

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

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

POSTAL RATE AND FEE CHANGES, 2000

Docket No. R2000-1

NOTICE OF PITNEY BOWES INC.
CONCERNING ERRATA TO
TESTIMONY OF WITNESS HALDI (PB-T-2)

Pitney Bowes Inc. hereby provides notice of the filing of errata to the testimony of witness John Haldi (PB-T-2). The errors and corrections are listed on the immediately following pages. Revised pages are attached with the changes indicated by bold face type.

Respectfully submitted,



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Counsel for Pitney Bowes Inc.

Dated: July 13, 2000

Errata for PB-T-1

Page	Line(s)			
12	5	Change "754"	to	"746"
12	23	Change "754.168"	to	"746.128"
12	23	Change "791.212"	to	"799.252"
13	2	Change "6.7"	to	"6.6"
14	15	Change "6.745"	to	"6.673"
14	19	Change "6.715"	to	"6.643"
20	9	Change "3.0	to	"5.0"
20	11	Delete "slightly"		
27	15	Change "\$754.2"	to	"\$746.1"
27	16	Change "\$726.6"	to	"\$718.8"
29	22	Change "19.449"	to	"11.630"
29	22	Change ".165"	to	".099"
29	22	Change ".386"	to	".231"
29	22	Change "20.000"	to	"11.960"
29	24	Change "565.802"	to	"557.784"
29	24	Change "12.329"	to	"12.263"
29	24	Change "10.692"	to	"10.537"
29	24	Change "586.623"	to	"580.583"
29	29	Change "726.584"	to	"718.766"
29	29	Change "13.697"	to	"13.631"
29	29	Change "13.886"	to	"13.731"

Errata for PB-T-1 (con't)

Page	Line(s)	
29	29	Change "754.168" to "746.128"
29	32	Change "Tr.6/263" to Tr.21/9262"
29	42	Change "2650" to "2653"
29	46	Change "9257" to "9251"
29	47	After "paper." delete the period, insert a comma, then add "and 59.8 percent volume variable."
30	3	Change "\$791.2" to "799.3"
32	8	Change "\$754" to "\$746"
32	12	Change "67,400" to "\$66,720"
32	12	Change "6.74" to "6.67"
32	14	Change "\$791" to "\$799"
33	26	Insert "5c. Credit Card Fees 8,040,000"
33	45	Change "\$791,212,200" to "\$799,252,200"
33	51	Delete period and add ",21/9262" following Tr.6/2631
34	5	Change "Tr.21/3621" to "Tr. 21/9252"
34	31	Change " \$755,, 668,000" to "\$755,668,000
34	42	Insert "5c. Response to PB/USPS-T11-3(f) (revised 3/21/00)
39	19	Change "705,519" to "697,478"
39	19	Change "641,495" to "649,535"
39	19	Change "1,347,014" to "1,345,343"
39	21	Change "25,647" to "26,069"

Page	Line(s)	Errata for PB-T-1 (con't)
39	21	Change "35,929" to "36,350"
39	21	Change "6.1"to "6.2"
39	22	Change "83,617" to "84,071"
39	22	Change "94,682" to "95,135"
39	22	Change "15.0" to "15.1"
39	23	Change "36,391" to "36,6125"
39	23	Change "45,349" to "45,583"
39	23	Change "13.9" to "14.0"
39	25	Change "208" to "332"
39	25	Change "3,241" to "3,366"
39	26	Change "3,854" to "4,291"
39	26	Change "19,166" to "19,603"
39	28	Change "754,168" to "746,128"
39	28	Change "791,212" to "799,252"

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

3 Summary data on both revenues (Appendix C) and costs from
 4 stamps and meters during the Base Year, FY 1998, are shown in Table 1.
 5 The attributable cost of stamps and accountable paper (**\$746** million)
 6 was *substantially* greater than the attributable cost of meters (\$6.3
 7 million) as shown in Table 1.

8

9

10 Table 1

11

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

16

	(1)	(2)	(3)	(4)
	Revenues	Attribu- table Cost	Institu- tional Cost	Full Cost
22 Stamps & account- 23 able paper	11,181	746.128	799.252	1,545.380
24 Meters	21,076	6.286	8.989	15.275
27 Sources:	Stamp costs, Appendix A. 28 Meter costs, Appendix B. 29 Revenues, Appendix C; revenues shown here exclude metered postage generated 30 at Postal Service windows.			

31

32

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

1 table, as a percentage of revenues, the attributable transaction cost from
2 using stamps exceeds the cost of meters by more than **6.6** percent. The
3 full cost of stamps exceeds the cost of meters by more than 13.7
4 percent.¹⁸ From another perspective, to collect each \$1 billion in revenue
5 from stamps, the Postal Service incurs costs which are more than 180
6 times greater than the costs incurred to collect the same revenue from
7 meters. Moreover, the Postal Service's net cost associated with meters is
8 declining to the point where relatively insignificant accounting costs will
9 be incurred in the future. Witness Davis notes that "Currently, over 90
10 percent of postage meters in use are remote-set electronic
11 meters...[which]...involve an electronic transaction between the licensed
12 customer and the meter manufacturer. The Postal Service has no
13 operational role in such transactions, *and therefore incurs no cost for*
14 *such settings.*"¹⁹

¹⁸ Postal administrations, including the USPS, recognize that selling stamps through postal counters consumes a far too high percentage of revenue collected, and can be inconvenient as well. Accordingly they have implemented other low cost and more convenient methods for customers to purchase stamps; *e.g.*, stamps can be ordered by mail or telephone, or purchased at grocery stores through a consignment program. Regardless of how inexpensively stamps may be distributed through other channels, however, they still represent a high cost form of postage payment.

¹⁹ USPS-T-30, pages 15-16 (emphasis added).

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Table 2
Costs of Stamps and Meters
as Percent of Revenues
FY 1998

	(1)	(2)
	Attributable Cost	Full Cost
Stamps & accountable paper	6.673%	13.821%
Meters	0.030%	0.072%
DIFFERENCE	----- 6.643%	----- 13.749%

In terms of the 34-cent rate proposed for the first ounce of First-Class Mail in this Docket, transaction costs of 6.7 percent amount to 2.3 cents.²⁰

²⁰ For simplicity, the discussion here focuses on the rate for the first ounce of letter mail. In FY 1998, the average revenue from each piece of First-Class single piece nonpresort letter mail was 40.2 cents, and the projected average revenue in Test Year (after rates) is 43.5 cents. Applying a 6.7 percent transaction cost to average revenue figures instead of the first ounce rate would increase the average transaction cost attributable to an average single piece of stamped First-Class Mail from 2.3 to 2.9 cents, and reduce the passthrough to 35 percent.

1 **C. The Proposed Discount Would**
2 **Enjoy Simplicity of Execution**
3

4 This is not the first proposal to recognize cost differences within
5 single piece First-Class Mail. Qualified Business Reply Mail (“QBRM”)
6 receives a lower rate in recognition of its lower mail processing and
7 delivery cost, but pays an additional fee that explicitly recognizes the
8 high transaction cost involved in counting pieces and collecting revenue.
9 For QBRM the Postal Service charges 30 cents postage plus a fee of **5.0** cents
10 per piece to cover the transaction costs. The QBRM accounting fee slightly
11 exceeds 2.3 cents, the average cost of collecting revenue via stamps for the first
12 ounce of single piece First-Class Mail. For retail mail, total system cost should
13 be considered to include transaction costs as well as mail processing and
14 delivery costs.

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

1 **Appendix A**

2 **COST OF STAMPS**

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

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

13 **Costs Attributed to Stamps**

14 During FY 1998, the attributable costs of (i) stamps, and (ii) stamped
15 envelopes and cards amounted to some \$746.1 million.¹⁹ Of these costs,
16 96.3 percent, or \$718.8 million were attributable to stamps alone. The
17 cost to manufacture stamps was \$183 million,²⁰ while the

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

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

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

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Table A-1

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

----- Cost Segment -----		(1)	(2)	(3)	(4)
No.	Description	Stamps	Stamped Envelopes	Stamped Cards	Total Attributable
---	-----	---	-----	-----	-----
3.	Clerks/window service	357.738	3.041	7.098	367.877
16.	Supplies/stamps & accountable paper	183.398	9.123	3.208	195.729
16.	Mgt of stamp consignment prog.	4.646			4.646
16, 18	Artists	0.306			0.306
18 & 20	Stamp Advisory Committee	0.065			0.065
16.	Credit card fees	<u>11.630</u>	<u>0.099</u>	<u>0.231</u>	<u>11.960</u>
	SUBTOTAL	557.784	12.263	10.537	580.583
	Indirect costs, at 0.45 x clerks/window service costs	<u>160.982</u>	<u>1.368</u>	<u>3.194</u>	<u>165.545</u>
	Total attributable costs	718.766	13.631	13.731	746.128

Sources: Window service costs (stamps), response to PB/USPS-T11-26, Tr. 6/2631 envelopes and cards, respectively, Meehan W.S. 3.2.6, column 4, W.S. 3.2.2, column 8.

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

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

Artists and stamp advisory committee, response to PB/USPS-T11-5 & 23, Tr. 6/2615, 2629-2653, using volume variability of 59.8 percent applied to pertinent account numbers.

Credit card fees, response to PB/USPS-T11-3 (referred to USPS, revised 3/13/00), Tr. 21/9250-9251, estimated at \$20 million for stamps and accountable paper, and **59.8 percent volume variable**.

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

1 It has not been possible to quantify every institutional cost
2 associated with creating and selling stamps. In Fiscal Year 1998, those
3 costs that could be quantified amounted to **\$799.3** million, as shown in
4 Table A-2.

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

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

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

5

6 **Cost of Obtaining Revenues From Stamps**

7 In FY 1998 the total attributable cost for stamps and accountable
8 paper (stamped envelopes and cards) amounted to **\$746** million, while
9 revenues from stamps and accountable paper amounted to \$11,181
10 million. Thus, to collect \$1,000,000 in revenue from stamps, stamped
11 envelopes and cards the Postal Service incurred attributable costs of
12 **\$66,720** or **6.67** percent.

13 On a full cost basis, the recurring institutional costs added
14 another **\$799** million to the cost of stamps. Conservatively, the full costs
15 of stamp and accountable paper exceeded \$1,545 million. Thus, to
16 collect \$1,000,000 in revenue from stamps, stamped envelopes and cards
17 the Postal Service incurred full costs of about \$138,100 or 13.81 percent.

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Table A-2
Postal Service Institutional Costs
Associated with Stamps
FY1998

Row	Cost Segment	Item	Amount
----	-----	-----	-----
SALES AND REVENUE COLLECTION			
1a	3	Non-variable window service cost	\$ 417,930,000
1b		Piggyback	188,068,500
2	2, 3, 15, 20	USPS stamp vending machines	82,859,143
3	10	Rural carrier stamp sales	24,853,491
4	13	Stamp sales at contract stations	24,943,100
5a		Cost of stamps by mail	36,000,000
5b		Management of Consignment Program	3,123,414
5c		Credit Card Fees	8,040,000
6		Cost to distribute 64 million order forms	n/a
7		Mailing fees to distribute stamps (registry & penalty)	n/a
STAMP CREATION			
8	16, 18	Artist costs	217,829
9	15, 16, 18, 20	Stamp Advisory Committee	203,893
INTERNAL DISTRIBUTION			
10	18	Stamp Distribution Network personnel	13,012,831
11	14	Surface transportation cost to distribute stamps	n/a
12	3	Registry labor cost	n/a
TOTAL			\$ 799,252,200

Sources for Table A-2

Row	Description	Amount
1a.	Non-volume variable labor cost, response to PB/USPS-T11-26, Tr. 6/2631,	21/9262
1b.	Piggyback factor, response to PB/USPS-T11-12 (b), Tr. 6/2621.	
2.	Stamp vending machine costs. Service (Seg. 3, PB/USPS-T11-12(a), revised 3/21/00), Tr. 6/2620-2621.	\$54,245,804

1	Mileage PB/USPS-T11-12(b), Tr. 6/2621.	999,973	
2	Space cost (Seg.15, PB/USPS-T11-12(b)), Tr. 6/2621	30,727,971	
3	Depreciation (Seg. 20, PB/USPS-T11-9(b)(referred to		
4	USPS), Tr. 21/9252.	6,091,966	
5	Total cost	\$92,065,714	
6	Share assigned to stamps	90%	
7	Cost assigned to stamps	\$82,859,143	
8			
9	N.B. Some non-stamp products are sold through vending machines, and the amount of		
10	such items is estimated at 10 percent.		
11			
12	3. Costs associated with stamp sales by rural carriers are estimated as follows:		
13			
14	Time allowance for sale of stamps:		
15	Per week/route (Postal Bulletin No. 21952, dtd 8/14/97)	20	minutes
16	Per year/route	17.33	hours
17	Rural routes, Financial & Operating Statements, A/P 7, PFY 1998	60,731	routes
18	Rural carrier hours for stamp sales	1,052,671	hours
19	Total rural carrier hours (Nat'l Payroll Hours		
20	Summary Report, 9/11/98)	155,790,953	hours
21	Percent of total hours for stamp sales	0.675694	percent
22	Total rural carrier labor cost, USPS-T-11, Exh. W.S. 10.0.1	\$3,678,215,000	
23	Rural carrier stamp sales cost	\$24,853,491	
24			
25	4. Costs associated with stamp sales at contract stations are estimated as follows:		
26			
27	Total window service costs, USPS-T-11, Exh USPS-11A, p. 20	\$2,040,353,000	
28	Cost of window service stamp sales,		
29	response to PB/USPS-T11-26, Tr. 6/2631.	\$755,668,000	
30	Percent of window service cost attrib. to stamp sales	37.04%	
31	Total contract station costs, response to PB/USPS-T11-6		
32	(Referred to USPS), Tr. 6/2616.	\$67,348,000	
33	Cost of stamp sales at contract stations, at 37.04%	\$24,943,100	
34			
35	5a. Stamps by mail, response to PB/USPS-T11-10 and 12, Tr. 21/9254,		
36	Tr. 6/2620-2621.		
37	5b. Response to PB/USPS-T11-8 (revised 3/21/00), Tr. 6/2618.		
38			
39	5c. Response to PB/USPS-T11-3(f) (revised 3/13/00), Tr. 219255-9257		
40			
41	6. Order form distribution, Response to PB/USPS-T11-10, (Referred to USPS),		
42	Tr. 21/9254		
43	7. Mailing fees to distribute stamps (registry & penalty) are		
44	contained in Revenue Segment 1, Account 41118.		

Sources for Table A-2 (con't)

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

CERTIFICATION

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.



N. Frank Wiggins