since. I have worked not only for the Postal Service,
17 but also for the United States Postal Rate Commission (the Commission) and
18 private clients with interests in postal topics. I have been involved in seven
19 previous omnibus rate cases: Docket Nos. R74-1, R76-1, R77-1, R84-1, R87-1,
20 R90-1, and R97-1.

21 This is the seventh case in which I have submitted testimony to the
22 Commission. In Docket Nos. R84-1, R90-1, and R97-1, I appeared as a witness
23 for intervenors before the Commission; in Docket No. MC76-1, I appeared as a
24 witness for the Postal Service; and in Docket No. MC77-2, I appeared as a
25 witness for the Office of the Consumer Advocate. I also appeared as a witness
26 for the complainant in Docket No. C99-4.

I. PURPOSE AND SCOPE OF TESTIMONY

My testimony analyzes the costs and pricing of the Bulk Parcel Return Service (BPRS). The first section analyzes the unit attributable costs for BPRS and shows that the Postal Service overstates these costs by at least 11.6 cents. Thus, I estimate the unit cost of BPRS should be no more than 98.9 cents (without contingency), rather than the \$1.105 estimated by Postal Service witness Eggleston (USPS-T-26 at 40). The second section provides an analysis of the pricing factors. From my analysis, I conclude that the cost coverage for BPRS should be 132.9 percent, the same as for Standard A Regular, rather than the 146 percent coverage as proposed by Postal Service witness Mayo (USPS-T-39 at 15). Based on a unit cost of 99.9 cents (including a one percent contingency) and a coverage of 132.9 percent, I conclude that the BPRS fee should be \$1.33 (after rounding to the nearest cent) per return rather than the \$1.65 as proposed by witness Mayo (USPS-T-39 at 15).

II. ATTRIBUTABLE COSTS FOR BULK PARCEL RETURN SERVICE

Witness Eggleston estimates Test Year 2001 unit costs for BPRS. To do so, she estimates costs in five different cost components: collection, mail processing, transportation, delivery, and postage due. USPS-T-26 at 31. According to her analysis, the Test Year unit cost for BPRS (without contingency) is 110.5 cents in the Test Year. USPS-T-26 at 40.

Witness Eggleston concedes that "...most of the assumptions are made in a manner that has more potential to overstate rather than understate costs." USPS-T-26 at 32. In the following sections of this testimony, I will show that she has overestimated costs by 11.6 cents: 1.2 cents in collection, 6.6 cents in mail processing, and 3.8 cents in transportation. Table 1, below, summarizes the unit costs I calculate and those calculated by witness Eggleston in these three components. I have accepted the Postal Service's unit costs for delivery and postage due.

1 **TABLE 1. BPRS UNIT COST COMPARISON**

2 (costs rounded to nearest tenth of a cent)

Cost Component	CSA Unit Cost (cents)	USPS Unit Cost (cents) ¹	Difference (cents)
Collection	2.1 ²	3.2	(1.2)
Mail Processing	50.5 ³	57.1	(6.6)
Transportation	38.5 ⁴	42.3	(3.8)
Delivery	3.3	3.3	-
Postage Due	4.6	4.6	-
Total (w/o contingency)	98.9	110.5	(11.6)

3 Detail may not sum to total due to independent rounding

4 1 USPS-T-26 at 40.

5 2 CSA -T-1 at 3.

6 3 CSA -T-1 at 6 and 7.

7 4 CSA -T-1 at 7 and 8.

8 **A. Collection**

9 Witness Eggleston's cost estimate includes 1.16 cents per piece for window
10 acceptance in the collection cost component. USPS-T-26, Attachment S.¹ She states
11 that the window service costs are a proxy from the single piece Standard A collection
12 costs from BY98. USPS-T-26 at 32. Window acceptance costs for the single piece
13 Standard A rate category include the costs of weighing, rating, and collecting postage.
14 A window clerk, however, does not perform those activities for BPRS. Instead, they are
15 performed in bulk at the postage due unit.

16 In fact, witness Eggleston found that these same activities do not incur any
17 additional costs with the Merchandise Return Service label:

18 To return a parcel to mailer, the customer simply puts the mailer-
19 supplied MRS label on the parcel and places the parcel into the
20 mailstream. Weighing and rating is performed at the postage due
21 unit in the destination postal facility. Since the parcel does not
22 need to be weighed and rated at the window, window service
23 acceptance is no longer a requirement of MRS. USPS-T-26 at 41.

24 Therefore, the collection costs for BPRS should be reduced by 1.16 cents, from
25 3.22 cents to 2.06 cents. Including the weighing and rating costs for BPRS in collection
26 as well as postage due double counts these costs.

¹The attachment shows cost of \$1,736,287 and volumes of 150,276,000 pieces.

1 **B. Mail Processing**

2 Witness Eggleston developed Test Year unit mail processing costs for BPRS
3 using the model she used to develop costs for non-dropshipped Parcel Post and for
4 single-piece Special Standard mail. To reflect the "unique characteristics" of BPRS, she
5 modified inputs to the model in six ways:

- 6
- 7 1. Changed average cube and weight to reflect BPRS
 - 8 2. Assumed 100 percent machineability
 - 9 3. Assumed no bed loaded parcels
 - 10 4. Used Special Standard CRA adjustment
 - 11 5. Modified mailflow to reflect BPRS mailflow
 - 12 6. Assumed inter and intra BMC weights

13

14 I believe four of these modifications are appropriate. Reflecting the cube and weight
15 differences between Special Standard B and BPRS, modeled unit costs for BPRS are
16 only 70 percent of those for Special Standard B. Tr. 13/5204 (Eggleston) However, the
17 fourth and the sixth modifications overestimate BPRS costs.

18 **Special Standard CRA Adjustment**

19 Witness Eggleston explains the need for a CRA adjustment to modeled costs:
20 "CRA adjustment factors are used to tie the modeled costs to the costs reported in the
21 Cost and Revenue Analysis Report (CRA)." USPS-T-26 at 5. There are two types of
22 CRA adjustment factors: proportional and fixed. "Proportional cost pools are those cost
23 pools that are included in the model. Fixed cost pools are those cost pools that are not
24 included in the model. Fixed cost pools are not included in the model for one of two
25 reasons. Either the fixed cost pool is not worksharing-related or the cost pool is not
26 parcel-related." USPS-T-26 at 5.

27 For BPRS, witness Eggleston used the proportional Special Standard CRA
28 adjustment factor, which is 1.042. USPS-T-26, Attachment P at 1. She multiplied her
29 weighted average mail processing modeled cost for BPRS, \$.345, by the proportional
30 CRA adjustment factor of 1.042. USPS-T-26, Attachment T at 1. This adds 1.449 cents

1 to her modeled cost. Then she added the fixed adjustment of \$.211 for Special
2 Standard to produce mail processing costs of \$.571. USPS-T-26, Attachment T at 1.

3 Because the fixed CRA adjustment represents almost 37 percent of BPRS mail
4 processing costs, I examined the cost pools in which the costs of the Special Standard
5 fixed adjustment occur. The cost pools appear to fall into two different categories: those
6 in which costs are expected and those in which they are not.

7 Activities in the "expected" cost pools, like the SPBS or the pouching pools,
8 should be affected by cube and weight to the same degree that these factors affect
9 "proportional cost pools". Since witness Eggleston confirmed that differences in the
10 cube and weight of BPRS lead to its modeled costs being about 70 percent of the
11 modeled cost of Special Standard B (Tr. 13/5204 (Eggleston)), the "expected" cost
12 pools should similarly have a fixed CRA adjustment that is 70 percent of the Special
13 Standard B fixed CRA adjustment.

14 Costs for other cost pools in the fixed adjustment cost pools, like the BCS, FSM,
15 or registry are "unexpected". When asked about these apparent anomalies, witness
16 Eggleston responded, "It is my understanding that occasionally costs show up in cost
17 pools where they are unexpected. It is my further understanding that the reason for this
18 is the following. The IOCS handling tallies record the mail actually being handled by the
19 employees recorded as working a given mail processing operation (cost pool), rather
20 than the mail expected to be handled in a given operation." Tr.13/5128 (Eggleston)

21 Thus, if an employee was clocked into the BCS cost pool, and received a Special
22 Standard B tally, that employee was most likely handling Special Standard mail. And, if
23 he was actually handling Special Standard B mail, it is much more likely that he was
24 actually handling it in a way that witness Eggleston modeled rather than putting it
25 through a bar code sorter. Given that the differences in the cube and weight of BPRS
26 lead to its modeled costs being about 70 percent of the modeled cost of Special
27 Standard B, then the "unexpected" cost pools should also have a fixed CRA adjustment
28 of 70 percent of the Special Standard B fixed CRA adjustment.

29 Since costs in both types of "fixed" pools appear to be affected by cube and
30 weight, it is appropriate to use a fixed CRA adjustment that is 70 percent of the Special

1 Standard fixed CRA adjustment. Therefore, the fixed adjustment for BPRS should be
2 14.790 cents, 6.34 cents less than witness Eggleston's fixed CRA adjustment.

3 **Inter and Intra BMC Weights**

4 Based upon the assumption that all BPRS recipients receive returns on a
5 national basis, witness Eggleston assumes that 95.2 percent of BPRS parcels are inter-
6 BMC parcels and the other 4.8 percent are intra-BMC parcels. USPS-T-26 at 35. This
7 assumption is clearly incorrect since one of the eight recipients surveyed did not receive
8 returns on a national basis. USPS-T-26 at 35.

9 To correct this mistake, I assume that all of the parcels received by this mailer
10 (which was 3.5 percent of all BPRS parcels) rather than only 4.8 percent of **this**
11 **mailer's** parcels, are intra-BMC parcels. Thus, rather than 95.2 percent of BPRS being
12 intra-BMC, only 91.9 percent are. Since the mail processing cost difference is 8.7 cents
13 between intra-BMC and inter-BMC parcels, this reduces BPRS mail processing costs by
14 0.3 cents. Tr. 13/5122 (Eggleston).

15 **C. Transportation**

16 Consistent with her general costing approach, witness Eggleston overstated
17 transportation costs by making two erroneous assumptions. First, she assumed that the
18 zone distribution of inter-BMC BPRS parcels is the same as that for *inter-BMC Parcel*
19 *Post* parcels, thus overstating zone related transportation costs. USPS-T-26 at 36.
20 Second, she assumed that only one out of every 21 BPRS parcels is intra-BMC. In this
21 section, I quantify the extent to which these assumptions overstate unit transportation
22 costs for BPRS. *In all, I find that her assumptions overstate BPRS costs by 3.8 cents.*

23 **Inter-BMC Parcel Zone Distribution**

24 To develop transportation costs, witness Eggleston assumed that the zone
25 distribution for inter-BMC BPRS parcels is the same as that for Standard (B) Parcel
26 Post inter-BMC parcels. This is clearly wrong. While 23 percent of Parcel Post cubic
27 feet are sent to Zones 6-8 (USPS-T-26, Attachment L at 7) 61 percent of BPRS volume
28 is returned to four mailers that "are located in an area that will rarely use zones above
29 zone 5." USPS-T-26 at 37; Tr. 13/5114 (Eggleston). Therefore, for the zone distribution

of inter-BMC BPRS to be similar to the zone distribution of inter-BMC Parcel Post, the other four mailers (which receive 39 percent of BPRS volume) would have to receive the majority of their volume from Zones 6-8. This is extremely unlikely.

Because half of BPRS recipients will rarely use zones above zone 5, assuming that no BPRS recipients use zones above zone 5 is just as reasonable as witness Eggleston's assumption. Because this assumption results in lower bound transportation cost estimates and witness Eggleston's assumption results in upper bound transportation cost estimates, I developed estimates of zone-related inter-BMC transportation costs based on these two assumptions and then averaged them to determine BPRS zone-related inter-BMC transportation costs. As detailed in Attachment A, this average zone-related transportation cost for inter-BMC BPRS parcels is 3.1 cents less than the Postal Service's cost estimate.

Based upon the Postal Service's assumption that 95.2 percent of BPRS parcels are inter-BMC parcels, USPS-T-26 at 37, this improved estimate reduces unit transportation costs for all BPRS parcels by 3.0 cents. Using the 91.9 percent figure that I developed above, this translates into a 2.9-cent reduction in unit BPRS costs.

Inter and Intra BMC Weights

As discussed above, witness Eggleston assumes that 95.2 percent of BPRS parcels are inter-BMC parcels and the other 4.8 percent are intra-BMC parcels. USPS-T-26 at 35. I believe that the appropriate figure is 91.9 percent. Since the unit transportation cost difference is 27.6 cents between intra-BMC and inter-BMC parcels, Tr. 13/5122 (Eggleston), this correction reduces unit BPRS transportation costs by 0.9 cents.

III. COST COVERAGE/PRICING

The appropriate cost coverage for BPRS has not been reviewed within the context of an omnibus rate case. The current cost coverage of 156 percent was set in Docket No. MC97-4 as part of a negotiated settlement. The BPRS rate was not reviewed in Docket No. R97-1 because BPRS was a new service and the Postal Service was conducting a cost study, as required by Docket No. MC97-4. The Commission also did not review cost coverage for BPRS in Docket No. C99-4.

1 I have reviewed the Postal Service's proposed cost coverage in this case for
2 BPRS in relation to the policies of Title 39 and the nine factors stated in §3622(b). In
3 this case, witness Mayo proposes a cost coverage for BPRS of 146 percent. USPS-T-
4 39 at 15. My review of the Title 39 policies and the nine factors shows that this
5 proposed cost coverage for BPRS is too high. The cost coverage should be 132.9
6 percent, which is the coverage applied to Standard A Regular mail. My analysis
7 supporting these conclusions is set forth below.

8 Factor 1, "fairness and equity", is the foundation for all of the other factors and
9 provides the basis for balancing them. §3622(b)(1). The proposed BPRS coverage is
10 not fair and equitable. The Postal Service's proposed coverage is overstated in relation
11 to the coverage on other similar return services, i.e. Bound Printed Matter and to the
12 coverage applied to the parcels on their outgoing leg that become BPRS. Furthermore,
13 as described above, the intention of the Postal Service's cost study was to overstate
14 costs. USPS-T-26 at 32. This is neither fair nor equitable.

15 Factor 2, "value of the service," looks at the inherent worth of the service
16 provided to the sender and recipient. §3622(b)(2). The Postal Service often considers
17 price elasticity of demand in this factor, but there is not an estimate of demand elasticity
18 for BPRS. Thus, the determination of value must be more subjective.

19 The value of the BPRS service is much lower than the value indicated by the
20 Postal Service's proposed cost coverage. BPRS receives low priority in terms of
21 transportation and processing and only ground transportation is used. There is no
22 service standard for BPRS, so it has low priority of delivery. Further, the Postal Service
23 determines "how often the bulk parcels are delivered or how often the mailer may pick
24 up the bulk parcels." USPS-T-39 at 16. Thus, the mailer is not guaranteed delivery six
25 days a week since the Postal Service controls the timing and frequency of the actual
26 return of the parcels.

27 For other similar return services, such as *Bound Printed Matter*, the Postal
28 Service is proposing much lower cost coverages. For *Bound Printed Matter*, the Postal
29 Service is proposing a coverage of 117.6 percent. In R97-1, the Commission noted that
30 the coverage proposed by the Postal Service for Standard A Regular was similar to
31 *Bound Printed Matter* which it described as "another subclass used for bulk national

1 mailings of (among other things) advertising materials." Op. R97-1 at 434. In fact,
2 Bound Printed Matter provides a greater value in that the Postal Service delivers Bound
3 Printed Matter returns to the company. In comparison, one-half of BPRS recipients pick
4 up their BPRS returns.

5 Although BPRS is a special service, the Postal Service's implementing
6 regulations for the BPRS return label treat it as Standard A Regular mail. The "class of
7 mail" endorsement required by the Postal Service for the BPRS return label is "Standard
8 Mail (A)." Fed. Reg. Vol. 64, No. 180, September 17, 1999, p. 50452. The "Standard
9 Mail (A)" endorsement is needed because it informs postal employees the processing
10 requirements of BPRS mail.

11 The value of the BPRS service is even lower than the value of the outgoing
12 parcel under Standard A Regular mail. On the outgoing Standard A leg, value is at its
13 highest because, at that time, the outgoing leg represents the successful closing of a
14 sale. By comparison, on its return BPRS leg, the value of the service is low because
15 the return is the by-product of an unsuccessful sales transaction.

16 The difference in the value of the service for the outgoing and return legs is
17 further shown by the experience of Cosmetique, a member of the Continuity Shippers
18 Association and a BPRS mailer. Cosmetique tracks its BPRS returns according to
19 whether the customer will continue their membership and receive the next shipment, or
20 whether the customer cancels their membership (and there is no next shipment and
21 thus no potential next sale). Cosmetique's data from mid-1997 through mid-1999 show
22 that in 73 percent of the returns, the customer cancels her membership; conversely, in
23 only 27 percent of the returns does the customer continue her membership. In short,
24 almost three quarters of the time, the BPRS return marks the conclusion of a business
25 relationship.

26 The value of the BPRS service has not increased as a result of the recent minor
27 modification allowing the return of opened parcels. I have also reviewed data from
28 Cosmetique for the years 1997, 1998 and 1999 (through November) showing the
29 number of opened versus unopened BPRS returns Cosmetique received. The
30 percentage of opened versus unopened BPRS returns for each year is shown in Table
31 2, below.

1 **Table 2. BPRS RETURNS**

	Opened (percentage)	Unopened (percentage)
1997	56.0	44.0
1998	54.4	45.6
1999 (Nov)	53.6	46.4

2 As the table shows, the minor modification to BPRS to include opened returns,
 3 did not affect the Postal Service's actual handling of returns: the Postal Service has
 4 always returned the parcels even if they were opened. The current BPRS service only
 5 codified the Postal Service's pre-existing practice. Moreover, the value of the service to
 6 the mailer is the same whether the return has been opened or unopened. Cosmetique
 7 has informed me that it processes unopened and opened returns in the same manner.

8 Merchandise mailers who use other mail classifications also receive
 9 opened/resealed parcel returns even if the classifications do not technically allow for it.
 10 For example, companies who mail out music on tapes and CDs Standard A mail, but
 11 receive their returns as Special Standard B, also receive opened/resealed returned
 12 parcels.

13 Although a company may be able to reuse product that has been returned, the
 14 company incurs additional costs beyond the BPRS fee in order to do so: they must
 15 process the returns and restock the product. Opened returns require greater scrutiny
 16 than unopened returns before the merchandise can be reused. There is also return
 17 product that cannot be reused and must be scrapped.

18 Another company in the continuity product market has reported to me that each
 19 unit of a main line of its products (representing forty percent of its business in terms of
 20 both volume and revenue) costs about 30 percent more when re-introduced to inventory
 21 after being returned by the Postal Service than when taken directly from inventory for
 22 the first time, owing to the costs associated with re-integrating the product into inventory
 23 after being returned (including the cost of damages goods). This shows the substantial
 24 costs for reusing returned product. Further, while there is some value to the company

1 of the return through re-use of the return product, that value is significantly less than the
2 profit made from successful sales.

3 The return of the product not only benefits mailers, but also benefits the Postal
4 Service. The Postal Service noted that the companies can "more readily" dispose of the
5 product in an "environmentally sensitive way than is possible for the Postal Service,
6 given the wide array of contents." Direct Testimony of Mohammad Adra, MC97-4,
7 USPS-T2 at12.

8 Factor 3 requires that mail "bear the direct and indirect postal costs attributable"
9 to it and contribute to institutional costs.. §3622(b)(3). A BPRS fee of \$1.33 would more
10 than meet the requirement. At this fee, BPRS provides a contribution of 33.1 cents
11 (132.9 percent) to institutional cost.

12 Factor 4, which considers the impact of rates on consumers and mailers, is also
13 served by decreasing the BPRS rate to more closely reflect the actual cost of BPRS.
14 §3622(b)(4). BPRS was created to remedy a draconian increase in Third Class Single
15 Piece rates (the predecessor to Standard A and the rate previously applied to these
16 parcel returns) in Docket No. R94-1. In Docket No. R94-1, the Third Class Single Piece
17 rate increased by an average of 66 percent in the 8-16 ounce range (which is the range
18 for BPRS users). The highest Third Class Single Piece rate paid was \$2.95 (for one
19 pound, ground service of 7-11 day delivery), only five cents less than Priority Mail (for
20 up to two pounds, air transportation within 2-3 day delivery). While BPRS provided rate
21 relief to the general public and BPRS users, less expensive rates have a beneficial
22 impact on both consumers and mailers.

23 Factor 5 considers the availability, at reasonable prices, of alternative services.
24 §3622(b)(5). There is no economically realistic alternative to the Postal Service return
25 of BPRS parcels, just as there is no realistic alternative to the outbound leg of Standard
26 A mail. This factor favors lower BPRS rates.

27 Factor 6 looks at the reduction of costs to the Postal Service through the mailer's
28 preparation of the mail. §3622(b)(6). The bulk processing of BPRS parcels, the
29 requirement for machinability of the parcels, and the fact that half of the BPRS mailers
30 pick up the BPRS returns establish that Postal Service costs are reduced through
31 BPRS. This argues in favor of lower rates.

1 Factor 7 favors a straight forward fee structure. §3622(b)(7). Neither my
2 proposed cost coverage nor witness Mayo's affects the per piece fee structure. Either
3 would continue to facilitate a straight forward and easily understood fee structure.

4 Educational, cultural, scientific and informational considerations of factor 8 do not
5 apply. §3622(b)(8).

6 In conclusion, the policies of Title 39 and the nine factors of section 3622(b)
7 support the lower cost coverage of 132.9 percent.

Attachment A. Calculation of Unit BPRS Zone-Related Transportation Cost for Inter-BMC Parcels

Table 1. USPS Estimate

Zone	Zone Distribution [1]	Zone-Related Cost Per Cubic Foot Per Inter-BMC Leg [2]	BPRS	
			Weighted Zone-Related Cost per Cubic Foot Per Inter-BMC Leg [3]=[1]*[2]	Unit Zone-Related Cost per Inter-BMC BPRS Parcel [4]=.08*[3]
1 or 2	9%	\$0.4898	\$0.044	\$0.004
3	17%	\$1.0725	\$0.185	\$0.015
4	28%	\$1.9476	\$0.545	\$0.044
5	23%	\$3.5758	\$0.827	\$0.066
6	11%	\$5.2686	\$0.553	\$0.044
7	6%	\$6.8505	\$0.385	\$0.031
8	6%	\$10.1262	\$0.646	\$0.052
Total	100%	NA	\$3.187	\$0.255

[1] Proportions from USPS-T-26, Attachment L at 7, Column [1]

[2] USPS-T-26, Attachment N at 1, Column [3]

[4] USPS-T-26, Attachment U at 1: Average BPRS Cube=.08

Table 2. Zone 5 Cap Estimate

Zone	Zone Distribution [5]	Zone-Related Cost Per Cubic Foot Per Inter-BMC Leg [6]	BPRS	
			Weighted Zone-Related Cost per Cubic Foot Per Inter-BMC Leg [7]=[5]*[6]	Weighted Zone-Related Cost per Inter-BMC BPRS Parcel [8]=.08*[7]
1 or 2	9%	\$0.4898	\$0.044	\$0.004
3	17%	\$1.0725	\$0.185	\$0.015
4	28%	\$1.9476	\$0.545	\$0.044
5	46%	\$3.5758	\$1.632	\$0.131
6	0%	\$5.2686	\$0.000	\$0.000
7	0%	\$6.8505	\$0.000	\$0.000
8	0%	\$10.1262	\$0.000	\$0.000
Total	100%	NA	\$2.407	\$0.193

[5] Distribution from [1] with Zone 5 cap

[6] USPS-T-26, Attachment N at 1, Column [3]

[8] USPS-T-26, Attachment U at 1: Average BPRS Cube=.08

Table 3. CSA Estimate

Zone	Zone Distribution [9]	Zone-Related Cost Per Cubic Foot Per Inter-BMC Leg [10]	BPRS	
			Weighted Zone-Related Cost per Cubic Foot Per Inter-BMC Leg [11]=[9]*[10]	Weighted Zone-Related Cost per Inter-BMC BPRS Parcel [12]=.08*[11]
1 or 2	9%	\$0.4898	\$0.044	\$0.004
3	17%	\$1.0725	\$0.185	\$0.015
4	28%	\$1.9476	\$0.545	\$0.044
5	34%	\$3.5758	\$1.230	\$0.098
6	5%	\$5.2686	\$0.277	\$0.022
7	3%	\$6.8505	\$0.193	\$0.015
8	3%	\$10.1262	\$0.323	\$0.026
Total	100%	NA	\$2.797	\$0.224

[9] Average of Zone Distributions From Tables 1 and 2

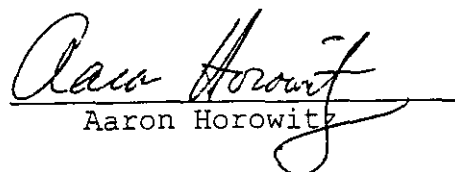
[10] USPS-T-26, Attachment N at 1, Column [3]

[12] USPS-T-26, Attachment U at 1: Average BPRS Cube=.08

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing Testimony of Lawrence G. Buc on all participants in this proceeding in accordance with section 12 of the Rules of Practice.

Dated: May 19, 2000


Aaron Horowitz

1 CHAIRMAN GLEIMAN: Mr. Buc, have you had an
2 opportunity to examine the packet of Designated Written
3 Cross Examination that was made available to you earlier
4 today?

5 THE WITNESS: Yes, I have.

6 CHAIRMAN GLEIMAN: And if those questions were
7 asked of you today, would your answers be the same as those
8 you previously provided in writing?

9 THE WITNESS: They would be.

10 CHAIRMAN GLEIMAN: No corrections or additions?

11 THE WITNESS: No.

12 CHAIRMAN GLEIMAN: Counsel, if I could please
13 impose upon you to provide two copies of the Designated
14 Written Cross Examination of the witness to the Court
15 Reporter, that material will be received into evidence and
16 transcribed into the record.

17 [Designated Written Cross
18 Examination of Lawrence G. Buc was
19 received into evidence and
20 transcribed into the record.]

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22
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BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

Postal Rate and Fee Changes, 2000

Docket No. R2000-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION
OF CONTINUITY SHIPPERS ASSOCIATION
WITNESS LAWRENCE G. BUC
(CSA-T-1)

Party

United States Postal Service

Interrogatories

USPS/CSA-T1-1-38

Respectfully submitted,


Cyril J. Pittack
Acting Secretary

INTERROGATORY RESPONSES OF
CONTINUITY SHIPPERS ASSOCIATION
WITNESS LAWRENCE G. BUC (T-1)
DESIGNATED AS WRITTEN CROSS-EXAMINATION

<u>Interrogatory</u>	<u>Designating Parties</u>
USPS/CSA-T1-1	USPS
USPS/CSA-T1-2	USPS
USPS/CSA-T1-3	USPS
USPS/CSA-T1-4	USPS
USPS/CSA-T1-5	USPS
USPS/CSA-T1-6	USPS
USPS/CSA-T1-7	USPS
USPS/CSA-T1-8	USPS
USPS/CSA-T1-9	USPS
USPS/CSA-T1-10	USPS
USPS/CSA-T1-11	USPS
USPS/CSA-T1-12	USPS
USPS/CSA-T1-13	USPS
USPS/CSA-T1-14	USPS
USPS/CSA-T1-15	USPS
USPS/CSA-T1-16	USPS
USPS/CSA-T1-17	USPS
USPS/CSA-T1-18	USPS
USPS/CSA-T1-19	USPS
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USPS/CSA-T1-23	USPS
USPS/CSA-T1-24	USPS
USPS/CSA-T1-25	USPS
USPS/CSA-T1-26	USPS
USPS/CSA-T1-27	USPS
USPS/CSA-T1-28	USPS
USPS/CSA-T1-29	USPS
USPS/CSA-T1-30	USPS
USPS/CSA-T1-31	USPS
USPS/CSA-T1-32	USPS
USPS/CSA-T1-33	USPS

USPS/CSA-T1-34
USPS/CSA-T1-35
USPS/CSA-T1-36
USPS/CSA-T1-37
USPS/CSA-T1-38

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USPS/CSA-T1-1. Please provide all calculations used for your estimates of BPRS mail processing and transportation costs.

RESPONSE: See spreadsheet attached.

BPRS Weighted Average Mail Processing Modeled Cost	Proportional CRA Adjustment Factor	BPRS Weighted Average Mail Processing Modeled Cost (w/ Proportional CRA Adjustment)	Fixed CRA Adjustment for Special Standard	Ratio of BPRS Modeled Mail Processing Cost to Special Standard Modeled Mail Processing Cost
[1]	[2]	[3] = [1]*[2]	[4]	[5]
\$ 0.345	1.042	\$ 0.359	\$ 0.211	70%

[1] USPS-T-26, Attachment T at 1.

[2] USPS-T-26, Attachment P at 1.

[4] USPS-T-26, Attachment T at 1.

[5] Tr. 13/5204 (Eggleston).

[7] Tr. 13/5122 (Eggleston).

[8] USPS-T-26 at 35.

[9] CSA-T-1 at 5.

Inter-BMC BPRS Average Zone- Related Transportation Cost Differential	Percentage of BPRS Parcels that are Inter-BMC Parcels	Reduction in Unit BPRS Costs	Unit Transportation Cost Difference Between Intra-BMC and Inter-BMC Parcels	Eggleston Assumption of Percentage of BPRS Parcels that are Inter- BMC Parcels
[1]	[2]	[3] = [1]*[2]	[4]	[5]
\$ 0.031	91.9%	\$ 0.028	\$ 0.276	95.2%

[1] CSA-T-1, Attachment A, Table 3.

[2] CSA-T-1 at 5.

[4] Tr. 13/5122 (Eggleston).

[5] USPS-T-26 at 35.

[8] USPS-T-26 at 40.

BPRS Fixed CRA Adjustment [6] = [4]*[5]	Mall Processing Cost Difference Between Intra-BMC and Inter- BMC Parcels [7]	Eggleston Assumption of Percentage of BPRS Parcels that are Inter- BMC Parcels [8]	Percentage of BPRS Parcels that are Inter- BMC Parcels [9]
\$ 0.148	\$ 0.087	95.2%	91.9%

Cost Savings Differential Between Eggleston and CSA Estimate of Inter-BMC Percent [6] = ([4]*[5]) - ([4]*[2])	Total Transportation Unit Cost Savings [7] = [3]+[6]	USPS Transportation Unit Cost [8]	CSA Transportation Unit Cost [9] = [8]-[7]
\$ 0.009	\$ 0.038	\$ 0.423	\$ 0.385

Cost Savings Differential
Between Eggleston and
CSA Estimate of Inter-
BMC Percent

$$[10] = ([7] * [8]) - ([7] * [9])$$

\$ 0.003 \$

BPRS Unit Mail
Processing Cost

$$[11] = [3] + [6] - [10]$$

\$ 0.504

USPS/CSA-T1-2.

(a) Please list the actual members of the Continuity Shippers Association (CSA) Do not include participants at CSA events.

(b) How many CSA members use BPRS?

(c) How many BPRS users, whether CSA members or not, have you personally spoken to in preparing your testimony?

(d) Have you done any surveys of BPRS users concerning the areas covered in your testimony relating to BPRS users' experiences with the service and their business needs and operations regarding returned BPRS parcels? If so, please provide the results of such surveys.

(e) Please describe in general terms the products or merchandise (i.e. recorded music, books, cosmetics, etc.) distributed through the Postal Service by the BPRS users listed in part (a) of this interrogatory.

(f) Please describe in general terms the products or merchandise (i.e. recorded music, books, cosmetics, etc.) distributed through the Postal Service by BPRS users not listed in part (a) of this interrogatory.

(g) Please identify the class or classes of mail used to distribute the products or merchandise described in parts (e) and (f) of this interrogatory.

Response:

(a) The current voting members of the Continuity Shippers Association are Cosmetique, Inc. and International Masters Publishing.

(b) One CSA member uses BPRS.

(c) Three.

(d) I have not done any statistical surveys of BPRS users.

(e) Cosmetics.

(f) The products received under BPRS include collectible plates, panty hose, cigarette lighters, and other collectible items.

(g) My understanding are that these products are mailed out Standard A mail.

USPS/CSA-T1-3. Please refer to your testimony at pages 7-8 where you compare the cost coverages for Bound Printed Matter and Standard Mail (A) to the cost coverage for BPRS. Please also refer to your testimony at page 11, where you state that ECSI value does not apply to BPRS.

(a) Confirm that the Commission has applied consideration of ECSI value to the development of rate levels for Bound Printed Matter.

- (i) If you cannot confirm, please explain fully.
- (ii) If you do confirm, please explain fully how ECSI value should be applied to returned material in BPRS.

(b) Confirm that the Commission does not apply consideration of ECSI value to the development of rate levels for Standard Mail (A). If you cannot confirm, please explain fully.

Response:

- (a) Confirmed.
- (b) Confirmed.

USPS/CSA-T1-4. Please refer to your testimony at pages 7-8, where you state, "For other similar return services, the Postal Service is proposing much lower cost coverages. For Bound Printed Matter, the Postal Service is proposing a cost coverage of 117.6 percent."

(a) Please confirm that the Bound Printed Matter subclass consists of matter weighing at least 16 ounces, but not more than 15 pounds. If you do not confirm, please explain.

(b) Please identify the products or merchandise distributed through the Postal Service by BPRS users (as described in your response to USPS/CSA-T1-2(f) and (g)) that also qualify for the Bound Printed Matter subclass.

(c) Please confirm that mail matter qualifying for single piece Bound Printed Matter rates is not required to be machinable. If you do not confirm, please explain.

Response:

(a) Confirmed.

(b) None. By definition, BPRS cannot weigh 16 ounces and BPM much weight at least 16 ounces.

(c) Confirmed.

USPS/CSA-T1-5. Please refer to your testimony at page 7, where you state, "Factor 2, "value of service" looks at the inherent worth of the service provided to the sender and recipient."

(a) Please confirm that this factor also includes consideration of the economic value of the service provided to the sender and recipient. If you do not confirm, please explain.

(b) Please confirm that the economic value of service is often measured by the price elasticity of demand. If you do not confirm, please explain.

(c) Please confirm that, in general, a low elasticity of demand indicates a sender with a high value of service. If you do not confirm, please explain.

Response:

(a) Confirmed.

(b) Confirmed.

(c) Confirmed.

USPS/CSA-T1-6. Please confirm that your response below in Docket No. C99-4 regarding Mail Recovery Centers remains applicable to your testimony in this docket.:

Cosmetique prefers to receive returns directly without them going through the MRCs because it receives the returns sooner and there is less handling by the Postal Service. This enables Cosmetique to update customer accounts sooner. There is also a concern that merchandise may be auctioned or sold if it goes to a Mail Recovery Center.

Response:

Confirmed.

USPS/CSA-T1-7. Please reconcile your statement that: "There is no service standard for BPRS" at page 7 with your discussion on page 8 of the requirement that BPRS be endorsed as Standard Mail (A) in order to inform postal employees of the appropriate processing requirements. In doing so, please specifically address your understanding as to whether the service standard for Standard Mail (A) applies to returned BPRS parcels.

Response:

This is nothing to reconcile. The Postal Service admitted that there is no service standard for BPRS. However, the Postal Service employees need to know the processing priority for BPRS. The use of the Standard A designation on the labels informs Postal employees that they should give BPRS the same low priority as that received by Standard A. That does not mean that the Standard A service standard applies to BPRS.

USPS/CSA-T1-8. Do you have any data showing how the service performance of BPRS compares with that of the following?

- (a) Standard Mail (A)
 - (b) Bound Printed Matter
 - (c) Parcel Post
 - (d) non-BPRS returns of Standard Mail (A) parcels
- If so, please provide and explain fully.

Response:

(a) through (c) No.

(d) No. Further answering, under the current regulations, a non-BPRS return of Standard Mail (A) parcels would have to go either Express Mail or Priority Mail (assuming Special Standard B did not apply). This is so because of the elimination of the Standard A single piece rate in the R97-1 case. However, Cosmetique has not seen a difference in the service performance of BPRS versus the service performance of the Standard A single piece rate as applied to returns prior to the creation of BPRS.

USPS/CSA-T1-9. Do BPRS mailers receive BPRS returns together with, or segregated from, other classes of mail delivered to them by or picked up by them at the postal facility?

Response:

Returns are not segregated by class of mail, i.e. BPRS returns and customer paid returns are received commingled. However, the returns are segregated from other classes of mail, e.g. letter mail. All the mail is picked up or delivered at the same time.

USPS/CSA-T1-10. Please refer to your discussion of factor 5 at page 10 of your testimony.

(a) Confirm that private sector services exist whereby the shipment and return of BPRS mailers' merchandise could be effectuated.

(b) Please state why BPRS mailers do not avail themselves of private sector alternatives for shipment and/or return of their merchandise.

(c) Please explain what you mean by "economically realistic"?

(d) What would be the effect on BPRS mailers if, hypothetically, the Postal Service were to disappear from the face of the earth tomorrow and those mailers had to rely exclusively on private delivery firms?

Response:

(a) Confirmed.

(b) BPRS mailers use Standard A for the outgoing leg and BPRS for the return for both economic and non-economic reasons.

(c) By "economically realistic" I mean at a price that is fair.

(d) If the Postal Service were to disappear from the face of the earth tomorrow, it is not clear what the effect would be on BPRS mailers. Assuming that the disappearance was totally unforeseen, there would be short run chaos in all mail delivery markets. In the long, run, however, if markets were left to function freely, it is likely that total costs for processing and delivering the volume previously processed and delivered by USPS would decline

As a monopolist the Postal Service is inefficient. The costs would decline if the savings from the x-inefficiency of the monopolist were not overcome by cost increases resulting from losses of scale and scope.

Prices to individual mailers would depend on a variety of factors. Some would pay less than they currently do and others would pay more. Mailers on balance would pay less.

USPS/CSA-T1-11.

(a) What would be the reaction of BPRS mailers if the Postal Service proposed to eliminate BPRS?

(b) What would be the effect on BPRS mailers if, hypothetically, the Commission were to recommend and the Governors accept the elimination of BPRS, as well as elimination of the pound limit for all Package Services, leaving BPRS mailers with the choice of First-Class Mail/Priority Mail or Parcel Post (or Bound Printed Matter or Media Mail, if appropriate) for their returns?

Response:

(a) Although I can not speak for all BPRS mailers, I presume that mailers would not be pleased.

(b) I suspect the hypothetical situation you describe would effect BPRS mailers negatively from a financial perspective.

USPS/CSA-T1-12. Please refer to your testimony at pages 9-10, where you describe the additional costs to BPRS mailers of handling and/or re-introducing product into inventory. Please confirm that companies would not be re-introducing product into inventory were it not cost effective for them to do so. If you cannot confirm, please explain fully.

Response:

Confirmed.

USPS/CSA-T1-13. Please refer to your discussion of factor 6 on page 10.

- (a) Please define "bulk processing."
- (b) At what stages of processing is outgoing Standard Mail (A) handled in bulk?
- (c) At what point in the mailstream is Standard Mail (A) broken down and handled as single pieces?
- (d) At what stages of processing is BPRS handled in bulk and at what stages is it handle as single pieces?
- (e) Does any "bulk processing" of BPRS occur before it reaches the destination facility?
- (f) Are the levels of preparation required for Standard Mail (A) more or less stringent than the levels of preparation required for BPRS? For purposes of this question more stringent requirements are those which require relatively more work on the part of the mailer to qualify and less stringent requirements require relatively less work.

Response:

- (a) By bulk processing, I mean processing of other than individual pieces.
- (b) Assuming by "outgoing" you are referring to mail that is being sent out rather than a sort scheme, then outgoing mail is handled in bulk until bundles are broken either intentionally or unintentionally.
- (c) Standard A mail is handled as single pieces when bundles break on SPBS machines or in sack shakeouts.
- (d) BPRS is handled in bulk following the sort to firm.
- (e) It may depending upon the volume. For example, the DBMC may bulk transport to the DSCF, and the DSCF may bulk transport BPRS mail to the DDU.
- (f) Yes. However, BPRS is equivalent to plant load, basic sort Standard A.

USPS/CSA-T1-14. In your testimony at pages 8-9, you discuss and present statistics concerning Cosmetique's experience with the return of opened BPRS parcels.

(a) Please provide similar statistics or any qualitative information available on the same subject with respect to other BPRS mailers.

(b) Please provide your understanding or that of CSA as to why BPRS mailers requested or supported the change in the DMCS regarding opened parcels and return labels that resulted from Docket No. MC99-4.

Response:

(a) I have no additional information.

(b) Postal officials informed CSA that opened parcels created a very significant ambiguity in the processing of parcels. CSA supported the modification to remove the ambiguity and continue the Postal Service's return of opened parcels.

USPS/CSA-T1-15. Please refer to your testimony at pages 9-10 concerning the costs to companies of processing and restocking BPRS returns.

(a) Please confirm that processing and restocking costs associated with returned merchandise are not unique to parcels returned via BPRS, but are incurred regardless of the method of return.

(b) For the mailer cited in your testimony above that reports that each unit costs "about 30 percent more when reintroduced to inventory after being returned by the Postal Service than when taken directly from inventory for the first time," please confirm that this factor applies to any method of return and is not limited to BPRS returns.

Response:

(a) Confirmed.

(b) Confirmed.

USPS/CSA-T1-16. Do mailers find it economical to use BPRS service? If your answer is other than an unqualified yes, please explain fully.

Response:

Yes. It would be more economical if it were less expensive and better reflected the actual costs of the service.

USPS/CSA-T1-17. In Docket No. C99-4, you testified that "Cosmetique informed me that (on average) 20% of its products returned through the Postal Service lose their integrity."

(a) Does Cosmetique know the ratio of opened to unopened of parcels that lost their integrity? If so, please provide all available data.

(b) Do you have similar data or qualitative information from other BPRS mailers? If so, please provide all available data.

Response:

(a) No. Cosmetique and I believe that an opened return is more likely to lose its integrity than an unopened one. However, the creation of BPRS, both before and after the recent minor modification, has not impacted the loss of integrity percentages seen by Cosmetique.

(b) No.

USPS/CSA-T1-18. Please explain fully your understanding of which service might be more highly valued by a customer: (a) a service that allows a customer to return \$25 worth of unwanted merchandise and avoid being charged \$25 for merchandise she did not keep; or, (b) a service that provides her with \$25 worth of merchandise that she did not specifically order and may or may not want to keep. Please include in your answer a quantification of the relative value of each to the customer.

Response:

I do not believe that there is sufficient information provided to answer the question without making assumptions. If the merchandise is not worth \$25 to the customer but is worth a larger fraction of this amount, the service described in (a) has less value than if the merchandise is worth a smaller fraction of this amount. As the service described in (b) provides merchandise that has a higher probability of the customer wanting to keep it, it has a higher value.

USPS/CSA-T1-19. In Docket No. C99-4, you testified: "Cosmetique informed me that the Postal Service procedures in MRCs is to gather returns and mail them in one container on a frequency determined by the Postal Service. The Postal Service charges Cosmetique the Standard B rate for the entire container. For example, if a container holds 55 returns weighing 50 pounds, the BPRS fee would be \$96.25 (55 returns x \$1.75). The Postal Service charge for the 50 pounds from a MRC will not exceed \$34.49 (Standard B mail, zone 8)." Tr.1/36. Please explain why Cosmetique prefers to pay \$1.75 for a returned BPRS parcel weighing less than a pound when it can get returns through the MRC for a maximum of \$.69 per pound (\$34.49 / 50).

Response:

Please see my response to USPS/CSA-T1-1 in Docket No. C99-4 which stated:

Cosmetique informs me that it prefers to receive returns directly without them going through the MRCs because it receives the returns sooner and there is less handling by the Postal Service. This enables Cosmetique to update customer accounts sooner. There is also a concern that merchandise may be auctioned or sold if it goes to a Mail Recovery Center.

USPS/CSA-T1-20. At page 9 of your testimony you state that "the Postal Service has always returned the parcels if they were opened."

(a) Please define "always" as used here.

(b) You continue on page 9: "The current BPRS service only codified the Postal Service's pre-existing practice." Please confirm that before the change to which you refer which was codified as a result of Docket No. MC99-4, the Postal Service could unilaterally have changed its practice at any time.

(c) Please state your understanding of the whether the authorized procedure for a window clerk serving a customer with an opened BPRS parcel but no BPRS return label is to request payment of return postage.

Response:

(a) Cosmetique has received opened returns for at least 20 years.

(b) I do not think this was possible given the Postal Service's inability to have uniform practices under either the current or prior regimes.

(c) Yes, I understand this is so.

USPS/CSA-T1-21. Refer to your testimony on page 8, line 26-27.

(a) Does Cosmetique provide customers with return labels. If not, why not?

(b) Does Cosmetique enclose return instruction with its mailpieces? If not, why not?

(c) What business practices has Cosmetique implemented since the "recent minor modification" to inform their customers of this new service?

Response:

(a) Yes when requested, but not with the outbound parcel.

(b) No. Cosmetique's customers have shown the ability to return shipments they do not want to keep.

(c) None.

USPS/CSA-T1-22. At what rate of postage would an undeliverable-as-addressed 12-ounce Standard Mail (A) flat whose mailer requested return service be returned? At what rate of postage would an undeliverable-as-addressed 12-ounce Standard Mail (A) flat-shaped piece whose mailers requested return and forwarding service be returned?

Response:

At \$2.75, mailers are often advised not to use the first endorsement because it is so expensive. I am not aware that the second endorsement is ever used.

USPS/CSA-T1-23. Please refer to your discussion of factor 1 on page 7 of your testimony. Is it your position that an otherwise appropriate cost coverage should be mitigated in cases where the Postal Service's cost estimation techniques have been conservative, i.e., designed not to understate costs? If so, please provide any reference to past Commission Opinions in which this principle was applied or referred to.

Response

It is my position that cost estimates should be the best estimates possible rather than those prepared to avoid overestimating costs. If the Postal Service, however, chooses to estimate costs to avoid overestimating them rather than the best estimate possible, I believe the coverage should be adjusted to reflect the nature of the estimate. I have not found a Commission Decision which applied or refers to adjusting coverage in this manner.

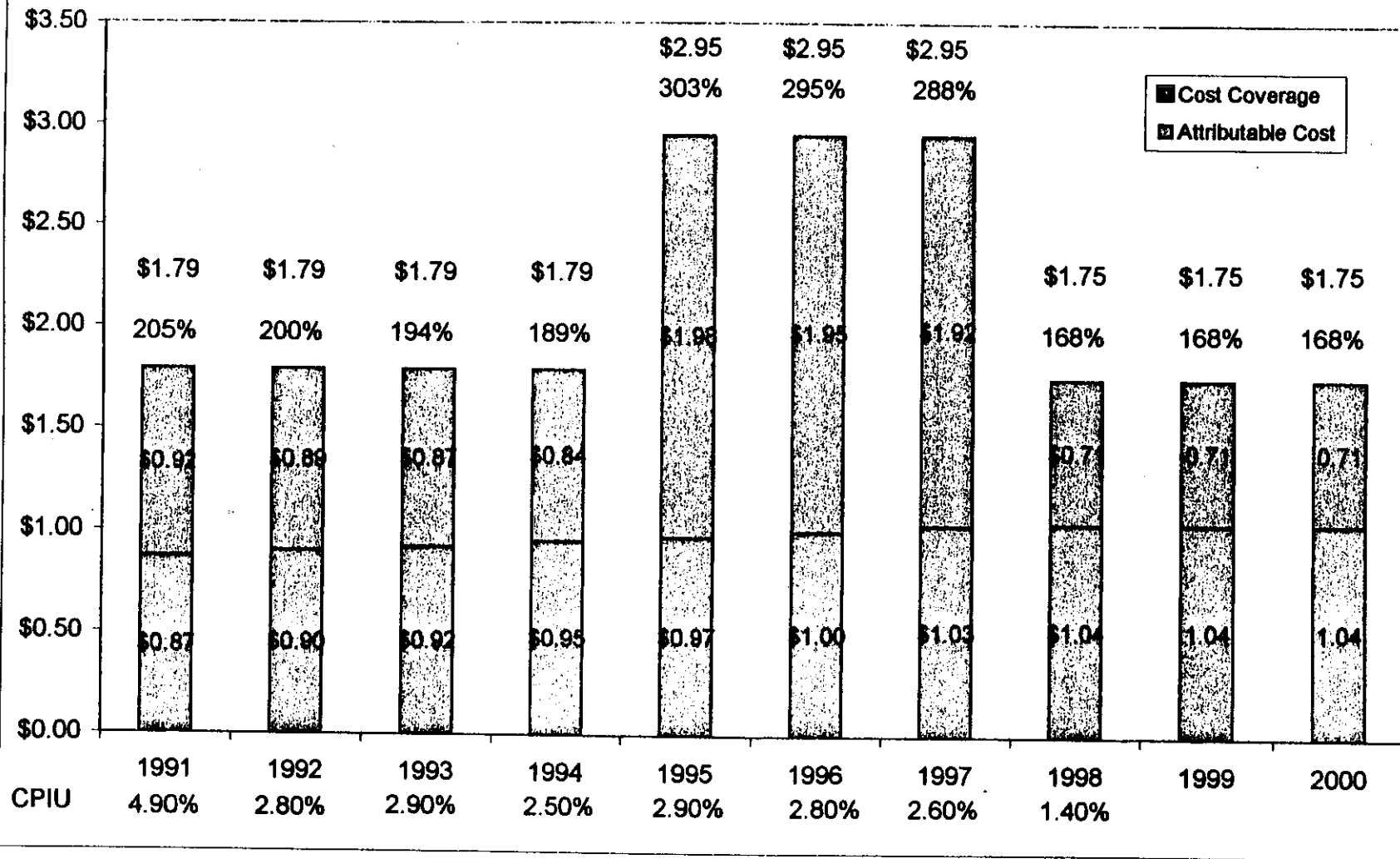
USPS/CSA-T1-24. Please refer to your discussion of factor 4 on page 10, and confirm that the introduction of the BPRS fee represented a significant decrease in the rates and/or fees paid by continuity mailers for the return of their returned parcels. If you cannot confirm, please explain fully. If you do confirm, please provide the magnitude of that increase.

Response:

In January 1995, the Third Class single piece rate (which applied to these returns prior to BPRS) increased by 165% in the higher weight limits. In October 1997, BPRS was created which represented a significant decrease in rates.

See also that attached chart which is based on the Postal Service's 1998 cost study for BPRS. The chart does not reflect the proposed changes to that cost study stated in my testimony.

STANDARD A SINGLE PIECE/BPRS (1991-2000)
RATE/ATTRIBUTABLE COSTS/COST COVERAGES



USPS/CSA-T1-25. Please refer to page 2, lines 12-20, of your testimony. Are box collection costs considered when a customer deposits the BPRS piece in a collection box or leaves for carrier pick-up?

Response:

I have not adjusted witness Eggleston's carrier collection costs.

USPS/CSA-T1-26. At page 8, lines 3-4, of your testimony, you state that "one-half of BPRS recipients pick up their BPRS returns."

- (a) How many BPRS mailers pick up their returns?
- (b) What percentage of BPRS pieces are picked up?
- (c) Do the mailers make a special trip to pick up the BPRS pieces or are they normally picking up other mail and parcels as well?
- (d) Do the mailers who pick up their BPRS pieces receive them more quickly than those who wait for Postal Service delivery?
- (e) Are the mailers offered the option of either picking up returns or having them delivered?
- (f) Are the pieces picked up on a regular basis, or does the Postal Service accumulate the pieces, and notify the mailers when they are expected to pick up their BPRS pieces?
Please confirm that if the Postal Service establishes, for example, a schedule to deliver BPRS returns to a mailer twice a week, the mailer has the option of picking up its parcels on the other days to expedite their redelivery.
- (g) Please confirm that if the Postal Service establishes, for example, a schedule to deliver BPRS returns to a mailer twice a week, the mailer has the option of picking up its parcels on the other days to expedite their redelivery.

Response:

- (a) I do not have data for all BPRS mailers. Based on the Postal Service 1998 cost study, there are four of the eight.
- (b) I do not know.
- (c) BPRS mailers normally pick up other mail and the BPRS returns at the same time.
- (d) It depends upon how frequently the Postal Service delivers the BPRS parcels.
- (e) I do not believe so.
- (f) My understanding is that depending upon volume, the Postal Service may accumulate BPRS returns.
- (g) I do not know. Moreover, there is no redelivery.

USPS/CSA-T1-27. Please confirm that the Merchandise Return Service per-piece fee is a fee paid in addition to the postage.

(a) Please confirm that the BPRS per-piece fee is not a fee that is paid in addition to the postage, but covers the costs ordinarily covered by postage.

Please refer to page 2 of your testimony. Please confirm that the statement you quoted from USPS-T-26 at 41 was an explanation of why a parcel bearing a Merchandise Return Label does not incur any additional costs over the costs included in the postage.

Response:

Confirmed.

(a) Confirmed, although the Postal Service is proposing to eliminate the additional fee for the Merchandise Return Service label.

(b) Confirmed. Further answering, the same justification and explanation for eliminating the additional fee for the Merchandise Return Service label applies to the BPRS label.

USPS/CSA-T1-28.

- (a) Please confirm that if an unopened parcel with the endorsement "return service requested" is taken to the window, it will not be weighed and rated by the window clerk.
- (b) Please confirm that if a parcel with a Merchandise Return Service label is taken to the window, it will not be weighed and rated by the window clerk.
- (c) Please confirm that if a parcel with a BPRS return label is taken to the window, it will not be weighed and rated by the window clerk.
- (d) Please confirm, that in FY98, parcels described in (a) and (b) above could theoretically have been single-piece Standard Mail A pieces.

Response:

- (a) Confirmed.
- (b) Confirmed.
- (c) If a parcel with a BPRS label obviously weighs over 16 ounces, it could be weighed and rated.
- (d) Confirmed.

USPS/CSA-T1-29. Please refer to USPS-T-26, Attachment S, page 1.

(a) Please confirm that the test-year wage rate for window clerks is \$29.67.

Please confirm that the test-year piggyback factor is 1.45.

Response:

(a) Confirmed.

(b) USPS-T-26, Attachment S, page 1 shows a piggyback factor for the base year of 1.45. I did not find a test year piggyback factor on that page.

USPS/CSA-T1-30. Please refer to LR-I-108, Input Sheet B-1.

(a) Please confirm that witness Postal Service witness Davis estimates the transaction time at the window by multiplying the base transaction time by an overhead time factor.

(b) Please refer to footnote 6 on that same page. Please confirm that a portion of the overhead factor is a waiting factor equal to 0.4277.

Response:

(a) Confirmed for Delivery Confirmation.

(b) Confirmed.

USPS/CSA-T1-31. Please refer to Docket No. R97-1, LR-H-167, page 55 (page 9 of the Transaction Time Study Training Manual).

(a) Please confirm that the definition of the "acceptance" transaction is "the clerk takes stamped/metered mail from the customer and enters it in the mailstream. This mail is assumed to carry sufficient postage."

(b) Please further confirm that under the definition of "acceptance," it states that if the window clerk verifies the postage or even picks up the mail piece to check the weight, the transaction activity is considered to be "weigh/rate," and not "acceptance."

Response:

(a) Confirmed.

(b) Confirmed.

USPS/CSA-T1-32. Please refer to Docket No. R97-1, LR-H-167, page 160, Table 3.1.

(a) Please confirm that according to that document that the mean time of an "acceptance" transaction is 22.65 seconds.

(b) Please confirm that with a wage rate of \$29.67, a piggyback factor of 1.45, and a waiting factor of 1.4277, the estimated cost of an "acceptance" transaction is approximately 38.6 cents ($\$29.67 * 1.45 * 22.65 / 3600 * 1.4277$).

(c) Please confirm that if the cost of accepting a BPRS parcel at the window is 38.6 cents, and if hypothetically all BPRS parcels are accepted over the window as a single-piece transaction, the estimated collection cost of 3.2 cents is underestimated by 35.4 cents.

Response:

(a) Confirmed.

(b) Confirmed.

(c) Confirmed that 38.6 cents minus 3.2 cents equals 35.4 cents.

USPS/CSA-T1-33. Do you have any mailer-specific origin-destination data for the one mailer who does not receive returns on a "national basis" whom you refer to at page 5 of your testimony. If the answer is yes, please provide any data you have.

Response:

No.

USPS/CSA-T1-34.

- (a) Please confirm that a mailer located in Jacksonville Florida that received returns *only* from Greensboro, North Carolina, could be described as a mailer who did not receive returns on a "national basis."
- (b) Please confirm that a parcel originating in Greensboro, North Carolina, and designating in Jacksonville, Florida, is an inter-BMC parcel.
- (c) Please provide all data you have to support your assumption that the one mailer who does not receive returns on a national basis, receives zero inter-BMC parcels.

Response:

- (a) Confirmed.
- (b) Confirmed.
- (c) Similar to the Postal Service's methodology, I made an assumption because I, like the Postal Service, do not have origin-destination data on this matter.

USPS/CSA-T1-35. Please refer to your Attachment A, Table 3, column 9. The sum of the percentages shown in column 9 total to 99, not 100. If this is due to rounding, please provide a table showing decimals.

Response:

See table attached.

Attachment A. Calculation of Unit BPRS Zone-Related Transportation Cost for Inter-BMC Parcels

Table 3. CSA Estimate

Zone	Zone Distribution [9]	Zone-Related Cost Per Cubic Foot Per Inter-BMC Leg [10]	BPRS	
			Weighted Zone-Related Cost per Cubic Foot Per Inter-BMC Leg	Weighted Zone-Related Cost per Inter-BMC BPRS Parcel
			[11]=[9]*[10]	[12]=.08*[11]
1 or 2	9.1%	\$0.4898	\$0.044	\$0.004
3	17.3%	\$1.0725	\$0.185	\$0.015
4	28.0%	\$1.9476	\$0.545	\$0.044
5	34.4%	\$3.5758	\$1.230	\$0.098
6	5.3%	\$5.2686	\$0.277	\$0.022
7	2.8%	\$6.8505	\$0.193	\$0.015
8	3.2%	\$10.1262	\$0.323	\$0.026
Total	100.0%	NA	\$2.797	\$0.224

[9] Average of Zone Distributions From Tables 1 and 2

[10] USPS-T-26, Attachment N at 1, Column [3]

[12] USPS-T-26, Attachment U at 1: Average BPRS Cube=.08

USPS/CSA-T1-36. Please refer to page 6, of your testimony, lines 15 through 16. Please confirm that the "91.9 figure" refers to your assumption that 91.9 percent of BPRS volume is inter-BMC parcels. If confirmed, please explain why in lines 19 through 23, you make another adjustment for your "91.9" assumption.

Response:

Confirmed. On lines 15 through 16, I was estimating the impact of the change in the zone distribution of inter-BMC parcels on the unit cost of all BPRS parcels. To determine the impact on the unit cost of all BPRS parcels, I multiplied the impact of my change on the unit cost of inter-BMC parcels by the proportion of BPRS parcels that are inter-BMC. On lines 18-23, I calculated the impact of the inter-BMC proportion on the unit cost of all BPRS parcels.

USPS/CSA-T1-37. Please explain in detail and show all calculations of how you use your calculations in Attachment A to adjust BPRS transportation costs.

Response:

Please refer to the attachment to my response to USPS/CSA-T1-1.

USPS/CSA-T1-38. Please describe the origin-destination specific information you have for BPRS mailers. Please explain the source of any data, and the methodology used to collect it.

Response:

I do not have any original-destination specific information for BPRS mailers.

1 CHAIRMAN GLEIMAN: Is there any Additional
2 Designated Written Cross Examination for Witness Buc?

3 [No response.]

4 CHAIRMAN GLEIMAN: If not, that brings us to --

5 MR. REITER: I'm sorry, Mr. Chairman, but you are
6 going fast today.

7 CHAIRMAN GLEIMAN: Not fast enough.

8 [Laughter.]

9 MR. REITER: I would like to designate the
10 witness's responses to Questions 39 through 41.

11 CROSS EXAMINATION

12 BY MR. REITER:

13 Q Mr. Buc, we are showing you copies of your answers
14 to those questions, and once you've had a minute to look at
15 them, I'll ask you, if you were to testify orally today,
16 would your answers be the same?

17 A Yes, they would be.

18 MR. REITER: Mr. Chairman, I ask that these
19 answers be entered into the record.

20 CHAIRMAN GLEIMAN: If we can impose upon Mr.
21 Tidwell to provide copies to the Court Reporter -- thank
22 you, Mr. Tidwell -- that material will be received into
23 evidence and transcribed into the record.

24 [Additional Designated Written
25 Cross Examination of Lawrence G.

1 Buc, USPS/CAS-T1-39 through 41, was
2 received into evidence and
3 transcribed into the record.]
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USPS/CSA-T1-39. On line 29, page 4 of your testimony, you state
Since costs in both types of "fixed" pools appear to
be affected by cube and weight, it is appropriate to
use a fixed CRA adjustment factor that is 70 percent
of the Special Standard fixed CRA adjustment factor.

- (a) Please explain what you were referring to as "both types."
- (b) For each of the fixed cost pools, please explain in detail how these cost pools will vary with weight and cube. Please quantify the relationships (how much will costs vary due to an "x" percent change in cube) and provide all evidence you have to support each quantification.

RESPONSE:

(a) By "both types," I mean cost pools for which Special Standard tallies appear anomalous and cost pools for which Special Standard tallies do not appear anomalous.

(b) Please see page 4 of my testimony.

USPS/CSA-T1-40.

- (a) Please confirm that BPRS enters the mailstream as single-piece parcels.
- (b) Please refer to USPS-T-26, Attachment T, pages 6 and 7. Please confirm that the costs at the origin AO are not modeled. If confirmed, please confirm that, all else equal, the greater the costs at the origin AO, the greater the fixed CRA adjustment factor. If not confirmed, please explain how costs at origin AOs are included the estimated costs and if costs at the origin AO have any impact on the fixed CRA adjustment factor.
- (d) Please refer to USPS-T-26, Attachment P, page 6, lines 1-3. Please confirm that 18.6 percent (17.8 percent + 0.8 percent) of Special Standard is entered in bulk.
- (e) Please refer to DMM § D602.2. Please confirm that bulk mail must be entered at business mail entry units (BMEU).
- (f) Please confirm that some BMEUs are located in SCFs and mailer's plants. If confirmed, please confirm that some bulk mail will avoid the destination AO. If not confirmed, please provide all evidence that all bulk mail will travel through the origin AO.
- (g) Please confirm that since 18.6 percent of Special Standard is entered in bulk, and 0.0 percent of BPRS is entered in bulk, that all else equal, BPRS would incur more costs at the origin AO.

RESPONSE:

- (a) Confirmed. It is also true that all BPRS parcels are machinable and delivered in bulk.
- (b) Confirmed. Confirmed.
- (c) No question.
- (d) Confirmed. It is also true that Special Standard mail outbound is delivered single piece.
- (e) Confirmed for bulk rate Standard Mail.
- (f) Confirmed. Confirmed.
- (g) Confirmed.

USPS/CSA-T1-41. Please refer to your response to USPS/CSA-T1-1. Please confirm that in your estimate of BPRS unit transportation costs, you rely on witness Eggleston's estimate of the transportation cost difference between inter-BMC and intra-BMC BPRS parcels (reference [4] in your response).

- (a) Please confirm that the estimate by witness Eggleston relies on witness Eggleston's assumption about the percentage of BPRS parcels in each zone.
- (b) Please confirm that you propose an alternative zone distribution, which leads to a lower inter-BMC BPRS transportation unit cost.
- (c) Please confirm that (b) would lead to a reduction in the cost difference between an inter-BMC BPRS parcel and an intra-BMC parcel.

RESPONSE:

- (a) Confirmed.
- (b) Confirmed.
- (c) Confirmed.

1 CHAIRMAN GLEIMAN: Is there any other Designated
2 Written Cross Examination?

3 [No response.]

4 CHAIRMAN GLEIMAN: If not, that brings us to oral
5 cross. One part, the Postal Service, has requested oral
6 cross examination.

7 Is there anyone else who wishes to cross examine
8 this witness?

9 [No response.]

10 CHAIRMAN GLEIMAN: There doesn't appear to be
11 anyone else. Mr. Reiter, take it away.

12 MR. REITER: Thank you, Mr. Chairman.

13 BY MR. REITER [Resuming]:

14 Q Hello again, Mr. Buc.

15 A Good morning again, Mr. Reiter.

16 Q Would you look at your answer to our Question 9,
17 please?

18 A I've got it.

19 Q We asked you whether BPRS mailers received their
20 BPRS returns together with or segregated from other classes
21 of mail that are delivered to them or picked up by them.

22 You said, on the one hand, that returns are not
23 segregated by class of mail, i.e., BPRS returns are
24 received, commingled with customer-paid returns.

25 But then you said that the returns are segregated

1 from other classes of mail, e.g., letter mail, and I'm not
2 clear on the distinction you were making.

3 Do you know, for instance, whether BPRS returns
4 are commingled with other parcel mail?

5 A At least in the case of Cosmetique, the returns
6 all come together in the same -- whatever it's in -- Gaylord
7 Postalpak, and the Postal Service also brings out their
8 other mail and their other mail is in other containers.

9 Q So it is separated, the BPRS, from any other
10 parcels that they are receiving that day?

11 A Well, the customer returns and the BPRS are
12 commingled.

13 Q But they're not commingled with any other mail
14 that Cosmetique might be receiving that day?

15 A Usually the returns come together, and the other
16 stuff is in another place.

17 Q Including parcels, other parcels?

18 A I'm not sure.

19 Q You're not sure?

20 A Not sure.

21 Q Okay, thank you.

22 Would you look at your answer to Question 10, Part
23 C, please?

24 A 10(c)?

25 Q Yes.

1 A I've got it.

2 Q We asked you what you meant by economically
3 realistic, and you said at a price that is fair.

4 Would it also mean a price that's affordable?

5 A You could add that.

6 Q So, if there were two choices, paying a dollar
7 apiece from one provider, and five dollars apiece from
8 another one, is it possible that only that one dollar could
9 be economically realistic, if, at five dollars apiece, the
10 business would not find it possible to continue doing
11 business in the same way that they had?

12 Would that be a factor in what's economically
13 realistic, as you used it?

14 A Yes, mailers certainly consider what the effect on
15 their business is.

16 Q And you did say that there were no economically
17 realistic alternatives to BPRS?

18 A I believe I did say that.

19 Q Would you look at your response to Part D there?

20 A I've got it.

21 Q Is UPS an inefficient parcel delivery service?

22 A I've never studied UPS in enormous detail. I
23 would suspect that the forces of the marketplace make them
24 reasonably efficient.

25 Q Why doesn't Cosmetique use UPS for their

1 deliveries and returns?

2 A I think their rates are higher than they are for
3 the Postal Service.

4 Q So there's no monopoly on parcels?

5 A There's not a monopoly on parcels, however, it may
6 be that there are things that let you have much lower rates
7 in parcels than you would otherwise, other economies of
8 scope. I'll leave it at that for now.

9 Q Do you know, particularly with respect to Standard
10 A parcels, what allows the Postal Service to have much lower
11 rates than UPS?

12 A I haven't studied that in detail.

13 Q Have you studied it at all?

14 A I've thought about.

15 Q And what's your opinion on that?

16 A My opinion that there are some returns to scope,
17 there are some returns to scale, and I believe that's
18 probably most of what's going on.

19 Q The fact that the rates charged for Standard A
20 parcels have been found by the Commission not to fully
21 recover their costs; is that a factor?

22 A I'm not sure. Obviously, it should be part of a
23 factor. I mean, if things are being priced less, you're
24 probably going to sell more of it.

25 Q So when I asked you what would happen to BPRS

1 mailers if the Postal Service disappeared, you talked about
2 the Postal Service being an inefficient monopolist, which I
3 think we just agreed isn't really necessarily relevant here,
4 or if it is relevant, it's because we're an efficient
5 monopolist, or the monopoly gives us advantages, I think you
6 said.

7 But what would happen, actually happen to BPRS
8 mailers; what alternative would they be left with for
9 shipping out their outgoing parcels and getting their
10 returns back?

11 A I guess they'd be left with the alternatives that
12 are currently in the marketplace.

13 Q And those alternatives, how to the prices compare
14 to those charged by the Postal Service for either outgoing
15 or return parcels?

16 A Given the fact that many mailers use the Postal
17 Service, one would have to conclude that their prices are
18 less expensive.

19 Q Actually, I believe you testified to that effect
20 either in this case or the complaint case, is that not
21 correct?

22 A I believe that's true.

23 Q Would you look at your response to Question 13,
24 please?

25 A I have got it.

1 Q I thought your answer was very clever, and I would
2 like to clarify some of it if I could.

3 When we asked you what stages of processing
4 outgoing Standard Mail A was handled in bulk, you said that
5 it was handled in bulk until pieces were broken either
6 intentionally or unintentionally.

7 I would like to focus with you on the intentional
8 breaking and ask you at what point in the processing stream
9 that normally happens.

10 A If it is bulk mail, it depends on which -- where
11 it is going to, but usually it is not broken until it gets
12 to an incoming operation.

13 Q At a destination facility.

14 A At a destination facility, that is correct.

15 Q So from the time it is entered until it reaches
16 the destination facility it is handled in bulk? Is that
17 correct?

18 A Yes.

19 Q In response to part (d) where we asked you at what
20 stages of processing is BPRS handled in bulk and in what
21 stages is it handled in single piece you said it is handled
22 in bulk following the sort to firm.

23 Could you be more specific about where in the mail
24 stream that happens?

25 A It is most likely going to be in in an incoming

1 secondary.

2 Q At the destination facility?

3 A At the destination facility.

4 Q So from the time the parcel is returned to the
5 mail stream by the customer until it gets to the destination
6 facility it is handled as a single piece item, is that
7 correct?

8 A That's correct.

9 Q In part (e), we ask does any bulk processing occur
10 before the BPRS parcel reaches the destination facility, and
11 you said it may, depending on the volume, and then you gave
12 an example. Just to clarify, the example you gave, however,
13 all refers to destination facilities, does it not?

14 A Yes, it does. Yes.

15 Q So, there is, again, no bulk processing of BPRS
16 before it reaches a destination facility, do you agree with
17 that?

18 A I do.

19 Q In part (f) you said that BPRS is equivalent to
20 plant load basic sort Standard A. Doesn't basic sort
21 Standard A have to be presorted to some degree?

22 A Well, if you can -- you can have Standard A if you
23 have 50 pounds or 200 pieces, that would qualify for a
24 mailing. And so my presumption is that a 200 piece mailing
25 wouldn't be presorted to much, it would be mixed ADCs.

1 Q But it still has to be presorted to some degree?

2 A If you call mixed ADCs a presort, that's correct.

3 Q Whereas, BPRS returns are not sorted at all until
4 the destination?

5 A That's correct.

6 Q Would you look at your response to Question 14,
7 please?

8 A I have got it.

9 Q In reference to the recent modification to BPRS
10 service, your answer seems to imply that the genesis of that
11 change was the Postal Service and that it was informing BPRS
12 mailers that there were certain problems, is that your
13 understanding?

14 A Well, I am sure the BPRS mailers like this idea
15 also.

16 Q Do you know whether any of them actually requested
17 the change?

18 A I don't know.

19 Q So, you are not aware whether a BPRS mailer may
20 have wanted to make it easier for their customers to return
21 parcels that they weren't satisfied with and asked us if we
22 could find some way that they could use a return label and
23 still pay the BPRS return fee?

24 A It sounds plausible, but I am not sure of how the
25 scenario developed.

1 Q Okay. So you don't have any specific knowledge
2 about the genesis or the reasons for that enhancement?

3 A That's right.

4 Q Your answer to Number 16, where we asked you
5 whether mailers found it economical to use BPRS service, you
6 said it would be more economical if it were less expensive,
7 which I suppose is nice for them. But I was more focusing
8 on -- wanted to focus on how it compares to other
9 alternatives. How would you characterize that, the
10 affordability?

11 A Other alternatives are more expensive.

12 Q Okay. Please look at your response to Question
13 20(b), please.

14 A I have got it.

15 Q If, indeed, at some point the Postal Service had
16 decided that it could no longer tolerate the situation where
17 people were putting -- before the recent BPRS change, that
18 customers were returned open parcels without paying postage,
19 do you doubt that the Postal Service could have put out a
20 directive to say that, henceforth, those will not be
21 accepted in the mailstream, they will be returned to the
22 customer? Now, I am not suggesting that we get 101 percent
23 compliance, but you seem to dispute that that could have
24 been done if the Postal Service had made that determination.

25 A I think they could have put out the directive.

1 What sort of compliance they could have gotten in the
2 implementation is a different issue.

3 Q Don't you think that carrier supervisors could
4 have been told that carriers will not bring these back and
5 they will not be entered into the mailstream?

6 A Let me make this clear, if the Postal Service had
7 decided to spent 5 percent of its budget on enforcing this,
8 I think they could have done a pretty good job of enforcing
9 this. If they had spent 1 percent, if they had spent a
10 tenth of a percent, they could have done a pretty good job
11 of enforcing it. But given the problems that this presented
12 the Postal Service, it is not clear that they really could
13 have gotten local implementation without an enormous effort.

14 Q But those are rather large numbers you just cited,
15 you know? Having been the revenue requirement witness for
16 some other parties. Presumably, it would not have risen to
17 that level, would it?

18 A No, of course not. But they would have had to
19 have spent an enormous amount of money to get this sort of
20 compliance, probably far more than what it was worth to
21 them, given that it was a problem for the local people.

22 Q Would the expense have been in getting the
23 compliance or in actually carrying it out, if you could
24 distinguish those two?

25 A It is fairly easy to write the memo. I think it

1 would be fairly inexpensive to write the memo. Actually
2 enforcing the provisions would probably be moderately
3 expensive.

4 Q What I am not clear about is when you say
5 enforcement, do you mean as a result of that policy there
6 would have been additional costs for the Postal Service?

7 A If they had enforced it, there probably would have
8 been enforcement costs, I think that is the point that I am
9 making.

10 Q Of what nature?

11 A Well, you, yourself, suggested that couldn't you
12 have the supervisors of the carriers check on this, and I
13 said, of course, you could. But that would mean that the
14 carrier, the supervisors was not checking on other things,
15 and there is a cost to that.

16 Q Presumably the carrier supervisors check on a lot
17 of things, don't they?

18 A Presumably.

19 Q So this would just be one more?

20 A One more thing.

21 Q Have you looked at, in studying some Cosmetique
22 statistics, what the percentage of returns that the company
23 pays for are versus that the customer pays for? You
24 indicated in your response to 21 that Cosmetique's customers
25 have shown the ability to return shipments they don't want

1 to keep. Let me first ask you, one of the ways they do that
2 is taking the parcel, let's say, to the Post Office and
3 saying I want to return this, and they will pay the postage,
4 is that right?

5 A That's correct.

6 Q Do you know what percentage of the time that
7 happens?

8 A I believe that about 10 percent of the returns are
9 BPRS, and 2 percent of the returns are customer paid, I
10 believe that is right.

11 Q I'm sorry, could you say those again?

12 A I said I believe that about -- actually, that is
13 not quite right. The ratio is about 5 to 1, that five
14 returns are BPRS for every return that is customer paid.

15 Q And it is certainly to Cosmetique's advantage, or
16 any mailer's advantage to have the customer pay for the
17 return, isn't it?

18 A Well, I think that depends on your business model
19 and how you think about the whole world. Some people pay
20 for the returns themselves, so it can't be to the advantage
21 of every mailer to have the customer pay for the return.

22 Q What about Cosmetique?

23 A Cosmetique does it the way it does it, I would
24 presume, because they find it to their advantage.

25 Q But for every customer that pays for the return,

1 they don't have to pay the BPRS fee, or whatever the
2 applicable fee may have been in the past, isn't that right?

3 A That's correct.

4 Q So, in that sense, it is advantageous every time
5 their customer themselves pays for a return?

6 A That's correct.

7 Q Do you think that might be a rational reason for
8 not giving customers particular instructions about returns
9 which you indicated Cosmetique doesn't do?

10 A I am sure that Cosmetique has made a decision
11 based on a whole host of factors as to whether or not they
12 are going to provide the return postage, as other people
13 address that same issue, and Cosmetique has come out in one
14 place and other mailers come out in another place.

15 Q If Cosmetique had informed its customers that they
16 could easily return open packages as a result of recent
17 changes in the DMCS, do you think that might have changed
18 the ratio of opened to unopened returns which you testified
19 hadn't changed?

20 A I am not really sure.

21 Q You don't think if the company told its customers
22 that you can return this at no charge to you that would have
23 virtually eliminated customers paying postage, the ratio you
24 indicated earlier, 5 to 1, 1 to 5?

25 A I didn't hear that to be your question, I'm sorry.

1 Q If Cosmetique had informed its customers of the
2 fact that they could open a package, put it back in the mail
3 without paying any postage, would that not have
4 significantly reduced if not eliminated customers paying
5 postage, which you earlier indicated was about, I think, 20
6 percent of their returns?

7 A I am not sure how significant you want this to be
8 "significantly".

9 I think it would have reduced it.

10 Q I wasn't asking you to quantify it, but logically
11 it would have reduced it or very nearly eliminated it,
12 wouldn't it?

13 A Logically it would reduce it.

14 Q And why would it not almost eliminate it?

15 A Well, because I don't really know what the demand
16 curve looks like for this thing.

17 If you lower the price, there's going to be more
18 of it, but I don't know how much.

19 Q For what thing? What is the thing you are
20 referring to?

21 A Well, I believe the thing is for opened returns.

22 Q I am not suggesting a return in the number of
23 total returns, just opened returns.

24 A I understand.

25 Q Okay. Would you look at your response to Question

1 28(c), please?

2 A I have got it.

3 Q There you said that if a parcel with a BPRS label
4 obviously weighed over 16 ounces it could be weighed and
5 rated at the counter. If it weighed over 16 ounces, it
6 wouldn't be a BPRS parcel, would it?

7 A That's correct, but it could be over 16 ounces and
8 have a BPRS label on it. That was the point I was trying to
9 make.

10 Q Right, but it wouldn't be a BPRS parcel.

11 A That's correct.

12 Q In response to Question 26 you said that you
13 didn't believe that mailers had the option of picking up or
14 having delivered their BPRS returns, is that right?

15 A That's correct.

16 Q Would you tell me what inquiries you made to
17 determine that?

18 A Well, I actually somewhere have here Witness
19 Mayo's testimony that says that. Let me see if I can find
20 it.

21 I can read it to you, if you would like?

22 Q Sure.

23 A Okay. We have got page 16, where Witness Mayo
24 says, "In any event, the Postal Service makes the
25 determination of how often the bulk parcels are delivered or

1 how often the mailer may pick up the bulk parcels."

2 Q And on that basis you conclude that the mailer has
3 no say in whether it is delivered or picked up?

4 A I am sure that the way this works in the real
5 world is that most often it's probably a collaborative
6 effort, that the mailer and the postmaster have a nice
7 conversation and come to some decision that is in the mutual
8 benefit of both of them.

9 Q Fair enough. Going back to alternatives for a
10 minute, have you looked at quantitatively how much more
11 expensive the current alternatives for Cosmetique and other
12 BPRS mailers are in terms of the prices they would have to
13 pay to ship out their parcels or to have them returned?

14 A I don't have those numbers right at hand. I know
15 that they are more expensive.

16 Q You have looked at them before though?

17 A I have looked -- I haven't made an exhaustive
18 study. I think that I have talked with my client about what
19 it would cost for UPS.

20 Q Do you have a recollection of the order of
21 magnitude that the change would be?

22 A I seem to remember that it is \$2 more, \$3 more,
23 somewhere in that order of magnitude but that is --

24 Q Two or three dollars more than \$1.75?

25 A That is what I seem to remember, but I could be

1 wrong.

2 Q I am not going to hold you to the exact number.

3 A Okay.

4 MR. REITER: Thank you. That is all I have, Mr.
5 Chairman.

6 CHAIRMAN GLEIMAN: Is there any follow-up?

7 [No response.]

8 CHAIRMAN GLEIMAN: Cross examination from the
9 bench?

10 [No response.]

11 CHAIRMAN GLEIMAN: Would you like some time for
12 redirect?

13 MR. HOROWITZ: If I may have one moment with my
14 witness?

15 CHAIRMAN GLEIMAN: Sure.

16 [Pause.]

17 MR. HOROWITZ: Mr. Chairman, we have no redirect.

18 CHAIRMAN GLEIMAN: If you have no redirect, Mr.
19 Buc, that completes your testimony here today.

20 We appreciate your appearance yet again, and your
21 contributions to the record. We thank you, and you are
22 excused.

23 [Witness excused.]

24 CHAIRMAN GLEIMAN: Our next witness will be OCA
25 Witness Willette.

1 [Pause.]

2 CHAIRMAN GLEIMAN: Counsel, would you introduce
3 your witness, please?

4 MS. DREIFUSS: Yes, the OCA calls Gail Willette to
5 the stand.

6 CHAIRMAN GLEIMAN: Ms. Willette, if I could please
7 ask you to stand and raise your right hand.
8 Whereupon,

9 GAIL WILLETTE,
10 a witness, was called for examination by counsel for the
11 Office of the Consumer Advocate and, having been first duly
12 sworn, was examined and testified as follows:

13 CHAIRMAN GLEIMAN: Please be seated.

14 DIRECT EXAMINATION

15 BY MS. DREIFUSS:

16 Q Could you state your name for the record, please?

17 A Gail Willette.

18 Q Do you have before you two copies of a document
19 captioned Direct Testimony of Gail Willette, OCA-T-7?

20 A Yes, I do.

21 Q Was this document prepared by you or under your
22 direct supervision?

23 A Yes, it was.

24 Q Do you adopt this as your testimony today?

25 A Yes.

1 MS. DREIFUSS: Mr. Chairman, I ask that this
2 testimony be received into evidence and transcribed into the
3 record.

4 CHAIRMAN GLEIMAN: Is there an objection?

5 Hearing none, I will direct counsel to provide the
6 court reporter with two copies of the direct testimony of
7 Witness Willette. That testimony will be transcribed into
8 the record and received into evidence.

9 [Direct Testimony of Gail Willette,
10 OCA-T-7, was received into evidence
11 and transcribed into the record.]
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OCA-T-7
Docket No. R2000-1

DIRECT TESTIMONY
OF
GAIL WILLETTE
ON BEHALF OF
THE OFFICE OF THE CONSUMER ADVOCATE

MAY 22, 2000

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APPENDIX A

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

Postal Rate and Fee Changes, 2000)

Docket No. R2000-1

DIRECT TESTIMONY
OF
GAIL WILLETTE

1 I. STATEMENT OF QUALIFICATIONS

2 My name is Gail Willette. I have been employed by Office of the Consumer
3 Advocate (OCA) since May 1980. I served as Director of the OCA from March 1995 to
4 February 1999. I have testified before this Commission on numerous occasions,
5 beginning with Docket No. R80-1. My testimony in that proceeding concerned the
6 application of peak-load costing methodology to mail processing. In Docket No. R90-1,
7 I presented testimony quantifying the cost avoidance estimates for two proposed First-
8 Class rate categories, Courtesy Envelope Mail ("CEM") and Automation Compatible
9 Envelopes. My testimony in Docket No. MC91-1 concerned the attributable cost
10 difference between prebarcoded flats and nonprebarcoded flats. In Docket No. MC93-
11 1, I presented an analysis of the parcel market. As an adjunct to that testimony, I co-
12 authored a paper entitled "Regulation of Unregulated Firms: The Postal Service and
13 UPS," which was presented at the Workshop in Postal and Delivery Economics, in
14 Hakone, Japan, in June 1994. In Docket No. R94-1, I recommended cost coverages
15 for classes of mail. And in Docket No. MC95-1, I presented an analysis of the costs of

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1 First-Class CEM. My testimony in Docket No. R97-1 was a proposal for the adoption of
2 CEM.

3 I am an Economist. In 1971, I received a BA degree from the University of
4 Texas at Austin. In 1978, I obtained an MS degree from the University of Rhode Island,
5 where I specialized in resource economics. My course work included the areas of
6 micro-economic theory, econometrics, operations research, computer science, and
7 statistics.

8 From 1979 to 1980, I was employed by the U.S. Department of Agriculture in the
9 Natural Resource Economics Division. My work included the analysis of economic
10 impacts on agriculture associated with the regulation of chemical pesticides. In this
11 capacity, I presented an invited talk entitled "Costs of Pesticides in Agricultural
12 Production" at the 1980 annual meeting of the American Association for the
13 Advancement of Science.

14 From 1978 to 1979, I worked for the U.S. Department of Commerce, National
15 Oceanic and Atmospheric Administration. My work included the analysis of economic
16 impacts resulting from the regulation of U.S. Territorial Fisheries. In this capacity, I co-
17 authored a paper entitled "Bioeconomic Simulation of the Atlantic Sea Scallop Fishery,"
18 which was presented at the NATO Symposium on Applied Operations Research in
19 Fishing in 1979.

1 II. PURPOSE AND SCOPE OF TESTIMONY

2 The purpose of this testimony is to propose again the adoption of Courtesy
3 Envelope Mail ("CEM"). CEM consists of preprinted, self-addressed business
4 envelopes provided by mailers as a courtesy to their customers.¹ In order to qualify for
5 the CEM rate, CEM mail must: bear a facing identification mark; bear a proper barcode;
6 bear a proper ZIP code; bear indicia signifying that the piece is eligible for the discount;
7 meet automation compatibility standards as prescribed by the Postal Service; and be
8 preapproved by the Postal Service. CEM would receive the same discount proposed
9 by the Postal Service for Qualified Business Reply Mail ("QBRM"). No fees would be
10 associated with CEM.

¹ This is a proposal to establish CEM as a rate category within the existing First-Class letters subclass; the proposal does not extend to cards.

1 III. HISTORY OF CEM INITIATIVES

2 A summary of the history of CEM proposals is included as Appendix A. The
3 material in Appendix A provides background and a context for the CEM proposal. This
4 material was also included with my Docket No. R97-1 testimony. In Docket No. R97-1,
5 the Commission again recommended CEM as a shell classification. The Commission
6 stated that its recommendations were "based primarily on the Commission's agreement
7 with and support of the Service's interest in expanding the availability of benefits from
8 prebarcoding savings."² The Postal Service Governors again rejected CEM, stating in
9 part "the substantial questions raised on the record regarding discrete rate treatment for
10 prebarcoded CEM lead us to reject the recommended classification change."³

² PRC Op. R97-1 ¶5169.

³ Decision of the Governors of the United States Postal Service on the Recommended Decision of the Postal Rate Commission on Prepaid Reply Mail and Courtesy Envelope Mail, Docket No. R97-1 at 5.

1 IV. COURTESY ENVELOPE MAIL PROPOSAL

2 A. Why the Postal Service Needs CEM

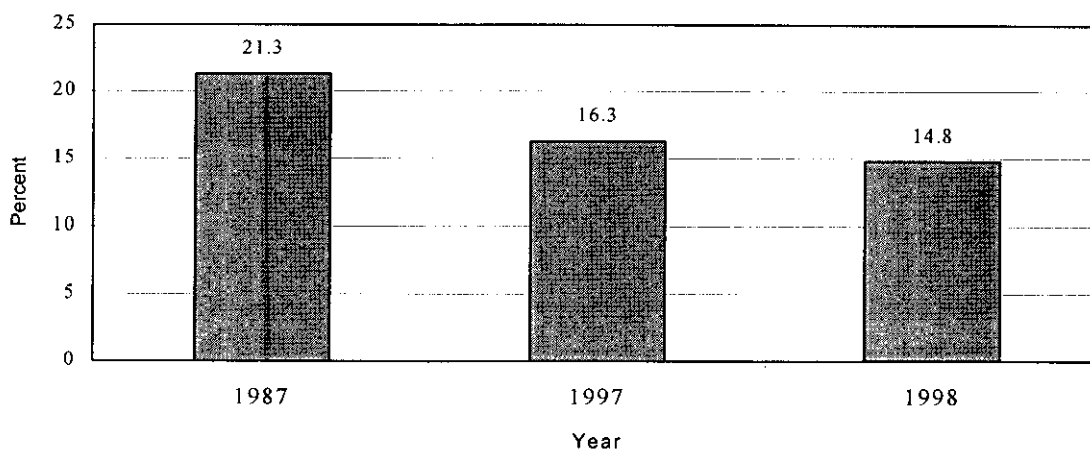
3 The diversion of transactions mail to electronic media has been a concern of the
4 Postal Service for some time. Postmaster General Henderson has testified that the
5 decline in transactions mail coupled with competitive pressures can put \$17 billion in
6 First-Class Mail revenue at risk.⁴ Although no elasticity for First-Class Mail was used in
7 the study cited by Postmaster General Henderson, recent data indicates that between
8 1987 and 1998 virtually no growth in First-Class Mail occurred in the household sector.⁵
9 In addition, the Postal Service has postulated that there may be a greater response to
10 price in single-piece First-Class Mail generated by households than had been
11 previously observed.⁶

12 Figure 1 shows the decline in household mail's share of total First-Class Mail. In
13 1987 household-generated mail made up 21.3 percent of total First-Class Mail. By
14 1998, however, only 14.8 percent of First-Class Mail was generated by households.

⁴ Assumes diversion of 18.3 percent of the 1997 First-Class volume. Docket No. R2000-1. USPS-LR-I-179.

⁵ See Postal Service response to OCA/USPS-1.

⁶ Docket No. MC2000-2, Reply Brief of the United States Postal Service at 35.

Figure 1: Household Share Of First-Class Mail

1 This mail is being diverted to other media or leaving the mailstream for other
2 reasons. The focus of the Postal Service in attempting to retain transactions mail
3 appears to be better service.⁷ While service clearly is important, it does not appear to
4 be the solution to stemming the decline in household use of mail.

5 CEM provides an opportunity to slow the diversion of mail by providing
6 consumers with a lower cost alternative for bill payments. Each piece of household-
7 generated mail provides a needed \$0.18 contribution to defray Postal Service
8 institutional costs.⁸ In addition, each CEM piece generates cost savings at least equal
9 to those of a QBRM mailpiece.

⁷ Reisner, Bob, *Understanding the Business Environment*, Leadership, Vol. 1, No. 3, Sept. 1999, page 4.

⁸ Response of USPS to OCA/USPS-121.

1 It has recently been pointed out that consumers are willing to interact with
2 government using information technology if there is a cost savings associated with that
3 use. This seems to happen even if consumers are unfamiliar with the technology.⁹

4 The Postal Service enjoys a reputation for processing, transporting and
5 delivering mail in a secure environment. Consumers who may be concerned about the
6 security of electronic bill payments, or who are otherwise undecided about electronic bill
7 payment, could be induced to choose First-Class Mail if a discount is offered. The
8 resulting opportunity for the Postal Service to further build good will with its customers
9 can be valuable and dovetail nicely with new services such as eBillPay. The Postal
10 Service can position itself to continue to be the bill payment medium of choice even
11 when customers switch to electronic forms of payment.

12 Still another reason for supporting CEM is the direct benefit which would accrue
13 to individual and small business mailers from the Postal Service's advances in
14 automation. CEM is fair and sends a message to small-volume mailers that their
15 business is as important to the Postal Service as that of large-volume mailers. Since
16 underpayment of postage does not appear to be a problem, there is little financial risk
17 associated with CEM.¹⁰

18 CEM is less complicated to administer than a program in which creditors and
19 other business correspondents provide postage paid envelopes for customers.

⁹ Robert D. Atkinson and Jacob Ulevich, *Digital Government: The Next Step to Reengineering the Federal Government*, Progressive Policy Institute, March, 2000, page 11, and 25, note 7.

¹⁰ The over paid revenue is greater than short paid revenue by \$204.6 million. See response of USPS to OCA/USPS-69 (Revised 4/7/2000).

1 Administrative costs and difficulty recouping the postage costs prompted many large
2 mailers to oppose Prepaid Reply Mail ("PRM") in Docket No. R97-1. CEM is a simpler
3 and more straightforward product, but still puts the Postal Service in control of its
4 automation compatibility and thus its low cost features.

5 B. Definition of the Proposed Classification

6 The definition of CEM remains the same as its Docket No. R97-1 delineation. In
7 that docket CEM was defined as follows.

8 CEM would employ a Postal Service preapproved reply envelope. CEM
9 would be preprinted, bear an appropriate ZIP Code and corresponding
10 barcode, a FIM marking as designated by the Postal Service, and an
11 indicia identifying the mail piece as qualified for the CEM discount. The
12 upper right hand corner of the mail piece would bear a postage affixation
13 block informing consumers that a First-Class discount stamp may be
14 used.¹¹

15 C. The CEM Rate

16 I propose that the CEM rate be the same as rate approved for QBRM. The cost
17 study sponsored by Postal Service witness Campbell for QBRM, showing a cost
18 avoidance of 3.38 cents for QBRM letters, is applicable to CEM.¹² I support the
19 Campbell testimony in this regard, and also support the decision of Postal Service
20 witness Fronk to pass through 3 cents of the cost avoidance.¹³ Under the Postal
21 Service request, QBRM postage would be 31 cents, three cents lower than the single-

¹¹ Docket No. R97-1, OCA-T-400 at 5.

¹² USPS-T-29 at 40.

¹³ USPS-T-33 at 22. Not passing through the full amount of the estimated cost savings is consistent with past practice involving new discounts, and provides a hedge against the product attracting more volume than anticipated.

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1 piece rate of 34 cents. In the event the Commission recommends no change in the
2 single-piece First Class rate, the CEM (and QBRM) rate would be 30 cents.

3 It was demonstrated in Docket No. R97-1 that the cost avoidance of courtesy
4 reply mail ("CRM")¹⁴ and QBRM letters is the same. This continues to be the case
5 today. Other than the accounting function for QBRM, the processing of these two mail
6 types is identical.¹⁵ Further, CRM envelopes will be transformed into CEM mail with
7 only one minor alteration – the addition of a CEM indicator on the envelope informing
8 consumers that they may use a discounted CEM stamp.

9 The Postal Service has ensured that CRM envelopes meet automation
10 compatibility standards. The Domestic Mail Manual requires courtesy reply, business
11 reply and meter reply mail to be automation compatible when they are mailed as
12 enclosures in letter-size pieces that are mailed at an automation postage rate.¹⁶

13 As I pointed out in my Docket No. R97-1 testimony, the Postal Service also
14 informs individual mailers of barcoding problems. Mail piece Design Analysts located
15 around the country provide a significant amount of technical assistance to mailers in
16 order to help them make their mail automation-compatible.¹⁷ Further, the Postal
17 Service provides publications designed to help mailers prepare automation compatible

¹⁴ Courtesy reply mail is a preprinted return envelope (or card) provided as a courtesy to customers. The customer pays the postage.

¹⁵ Witness Campbell's responses to OCA/USPS-T29-1 and OCA/USPS-T29-5 indicate that except for the accounting function, these mailpieces are virtually identical. Since no accounting function is involved, there is no need for a fee to be associated with CEM mail.

¹⁶ C810.8.0.

¹⁷ Docket No. R97-1, Tr. 19D/9350-52.

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1 mail (including in electronic format) and it provides technical consultation at public
2 forums. It even provides plastic templates and gauges free of charge so mailers can
3 properly prepare their mail.¹⁸ By extension, the Postal Service should have no problem
4 educating providers about new CEM requirements and ensuring that CEM mailpieces
5 are as automation compatible as CRM pieces are now.

6 The Postal Service also can educate consumers directly in the same way it
7 informs them about basic single-piece First-Class postage requirements, and variations
8 thereof (such as the additional ounce rate, the nonstandard surcharge, and the single-
9 piece card rate).¹⁹ The additional costs of a mailing to inform the public about the
10 existence of and proper use of CEM could be \$ 9.2 million. This is the amount
11 estimated for preparing and delivering a mailing to every address informing Postal
12 Service customers of potential telemarketing fraud.²⁰

13 The Postal Service also has argued that consumers prefer using only one stamp.
14 Testimony presented by Postal Service witness Ellard in Docket No. R97-1 presented
15 consumer research in support of retaining the "one-stamp" system for First-Class Mail.
16 In evaluating witness Ellard's study the Commission stated:

17 The Commission notes that witness Ellard acknowledges that "user
18 preference" is a "complex area to pursue." This alone, may be sufficient
19 reason to consider the responses less than definitive on the issue of
20 CEM's appeal.²¹

¹⁸ *Id.*

¹⁹ Docket No. R97-1, Tr. 19D/9333.

²⁰ Response of USPS to OCA/USPS-8 (revised), 10, and 73. The response to OCA/USPS-63 estimates domestic delivery addresses to be 132,152,777. Multiplying 132,152,777 by \$0.051, the postage cost would be \$6.7 million. The total would then be \$9.2 million.

²¹ PRC Op. R97-1, ¶5189.

1 Another argument advanced against CEM is that mail processing technology has
2 changed since CEM was first introduced and that CEM was no longer feasible.²² This
3 objection seems unreasonable, given the nearly identical QBRM. The Commission
4 agreed, saying:

5 The Commission finds it disappointing that witness Sheehan, after years
6 of Postal Service resistance to the CEM concept. Now claims CEM's time
7 may have "come and gone." While processing changes undoubtedly have
8 occurred since CEM was initially raised on this record, Miller's data show
9 that a prebarcoded piece generates savings over a handwritten piece.²³

10 CEM remains a workable classification for the Postal Service. Consumers
11 appreciate saving money and will change mailing habits when presented with a product
12 like CEM.

13 D. How CEM Would Work

14 CEM has been and remains a very simple concept. Providers of courtesy reply
15 mail envelopes who now take advantage of automation discounts already must ensure
16 that the CRM envelope is automation compatible. It is this automation-compatible CRM
17 envelope that would be transformed into a CEM envelope, and upon which the
18 consumer could affix a reduced-price postage stamp.

19 As I testified in Docket No. R97-1, the "transformation" of a CRM piece into a
20 CEM piece would be simple. CRM providers would only need to signify on the piece
21 that the consumer could choose to apply a CEM stamp. This could be imprinted in the
22 same area now used for the postage block and current message contained therein

²² *Id.*, ¶5191.

²³ *Id.*, ¶5195.

1 (e.g., "Post Office will not deliver without postage"). The Postal Service could
2 standardize the CEM-message to be imprinted as part of its overall educational
3 efforts.²⁴

4 The current CRM system has proved workable and would not need more than
5 the *de minimis* changes noted. In Docket No. R97-1 Postal Service witness Fronk was
6 asked whether the Postal Service has surveyed or analyzed the automation
7 compatibility of courtesy reply envelopes. Postal Service witness Moden (answering on
8 redirect) stated: "No. Generally, courtesy reply envelopes meet the automation
9 compatibility requirements, so there has not been a need for formal survey or
10 analysis."²⁵

11 Witness Fronk noted that CRM ensures that bill payments are sent to the correct
12 address through the use of standardized preprinted addresses and through the use of
13 accurate, readable barcodes.²⁶ He acknowledged that certified CEM envelopes also
14 would have these characteristics.²⁷

15 The characteristics of CRM envelopes have not changed since this issue was
16 visited in Docket No. R97-1. The transition for CRM providers to CEM providers is
17 straightforward. For current CRM providers, printing costs for new CEM envelopes
18 should be the same or substantially the same as currently exist. The same general

²⁴ There still does not appear to be any requirement that the message inside the postage block be standardized.

²⁵ Docket No. R97-1, Tr. 11/5900.

²⁶ Docket No. R97-1, Tr. 4/1544.

²⁷ *Id.*

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1 formatting would be used; the minor change in wording in the postage block is unlikely
2 to add costs.

3 Some CRM providers may have large inventories of CRM envelopes with the
4 current format. The Postal Service can ease the transition to CEM by providing a
5 period during which it educates the public about CEM and prints CEM stamps. This
6 time should allow most CRM providers to exhaust current envelope supplies and begin
7 to print CEM envelopes as prescribed by the Postal Service. If CRM providers have
8 unused stock remaining at the time CEM is implemented, those envelopes could be
9 changed into CEM envelopes merely by printing an additional Postal Service approved
10 message to the left of the postage block informing consumers that a discount stamp
11 may be applied. Postal Service implementing regulations could specify that remaining
12 stocks of CRM envelopes could be thus "amended." Mailers wishing to let their
13 customers take advantage of the new CEM rate could have existing stock sent back to
14 the printer for the amendment.²⁸

15 E. Potential CEM Participants and Revenue Impact

16 1. Volumes

17 As in Docket No. R97-1, the OCA projects that nearly all CEM volume would
18 come from CRM mailers. As CEM is defined above, the qualifications for the two
19 services are almost identical.

²⁸ This is consistent with my previous recommendation on the transition to CEM. See Docket No. R97-1, Tr. 21/10690-1.

1 The Postal Service has provided ODIS volume information for single-piece First-
 2 Class Mail.²⁹ For fiscal year 1999, the volume of single-piece FIM-tagged letters is
 3 reported as 9.2 billion pieces. Except government, metered, and permit mail, all of the
 4 9.2 billion FIM-tagged letters would be candidates for conversion to CEM. RPW
 5 adjusted FIM-tagged letter volume for fiscal year 1999 is given as 9 billion pieces. Total
 6 First-Class single-piece letter volume is reported as 48.2 billion pieces.³⁰ It is
 7 reasonable to assume that a similar portion of First-Class single-piece letters would be
 8 FIM-tagged in the test year. Witness Tolley forecasts 52.9 billion pieces of First-Class
 9 single-piece mail for the test year.³¹ If the test year volume of FIM-tagged mail is the
 10 same percent of the total as in fiscal year 1999, there will be 10 billion potential CEM
 11 pieces.³²

12 2. Revenue Consequences

13 If every FIM-tagged mailpiece converted, a highly unlikely event in the near term,
 14 the impact could reach \$300 million (\$0.03 x 10 billion pieces). Every piece that does
 15 not convert contributes more revenue. In addition, to the extent that offering CEM
 16 attracts new volume, or retains volume that otherwise would be lost to electronic
 17 diversion, the revenue impact would be reduced.

²⁹ Response of USPS to OCA/USPS-42. Response of USPS to OCA/USPS-39 reported single-piece FIM-tagged volume of 9.0 billion pieces for First-Class Mail.

³⁰ Response of USPS to OCA/USPS-42.

³¹ USPS-T-6 at 59.

³² $9 / 48.2 = 0.18672$. Applying this ratio to test year volume of 52.9 yields about 10 billion pieces.

1 Underpayment of postage does not appear to be a problem for the Postal
2 Service; consumers appear to err on the conservative side when applying postage. It is
3 reasonable to expect that many customers will continue to use undiscounted postage
4 on CEM-qualified envelopes. It also seems likely that some consumers will not want to
5 keep two denominations of stamps handy. In addition, it will take some time for
6 consumers to become familiar with the discounted rate and change their stamp
7 purchasing habits accordingly.

8 As noted earlier, the cost of informing the public through a nationwide mailing
9 about the new service, and under what circumstances it can be used could be \$9.2
10 million. This cost would be lower if the Postal Service included this information in the
11 materials provided employees and customers to explain the basis for new rates as an
12 alternative to a nationwide mailing.³³ The approximately \$6.6 million in postage could
13 be avoided as could some of the \$2.5 million in preparation costs. This method of
14 letting customers know about CEM could be effective in countering customer
15 complaints about the increase in the First-Class rate.

16 F. Advancement of Postal Service Objectives and Consistency with
17 39 U.S.C. §3623(c) and §3622(b)

18 CEM will advance the Postal Service's stated objectives in this case, and the
19 CEM proposal is consistent with the Postal Reorganization Act. The Commission has
20 recommended CEM as a means of extending automation benefits directly to
21 consumers.

³³ See attachment to USPS response to OCA/USPS-50.

1 Historically, consumers have paid their bills through the mail or in person.
2 Recently, however, consumers have taken advantage of technological developments
3 and increasingly have been paying their bills by telephone, automatic debit payment
4 devices, and by personal computer.³⁴ CEM addresses the threat of electronic diversion
5 by providing consumers a convenient and less expensive way to return bill payments by
6 mail.

7 A goal of both the Postal Service and the Commission has been to encourage
8 the use of automation-compatible mail. In Docket No. R97-1 the Postal Service agreed
9 cost avoidance for courtesy reply mail pieces (which are for all practical purposes
10 identical to the proposed CEM reply pieces) is essentially the same as the cost
11 avoidance for the PRM pieces in its Docket No. R97-1 proposal. As Postal Service
12 witness Miller stated, "[b]y recognizing some of the cost savings associated with this
13 mail, the Postal Service is able to permit the general public to more directly share in the
14 benefits of automation"³⁵ Likewise, consumers who return CEM mail will be able
15 to share directly in the benefits of automation by paying a discounted rate.

16 Operational feasibility is another consideration in the establishment of CEM. The
17 Postal Service has stated that it wants to develop a processing and accounting
18 approach that is workable for both mailers and the Postal Service. Operationally,
19 mailers who now enjoy a prebarcode discount will have to do almost nothing to comply
20 with CEM regulations. Under current Postal Service regulations, the CRM return

³⁴ Xenakis, Spyros S., *Trends in First-Class Mail Volumes with Emphasis on Bill/Payment and Advertising Mail*, July, 1999 at 11.

³⁵ Docket No. R97-1, USPS-T-32 at 36-37.

1 envelope also must be automation-compatible.³⁶ To take advantage of CEM, such
2 mailers will only have to ensure additionally that the CEM return envelope bears an
3 appropriate stamp indicator.

4 CEM also is consistent with statutory goals. 39 U.S.C. §3623(c) requires that
5 classification schedule changes be made in accordance with these factors:

- 6 (1) the establishment and maintenance of a fair and equitable classification system
7 for all mail;
8
- 9 (2) the relative value to the people of the kinds of mail matter entered into the postal
10 system and the desirability and justification for special classifications and service of
11 mail;
12
- 13 (3) the importance of providing classifications with extremely high degrees of
14 reliability and speed of delivery;
15
- 16 (4) the importance of providing classifications which do not require an extremely
17 high degree of reliability and speed of delivery;
18
- 19 (5) the desirability of special classifications from the point of view of both the user
20 and of the Postal Service; and
21
- 22 (6) such other factors as the Commission may deem appropriate.
23
24

25 In addition to the factors listed above, the 39 U.S.C. §3622(b) factors also apply
26 to CEM. Some are nearly the same as those of 39 U.S.C. §3623(c). Two, however,
27 are particularly relevant to CEM:

- 28 (6) the degree of preparation of the mail for delivery into the postal system
29 performed by the mailer and its effect upon reducing costs to the Postal Service;
30
- 31 (7) simplicity of structure for the entire schedule and simple, identifiable relationships
32 between the rates or fees charged the various classes of mail for postal services.
33

³⁶ DMM §§ C810.8.0 through C810.8.2.

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1 The use of CEM will lower postage costs for consumers. CEM will not cause
2 businesses to incur more than very small additional costs. Businesses wishing to offer
3 consumers the benefit of using a discounted First-Class Stamp (and gain good will from
4 so doing) need only supply automation-compatible reply envelopes, something many
5 are now doing anyway. These businesses will only have to make one modification to
6 their existing reply envelopes, adding the Postal Service approved CEM postage
7 indicator. With more widespread use of CEM, the goal of more closely aligning rates
8 and costs will be achieved in substantially greater measure as household mailers pay a
9 rate that accurately reflects costs.

10 It is useful to address the specific statutory classification factors and how they
11 would be promoted by adoption of CEM. The first pertinent factor is "the establishment
12 and maintenance of a fair and equitable classification system for all mail." The CEM
13 proposal will promote a fair and equitable classification system because it more closely
14 aligns rates with costs for household mailers. CEM envelopes avoid precisely the same
15 costs as described in Docket No. R97-1 by Postal Service witness Miller for PRM. In
16 addition, CEM is fairer to those mailers who wish to offer their customers the advantage
17 of reduced rates.

18 The second factor is "the relative value to the people of the kinds of mail matter
19 entered into the postal system and the desirability and justification for special
20 classifications and service of mail." Consumers highly value the mail system as a
21 means for returning bill payments. Also consumers trust the Postal Service. The
22 desirability and justification for the CEM classification is that it more closely aligns rates

1 with costs for household mailers and gives consumers a secure, low-cost method of
2 paying bills.

3 The next pertinent criterion is "the importance of providing classifications with
4 extremely high degrees of reliability and speed of delivery." CEM mail is "clean" mail,
5 the type most easily and economically processed by the Postal Service. Because CEM
6 (like CRM) is prebarcoded and screened for accuracy, the "reliability . . . of delivery" is
7 greater than for much of First-Class mail.³⁷

8 The next criterion is "the importance of providing classifications which do not
9 require an extremely high degree of reliability and speed of delivery." The proposal to
10 add CEM to the consumer choice list does not reduce such existing classifications.
11 This criterion is neutral in effect.

12 The fifth criterion is "the desirability of special classifications from the point of
13 view of both the user and of the Postal Service." From the point of view of the
14 consumer, CEM is a realistic way to ensure that they will be paying a fair, equitable,
15 cost-based First-Class rate for prebarcoded envelopes. From the point of view of
16 business mailers, as noted above, CEM offers a more practical and less expensive way
17 for them to gain good will by providing their customers with the opportunity to use
18 discounted postage. While the Postal Service has long objected to CEM on such bases

³⁷ A bill payer may be induced by a CEM discount to use the accurate, clean, prebarcoded envelope provided, rather than choosing a blank envelope. The latter may result in hand addressing, with its added processing and delivery problems.

1 as the "two-stamp" problem, I would observe that the Commission dismissed such
2 operational objections to CEM in Docket No. MC95-1, as well it should here.³⁸

3 The final criterion is "such other factors as the Commission may deem
4 appropriate." There are several pertinent points that the Commission ought to consider
5 when evaluating the CEM proposal. First, as noted above, CEM proposals have been
6 around for some years. One can easily infer that the Postal Service has resisted such
7 proposals because its First-Class Mail monopoly makes consumers a largely captive
8 market. For example, paying bills by walking payments to offices is inconvenient and
9 costly for most consumers. Many businesses are national companies and do not have
10 local payment offices. Local utilities generally have one or more local offices (or have
11 arrangements with local banks) so payments may be walked in. However, relatively
12 few consumers avail themselves of this opportunity under the current system, most
13 likely because of location inconvenience and the costs associated with spending time to
14 make such payments. Automatic debit and computer payment systems are still in their
15 infancy, and many question their reliability; we are still largely a society which needs or
16 desires a paper record of transactions, which payment by mail facilitates.

17 It is clear that the Postal Service cannot assume that consumers will continue to
18 use First-Class Mail at the full rate in the future. The Postal Service has acknowledged
19 the trend toward migration of payments from the mailstream. CEM provides a tool to
20 retain these payments in the mailstream.

³⁸ PRC Op. MC95-1 ¶5050 *et seq.*

1 Turning to the two particularly relevant factors from §3622(b), the effect of the
2 degree of preparation of the mail on reducing costs to the Postal Service is important in
3 evaluating CEM because the CRM mailpieces are required to be compatible with the
4 Postal Service's automation environment. This characteristic ensures that the mail will
5 be clean and that processing costs will be avoided.

6 Finally, simplicity of structure will be maintained with the establishment of CEM
7 because its rate will be identical to that of QBRM. For ratemaking purposes, the key
8 difference between these two mail types is that QBRM postage is paid by the recipient
9 while CEM postage is paid by the sender.

1 V. CONCLUSIONS

2 The concept of CEM is not new to this Commission. It has evolved over a period
3 of years as has mail processing technology. Electronic options for transporting the
4 contents of reply mail are increasing in availability and attractiveness to consumers.
5 Diversion of transactions mail is a concern of the Postal Service. The adoption of CEM
6 would send a message to consumers and give them an opportunity to share in the cost
7 reductions brought about by technological advances within the Postal Service. With a
8 three-cent discount, CEM mail will travel under a rate that is more closely aligned with
9 costs than consumers' current alternative, the First Class single-piece rate. CEM is
10 operationally simple to accomplish. Adoption of CEM will not engender a substantial
11 revenue loss even under the most liberal volume estimates. As I testified in Docket No.
12 R97-1, CEM promotes "the establishment and maintenance of a fair and equitable
13 classification system."³⁹

³⁹ 39 U.S.C. §3623(c)(1).

1 VI. PROPOSED DMCS LANGUAGE

2 I propose specific DMCS language that defines CEM. The proposed DMCS
3 language is as follows:

4 100.020X Courtesy Envelope Mail (CEM)

5 CEM consists of mailable matter in envelopes that must bear a facing identification
6 mark as prescribed by the Postal Service. CEM must also meet the following eligibility
7 requirements:

8 a. Be a preaddressed, preprinted reply envelope, whose design is approved by the
9 Postal Service.

10 b. Bear a proper Zip Code.

11 c. Bear a proper barcode corresponding to the proper Zip Code, as prescribed by
12 the Postal Service.

13 d. Bear an indication that the envelope is eligible for the CEM discount, as
14 prescribed by the Postal Service.

15 e. Meet automation compatibility criteria as prescribed by the Postal Service.

1 APPENDIX A
2 HISTORY OF CEM INITIATIVES IN
3 DOCKET NOS. R87-1, R90-1, AND MC95-1

4 A. Docket No. R87-1 CEM Proposal

5 In Docket No. R87-1, OCA proposed a five-cent discount for CEM. CEM was
6 defined as a preprinted single-piece First-Class envelope bearing a nine-digit ZIP Code
7 with a corresponding barcode and a Facing Identification Mark (FIM).¹ Each proposed
8 CEM characteristic was designed to make the envelope more compatible with the
9 Postal Service's automation equipment, and, ultimately, to facilitate the Postal Service's
10 processing of single-piece First-Class letter mail.² Examples of the most frequently
11 used CEM mail pieces were self-addressed return envelopes provided and used for bill
12 payments, merchandise order forms, and communications with government agencies.

13 OCA's five-cent discount was premised on the fact that a preaddressed return
14 envelope was not delivered by a carrier; rather, the envelope was delivered to a post
15 office box or by firm holdout. Further, the OCA argued that implementation of the CEM
16 proposal would make use of the Postal Service more attractive to the public and
17 thereby reduce the potential loss of mail volume to computer networks and telephone
18 for the delivery and payment of bills.³

¹ Docket No. R87-1, Tr. 20/15011.

² *Id.* at 14970.

³ PRC Op. R87-1, ¶15036.

1 The Commission did not recommend implementation of OCA's CEM proposal. It
2 sought to preserve the "attributable costs foundation for the proposed 25 cent
3 nonpresorted First-Class rate."⁴ However, the Commission did recommend adoption of
4 a CEM classification change. It stated that the Postal Service would be able to
5 recognize any cost differential and propose rates for both CEM and single-piece First-
6 Class letter mail during the next omnibus proceeding.

7 To qualify for the Commission's proposed CEM category, a mail piece had to be
8 a prebarcoded reply envelope or a business reply mail piece. CEM requirements
9 included a preprinted envelope with a ZIP+4 Code and corresponding barcode, an
10 indication on the reply envelope that the envelope qualified for the CEM rate, and a
11 post office box delivery address.

12 In response to several arguments raised during the hearings, the Commission
13 quoted the following from Docket No, MC78-2:

14 [.]t is our view that in the exercise of our classification responsibilities
15 pursuant to § 3623, the requirement of a 'fair and equitable classification
16 system for all mail' compels us to strive for a classification structure which
17 permits the establishment of cost-based rates. In further amplification, the
18 rate for each rate category should not only reflect the average costs of a
19 piece of mail within the rate category, but also the actual unit cost for each
20 piece of mail within the rate category should not vary significantly from
21 each other piece. The cost characteristics of the pieces of mail within the
22 rate category should be homogeneous within reasonable parameters so
23 as to minimize cross-subsidization.⁵

⁴ *Id.*, ¶5038.

⁵ *Id.*, ¶5043.

1 The Commission also noted that:

2 [u]nder the Act, we are required to consider the other factors enumerated
3 in §3623(c). The preceding paragraph addresses the requirement of
4 §3623(c)(1) that the classification schedule be fair and equitable. The
5 other classification criteria relevant to the CEM proposal is §3623(c)(5)
6 which requires the Commission to consider the desirability of the CEM
7 rate from the 'point of view of both the user and of the Postal Service.'
8 The CEM user, whether it be business or household mailers, will find a
9 special CEM classification desirable because of the resulting rate
10 reduction. Businesses and other mailers who mail nonpresorted mail
11 which will not qualify for the CEM rate will find this classification
12 undesirable as their rates will be higher. The Postal Service will benefit
13 because establishment of a CEM category will provide an inducement to
14 mailers to place bar codes and FIM marks on the mail thereby reducing
15 postal costing leading to increased efficiency. See Tr. 20/14970-71. This
16 fact weighs the minor additional effort the Service faces to administer an
17 additional rate category.⁶

18 B. Docket No. R90-1 Courtesy Envelope Mail Proposal

19 In Docket No. R90-1, OCA proposed a three-cent discount for CEM. CEM was
20 defined as a preprinted single-piece First-Class envelope, machinable, marked with a
21 FIM, identified as a courtesy envelope as prescribed by the Postal Service, addressed
22 to a post office box, bearing a nine-digit ZIP Code and the corresponding barcode.⁷
23 Each mail piece characteristic was designed to make CEM mail automation
24 compatible.⁸ The CEM proposal allowed those unable to take advantage of bulk
25 automation discounts, e.g., small businesses and individual mailers, the opportunity to
26 pay a rate commensurate with the cost of their automation compatible mail. OCA took
27 the position that limiting automation discounts to bulk mailings was not justified because

⁶ *Id.*, ¶¶5056.

⁷ Docket No. R90-1, Tr. 30/15676.

⁸ *Id.* at 15634.

1 automated processing of a single piece of First-Class Mail was shown to reduce costs
2 on a per piece basis.⁹ With the increase in First-Class rates, OCA thought that a First-
3 Class single-piece automation discount would reduce the migration of bill payments
4 from the Postal Service mailstream to alternate bill-payment media.¹⁰

5 In its opinion, the Commission stated that if cost savings from automation could
6 be achieved by individual mail pieces and if the bulk mailing requirements needlessly
7 barred small mailers from participating in automation discounts, then the time had come
8 to eliminate bulk mailing requirements.¹¹ However, the Commission rejected the OCA's
9 three-cent CEM discount proposal on the grounds that the cost savings identified were
10 not distributed to all users.¹²

11 C. Docket No. MC95-1 Courtesy Envelope Mail Proposal

12 In Docket No. MC95-1, under the Postal Service's proposal, automation
13 discounts would have been available only to mailers who mailed in bulk. The minimum
14 piece requirement to qualify for the automation basic category under the Postal
15 Service's proposal was 500. Individuals and small business mailers who mailed
16 automation compatible pieces would have received no discount.

⁹ *Id.* at 15534.

¹⁰ PRC Op. R90-1, ¶5164.

¹¹ *Id.*, ¶5177.

¹² *Id.*

1 OCA argued that this violated the Postal Reorganization Act's classification goal
2 of fair and equitable classifications for all mailers. Moreover, by not considering the
3 needs of single piece automation mailers, OCA argued, the Postal Service was violating
4 its own stated goal of adding classifications where significant operational or market
5 considerations existed.¹³ To remedy this perceived inequity, the OCA proposed a 12-
6 cent discount for CEM.¹⁴

7 CEM was defined as preprinted, self-addressed business envelopes provided by
8 mailers as a courtesy to their customers.¹⁵ In order to qualify for OCA's proposed CEM
9 rate, CEM mail would have had to: bear a facing identification mark; bear a proper
10 barcode; bear a proper ZIP code; bear indicia signifying that the piece is eligible for the
11 discount; meet automation compatibility standards as prescribed by the Postal Service;
12 and be preapproved by the Postal Service.¹⁶

13 In Docket No. MC95-1, I provided (OCA-T-100) the cost basis for the CEM
14 proposal, while OCA witness Thompson (OCA-T-200) provided the policy basis, rate
15 proposal and volume projection.

16 Witness Thompson argued that CEM met the reclassification criteria that the
17 Postal Service had used to define subclasses in its proposal.¹⁷ Specifically, courtesy

¹³ Docket No. MC95-1, Tr. 23/10420.

¹⁴ *Id.* at 10425.

¹⁵ OCA proposed CEM as a rate category within the existing First-Class letters subclass; the proposal did not extend to cards. See Tr. 23/10457.

¹⁶ *Id.* at 10445.

¹⁷ See USPS-T-1 at 21-37.

Docket No. R2000-1

OCA-T-7

1 envelope mail was said to: represent a homogeneous cost and market-based category;
2 encourage a low-cost mailstream; allow the Postal Service flexibility in establishing
3 modernized entry requirements; represent a mail category where significant market and
4 operational needs exist; and, because CEM eligibility was not dependent on the
5 contents of the mailpiece, further the Postal Service's goal of moving away from
6 content-based rates.¹⁸

7 In Docket No. MC95-1, OCA proposed a discount of 12 cents based on a cost-
8 avoidance figure of 13.4 cents that I developed.¹⁹ The cost avoidance analysis took
9 into account both mail processing and delivery operations.²⁰ OCA witness Thompson
10 estimated CEM volume of between 3.9 billion pieces²¹ and 6.5 billion pieces.²² Given
11 the range of potential CEM volume, witness Thompson estimated the revenue impact of
12 the CEM proposal for the test year to be between \$470 million and \$783 million.²³

13 Some participants and the Postal Service opposed OCA's CEM proposal.²⁴ For
14 example, Brooklyn Union Gas ("BUG") joined Reader's Digest Association and the
15 Postal Service in denouncing the CEM proposal as fundamentally unfair to the
16 businesses who provide CEM mailers with reply envelopes. BUG suggested that this

¹⁸ Tr. 23/10422.

¹⁹ Tr. 23/10425.

²⁰ For highlights of the costing methodology, see Tr. 23/10333, 10334, 10340, 10373.

²¹ Tr. 23/10450.

²² *Id.* at 10452.

²³ *Id.* at 10432.

²⁴ The Council of Public Utility Mailers suggested the Commission approve the CEM proposal but set an interim rate until the next omnibus case. CPUM Brief at 6.

1 inequity could eventually lead to a decrease in CEM volume.²⁵ Reader's Digest and the
2 Service claimed that the large corporate mailers incur the expense of preparing CEM
3 pieces, yet they will receive no financial reward. They also claimed these mailers are
4 penalized by the effects of deaveraging on the single-piece rate.²⁶

5 Postal Service witnesses Potter and Alexandrovich presented the Postal
6 Service's opposition to CEM on rebuttal. Witness Potter discussed alleged operational
7 difficulties associated with implementing the CEM proposal. Potter was concerned with
8 the certification process necessary for mailers to qualify their mail pieces as eligible for
9 the CEM rate. He claimed that this process would be costly and difficult to administer
10 and that it could lead to poor customer relations. He likened it to the process already in
11 place for BRMAS BRM, made more difficult by the fact that CEM providers would,
12 arguably, not have any financial incentive to cooperate.²⁷ He also argued that the
13 process would be ineffective because certification indicia would lend themselves to
14 duplication on personal computers.²⁸

15 Potter also argued there would be an increase in short-paid mail as a result of
16 the CEM proposal. He contended that the possibility of customers becoming confused,
17 and thereby misusing CEM, should not be underestimated.²⁹ The effect of an increase

²⁵ Brooklyn Union Brief at 8.

²⁶ RDA Brief at 5. Tr. 36/16326. CPUM disputed this argument, claiming that it is the consumer who ultimately incurs the expense of CEM because the cost of envelopes is reflected in the prices consumers pay. CPUM Brief at 5.

²⁷ Tr. 36/16212-13.

²⁸ *Id.* at 16216.

²⁹ *Id.* at 16218.

1 in the volume of short paid mail was projected to cause the Postal Service to incur
2 substantial costs. Additional hours would allegedly be needed to identify, process, and
3 deliver short paid mail, so workhours would increase. More revenue protection clerks
4 would have to be hired. Potter contended that both an increased workload and the
5 paperwork involved with "postage due" mail would contribute to possible service delays.
6 He suggested that requiring people to come to the post office to pick up their "postage
7 due" mail would strain customer relations.³⁰ Witness Alexandrovich also argued that the
8 cost of an increase in short paid mail volume would be large.

9 Witness Potter anticipated other problems. He suggested that the Postal Service
10 might need to issue a unique CEM stamp, regardless of the CEM rate, to avoid
11 combination postage obscuring the FIM.³¹ He also claimed that consignment sales
12 would suffer because retailers would not be interested in offering more than one
13 stamp.³²

14 The bulk of Alexandrovich's testimony concerns problems in Willette's costing
15 methodology and Thompson's volume estimation, although he also questioned OCA's
16 contention that a CEM rate would lead to greater volumes of prebarcoded envelope
17 pieces. He charged that "the OCA has failed to provide any basis to quantify how
18 mailers who do not currently provide prebarcoded reply envelopes would respond to a

³⁰ Tr. 36/16221-24.

³¹ *Id.* at 16225.

³² *Id.* A Postal Service survey suggested that at least some of these potential difficulties could be obviated through selection of the CEM stamp's denomination, or inclusion in booklets which mixed CEM and regular-rate stamps. USPS-MCR-LR-123, Tr. 36/16268.

1 CEM discount."³³ Without this information, he said, claims that a CEM rate would result
2 in more prebarcoded envelope pieces cannot be substantiated.³⁴

3 In its decision, the Commission commented that the CEM proposal was quite
4 familiar, since the Commission had recommended its adoption or recommended a more
5 inclusive category in two previous omnibus rate cases.³⁵ The Commission observed
6 that the Postal Service, and like-minded opponents of CEM, had revived their earlier
7 criticisms of the proposal.³⁶

8 They argue that the costs avoided by CEM are less than the OCA
9 estimates; that CEM volumes are unknown and a discount would produce
10 an adverse financial impact of uncertain but serious magnitude; that
11 administration of a CEM rate would be difficult and detrimental to the
12 efficient operation of the postal system; and that a discount to users of
13 courtesy envelopes would be an unearned windfall, particularly to the
14 affluent citizens who purportedly would be its primary beneficiaries. For the
15 most part, these criticisms remain unpersuasive.

16 The Commission noted that Postal Service witness Alexandrovich's critique of
17 my cost-avoidance estimate for CEM did not rebut the existence of significant
18 measurable cost-avoidances.³⁷

³³ *Id.* at 16307.

³⁴ Witness Alexandrovich also testified that Willette's cost avoidance figure was inaccurate. Alexandrovich also offered testimony in rebuttal of witness Thompson's volume and revenue impact estimates.

³⁵ PRC Op. MC95-1, at V-33.

³⁶ *Id.*

³⁷ *Id.* at V-34.

1 The Commission took note of witness Potter's argument that certifying CEM mail
2 would be unduly costly and time consuming. The Commission observed, though, that
3 the Service had proposed in its own direct case a requirement that all courtesy
4 envelope mail pieces included in automation mailings meet the automation standards,
5 which requirement presumably would entail some type of review process to insure that
6 these pieces conform.³⁸ It added that there was "no evident reason why certifying a
7 piece as CEM eligible could not be done under the same contemplated review process.
8 It should not be any more costly or time consuming than what the Service has already
9 proposed."³⁹ The Commission observed that this was confirmed by witness
10 Alexandrovich.⁴⁰

11 CHAIRMAN GLEIMAN: [P]lease explain to me what additional costs
12 would be incurred and how they would be incurred simply by virtue of the
13 fact that I can put a 20-cent stamp on that envelope that has already been
14 certified as automation-compatible as opposed to putting a 32-cent stamp
15 on there?

16 THE WITNESS: Assuming the certification processes were the same in
17 both cases, there wouldn't be an additional cost of that.

18 The Commission also found it "improbable" that consumers would make the
19 effort or investment to use computers to forge indicia, as witness Potter had suggested,
20 in order to obtain a discount.⁴¹

³⁸ *Id.*

³⁹ *Id.*

⁴⁰ *Id.* at V-34-35.

⁴¹ *Id.* at V-35.

1 The Commission also expressed the view that witness Potter seriously
2 underestimated the general public's capability to change their mail preparation habits.⁴²

3 The Postal Service has numerous means available to it to overcome
4 potential problems with consumer use of a discount stamp. Also, it is
5 probable that providers of CEM envelopes will assist in the education
6 process to ensure that courtesy envelope mail is used in an appropriate
7 fashion. Likewise, consumers faced with the possibility of a late charge
8 should a remittance be returned for postage due will be motivated to use
9 the discounted stamp only when appropriate.

10 Responding to participants who attacked the CEM proposal as unfair because
11 the mailer of the piece, not the provider, would get the discount, the Commission
12 stated.⁴³

13 As CPUM has observed, the mailer of the reply envelope ultimately pays
14 for that piece as a transaction cost. Additionally, whatever the motive of
15 the originator in providing an automation-compatible reply envelope, only
16 the decision of the recipient to use it will further the Service's goal of a
17 100-percent barcoded mailstream.

18 The Commission also stated it was reasonable to anticipate that a discounted rate will
19 be of significant benefit to lower income mailers.⁴⁴

20 The Commission concluded that Courtesy Envelope Mail remained worthy of
21 recommendation as a discounted category of First-Class Mail, and recommended
22 establishment of a CEM rate category.⁴⁵ However, it refrained from recommending a
23 specific rate for the CEM category. It noted that its " first consideration is its potential
24 financial impact, and the need to accommodate that impact in a case in which no class

⁴² *Id.*

⁴³ *Id.*

⁴⁴ *Id.* at V-36.

⁴⁵ *Id.*

1 of mail is called upon to produce more, or less, total revenue." The Commission found
2 that while the 12-cent discount proposed by the OCA was not necessarily unreasonable
3 *per se*, "the prospective volume of discounted CEM pieces is somewhat uncertain and
4 is cause for serious concern regarding the consequent financial impact."⁴⁶ In addition,
5 the Commission wanted to "avoid complication of the revised schedule of First-Class
6 rates recommended by the Commission in this proceeding."⁴⁷ The Commission thus
7 recommended the CEM category purely as a mail (or so-called "shell") classification
8 concept for the Governors' consideration, stating it would leave recommendation of a
9 specific discount to a subsequent ratemaking proceeding.⁴⁸

10 The Postal Service's Governors rejected the Commission's CEM
11 recommendation.⁴⁹ The Governors opined that the amount of prebarcoding had risen to
12 the point that now a very substantial majority of CEM, estimated by market research to
13 be in excess of 80 percent, already was prebarcoded. They found this change highly
14 relevant because the potential benefits of creating any worksharing discount can be
15 closely related to the size of the available pool of candidate mailers who might be
16 induced by the discount to convert from less-desired mail preparation practices to more-
17 desired ones. Thus, potential benefits to the Postal Service which normally might
18 accrue from increased worksharing would be replaced by the prospect of deadweight

⁴⁶ *Id.* at V-36-37.

⁴⁷ *Id.* at V-37.

⁴⁸ *Id.*

⁴⁹ Decision Of The Governors Of The United States Postal Service On The Recommended Decisions Of The Postal Rate Commission On Courtesy Envelope Mail And Bulk Parcel Post, Docket No. Mc95-1, issued March 4, 1996 ("CEM Decision").

1 revenue losses engendered by the grant of discounts with little or no offsetting cost
2 savings.⁵⁰ The Governors also posited that the envelope provider would have no direct
3 incentive to put a barcode on the envelope if not doing so currently because the
4 financial benefits would be "bestowed primarily on those individuals fortunate enough to
5 receive a high proportion of prebarcoded reply envelopes from entities desiring
6 remittance mail."⁵¹

7 They also thought that a CEM discount could cause the Postal Service to incur
8 substantial costs.⁵²

9 The Postal Service presented testimony in this case discussing a number
10 of administrative and enforcement concerns that would arise if the mailing
11 public routinely had to choose, on a piece-by-piece basis, between two
12 letter stamp denominations. Potential problems include an increase in
13 short-paid mail, delays and increased customer dissatisfaction resulting
14 from the Postal Service's response to the increase in short-paid mail,
15 longer lines in postal lobbies and higher window clerk costs, friction
16 between the Postal Service and the customers who currently provide
17 prebarcoded reply envelopes voluntarily, and several other potential
18 disruptions to the relationship between the Postal Service and its
19 customers.

20 It also stated that there would be a direct revenue loss in the hundreds of millions of
21 dollars, which would have to be offset by rate increases for other types of mail.⁵³

22 Its last concern addressed the general issue of fairness and equity. The
23 Governors stated that household mailers already had benefited from automation
24 because the savings realized from automated processing of household mail have been

⁵⁰ *Id.* at 3.

⁵¹ *Id.* at 4.

⁵² *Id.*

⁵³ *Id.*

1 averaged with the other costs of First-Class Mail, and used to mitigate overall First-
2 Class rate increases.⁵⁴ It stated that when households use the CEM envelope provided
3 by others, the return letter they mail has relatively low cost. "For the rest of their letters,
4 however, sent in their own envelopes, often with hand-written addresses, households
5 continue to deposit relatively high cost mail."⁵⁵ "Unless households were called upon to
6 pay higher rates which reflect the higher costs of their mail that is not sent in reply
7 envelopes (an approach advocated by no one in this case), a proposal such as CEM
8 that would nevertheless allow them to pay lower rates which reflect the lower costs of
9 their reply mail seems distinctly one-sided."⁵⁶

⁵⁴ *Id.* at 5.

⁵⁵ *Id.*

⁵⁶ *Id.*

1 CHAIRMAN GLEIMAN: Ms. Willette, have you had an
2 opportunity to examine the packet of designated written
3 cross examination that was made available earlier today?

4 THE WITNESS: Yes, I have.

5 CHAIRMAN GLEIMAN: And if those questions were
6 asked of you today would your answers be the same as those
7 you previously provided in writing?

8 THE WITNESS: Yes, they would.

9 CHAIRMAN GLEIMAN: That being the case, counsel,
10 if you would please provide two copies of the designated
11 written cross of Witness Willette to the court reporter and
12 the material will be received into evidence and transcribed
13 into the record.

14 [Designated Written
15 Cross-Examination of Gail Willette,
16 OCA-T-7, was received into evidence
17 and transcribed into the record.]
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25

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

Postal Rate and Fee Changes, 2000

Docket No. R2000-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION
OF OFFICE OF THE CONSUMER ADVOCATE
WITNESS GAIL WILLETTE
(OCA-T-7)

Party

United States Postal Service

Interrogatories

USPS/OCA-T7-1, 3-6, 9, 14, 16-17, 19-21, 23

Respectfully submitted,


Cyril J. Pittack
Acting Secretary

INTERROGATORY RESPONSES OF
OFFICE OF THE CONSUMER ADVOCATE
WITNESS GAIL WILLETTE (T-7)
DESIGNATED AS WRITTEN CROSS-EXAMINATION

<u>Interrogatory</u>	<u>Designating Parties</u>
USPS/OCA-T7-1	USPS
USPS/OCA-T7-3	USPS
USPS/OCA-T7-4	USPS
USPS/OCA-T7-5	USPS
USPS/OCA-T7-6	USPS
USPS/OCA-T7-9	USPS
USPS/OCA-T7-14	USPS
USPS/OCA-T7-16	USPS
USPS/OCA-T7-17	USPS
USPS/OCA-T7-19	USPS
USPS/OCA-T7-20	USPS
USPS/OCA-T7-21	USPS
USPS/OCA-T7-23	USPS

ANSWERS OF OCA WITNESS GAIL WILLETTE
TO INTERROGATORIES USPS/OCA-T7-1-20

USPS/OCA-T7-1. On page 6 line 5 of your testimony you assert that, "CEM provides an opportunity to slow the diversion of mail..." Have you conducted any studies, market research, or do you have any quantitative or qualitative evidence which indicates that First-Class single-piece mailers would be less likely to use electronic alternatives if CEM were implemented? If so, please provide those data. If not, on what do you base your assertion?

RESPONSE TO USPS/OCA-T7-1:

While I have conducted no formal studies, I would point out that I have discussed this with many people over the years and found that many, if not all, of them would welcome a discount for bill payments. Whenever the price of First-Class Mail is increased, some volume is lost. If the Postal Service wishes to retain this volume, a discount would seem the best way to do so.

ANSWERS OF OCA WITNESS GAIL WILLETTE
TO INTERROGATORIES USPS/OCA-T7-1-20

USPS/OCA-T7-3. On page 10 of your testimony, you discuss the Postal Service's testimony in Docket No. R97-1 concerning the general public preference for a "one-stamp" system. For purposes of this question, please refer to the testimony of Postal Service witness Ellard, Docket No. R97-1, Tr. 35/19076-77 and 19083-84, which addresses the issue of public preference for a "one-stamp" system vs. a "two-stamp" system.

(a) Please identify all market research or surveys performed by or for the OCA which seeks to ascertain or otherwise indicates whether the general public prefers one basic First-Class Mail first-ounce stamp or two differently denominated basic First-Class Mail first-ounce stamps? Provide all information gathered as a result of such research or surveys, as well as any analysis of such information.

(b) Please identify all market research performed by or for the OCA concerning CEM or any other "two-stamp" basic First-Class Mail rate structure. Please provide a copy of all records pertaining to such research, whether quantitative or qualitative, formal or informal, consumer-oriented or business-oriented.

RESPONSE TO USPS/OCA-T7-3:

(a) and (b). The OCA has conducted no research of the type you describe except to speak informally to members of the public concerning CEM when the opportunity arises. I would note that the Commission found witness Ellard's research unpersuasive. See PRC Op. R97-1 at 322-324.

ANSWERS OF OCA WITNESS GAIL WILLETTE
TO INTERROGATORIES USPS/OCA-T7-1-20

USPS/OCA-T7-4. On page 11 line 14 of your testimony, you state that "CEM has been and remains a very simple concept." In Docket No. R97-1, Postal Service witness Miller disagreed with this claim (USPS-RT-17, pages 4-11).

- (a) Is it more complicated or less complicated to use one first-ounce single-piece letter stamp or two first-ounce single-piece letter stamps?
- (b) Is it more convenient or less convenient to use one first-ounce single-piece letter stamp or two first-ounce single-piece letters stamps?
- (c) Is it possible that consumers and/or business agents could become confused when having to determine which stamp to use (CEM vs. residual first-ounce single-piece)?
- (d) Is it possible that consumers and/or business agents could have to make additional trips to purchase stamps were CEM to be implemented?
- (e) Is it possible that consumers and/or business agents could have to change their preferred method for purchasing stamps if vending machines and/or consignment outlets could not stock both CEM and the residual first-ounce single-piece stamps?
- (f) Assume that a CEM rate of 30 cents is currently in effect and that there are two basic First-Class Mail stamp rates: 33 cents (for non-CEM) and 30 cents (for CEM). Also assume that the Commission recommends and the Governors approve a 1-cent increase in the CEM rate and a 2-cent increase in the (non-CEM) basic First-Class Mail rate. Please describe how the mailing public would use non-denominational "make-up" stamps in conjunction with the remainder of their 30-cent and 33-cent stamps, as the higher rates were implemented.
- (g) Is it possible that some non-CEM reply envelopes that contain remittances could be delayed because consumers and/or business agents would apply the CEM stamp in error and the mail piece would be isolated as "postage due" by a postal employee?
- (h) Please confirm that CEM would require that major mailers modify their envelope designs in order for the mail piece to qualify for the discount. If not confirmed, please explain.
- (i) If all mailers do not modify their CRM envelopes to CEM envelopes, please confirm that the current CRM mail stream would be separated into two separate mail streams, CRM and CEM. If you do not confirm, please explain.
- (j) Please confirm that the current configuration of Postal Service cancellation machines could not distinguish between the CEM stamp and the residual first-ounce single-piece stamp. If you do not confirm, please explain.

ANSWERS OF OCA WITNESS GAIL WILLETTE
TO INTERROGATORIES USPS/OCA-T7-1-20

(k) Please confirm that the only way incorrect postage payment related to the new CEM stamp could be detected is if a postal employee visually identified the problem and manually dealt with it. If you do not confirm, please explain.

RESPONSE TO USPS/OCA-T7-4:

(a) This is a tradeoff for consumers to determine for themselves. It may be slightly more complicated to choose between two stamps instead of just one. However, no one is compelled to use two stamps and some consumers would accept the additional complication in order to save money.

(b) See my response to part (a) of this interrogatory. If this is a great inconvenience, I would expect consumers simply to use the full-price stamp. Also please see Docket No. R97-1, Tr. 21/10740-41.

(c) Many things are possible. I think it would be much more likely that businesses would become confused with their array of offerings than would consumers faced with two stamps.

(d) Please see my response to parts (a) and (b) of this interrogatory. As the public understands the concept after the education efforts of the Postal Service, it would seem unlikely. In any event, consumers should have the opportunity to make this decision for themselves.

(e) Please see my response to parts (a) and (b) of this interrogatory. I see no reason why vending machines and consignment outlets should not sell both types of stamps. If this is perceived as a problem, a booklet containing both types of stamps could be offered.

ANSWERS OF OCA WITNESS GAIL WILLETTE
TO INTERROGATORIES USPS/OCA-T7-1-20

- (f) CEM has been proposed as a discount from the First Class rate. While I cannot speculate on what the Commission or the Governors might do in the future, I would note that a similar situation could arise with any of the First-Class Mail discounts.
- (g) It is possible.
- (h) Yes. However, as with other business mail, the Postal Service would control the modifications. Please see my response to USPS/OCA-T7-2 (d) and (e), above.
- (i) Not confirmed. For processing purposes, CRM and CEM should be indistinguishable.
- (j) Confirmed.
- (k) While I cannot confirm this statement, it has been my understanding that visual identification of the problem is the method by which any incorrect postage is detected. Please see also Docket No. R97-1, Tr.19C/9046-47 where the Postal Service states that facer/canceller machines are programmed to kick out mail with no postage and mail with only nonphosphorous stamps. The response goes on to state that any mailpiece which has at least ten cents in postage, but less than sufficient postage, will only be identified as short paid by an employee.

ANSWERS OF OCA WITNESS GAIL WILLETTE
TO INTERROGATORIES USPS/OCA-T7-1-20

USPS/OCA-T7-5. On page 12, lines 17-18 of your testimony you state that, "printing costs for new CEM envelopes should be the same or substantially the same as currently exist." Did you conduct any research and/or collect any data to substantiate this claim? If so, please provide all research and/or data. If not, on what do you base your claim?

RESPONSE TO USPS/OCA-T7-5:

Please see Docket No. R97-1, Tr. 21/10691 and 10750. The OCA has conducted no subsequent research.

ANSWERS OF OCA WITNESS GAIL WILLETTE
TO INTERROGATORIES USPS/OCA-T7-1-20

USPS/OCA-T7-6. On page 14 of your testimony you discuss the revenue loss associated with the CEM discount. Please state where you think the funds that offset this revenue loss should come from in order for the Postal Service to meet its revenue requirement.

RESPONSE TO USPS/OCA-T7-6:

The OCA has proposed that the contingency amount be reduced. Please see OCA-T-2 and OCA-T-3. Keep in mind it is very unlikely that all of the 10 billion pieces I identified as potential CEM pieces would convert in the beginning. Rather, like other new services, I would expect the volume to increase gradually.

ANSWERS OF OCA WITNESS GAIL WILLETTE
TO INTERROGATORIES USPS/OCA-T7-1-20

USPS/OCA-T7-9. On page 21 lines 6-7 you claim that "simplicity of structure will be maintained with the establishment of CEM..." Please explain how this criterion is satisfied, given that CEM would result in two first-ounce single-piece letter stamps rather than one first-ounce single-piece letter stamp.

RESPONSE TO USPS/OCA-T7-9:

The CEM rate would be the same as the QBRM rate. Proposing a separate rate for CEM would have caused the rate structure to be slightly more complicated. The simplest rate structure would consist of only one rate. This is true for all mail.

ANSWERS OF OCA WITNESS GAIL WILLETTE
TO INTERROGATORIES USPS/OCA-T7-1-20

USPS/OCA-T7-14. Figure 1 (OCA-T-7 at page 6) indicates that household's share of First-Class Mail declined from 21.3 percent to 16.3 percent between 1987 and 1997.

- (a) Please confirm that the response to OCA/USPS-T33-2 presented the volumes associated with these percentages – 16.8 billion pieces in 1987 and 16.2 billion pieces in 1997, or a decline of 0.6 billion pieces. If you are unable to confirm, please explain.
- (b) How many of these 0.6 billion pieces were bill payments? Please explain.
- (c) What evidence do you have that this decline represents bill payments as opposed to a decline in personal correspondence and the use of greeting cards?
- (d) If the decline in household use of First-Class Mail is due primarily to declines in personal correspondence and greeting cards, how will that affect the ability of a CEM rate to forestall diversion?

RESPONSE TO USPS/OCA-T7-14:

- (a) I can confirm that these figures are presented in OCA/USPS-T33-2. My focus was on the 14.9 billion piece volume for 1998. Please see the response to OCA/USPS-T33-1(a), where witness Fronk states (concerning the 14.9 billion pieces) "I agree that this calculation results in a reasonable approximation of the volume of First-Class Mail generated by households in 1998."
- (b) and (c) There does not appear to have been a decline in bill payments during the 1987 to 1997 period. However, the decline in bill payments between 1997 and 1998 appears to have been 400 million pieces.
- (d) If no decline occurs in CRM, I would expect CEM to have a smaller impact. Whether CEM can and will forestall diversion is an empirical question.

ANSWERS OF OCA WITNESS GAIL WILLETTE
TO INTERROGATORIES USPS/OCA-T7-1-20

USPS/OCA-T7-16. Please identify all market research conducted by or for the OCA concerning the ability or desire of retail businesses which sell postage stamps to the public (through consignment arrangements with the Postal Service) to offer two differently denominated basic First-Class Mail stamps to their customers seeking to purchase postage stamps? Please provide a copy of all records relating to such research.

RESPONSE TO USPS/OCA-T7-16:

The OCA has conducted no formal research on this subject. Also please see my response to USPS/OCA-T7-4(e) above.

ANSWERS OF OCA WITNESS GAIL WILLETTE
TO INTERROGATORIES USPS/OCA-T7-1-20

USPS/OCA-T7-17. Please identify all market research conducted by or for the OCA concerning the nature of any operational or logistical challenges which might be encountered by utility companies or other entities that stock large volumes of reply envelopes (to send to customers) in switching from their current envelope stock to CEM envelopes? Please provide a copy of all records relating to such research.

RESPONSE TO USPS/OCA-T7-17:

The OCA has conducted no formal research on this subject. The Commission has considered and rejected such "challenges" as a reason for rejecting CEM. PRC Op. MC95-1 at V-34-35.

ANSWERS OF OCA WITNESS GAIL WILLETTE
TO INTERROGATORIES USPS/OCA-T7-1-20

USPS/OCA-T7-19. In your Docket No. R2000-1 testimony, you discuss other issues impacting a consumer's choice of bill payment method: security (page 7); convenience (page 16); and trust (page 18).

- (a) What specific role do you think price plays in this choice of method? Please explain the basis for your opinion.
- (b) What evidence do you have that a discount of 3 cents will have any material impact on a consumer's choice of bill payment method?

RESPONSE TO USPS/OCA-T7-19:

- (a) The point that I was making in the discussion you cite is that some consumers might stay with the Postal Service as their method of bill payment because of these factors, particularly if a discount is offered. I have not quantified the exact role of price and these other factors in the determination of how consumers will pay bills during the test year and later.
- (b) While I do not have empirical evidence that a three cent discount will alter a consumer's choice of payment, there is reason to believe that consumers will react positively to a reduction in price, just as they do in grocery stores and on the internet.

ANSWERS OF OCA WITNESS GAIL WILLETTE
TO INTERROGATORIES USPS/OCA-T7-1-20

USPS/OCA-T7-20. On pages 14-15 of your testimony, you indicate that your CEM proposal could involve a revenue reduction of \$300 million.

- (a) How would you propose that the Postal Service recover this lost revenue?
- (b) If the Postal Service needed to recover this revenue reduction, plus the additional costs associated with CEM implementation, from other rates paid by postal customers, how would this affect your assessment of the consumer benefits of CEM?

RESPONSE TO USPS/OCA-T7-20:

- (a) Please see my response to USPS/OCA-T7-6 above.
- (b) I have not analyzed alternative methods of offsetting the revenue lost as a result of the CEM discount. I would point out that the \$300 million represents 0.43 percent of the Postal Service's proposed TYAR revenue of approximately \$69 billion.

**ANSWERS OF OCA WITNESS GAIL WILLETTE
TO INTERROGATORIES USPS/OCA-T7-21-23**

USPS/OCA-T7-21.

- (a) Please confirm that on June 9, 2000, you presented a paper at the 8th Conference on Postal and Delivery Economics, in Vancouver, British Columbia, and that the title of your paper was, "CEM - A Missed Opportunity?"
- (b) Please confirm that, during your presentation, you mentioned the Docket No. R97-1 market research that was conducted by witness Ellard (USPS-RT-14) and discussed by witness Miller (USPS-RT-17) in that proceeding.
- (c) Please confirm that in discussing that market research, you indicated that the Postal Service may have had a valid point when it asserted that consumers do not want two stamps. If your response is anything other than an unqualified confirmation, please explain.
- (d) Please confirm that you also stated that you thought the market research results were "inconclusive." If your response is anything other than an unqualified confirmation, please explain.
- (e) Did anyone within the OCA consider conducting any market research in conjunction with its Docket No. R2000-1 CEM proposal? If not, please explain why market research was not conducted. Please also provide all documents generated in connection with any such discussions or deliberations concerning such market research.

RESPONSE TO USPS/OCA-T7-21:

- (a) Confirmed.
- (b) Confirmed.
- (c) Confirmed.
- (d) Confirmed. Also please see my testimony at page 10, lines 17-20. This is the context in which my statement was made.
- (e) Redirected to witness Gerarden.

**ANSWERS OF OCA WITNESS GAIL WILLETTE
TO INTERROGATORIES USPS/OCA-T7-21-23**

USPS/OCA-T7-23.

Please confirm that, at the conclusion of your June 9, 2000, presentation at the 8th Conference on Postal and Delivery Economics, the discussant, David Eagles from Canada Post, commented that more attention should be paid to what consumers really want. Do you agree with this comment? If not, please explain why not.

RESPONSE TO USPS/OCA-T7-23:

While I was not present when Mr. Eagles made his comment, I do agree that we should pay attention to what consumers want. Consumers should be allowed to make their own choices whenever possible. In a competitive environment, it is likely that CEM would have been offered long ago, particularly if market research indicated that 30 percent or more of all households were interested. There are numerous examples of consumers responding favorably to discounts.

1 CHAIRMAN GLEIMAN: Is there any additional
2 designated written cross examination?

3 MR. TIDWELL: Yes, Mr. Chairman. There is.

4 CROSS EXAMINATION

5 BY MR. TIDWELL:

6 Q Ms. Willette, I have just handed you two copies of
7 your responses to Postal Service Interrogatories 24, 25, 26,
8 28 and 29.

9 If you were to provide those responses orally
10 today, would they be the same?

11 A Yes, they would.

12 MR. TIDWELL: Mr. Chairman, the Postal Service
13 would move that they be entered into the record.

14 CHAIRMAN GLEIMAN: It is so directed. They will
15 be admitted into evidence and transcribed into the record.
16 If you would please provide two copies to the court
17 reporter.

18 [Additional
19 Written-Cross-Examination of Gail
20 Willette, USPS/OCA-T7-24,
21 USPS/OCA-T7-25, USPS/OCA-T7-26,
22 USPS/OCA-T7-28 and USPS/OCA-T7-29
23 and Witness Willette's responses
24 thereto were received into evidence
25 and transcribed into the record.]

ANSWERS OF OCA WITNESS GAIL WILLETTE
TO INTERROGATORIES USPS/OCA-T7-24-29

USPS/OCA-T7-24. Please refer to your testimony at page 7, lines 5-7. Do you consider unit price per transaction to be the primary factor affecting whether consumers employ electronic bill payment instead of using the mail. If so, please provide the basis for your opinion?

RESPONSE TO USPS/OCS-T7-24:

No.

ANSWERS OF OCA WITNESS GAIL WILLETTE
TO INTERROGATORIES USPS/OCA-T7-24-29

USPS/OCA-T7-25. At page 7, line 16, of your testimony, you claim that "underpayment of [First-Class Mail] postage does not appear to be a problem" because overpaid revenue is greater than shortpaid revenue by 204.6 million dollars.

- (a) Is it your testimony that the Postal Service should make no effort to enforce applicable rates for First-Class Mail if the total amount overpaid on some pieces in that class exceeds the total amount underpaid on other pieces?
- (b) In your view, how much postage underpayment on First-Class Mail pieces should the Postal Service tolerate?
- (c) With respect to underpaid postage, to which mail users should the Postal Service be more lenient?
- (d) In your view, how much postage underpayment on First-Class Mail pieces has to occur before the Postal Service has a problem with postage underpayment?

RESPONSE TO USPS/OCA-T7-25:

- (a) No.
- (b) and (d) This is a question that has been decided by Postal service management and I do not know how it has been decided. Generally, if the cost of enforcement exceeds the underpayment of postage, then the underpayment would be tolerated. The response to OCA/USPS-106 indicates that for First-Class single-piece letters, the Postal Service tolerated \$65,291,060 in GFY 1999.
- (c) If leniency is an issue, this is again a Postal Service management decision. I know of no provision in the statute for leniency in underpayment of postage.

ANSWERS OF OCA WITNESS GAIL WILLETTE
TO INTERROGATORIES USPS/OCA-T7-24-29

USPS/OCA-T7-26. Would you describe Qualified Business Reply Mail as "a program where creditors and other business correspondents provide postage paid envelopes for customers?"

RESPONSE TO USPS/OCA-T7-26:

Yes. Prepaid Reply Mail, as proposed by the Postal Service in Docket No. R97-1 was also such a program.

ANSWERS OF OCA WITNESS GAIL WILLETTE
TO INTERROGATORIES USPS/OCA-T7-24-29

USPS/OCA-T7-28. Please refer to your testimony at page 19, footnote 37. Provide all support for your belief that customers who are provided with "accurate, clean prebarcoded envelope[s]" would choose to lay them aside in order to use a hand-addressed envelope instead.

RESPONSE TO USPS/OCA-T7-28:

The premise of your question is incorrect. I have not stated that I believe customers lay aside reply envelopes to use hand-addressed envelopes. I said that the CEM discount might prevent such behavior, to the extent that it exists.

ANSWERS OF OCA WITNESS GAIL WILLETTE
TO INTERROGATORIES USPS/OCA-T7-24-29

USPS/OCA-T-29.

(a) On [a] percentage basis, please provide your best estimate of the number [of] household mailers currently aware of the rate of postage required to be paid on a standard one-ounce First-Class Mail piece. Please describe the basis for your estimate and provide any documents generated in connection with the development of that estimate.

(b) On [a] percentage basis, please provide your best estimate of the number household mailers currently aware of the rate of postage required to be paid for a standard one-ounce QBRM piece. Please describe the basis for your estimate and provide any documents generated in connection with the development of that estimate.

RESPONSE TO USPS/OCA-T7-29:

(a) and (b). I do not have such estimates.

1 CHAIRMAN GLEIMAN: Anyone else? Any additional
2 designated written cross?

3 If not, that brings us to oral cross examination.
4 one party has requested oral cross examination and that is
5 the Postal Service.

6 Does any other party wish to cross examine the
7 witness?

8 If not, Mr. Tidwell, you may proceed when you are
9 ready.

10 MR. TIDWELL: Thank you, Mr. Chairman.

11 CROSS EXAMINATION

12 BY MR. TIDWELL:

13 Q Good morning, Ms. Willette.

14 A Good morning.

15 Q I would like to direct your attention to your
16 response to Postal Service Interrogatory Number 9.

17 A Yes?

18 Q In that response you indicate that your proposed
19 CEM rate would be the same as the QBRM rate and that
20 proposing a separate rate for CEM would have caused the rate
21 structure to be slightly more complicated.

22 Isn't that correct?

23 A That's correct.

24 Q I would like to explore what you meant when you
25 said CEM would cause the rate structure to be slightly more

1 complicated.

2 A Actually I didn't say that CEM -- I said proposing
3 a separate rate --

4 Q A separate rate?

5 A -- would slightly complicate it.

6 Q Okay. I wanted to explore some of the differences
7 between QBRM and CEM.

8 Does QBRM require the application of a postage
9 stamp?

10 A I don't believe so, no.

11 Q Does the existence of a QBRM rate require mailers
12 to maintain two differently denominated first ounce stamps
13 for First Class mail?

14 A I don't believe -- I think we just established
15 there is no stamp at all.

16 Q I would like to direct your attention to your
17 response to Postal Service Interrogatory 14.

18 And, in particular, I would like to have you focus
19 on your response to Parts B and C.

20 In that response, you state that there doesn't
21 appear to have been a decline in bill payments from 1987 to
22 1997, but there appears to be a decline between 1997 and
23 1998, of approximately 400 million pieces.

24 How did you derive your estimate of a decline of
25 400 million pieces?

1 A Actually, that estimate comes from using the
2 figures that you cite in your question and also the
3 percentages from the Household Mail Stream Study, which are
4 believed to be reply mail pieces.

5 Q Turn your attention to your response to Postal
6 Service Interrogatory Number 1.

7 There you reference -- do you have it in front of
8 you?

9 A Yes, I do.

10 Q There you reference discussions you've had with
11 people over the years concerning CEM. And I'm just curious;
12 in the course of those discussions, did you ever discuss the
13 possibility that the averaging of the basic First Class Mail
14 rate for the benefit of establishing a CEM category, could
15 have the effect of pushing up the rate on non-CEM letter
16 mail?

17 A I'm not aware of whether that would happen or not.
18 I don't think we have any proof that that would happen.

19 Q Did you suggest that possibility to any of the
20 people you talked to?

21 A I doubt it. I mean, I know the Postal Service has
22 done a survey in Docket Number R97-1, in which it proposed a
23 discount to people, and at the same time, a price increase.

24 That would certainly dampen people's enthusiasm
25 for CEM if they thought that in getting CEM, all their other

1 mail would be more expensive.

2 Q And would it not dampen their enthusiasm if that
3 were to, in fact, be the case?

4 A I don't think we know whether that would be the
5 case. I certainly don't.

6 Q I mean, if it were the case?

7 A If it were, it probably make people less excited
8 about it, yes. I think that the real point that we're
9 missing by talking about what the rate structure of First
10 Class might or might not look like if we had CEM, is that
11 it's a choice for consumers.

12 And CEM is being proposed as a choice for
13 consumers. If CEM is never offered, then the issue is never
14 going to arise.

15 Certainly we don't know right now, looking at the
16 rate structure, because CEM isn't part of it.

17 And we certainly don't know what kind of use there
18 would be of it. Without it in place, it's not possible for
19 anyone to use it.

20 Q Okay, I'd like you to take a look at your response
21 to Postal Service Interrogatory Number 4.

22 And I'd like to focus on Subpart F.

23 A Four-F?

24 Q Four-F, as in Frank. In Subpart F, we ask you to
25 assume that a CEM rate of 30 cents was currently in effect,

1 and that there were two basic First Class Mail stamps, say,
2 a 33-cent stamp for non-CEM, and a 30-cent rate for CEM.

3 And we asked you also to assume that the
4 Commission recommended that the Governors approve the
5 one-cent increase in the CM rate, and a two-cent increase in
6 the regular basic First Class Mail rate.

7 And then we asked you to describe how the mailing
8 public would use non-denominated makeup stamps in
9 conjunction with the remainder of their 3-cent and their
10 33-cent stamps as the higher rates were implemented.

11 And your response was to indicate that while you
12 couldn't speculate on what the Commission or the Governors
13 might do in the future, you said that you would note that a
14 similar situation could arise with any of the First Class
15 mail discounts.

16 And I was curious as to which discounts you had in
17 mind there?

18 A Well, when anything is proposed -- what I meant
19 was, when anything is proposed as a discount, I'm not
20 envisioning a situation where the discount would be reduced
21 while the rate from which the discount is subtracted would
22 be increased.

23 I mean, maybe that happens. It's certainly not
24 familiar to me. The amount of pass-throughs has been
25 adjusted from time to time, but regardless of whether the

1 Governors or the Commission recommended the Governors
2 approve a two-cent increase in the first ounce rate, the
3 discount, the CEM would still be subtracted off of that
4 rate.

5 So unless I'm missing your question entirely, the
6 same is true for any rate that's a discount.

7 Q Well, for what other First Class discounts do
8 mailers ordinarily use stamps to pay postage?

9 A Well, the issue of stamps didn't come up in this
10 question, and I'm not aware of which rates use stamps and
11 which don't. I think there are options in some cases.

12 Q You don't see the issue of stamps coming up in the
13 question at all?

14 A The use of stamps or not using stamps for other
15 discounts? Oh, I see, I see, I see.

16 Presorted mail does have stamps, I believe, as an
17 option.

18 Q Would you happen to know what percentage of
19 presort pieces are stamped?

20 A I don't know, but I certainly receive presort
21 pieces that are stamped.

22 Q Would you know or could you offer an opinion as to
23 whether or not that was the majority of the pieces you
24 receive?

25 A I suspect it's not.

1 Q I'd like you to focus now on your response to
2 Postal Service Interrogatory 28.

3 [Pause.]

4 And do you have that in front of you?

5 A Yes, I have that.

6 Q And there we were asking you about the Footnote 37
7 on page 19 of your testimony, and it probably would be
8 useful to take a gander at that.

9 [Pause.]

10 A I see it.

11 Q Okay. And your footnote reads that a bill payer
12 may be induced by CEM discounts to use the accurate, clean,
13 pre-bar-coded envelope provided, rather than choosing a
14 blank envelope.

15 The latter may result in hand-addressing with its
16 added processing and delivery problems.

17 Am I correct in interpreting your testimony to
18 suggest that if there -- if a CEM discount were available,
19 it would induce people to use the pre-bar-coded, clean
20 envelopes that they are provided already to a higher degree
21 than they otherwise do today?

22 A It's certainly possible. It's possible for those
23 people who don't use the envelope provided.

24 Q And those would be people who are not using the
25 envelope because?

1 A Maybe they're using their personal stationery.
2 There may be some people out there doing it.

3 The point is, if there are some people doing it,
4 they may be more inclined to use the proper envelope if they
5 got a discount.

6 It stands to reason that if they are going to be
7 able to put less postage on the envelope, they might use the
8 envelope that the lesser postage goes with. That's the
9 point.

10 I think you're reading a little more in here than
11 there is.

12 Q So, those people who, when given a choice between
13 -- today -- between using the provided pre-bar-coded, clean,
14 preprinted envelope to mail a bill payment, in your view,
15 there is percentage of these people -- I assume it's a
16 relatively small percentage of people -- who say, oh, no,
17 I've got my own personal stationery, my own personal
18 envelopes, and I'd much rather throw away this Pepco
19 envelope and either type or hand-write Pepco's address and
20 let them know that they're getting the personal touch from
21 me?

22 A Well, I don't think I envision that so much as I
23 envision someone who is preparing their bills using a
24 personal computer, and wanted their return address
25 automatically printed on the envelope.

1 But I suppose that if their printer is flexible
2 enough, they could run the CRM envelope through and put
3 their return address on it also.

4 In any event, I think that's probably a very small
5 number of people. It doesn't seem to me like the majority
6 of people would be throwing away the CRM envelope.

7 Q I mean, wouldn't you agree that it's that the
8 convenience of that CRM envelope is so overwhelming that
9 that's the factor that drives people who have options to use
10 that envelope almost all of the time?

11 A Oh, I would agree that almost all of the time,
12 people are using that envelope. I mean, you pull it out of
13 the envelope with the bill.

14 Q Do you think that their decision to use that
15 envelope was in any way influenced by whether or not the
16 stamp they've got to stick on the envelope is a 33-cent
17 stamp versus a 32-cent stamp or a 30-cent stamp?

18 A Well, we certainly wouldn't know that now, would
19 we? I mean, there is no way of knowing that right now.

20 Q Well --

21 A There isn't any way to put a discounted stamp on
22 it.

23 Q Well, one could survey people and ask them.

24 A One could.

25 Q But --

1 A The Postal Service probably has. I just don't
2 know at the moment.

3 Q Okay.

4 A It just seems reasonable to me that if you have an
5 opportunity to use one of two envelopes, and one of them,
6 you can put a discounted stamp on and the other one you
7 can't, it seems like a logical choice to choose the
8 discounted envelope.

9 I don't know many people that spend more money
10 when they don't have to. That's the whole point of the
11 discount, to give consumers a choice.

12 If consumers find it inconvenient or they don't
13 want to do, or they don't like two stamps, whatever the
14 reason is, they can use the more expensive stamp.

15 Q And those are people who would spend, to use your
16 words, would spend more money than they have to?

17 A Of course. I mean, if there are two rates
18 offered, one's a discounted rate and one's the full rate,
19 and you choose to use the full rate, then you're choosing to
20 spend more money than you need to.

21 People often do it right now in the second ounce.
22 Very frequently people put two first-ounce stamps on a piece
23 that they could put less postage on, because they are not
24 keeping two types of postage.

25 I mean, I don't see that as very much different

1 from this, and people who choose to do that at least have
2 the choice, whereas, if there isn't a CEM rate, then
3 consumers don't have the choice.

4 MR. TIDWELL: We have no further questions.

5 CHAIRMAN GLEIMAN: Followup?

6 [No response.]

7 CHAIRMAN GLEIMAN: Questions from the Bench? I
8 have one question for you, Ms. Willette.

9 THE WITNESS: All right.

10 CHAIRMAN GLEIMAN: I think it's only one question.
11 In R97-2, at Paragraph 5183, it states as follows:

12 Therefore, the Commission recommends CEM as a
13 shell classification. As noted below, the Commission's
14 recommendations allow approximately \$33 million for
15 educational efforts related to CEM.

16 And the thrust of that was concerns over confusion
17 that people might have and the like. Do you have any idea
18 what the Postal Service did with that \$33 million? Did
19 they, perchance, use it to do a survey and ask people
20 whether they might like to have a reduced rate stamp for
21 their courtesy reply mail, or did it just disappear
22 somewhere?

23 THE WITNESS: Well, I think we all know what they
24 did not use it for. I think we can be certain that it was
25 not used to educate the public as to how to use the CEM

1 discount.

2 CHAIRMAN GLEIMAN: Thank you. Commissioner
3 Goldway?

4 COMMISSIONER GOLDWAY: I just have a question as
5 to whether the OCA has given any thought to how this
6 proposal for CEM relates to the proposal that was discussed
7 yesterday with regard to the delay in the cycle for
8 increases in First class single-piece mail usage?

9 THE WITNESS: I think the two proposals are not
10 exclusive. The CEM discount would be taken off whatever the
11 First Class rate would become throughout that cycle, so they
12 would change together, just as other discounts in First
13 Class would change.

14 COMMISSIONER GOLDWAY: They would change together
15 with the First Class, single-piece rate?

16 THE WITNESS: Whatever the First Class,
17 single-piece rate was, the discount would be taken from that
18 rate.

19 COMMISSIONER GOLDWAY: Okay, so if the
20 single-piece rate is maintained over a longer period of
21 time, then the CEM is maintained as well over the longer
22 period of time?

23 THE WITNESS: Exactly.

24 COMMISSIONER GOLDWAY: And those people who tend
25 to use both of these would then have a more stable

1 environment in which to make those choices that you
2 describe?

3 THE WITNESS: Yes, that's correct.

4 COMMISSIONER GOLDWAY: Okay, and do you see any
5 financial impact to the fact that the CEM rate would be tied
6 to the more stable single-piece rate that's different from
7 the financial impact that you have proposed under this plan
8 that you've submitted that is not exclusive to the
9 single-piece rate proposal?

10 THE WITNESS: No, the financial impact wouldn't
11 change.

12 COMMISSIONER GOLDWAY: Thank you.

13 CHAIRMAN GLEIMAN: Other questions from the Bench?

14 [No response.]

15 CHAIRMAN GLEIMAN: Followup to questions from the
16 Bench?

17 MR. TIDWELL: One question.

18 FURTHER CROSS EXAMINATION

19 BY MR. TIDWELL [Resuming]:

20 Q Ms. Willette, you were asked by the Chairman if
21 you were aware of whether the Postal Service had spent any
22 of the \$33 million given to it by the Commission through its
23 R97 decision to do a survey on customer preferences
24 regarding courtesy envelope mail.

25 Do you recall whether or not the Postal Service

1 expended any resources to conduct such a survey before the
2 recommended decision in R97?

3 A I do remember a survey that you questioned me
4 about that Witness Ellard, I believe, conducted as part of
5 your rebuttal in the last case.

6 And, oddly enough, I was reviewing that this
7 morning, and I found that one of the questions, Question
8 P-3, was a question that asked people: Compared to the
9 current system, level of convenience, to use two different
10 stamp denominations, if the Postal Service approved the
11 reduced rate for courtesy reply envelope postage, would it
12 be more convenient, less convenient, don't know, or about as
13 convenient?

14 It turns out that 63 percent of the people
15 surveyed said it would be either more convenient or about as
16 convenient to have two different denominations of stamps.

17 So I took that to mean that people didn't mind the
18 idea.

19 Q Well, there's a lot else in the survey that we'll
20 deal with on rebuttal.

21 MR. TIDWELL: That's all I have.

22 CHAIRMAN GLEIMAN: Actually, my question was a
23 little broader. It asked whether it had been used for any
24 educational efforts or something akin to a survey of people.

25 Do you know whether it's been used, that money was

1 used for educational efforts?

2 THE WITNESS: Well, the new rates went into effect
3 on January 1st of 1999, I believe, and I haven't seen
4 anything that would indicate to me that anyone is being
5 taught how to use the CEM stamps.

6 CHAIRMAN GLEIMAN: Any further followup?

7 [No response.]

8 CHAIRMAN GLEIMAN: Would you like some time for
9 redirect?

10 MS. DREIFUSS: I think we'll just need about two
11 minutes for redirect. I did have one piece of information
12 to add to the question that you just posed, Mr. Chairman.

13 CHAIRMAN GLEIMAN: You can't -- are you going to
14 ask a question?

15 MS. DREIFUSS: I'm not going to testify, I
16 promise. This won't be testimony. I just wanted to give
17 you a citation, and the Postal Service as well.

18 OCA Interrogatory Number 135 asked the very
19 question that you did. We asked, in effect, what did you do
20 with the \$33 million, and the answer was --

21 CHAIRMAN GLEIMAN: Okay, well, we can all figure
22 out what the answer is. You're not going to testify.

23 MS. DREIFUSS: Okay.

24 CHAIRMAN GLEIMAN: But I'm glad to know that I'm
25 traveling in such good company that I would ask the same

1 questions as OCA.

2 Do you want several minutes, you say?

3 [Pause.]

4 MS. DREIFUSS: Just a minute or two would be
5 enough, I think.

6 CHAIRMAN GLEIMAN: Certainly.

7 [Recess.]

8 CHAIRMAN GLEIMAN: Ms. Dreifuss?

9 MS. DREIFUSS: The OCA has no redirect.

10 CHAIRMAN GLEIMAN: That being the case, Ms.
11 Willette, that completes your testimony here today. We
12 appreciate your appearance and your contributions to the
13 record. We thank you, and you are excused.

14 [Witness excused.]

15 CHAIRMAN GLEIMAN: We are going to break now for
16 lunch and come back at 1:30. We have one witness remaining,
17 and the reason we are going to take a lunch break now rather
18 than plow through is that the witness had some problems
19 making an airplane connection and won't arrive until then.
20 I think it would be a good idea to have the witness if we
21 were going to have cross-examination.

22 So we will get back together at 1:30.

23 [Whereupon, at 12:13 p.m., the hearing was
24 recessed, to reconvene at 1:30 p.m., this same day.]

25

A F T E R N O O N S E S S I O N

[1:32 p.m]

CHAIRMAN GLEIMAN: Mr. May, you may call your witness when you are ready. Mr. May, the ball is in your court. Just introduce your witness here and I will get him sworn and the Postal Service can get that one question they need to ask.

MR. MAY: Yes. This is Lloyd Karls testifying on behalf of the Parcel Shippers Association. Whereupon,

LLOYD KARLS,
a witness, having been called for examination and, having been first duly sworn, was examined and testified as follows:

D I R E C T E X A M I N A T I O N

BY MR. MAY:

Q Mr. Karls, I am going to hand you two copies of a document captioned "The Direct Testimony of Lloyd Karls on Behalf of the Parcel Shippers Association," PSA-T-2. I will ask you to look at these confirm that this is the testimony you have prepared for this proceeding.

A I do have a few minor corrections to the analysis that we did. On further review, we found nine SKUs, what we referred to as product codes, that should not have been included in the original study. What that did was

1 basically, if you go to the introduction, go to page 4, that
2 would have reduced our volume on line 20, which reads, of
3 which 522,399, should be 522,276. That was reduced by 123
4 pieces.

5 On page 5, under Number 4, with the smallest
6 parcel cube being .55 cubic feet, that should now read .64.

7 Q That's line 4, right, line 4?

8 A That is correct.

9 Q Okay.

10 A Then under PSA Exhibit T-2-1, the average weight
11 on the total SKUs line, at the bottom of the page, should be
12 41.24, it currently reads 41.22, a difference of
13 two-hundredths of a pound.

14 Q Do those complete the changes to your testimony?

15 A Those do complete the changes.

16 Q Thank you. With those changes, do you adopt this
17 testimony as your -- this printed testimony as your
18 testimony in this proceeding?

19 A Yes, I do.

20 Q Thank you. And I am now handing you two copies.

21 MR. MAY: Excuse me. I move its admission, Mr.
22 Chairman.

23 CHAIRMAN GLEIMAN: If you could please provide the
24 two corrected copies to the court reporter of the testimony,
25 Mr. May.

1 MR. MAY: I will.

2 CHAIRMAN GLEIMAN: We will, without objection --

3 [No response.]

4 CHAIRMAN GLEIMAN: I don't hear any. Direct that
5 the direct testimony of the witness, as corrected, be
6 transcribed and entered into evidence.

7 [Direct Testimony of Lloyd Karls,
8 PSA-T-2, was received into evidence
9 and transcribed into the record.]

10

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RECEIVED
PSA-T-2
May 22 1 53 PM '00
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

DIRECT TESTIMONY

OF

LLOYD KARLS

ON BEHALF OF

PARCEL SHIPPERS ASSOCIATION

**Timothy J. May
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Washington, DC 20037-1350
Tel. 202/457-6050
Fax. 202/457-6315**

**Counsel for
Parcel Shippers Association**

May 22, 2000

AUTOBIOGRAPHICAL SKETCH

1
2 My name is Lloyd Karls, Manager of Parcel Delivery Services for Fingerhut
3 Companies Inc. Serving in this capacity, I am responsible for managing the delivery of
4 parcels. I am accountable for carrier selection, maintaining the postage system design,
5 and meeting customer delivery standards while improving corporate financial
6 performance by reducing the significant corporate expense. I serve as the liaison
7 representing Fingerhut's parcel delivery needs with the Postal Service as well as other
8 parcel carriers. I have 22 years experience in consumer direct distribution in
9 Distribution Operations, Packaging, and Carrier Management.

10 I have served on numerous USPS Task Force committees representing industry
11 on issues such as Bar Code Standardization, Mail Endorsement, Return Processing,
12 Confidence in the Mail (fraud review), Parcel Implementation Readiness Team, and was
13 also the Industry Co-chair during Parcel Reclassification.

14 I presently serve as a member of the Mailer's Technical Advisory Committee
15 (MTAC) representing the Parcel Shippers Association. In addition, I serve as an elected
16 officer to the Parcel Shippers Association (PSA) Executive Committee and am a
17 member of the Institute of Packaging Professionals.

18 The purpose of my testimony is to examine the rates proposed for "oversize"
19 parcel post, parcels whose size in length and girth combined ranges between 108" and
20 130".

1 **INTRODUCTION**

2 The Postal Service's current and proposed rates in this proceeding for oversize
3 parcels are so expensive that they will continue to disincent prospective users of this
4 service. Those rates range from a low of \$8.69 for DDU to \$30.24 for DBMC Zone 5.
5 These high rates are based on USPS assumed costs; these costs are, in turn, based on
6 assumed average cube per oversize parcel.

7 **I. AVERAGE CUBE OVERSIZE PARCELS – POSTAL SERVICE ESTIMATE.**

8 Of crucial importance in the estimation of costs of oversize parcels is the
9 assumed density of such parcels; the larger the cubic feet the more cost is presumed.
10 The Postal Service filing incorrectly estimated the cubic feet of an average oversize
11 parcel to be 10.84. The Service filed an Errata stating that the average cube, derived
12 from data in PQ3 FY 1999, was 8.04. The consequences of this Errata were to reduce
13 the estimated costs for oversize parcels and also to cause revised rate proposals to be
14 filed. (Tr. Vol. 13, pp. 5156-7) Furthermore, USPS witness Eggleston testified that, if
15 the cube of the oversize parcels were assumed to be less than 8.05, for example, 5,
16 then there would be even greater cost differences; for example, the DBMC costs would
17 be reduced by \$2.80. (Tr. Vol. 13, p. 5163)

18 It turns out that the Postal Service's cube data is derived from a sample that
19 totaled 64 pieces. Even worse, the Intra-BMC cube was derived from a sample of 5
20 pieces. (Tr. Vol. 13, p. 5157)

21 There is a theoretical maximum and minimum amount of cubic feet to a parcel
22 whose combined length and girth are between 108" and 130". The Postal Service
23 agreed that the theoretical maximum was 11.77 cubic feet and that, if one constrained it

1 so that the length could not be more than 5 times the girth, and that the cross-section
 2 has to be square, the minimum density would be 1 cubic feet. Thus, it is obvious that
 3 the Postal Service's estimates based on their skimpy sample are on the high side of this
 4 range of 1 to 11.77 cubic feet. The mean of these extreme dimensions would be
 5 around 6 cubic feet.

6 The Postal Service also testified that its average oversize cubic estimate of 8.04
 7 had a 95% confidence interval that ranged from 6.55 and 9.53. (Tr. Vol. 13, pp. 5161-2)
 8 The Postal Service testified further that what that meant was that if one were to have a
 9 95% chance of including the true value of the average oversize cubic feet that one had
 10 to consider all possible values in the range between 6.55 feet and 9.53 feet. Thus, the
 11 Postal Service's own estimates, with the confidence interval ranges implied by their co-
 12 efficients of variation for their sample size, clearly do not contradict a cubic foot average
 13 much closer to 6 feet than to 8 feet.

14 **II. THE ACTUAL CUBE OF OVERSIZE PARCELS IN THE REAL WORLD.**

15 Based on the real world experience of our own mailings, and that of a major
 16 shipper with whom we consulted, the density of oversize parcels is much closer to 6 feet
 17 than it is to the Postal Service's revised 8.04 cubic feet. As I have pointed out, the
 18 Service's total sample was 64 pieces. Their estimate of total postal volume of oversize
 19 parcels in the Test Year is 169,000 parcels. (USPS T-36, Attachment D, p. 1) In 1999
 20 Fingerhut shipped a total of 25,534,879 parcels, of which ^{522,276}522,399 had a combined
 21 length and girth between 108" and 130". The Postal Service's entire anticipated
 22 oversize volume in the Test Year is less than one-third of Fingerhut's own 1999 volume.
 23 Our experience with our own parcels, which is more than three times the entire Postal

1 Service estimated volume, and where the Postal Service's sample from which they
2 derive their cube is only 64 pieces, is a much better indicator of what the true average
3 cube of an oversize parcel is. In 1999 our oversize parcel cube averaged 6.03 cubic
4 feet, with the smallest parcel cube being ^{5.64}.55 cubic feet and the largest parcel cube
5 being 11.71 cubic feet. Exhibit A is a table which itemizes the volume per cubic feet
6 from 1 through 12 cubic feet. Also, CTC, a consolidator of parcels, and probably the
7 largest parcel shipper, has informed me that the average cube of their oversize parcels
8 is 5.6 cubic feet.

9 While our own experience, and that of CTC, are not necessarily a true indicator
10 of all oversize parcels, we think that they are incontestably the better evidence as to
11 what the cube, and therefore, the costs are of oversize parcels.

12 **III. CONCLUSION.**

13 USPS witness Plunkett has already provided the rate reductions that are implied
14 by the cost changes dictated by the correction of the admitted cubic foot error. (Tr. Vol.
15 13, pp. 5005-6) Further reducing the cubic feet estimate to 6 would cause even larger
16 reductions in costs and implied reductions in rates.

17 Hardly anyone is making use of this oversize rate category because the cost is
18 prohibitive; we make little use of it. USPS' competitors charge nothing like these rates.
19 It is a grave inconvenience to the mailer to have to separate its oversize parcels and
20 tender them to a different carrier and a major competitive disadvantage to the Postal
21 Service. These rates should be reduced significantly.

PSA EXHIBIT T-2-1

1999 Shipments 108 Inches to 130 Inches Average Cube

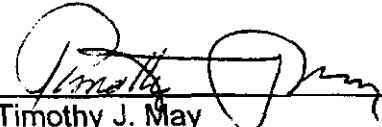
Code	Desc	Length	Width	Height	Cubic Inches	Cubic Feet	Girth	Weight	Volume
Total	Cubic Feet 0 to .99				1,449.98	0.84		15.18	295 0.06%
Total	Cubic Feet 2.00 to 2.99				4,153.32	2.40		41.95	58,661 11.23%
Total	Cubic Feet 3.00 to 3.99				6,016.60	3.48		38.50	52,893 10.13%
Total	Cubic Feet 4.00 to 4.99				7,780.84	4.50		40.95	42,030 8.05%
Total	Cubic Feet 5.00 to 5.99				9,185.00	5.32		55.58	56,335 10.78%
Total	Cubic Feet 6.00 to 6.99				11,323.51	6.55		37.74	125,729 24.07%
Total	Cubic Feet 7.00 to 7.99				13,012.54	7.53		46.49	61,624 11.80%
Total	Cubic Feet 8.00 to 8.99				14,795.22	8.56		33.13	33,518 6.42%
Total	Cubic Feet 9.00 to 9.99				16,577.86	9.59		41.47	37,030 7.09%
Total	Cubic Feet 10.00 to 10.99				17,921.74	10.37		36.33	23,705 4.54%
Total	Cubic Feet 11.00 to 11.99				19,698.45	11.40		39.15	11,238 2.15%
Total	Sku's				10,421.09	6.03		41.22	522,399 100.00%

Lowest and Highest Cubed Sku

Code	Desc	Length	Width	Height	Cubic Inches	Cubic Feet	Girth	Weight	Volume
628GJ	BONE CLR BSTD10" PEA	105.00	3.00	3.00	945.00	0.55	117.00	0.72	6 Lowest Cube
11P8M	SOFA ITALIAN SETTEE BURG	42.00	23.50	20.50	20,233.50	11.71	130.00	30.50	5 Highest Cube

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon all participants of record in this proceeding in accordance with Section 12 of the Rules of Practice.



Timothy J. May

Dated: May 22, 2000

1 BY MR. MAY:

2 Q Mr. Karls, I am handing you two sets of the
3 designated written cross-examination. These purport to be
4 your responses to questions from the United States Postal
5 Service 1 through 5. I ask you to examine these and see if
6 these are the answers you have provided.

7 A The documents are correct.

8 MR. MAY: Mr. Chairman, I am going to hand the
9 designated written cross-examination, two sets, to the
10 reporter and ask that it be transcribed in the record.

11 CHAIRMAN GLEIMAN: If the questions were asked of
12 you today, your answer would be indeed the same?

13 THE WITNESS: Yes.

14 CHAIRMAN GLEIMAN: Mr. May, if you would provide
15 those two copies and, also, the corrected copies of the
16 testimony, all that material will be transcribed and entered
17 into evidence.

18 [Designated Written
19 Cross-Examination of Lloyd Karls,
20 PSA-T-2, was received into evidence
21 and transcribed into the record.]
22
23
24
25

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

Postal Rate and Fee Changes, 2000

Docket No. R2000-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION
OF PARCEL SHIPPERS ASSOCIATION
WITNESS LLOYD KARLS
(PSA-T-2)

Party

United States Postal Service

Interrogatories

USPS/PSA-T2-1-5

Respectfully submitted,


Cyril J. Pittack
Acting Secretary

INTERROGATORY RESPONSES OF
PARCEL SHIPPERS ASSOCIATION
WITNESS LLOYD KARLS (T-2)
DESIGNATED AS WRITTEN CROSS-EXAMINATION

<u>Interrogatory</u>	<u>Designating Parties</u>
USPS/PSA-T2-1	USPS
USPS/PSA-T2-2	USPS
USPS/PSA-T2-3	USPS
USPS/PSA-T2-4	USPS
USPS/PSA-T2-5	USPS

**RESPONSE OF PARCEL SHIPPERS ASSOCIATION WITNESS KARLS
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE**

USPS/PSA-T2-1. The following questions refer to the methodology used to derive the average cube of Fingerhut's oversize parcels (6.03).

- a. Was a sample used to calculate this average cube? If yes, please explain what methodology you used to ensure the randomness of the sample.
- b. Over what period of time was the average cube of 6.03 calculated?
- c. Exactly how was cube calculated? Was each parcel measured individually? Please explain all steps in the process including any assumptions that were used.
- d. Please supply all the raw data used to calculate the average cube of 6.03.

RESPONSE:

- a. No.
- b. Average cube was calculated on packages shipped during the December 26, 1998 – December 31, 1999 timeframe.
- c. The package cube was calculated by multiplying the package length in inches by the width in inches by the height in inches divided by 1,728. The result is the cubic size in feet of the package.

No.

One unit of each product code is measured during the receiving process.

Each receiving requires a new measurement.
- d. Please see attached detail used to calculate the average Fingerhut cube of 6.03.

1999 Shipments 108 Inches to 130 Inches Average Cube

Code	Desc	Length	Width	Height	Cubic Inches	Cubic Feet	Girth	Weight	Volume
Total	Cubic Feet 0 to .99				1,449.98	0.84		15.18	295 0.06%
Total	Cubic Feet 1.00 to 1.99				2,876.18	1.66		32.06	19,341 3.70%
Total	Cubic Feet 3.00 to 3.99				6,016.60	3.48		38.50	52,893 10.13%
Total	Cubic Feet 4.00 to 4.99				7,780.84	4.50		40.95	42,030 8.05%
Total	Cubic Feet 5.00 to 5.99				8,185.00	5.32		55.58	58,335 10.78%
Total	Cubic Feet 6.00 to 6.99				11,323.51	6.55		37.74	125,729 24.07%
Total	Cubic Feet 7.00 to 7.99				13,012.54	7.53		46.49	61,624 11.80%
Total	Cubic Feet 8.00 to 8.99				14,795.22	8.56		33.13	33,518 6.42%
Total	Cubic Feet 9.00 to 9.99				16,577.86	9.59		41.47	37,030 7.09%
Total	Cubic Feet 10.00 to 10.99				17,921.74	10.37		36.33	23,705 4.54%
Total	Cubic Feet 11.00 to 11.99				18,898.45	11.40		39.15	11,238 2.15%
Total	Sku's				10,421.09	6.03		41.22	522,399 100.00%

4124 522267

Lowest and Highest Cubed Sku

Code	Desc	Length	Width	Height	Cubic Inches	Cubic Feet	Girth	Weight	Volume
628GJ	BONE CLR BSTD10" PEA	105.00	3.00	3.00	945.00	0.55	117.00	0.72	6 Lowest Cube
11P8M	SOFA ITALIAN SETTEE BURG	42.00	23.50	20.50	20,233.50	11.71	130.00	30.50	5 Highest Cube

**RESPONSE OF PARCEL SHIPPERS ASSOCIATION WITNESS KARLS
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE**

USPS/PSA-T2-2. The following questions refer to the methodology used to derive the average cube of CTC's oversize parcels (5.6).

- a. Was a sample used to calculate this average cube? If yes, please explain what methodology you used to ensure the randomness of the sample.
- b. Over what period of time was the average cube of 5.6 calculated?
- c. Exactly how was cube calculated? Was each parcel measured individually? Please explain all steps in the process including any assumptions that were used.
- d. Please supply all the raw data used to calculate the average cube of 5.6.

RESPONSE:

- a. Yes. CTC corporate staff asked its Operating Centers to take a "snapshot" of all the oversize parcels in-house on May 16, 1999. Each of the sixteen Operating Centers took measurements of all the oversize (108 inches – 130 inches) packages they handled that day.
- b. The period was one day (May 16, 1999).
- c. Each parcel was measured individually (length plus girth). Yes, each parcel was measured individually. There were no assumptions used.
- d. The raw data used to calculate the CTC average cube of 5.6 follows:

Response to USPS/PSA-T2-2(d)

- CTC Raw Data (Page 1 of 7) -

Package Dimensions

Length	Width	Height	Length + Girth	Cubic Inches	Cubic Feet
51	12.5	27	130.00	17,213	9.96
51	12.5	27	130.00	17,213	9.96
50	20.5	16	123.00	16,400	9.49
50	20.5	16	123.00	16,400	9.49
36	18	24	120.00	15,552	9.00
36	18	24	120.00	15,552	9.00
42.75	21	17	118.75	15,262	8.83
42.75	21	17	118.75	15,262	8.83
42	19	19	118.00	15,162	8.77
72	17	12	130.00	14,688	8.50
72	17	12	130.00	14,688	8.50
72	17	12	130.00	14,688	8.50
43	21	16	117.00	14,448	8.36
43	21	16	117.00	14,448	8.36
38	23	16	116.00	13,984	8.09
38	23	16	116.00	13,984	8.09
38	23	16	116.00	13,984	8.09
38	23	16	116.00	13,984	8.09
43	20	16	115.00	13,760	7.96
43	20	16	115.00	13,760	7.96
47.5	24	12	119.50	13,680	7.92
47.5	24	12	119.50	13,680	7.92
47.5	24	12	119.50	13,680	7.92
44	24	12.75	117.50	13,464	7.79
44	24	12.75	117.50	13,464	7.79
44	24	12.75	117.50	13,464	7.79
55	15	16	117.00	13,200	7.64
55	15	16	117.00	13,200	7.64
36	19	19	112.00	12,996	7.52
36	19	19	112.00	12,996	7.52
36	19	19	112.00	12,996	7.52
36	19	19	112.00	12,996	7.52
35	20	18	111.00	12,600	7.29
35	20	18	111.00	12,600	7.29
35	20	18	111.00	12,600	7.29
45	23	12	115.00	12,420	7.19
45	23	12	115.00	12,420	7.19
45	23	12	115.00	12,420	7.19
45	23	12	115.00	12,420	7.19
45	23	12	115.00	12,420	7.19
39.5	28.5	11	118.50	12,383	7.17
39.5	28.5	11	118.50	12,383	7.17
39.5	28.5	11	118.50	12,383	7.17
39.5	28.5	11	118.50	12,383	7.17
36	19	18	110.00	12,312	7.13
36	19	18	110.00	12,312	7.13
36	19	18	110.00	12,312	7.13

36	19	18	110.00	12,312	7.13
24.5	25	20	114.50	12,250	7.09
24.5	25	20	114.50	12,250	7.09
24.5	25	20	114.50	12,250	7.09
24.5	25	20	114.50	12,250	7.09
24.5	25	20	114.50	12,250	7.09
24.5	25	20	114.50	12,250	7.09
24.5	25	20	114.50	12,250	7.09
24.5	25	20	114.50	12,250	7.09
42	18	16	110.00	12,096	7.00
42	18	16	110.00	12,096	7.00
42	18	16	110.00	12,096	7.00
42	18	16	110.00	12,096	7.00
42	18	16	110.00	12,096	7.00
42	18	16	110.00	12,096	7.00
40	18	16.75	109.50	12,060	6.98
40	18	16.75	109.50	12,060	6.98
40	18	16.75	109.50	12,060	6.98
40	18	16.75	109.50	12,060	6.98
40	18	16.75	109.50	12,060	6.98
40	18	16.75	109.50	12,060	6.98
40	18	16.75	109.50	12,060	6.98
34	16	22	110.00	11,968	6.93
34	16	22	110.00	11,968	6.93
34	16	22	110.00	11,968	6.93
34	16	22	110.00	11,968	6.93
34	16	22	110.00	11,968	6.93
39.5	19	15.75	109.00	11,820	6.84
39.5	19	15.75	109.00	11,820	6.84
39.5	19	15.75	109.00	11,820	6.84
40	24.5	12	113.00	11,760	6.81
40	24.5	12	113.00	11,760	6.81
40	24.5	12	113.00	11,760	6.81
40	24.5	12	113.00	11,760	6.81
40	24.5	12	113.00	11,760	6.81
40	24.5	12	113.00	11,760	6.81
34.5	16.75	20	108.00	11,558	6.69
34.5	16.75	20	108.00	11,558	6.69
34.5	16.75	20	108.00	11,558	6.69
34.5	16.75	20	108.00	11,558	6.69
34.5	16.75	20	108.00	11,558	6.69
38	16	19	108.00	11,552	6.69
38	16	19	108.00	11,552	6.69
31.5	24	15.25	110.00	11,529	6.67
31.5	24	15.25	110.00	11,529	6.67
31.5	24	15.25	110.00	11,529	6.67
31.5	24	15.25	110.00	11,529	6.67
60	24	8	124.00	11,520	6.67
60	24	8	124.00	11,520	6.67

[illegible]

Response to USPS/PSA-T2-2(d)

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47	16	14.5	108.00	10,904	6.31
47	16	14.5	108.00	10,904	6.31
47	16	14.5	108.00	10,904	6.31
47	16	14.5	108.00	10,904	6.31
47	16	14.5	108.00	10,904	6.31
56.5	16	12	112.50	10,848	6.28
56.5	16	12	112.50	10,848	6.28
56.5	16	12	112.50	10,848	6.28
56.5	16	12	112.50	10,848	6.28
40	26	10	112.00	10,400	6.02
40	26	10	112.00	10,400	6.02
40	26	10	112.00	10,400	6.02
40	26	10	112.00	10,400	6.02
39.25	23.5	11.25	108.75	10,377	6.01
39.25	23.5	11.25	108.75	10,377	6.01
39.25	23.5	11.25	108.75	10,377	6.01
39.25	23.5	11.25	108.75	10,377	6.01
51	16.75	12	108.50	10,251	5.93
51	16.75	12	108.50	10,251	5.93
51	16.75	12	108.50	10,251	5.93
51	16.75	12	108.50	10,251	5.93
51	16.75	12	108.50	10,251	5.93
51	16.75	12	108.50	10,251	5.93
51	16.75	12	108.50	10,251	5.93
51	16.75	12	108.50	10,251	5.93
51	16.75	12	108.50	10,251	5.93
51	16.75	12	108.50	10,251	5.93
50	20.5	10	111.00	10,250	5.93
50	20.5	10	111.00	10,250	5.93
50	20.5	10	111.00	10,250	5.93
50	20.5	10	111.00	10,250	5.93
30	29.25	11.5	111.50	10,091	5.84
30	29.25	11.5	111.50	10,091	5.84
30	29.25	11.5	111.50	10,091	5.84
30	29.25	11.5	111.50	10,091	5.84
30	29.25	11.5	111.50	10,091	5.84
30	29.25	11.5	111.50	10,091	5.84
30	29.25	11.5	111.50	10,091	5.84
30	29.25	11.5	111.50	10,091	5.84
52	16	12	108.00	9,984	5.78
52	16	12	108.00	9,984	5.78
52	16	12	108.00	9,984	5.78
52	16	12	108.00	9,984	5.78
52	16	12	108.00	9,984	5.78
38	26	10	110.00	9,880	5.72
38	26	10	110.00	9,880	5.72
38	26	10	110.00	9,880	5.72
38	26	10	110.00	9,880	5.72
38	26	10	110.00	9,880	5.72

Response to USPS/PSA-T2-2(d)
- CTC Raw Data (Page 5 of 7)

46	26	8	114.00	9,568	5.54
46	26	8	114.00	9,568	5.54
46	26	8	114.00	9,568	5.54
46	26	8	114.00	9,568	5.54
58	16	10	110.00	9,280	5.37
58	16	10	110.00	9,280	5.37
58	16	10	110.00	9,280	5.37
58	16	10	110.00	9,280	5.37
58	16	10	110.00	9,280	5.37
58	16	10	110.00	9,280	5.37
67	11.5	12	114.00	9,246	5.35
67	11.5	12	114.00	9,246	5.35
67	11.5	12	114.00	9,246	5.35
67	11.5	12	114.00	9,246	5.35
64	12	12	112.00	9,216	5.33
64	12	12	112.00	9,216	5.33
64	12	12	112.00	9,216	5.33
64	12	12	112.00	9,216	5.33
64	12	12	112.00	9,216	5.33
76	20	6	128.00	9,120	5.28
76	20	6	128.00	9,120	5.28
51	22	8	111.00	8,976	5.19
51	22	8	111.00	8,976	5.19
51	22	8	111.00	8,976	5.19
51	22	8	111.00	8,976	5.19
51	22	8	111.00	8,976	5.19
51	22	8	111.00	8,976	5.19
51	22	8	111.00	8,976	5.19
51	22	8	111.00	8,976	5.19
51	22	8	111.00	8,976	5.19
56	20	8	112.00	8,960	5.19
56	20	8	112.00	8,960	5.19
56	20	8	112.00	8,960	5.19
56	20	8	112.00	8,960	5.19
56	20	8	112.00	8,960	5.19
56	20	8	112.00	8,960	5.19
56	20	8	112.00	8,960	5.19
56	20	8	112.00	8,960	5.19
56	20	8	112.00	8,960	5.19
44	27	7.5	113.00	8,910	5.16
44	27	7.5	113.00	8,910	5.16
44	27	7.5	113.00	8,910	5.16
44	27	7.5	113.00	8,910	5.16
44	27	7.5	113.00	8,910	5.16
44	27	7.5	113.00	8,910	5.16
54	20	8	110.00	8,640	5.00

Response to USPS/PSA-T2-2(d)
 - CTC Raw Data (Page 6 of 7)

54	20	8	110.00	8,640	5.00
54	20	8	110.00	8,640	5.00
54	20	8	110.00	8,640	5.00
54	20	8	110.00	8,640	5.00
54	20	8	110.00	8,640	5.00
54	20	8	110.00	8,640	5.00
45	24	8	109.00	8,640	5.00
45	24	8	109.00	8,640	5.00
45	24	8	109.00	8,640	5.00
45	24	8	109.00	8,640	5.00
45	24	8	109.00	8,640	5.00
45	24	8	109.00	8,640	5.00
60	12	12	108.00	8,640	5.00
60	12	12	108.00	8,640	5.00
60	12	12	108.00	8,640	5.00
56	17.5	8.5	108.00	8,330	4.82
56	17.5	8.5	108.00	8,330	4.82
56	17.5	8.5	108.00	8,330	4.82
56	17.5	8.5	108.00	8,330	4.82
56	17.5	8.5	108.00	8,330	4.82
56	17.5	8.5	108.00	8,330	4.82
62	16	8	110.00	7,936	4.59
62	16	8	110.00	7,936	4.59
62	16	8	110.00	7,936	4.59
62	16	8	110.00	7,936	4.59
62	16	8	110.00	7,936	4.59
62	16	8	110.00	7,936	4.59
62	16	8	110.00	7,936	4.59
66	14	8	110.00	7,392	4.28
66	14	8	110.00	7,392	4.28
66	14	8	110.00	7,392	4.28
66	14	8	110.00	7,392	4.28
66	14	8	110.00	7,392	4.28
76	12	8	116.00	7,296	4.22
76	12	8	116.00	7,296	4.22
76	12	8	116.00	7,296	4.22
76	12	8	116.00	7,296	4.22
76	12	8	116.00	7,296	4.22
62	18	6	110.00	6,696	3.88
62	18	6	110.00	6,696	3.88
62	18	6	110.00	6,696	3.88
62	18	6	110.00	6,696	3.88
62	18	6	110.00	6,696	3.88
62	18	6	110.00	6,696	3.88
62	18	6	110.00	6,696	3.88
62	17	6	108.00	6,324	3.66
62	17	6	108.00	6,324	3.66

Response to USPS/PSA-T2-2 (d)

- CTC Raw Data (Page 7 of 7)

[illegible]

1728.00

**RESPONSE OF PARCEL SHIPPERS ASSOCIATION WITNESS KARLS
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE**

USPS/PSA-T2-3. Do you have any data on the average oversize cube of other mailers besides Fingerhut and CTC? If so, please provide those data.

RESPONSE:

No.

USPS/PSA-T2-4. Please present the data in PSA Exhibit T2-1 (described in the testimony as "Exhibit A") by weight increment. Also, please provide the CTC data referred to in your testimony by weight increment. If this is not available, please provide the number of 108-130 inch length plus girth pieces weighing under 70 pounds and the number of 108-130 length plus girth pieces weighing over 70 pounds for both your data and the CTC data.

RESPONSE:

For Fingerhut, see response to T2-1(d).

For CTC, weight level detail, although captured at the time, was not kept for this sample. However, it is known that all packages weighed less than 70 pounds.

**RESPONSES OF PARCEL SHIPPERS ASSOCIATION WITNESS KARLS TO
INTERROGATORIES OF THE UNITED STATES POSTAL SERVICE**

USPS/PSA-T2-5. Please refer to your response to USPS/PSA-T2-1(c). Please explain what you mean by "one unit of each product code is measured during the receiving process. Each receiving unit requires a new measurement."

- (a) Please define the term "unit."
- (b) Please define the term "product code."
- (c) Please define the term "receiving."
- (d) Please explain if each and every oversize parcel was measured. If one parcel is measured out of each type of parcel, please explain the level of confidence that all parcels of each type have the same measurements. If one only one parcel of each type of parcel is measured, please explain if the average cube is a weighted average.
- (e) Please explain which parcels you included in the oversize cube calculation: all parcels with measurements of length plus girth over 108 inches but not exceeding 130 inches, or parcels that definitely paid the oversize surcharge? If one method was picked over the other, please explain any differences between the two.

RESPONSE:

- a) Unit" is defined as a single product.
- b) "Product Code" as defined by Fingerhut is a 10-digit alpha/numeric code known as a stock-keeping-unit (SKU).

Example:

Product code: 41FA170010
Description: CD/Cassette Pioneer #A880

- c) "Receiving" is defined as the process of accepting and verifying the delivery of a product code to a distribution center.
- d) There are several checkpoints in the verification of product dimensions. Our Quality Assurance area identifies a product's dimension from a sample submitted for pre-shipment testing. Next, our Quality Control department verifies these dimensions upon each and every receiving at each Distribution Center. These continuous checks ensure consistency and accuracy in our dimensions because

**RESPONSES OF PARCEL SHIPPERS ASSOCIATION WITNESS KARLS TO
INTERROGATORIES OF THE UNITED STATES POSTAL SERVICE**

our own software systems (Warehouse Management System, Cartonization, etc.)
use this information to ensure warehouse efficiencies.

The average cube is a weighted average of all parcels shipped with
measurements of length and girth over 108 inches but not exceeding 130 inches
weighing 1-70 pounds.

- e) All parcels with measurements of length and girth over 108 inches but not
exceeding 130 inches weighing 1- 70 pounds were included in the oversize cube
calculation.

1 CHAIRMAN GLEIMAN: Is there any additional
2 designated written cross-examination for this witness?

3 MR. REITER: No, Mr. Chairman.

4 CHAIRMAN GLEIMAN: Not from the Postal Service,
5 and it doesn't appear there is any other.

6 That being the case, it brings us to oral
7 cross-examination. The Postal Service is the only party
8 that has indicated it desired to cross-examine this witness.

9 Does anyone else wish to cross-examine the
10 witness?

11 [No response.]

12 CHAIRMAN GLEIMAN: If not, Mr. Reiter, you may
13 being when you are ready.

14 MR. REITER: Thank you, Mr. Chairman.

15 CROSS-EXAMINATION

16 BY MR. REITER:

17 Q Good afternoon, Mr. Karls.

18 A Good afternoon.

19 Q If I could direct your attention again to PSA
20 Exhibit T-2-1, where you made a correction earlier, that was
21 in the total weight that you changed from 41.22 to 41.24, is
22 that correct?

23 A That is correct.

24 Q And I believe you also, in the text of your
25 testimony, changed the total number from 522,399 to 522,267.

1 Should the similar figure on your exhibit also be changed?

2 On the total line there next to the change you did make?

3 A Under the -- are you talking, --

4 Q Under volume.

5 A -- speaking of the volume? That is correct, sir.

6 Q Did that correction affect your calculation of the
7 total cubic inches or cubic feet that are shown to the left
8 of those figures on that same line?

9 A No, it did not. That was basically due to the
10 small number of parcels that it affected.

11 Q And the chart that you attached in response to our
12 Interrogatory Number 1 appears to me to be the same chart,
13 is that correct?

14 A Could you repeat the question?

15 Q Yes. The attachment to your response to our
16 Interrogatory 1, does that contain the same data as your
17 Exhibit Number 1?

18 A Yes, it does, as far as the response.

19 Q Did you make the same changes there?

20 A There were no changes on the response.

21 Q I see. You have the 41.22 already. What about
22 the 522,399, should that be changed, just to conform with
23 your other ones?

24 MR. MAY: It should be.

25 THE WITNESS: That's correct, it should be.

1 BY MR. REITER:

2 Q With respect to that number, are those
3 522,000-some-odd parcels that you included in your
4 calculation of the cube of Fingerhut's oversize parcels,
5 were all of those sent by the Postal Service?

6 A No, they were not.

7 Q Do you know the number or percentage that were
8 sent by the Postal Service?

9 A We have our systems set up to direct those type of
10 parcels to other carriers and not to the Postal Service at
11 this point due to cost.

12 Q So, none of them were sent by the Postal Service?

13 A The way the system was set up, none of them were
14 directed there. If somebody would have rerouted one or two
15 on the floor, you know, that is possible, but there was not
16 any intent to ship those through the Postal Service?

17 Q So you wouldn't have an average cube calculation
18 for oversize parcels that were sent by the Postal Service,
19 is that right?

20 A That is correct.

21 MR. REITER: That is all I have, Mr. Chairman.

22 CHAIRMAN GLEIMAN: Is there any follow-up?
23 Question from the bench?

24 [No response.]

25 CHAIRMAN GLEIMAN: Would you like some time for

1 redirect?

2 MR. MAY: No, thank you, Mr. Chairman.

3 CHAIRMAN GLEIMAN: Mr. Karls, that's it. That
4 completes your testimony here today. We appreciate your
5 appearance, your contributions to our record. We thank you
6 and you are excused.

7 THE WITNESS: Thank you very much.

8 CHAIRMAN GLEIMAN: That concludes our hearing for
9 today. We will reconvene on Monday, the 10th, at 9:30 a.m.,
10 and our witnesses that day will be Milani, Jones, Heath,
11 Elliot, O'Brien, Cohen, Stralberg and Glick.

12 Have a nice weekend.

13 MR. MAY: Thank you.

14 [Whereupon, at 1:46 p.m., the hearing was
15 recessed, to reconvene at 9:30 a.m., Monday, July 10, 2000.]

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