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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 29

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PLACE: Washington, D.C.

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(202) 338-1000

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 XXIX
Monday, July 17, 2000

The above-entitled matter came on for hearing,
pursuant to notice, at 9:33 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

[9:33 a.m.]

CHAIRMAN GLEIMAN: Good morning. We continue our hearings to receive direct case testimony of participants other than the Postal Service in Docket R2000-1.

It appears that we have a pretty full day today. We've got ten witnesses today, and there have been requests for oral cross examination on nine of the ten.

Does any participant have a matter that they would like to discuss before we begin?

[No response.]

CHAIRMAN GLEIMAN: If not, our witnesses today are Witnesses Morrow, Gerarden, Jones, Prescott, Boggs, Haldi, Bentley, Lubenow, Zimmerman, and Collins.

There are no requests for oral cross examination of our first witness scheduled for today, Mr. Morrow.

Mr. Straus, is Mr. Morrow here, or are you going to take care of his papers by motion?

MR. STRAUS: The latter, Your Honor.

CHAIRMAN GLEIMAN: Shame on you; you know better than to call me that.

[Laughter.]

MR. STRAUS: Lack of practice.

CHAIRMAN GLEIMAN: We'll let it pass this time.

MR. STRAUS: Thank you.

1 CHAIRMAN GLEIMAN: If you'd like to proceed?

2 MR. STRAUS: Yes, Mr. Chairman, I will be handing
3 the Reporter two copies of the Direct Testimony of William
4 A. Morrow on Behalf of American Business Media, Alliance of
5 Nonprofit Mailers, Coalition of Religious Press Association,
6 Dow Jones and Company, Inc., Magazine Publishers of America,
7 National Newspaper Association, the McGraw Hill Companies,
8 Inc., and Time Warner, Inc.

9 No party requested permission to cross examine Mr.
10 Morrow, and after checking with Mr. Scharfman, we decided
11 there is no purpose for bringing Mr. Morrow here.

12 I have obtained from Mr. Morrow, attached to his
13 testimony, an attestation sufficient to allow the testimony
14 to be transcribed into the record and admitted into
15 evidence, and I ask that the testimony be transcribed and
16 admitted, and I'll hand two copies to the Reporter.

17 CHAIRMAN GLEIMAN: Is there any objection?

18 [No response.]

19 CHAIRMAN GLEIMAN: Hearing none, it's so ordered.
20 The testimony of Witness Morrow will be received into
21 evidence and transcribed into the record.

22 [Written Direct Testimony of
23 William A. Morrow was received into
24 evidence and transcribed into the
25 record.]

ABM-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
WILLIAM A. MORROW
ON BEHALF OF
AMERICAN BUSINESS MEDIA
ALLIANCE OF NONPROFIT MAILERS
COALITION OF RELIGIOUS PRESS ASSOCIATIONS
DOW JONES & CO., INC.
MAGAZINE PUBLISHERS OF AMERICA
NATIONAL NEWSPAPER ASSOCIATION
THE MCGRAW-HILL COMPANIES, INC.
TIME WARNER, INC.

ABM-T-1

1
2
3 **DIRECT TESTIMONY OF**
4 **WILLIAM A. MORROW**
5 **ON BEHALF OF**
6 **PUBLISHING INTERVENORS**
7

8 My name is William A. Morrow, and I am Executive Vice
9 President/Operations of Crain Communications Inc. My testimony is being
10 presented on behalf of the American Business Media (formerly American Business
11 Press), the Alliance of Nonprofit Mailers, the Coalition of Religious Press
12 Associations, Dow Jones & Company, Inc., the Magazine Publishers of America,
13 the McGraw-Hill Companies, Inc., the National Newspaper Association and Time
14 Warner, Inc.

15 Founded in 1916 as a periodical publisher, Crain Communications has
16 grown into a multi-media corporation, although the core of our business continues
17 to be the publication of periodicals, primarily intended for the business-to-business
18 market. Among our better known titles are *Advertising Age*, *Automotive News*,
19 *Autoweek* and Crain's regional business publications, such as *Crain's New York*
20 *Business*, *Crain's Cleveland Business*, and *Crain's Chicago Business*. But, in
21 addition, we also publish lesser known titles such as *American Drycleaner* and
22 *Tire Business*, which have much lower distribution and lesser frequency, but are
23 just as important to the decision makers in those respective industries served as are

1 our larger periodicals. As I will discuss in greater detail below, the periodicals that
2 we produce are typical of the business-to-business category, with circulations
3 ranging from 6,000 to about 95,000 for our business-to-business titles. (Our
4 largest circulation title is a consumer magazine.)

5 I joined Crain in 1985 as Senior Vice President. Prior to that time I was
6 partner in charge of the Detroit region of Touche Ross & Co., now known as
7 Deloitte and Touche. I started my career in Touche Ross' audit department while
8 earning a bachelor of science in accounting from the University of Detroit, which I
9 received in 1968. I also received a J.D. from Wayne State University Law School
10 in 1971. I was elected a partner in 1978, and a partner in charge in 1983, and I had
11 client responsibilities in many industries, including publishing. I am currently
12 licensed as a Certified Public Accountant and as an attorney in the State of
13 Michigan.

14 Based upon my education and training, my responsibilities at Crain include,
15 among other things, all financial matters. Although we are still considered a small
16 publisher, we have nevertheless implemented sophisticated financial budgeting
17 models and financial analysis disciplines since I have joined Crain. We now have
18 a financial services department of forty individuals, including five CPAs. We
19 conduct business planning meetings with our publishers each fall, and these
20 meetings include a detailed analysis and forecast, by month, of each item of

1 income and expense in their upcoming budget. We close our monthly financial
2 statements within ten days of month's end, and immediately prepare a detailed
3 memorandum analyzing the reasons for all variances, and what impact these
4 variances are expected to have for the balance of the year.

5 My testimony in this proceeding will serve two purposes. First I will
6 describe the impact of the proposed increase in periodicals rates on the type of
7 small-circulation periodicals published by Crain, by other members of American
8 Business Media and by smaller-circulation periodical publishers in general.
9 Second, I will address the 2.5% contingency provision requested by the Postal
10 Service in this case and will show that, based upon the unique circumstances here,
11 it would be appropriate to eliminate any contingency allowance in the costs
12 attributed to periodicals.

13 I recognize that the Postal Service has claimed in its rate filing that the
14 average increase for regular rate periodicals will be around 12.7%, but the increase
15 that will be experienced by Crain Communications and, as I understand it,
16 magazine publishers of all types and sizes will actually result in a postage rate
17 increase of around 15%. I have attached to my testimony a chart (Attachment 1)
18 showing the 20 domestic periodicals published by the main division of Crain
19 Communications in which I provide the mailed circulation, the frequency of
20 publication, the weight of the publication, an indication of whether or not we drop

1 ship any significant portion of the copies, a statement of whether the circulation is
2 regional or national in scope, and the dollar effect of the proposed postage increase
3 on each of our periodicals. As shown there, the increases range from 11.55% for
4 our tiny (circulation 6,000) periodical weighing only .056 pounds to a high of
5 16.97% for a weekly publication weighing approximately 4 ounces with a
6 circulation of 65,000. The weighted average increase in postage costs for Crain
7 would be 14.76%, or an increase of \$1,649,283 annually. I have also attached a
8 chart (Attachment 2) prepared by a relatively large ABM member, Cahners,
9 showing the impact of the proposed increase on 45 of its publications. As shown
10 there, nearly all of the increases are very close to 15%, and they average 14.62%.

11 An increase of this magnitude in one of our major cost components would
12 be difficult to handle at any time, but it is especially difficult at a time of low
13 inflation when those entities that provide our revenues – whether advertisers or
14 subscribers – have become unaccustomed to the kinds of price increases that
15 would be necessary to recoup this increase in postage costs. In addition, of course,
16 to the extent that we publish “requestor” publications, we have only a single source
17 of increased revenues – our advertisers – and it is well known that the competition
18 for advertising dollars has become far more intense with the explosion of the
19 Internet.

1 Crain Communications is a successful company, and it is not my testimony
2 that this postage increase, if approved, would be financially ruinous. But it is my
3 testimony that an increase of this magnitude will have a significant impact upon
4 our operations and, perhaps most tellingly, could stifle the development of new
5 periodical products that will benefit not only Crain but also the Postal Service and
6 the nation's business community. The business-to-business press serves a major
7 role in the development of this nation's commerce. Anything that interferes with
8 the normal development of periodicals to serve new or growing businesses,
9 including postage increases out of line with inflation, can cause damage well
10 beyond the loss to the bottom line of the publisher.

11 One unique but fully justifiable way to moderate the rate increase for
12 periodicals is to eliminate any contingency allowance in the costs attributed and
13 assigned to periodicals. I understand that in the history of postal ratemaking under
14 the Postal Reorganization Act, it has never before even been suggested that the
15 contingency allowance be viewed on anything other than a systemwide basis, but
16 based upon my accounting background and my admittedly limited review of the
17 postal ratemaking process and decisions, I see no reason why the past must be
18 blindly adhered to in this case. In fact, from an accounting standpoint, it seems to
19 me that it makes far more sense to view a contingency allowance or its functional
20 equivalent on a product-by-product rather than on a corporate basis.

1 Let me give you an example. If Crain Communications is considering the
2 purchase of periodical titles from other publishers, we of course must perform a
3 rather detailed due diligence analysis of the profitability and potential for
4 profitability of any titles considered. If that analysis were to include a contingency
5 for forecast errors, it would be foolish for me to use the same percentage
6 contingency irrespective of the factual situation pertaining to each individual title.
7 For example, if one of the titles under consideration has been published for
8 forty years, has a very stable subscriber base, is the number one periodical in its
9 field and has a steady history of advertising revenue growth, I cannot conceive of
10 dealing with a contingency in that situation in the same manner as I would when
11 considering a publication that had been in existence for only a year or two and that
12 had advertising revenues that varied widely during that short period of time.
13 Similarly, if there is good reason to believe that the possibility of forecast errors
14 may well be significantly different for different postal products, there is no reason
15 that I know of why the same contingency factor need be applied to every class and
16 subclass of mail. USPS witness Tayman could cite no authority, other than past
17 Commission decisions, for the proposition that the contingency must be across the
18 board (Tr. 325), and he testified that he knows of no study supporting the theory
19 that a contingency should be the same across all product lines (Tr. 327).

1 I repeat my understanding that what I am proposing has never been
2 proposed before, much less approved. But that doesn't make it wrong. And I
3 recognize that, under normal circumstances, it may well be inefficient for both the
4 Postal Service and the Postal Rate Commission to consider a separate contingency
5 allowance for every subclass of mail, given the very nature of the contingency and
6 its purpose in attempting to offset the effects of incorrect estimates, the source of
7 which is unknown. Nevertheless, I submit, the situation facing periodicals in this
8 case justifies, at least for this case, a departure from prior practice, given both the
9 proposed increase of more than twice the average increase (coming on the heels of
10 a series of large increases) and given the situation, described below, in which there
11 is an all-out effort to reduce periodical costs by the test year.

12 Certainly, there is very recent precedent for taking a fresh look at a
13 contingency based upon unique circumstances. In R94-1, the Postal Rate
14 Commission itself referred in its decision (at page II-12) to Postal Service Witness
15 Porras's statement that in that case the Postal Service was willing to live with a
16 much smaller contingency than it "would normally find prudent." The
17 Commission added (at page II-13) that the size of the increase facing mailers was
18 one factor that was considered in reducing the contingency from that which would
19 otherwise be sought. Here, of course, the increase for most mailers is much
20 smaller, but that certainly does not mean that periodicals mailers facing a 15%

1 increase should be faced with an excessive contingency merely because other
2 mailers are facing more moderate increases.

3 Before continuing, I should stress a couple of points. First, I am not
4 addressing the overall level of contingency that should be afforded to the Postal
5 Service in this case. On the contrary, as my testimony will show, whatever
6 contingency is found to be justified for other classes of mail, no contingency is
7 justifiable for periodicals. I understand that Lawrence Buc will be providing
8 testimony sponsored by many parties (including ABM) to the effect that the 2.5%
9 contingency allowance requested is excessive and should be reduced. Second, it is
10 not my testimony that the mere size of the increase or the hardship that it will
11 impose upon periodical mailers alone justifies elimination of the contingency.
12 Rather, as I will later explain, there are unique factual circumstances in this case
13 concerning cost reduction efforts that justify the elimination of the contingency
14 allowance on the basis of evidence that is or will be in the record.

15 Before I turn to that specific justification, however, it is important to
16 address the nature and purpose of a contingency allowance and some of the prior
17 rulings with respect thereto. I do not profess to be an expert in postal ratemaking,
18 but I do believe that my accounting background as well as my review of the
19 relevant portions of a series of Postal Rate Commission opinions and other
20 documents related to the contingency allowance provide me with sufficient

1 knowledge to address this topic. One of the more cogent explanations for the
2 contingency allowance is found in the Commission's decision in R77-1 at page 29,
3 where it stated: "The contingency allowance is a recognized provision designed to
4 offset the effects of misestimates in the test year relating to revenue and costs."
5 The Commission added that it typically looks at historic variances and projected
6 economic conditions. Similarly, in its R76-1 opinion at pages 51-52, the
7 Commission stated that "the essential purpose of a contingency provision is to
8 prevent a working capital shortage due to a revenue shortfall or to expenses which
9 are unforeseeable in kind or amount." In that docket, the Commission added (at
10 page 57): "We must also take into account, in this connection, the ability of the
11 Postal Service to absorb the consequences of erroneous predictions of costs and
12 revenues."

13 While, typically, one would consider a contingency allowance to be a
14 positive number and to reflect the risk of costs that had not been forecast, the
15 Commission has made clear that the development of an appropriate contingency
16 allowance requires consideration of both favorable and adverse errors. In its
17 Recommended Decision in Docket R84-1 at page 28, it stated: "If the Postal
18 Service intended this statement to indicate that the development of a contingency
19 provision should consider only adverse effects, then we must disagree. Even
20 Postal Service Witness Lee conceded during oral cross-examination that he had

1 considered both favorable and unfavorable events which might occur.” This point
2 is very important in this docket, because as I will explain later, the primary basis
3 for my recommendation is that there are likely to be unanticipated or at least
4 uncalculated periodical cost reductions in the test year that at least offset
5 unanticipated cost increases.

6 I have not performed any type of “variance analysis” with respect to
7 periodicals costs, or any other postal costs, in large part because in my view the
8 situation facing periodicals and periodicals costs in this case is unique. But I do
9 recognize that the Commission has in the past, such as in Docket R80-1 at page 21,
10 found variance analysis to be a “sound” tool although not one to be relied upon to
11 the exclusion of other factors. On the other hand, I understand that the Postal
12 Service has typically opposed the use of variance analysis, claiming, for example,
13 in Docket R84-1 (see Recommended Decision at 12) that basing a contingency
14 allowance upon prior performance has “no statistical support whatsoever” but that
15 “the determination of the size of the contingency remains an inherently judgmental
16 one.” The Postal Service expressed similar views in Docket R87-1, where it
17 claimed that variance analysis is “superficial” (see Recommended Decision at
18 page 26), and in this case Postal Service Witness Tayman (T-9 at page 45)
19 reiterates opposition to any significant consideration of variance allowance. For
20 these reasons, as well as for the perhaps more important reason that periodical

1 costs are, we hope, at the dawn of a new era, I do not believe that analysis of the
2 variance between estimated and actual periodical costs in past years provides
3 useful guidance here. Based upon its consistent position, the Postal Service should
4 agree.

5 My final point before turning to the specifics of this case involves the
6 Commission's authority to do what I am asking. I understand that the 1981
7 decision of the United States Court of Appeals for the Second Circuit in
8 *Newsweek, Inc. v. United States Postal Service*, 663 F.2d 1186 (2d Cir. 1981), may
9 have circumscribed the Commission's authority to make major changes in the
10 requested contingency allowance, but the Commission, at least, does not believe
11 that its authority has been totally emasculated. Thus, the Commission found in
12 Docket R84-1 (at 25):

13 Accordingly, we have concluded that the Commission
14 has both the authority and the responsibility to make
15 adjustments in the Postal Service's proposed revenue
16 requirement, so long as our adjustments are not arbitrary, our
17 reasoning is fully articulated and based upon substantial
18 evidence in the record, and where our adjustments have
19 neither the intent nor the effect of causing more frequent rate
20 filings nor constitute an intrusion into the policymaking
21 domain on the Board in accordance with the holding in
22 *Newsweek*. [footnote omitted]

23 Here, I submit, the adjustment of the periodical contingency to zero would
24 not be arbitrary, would be based upon substantial evidence of record and, given the
25 fact that periodicals contribute only 3% of Postal Service revenues, will have a

1 truly *de minimis* effect upon overall Postal Service revenues, will certainly not
2 affect the timing of future rate filings and cannot possibly constitute an intrusion
3 into the policymaking domain of the Postal Service Board of Governors.
4 Accordingly, I submit, if the Commission agrees with me that there is no need for
5 a contingency allowance for periodicals in this docket, the Commission, at least,
6 appears to believe that it has the authority to implement this proposal.

7 With that background, it is time to explain why, based upon the probably
8 unique factual circumstances of this case, it is appropriate to reduce the periodicals
9 contingency to zero. As the Commission is well aware, and as is detailed yet again
10 in the testimony of other publisher witnesses, periodical costs as calculated by the
11 Postal Service have in recent years risen beyond the ability of anyone to provide a
12 cogent and compelling explanation. As a result, the Commission took the
13 unprecedented step in Docket R97-1 of virtually eliminating the contribution of the
14 periodicals class to institutional costs. Around the same time, in an effort to
15 determine why periodical costs appear to have increased so rapidly and to reverse
16 that trend, the Postal Service and the periodicals industry created the Periodical
17 Operations Review Team that intensively toured postal facilities throughout the
18 country to examine carefully the ways in which periodicals were being handled by
19 the Postal Service. The report of that review team has been well publicized, and
20 some of its fifteen general areas of recommendations have been or are being

1 implemented by both mailers and the Postal Service, as explained in the testimony
2 of Jim O'Brien.

3 It is my understanding that the creation of the review team, the
4 implementation of its recommendations and the implementation of other
5 cost-cutting measures is a matter of extraordinarily high priority at the Postal
6 Service. The Postmaster General has himself spoken several times about the need
7 to stem the periodical cost trend, and he has pledged to do so. I understand that
8 some of the results of this high-level effort, such as, for example, increased
9 utilization of flat sorting machines for periodicals, have made their way into the
10 Postal Service forecasts that are part of its rate filing in this case, and that is a step
11 in the right direction. I also understand that, as promised by the Postmaster
12 General and other executives within the Postal Service, the Postal Service has
13 throughout this case cooperated with publisher interests in providing additional
14 data to support further, "on the fly" adjustments that, although not part of the
15 original filing, might well obtain Postal Service acquiescence as the case moves
16 forward. Again, this is yet another step in the right direction.

17 But these steps are not enough. Magazine Publishers of America Senior
18 Vice President Rita Cohen will be offering testimony that details many of the
19 further test year cost reductions that mailer and Postal Service efforts support, but
20 those adjustments can be made only where the specific dollar effects of specific

1 initiatives can be identified with sufficient precision to permit such a test year
2 adjustment. Those changes that are at this point unquantifiable or deemed too
3 speculative for quantification have not been included by the Postal Service in its
4 roll forward or by the publisher intervenors in their cost adjustment proposals.

5 However, merely because these further cost reductions cannot now be
6 accurately quantified does not mean that they should be ignored, just as
7 unquantifiable and unidentifiable test year cost increases are not ignored but are
8 routinely considered in the form of a contingency allowance for the Postal Service.

9 The appropriate treatment for such likely but difficult to identify cost
10 reductions is to consider them as part of the contingency allowance. As I stated
11 earlier, the Commission had made clear that both favorable and adverse
12 possibilities should be taken into account in determining the appropriate
13 contingency level.

14 Once again, I am not a postal operations expert so I must rely upon
15 Ms. Cohen's testimony for an identification of those areas where test year cost
16 savings that we cannot quantify are likely to occur. Of course, if we could assign
17 dollars to those efforts we would be proposing still further reductions to the test-
18 year cost of service rather than an adjustment to the contingency. We certainly
19 hope that with the full support of the Postmaster General and other members of the
20 Postal Service's top management, and with the cooperation of the mailers, the

1 actual test year costs will be reduced beyond those reductions already identified by
2 well more than the proposed 2.5% contingency (or whatever lesser contingency the
3 Commission might establish for the remainder of the classes). In fact, retention of
4 the 2.5% contingency is tantamount to a finding that the strenuous efforts of
5 mailers, top postal management and postal field personnel to implement cost
6 reduction changes will be a total failure. I think it is fair to assume that these
7 efforts will succeed, and therefore, my initial temptation would be to recommend a
8 negative contingency, but I have settled for the more pragmatic zero contingency
9 approach.

10 Periodical mailers face a crisis, a crisis that postal management itself
11 recognizes and is committed to avoid. We must assume that this massive
12 commitment will not go for naught but that, over the next several months, changes
13 in the way that periodical and other flat mail is prepared, presented and processed
14 will, at long last, reduce the inexplicable upward trend in periodical handling costs.
15 Under these circumstances, I submit, it is not only appropriate but necessary to
16 offset whatever unknown cost increases contribute to the need for a contingency
17 allowance by the more certain cost reductions that will result from these admirable
18 Postal Service efforts. The result should be a zero contingency allowance for
19 periodicals, a *de minimis* revenue reduction for the Postal Service but a significant
20 reduction in the rate increase faced by magazine publishers.

**CRAIN COMMUNICATIONS INC.
PROPOSED POSTAL RATE INCREASE
ANALYSIS**

USPS CIRC	FREQUENCY	WEIGHT	DROP SHIP	REGIONAL/ NATIONAL	2000 BUDGET	2001 PROPOSED	ANNUAL INCREASE	% INCREASE
6,000	Bi-Weekly	0.056	N	N	\$34,420	\$38,396	\$3,976	11.55%
20,000	Bi-Weekly	0.238	N	N	\$121,572	\$137,471	\$15,899	13.08%
25,000	Weekly	0.281	N	R	\$145,303	\$163,095	\$17,792	12.24%
25,000	Monthly	0.48	N	N	\$68,554	\$77,748	\$9,194	13.41%
25,000	Weekly	0.343	Y	N	\$279,197	\$321,517	\$42,320	15.16%
25,000	Bi-Weekly	0.253	Y	N	\$155,900	\$175,184	\$19,284	12.37%
35,000	Monthly	0.394	N	N	\$109,180	\$125,958	\$16,778	15.37%
40,000	Weekly	0.651	Y	N	\$567,080	\$653,031	\$85,951	15.16%
40,000	Weekly	0.315	Y	N	\$427,244	\$492,295	\$65,051	15.23%
40,000	Weekly	0.377	Y	R	\$366,047	\$415,860	\$49,813	13.61%
45,000	Weekly	0.383	Y	N	\$556,297	\$639,861	\$83,564	15.02%
45,000	Weekly	0.219	Y	N	\$446,593	\$514,767	\$68,174	15.27%
50,000	Bi-Weekly	0.288	Y	N	\$257,211	\$295,435	\$38,224	14.86%
55,000	Weekly	0.427	N	R	\$402,101	\$454,342	\$52,241	12.99%
55,000	Bi-Weekly	0.427	Y	N	\$296,273	\$340,539	\$44,266	14.94%
65,000	Weekly	0.511	Y	N	\$904,150	\$1,045,200	\$141,050	15.60%
65,000	Weekly	0.228	Y	N	\$590,158	\$690,313	\$100,155	16.97%
65,000	Weekly	0.37	Y	R	\$507,000	\$567,408	\$60,408	11.91%
65,000	Weekly	0.319	Y	N	\$731,709	\$852,017	\$120,308	16.44%
95,000	Weekly	0.288	Y	N	\$834,309	\$957,857	\$123,548	14.81%
325,000	Weekly	0.265	Y	N	\$3,371,152	\$3,862,439	\$491,287	14.57%

TOTALS:					\$11,171,450	\$12,820,733	\$1,649,283	14.76%
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*This analysis is based upon a representative issue of each publication

CAHNERS BUSINESS INFORMATION

PROPOSED POSTAL RATE INCREASE

This report shows the impact of the proposed rate increase on a sampling of representative Cahners publications.

USPS Circulation	National/ Regional	Freq.	Drop Ship	Entry Points	class	2000 Annual Cost	Annual Increase	Est. 2001 Annual Cost	Percent Increase
1,000	National	Monthly	N	1	P	\$4,952	\$513	\$5,465	10.36%
6,000	Regional	Daily	Y	2	P	\$369,165	\$56,291	\$425,456	15.25%
8,000	National	Daily	Y	44	P	\$300,314	\$41,211	\$341,525	13.72%
9,000	National	Weekly	Y	3	P	\$105,000	\$15,000	\$120,000	14.29%
10,000	National	Monthly	N	1	P	\$41,800	\$5,500	\$47,300	13.16%
13,000	National	Monthly	N	1	P	\$43,200	\$6,000	\$49,200	13.89%
13,000	Regional	Daily	Y	40	IC*	\$490,389	\$63,301	\$553,690	12.91%
14,000	National	29/yr.	Y	8	P	\$213,925	\$30,966	\$244,891	14.48%
15,000	National	Weekly	Y	37	P	\$221,588	\$33,853	\$255,441	15.28%
16,000	National	Bi-month.	Y	12	P	\$76,259	\$11,886	\$88,145	15.59%
19,000	National	Weekly	Y	40	P	\$251,268	\$38,616	\$289,884	15.37%
20,000	National	Bi-month.	N	1	P	\$142,247	\$21,770	\$164,017	15.30%
22,000	National	Weekly	Y	8	P	\$315,000	\$50,000	\$365,000	15.87%
22,000	National	Monthly	N	1	P	\$80,400	\$12,000	\$92,400	14.93%
24,000	National	Weekly	Y	37	P	\$272,962	\$41,936	\$314,898	15.36%
24,000	National	Monthly	Y	2	P	\$115,200	\$16,800	\$132,000	14.58%
25,000	National	Monthly	N	1	P	\$75,230	\$10,695	\$85,924	14.22%
27,000	National	Weekly	Y	10	P	\$333,789	\$51,666	\$385,455	15.48%
27,000	National	Monthly	N	1	P	\$151,632	\$22,955	\$174,587	15.14%
27,000	National	Monthly	N	1	P	\$198,000	\$28,800	\$226,800	14.55%
28,000	National	Monthly	N	1	P	\$8,077	\$1,195	\$9,272	14.80%
36,000	National	Weekly	Y	8	P	\$391,090	\$50,807	\$441,897	12.99%
38,000	National	Weekly	Y	40	P	\$431,261	\$61,567	\$492,828	14.28%
40,000	National	Monthly	N	1	P	\$10,832	\$1,557	\$12,389	14.37%
41,000	National	Monthly	N	1	P	\$117,600	\$18,000	\$135,600	15.31%
41,000	National	18/yr.	N	1	P	\$10,145	\$1,479	\$11,624	14.58%
43,000	National	Weekly	Y	40	P	\$474,371	\$69,416	\$543,786	14.63%
43,000	National	Monthly	N	1	P	\$298,500	\$43,500	\$342,000	14.57%
46,000	National	Bi-month.	N	1	P	\$99,000	\$15,000	\$114,000	15.15%
47,000	National	Weekly	Y	38	P	\$525,300	\$81,600	\$606,900	15.53%
47,000	National	16/yr.	N	1	P	\$12,939	\$1,913	\$14,852	14.78%
51,000	National	Bi-Month.	N	1	P	\$14,802	\$2,173	\$16,975	14.68%
55,000	National	Semi-Wk.	Y	44	P	\$1,535,190	\$219,500	\$1,754,690	14.30%
72,000	National	Monthly	N	1	P	\$324,000	\$49,200	\$373,200	15.19%
75,000	National	Monthly	N	1	P	\$20,438	\$3,014	\$23,452	14.75%
78,000	National	Monthly	Y	D.E.**	P	\$373,100	\$55,900	\$429,000	14.98%
78,000	National	Monthly	N	1	P	\$21,894	\$3,246	\$25,140	14.83%
85,000	National	Monthly	N	1	P	\$22,814	\$3,385	\$26,199	14.84%
92,000	National	Monthly	N	1	P	\$21,800	\$3,197	\$24,997	14.67%
108,000	National	Monthly	N	1	P	\$25,873	\$3,745	\$29,618	14.47%
117,000	National	Monthly	N	1	P	\$30,865	\$4,503	\$35,368	14.59%
135,000	National	Semi-mnth.	N	1	P	\$32,470	\$4,723	\$37,193	14.55%
150,000	National	Monthly	N	1	P	\$37,423	\$5,462	\$42,885	14.60%
187,000	National	Semi-mnth.	N	1	P	\$41,698	\$6,075	\$47,773	14.57%
199,000	National	Monthly	N	1	P	\$48,717	\$7,119	\$55,836	14.61%
2,274,000						\$8,732,519	\$1,277,035	\$10,009,554	14.62%

* IC - In-county

** D.E. - Dynamic Entry - Number of entries varies per issue, depending upon weight, Ad%

DECLARATION

I, William A. Morrow, declare under penalty of perjury that the foregoing "Direct Testimony of William A. Morrow" was prepared by me or under my supervision and that it is true to the best of my knowledge, information and belief.

Date: July 13, 2000

William A. Morrow
William A. Morrow

1 CHAIRMAN GLEIMAN: Am I correct that there is no
2 Designated Written Cross Examination for this witness?

3 MR. STRAUS: That's right, there was no cross
4 examination at all.

5 CHAIRMAN GLEIMAN: Mr. Straus, thank you.
6 Ms Dreifuss, I believe you have our next witness.

7 MS. DREIFUSS: The OCA calls Ted Gerarden to the
8 stand.

9 CHAIRMAN GLEIMAN: Counsel, you can proceed
10 whenever you and the witness are ready.

11 MS. DREIFUSS: Yes, sir.
12 Whereupon,

13 TED P. GERARDEN,
14 a witness, having been called for examination, and, having
15 been first duly sworn, was examined and testified as
16 follows:

17 DIRECT EXAMINATION

18 BY MS. DREIFUSS:

19 Q Would you state your name for the record, please?

20 A My name is Ted Gerarden.

21 Q And your position?

22 A The Director of the Office of the Consumer
23 Advocate at the Postal Rate Commission.

24 Q Do you have before you, two copies of a document
25 captioned Direct Testimony of Ted P. Gerarden on behalf of

1 the Office of the Consumer Advocate?

2 A I do.

3 Q Also, identified as OCA-T-1?

4 A Yes.

5 Q Did you prepare that testimony are was it prepared
6 under your direction?

7 A It was.

8 Q Do you adopt that as your testimony today?

9 A I do.

10 MS. DREIFUSS: In that case, Mr. Gleiman, I would
11 like to ask that this be moved into evidence and transcribed
12 into the record.

13 CHAIRMAN GLEIMAN: Is there any objection?

14 [No response.]

15 CHAIRMAN GLEIMAN: Hearing none, counsel, if you
16 would provide two copies of the testimony of Witness
17 Gerarden to the Court Reporter, I will direct that it be
18 received into evidence and transcribed into the record.

19 [Written Direct Testimony of Ted P.
20 Gerarden, OCA-T-1, was received
21 into evidence and transcribed into
22 the record.]

23

24

25

OCA-T-1
Docket No. R2000-1

DIRECT TESTIMONY
OF
TED P. GERARDEN

ON BEHALF OF
THE OFFICE OF THE CONSUMER ADVOCATE

MAY 22, 2000

RECEIVED

MAY 22 10 31 AM '00

POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

OCA-T-1

Docket No. R2000-1

DIRECT TESTIMONY

OF

TED P. GERARDEN

ON BEHALF OF

THE OFFICE OF THE CONSUMER ADVOCATE

MAY 22, 2000

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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
TED P. GERARDEN

1 I. STATEMENT OF QUALIFICATIONS

2 My name is Ted P. Gerarden. I am the Director of the Office of the Consumer
3 Advocate ("OCA") at the Postal Rate Commission ("Commission"). I joined the
4 Commission in that capacity in February 1999.

5 Prior to joining the Commission, I was in private practice in Washington, D.C.,
6 primarily representing energy companies in proceedings before the Federal Energy
7 Regulatory Commission ("FERC") and the courts. In that capacity I represented clients
8 in a number of rate and certificate proceedings before the FERC. Although I normally
9 acted in the role of counsel in proceedings, I did appear as a witness before the
10 National Energy Board of Canada as an expert witness on United States energy law. I
11 am an attorney and am admitted to practice in the District of Columbia. I hold a J.D.
12 degree from Georgetown University Law School (1973) and a B.S.F.S. degree from
13 Georgetown University (1969).

1 II. PURPOSE AND SCOPE OF TESTIMONY

2 I provide an overview of the positions taken by the OCA in this proceeding and
3 identify the OCA witnesses testifying on the topics addressed. I discuss certain
4 features of the OCA proposal to change single-piece First-Class rates less frequently. I
5 provide testimony in support of a recommendation to the Postal Service on improving
6 consumer outreach when the price of the First-Class stamp changes. Finally, I suggest
7 to the Postal Service that certain issues would benefit from ongoing dialogue between
8 omnibus rate cases, and that the Postal Service should sponsor a "Rates Working
9 Group" for this purpose.

10 III. OVERVIEW OF OCA DIRECT TESTIMONY

11 The OCA sponsors evidence on several subjects. The positions taken by the
12 OCA, in addition to those expressed in my testimony, are summarized below.

13 A. Contingency Request

14 The OCA is concerned that the Postal Service's contingency request has
15 increased significantly from that requested and approved in Docket No. R97-1. The
16 reasons for which a contingency is granted, and the criteria by which the
17 reasonableness of amount of the contingency should be determined, are discussed in
18 the testimony of Robert E. Burns (OCA-T-2) and Edwin A. Rosenberg (OCA-T-3). The
19 OCA recommends that the contingency be reduced from the 2.5 percent requested by
20 the Postal Service. For the reasons given by witnesses Burns and Rosenberg, the
21 present one percent contingency would be a reasonable amount under all of the
22 circumstances considered.

Docket No. R2000-1

OCA-T-1

1 B. Mail Processing Costs

2 The Postal Service has again proposed a major change in the volume variability
3 of mail processing costs. The OCA finds that the study presented by the Postal Service
4 is flawed and recommends that the Commission continue to treat mail processing costs
5 as 100 percent volume variable. The OCA's review of the Postal Service study is
6 discussed in the testimony of Joseph E. Smith (OCA-T-4).

7 C. City Carrier Costs

8 The Postal Service includes a "stops effect" in its analysis of load time. The
9 OCA finds that the justification for a stops effect is inadequate and that the Commission
10 should continue to analyze load time as it did in Docket No. R97-1. The OCA's position
11 is presented in the testimony of Mark Ewen (OCA-T-5).

12 D. First-Class Rates

13 The OCA addresses several issues regarding rates for First-Class Mail. First,
14 the Postal Service proposes to increase the basic first-ounce rate from 33 cents to 34
15 cents. The OCA finds that the cost coverage of First-Class letter mail has increased in
16 recent years although the costs of First-Class Mail have declined. In order to avoid a
17 disproportionate burden on First-Class Mail, the basic rate should remain unchanged.
18 Second, the OCA proposes that the Postal Service adopt a new approach under which
19 rates for single-piece First-Class ("SPFC") letters and cards change in every other rate
20 case. This would provide greater rate stability for consumers while at the same time
21 permitting the Postal Service to accommodate the interest of larger business mailers in
22 having smaller, more frequent and predictable rate adjustments. Third, the OCA also
23 urges that the nonstandard surcharge on square and other "low aspect ratio" letters be

Docket No. R2000-1

OCA-T-1

1 eliminated. These issues are addressed in the testimony of James F. Callow (OCA-T-
2 6); I will discuss briefly the purpose for which the OCA is making its SPFC rate stability
3 proposal.

4 E. Courtesy Envelope Mail

5 The OCA again proposes that consumers be permitted to mail qualifying
6 courtesy reply envelopes at a reduced rate, thus sharing in the benefits of the reduced
7 costs of handling automation-compatible mailpieces. In light of the Postal Service's
8 expressed concern over the potential for payment transactions to migrate away from
9 First-Class Mail, this would improve the ability of the Postal Service to retain such mail.
10 This proposal is addressed in the testimony of Gail Willette (OCA-T-7).

11 F. Special Services

12 The OCA opposes the increases sought by the Postal Service in the fees for
13 money orders and insurance for mail. Rather, the fee for domestic money orders
14 should be reduced and the per-increment fee for insurance adjusted. These issues are
15 addressed in the testimony of Sheryda C. Collins (OCA-T-8).

16 G. Cost Derivation

17 The OCA replicates the Postal Service's base year costs and shows changes in
18 those costs resulting from the recommendations the OCA makes elsewhere in its
19 testimony. Time has not permitted a complete roll forward of these changes to the test
20 year, but the changes in the base year illustrate the impact of the OCA's
21 recommendations. Pamela A. Thompson (OCA-T-9) presents the revised costs.

1 IV. SINGLE-PIECE FIRST-CLASS RATE STABILITY PROPOSAL

2 The OCA proposes in this case that the Commission recommend that the Postal
3 Service adopt a bifurcated rate change calendar for SPFC letter and card mail and all
4 other mail, such that the SPFC rate would generally change every other rate case. The
5 full description of this proposal and supporting evidence is found in the testimony of
6 OCA witness James Callow. I will highlight some important features of this proposal.

7 As explained by witness Callow, household mailers and larger business mailers
8 have different interests in the frequency with which rates are adjusted. Households
9 mail relatively few mailpieces and find a change of rates inconvenient. Larger business
10 mailers, however, are troubled by the large increases in postal rates that are more likely
11 when the period between rate cases is long. To the extent rates must increase, these
12 mailers seem to prefer smaller, more frequent and predictable rate adjustments. As
13 these mailers generally use permits or metering to pay for postage, adapting to
14 changes in rates are not as inconvenient as is the case for households and small
15 business mailers dependent on purchasing stamps in the appropriate denomination.

16 As I discuss at pages 16-17 *infra*, and as noted by OCA witness Callow, the
17 Postal Service appears to be accelerating the rate case cycle such that rates will
18 change approximately every two years rather than the historical average of
19 approximately every three years. This would increase the frequency of changes in the
20 stamp rate and the frequency with which consumers would have to adjust to new
21 postage rates.

22 The SPFC rate stability proposal is intended to provide greater convenience to
23 consumers while permitting the Postal Service to satisfy the interests of larger business

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1 mailers. It is designed to safeguard the prerogatives of the Postal Service and the
2 rights of all participants in postal rate cases. The Postal Service would continue to
3 decide when to file rate cases and what rates to propose for each rate class and
4 category. All participants would continue to be able to litigate any issue in every case.
5 The Commission would continue to render a recommended decision on all issues
6 presented.

7 Under the OCA proposal, then, the revenue requirement, costs, volumes, pricing,
8 etc., would be examined in every case. The difference would be that the single-piece
9 First-Class rates for letters and cards would be set in one case at a level that would
10 permit the rate to remain unchanged during the second rate case period, such that the
11 single-piece rate category would "break even" over two rate case periods. The Postal
12 Service would track the excess or deficient revenues from single-piece mail over time in
13 a reserve account. There is no intent to cause costs to shift among the different mail
14 classes. Moreover, as proposed by the OCA, there would be a "safety valve" that
15 would permit the SPFC rate to be increased in two consecutive rate cases if a failure to
16 do so would create a severe shortfall in the reserve account, or cause excessive
17 shifting of First-Class Mail between single-piece and workshare categories. It is the
18 OCA's belief that, implemented properly, the SPFC rate stability proposal would benefit
19 consumers without harming the Postal Service or other mailers.

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1 V. THE POSTAL SERVICE SHOULD IMPROVE CONSUMER OUTREACH
2 WHEN THE FIRST-CLASS STAMP RATE CHANGES

3 OCA witness Callow explains why the Commission should recommend that the
4 single-piece First-Class stamp rate remain at 33 cents. If the Commission recommends
5 a one-cent increase to 34 cents as sought by the Postal Service, however, then the
6 public will be confronted with the inconvenience of the changeover to new rates at such
7 time as the Postal Service determines to make the new rates effective—presumably in
8 January 2001.

9 Any change in the First-Class stamp rate places burdens on the mailing public
10 and the Postal Service, as new denomination stamps and make-up stamps (or stamps
11 in the denomination of the difference between the old and new rates) must be available
12 for purchase. Unlike major mailers, who are well aware of the rate change and who use
13 permits and metering for most postage, consumers are often unprepared for changes in
14 the rates for single-piece letter and card mail. Post offices experience long lines and
15 frustrated customers as consumers purchase stamps in the new denomination and
16 make-up stamps to go with their existing supply of stamps. Regardless of the efforts
17 made by the Postal Service, many consumers are inconvenienced.

18 A rate change, however, also offers the Postal Service an opportunity to improve
19 both the process of the transition and the Postal Service's public image. The OCA
20 suggests that, when the Postal Service does change the rate for single-piece First-
21 Class Mail, the Postal Service should take aggressive steps to ease the transition for
22 consumers. In addition to a public information campaign and other standard

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1 preparations for a rate change, the Postal Service should do the following before the
2 rate change:

- 3 ♦ Deliver an informational mailpiece to every delivery address and
- 4 ♦ Include with the mailpiece ten make-up stamps at no charge.

5 The novel aspect of this proposal—and what would transform ordinary public
6 education efforts into meaningful outreach to consumers—is the inclusion of ten
7 courtesy make-up stamps.

8 A. Benefit to the Public

9 The average household sends approximately twelve pieces of single-piece First-
10 Class letter mail monthly. Ten make-up stamps, then, would permit households to
11 utilize stamps on hand, on average, for about three weeks. That will significantly
12 spread out the time over which consumers can visit postal facilities to buy new stamps,
13 reducing both consumer aggravation and avoiding some Postal Service retail costs.
14 Done properly, provision of courtesy make-up stamps could avoid or significantly
15 reduce the surge of stamp purchasing just before and after the rate change. This would
16 alleviate the burden on retail facilities and avoid the delays and inconvenience that
17 make a change of rate a hassle for consumers.

18 B. Benefits to the Postal Service

19 Postal Service efforts to build positive public support would be strengthened by
20 making the changeover to new rates more convenient for the public. Even if
21 consumers accept higher stamp rates, they nonetheless are frustrated by the
22 inconvenience of obtaining the proper denomination of stamps when an increase
23 occurs.

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1 By delivering a mailpiece and courtesy make-up stamps to all delivery
2 addresses, the Postal Service can accomplish the following:

- 3 (1) inform the public about the costs of operating the Postal Service and why
4 rates are changing;
- 5 (2) provide a handy list of the new rates for services commonly used by the
6 public;
- 7 (3) reduce the additional lobby traffic due to consumers purchasing new
8 denomination stamps;
- 9 (4) reduce the aggravation and waiting time experienced by consumers as they
10 attempt to purchase new stamps;
- 11 (5) reduce Postal Service costs associated with selling new and make-up
12 denomination stamps to the public;
- 13 (6) encourage consumers to obtain new stamps through alternate means;
- 14 (7) engender significant consumer good will towards the Postal Service; and
- 15 (8) minimize disruption to mail processing by reducing the instances of
16 consumers taping coins to envelopes.

17
18 C. There Would Be Little or No Additional Cost to the Postal Service

19 The Postal Service may be concerned that it would experience some additional
20 costs in conducting this outreach to consumers when First-Class stamp rates change.
21 In fact, the costs would be very modest in comparison to the benefits provided to the
22 public and to the Postal Service and, in any event, savings from a reduction in the
23 number of window transactions would tend to offset the costs.

24 It is important to note that some of the costs of the OCA proposal are likely to be
25 incurred by the Postal Service in any event, and that distribution of courtesy make-up
26 stamps will reduce certain costs that the Postal Service would otherwise incur. The
27 following discusses the overall cost impact of the proposal.

28 1. Cost of producing and preparing a mailpiece

29 The design, and therefore the cost, of a mailpiece can vary, depending on the
30 information to be included. The nationwide "kNOw fraud" 11-1/8" x 6-1/8" card cost

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1 approximately \$2.5 million to produce and prepare.¹ A tri-fold stamps-by-mail order
2 form (a BRM envelope, order form, and return mailing label) plus a separate insert cost
3 3.77¢ per piece to produce and prepare.² At this unit cost, production for 130,000,000
4 estimated domestic delivery addresses³ would cost approximately \$4.9 million (although
5 the unit cost may decrease with larger-scale production). For purposes of this estimate,
6 \$4.9 million is used.

7 It appears, however, that the Postal Service is already seriously considering a
8 nationwide consumer information postcard mailing for the next change in rates.⁴ Based
9 on the cost of the "kNOw fraud" mailpiece, a postcard mailpiece would cost \$2.5 million
10 to produce and prepare. The cost of a tri-fold mailpiece with an insert is approximately
11 \$4.9 million, so the additional cost of producing and preparing this type of mailpiece—
12 suitable to explaining the rate change, enclosing a pane of courtesy make-up stamps,
13 and perhaps offering a purchase by mail option—should be no more than \$2.4 million.

¹ Response to OCA/USPS-8, revised February 10, 2000. Unless otherwise noted, all references are to filings in Docket No. R2000-1.

² Response to OCA/USPS-60, February 24, 2000; Tr. 21/9102.

³ Response to OCA/USPS-10, February 7, 2000; Tr. 21/8990. The Postal Service also provided a figure of 132,152,777 for the test year in response to OCA/USPS-63, February 24, 2000; Tr. 21/9106. For convenience, the estimate of 130,000,000 is used here.

⁴ Response to OCA/USPS-51, February 16, 2000; Tr. 21/9082. Both teams involved in assessing the success of implementing the Docket No. R97-1 rate increase recommended a nationwide direct mailing by the Postal Service.

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1 2. Cost of producing ten courtesy make-up stamps for each mailpiece

2 The cost of producing 130 million panes of ten stamps—1.3 billion stamps—is
3 estimated by the Postal Service to be approximately \$3.9 million.⁵ The Postal Service
4 produced 2.5 billion "H" rate make-up stamps for the change in rates in January 1999 at
5 a cost of \$5.0 million.⁶

6 The Postal Service will incur a cost for printing make-up stamps for the next
7 change of rates. The cost of providing the courtesy make-up stamps suggested by the
8 OCA would consist of additional costs due to (1) the format in which make-up stamps
9 are printed (panes of ten) and (2) the likely need to print a somewhat larger total
10 quantity of make-up stamps than the number that would be printed if the only
11 distribution were through retail sales.

12 The Postal Service data suggests that the unit cost of printing make-up stamps
13 in panes of ten is \$0.003 and that the unit cost of printing the "H" rate make-up stamps
14 was \$0.002. Assuming that make-up stamps can be produced for approximately the
15 same cost as the recent "H" rate make-up stamp, this suggests that there is a \$0.001
16 cent difference in the cost of producing make-up stamps in panes of ten. For the 1.3
17 billion make-up stamps needed for distribution to all delivery addresses, this suggests
18 an additional cost of \$1.3 million (1,300,000,000 x \$0.001). If a total of 300 million extra

⁵ Response to OCA/USPS-61, February 24, 2000; Tr. 21/9103.

⁶ Response to OCA/USPS-47, February 14, 2000; Tr. 21/9068.

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1 make-up stamps were printed because of the dual distribution, the additional production
2 cost would be \$0.6 million (300,000,000 x \$0.002). These total \$1.9 million.

3 3. Revenue foregone by distribution of courtesy make-up stamps

4 If one assumes that the requested one-cent increase in the First-Class single
5 piece rate is granted, each courtesy make-up stamp would have a postage value of one
6 cent. The maximum revenue foregone would be \$13 million (1,300,000,000 x \$0.01).
7 As a practical matter, of course, not all of the stamps would be utilized. The Postal
8 Service apparently does not have any information on the portion of G- or H-rate make-
9 up stamps purchased that were actually used in conjunction with previous rate
10 changes.⁷ Assuming that 90% of the courtesy stamps are actually used, the revenue-
11 foregone impact would be \$11.7 million.

12 4. Cost of processing and delivery of mailpiece

13 The Postal Service suggests that the cost of sending a nationwide mailing be
14 based upon an estimate of the test year volume variable cost of Standard Mail (A)
15 saturation ECR.⁸ This is estimated to be \$0.05415 on a unit basis, and therefore would
16 be approximately \$7.0 million for a nationwide mailing.⁹ There should be little or no

⁷ Response to OCA/USPS-48, February 14, 2000; Tr. 21/9069.

⁸ Response to OCA/USPS-10, February 7, 2000; Tr. 21/9005.

⁹ The Postal Service suggested the use of the volume variable cost of delivering Standard Mail (A) saturation ECR, but did not provide an estimate of this cost. The OCA estimate is derived as follows. Exhibit USPS-32B provides a TYAR volume variable cost for all Standard Mail (A) regular ECR of \$2,471,864,000. Exhibit USPS-T-6, Table 1, provides a TYAR volume for all Standard Mail (A) regular ECR of 32,828,211,000. This results in an average unit volume variable cost for all Standard Mail (A) regular ECR of \$0.075297. No calculation was provided by the Postal Service for the volume variable costs of saturation ECR. USPS-LR-I-166, filed January 12, 2000, spreadsheet "wp1_comm.xls," provides (continued on next page)

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1 difference in the unit volume variable Standard Mail (A) cost to the Postal Service of a
2 tri-fold mailpiece with an insert versus an informational postcard.¹⁰

3 5. Reduction in costs due to cost avoidance

4 Delivery of courtesy make-up stamps to consumers would reduce the number of
5 additional window purchases of stamps due to a rate change. By spreading out the
6 period of time over which consumers make new denomination stamp purchases, and
7 perhaps by encouraging purchases through mail order fulfillment, the Postal Service
8 can avoid certain operational costs that otherwise would be incurred.

9 The Postal Service evidently does not have data that show the cost to the Postal
10 Service associated with a changeover to new rates,¹¹ or data showing the increase in
11 the number of window transactions associated with a changeover to new rates.¹²
12 Nonetheless, some estimate can be made of potential savings to the Postal Service

at page 3 TYAR volume forecasts for each category of regular ECR (auto, basic, HD, saturation letters; basic, HD, saturation non-letters). At page 10 the same spreadsheet provides total test year mail processing and delivery costs for each category. The average unit test year cost for mail processing and delivery for all categories of regular ECR is \$0.07162; the average unit mail processing and delivery test year cost for the two saturation categories (letters and non-letters) is \$0.05150. Accordingly, saturation unit cost appears to be 71.9151% of overall regular unit ECR cost. In order to estimate volume variable cost of saturation ECR, 71.9151% of \$0.075297 = \$0.05415.

In response to a follow up question, the Postal Service did provide an estimated TY volume variable cost of an average Standard Mail (A) Saturation ECR piece (letter, flat, and parcel combined) at an average level of dropshipping of 5.1 cents. Response to OCA/USPS-73, March 20, 2000; Tr. 21/9118. The Postal Service cautioned, however, that applying the 5.1 cents to a specific situation "could be misleading." Accordingly, the derived estimate of 5.415 cents is used here.

¹⁰ The tri-fold type of mailpiece with an insert recommended for this consumer outreach can be delivered as Standard Mail (A) saturation ECR. Response to OCA/USPS-60, February 24, 2000.

¹¹ Responses to OCA/USPS-71, March 20, 2000; Tr. 21.9116, and OCA/USPS-103, April 10, 2000; Tr. 21/9181.

¹² Response to OCA/USPS-129(a), May 17, 2000.

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1 from reducing the number of stamp purchase transactions caused by the need for
2 consumers to acquire stamps in new denominations. First, the Postal Service
3 calculates the cost of one stamp window transaction to be \$0.4596.¹³ As a practical
4 matter, all mailers need to acquire new stamps. Some will do so in the normal course
5 of visiting a post office, but many will either make an additional trip to the post office or
6 add a stamp purchase to another postal transaction. If the provision of courtesy make-
7 up stamps avoids the need for just 30% of the 130,000,000 households and businesses
8 to conduct an additional window transaction, the Postal Service will avoid \$17.9 million
9 in retail transaction costs.

10 6. Summary of cost impact

11 The estimated net cost of the proposed courtesy make-up stamp proposal,
12 based on the assumption that the Postal Service would make a nationwide
13 informational mailing in any event, may be summarized as follows:

¹³ Response to OCA/USPS-76, Attachment 1, April 11, 2000; Tr. 21/9121.

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Item	OCA proposal (millions)	Expected USPS Cost (millions)	Additional cost (savings) (millions)
Mailpiece production	\$4.9	\$2.5	\$2.4
Production of panes of ten	1.3	0.0	\$1.3
300 million additional stamps	0.6	0.0	\$0.6
Revenue foregone	\$11.7	\$0.0	\$11.7
Cost of saturation ECR delivery	\$7.0	\$7.0	\$0.0
Savings from reduced number of window transactions	(17.9)	0.0	(\$17.9)
Net additional cost			\$(1.9)

1 Due to the gaps in the information supplied by the Postal Service, these estimates are
2 necessarily preliminary, and the Postal Service could undoubtedly make more accurate
3 estimates of the costs and potential savings (avoided costs) if courtesy make-up
4 stamps were distributed. Nonetheless, I believe that the information provided above
5 indicates that the provision of courtesy make-up stamps would be a cost-effective
6 approach to making a transition to new rates more convenient for the public.

7 **7. Other factors**

8 If it deems it appropriate, the Postal Service can utilize the nationwide mailing to
9 encourage consumers to purchase needed stamps by mail or through the internet,
10 rather than visiting post offices, as some post offices now do at the holiday season. It is
11 not clear that transactions by mail or through the Internet actually reduce sales costs.¹⁴
12 But if the Postal Service finds value in diverting traffic from post offices to alternate

¹⁴ It appears that the cost of a stamps-by-mail transaction is \$3.74, and that the cost of a Stamps Online transaction is \$4.52, both of which are considerably higher than the \$0.4596 cost of a window stamp transaction. Response to OCA/USPS-76, April 11, 2000; Tr. 21/9121.

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1 means of selling new denomination and/or make-up stamps at the time of a rate
2 change, it could use the suggested nationwide mailing for that purpose.

3 Supplying consumers with the means to avoid a rush on post office facilities will
4 avoid long waiting in lines for window clerks and the accompanying frustration and
5 irritation for consumers. Coupled with the opportunity to explain to consumers why
6 postage rates are changing, and how the Postal Service spends the money collected
7 for postage, there is a significant opportunity for positive public relations in the
8 proposed nationwide mailing.

9 VI. THE POSTAL SERVICE SHOULD SPONSOR A "RATES WORKING
10 GROUP" BETWEEN RATE CASES

11 Omnibus postal rate cases are extremely complicated, but must be completed
12 within the statutory ten month deadline, absent extraordinary circumstances. Many
13 times the Postal Service may present a complex proposal or study in support of
14 requested rates. Other parties have a limited ability to respond to complicated
15 proposals, given the time frames of the rate case and the large number of issues that
16 may need to be addressed. Generally, parties must conduct discovery and file their
17 direct cases within four or four and one-half months of the filing of the Postal Service's
18 case. The same problem can be presented in the evidence of intervenors: an
19 intervenor may present a complex new idea in its direct case, and the Postal Service
20 will have approximately two months to ten weeks to conduct discovery and prepare a
21 rebuttal case.

22 Even as postal cases continue to grow in complexity, the calendar upon which
23 such cases will be presented appears to be shortening. As discussed in OCA witness

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1 Callow's evidence, the Postal Service appears to be planning on biennial rate changes
2 which will shorten the rate case cycle from the historical average of three years to two
3 years. That will place further burdens on parties as they try to analyze and respond to
4 complex proposals in postal rate cases or anticipate issues for the next rate case. I
5 note that Deputy PMG Nolan has spoken to mailers about starting the process for a
6 rate case with new rates effective in January 2003, suggesting that there be a "change
7 in the traditional rate design paradigm,"¹⁵ with the Postal Service working with industry
8 to fashion rates that will keep the Postal Service competitive on a market-driven basis.
9 This suggests that the time is ripe for the Postal Service to find new ways to facilitate
10 the discussion of some issues with parties before the filing of a new rate case.

11 The rate case process would be aided by ongoing discussions among interested
12 parties between rate cases in the context of a "Rates Working Group" sponsored by the
13 Postal Service. This device would allow the Postal Service and others to examine
14 complex issues, consider various viewpoints, and build consensus where possible. The
15 Commission should urge the Postal Service to sponsor such a working group between
16 postal rate cases.

17 It is important to focus on what a Rates Working Group should be and what it
18 should not be. First and foremost, it should be a good faith effort on the part of the
19 Postal Service and all participating parties to focus on a limited number of important

¹⁵ *Post Com Bulletin 21-00*, Association for Postal Commerce, May 6, 2000, p. 3. See also *Alliance Report 00/14*, Alliance of Nonprofit Mailers, May 10, 2000, p. 2.

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1 issues that arise in the course of fashioning rates that comply with the Postal Service's
2 statutory mandate. It should be organized by the Postal Service and run under ground
3 rules agreed upon between the Postal Service and participants. It should focus
4 primarily on technical issues and not on legal matters—indeed, it would have the
5 greatest chance of success if management and consultants, not counsel, are the
6 participants at meetings sponsored by the Rates Working Group. This is not to suggest
7 that counsel do not have a role to play, but to stress that a successful Rates Working
8 Group will not permit the parties to engage in litigation-oriented behavior. A Rates
9 Working Group also must be realistic in what it can accomplish—it must limit the scope
10 of activities to a few significant issues that affect either many mailers or the treatment of
11 significant costs in postal rate cases.

12 It is also important to focus on what a Rates Working Group is not. It should not
13 be a forum for discovery from the Postal Service, and must not be treated as a weapon
14 in a litigation arsenal. It should not address legal issues, and it should not be a
15 substitute for proceedings that belong before the Postal Rate Commission, such as
16 complaints or classification cases.

17 Substantive progress in the work of a Rates Working Group calls for information
18 to be shared with participants. To do so fairly to the Postal Service, participants must
19 be willing to agree to maintain the confidentiality of information and records not normally
20 in the public domain, and to limit the use of such information that is shared to the
21 subjects studied by the Rates Working Group.

22 A well-conceived and properly guided Rates Working Group can help the Postal
23 Service, the parties, and the Commission to achieve their goals. The Postal Service

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1 would have the opportunity to discuss novel, complex, or difficult ratemaking issues with
2 key parties in a neutral rather than an adversarial environment, under agreed-upon
3 ground rules that preserve the Postal Service's prerogatives. The input of a Rates
4 Working Group would permit the Postal Service to refine and improve proposals to be
5 presented in future rate cases. Participants in a Rates Working Group would be able to
6 make substantive comments upon, and contributions to, studies, concepts, and works
7 in progress that may assist the Postal Service in refining or improving material that later
8 is presented to the Commission in support of a rate request. The Commission may find
9 that the Rates Working Group process will reduce controversy, simplify issues, focus or
10 reduce the extent of discovery, and/or reduce the time required to litigate issues in rate
11 cases, thus assisting the Commission in issuing its recommended decision within the
12 statutory period.

13 The recent proposals of the Postal Service on mail processing are an example of
14 complex analyses coming up against the realities of completing a postal rate case
15 within the prescribed statutory ten month period. In Docket No. R97-1, the Postal
16 Service presented extensive data analyses through the testimony of Dr. Michael
17 Bradley in support of reducing the volume variability of mail processing costs. The
18 change was not recommended in that case, and the Postal Service has revisited the
19 issue in the Docket No. R2000-1 through the testimony of Dr. Thomas Bozzo. The
20 Bozzo analysis took five person-years to complete, yet the OCA and other parties have
21 had only slightly more than four months to investigate the new material and respond in
22 their direct cases. OCA witness Smith discusses issues and problems that are still

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1 found in Dr. Bozzo's work, and suggests that interested parties and the Postal Service
2 could profitably examine the issue in a working group context.

3 Another example of an issue that might have benefited from discussion in a
4 Rates Working Group is the Prepaid Reply Mail ("PRM") proposal made by the Postal
5 Service in Docket No. R97-1. The CRM Coalition opposed PRM, and even certain
6 supporters sought substantial changes in the proposed service. While recommended
7 by the Commission, the Board of Governors rejected the service. Advance discussion
8 of this proposed service in the context of a Rates Working Group might have resulted in
9 modifications or improvements to the proposal that would have reduced opposition and
10 resulted in more favorable consideration by the Board of Governors.

11 VII. CONCLUSION

12 Specific recommendations on the contingency provision, volume variability in
13 mail processing and city carrier street time, First-Class Mail rates, Courtesy Envelope
14 Mail, and special services are made in the testimony of the other OCA witnesses. The
15 OCA has provided substantial evidence in support of each of its recommendations, and
16 has shown the effect of its volume variability changes. The proposals should be
17 adopted in the Commission's recommended decision. In addition, the Commission
18 should recommend to the Postal Service that it provide courtesy make-up stamps at the
19 time that First-Class rates change, and should recommend that the Postal Service
20 sponsor a "Rates Working Group" between rate cases.

1 CHAIRMAN GLEIMAN: Are you able -- question for
2 folks in the room: Are you able to hear Mr. Gerarden in the
3 back of the room?

4 VOICES: Yes.

5 CHAIRMAN GLEIMAN: You are, okay. It didn't sound
6 quite as loud as some of the other mikes, and I just wanted
7 to make sure there wasn't a problem.

8 THE WITNESS: Mr. Buc seems to have had more
9 success with this than I do.

10 CHAIRMAN GLEIMAN: Mr. Gerarden, have you had an
11 opportunity to examine the packet of Designated Written
12 Cross Examination that was made available to you earlier
13 today?

14 THE WITNESS: I have.

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

18 THE WITNESS: Yes, they would. I would note that
19 there is one typographical error that has been corrected on
20 these copies.

21 And that appears in the answer to
22 USPS/OCA-T-17-22(b), Subpart 4, which was a question
23 redirected to me. The word, principle (principal), was
24 used, but the wrong spelling of principle (principal) in the
25 context, but it has been corrected.

1 CHAIRMAN GLEIMAN: That being the case, counsel,
2 if you'd please provide two copies of the corrected
3 Designated Written Cross Examination of the witness to the
4 Court Reporter, I'll direct that the material be received
5 into evidence and transcribed into the record.

6 [Designated Written Cross
7 Examination of Ted P. Gerarden was
8 received into evidence and
9 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 OFFICE OF THE CONSUMER ADVOCATE
WITNESS TED P. GERARDEN
(OCA-T-1)

Party

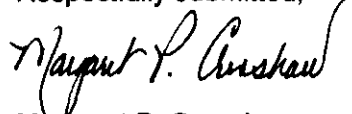
United States Postal Service

Interrogatories

USPS/OCA-T1-1-10

USPS/OCA-T7-21e, 22b redirected to T1

Respectfully submitted,



Margaret P. Crenshaw
Secretary

INTERROGATORY RESPONSES OF
OFFICE OF THE CONSUMER ADVOCATE
WITNESS TED P. GERARDEN (T-1)
DESIGNATED AS WRITTEN CROSS-EXAMINATION

<u>Interrogatory</u>	<u>Designating Parties</u>
USPS/OCA-T1-1	USPS
USPS/OCA-T1-2	USPS
USPS/OCA-T1-3	USPS
USPS/OCA-T1-4	USPS
USPS/OCA-T1-5	USPS
USPS/OCA-T1-6	USPS
USPS/OCA-T1-7	USPS
USPS/OCA-T1-8	USPS
USPS/OCA-T1-9	USPS
USPS/OCA-T1-10	USPS
USPS/OCA-T7-21e redirected to T1	USPS
USPS/OCA-T7-22b redirected to T1	USPS

ANSWERS OF OCA WITNESS TED P. GERARDEN
TO INTERROGATORIES USPS/OCA-T1-1-10

USPS/OCA-T1-1

(a) Has the OCA conducted any market research, studies or surveys to determine the number of unused basic rate First-Class Mail postage stamps a typical postal customer has on-hand when the Postal Service implements a change in the basic First-Class Mail rate? If so, please provide all documents related to such research, studies and surveys.

(b) Has the OCA conducted any market research, studies or surveys to determine whether the number of unused basic rate First-Class Mail postage stamps a typical postal customer has on-hand when the Postal Service implements a change in the basic First-Class Mail rate varies depending on the time of year the rate change occurs? If so, please provide all documents related to such research, studies and surveys.

RESPONSE TO USPS/OCA-T1-1

(a) – (b) No. Evidently the Postal Service does not have such information either. In response to OCA/USPS-48, the Postal Service stated that while it “estimates postage in the hands of the public in the aggregate, it does not distinguish among denominations of postage *nor isolate the portion of such postage associated with a rate change.*” In response to OCA/USPS-70, the Postal Service stated that postage in the hands of the public is \$1.628 billion for FY 1999. Using the 130 million domestic delivery addresses indicated by the Postal Service in response to OCA/USPS-10, that suggests an average of \$12.52 of outstanding postage for each delivery address. If by “typical postal customer” the Postal Service means household consumers, presumably these customers would hold most of their postage in basic First-Class stamps.

ANSWERS OF OCA WITNESS TED P. GERARDEN
TO INTERROGATORIES USPS/OCA-T1-1-10

USPS/OCA-T1-2

In your testimony at page 7, lines 14-16, you assert that "[p]ost offices experience long lines and frustrated customers as consumers purchase stamps in the new denomination and make-up stamps to go with their existing supplies of stamps."

- (a) Please estimate or indicate the duration of time (in days) during which this phenomenon occurs. Provide copies of all documentation which supports that estimate or indication.
- (b) Please estimate or indicate the percentage of customers in these lines who are there solely to purchase make-up stamps. Provide copies of all documentation which supports that estimate or indication.
- (c) Please estimate or indicate the percentage of customers in these lines who are there primarily to purchase make-up stamps. Provide copies of all documentation which supports that estimate or indication.
- (d) Please estimate or indicate the percentage of customers in these lines who are there solely to purchase new (higher rate) basic First-Class Mail stamps. Provide copies of all documentation which supports that estimate or indication.
- (e) Please estimate or indicate the percentage of customers in these lines who are there primarily to purchase new (higher rate) basic First-Class Mail stamps. Provide copies of all documentation which supports that estimate or indication.
- (f) Please estimate or indicate the percentage of customers in these lines who are there solely to conduct postal transactions in the ordinary course of business, irrespective of a pending or recent rate change. Provide copies of all documentation which supports that estimate or indication.
- (g) Please estimate or indicate the percentage of customers in these lines who are there primarily to conduct postal transactions in the ordinary course of business, irrespective of a pending or recent rate change, but who seize the opportunity to either purchase new (higher-rate) basic postage stamps or make-up stamps. Provide copies of all documentation which supports that estimate or indication.

RESPONSE TO USPS/OCA-T1-2

- (a) I do not have direct information on the duration of post offices' experience with long lines and frustrated customers at the time of the January 1999 rate increase or at

ANSWERS OF OCA WITNESS TED P. GERARDEN
TO INTERROGATORIES USPS/OCA-T1-1-10

prior rate changes. Presumably Postal Service window transaction data would indicate the increase in stamp purchase transactions resulting from the change to higher rates, and the period over which the increased transactions occurred before reverting back to the baseline level. Contemporary news reports, discussed in more detail below, indicate that post offices experienced increased visits before the rate change date, a peak of activity on Monday, January 11, 1999, and continued above-average levels of visits for several days thereafter.

The OCA attempted to obtain information that would indicate the extent to which post offices incurred increased costs at the time of the January 1999 rate change. Although the OCA attempted to phrase its questions in this way to elicit useful information without burdening the Postal Service with lengthy research on the increased volume of window transactions, the answer to each OCA question was that the Postal Service did not have any such information. See, e.g., Postal Service responses to OCA/USPS-50, OCA/USPS-71, and OCA/USPS-103.

(b) – (g) The OCA does not have an estimate of the number or percentage of postal patrons waiting in lines at the time of the January 1999 rate increase who were there solely to purchase make-up stamps, primarily to purchase make-up stamps, solely to purchase new basic First-Class mail stamps, primarily to purchase new basic First-Class Mail stamps, to conduct postal transactions in the ordinary course of business, or to conduct postal transactions in the ordinary course of business but who seized the opportunity to purchase either make-up stamps or new basic First-Class stamps.

ANSWERS OF OCA WITNESS TED P. GERARDEN
TO INTERROGATORIES USPS/OCA-T1-1-10

Contemporary reports, however, indicate that the majority of patrons visiting post offices at and shortly after the time of the rate increase were seeking one-cent make-up stamps. whether or not they were also purchasing new basic (33 cent) First-Class stamps.

The OCA is filing Library Reference OCA-LR-I-4 consisting of reprints through electronic retrieval services of newspaper articles that appeared in various newspapers in January 1999. These reports document the surge of postal patrons seeking to purchase one-cent stamps to go with their existing 32 cent stamps, and the long lines that resulted in many post offices. For example, the *Los Angeles Times* reported on January 12, 1999, that "crowds of people braved long lines and frustrating waits to snap up one-cent stamps on the first business day of the latest postal rate increase," and commented that "[l]ines snaked and parking lots were jammed from Ventura to Orange County" because of "the thousands who crammed their neighborhood post offices Monday." Likewise, the *Tampa Tribune* reported on January 12, 1999, that customers "flooded Tampa post offices Monday looking for 1-cent stamps" and noted the long lines in different branch offices. The *Chicago Tribune* noted on January 12, 1999, that customers "flooded Chicago-area post offices Monday only to find long lines and shortages of 1-cent stamps." On January 13, 1999, the *Baltimore Sun* reported "lines of frustrated customers snaked through post offices" and "frazzled employees," commenting that the "panic took U.S. Postal Service officials by surprise." The *Washington Times* reported on January 10, 1999, that "[c]ustomers flooded Washington area post offices" with lines stretching through lobbies to the front door. On January 13,

ANSWERS OF OCA WITNESS TED P. GERARDEN
TO INTERROGATORIES USPS/OCA-T1-1-10

1999, the *Star-Ledger* (Newark, N.J.) quoted a postal clerk as saying "[w]e got an influx of humanity in here like you wouldn't believe." Like the January 14, 1999 edition of *The Denver Rocky Mountain News*, which reported crowded post offices on Wednesday, January 13, many articles referred to the situation as a "stamp-ede."

A common theme of these contemporary reports was that customers had great difficulty obtaining one-cent make-up stamps, as many post offices sold out of their supply quickly. Numerous articles reported that postal patrons were simply unable to obtain make-up stamps to go with their existing 32-cent stamps because of the temporary shortages. See, e.g., articles in the *San Francisco Examiner*, the *Augusta Chronicle*, the *Times Union* (Albany, N.Y.), the *Chicago Tribune*, the *Baltimore Sun*, the *Washington Post*, and the *St. Louis Post-Dispatch*.

The frenzy for purchasing make-up stamps evidently exceeded the expectations of Postal Service planners. It is my view that the panic-type buying behavior commonly reported in January 1999 would be alleviated if every postal patron received ten courtesy make-up stamps in advance of the next change in the basic First-Class rate.

ANSWERS OF OCA WITNESS TED P. GERARDEN
TO INTERROGATORIES USPS/OCA-T1-1-10

USPS/OCA-T1-3

Please refer to your testimony at page 9, lines 21-23, where you state that savings from a reduction in the number of window transactions would tend to offset the costs of your free make-up stamp proposal.

(a) On page 17, lines 8-9, of your testimony, you state that the Postal Service will avoid \$17.9 million in retail transaction costs with the free make-up stamp proposal. Is this \$17.9 million the savings you refer to at page 9, lines 21-23, of your testimony? If not, please explain.

(b) The \$17.9 million in savings is premised on avoiding the "need for just 30% of the 130,000,000 households and businesses to conduct an additional window transaction." Explain the basis for this estimate and provide all documentation and supporting information.

RESPONSE TO USPS/OCA-T1-3

Preliminarily, I note that this question, as well as questions USPS/OCA-T1-4 through USPS/OCA-T1-10, all refer to my proposal as a "free make-up stamp proposal" or to "free make-up stamps." Please note that nowhere in my testimony did I use the word "free." I suggest that the Postal Service provide ten make-up stamps to each delivery address without charge to the customer, but I also realize that the courtesy make-up stamp proposal has a cost to the Postal Service. The cost is easily justified and may be partly or even entirely offset by savings from modified consumer behavior in purchasing stamps at the time of a change to new stamp rates. The appropriate references, therefore, are to my "courtesy make-up stamp proposal" or "courtesy make-up stamps."

(a) - (b) The \$17.9 million referred to at page 14 (not page 17) is an illustrative estimate of savings in window transactions costs if distribution of courtesy make-up

ANSWERS OF OCA WITNESS TED P. GERARDEN
TO INTERROGATORIES USPS/OCA-T1-1-10

stamps would modify customer behavior such that 30 percent of the 130 million delivery patrons did not make an extra trip to the post office to purchase stamps. It is an illustrative estimate of the possible savings referred to at page 9 of my testimony. Given the high volume of customers visiting post offices at the time of the last rate change as reflected in the reports in OCA-LR-I-4, 30 percent appears to be a reasonable estimate of the extent to which distribution of courtesy make-up stamps would avoid some of the extra trips made solely because of the change in rates; it may even be a conservative estimate. There is no documentation of the estimate.

ANSWERS OF OCA WITNESS TED P. GERARDEN
TO INTERROGATORIES USPS/OCA-T1-1-10

USPS/OCA-T1-4

At page 7, lines 6-17, you testify that "[r]egardless of the efforts made by the Postal Service, many consumers are inconvenienced" during implementation of new postage rates.

(a) Has the OCA conducted any market research or surveys which quantify or otherwise measure the nature and magnitude of inconvenience to which you refer? In particular, does any such research or survey indicate how much of the inconvenience is associated with transactions involving new (higher rate) basic First-Class Mail stamps as distinct from those involving the purchase of make-up stamps? Please provide all documents related to such research and surveys.

(b) Do you agree that different individuals have different levels of tolerance for the same inconvenience, irrespective of a generally-accepted measure of that inconvenience as either "great" or "small"?

(c) Is it possible that, short of distributing free make-up stamps, the Postal Service could implement measures (considered reasonable by the OCA) to improve the general mailing public's transition to a higher basic First-Class Mail rate and still be faced with (fewer than before, but still) "many" complaints by customers (uninterested in free make-up stamps) who considered that they still experienced too much inconvenience related to the transition?

RESPONSE TO USPS/OCA-T1-4

(a) No, the OCA has not conducted market research or surveys of the type described in the question. I note, however, that the anecdotal evidence contained in OCA-LR-I-4 confirms that the magnitude of the inconvenience to the public was significant and certainly newsworthy when rates increased in January 1999. This information indicates that most of the inconvenience stemmed from the difficulty in obtaining one-cent make-up stamps rather than in purchasing new basic rate stamps, although large crowds and long lines would make any window transaction—not just

ANSWERS OF OCA WITNESS TED P. GERARDEN
TO INTERROGATORIES USPS/OCA-T1-1-10

stamp purchases—inconvenient for any postal patron delayed because of the number of customers attempting to make stamp purchases.

(b) Yes. It is possible that some patrons did not consider themselves inconvenienced even if they experienced abnormally large crowds, long delays, and an inability to purchase make-up stamps.

(c) Yes. The only way to avoid any (much less “many”) complaints would be to not raise the basic First-Class stamp rate. The OCA proposal is an effort to persuade the Commission and the Postal Service that an innovative outreach at the time of the next change in the First-Class rate is in the best interests of consumers as well as the Postal Service. No outreach program, no matter how well conceived, will eliminate inconvenience in the transition to new rates. The OCA believes that its proposal strikes the optimal balance of reducing inconvenience to the public and minimizing the impact of the program on the Postal Service.

ANSWERS OF OCA WITNESS TED P. GERARDEN
TO INTERROGATORIES USPS/OCA-T1-1-10

USPS/OCA-T1-5

To what degree is your free make-up stamp proposal driven by the fact that the basic First-Class Mail rate increase sought by the Postal Service is only one cent? In a case where a three-cent or nickel increase were proposed, would your make-up stamp proposal be the same? If not, how might it change?

RESPONSE TO USPS/OCA-T1-5

Since the Postal Service filing in Docket No. R2000-1 proposes a one-cent increase in the basic First-Class rate, I have not considered how a courtesy stamp outreach program might be structured if the increase were greater than one cent.

ANSWERS OF OCA WITNESS TED P. GERARDEN
TO INTERROGATORIES USPS/OCA-T1-1-10

USPS/OCA-T1-6

In implementing your free make-up stamp proposal, what measures should the Postal Service take to ensure that the stamps are used for their intended purpose, to supplement 33-cent basic rate stamps whose denomination was superseded upon implementation of a 34-cent rate?

RESPONSE TO USPS/OCA-T1-6

The Postal Service could print unique stamps indicating that they are only for use in conjunction with a 33 cent stamp (or 20 cent card rate if that rate is increased to 21 cents). Restrictions on the use of the stamp could be printed on the pane containing the stamps. In other words, the Postal Service could refuse to accept the stamps as postage except when used as "make-up" postage for superseded single-piece First-Class, first-ounce rates. The courtesy make-up stamps should not be redeemable or exchangeable for other stamps.

Distribution of only ten such stamps to each delivery address makes it unlikely that consumers would use the stamps for other than their limited intended purpose. Some individuals might keep the stamps as collector's items. Even though that is not their intended use, it would not be harmful to the Postal Service. Please note that, because an element of this proposal involves fostering good will on the part of the public towards the Postal Service, it may be preferable for the Postal Service to accept the courtesy stamps for any postage use. This would recognize, for instance, that there may be some customers who do not have ten remaining 33 cent stamps with which to use the courtesy stamps, but who could use the stamps as part of payment of postage on a package or similar item.

ANSWERS OF OCA WITNESS TED P. GERARDEN
TO INTERROGATORIES USPS/OCA-T1-1-10

USPS/OCA-T1-7

At page 8, lines 34, you propose that ten free make-ups stamps be distributed "to every delivery address."

- (a) Please confirm that this includes every business address.
- (b) Please confirm that this includes every post office box.
- (c) Please confirm that this includes every Federal, state and local government address.
- (d) Please confirm that this includes every prison or other correctional facility.
- (e) Please confirm that this includes every university or college.
- (f) Please confirm that this includes every charitable or nonprofit institution.

RESPONSE TO USPS/OCA-T1-7

(a) - (f) Confirmed. I have not attempted to differentiate among types of delivery addresses in making this proposal. I considered limiting the proposal to household delivery addresses, but that approach might result in businesses or post office box holders complaining that they were being discriminated against. I also realize that it is possible that individuals using both a household delivery location and a post office box might receive two panes of courtesy make-up stamps. Given the difficulties of trying to avoid possible duplication among delivery addresses, and the low inherent monetary value of ten make-up stamps to each recipient, however, I considered it more feasible to include all delivery addresses in the proposal. I would have no objection to the Postal Service developing sensible guidelines or limits on the distribution to delivery

ANSWERS OF OCA WITNESS TED P. GERARDEN
TO INTERROGATORIES USPS/OCA-T1-1-10

addresses, so long as the principal purpose of providing courtesy make-up stamps to the stamp-using public is accomplished.

ANSWERS OF OCA WITNESS TED P. GERARDEN
TO INTERROGATORIES USPS/OCA-T1-1-10

USPS/OCA-T1-8

Assume that your free make-up stamp proposal is implemented and the Postal Service has taken steps to reasonably assure itself that it has delivered the stamps to every address. Describe the procedures and policies which should be employed to resolve claims that make-up stamps were not delivered to a particular address.

RESPONSE TO USPS/OCA-T1-8

The most logical approach would be to provide a small supply of panes of courtesy make-up stamps at each post office, and to allow the Postmaster discretion to decide whether to dispense a pane to a customer who asserts that the courtesy make-up stamps were not delivered to a particular address. I do not envision that there would be any formal "claims," i.e., that this would not lead to any claims process, paperwork requirements, etc. The courtesy make-up stamp proposal is intended to ease the transition to higher rates for the public. It should not give rise to unnecessary formal procedures. The rule of reason should prevail.

ANSWERS OF OCA WITNESS TED P. GERARDEN
TO INTERROGATORIES USPS/OCA-T1-1-10

USPS/OCA-T1-9

In your testimony at page 8, lines 5-7, you assert that the inclusion of ten free make-up stamps would transform "ordinary public education efforts into meaningful outreach to consumers"

(a) Is it your testimony that a public education effort that did not include distribution of 10 free 1-cent postage stamps to every address would be a meaningless outreach to consumers?

(b) Is it your testimony that postal customers would not perceive as meaningful an improved rate implementation program that did not include distribution of ten free 1-cent postage stamps to every address?

RESPONSE TO USPS/OCA-T1-9

(a) Please note that I made a deliberate distinction between public education efforts as previously undertaken by the Postal Service and meaningful outreach ("the act or process of reaching out," Webster's Third New International Dictionary). Typical efforts to announce an imminent change in postage rates often are overlooked or not acted upon by the public. The shortcomings of past public education efforts may be one reason for which the Postal Service's Gateway to the Household implementation readiness teams have recommended a nation-wide mailing (see response to OCA/USPS-51, February 16, 2000). A nation-wide mailing (*i.e.*, direct delivery of information about a rate change to households) would be outreach; whereas public service announcements, posters, lobby displays, etc., are not. Such public education efforts are of course not meaningless, but they are not outreach as I use that term in my testimony.

ANSWERS OF OCA WITNESS TED P. GERARDEN
TO INTERROGATORIES USPS/OCA-T1-1-10

(b) Any improvement in a rate implementation program is welcome, but it may not be perceived as meaningful if it does not proactively ease the transition for postal patrons when rates change. A nation-wide mailing, coupled with other public education measures, will likely do a better job of informing the public about the change in rates, and may result in more consumers obtaining new denomination stamps and make-up stamps in advance of the rate change date. Some postal customers may perceive this as more meaningful than past education efforts. It is my testimony that the inclusion of courtesy make-up stamps will make any such outreach significantly more meaningful to consumers than would be the case otherwise.

ANSWERS OF OCA WITNESS TED P. GERARDEN
TO INTERROGATORIES USPS/OCA-T1-1-10

USPS/OCA-T1-10

Please review the list of eight objectives that you, at the top of page 9 of your testimony, assert that the Postal Service can achieve by delivering an informational mail piece and free make-up stamps to all delivery addresses.

- (a) Please identify which ones can be achieved without the provision of free make-up stamps.
- (b) Please identify which ones cannot be achieved without the provision of free make-up stamps.

RESPONSE TO USPS/OCA-T1-10

The question effectively requests me to distinguish between which objectives can be accomplished by an explanatory mailpiece alone and which objectives can be achieved by the addition of courtesy make-up stamps to the mailing. With this understanding of the purpose of the question:

- (a) Nos. 1, 2, and 6.
- (b) Nos. 3, 4, 5, 7, and 8.

ANSWERS OF OCA WITNESS TED P. GERARDEN
TO INTERROGATORIES USPS/OCA-T7-21(e) and -22(b)

USPS/OCA-T7-21(e)

(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(e)

Yes. In considering issues to include in the OCA's testimony in Docket No. R2000-1, the OCA considered the desirability of conducting market research on CEM as well as on other initiatives. The OCA explored informally the parameters, including cost, of performing market research that could be expected to produce statistically valid results, as well as OMB restrictions on data collection governing the Commission. Given the modest budget on which the Commission operates, including the very modest budget for the Office of the Consumer Advocate, and given the need to commit available funds to other aspects of the rate case, it was not feasible to conduct market research on CEM.

ANSWERS OF OCA WITNESS TED P. GERARDEN
TO INTERROGATORIES USPS/OCA-T7-21(e) and -22(b)

USPS/OCA-T7-22(b)

(b) For each intervenor listed below, confirm that the OCA has had discussions with representatives from each party regarding the CEM proposal and/or the intervenor proposal indicated. If not confirmed, please explain. In addition, state the date(s) of those discussions, the person(s) involved in those discussions, the topic(s) discussed, and the conclusion(s) you may have reached. Please provide copies of all notes, records, or other documentation that you may have maintained in connection with these discussions.

- (1) E-Stamp: PC Postage Discount Proposal
- (2) Stamps.com: PC Postage Discount Proposal
- (3) MMA: "P" Rate Proposal
- (4) Pitney Bowes: Meter Mail Discount Proposal

RESPONSE TO USPS/OCA-T7-22(b)

(b) Confirmed. In each case the meeting was held at the request of the party.

(1) and (2) On March 30, 2000, Ted Gerarden, Gail Willette, and Rand Costich of the OCA met with Timothy May for E-Stamp Corporation and David Hendel for Stamps.com. The principal purpose of the meeting was for the OCA to learn about E-Stamp Corporation's and Stamps.com's plans to request a discount for IBI postage. The OCA did not reach any conclusion as a result of this meeting. Copies of notes of the meeting are attached.

(3) It is my understand that the "P" rate proposal refers to the proposal made by witness James Clifton on behalf of the American Bankers Association ("ABA") and the National Association of Presort Mailers ("NAPM"), not the Major Mailers Association ("MMA"). On April 3, 2000, Ted Gerarden met with Joel Thomas and James Clifton for NAPM. The principal purpose of the meeting was for the OCA to learn about the "P"

ANSWERS OF OCA WITNESS TED P GERARDEN
TO INTERROGATORIES USPS/OCA-T7-21(e) and -22(b)

rate stamp proposal being considered by NAPM. The OCA did not reach any conclusion as a result of this meeting, but later determined that there was merit in the idea. No notes were taken of the meeting. Mr. Clifton did later share a copy of draft testimony with the OCA. That draft was returned to Mr. Clifton. Attached hereto is a copy of a letter, dated May 5, 2000, sent by me to Mr. Clifton concerning the draft.

(4) On December 10, 1999, Ted Gerarden met with John Schmidt and John Campo of Pitney Bowes. The principle^{al} purpose of the meeting was for the OCA to learn about Pitney Bowes' plans to propose a discount for metered mail. The OCA did not reach any conclusion as a result of this meeting. No notes were taken of the meeting.

3/3/00 Meeting w/ Tim May + Dave Henshel - TPB,
Rand, Gail re EStamp + Stamps.com

Will propose document for 1B1 postage
based on QBLEM - like automation compatible
except for postnet.

Primary market 510s + homeowner. One
problem is estimating market - has done survey
work w/ both, Neopost + DB - cost \$5000 - EStamp
has it + has approached them about appearing
in case. Not sure if they will.

Neither wants a skill classification - they
want a rate, so they need a reasonable
estimate of cost and consequences.

Stamps.com only allows \$500 postage at one
time - don't look at more than 100 employees -
the \$500 is currently a USPS limitation.

Stamps.com requires one by one address
checking - won't post envelope without correction.
EStamp does it for line with CD com that
is updated.

Different payment plans - minimum \$2/month,
10% of postage - EStamp charges 10% when the
postage is stored, Stamps.com when the

postage is used.

May makes pitch that prearranging cost-saving mailpiece (concession) is rewarded, when CRE savings are credited by the company sending the prepared envelope.

Hendel says they can handle all problems raised by USPS in response. On country envelopes, postage could be printed on label & label could be put on CRE instead of a stamp.

Plan to ask for a 3 cent discount match to QBRM. Calculating differences - not possible, but thinks that there is a 6¢ difference to hand written mail.

USPS doesn't have any in, which helps them in providing savings & getting discounts.

May wants PRC not to increase PC rate for this mail - that would give at least a 1¢ discount - trying to come up with a strategy to avoid classification change problems, way for USPS to reject a recommendation. Ward not tie to QBRM.

May sees best strategy to measure some discounts for this kind of mail - sort of a

Attachment to response to USPS/OCA-T7-22(b) (1) and (2), page 3 of 3

worksharing method - savings are being measured by handwritten as benchmark rather than metered. Plans to put in some record info that it is comparable to automation mail

Both companies have engaged cost consultants - but clients don't want to spend heavily in the case.

Gail notes that QBRM + CEM are holdout mail - 181 will likely be delivered. Gail thinks costs related to that

Stamps.com has quality control check - requires customer to mail an envelope to Stamps.com every 6 months or so - so they can check quality. May says laser printers are good, quality can be spotty with inkjets -

I ask if survey results can be shared with OCA - They will check - we would like to know more about how the service works & who is signing up for it.

Attachment to response to USPS/OCA-T7-22(b)(3), page 1 of 3

May 5, 2000

Mr. James A. Clifton
President, Washington Economics Consulting Group
P.O. Box 60654
Potomac, MD 20854

Re: "P" stamp proposal

Dear Jim:

Sorry to be so long in getting back to you. I have reviewed your draft "P" stamp proposal, and asked a couple of others in OCA to do so also. We think it's a good idea, worth asking the Commission and the Postal Service to consider.

I've enclosed a copy of the draft with some notes and questions I made as I went through it. Here are some overall reactions, more or less in the order they occurred to me as I went through the paper:

- ◆ I'd prefer that you didn't call the prior CEM proposal "extreme." Note the very high cost contribution calculated for this mail in OCA/USPS-121 and LR-I-191. The Postal Service doesn't embrace the 29¢ savings, but it is an impressive number.
- ◆ The "P" designation sounds okay, but references to "public automation rate" or "PAR" may dredge up bad memories. This is an area where some skillful spin doctor might suggest an acronym and/or stamp design that sugarcoats the pill.
- ◆ Placing collection boxes on private property might be an issue for the Postal Service. I don't have a problem with it, but it does raise questions about how the Postal Service will feel about Postal Service-like boxes performing a Postal Service-like function for the public but not on the same turf (literally) that the Postal Service has used historically.
- ◆ Your paper doesn't explicitly address how the Postal Service handles a change in the "P" stamp rate—I assume that older "P" stamps would bear their postage rate (to a decimal) and make-up postage would be needed. Since the "P" rate would

change in each case according to avoided costs, I assume it would not move in lockstep with the FC rate. Would the USPS have to print "P" makeup stamps? Or could the FC make-up stamp be used even if the change in postage is different?

- ◆ I have the impression that the public generally has been negative on using non-integer stamps. Selling in sheets or multiples of 10 is a good idea; the public should be able to see a benefit in a decimal discount stamp. Still, if the discount can be set at an integer, so much the better. The OCA will pursue uncoupling from the effect of the integer rate in its SPFC proposal.
- ◆ Would implementing this proposal mean that USPS would set standards or certify participating presorters? Can the presort industry assure the postal Service that their members can offer enough geographic coverage of the U.S. to warrant the general public education that is needed? Would the industry participate in the education effort?
- ◆ The idea of setting the rate by the discount for prebarcoding and allowing the presort bureaus to capture the presortation discounts raises some questions. I assume that consumers would pay the USPS for the "P" stamp and presorters would get a credit for the value of postage applied by the public to the "P" stamp letters entered with their trayed mail. The Postal Service would not be involved in the "split" between presorters and those who provide a place for "P" boxes or otherwise gather mail. I'm unclear on the purposes of discussing the "split" here.
- ◆ Solving the "type one" problem will be the hardest to get past the Postal Service. They will argue that short-paid mail (even though it is outweighed by overpaid mail) is extremely expensive to deal with and would be a constant problem if the "P" stamp came into existence. It has been the thorniest problem for CEM so far.
- ◆ The "type three" problem appears to be disappearing if the data from R2000-1 is accurate. Automation compatibility is increasing significantly.
- ◆ Is there a fourth type of problem: the letter deposited in the "P" box with no stamp? How does the presorter return this to the sender? If it goes into the Postal Service system for return, it is expensive (I believe the unit cost of returning a letter for postage due is above 50¢). You should also address the how's of returning a non-qualifying piece to the mailer in your discussion of the "type three" problem. What about unstamped mail with no return address?
- ◆ You should discuss what happens to pieces that the presorter can't automate or can't automate efficiently. Would the presorter add postage to get up to the FC

Mr. James Clifton

Page 3

rate and put the mail into USPS collection (*i.e.*, not enter it as discount prepared mail)?

- ◆ Would adoption of a "P" stamp program lead USPS to set envelope and related standards for single piece mailpieces to better assure that they qualify?
- ◆ We like the argument you make for a price competitive response even if migration from the hard copy mailstream is for non-price factors. This is an argument similar to that which OCA will make for CEM. We think that CEM is also a good short-term option to confront competition—particularly since it relies on envelopes over which USPS exercises control in setting standards for, including CRM envelopes.
- ◆ I understand you are considering whether to go further and recommend a rate. Even if you don't, do you have some sense of the potential volume that could be used to indicate that the presort industry can handle it, and that the Postal Service comes out well even if its letter mail processing equipment loses some of the current intake volume?

Overall, your "P" stamp proposal fits in nicely with OCA's continued push for a CEM discount. It requires express support from the presort industry, showing the PRC that the industry wants to the opportunity to work mail from the general public. We should give some thought to the likely rate. One concern I have is that if the "P" stamp rate is set at a level different from the CEM rate. The Postal Service has resisted CEM largely because it doesn't want to create a two-tier public stamp rate; it will resist even more having three.

That suggests that a good starting point would be to price CEM and the "P" rate the same. I expect that we will suggest tying the CEM rate to the QBRM discount. In this respect, while I understand that your goal is to have "P" rate mail bypass more of the entry processing that CEM would, CEM is rarely delivered, whereas a significant portion of "P" stamp mail would require delivery.

Thanks again for the opportunity to comment on your proposal; I'll look forward to seeing it refined in your evidence.

Sincerely,

Ted P. Gerarden
Director

1 CHAIRMAN GLEIMAN: Is there Additional Designated
2 Written Cross Examination? Mr. Hart?

3 MR. HART: Mr. Chairman, Henry Hart, representing
4 the National Association of Presort Mailers.

5 I would ask that one additional interrogatory be
6 designated for the record. I will have no cross examination
7 on it.

8 I have two copies. It is the answer of OCA
9 Witness Ted Gerarden to DMA/OCA-T1-7.

10 CHAIRMAN GLEIMAN: If you'd please show that
11 material to the witness?

12 [Pause.]

13 Mr. Gerarden, if that question was asked today,
14 would your answer be the same as you previously provided in
15 writing?

16 THE WITNESS: Yes, it would.

17 CHAIRMAN GLEIMAN: That being the case, Mr. Hart,
18 if I can impose on you to provide two copies to the Court
19 Reporter, I'll direct that the Additional Designated Written
20 Cross Examination be transcribed into the record and
21 received into evidence.

22 [Additional Designated Written
23 Cross Examination of Ted P.
24 Gerarden, DMA/OCA-T1-7, was
25 received into evidence and

transcribed into the record.]

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ANSWER OF OCA WITNESS TED P. GERARDEN
TO INTERROGATORY DMA/OCA-T1-7

DMA/OCA-T1-7. Please refer to your testimony at page 8, line 4 and page 11, lines 2-3.

a. Please describe in as much detail as possible your choice of "ten" as the number of courtesy make-up stamps to be sent to each delivery address.

b. Was this number chosen (i) arbitrarily, (ii) in order to permit the lost revenues to be offset by estimated cost savings, (iii) some other reason, or (iv) a combination of the foregoing? Would you agree that the Postal Service could confer a more substantial benefit upon the mailing public, both in terms of convenience and in terms of easing the transition to higher postal rates, through distributing larger amounts of courtesy make-up stamps?

c. Would you agree that, in order partially to offset the impact of "rounding up" single-piece First Class rates to the nearest integer, the Postal Service could distribute for free, large amounts of courtesy make-up stamps, perhaps as many as an estimated one-year supply? Would you support such a proposal?

RESPONSE TO DMA/OCA-T1-7:

a. I considered 10, 12, and 15 as possible numbers of courtesy make-up stamps to suggest for this outreach activity. Each number could be printed efficiently on a pane (i.e., 2x5; 2x6 or 3x4; 3x5) that could be enclosed in a trifold-style mailing. I selected ten for two reasons. First, Household Diary Study data indicate that the average household sends slightly less than 12 First-Class letters and cards per month. To permit the Postal Service to realize savings from a reduced number of window transactions by consumers, the number of courtesy make-up stamps should permit a reasonable portion of the population to buy new stamps at the time they would otherwise have purchased additional stamps, thus avoiding an extra trip to the Post Office for make-up stamps and/or new stamps to enable them to mail items at the time the rate changes. I considered ten to be a reasonable minimum to achieve this result. Second, the number of stamps impacts the level of revenue foregone by the Postal

ANSWER OF OCA WITNESS TED P. GERARDEN
TO INTERROGATORY DMA/OCA-T1-7

Service. For this reason, the number of courtesy stamps should not be excessive. Each increase of one stamp per delivery address (using 130 million delivery addresses and an assumed 90% usage rate) would increase the revenue foregone cost to the Postal Service by \$1.17 million.

b. As indicated in the response to (a), the choice was not arbitrary, but was intended to balance the benefit to the public with the cost to the Postal Service. The choice was also intended to encourage stamp purchasing behavior by the public that would provide the Postal Service with offsetting cost savings from reduced window transactions. I agree that the Postal Service could provide greater convenience to the public by distributing a larger number of courtesy make-up stamps, but the number should be limited by considerations of the cost to the Postal Service. Keep in mind that the purpose of this proposal is to ease the transition to new rates, not to avoid the impact of higher stamp rates when such higher rates are determined to be necessary, while having a modest net cost impact on the Postal Service.

c. No to both questions. This subpart attempts to mix two separate OCA proposals. In proposing that single-piece First-Class ("SPFC") rates be held constant over two rate cases, the OCA is suggesting that the Postal Service can accommodate different interests of different customers—consumers who rely on stamps and mail mostly single-piece items versus large business mailers who generally use permits or metered postage at discounted rates. The device suggested to accomplish this rate stability benefit for consumers without adversely affecting other mailers is to set an integer rate for SPFC mail that would allow a positive balance to build up in the

ANSWER OF OCA WITNESS TED P. GERARDEN
TO INTERROGATORY DMA/OCA-T1-7

proposed SPFC Reserve Account, thus permitting the Postal Service to retain the same SPFC rate for the next rate case. Distributing a larger amount of courtesy "make-up" stamps would, as the question suggests, partially "offset" the impact of rounding up to an integer rate. This presumably would reduce or eliminate the balance in the Reserve Account, undercutting the ability of the Postal Service to maintain the same SPFC rate for the next rate case. If DMA's concept is to distribute enough courtesy stamps to completely eliminate the impact of rounding up to an integer rate, the effect would also be to "recouple" the workshare discounts to the integer rate.

Moreover, distributing "large amounts of courtesy make-up stamps, perhaps as many as an estimated one-year supply" makes little sense. The cost of printing such stamps (\$0.003 per stamp) would be 30 percent of the stamp's postage value (assuming a one-cent increase in the First-Class rate). As the public exhausts its supply of old 33-cent stamps (*and the Postal Service exhausts its inventory*), new denomination stamps would have to be purchased and the make-up stamps would become useless. Even if the make-up stamps could be used as one-cent stamps, it would be impractical if not impossible to fit enough on an envelope or card to add up to First-Class postage. I would not support such a proposal.

1 CHAIRMAN GLEIMAN: Is there anyone else?

2 [No response.]

3 CHAIRMAN GLEIMAN: If there isn't anyone else,
4 that brings us to oral cross examination. One party that
5 I'm aware of has requested oral cross examination, and
6 that's the United States Postal Service.

7 Is there any other party that wishes to cross this
8 witness?

9 [No response.]

10 CHAIRMAN GLEIMAN: If not, Mr. Tidwell, you can
11 proceed when you're ready.

12 MR. TIDWELL: Good morning, Mr. Chairman.

13 CROSS EXAMINATION

14 BY MR. TIDWELL:

15 Q Good morning, Mr. Gerarden. I'm Michael Tidwell
16 on behalf of the U.S. Postal Service.

17 I'd like to begin my directing your attention to
18 your response to Postal Service Interrogatory 1.

19 [Pause.]

20 A I have it.

21 Q Okay. Now, in your response, you divide the FY99
22 \$1.6 billion estimate of postage in the hands of the public
23 by \$130 million of domestic delivery addresses, and you come
24 up with \$12.52 in postage per delivery address; is that
25 correct?

1 A Yes.

2 Q Would you accept, subject to check, that \$12.52
3 represents approximately 39, 32-cent stamps?

4 A Approximately.

5 Q We've got about four cents left over when I was
6 doing the math.

7 Would you happen to have an estimate of how many
8 32-cent stamps, the average household had onhand when the
9 R97 rates were implemented back in January of '99?

10 A No, I do not, and evidently the Postal Service
11 does not have that information either, because we did
12 attempt to determine if the Postal Service had some
13 information that would give us a lead as to the number of
14 stamps onhand in an average household.

15 Q Would you expect the average household to maintain
16 the same amount of postage onhand as, let's say, the average
17 business address?

18 A Probably not.

19 Q Okay. Let's take a look at your response to
20 Postal Service Interrogatory Number 2.

21 A I have that.

22 Q Okay. For purposes of this question, I'd like you
23 to assume that R2000 rates are going to be implemented in
24 January of 2001.

25 And your in response to Question 2, you describe

1 what you call panic-type buying behavior.

2 I was wondering if it was your opinion that this
3 panic-type buying behavior could be alleviated in January of
4 2001 if the Postal Service, in comparison to two years ago,
5 improved the distribution of makeup stamps to Post Offices,
6 and did a better job of informing the public of their
7 availability than it did two years ago?

8 A Certainly that could be the case. The Library
9 Reference that I filed, OCA-LR-I-4, attempted to show, based
10 on contemporary accounts, the behavior exhibited by
11 consumers at the time the rates changed in January of 1999.

12 That was the first change in approximately four
13 years, and with an assumed date of January of 2001, as you
14 have assumed in the question, perhaps the events of 1999
15 will be fresher in the mind of the public.

16 That, combined with better efforts on the part of
17 the Postal Service to assure that an adequate number of
18 makeup stamps are available at Post Offices, and better
19 education to encourage consumers to obtain stamps in advance
20 of the change in rates, may, indeed, alleviate some of the
21 panic buying behavior that was seen in January of 1999.

22 My suggestion to the Postal Service is that it
23 would be a very cost-effective means of alleviating that
24 behavior if the Postal Service were to include with a
25 nationwide distribution of information about the postage

1 rage change, ten courtesy makeup stamps so that individuals
2 would be able to visit the Post Office at their normal time
3 to buy stamps, rather than making an extra trip.

4 Evidently it was the large number of extra trips
5 made to the Post Offices just about at the time of the rate
6 change, January 10 of 1999 that led to the panic buying
7 behavior.

8 Q Okay, let's take a look at your response to Postal
9 Service Interrogatory Number 10.

10 A I'm sorry, 10, did you say?

11 Q Ten.

12 [Pause.]

13 A I have that.

14 Q And in the middle of your response, you refer to
15 one of the ideas that came out of the Postal Service's R2000
16 Implementation Readiness Team's brainstorming session; that
17 information provided in the Postal Service Interrogatory
18 response.

19 And the notes on that brainstorming session
20 indicated that one of the proposals that the Team thought
21 the Postal Service should consider in connection with
22 implementation of R2000 rates is the production and
23 distribution of a nationwide to every delivery address,
24 announcing the rate changes, instead of the old practice of
25 relying on local mailings at the discretion of local Postal

1 Managers.

2 I just wanted to ask you a couple of questions
3 concerning such a mail piece:

4 If the mail piece contemplated by the Readiness
5 Team or at their brainstorming session informed customers of
6 the alternatives to waiting until new rates are implemented
7 before purchasing makeup stamps, and those alternatives
8 include getting makeup stamps when customers are at the Post
9 Office otherwise conducting other transactions, particularly
10 holiday mailing transactions, or obtaining stamps through
11 alternative means such as vending machines or Stamps by Mail
12 or Stamps Online, if a mailing -- this nationwide mailing
13 that the brainstorming session put on the table were to
14 include information about these alternatives, do you think
15 it could have an effect of reducing the additional lobby
16 traffic due to customers purchasing new 34-cent stamps in
17 January?

18 A It could. I would note that sometimes the
19 mailings that are made at the discretion of local
20 Postmasters may not arrive in a timely fashion.

21 If a nationwide mailing is made, of course, the
22 coverage would be better, but the Postal Service would also
23 be in a position to better time the mailing so that it would
24 be sure to have that information in the hands of the public,
25 sufficiently in advance of the date of the rate change to

1 encourage the public to purchase stamps in advance or
2 purchase stamps through alternative means.

3 So, certainly there could be an improvement over
4 the efforts that the Postal Service made in January of 1999.

5 Q Okay. And if this mailing had the effect of
6 reducing additional lobby traffic, could it also have the
7 effect of reducing aggravation and waiting time experienced
8 by customers attempting to purchase new stamps?

9 A Yes, it could. I think what the Postal Service
10 may find itself up against is the tendency on the part of a
11 large number of members of the public not to think well in
12 advance or not to respond to such a mailing, and, as is
13 often the case, the date creeps up on someone who may have
14 had a good intention of getting to the Post Office in
15 advance, but didn't get there, and so you still will have, I
16 would believe, a large number of members of the public who
17 would be visiting the Post Office just about the time of the
18 rate change and, again, having the long waits and crowded
19 lobbies as people attempt to get makeup stamps and new
20 stamps at approximately the same time.

21 The more the Postal Service can do to spread out
22 those purchases over a longer period of time, the better
23 everyone will be. And as I indicate in my testimony, I
24 believe that the most effective way of doing that would be
25 to provide courtesy stamps to consumers which would

1 proactively put those makeup stamps in their hands and avoid
2 the problem of people putting off to the last minute what
3 they should have done yesterday.

4 Q And if that same mail piece informed people about
5 the adverse impact on mail processing resulting from coins
6 being taped to mail pieces in lieu of makeup stamps, could
7 the mailing have the effect of discouraging such activity?

8 A Perhaps. There may, of course, be a few people
9 who would ignore such a warning or such information, but it
10 could perhaps reduce the instances of damage or slow-downs
11 in the operation of such equipment.

12 Q And if this mail piece were able to have these
13 impacts, that is, it resulted in a reduction in aggravation
14 and it resulted in fewer people taping coins to envelopes
15 and it sort of stretched out the surge of makeup stamp
16 purchases in relation to rate transition, could it have the
17 effect of engendering any change in consumer goodwill toward
18 the Postal Service?

19 A It could. As I indicate in my response to
20 USPS/OCA-T1-9, improvements, any improvements in the
21 implementation of the change in rates would be welcome, and
22 any improvements may have that effect of improving the
23 public's perception of the Postal Service.

24 Q Just with respect to your makeup stamp
25 distribution plan in general, I just want to make sure I

1 want to understand what you are asking the Commission to do
2 in this case. And for purposes of these questions, I would
3 like you to assume that the Commission exercises the good
4 judgment to recommend the Postal Service's proposed 34 cent
5 rate and that the Governors and the Board move to implement
6 those rates in January of 2001. Is it your testimony that
7 the Postal Service cannot implement your makeup stamp
8 distribution proposal without a recommendation to do so from
9 the Commission?

10 A Well, I don't believe I have addressed that in my
11 testimony one way or another, and I think the answer is no.
12 The Postal Service could undertake this without a direct or
13 a specific recommendation on the part of the Postal Rate
14 Commission. In fact, I have had discussions with personnel
15 at the Postal Service encouraging them to consider this
16 independent of the presentation of this idea in this case.

17 Q And I am correct in reading your proposal that you
18 are not asking the Commission to make the Governors'
19 approval of the 34 cent rate contingent upon approval of
20 your makeup stamp distribution plan, is that correct?

21 A That is correct, I am not. Of course, the OCA's
22 suggestion to the Commission is that it not recommend the
23 increase to 34 cents, although this is contingent, as you
24 indicated in your question, on the assumption that the
25 requested increase would be recommended.

1 MR. TIDWELL: Those are all the questions we have,
2 Mr. Chairman.

3 CHAIRMAN GLEIMAN: Is there any follow-up or
4 questions from the bench?

5 If not, counsel, would you like some -- I'm sorry.
6 Commissioner Goldway.

7 COMMISSIONER GOLDWAY: With regard to your
8 proposal, I just wanted to ask if you had given any thought
9 to the incentives such a proposal might provide. If the
10 Postal Service had more money up front than it needed,
11 because this stamp was going to be more than revenue was --
12 than we determined necessary for the first two years, and
13 would then even out for the next two. But if that money
14 were sitting there, does that mean that the Postal Service,
15 given its management prerogatives to spend money, might more
16 likely spend more money because it can come back for an
17 increase under your proposal if it needs to, there is a
18 safety valve?

19 THE WITNESS: Well, that is a very good question,
20 and one to which we gave a good deal of thought. Successful
21 implementation of the single piece First Class stability
22 idea really requires a commitment on the part of the
23 Governors that, in tracking the revenue in the reserve
24 account that would build up during the first rate case
25 period, that the Postal Service will be committed to

1 utilizing that positive balance in the reserve account to
2 maintain the single piece First Class rate in the second
3 rate case period.

4 If the economic conditions change significantly
5 and there is a sharp increase in inflation causing Postal
6 Service costs generally to go up, the OCA has included what
7 we called a safety valve, primarily to avoid the difference
8 between the single piece rate and the rates for workshared
9 mail from changing significantly, because that has an effect
10 of shifting volume back and forth between the presort
11 bureaus, workshare industry and the Postal Service. And for
12 the benefit of both the Postal Service and that industry, we
13 wanted to suggest that the difference between the workshare
14 rates being paid in each rate case by bulk mailers, and the
15 single piece rate, not get so far out of line that it would
16 have too significant an effect on shifting those volumes.

17 But going back to your question, if the Postal
18 Service were profligate, there is a risk that the Postal
19 Service could, in effect, be borrowing out of that bank, and
20 when they come back in a second rate case, say, well, gee,
21 it didn't work out quite the way we thought. I think that
22 if this were embraced by the Postal Service and the
23 Governors were to make a commitment to make this work on
24 behalf of the public, that that is really a low risk, that
25 the Postal Service would be careful in accounting in the

1 reserve account and taking the balance of reserve account
2 into account when they are filing the second and third rate
3 case.

4 COMMISSIONER GOLDWAY: And then I had another
5 question which relates to how the CEM proposal would impact
6 this proposal, because I know that your office has suggested
7 both of these. The CEM proposal includes with it some
8 reduction in revenue that the Postal Service would receive
9 because the 33 cent stamp would be down to 30 or 31. When
10 you look at your whole proposal and the notion of banking an
11 extra amount for First Class stamps over four years, and the
12 reduction in revenue that you are proposing for the CEM,
13 have you thought that these balance out?

14 THE WITNESS: They don't, because the CEM volume
15 is a fairly modest volume. I mean the CEM concept always
16 has been a fairly modest concept of sharing the benefits of
17 automation compatible mail with the public. Ms. Willette,
18 in her testimony, OCA-T-8, did discuss the maximum revenue
19 impact if all CRM mail pieces had CEM discount postage
20 applied to it by the public. And the dollars involved are
21 much less than the dollars involved in the single piece rate
22 stability concept, because that involves all of single piece
23 mail, not just the bill payment stream that the CRM
24 envelopes largely represent.

25 And we consider them independent. We did not

1 correct?

2 A That's correct in the EStamp product. I don't
3 want to speak for all vendors on how they implement it, but
4 as I understand the regulation by the USPS, that is how it's
5 supposed to be.

6 Q Okay. So how does the EStamp system assess the
7 surcharge for letter-shape non-standard pieces that do not
8 meet the aspect ratio requirement for one-ounce, First Class
9 Mail pieces?

10 A I would think that there would be no way to do
11 that, unless you have some sort of device that at the end of
12 putting your postage together and the mail piece, has
13 another way to measure an aspect ratio.

14 Q So that is that a non-standard First Class Mail
15 piece would the same postage as a standard size First Class
16 Mail Piece?

17 A I would believe so, yes.

18 Q Okay, now, could I have you now turn to your
19 response to USPS-T1-6?

20 A I have that.

21 Q Okay, in Subparagraph (b) you state that the
22 preferred business model would consist of a net cost of zero
23 to the PC Postage user; is that correct?

24 A That's correct.

25 Q In other words, the postage discount would offset

1 propose the CEM discount with any relationship to the
2 accounting in the reserve account for single piece rate
3 stability. The idea behind single piece rate stability is
4 specifically not to shift costs between mail categories or
5 classes.

6 COMMISSIONER GOLDWAY: Thank you.

7 CHAIRMAN GLEIMAN: Is there any follow-up?

8 [No response.]

9 CHAIRMAN GLEIMAN: If not, would you like some
10 time with your witness for redirect, Ms. Dreifuss?

11 MS. DREIFUSS: I think just a couple of minutes
12 will be enough, Mr. Chairman.

13 CHAIRMAN GLEIMAN: Certainly.

14 [Recess.]

15 CHAIRMAN GLEIMAN: Ms. Dreifuss?

16 MS. DREIFUSS: The OCA has just one question on
17 redirect.

18 REDIRECT EXAMINATION

19 BY MS. DREIFUSS:

20 Q Commissioner Goldway asked you, Mr. Gerarden,
21 about how OCA might deal with any revenue leakage that would
22 arise from the proposed CEM discount. Do you recall whether
23 Ms. Willette addressed that in her testimony?

24 A I believe she did, either in her testimony or in
25 responses to data requests, noting that while in her

1 testimony she estimated the total revenue impact based on
2 all of the CRM volumes, although of course conversion of all
3 of those volumes is highly unlikely.

4 She did note that the OCA is proposing a reduction
5 in the contingency allowance, which would many, many times
6 over cover any revenue leakage from implementing CEM in this
7 coming rate case.

8 MS. DREIFUSS: I have no further questions.

9 CHAIRMAN GLEIMAN: I'm a little confused by the
10 answer you just gave. The OCA has recommended a reduction
11 in the contingency and that would cover leakage, and you may
12 have to define that term for me, of revenue from CEM.

13 I think of leakage as lost revenue that would
14 otherwise have been there but is in some manner foregone as
15 a consequence of CEM.

16 Is that what you mean by leakage?

17 THE WITNESS: Well, Ms. Dreifuss used the word
18 "leakage" in the question. I think of it not so much as
19 leakage as if a CEM rate is used, which is a discount from
20 the single piece rate, then for those pieces that the public
21 applies a CEM rate stamp to there would be less postage
22 collected by the Postal Service.

23 Ms. Willette in her testimony estimated that
24 amount based on all of CRM volume converting to CEM rates at
25 my three cent discount.

1 CHAIRMAN GLEIMAN: And what is the relationship of
2 that to the recommendation or the suggestion by OCA that the
3 contingency be adjusted downward?

4 THE WITNESS: Again in response to Ms. Dreifuss's
5 question Ms. Willette was asked that question, essentially
6 where would the money come from to fund the discount for CEM
7 and in her response noted that the OCA has proposed a
8 reduction in the contingency amount, which would reduce, if
9 the reduction in the contingency amount is recommended, then
10 a different cost basis would be used in developing rates for
11 stamps and various postage amounts.

12 CHAIRMAN GLEIMAN: I think I need to think about
13 that one a little bit more, because if you got a reduced
14 rate and then you got a reduced contingency I am not sure
15 how the reduced contingency helps offset the reduced rate,
16 but rather than pursuing it right now, let me think about it
17 a little bit when I am back in my office.

18 THE WITNESS: I believe Ms. Willette's concept was
19 that they would be offsetting.

20 CHAIRMAN GLEIMAN: I'll have to take a look at
21 both the transcript today and Ms. Willette's testimony
22 because I am not sure I understand that.

23 Is there any additional recross or follow-ups to
24 questions from the bench? Mr. May.

25 MR. MAY: Yes, I have some follow-up.

FURTHER CROSS EXAMINATION

BY MR. MAY:

Q Mr. Gerarden, you as well as other parties in this proceeding have recommended a diminution of the contingency allowance. If that were to be recommended, would it not then be the case that the amount of the revenue required by the Postal Service is also decreased?

A Yes.

Q And if you need less revenue then you don't need to make up for, for example, your CEM proposal or, for example, the E-Stamp proposal, which is also for a discount.

You do not need to make up for that lost revenue because you have a reduced revenue requirement. Isn't that the case?

A If the E-Stamp discount were recommended, yes.

MR. MAY: Thank you.

CHAIRMAN GLEIMAN: As I said, I will have to sit back and think about this one quietly in my office.

I'll chalk it up to being Monday morning perhaps -- I am a little slow this morning on the uptake on complicated concepts.

If there is nothing further, then Mr. Gerarden, that completes your testimony here today. We appreciate your appearance and your contributions to the record.

We thank you and you are excused.

1 THE WITNESS: Thank you.

2 [Witness excused.]

3 CHAIRMAN GLEIMAN: Mr. May, I believe that you
4 have the next witness.

5 MR. MAY: Yes. Let me ask Witness Michael Jones
6 to take the stand.

7 CHAIRMAN GLEIMAN: Mr. Jones, before you settle
8 in, if I could get you to raise your right hand.
9 Whereupon,

10 MICHAEL JONES,
11 a witness, was called for examination by counsel for E-Stamp
12 Corporation and, having been first duly sworn, was examined
13 and testified as follows:

14 CHAIRMAN GLEIMAN: Please be seated.

15 DIRECT EXAMINATION

16 BY MR. MAY:

17 Q You are Michael Jones, the Director of USPS
18 Programs at E-Stamp Corporation?

19 A Yes.

20 Q I am going to hand you two copies of a document
21 captioned, "Direct Testimony of Michael Jones on behalf of
22 E-Stamp Corporation," E-Stamp-T-1.

23 I am going to ask that you examine these to see if
24 this is the testimony that you have prepared for this
25 proceeding.

1 A Yes, it is.

2 Q Do you adopt this testimony as your testimony for
3 the proceeding today?

4 A Yes.

5 MR. MAY: Mr. Chairman, I am going to hand two
6 copies of the testimony of Witness Jones to the report. I
7 ask that it be transcribed in the record and admitted into
8 evidence.

9 CHAIRMAN GLEIMAN: Is there an objection?

10 Hearing none, if counsel would indeed provide
11 those copies to the court reporter, the testimony of Michael
12 Jones will be transcribed into the record and received into
13 evidence.

14 [Direct Testimony of Michael Jones,
15 E-Stamp-T-1, was received into
16 evidence and transcribed into the
17 record.]

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E-Stamp Corporation-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

MICHAEL JONES

ON BEHALF OF

E-STAMP CORPORATION

RECEIVED
MAY 22 1 52 PM '00
POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

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May 22, 2000

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AUTOBIOGRAPHICAL SKETCH

My name is Michael Jones and I am the Director of the USPS Programs group at E-Stamp Corporation.

I received my bachelor's degree in Finance from Lehigh University in 1987.

My background prior to my position at E-Stamp was in the precious metals industry. I was a trader in New York and then worked with numismatic coins in Los Angeles. During this time, I became familiar with postal rates and regulations as an integral part of my business dealt with mailing precious metals domestically. On any given day, I was responsible for mailing between \$100,000 to \$1,000,000 worth of material, as well as receiving high valued packages from customers around the country on a daily basis.

My familiarity with the workings of the postal service has served me well during my time at E-Stamp. My duties at E-Stamp include responsibility for E-Stamp's compliance with postal regulations, particularly as they pertain to the specific regulations and specifications written for the PC Postage industry.

At E-Stamp, I am expected to be expert on USPS rates, regulations, processes and procedures and am asked to consult internally on these subjects on a regular basis. As the Director of USPS Programs for E-Stamp, I am knowledgeable of nearly every aspect of USPS related business that E-Stamp engages in. This includes how our products are required to work and how PC Postage mailpieces are handled in the mailstream.

On several occasions, I have worked with the USPS Sorting Center in San Francisco in order to test various aspects of PC Postage mail. These tests included

1 verifying the scannability of FIM D's printed on envelopes, FIM D's pre-printed on
2 patented 2- and 3- windowed envelopes, scannability and accuracy of POSTNET
3 barcodes printed on envelopes, and the scannability of fluorescent labels produced by
4 multiple vendors. On occasion, the test results I developed were then reverified by
5 USPS Engineering in Virginia.

6 Currently, I am working with the USPS and Canada Post to perform high speed
7 scannability testing on PC Postage indicia. These results will then be passed on to the
8 Universal Postal Union; the adoption of PC Postage globally still has some logistical
9 issues that need to be decided.

10 For the rate increase that went into effect January 10, 1999, I was responsible for
11 coordinating all rate table updates for E-Stamp's product. This was the first rate change
12 during the history of E-Stamp and our product was the first PC Postage product to deal
13 with a rate increase. I spent all of 1998 following the rate case as part of the research
14 necessary to make sure our product and infrastructure were in a position to effectively
15 handle the increase. In a PC Postage product, a rate change effects not only the rate
16 tables, but the following as well:

- 17 • Server database
- 18 • Software user interface
- 19 • Rate calculator wizards
- 20 • Software help files
- 21 • Printed user manual
- 22 • Corporate web site
- 23 • Marketing collateral materials

1 This was a major undertaking, and it had never been done before. The unique
2 solution was to have the rates, interface, and other software components dynamically
3 update for all postage printed with a date of 1/10/1999 or later. The same approach will
4 be taken this year for all of E-Stamp's current products.

5 In areas of address quality and cleansing, I directly interface with the National
6 Customer Support Center in Memphis, Tennessee. My department has been working
7 closely with this organization to insure compliance and to address customer concerns.

8 Other functional areas of the USPS that I am in regular contact with include
9 Treasury and Marketing in Washington, DC, Expedited Services in Atlanta, GA and
10 Accounting in Eagan, MN.

11 As an expert on PC Postage, I am regularly asked to attend PC Postage industry
12 meetings hosted by the USPS Postage Technology Management department, which is
13 responsible for overseeing the PC Postage program.

1 **E-STAMP CORPORATION**

2 E-Stamp Corporation is a business established for the purpose of being a Product
3 Service Provider in the PC Postage industry. E-Stamp is the pioneer of PC Postage
4 and has become well known as the company to get the first new form of postage
5 approved since 1920. E-Stamp had the first product to enter the rigorous Beta Test
6 program run by the USPS, and in August, 1999, became the first company to roll out a
7 fully approved PC Postage product nationwide. E-Stamp is only the fifth company ever
8 granted a license by the USPS to produce postage equipment (in this case, software
9 and hardware).

10 The founders of E-Stamp first approached the USPS with the concepts of PC
11 Postage in 1992. By 1994, the company was operating under the name Post 'n Mail. In
12 1996, E-Stamp was founded and Post 'n Mail was merged under the E-Stamp banner.
13 In 1997, E-Stamp became the fifth recognized postage vendor. 1998 saw the historic
14 first IBI produced in an event at the National Postal Museum in Washington, DC. 1999
15 saw the National Launch of the Internet Postage product and 2000 saw the initial beta
16 testing of E-Stamp's newest product.

17 E-Stamp Corporation is publicly traded on the NASDAQ under the symbol ESTM.

1 **INTRODUCTION.**

2 The purpose of my testimony is to explain the nature and requirements of an
3 Open System of PC Postage; to explain the Postal Service's specifications that it
4 requires before it certifies such a system; and to propose a limited discount for PC
5 Postage systems that meet all of the Postal Service requirements for automation
6 compatibility and the other very rigid requirements for Open System PC Postage.

7 **I. THE CONCEPT OF PC POSTAGE AND ITS REQUIREMENTS.**

8 PC Postage is the trademarked name that covers what is becoming a spectrum
9 of postage products that meet various category specifications. For the most part, PC
10 Postage refers to a new type of product whereby a user loads software onto a PC and
11 connects to a Product Service Provider via the Internet to apply for a USPS License.
12 Upon being granted a license, the user can then connect to the Product Service
13 Provider's server again to purchase postage. Once postage has been purchased and
14 downloaded into what is known as a Postal Security Device (PSD), the user has the
15 ability to print postage from the PC using a regular deskjet or inkjet printer. A principal
16 feature of PC Postage is that the postage is produced as a two-dimensional barcode, or
17 indicia, which is so secure that every single indicia printed will be unique. This is
18 designed to eliminate the fraud that had been prevalent with postage meters and other
19 methods of postage evidencing. PC Postage is also designed to use the equipment
20 that customers already have, PCs and printers. There is no requirement that PC
21 Postage be used with an IBM-compatible PC rather than a Macintosh. The term "PC"
22 is used generically in this respect to mean personal computer.

1 The PC Postage program has been designed by the USPS, in every facet, to be
2 the most cost efficient and secure method of postage evidencing in the history of postal
3 service. Simultaneously, the USPS also sees PC Postage as having the potential to
4 retain current customers and regain lost customers in the face of electronic alternatives
5 to mail and competing carriers.

6 The Postal Service's specifications that it requires PC Postage vendors to meet
7 include automation compatibility standards. The only difference between bulk mail
8 preparation and the single piece mail prepared with PC Postage is the lack of
9 presorting. In fact, it can be argued that PC Postage prepared mail is more efficient
10 than regular automation compatible presort mail. When bulk presort mail is prepared
11 the shipper must complete certain documentation; deliver the mail to a specified
12 location; and postal workers must be involved to accept, inspect and perform
13 accounting functions in order to complete the process. All of that manual intervention is
14 eliminated with PC Postage because the mailer simply deposits the mail into the
15 mailstream using conventional methods (collection box, post office, mail carrier).
16 Inspections are not necessary because the software has insured compliance and all
17 accounting functions have already been handled by the vendor. Thus, there is not only
18 a great deal of work sharing being performed in the use of PC Postage, but there is a
19 substantial amount of cost avoidance occurring when a customer chooses to use PC
20 Postage over other methods of postage evidencing.

21 **II. OPEN SYSTEM VERSUS CLOSED SYSTEM PC POSTAGE SPECIFICATIONS.**

22 Any product that produces PC Postage creates some savings for the Postal
23 Service. However, postal specifications published more recently do not require all mail

1 pieces produced by PC Postage products to meet all the standards of automation
2 compatibility as previously outlined. One of these deviations is the Closed System
3 specification. This system does not have nearly as many requirements as the Open
4 System. So far only one product has been approved under the Closed System:
5 Neopost's Simply Postage. Since this product does not require an address to be
6 associated with the indicia, a POSTNET bar code is not created. In contrast, all Open
7 System products are required to perform address cleansing and to create full delivery
8 point POSTNET bar codes, as well as have the entire delivery point listed in the indicia.

9 This requirement for address cleansing should not be dismissed lightly. We have
10 found that it is one of the most disliked features of the PC Open System; however, our
11 customers have no choice but to perform this function. For all other discounted postage
12 products the customers only have to perform this address cleansing on a voluntary
13 basis and then only in order to receive a discount for the work they have done. We
14 have found that the requirement to perform address cleansing while paying full postage
15 is a major barrier to customer acceptance of PC Postage.

16 **A. The Use Of Fluorescent Labels.**

17 Another Postal Service requirement is that First-Class postage printed on labels,
18 as opposed to envelopes, must be printed on fluorescent labels. This requirement was
19 hastily added by the Postal Service in the latter part of 1999. The Service believed that
20 customers could not be trusted to paste labels with FIMs in the proper position on the
21 envelope which could cause the mail pieces to be rejected by the sorting equipment
22 with a consequent loss of the cost savings. The Postal Service decided the only way to

1 assure that First-Class mail pieces using labels would be handled by the sorting
2 equipment correctly would be to require the labels to have fluorescent strips. At the
3 same time, however, this requirement makes the FIM unusable and does not allow the
4 same efficiency in the sortation process.

5 **B. Additional Addressing Problems.**

6 Another difficulty with address cleansing, and a source of numerous customer
7 complaints against the USPS address-matching CD-ROM, is that it is not current nor
8 completely accurate. Because Open System PC Postage products will not allow a mail
9 piece to be created unless an exact match against the Postal Service database can be
10 made, customers find that they can no longer create mail pieces to every address on
11 their current mailing lists, even if they know with certainty that some of those addresses
12 are correct. This also is creating a barrier to full customer acceptance.

13 In the near future the Service will create an address matching CD-ROM that will
14 allow for an override feature for addresses that cannot be matched against the USPS
15 address database. In some cases it will be permissible to still create a mail piece if the
16 City, State and Five Digit ZIP Code can be matched. The remaining digits of the
17 delivery point will be made up of zeros. Because the address can be verified by the
18 local post office, the mail piece will have to go through a final sortation at the local level.

19 This override capability we trust will create some relief for these customers, but
20 the barrier created by a lack of a discount for PC Postage will still stand in the way of
21 PC Postage gaining full acceptance. Even with the override capability, all PC Postage
22 (Open System) products will still have to be CASS certified as is required in the AMS

1 CD-ROM licensing agreement that all Open System PC Postage providers are required
2 to sign.

3 **III. THE NECESSITY FOR PC POSTAGE DISCOUNTS.**

4 Other postal customers use CASS certified products, perform address cleansing,
5 print POSTNET bar codes and FIMS, all so that they will qualify for discounted rates. It
6 is perfectly clear that many if not most of those customers would not find enough value
7 in taking these measures and the cost and inconvenience of them but for the discount.
8 It is naïve to believe that PC Postage customers will willingly incur these burdens with
9 no trade off in the form of a discount. Unless a discount is offered, PC Postage will not
10 be able to attract enough customers to convert in order to establish this form of postage
11 evidencing as a mainstream postage solution.

12 **A. The Burdens of Address Cleansing and Other Automation**
13 **Requirements.**

14 The Postal Service realizes savings on all postage printed by PC Postage
15 products, whether they are created with an Open or Closed System, whether the mail
16 pieces are First-Class Mail or Parcel Post, whether printed on envelopes or on a label.
17 Additionally, if the mail piece is created with a product which has a FIM, POSTNET bar
18 code, with a cleansed address printed directly on the envelope, the Postal Service
19 saves an even larger amount of money. We are aware that at an early stage in the
20 evolution of a new product, such as PC Postage, discounts are usually only granted if
21 the Service can clearly define the exact amount of savings through historical data or
22 through modeled costs. We acknowledge that to date there has not been enough
23 historical data collected to provide the necessary statistics for all PC Postage products.

1 Nevertheless it is perfectly evident that PC Postage provides substantial savings to the
2 Postal Service and can justify a discount for those customers who use it. For some
3 products we see no reason to wait for historical data. E-Stamp witness Roger Prescott
4 (T-2) provides evidence of the dimensions of the cost avoidance for certain PC Postage
5 products for which we are requesting a 4 cents discount be recommended in this
6 proceeding. Mr. Prescott's analysis is based on the comparability of the E-Stamp
7 product to existing First-Class automation compatible mail.

8 **B. Other Designed Economies From The Use Of PC Postage.**

9 In addition to the cost avoidances due to automation capability, PC Postage mail
10 pieces have built in additional savings to the Postal Service because of the other
11 processes to which the vendors must adhere. An example is the unique method by
12 which customer refunds are handled. All substantial costs are borne by the PC Postage
13 vendors, whereas these costs are wholly borne by the USPS when dealing with postage
14 meter customers/vendors or with customers who use regular stamps. Even the forms of
15 payment allowed by the USPS have been chosen based on what is the most
16 economical to the Postal Service. If one uses a postage meter, one can pay by check.
17 Check acceptance is the most costly method of payment for the Postal Service to
18 handle. A PC Postage user can only pay via ACH (free to the USPS) or by credit card
19 (fees are subsidized by the vendors per the USPS credit card agreement). In each
20 design aspect of the PC Postage program, costs to the Postal Service have been
21 reduced or eliminated, and the impetus has been placed on the customers and the
22 vendors to do the work or take on the costs. No other form of postage is as economical
23 or secure for the Postal Service to sell.

1 **IV. THE PROPOSED DISCOUNT FOR PC POSTAGE.**

2 There are two types of Open System PC Postage which merit consideration of
3 discounts:

4 1. Category 1: Any mail piece created with an Open System PC Postage
5 product regardless of mail class and other mail piece characteristics. This implies that a
6 certain level of address cleansing has been performed and that POSTNET bar code has
7 been printed. We do not propose a discount for this category in this proceeding,
8 although we believe a discount is warranted for all mail pieces based on the USPS
9 specifications as they are to date. Although Bulk Mail discounts are generally available
10 to a small amount of customers who do large amounts of mailing, PC Postage products
11 will be available to large numbers of customers who do small to moderate size mailings.
12 Every PC product will create the same type of savings for the Postal Service as the mail
13 produced by the traditional bulk mailers. Since we are currently in the first full year of
14 implementation of these postage products, it is reasonable to accumulate data based on
15 a reasonable volume level before considering a discount for this broader category of
16 postage product. We would certainly hope that the Postal Service will have data
17 available and will make a proposal in the next rate case.

18 2. Category 2: Any First-Class Mail piece created with an Open System PC
19 Postage product that is printed directly on an envelope, utilizes a FIM-D, has an
20 address that is an exact match to the AMS CD-ROM database, and has a full delivery
21 point POSTNET bar code printed with the address as well as the delivery point included

1 in the indicia, and does not weigh more than 3.3103 ounces, or whatever new
2 breakpoint is determined for letter mail.

3 As to Category 2 of PC Postage products, we are asking the Postal Rate
4 Commission to recommend a 4 cents per piece discount now. This discount will apply
5 to all PC Postage Open System Single Piece First-Class Mail letters that meet all of the
6 qualifications for automation compatibility as are stated in the specifications published
7 by the USPS for this category of product. Although cost savings are enjoyed for every
8 piece of PC Postage mail, First-Class Mail pieces created from Open Systems have the
9 ability to maximize the work share aspects of automation capability to provide the
10 deepest savings for the Service. As E-Stamp witness Prescott documents, the cost
11 avoidance is substantial, and the proposed pass through of 4 cents is conservative.

12 Allowing a discount for this category at this time will provide a very needed boost
13 to the entire PC Postage category and will be an incentive that allows PC Postage to
14 reach its full potential. Without a discount resulting from this proceeding, the Postal
15 Service will have difficulty trying to convince customers that there is much of a benefit to
16 them to use PC Postage products when it will be much more economical and
17 convenient for customers to continue to use the present less efficient postage
18 evidencing methods. At the same time, USPS will lose the ability to leverage the value
19 of PC Postage to win back customers who switched away from using postage as a
20 method to move information and documents.

21

22

1 **V. CONDITIONS FOR A PC POSTAGE PRODUCT DISCOUNT.**

2 Because of the nature of the PC Postage Open System products, discounts for
3 this category can be enforced through the product software and customers will not have
4 the ability to apply the discount indiscriminately. Unlike a postage meter where the user
5 can select the postage amount and must be relied upon not to attempt to defraud the
6 Service, a PC Postage customer will have the postage amount determined
7 automatically by the product and the customer will not be able to override the calculated
8 value. Existing and future software products can programmatically determine that all of
9 the automation capability selections have been made in the user interface and that the
10 address has been matched against the USPS database. Upon meeting all of these
11 criteria, the software can then allow the postage to be printed at the Category 2
12 discounted rate. If any of the criteria are not met, the mail piece would
13 programmatically be determined to be ineligible for the Category 2 discount.

14 Consequently, if a customer decides to print on a fluorescent label, selects a mail
15 class other than First-Class, is attempting to send to an address that cannot provide an
16 exact match to the AMS CD-ROM, or the mail piece exceeds weight limits for FCM
17 letters, then the postage for that mail piece cannot be printed at the discounted rate that
18 we are requesting in this proceeding.

19 Because the Postal Service must approve all PC Postage products after a test
20 and evaluation, the validity of the programmatically controlled discount can be verified
21 for each product in service. Therefore, mail pieces printed at these discounted rates
22 would not have to be inspected for qualification by postal employees and special

1 handling of these mail pieces at the time of acceptance would not be necessary. Only
2 pieces that can be proven to qualify, which will be controlled by the approved software,
3 will be permitted to be mailed at the discounted rates. Only products that have passed
4 the rigorous approval process of the Postal Service will have the capability to print
5 discounted postage. All pieces mailed at a discount will be recorded in the log file kept
6 for each device. The log files can be audited to prove that only qualified pieces were
7 receiving the discounts. All accounting functions will be performed in real time as the
8 mail pieces are generated, thus saving the Service the costs associated with
9 maintaining all of the postage accounts required by permit mailers. Audits are
10 performed on an ongoing basis by the PC Postage products to ensure the financial
11 integrity of the category.

12 All of the above can be done with only minor modifications to what is already in
13 place with the Postal Service and with each vendor. The necessary level of effort would
14 be inconsequential compared to the benefit to all parties if these discounts are
15 approved.

16 We would hope that in the future, and after a thorough examination of the
17 savings from all PC products, and not just First-Class letter products, that there will be a
18 case made to provide discounts for all PC Postage products.

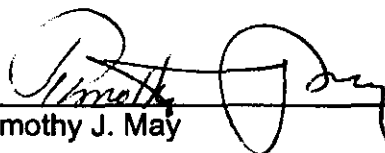
19 VI. CONCLUSION.

20 Based on the demonstrated savings already being enjoyed, and the need to
21 create an incentive to convert users to this highly efficient postage delivery system, we
22 urge the Commission to recommend a 4¢ discount on all fully automation compatible

1 First-Class single piece mail that meets the rigid requirements as outlined above. In
2 considering this proposal we urge the Commission to consider who, in addition to the
3 Postal Service, will be the prime beneficiaries of this discount. A customer who is
4 currently a bulk mailer and uses a PC Postage product to create a mail piece as part of
5 a bulk mail shipment, and meets all the current bulk mail requirements, could be able to
6 print discounted postage using a PC Postage product. However, these products were
7 designed for mailers with a lower average volume, necessitating a single piece
8 discounted rate. Using a consolidation service is not really a solution for the Small
9 Office/Home Office (SOHO) market place because any discounts afforded through such
10 consolidation services would probably not offset the fees for the service itself to the
11 average small mailer. Only a single piece discount makes sense to the SOHO market
12 and that is precisely for whom PC Postage products were designed.

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 CHAIRMAN GLEIMAN: Mr. Jones, have you had an
2 opportunity to review the packet of designated written cross
3 examination that was made available to you earlier this
4 morning?

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, they would.

10 CHAIRMAN GLEIMAN: That being the case, counsel,
11 if I could get to assist us and provide two copies to the
12 reporter, I will direct that that material be received into
13 evidence and transcribed into the record.

14 [Designated Written
15 Cross-Examination of Michael Jones,
16 E-Stamp-T-1, was received into
17 evidence and transcribed into the
18 record.]

19
20
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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 E-STAMP CORPORATION
WITNESS MICHAEL JONES
(E-STAMP-T-1)

Party

American Bankers Association and
National Association of Presort
Mailers

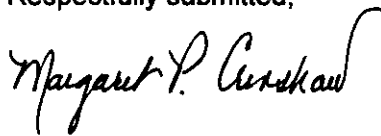
United States Postal Service

Interrogatories

ABA&NAPM/E-Stamp-T1-1-6
DFC/E-Stamp-T1-3, 8

ABA&NAPM/E-Stamp-T1-4-5
DFC/E-Stamp-T1-2-8
OCA/E-Stamp-T1-2-4, 6
USPS/E-Stamp-T1-2, 4-10, 13-14, 16

Respectfully submitted,



Margaret P. Crenshaw
Secretary

INTERROGATORY RESPONSES OF
E-STAMP CORPORATION
WITNESS MICHAEL JONES (T-1)
DESIGNATED AS WRITTEN CROSS-EXAMINATION

<u>Interrogatory</u>	<u>Designating Parties</u>
ABA&NAPM/E-Stamp-T1-1	ABA&NAPM
ABA&NAPM/E-Stamp-T1-2	ABA&NAPM
ABA&NAPM/E-Stamp-T1-3	ABA&NAPM
ABA&NAPM/E-Stamp-T1-4	ABA&NAPM, USPS
ABA&NAPM/E-Stamp-T1-5	ABA&NAPM, USPS
ABA&NAPM/E-Stamp-T1-6	ABA&NAPM
DFC/E-Stamp-T1-2	USPS
DFC/E-Stamp-T1-3	ABA&NAPM, USPS
DFC/E-Stamp-T1-4	USPS
DFC/E-Stamp-T1-5	USPS
DFC/E-Stamp-T1-6	USPS
DFC/E-Stamp-T1-7	USPS
DFC/E-Stamp-T1-8	ABA&NAPM, USPS
OCA/E-Stamp-T1-2	USPS
OCA/E-Stamp-T1-3	USPS
OCA/E-Stamp-T1-4	USPS
OCA/E-Stamp-T1-6	USPS
USPS/E-Stamp-T1-2	USPS
USPS/E-Stamp-T1-4	USPS
USPS/E-Stamp-T1-5	USPS
USPS/E-Stamp-T1-6	USPS
USPS/E-Stamp-T1-7	USPS
USPS/E-Stamp-T1-8	USPS
USPS/E-Stamp-T1-9	USPS
USPS/E-Stamp-T1-10	USPS
USPS/E-Stamp-T1-13	USPS
USPS/E-Stamp-T1-14	USPS
USPS/E-Stamp-T1-16	USPS

**RESPONSE OF E-STAMP CORPORATION WITNESS JONES TO JOINT
INTERROGATORIES OF AMERICAN BANKERS ASSOCIATION AND NATIONAL
ASSOCIATION OF PRESORT MAILERS**

ABA&NAPM/E-STAMP-T1-1 Please confirm that IBI First Class Letter Mail ("FCLM") will be delivered to the USPS collection system as single piece mail, and will not be presented to the USPS in trays, banded and sleeved.

RESPONSE:

Confirmed.

**RESPONSE OF E-STAMP CORPORATION WITNESS JONES TO JOINT
INTERROGATORIES OF AMERICAN BANKERS ASSOCIATION AND NATIONAL
ASSOCIATION OF PRESORT MAILERS**

ABA&NAPM/E-STAMP-T1-2 If the Postal Service, not the "shipper," will have to tray, sleeve, label and strap the trays with mail prepared with PC Postage, how is this more efficient for the Postal Service than when it is able to merely cross dock trays that are sleeved, labeled, and strapped when they arrive at the BMEU, (and not just any postal facility)?

RESPONSE:

The discount being discussed is for single piece mail. Mail can be deposited into collection boxes. Mail will not be delivered to the Postal Service in trays. The Postal Service will not have to tray, sleeve, label or strap trays since mail will not be processed in this manner and will not be handled at a BMEU. Therefore, I am unable to compare methods.

**RESPONSE OF E-STAMP CORPORATION WITNESS JONES TO JOINT
INTERROGATORIES OF AMERICAN BANKERS ASSOCIATION AND NATIONAL
ASSOCIATION OF PRESORT MAILERS**

ABA&NAPM/E-STAMP-T1-3 Do you agree that mail prepared with PC Postage will have to be culled and segregated from other collection box mail on an USPS AFCS and then sorted at least once, and probably twice, to achieve the same level of sortation as automation mail which qualified for the basic automation FCLM rate? If you do not agree, state each reason you have for disagreeing.

RESPONSE:

Not confirmed. Only one sortation after culling and segregating is necessary in an Open System.

**RESPONSE OF E-STAMP CORPORATION WITNESS JONES TO JOINT
INTERROGATORIES OF AMERICAN BANKERS ASSOCIATION AND NATIONAL
ASSOCIATION OF PRESORT MAILERS**

ABA&NAPM/E-STAMP-T1-4 Please refer to the statement in your testimony at Page 8, Line 16 where you state, "Inspections are not necessary because the software has insured compliance."

a. Are you aware of any instances in the past five years where individuals have tampered with ANY type of software program and caused problems with the accuracy or security of such programs?

b. Why would it not be necessary for the USPS to inspect all IBI FCLM to assure that the postage has not been underpaid (e.g., mail weighing more than one ounce with insufficient postage)? Please explain if you believe it is not necessary for the USPS to make an inspection of IBI FCLM for such purpose.

c. Please explain why it would not be necessary for USPS to inspect IBI FCLM to assure that the indicia is legible.

d. Please explain why it would not be necessary for USPS to inspect IBI FCLM to assure that such mail is of the proper size, shape and dimension, particularly where the IBI indicia may have been placed on a label which has been placed on the mail.

e. Please explain why the USPS would not have to inspect IBI FCLM to assure that the indicia is not counterfeit and that it has been printed from an authorized software package which will result in appropriate compensation to the USPS for such mail.

RESPONSE:

a. Yes, but I am not aware of this occurring to any USPS approved and FIPS 140-1 certified PC Postage applications.

b. It is not necessary for the USPS to perform any amount of inspections that aren't required of other pieces of FCLM. If an underpaid mailpiece were to be spotted, the USPS has access to all of the mailer's license and account information as well as a detailed history of every piece of mail ever produced with the PC Postage Open System in question.

**RESPONSE OF E-STAMP CORPORATION WITNESS JONES TO JOINT
INTERROGATORIES OF AMERICAN BANKERS ASSOCIATION AND NATIONAL
ASSOCIATION OF PRESORT MAILERS**

- c. It is completely desirable for the USPS to scan every piece. The information contained in each indicium is unique and is full of valuable information to the USPS, including key security measures that make PC Postage the most secure method of postage evidencing to date. During the scanning process, the USPS can also determine the amount of postage for each mailpiece as this information is also encrypted in the indicia. The scanning equipment will in effect inspect every single piece for legibility, and any piece that cannot be scanned will be rejected by the equipment and supposedly returned to the sender if possible.
- d. It is not necessary for the USPS to perform any inspections that aren't also required of other pieces of FCLM. PC Postage Open System mailpieces bearing a FIM D have been printed on an envelope whose dimensions have been defined by the software. The USPS tests and approves all PC Postage Open System software including the envelope sizes that are defined within. Only approved envelope sizes have a FIM D printed on them. Thickness is not accounted for by the software.
- Any piece of mail that is not of the proper size, shape and dimension should not be able to pass through the sorting equipment and will be rejected. PC Postage Open System mail is designed to be automation compatible, therefore leveraging the processes already in place within the sorting centers. Each piece is therefore inspected by the automated sorting equipment.

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A discount for PC Postage Open System postage printed on fluorescent labels is not being applied for at this time. The same degree of automation compatibility is not being claimed for mailpieces bearing fluorescent labels. Since PC Postage Open System mailpieces bearing fluorescent labels will be paid at the full First-Class rate at this time, the USPS should not need to perform any amount of inspections that aren't required of other pieces of full rate FCLM.

- e. It is desirable for the USPS to scan every piece. The information contained in each indicium is unique and is full of valuable information to the USPS, including key security measures that make PC Postage the most secure method of postage evidencing to date. Since every indicium is unique, any duplication will be detected. During the scanning process, the USPS can determine the authenticity of the software package and postal security device as this information is also encrypted in the indicia. The scanning equipment will in effect inspect every single piece to ensure it is not counterfeit.

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ABA&NAPM/E-STAMP-T1-5 Please refer to the "address cleansing" features of the PC Open System which you discuss at Page 9, Line 14 and Page 10, Line 6 of your testimony. Will customers using your client's Open PC Postage Product be required to check the accuracy of the mail piece address against a current address-matching list every six months? Will this address updating process be the same as required for mail receiving worksharing discounts? Please explain your answer.

RESPONSE:

Yes. Every address printed with a PC Postage Open System product must be verified every time it is printed that it has been checked for accuracy against a current USPS Address Matching System list.

I am unsure of the process required for address updating of mail receiving worksharing discounts. For PC Postage, the method for address updating is as follows:

- Address Matching System (AMS) CD-ROMs are produced by the USPS National Customer Support Center in Memphis, TN.
- All PC Postage Open Systems are required to integrate the use of the AMS CD into their application.
- The USPS Postage Technology Management office verifies that each PC Postage Open System product correctly integrates the AMS CD before approving the application for use. Postage cannot be printed from a PC Postage Open System application if a current AMS CD is not in use.
- The AMS CD has encrypted software which causes each CD to expire after six months.

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- If an expired AMS CD is in use, the PC Postage Open System application will be prevented from being able to verify addresses and prevented from being able to print postage.

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ABA&NAPM/E-STAMP-T1-6 Please refer to Page 9, Line 11 of your testimony where you state that "For all of the discounted postage products the customers only have to perform this address cleansing on a voluntary basis..." Please reconcile this statement with the fact that automated FCLM must comply with move update requirements.

RESPONSE:

Customers receiving discounts for automated FCLM are required to comply with move update requirements as long as they wish to continue receiving such discounts. If they don't wish to receive discounts, they do not have to comply with the move update requirements. Therefore, they volunteer to comply in order to continue to receive the discounts they enjoy. These discounts are an incentive for these customers to comply to the move update requirements.

However, PC Postage Open System customers currently do not enjoy a discount and yet they must comply with the address cleansing requirements laid out for PC Postage Open Systems. If a customer does not want to comply, they will be prevented from being able to produce any postage at all even though they are already paying the full rate. Other methods of postage evidencing do not demand users to comply with such requirements if they are willing to pay the full rate. All other forms of postage evidencing provide incentives to produce mailpieces that meet these standards. PC Postage customers are given no incentives and are given no choice except to not use the product.

DFC/E-STAMP-T1-2. Please refer to section II.A. of your testimony.

- a. Please describe your understanding of why fluorescent strips on labels make a FIM unusable.
- b. At page 10, lines 3-4, you testified, "At the same time, however, this requirement makes the FIM unusable and does not allow the same efficiency in the sortation process." Please explain the comparison that you are making (i.e., an unusable FIM causes less efficiency than which alternative situation?).
- c. In this section of your testimony, are you referring to FIM "D"? If not, please explain.
- d. Please explain your understanding of how, if at all, FIM "D" causes greater efficiency in mail processing than a regular 33-cent postage stamp.
- e. Please explain your understanding of how, if at all, FIM "D" causes greater efficiency in mail processing than a fluorescent meter indicia.
- f. On an AFCS machine, please confirm that mail bearing FIM "D" is sorted to the stacker for typewritten mail, rather than the stacker for pre-bar-coded mail. If you do not confirm, please explain.

RESPONSE:

- a. As USPS fluorescent label specifications for PC Postage products currently read, a fluorescent stripe must run the length of the label along the top edge. Since these labels must be long enough to accommodate the 2-D barcodes, the FIM is not printed on the left edge of the label. Therefore, whether a label is being processed through the scanning and sorting equipment from left to right or from right to left, the scanning equipment will detect the fluorescence prior to detecting a FIM. Upon detecting fluorescence, the sorting logic will send the envelope down a different path. This path is associated with other mailpieces that use fluorescent ink, phosphorescent ink or pre-phosphored paper, such as metered mail and mail using regular stamps. If the FIM had been detected, the sorting logic would have sent the envelope down the path that is appropriate for

the specific FIM being used – in this case FIM D. To this extent, a FIM D is not required to be printed for PC Postage mailpieces when a fluorescent label is being used, and, because of this, providers are no longer printing a FIM D when using a fluorescent label.

- b. For PC Postage, a FIM D is meant to inform the scanning equipment that a PC Postage indicia is the form of postage evidence and that a POSTNET barcode is present. Therefore, the sorting logic will place the mailpiece into a stack that will then be brought to the POSTNET barcode scanner for final sortation. This scenario will maximize the automation efficiency of the sorting center. If a FIM D is not usable, the sorting logic will place the mailpiece into a stack that will not be brought to the POSTNET scanner as the next step of the sorting center process. Unless, through a manual sortation process of the stack, the mailpieces with POSTNET barcodes on them are removed, the stack will be brought to the optical character reader to decipher the address. At that point, the POSTNET barcode will be determined and sprayed onto the envelope. In the case of an PC Postage mailpiece created by an Open System which already has a POSTNET barcode printed on the envelope or label, this will be a duplication of efforts and will reduce the cost efficiencies created by the use of PC Postage in the first place.
- c. Yes.
- d. A regular 33 cent postage stamp is detected by the scanning equipment by either its phosphorescent ink or pre-phosphored paper. Upon this detection, the sorting logic is determined to place the mailpiece in a stack which will be brought

to the optical character reader to decipher the address and then determine and spray a POSTNET barcode onto the envelope. Afterwards, the mailpiece can then be run through the POSTNET barcode scanner for final sortation. When a FIM D is used and detected by the scanning equipment, the sorting logic places the mailpiece into a stack which will be brought to the POSTNET barcode scanner, This eliminates the step of having to go through the optical character reader and having a POSTNET barcode sprayed on the mailpiece, thereby causing greater efficiency.

- e. Like a regular 33 cent stamp, a fluorescent meter indicia is sorted to a stack to be passed through the optical character reader, whereas the detection of a FIM D will cause the mailpiece to be sorted to the stack that will bypass the optical character reader and thereby causes greater efficiency.
- f. Not confirmed. The function of a FIM D on a PC Postage mailpiece in postal sorting centers is to route the piece into a stack where the pieces bear PC Postage indicia and have a POSTNET barcode. USPS sorting center employees have been trained to recognize this sortation for PC Postage and have been trained to take the PC Postage mailpieces to the POSTNET barcode scanner as the next and final step in the sortation process. USPS sorting center employees have not been trained to look for PC Postage mailpieces in any other sorting stack of the AFCS equipment.

DFC/E-STAMP-T1-3. Please refer to your discussion of Category 2 mail in section IV.

- a. Please confirm that customers may properly deposit PC Postage mail loose in collection boxes.
- b. Please explain your understanding of the maximum thickness of letter-size mail that will pass through the culling system and enter an AFCS machine.
- c. Please estimate the maximum weight of letter-size mail containing paper that will not be thicker than the maximum thickness identified in (b).
- d. Please confirm that mail that rejects from the culling system because it is too thick must be manually faced. If you do not confirm, please explain.
- e. Please confirm that manual facing increases processing costs.
- f. Please confirm that some PC Postage mail weighing up to 3.3103 ounces may not be automation-compatible if it is deposited loose in collection boxes.
- g. Please confirm that PC Postage mail weighing one ounce or less for which no non-standard surcharge is required should be automation-compatible.

RESPONSE:

- a. Confirmed.
- b. My understanding of the maximum thickness of letter-sized mail that will pass through the culling system and enter an AFCS machine is 1/4" thick, based on the maximum thickness printed in the Domestic Mail Manual (DMM 55).
- c. My estimation is 3.3103 ounces based on the published maximum weight allowable for automation-compatible mail as is listed in the USPS Ratefold 123 published in March, 1999.
- d. Confirmed.
- e. Confirmed.
- f. Yes, some PC Postage mail weighing up to 3.3103 ounces may not be automation-compatible if it is deposited loose in collection boxes, depending on

the characteristics of the mailpieces such as the lack of a FIM D or the lack of a POSTNET barcode.

- g. Not confirmed. Mailpieces produced from a Closed System can have a hand written address that is illegible, can be addressed to a non-deliverable address, will not have a POSTNET barcode and may be printed on a fluorescent label. Although such a mailpiece may have any or all of these non-automation-compatible attributes, since it was produced by a Closed System it will still be considered to be a PC Postage mailpiece.

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DFC/E-STAMP-T1-4 Please refer to your response to DFC/E-STAMP-T1-2(a). Please provide the basis for your statement that "Upon detecting fluorescence, the sorting logic will send the envelope down a different path."

RESPONSE:

According to Postal Officials in the Postage Technology Management office, the use of a FIM D is to signify that an Information Based Indicia (IBI) is the form of postage evidence and that a POSTNET barcode is present. These officials have notified this office that the use of fluorescent labels will cause the sorting equipment to sort the mailpiece to a different stack and that some of the efficiency gained by using a FIM D will have been decreased. The use of a fluorescent label will cause the mailpiece to be sorted to a stack that will next be processed through the OCR scanner whereas the mailpieces sorted using a FIM D will next be processed through the POSTNET barcode scanner.

DFC/E-STAMP-T1-5 Please refer to your response to DFC/E-STAMP-T1-2(b), (d), (e), and (f). Please reconcile your response with the response to DFC/USPS-66, which indicates that FIM "D" mail is sorted to the stacker for typewritten mail, *not* the stacker for pre-bar-coded mail.

RESPONSE:

According to Postal Officials in the Postage Technology Management office, the use of a FIM D is to signify that an Information Based Indicia (IBI) is the form of postage evidence and that a POSTNET barcode is present. Originally, PC Postage mailpieces were to use a FIM C, as was evidenced at the March 31, 1998 PC Postage launch ceremony at the National Postal Museum. But a short time afterward, the PTM office (then known as the Metering Technology

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Management office) changed the requirement for PC Postage from FIM C to FIM D so that FIM D would only be used for PC Postage and would signify as I described above. At the time of this change, there was no such PC Postage Category defined as a Closed System. Only an Open System had been defined, and the FIM D was designated with the Open System in mind. Although FIM D may have once been used for Courtesy Reply Mail that did not have a ZIP+4 barcode, this sorting logic is no longer applicable to meet the intent of what PC Postage has been designed for.

In addition, the USPS has stated in their response to DFC/USPS-66(b) that "FIM 'D' mail pieces are not necessarily prebarcoded." This is incorrect. Currently, the only PC Postage mailpieces which would not be prebarcoded are created by a Closed System. There is only one Closed System product in production and that product only prints on fluorescent labels. Since the USPS has determined that it is not necessary to print a FIM when using a fluorescent label, this Closed System product does not print a FIM. To further the point, this product has had the indicia redesigned so that the FIM-clear zone is no longer adhered to since a FIM will never be printed. Therefore, the only product which would not produce a POSTNET barcode also will not produce a FIM.

Also, although the use of a FIM has been designated for PC Postage Closed Systems if fluorescence is not present, the use of a FIM D for Closed Systems has never been defined. The only documentation specifying the use of a FIM D for PC Postage solely applies to PC Postage Open Systems. Since it is required

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for Open Systems to produce a POSTNET barcode, all mailpieces with a FIM D will include a POSTNET barcode.

DFC/E-STAMP-T1-6 Please refer to the response to DFC/USPS-66(d) and (e). Please provide all facts and information that you have to indicate that the Postal Service's confirmation is not correct.

RESPONSE:

I have no facts that the USPS is not correct as to the current processes in place. However, that does not mean that the processes in place are correct as per my response to DFC/E-STAMP-T1-5. Since all PC Postage mailpieces bearing a FIM D are prebarcoded, there is no reason to spray an orange RBCS ID tag on the back of the mailpieces. The process currently in place is not taking advantage of the work share and cost reduction efficiencies designed into PC Postage Open System mailpieces per the USPS specifications.

A discount for PC Postage Open System mailpieces should not be denied due to the USPS not sorting the mailpieces as were intended. If a discount is denied for this reason, then the specifications for PC Postage Open System mailpieces to include a FIM D and a POSTNET barcode should be removed.

DFC/E-STAMP-T1-7 Please refer to your response to DFC/E-STAMP-T1-2(f).

- a. Do you believe that PC Postage mail pieces are sorted to a stacker that contains only PC Postage mail pieces? If so, please explain the basis for your understanding.

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- b. Please explain the basis for your statement that postal employees have been trained to take PC Postage mail pieces to a bar-code sorter, as opposed to an MLOCR, for scanning.

RESPONSE:

- a. Confirmed. According to Postal Officials in the Postage Technology Management office, FIM D is only to be used for PC Postage.
- b. According to Postal Officials in the Postage Technology Management office, PC Postage mailpieces bearing FIM D are to signify that an Information Based Indicia (IBI) is the form of postage evidence and that a POSTNET barcode is present. These same officials have stated that after mailpieces are sorted by the AFCS equipment, the mailpieces are to be sorted by the POSTNET barcode scanner. During the Beta testing of the first PC Postage Open Systems, geographical expansion of testing was limited partly due to the requirement for sorting centers to be trained prior to handling PC Postage mailpieces. Until such training had taken place in a sorting center, PC Postage Open System products could not be installed within the district covered by that sorting center. In addition, according to Postal Officials in the Postage Technology Management office all sorting centers had to first verify that the AFCS equipment was properly programmed to sort mailpieces bearing FIM D. Since we have been informed that mailpieces bearing FIM D would be taken to the POSTNET barcode scanner after processing by the AFCS equipment, admittedly I have assumed that this procedure was part of

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the required training conducted in the sorting centers prior to the handling of PC Postage Open System mailpieces.

It should be noted that Beta trials for the PC Postage Closed System product were not conducted and geographical expansion was not limited by the need to train sorting center personnel. The Closed System product, which does not produce a FIM D and has always printed indicia on labels, was approved to be installed nationwide while the Open System products were still only available in three states and the District of Columbia even though Beta trials for Open System products had commenced 9 months earlier.

DFC/E-STAMP-T1-8 Please refer to your response to DFC/E-STAMP-T1-3(f). Please confirm that some PC Postage mail weighing up to 3.3103 ounces and deposited loose in collection boxes may not be automation compatible, even if it has a FIM "D" and a POSTNET bar code, because the mail will be too thick for the AFCS and will be rejected from the culling system. If you do not confirm, please explain.

RESPONSE:

Confirmed. I cannot rule it out as a possibility. However, the number of letters over 3 ounces is so small that it would have no measurable effect on estimated cost avoidance. And, as a practical matter, a letter so thick as to be culled would be unlikely to meet automation standards.

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OCA/E-STAMP-T1-2 You indicate that E-Stamp rolled its product out nationwide in August 1999 (E-Stamp-T-1 at 6). Provide the number of active E-Stamp customers by month from August 1999 to the present. Include only customers making postage purchases through E-Stamp in each month.

RESPONSE:

As of March 31, 2000, E-Stamp had shipped approximately 79,000 starter kits since the launch of our Internet Postage product in August, 1999. This is the last published figure.

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OCA/E-STAMP-T1-3 Provide E-Stamp'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/E-STAMP-T1-1. Indicate specifically how many of the total number of projected customers are (a) households and (b) home offices?

RESPONSE:

In the Ray Boggs testimony (page 36) on behalf of E-Stamp Corporation and Stamps.com, projections are made for spending on PC Postage (First-Class postage only) through the year 2003, but a direct projection on the number of users over that time frame is never made. Instead, Boggs projects the potential market sizes based on the growing numbers of Small Offices and Home Offices (SOHOs) along with their increased usage of PCs and the Internet. While these projections are made on a year ending basis, it could be estimated from the Boggs projections that the total spending on PC Postage from January, 2001 to the end of September, 2001 would be approximately \$460.4 million (\$326.9 million from Small Offices and \$133.5 million from Home Offices). Boggs estimates that by the end of 2001, SOHOs using PC Postage will account for approximately 4.3% of all First-Class spending.

E-Stamp customers are in roughly four categories: household; home office; small office (one to nine employees); and large office (ten or more employees). E-Stamp does not keep data on the numbers in each category. E-Stamp does not ask the customer to identify itself in that manner so none of that information is captured, except to know that we do have some customers in each one of those categories. Although E-Stamp does have household customers, E-Stamp does not target to households. We believe that most of our customers are home offices and small offices because that is what E-Stamp targets in its marketing efforts. While we believe we do have some larger

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business customers, we do not believe that there would be many; they have postage meters and do high volumes and the technology has not really been converted to meet that market segment. We are confident that most of our customers would be in the home office/small office category.

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OCA/E-STAMP-T1-4 Currently, what is the average amount of postage purchased by an E-Stamp customer monthly? What is the average number of mailpieces to which an E-Stamp customer applies E-Stamp postage monthly?

RESPONSE:

The maximum allowable balance on a postal security device (PSD) is \$500. This number was chosen by the USPS prior to the commencement of beta trials and has been the set limit ever since. The Postal Service may adjust this limit higher at some point, or may chose to have various limits each related to different target markets.

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OCA/E-STAMP-T1-6 For customers applying First-Class postage to one ounce letter mailpieces through E-Stamp, 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:

The question is not relevant to E-Stamp because our fee structure does not charge based on the usage patterns described. E-Stamp charges a fee of 10% of the amount of postage purchased, with a minimum charge of \$4.99 and a maximum charge of \$24.99. The maximum amount of postage that can be purchased at any one time is \$500.

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USPS/E-STAMP-T1-2 On page 8 lines 3-5 of your testimony you state "the USPS also sees PC postage as having the potential to retain current customers and regain current customers in the face of electronic alternatives to mail and competing carriers."

- a. Please cite the appropriate USPS reference(s) indicated.
- b. Have you conducted any market research studies that sought to determine whether PC postage would help to retain or regain these customers? If so, please provide copies of all supporting data.

RESPONSE:

- a. I cite the following quotes from: Postal Bulletin, 22004 (8-12-99) Customer Relations. PC Postage Information Package.

"Announcing PC Postage products is also a very good opportunity to promote the use of our other products and services, as well as meet the needs of our customers. PC Postage products provide time savings, increased efficiency, reduced costs, and enhanced security for both customers and the Postal Service.

PC Postage is targeted toward the fast-growing small offices and home offices (SOHO) business market and we want them to use our services. The SOHO market is computer-savvy and demands convenience. If we can make it easier for them to get postage, using the convenience of their personal

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computers, they will be more likely to use the Postal Service than one of our competitors for their delivery needs."

"The easier PC Postage is to use, the more customers are likely to use it.

The more they use it, the more revenue we gain. It's a good business proposition for all parties involved." (p. 9)

"The Postal Service receives the money from the postage and from the new business, as customers in small and home-based businesses find the service more convenient than shipping with the competition." (p. 11)

This is not the only time these statements have been made by the USPS, although it is not always stated in writing; but these passages from the Postal Bulletin seem to sum up the USPS position best.

- b. E-Stamp has not conducted specific market research studies to determine if PC Postage has the potential to increase the USPS retention rates and/or lost customer regain rate. Rather, E-Stamp uses existing Industry Analyst reports to better understand USPS benefits resulting from the PC Postage (IBI) Program. For example, Raymond Boggs, a postage industry analyst with IDC, states on page 10 of his testimony (E-Stamp Corporation/Stamps.com-T-1):
"Support for PC-based mail applications ... will contribute to significant growth in small business use of the mail for promotional purposes."

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USPS/E-STAMP-T1-4 On page 7 lines 14-15 of your testimony you state "the user has the ability to print postage from the PC using a regular deskjet or inkjet printer." If a printer is not working properly, or a printer cartridge needs to be replaced, is a PC postage user still able to apply postage on a mailpiece or does the software prohibit them from doing so?

RESPONSE:

If the printer is still allowing the user to print, then the software is not able to prevent it. Printers monitor their own status. As part of this monitoring process, many will send some sort of warning signal or message to the user to notify them of any status issues and will prevent a user from printing if the condition is or becomes severe enough. Users are educated through the software and user guides as to what constitutes an acceptable print. Users are also always given the opportunity to perform a test print which enables them to check on the actual print quality status without using any postage. In addition, customers are able to apply for a refund for any mailpiece that is not printed to acceptable standards. Also, it is in the customers' own interest to make sure his printer is functioning so that illegible addresses do not delay or misdirect their mail.

USPS/E-STAMP-T1-5 On page 8 lines 16-17 of your testimony you state "[i]nspections are not necessary because the software has insured compliance..." In addition, on page 15 lines 4-8 you state "[u]nlike a postage meter where the user can select the postage amount and must be relied upon not to attempt to defraud the Service, a PC Postage customer will have the postage amount determined automatically by the product and the customer will not be able to override the calculated value."

- a. Do PC postage users apply postage to an envelope before or after the contents have been placed in an envelope and the envelope has been sealed?
- b. How do PC postage products ensure that First-Class mail pieces weighing over one ounce are assessed the additional ounce rate?

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- c. Are PC postage users required to have a scale integrated into their system?
- d. How do PC postage products ensure that First-Class nonstandard mail pieces are assessed the nonstandard surcharge?

RESPONSE:

- a. Before.
- b. The weight is automatically entered when the integrated scale is used, or the customer is responsible for entering the weight when a stand alone scale is used. The rate is automatically calculated based on the weight. Mistakes or cheating is possible; but there is no reason there would be a greater incidence than is currently the case with single piece F.C.M.
- c. An integrated scale is not a requirement of PC Postage products.
- d. Users are asked to select if they are sending a letter, flat or package. If a flat or package is selected, the one ounce rate includes the nonstandard surcharge.

USPS/E-STAMP-T1-6 On page 10 lines 20-21 of your testimony you state "the barrier created by a lack of a discount for PC postage will still stand in the way of PC Postage gaining full acceptance." In addition, on page 11 lines 8-11 you state "It is naïve to believe that PC postage customers will willingly incur these burdens with no trade off in the form of a discount. Unless a discount is offered, PC Postage will not be able to attract enough customers to convert in order to establish this form of postage evidencing as a mainstream postage solution."

- a. Have you conducted any market research studies that sought to determine how a PC postage discount would affect PC postage mail volumes? If so, please provide all supporting data and state the conclusion that you reached. If not, upon what do you base your claim?
- b. Given these statements, was the concept of a PC Postage discount an integral element in E-Stamp's original business plan? If not, why not?

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RESPONSE:

- a. E-Stamp has not conducted a formal market research study to determine the specific impact of a PC postage rate discount on mail volumes. E-Stamp has, however, received much unsolicited, anecdotal feedback from customers and prospective customers. Once the customer understands the product limitations, and then the subsequent rationale for the limitations (USPS fraud protection, cost savings, and sorting efficiency), they often ask why the USPS is not passing along the savings to encourage greater use thereby reducing both consumer and the USPS expense.
- b. Yes, the concept of the USPS encouraging the growth of PC Postage by some form of a postage discount was anticipated as part of the company's early business model. Given the significant benefits to the USPS, a 5% to 10% reduction in postage costs was considered sufficient to convert to a new business model. The preferred model would be a net cost of zero to the PC Postage user - using the reduction in postage to fully offset the cost of the PC Postage vendor service. (To be clear, other changes to the business model would accompany a change of this sort.)

USPS/E-STAMP-T1-7 Please confirm that your proposal would result in a First-Class revenue loss. If not confirmed, please explain.

- a. Please quantify the magnitude of that loss.
- b. How do you suggest that this revenue loss be recovered so that the Postal Service can meet its revenue target?

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RESPONSE:

Confirmed; however, whatever revenue loss would occur would be more than offset by cost avoided by the Postal Service so that the Postal Service would have a more rather than less favorable ratio of revenue to cost.

- a. The revenue lost to the Postal Service is a function of multiplying the discount times the volume of PC Postage. I have not estimated that volume.
- b. The Postal Service does not need to recover the revenue loss, because the costs avoided by PC Postage are greater than the revenue loss. The Postal Service filing assumed, according to Postal Service testimony, that there would be \$0 cost savings from PC Postage in the test year. Since the Postal Service's "revenue target" assumes a certain level of attributable costs that would be covered by that target, a failure to calculate the cost avoidance from PC Postage has resulted in an overstatement of Postal Service attributable costs, leading to a correspondingly excess revenue target.

USPS/E-STAMP-T1-8 In this proceeding, witness Clifton (ABA&NAPM-T-1) proposes a First-Class single-piece "P" rate (at a two-cent discount from the first-ounce single-piece rate) for mail pieces that could be deposited in collection boxes maintained by presort bureaus/MLOCR-qualified mailers. If your proposal and the "P" rate proposal were both implemented, would the PC postage products prohibit users from also claiming the "P" rate? If not, please explain why a mail piece should be extended both discounts.

RESPONSE:

ABA and NAPM witness Clifton's proposal is not our proposal. If the Postal Rate Commission recommends both the Clifton proposal and the E-Stamp proposal, the Postal Rate Commission would have had to find that, in addition to the more than 4 cents cost savings on PC Postage, there was an additional 2 cents cost

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savings for "P" rate mail. Consequently, if the Postal Rate Commission made such a finding and such a recommendation, then PC Postage products would not prohibit users from claiming the "P" rate as well. The reason why the mail piece should be extended both discounts, under the hypothesis you have advanced, is because the Postal Rate Commission would have found as a matter of fact that there was both a 2 cents savings on "P" rate mail, and an additional 4 cents savings on PC Postage, a savings additional to the cost savings claimed by "P" rate mail.

USPS/E-STAMP-T1-9

- a. Please confirm that PC postage users are required to pay a fee to use your products to apply postage at the current First-Class single-piece rates? If not confirmed, please explain.
- b. Please confirm that a "convenience fee" of 5%-10% is applied to each postage purchase. If not confirmed, please explain.
- c. If your response to either (a) or (b) are confirmations, does that not suggest to you that PC postage users may be at least as concerned with, or more concerned with, the convenience your system affords rather than the specific postage rates that are charged? If your response is negative to any degree, please explain.

RESPONSE:

- a. Confirmed.
- b. Not confirmed. Each PC Postage vendor has instituted their own fee structure and not all are based on purchase amounts. In the case of E-Stamp, fee calculation at the present time is based on 10% of the postage

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purchase amount, with a minimum fee of \$4.99 and a maximum fee of \$24.99 based on a maximum allowable postage balance of \$500.

- c) Consumers are concerned with convenience as well as price. Obviously, consumers would prefer everything to be easier and cheaper than it already is. At the same time, PC Postage vendors need to be compensated for the services they offer. The proper combination of both convenience and price creates the value proposition that will entice customers to embrace PC Postage. While the convenience of being able to purchase and print postage anytime of the day without having to go to the post office is attractive to customers, other USPS regulations that are a part of PC Postage Open Systems and are designed to reduce Postal Service costs are not attractive to customers as long as they are required to pay the full rate. In comparison, more regulatory inconveniences have been placed on users of PC Postage Open Systems than are placed on users of other methods of postage that pay full rate, such as meter and stamp users. Also by comparison, there are postal customers using other methods to print postage that adhere to some of the regulations in place for PC Postage Open Systems and subsequently qualify for a discount. It is this discount that entices those customers to meet those regulatory standards. Without the discount in place, it is doubtful that those same customers would go to all of the effort required to perform these work share and cost avoidance duties since it would not provide a direct benefit to them.

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The proper balance of convenience and price needs to be derived to create the value proposition that is acceptable to the consumer.

Considering the regulatory demands placed upon PC Postage Open System users in order to reduced costs for the Postal Service, a discount on postage is required to create that balance.

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USPS/E-STAMP-T1-10 On page 9 lines 19 through 22 you state "the service believed that customers could not be trusted to paste labels with FIMs in the proper position on the envelope which could cause the mail pieces to be rejected by the sorting equipment with a consequent loss of the cost savings."

- a. Do you have any information from actual customer behavior regarding the placement of labels on envelopes? If so, please provide copies of all supporting data.
- b. As stated, an improperly positioned FIM would cause the mail piece to be rejected by the sorting equipment. What would happen to a mailpiece that was rejected by the sorting equipment? Would there be additional costs associated with processing a rejected mailpiece? If so, please describe any additional costs.

RESPONSE:

- a. No. The USPS made this determination on their own in 1999.
- b. A rejected mailpiece will be sorted to the reject stack. There should be additional costs associated with processing. The postal employee operating the sorting equipment may sort the mailpieces in the reject stack by hand and/or may bring the mailpieces to sorting equipment that would otherwise have been unnecessary to use. Also, the mailpieces would not be sorted by lead and trail edges which may affect their ability to be placed in other sorting equipment without further hand processing. Also, once the USPS installs equipment to read 2-D barcodes, an improperly positioned FIM may cause the USPS to not record the information contained in the 2-D barcode. This would also increase costs in the form of lost data.

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USPS/E-STAMP-T1-13 On page 16 lines 5 through 7 you state "[a]ll pieces mailed at a discount will be recorded in the log file kept for each device. The log files can be audited to prove that only qualified pieces were receiving discounts."

- a. Please explain the process by which the log files are used to prove that only qualified pieces receive discounts.
- b. Can the log files be used to determine if a customer applied postage to a label versus an envelope?
- c. Can the log files be used to determine the weight of a mailpiece?

RESPONSE:

- a. Upon modifying the log files to track such information as substrate (envelope, label, etc.), weight and level of address cleansing, the log files can then be run through an automated process which would cross-check that all mailpieces created at discounted rates met all of the requirements to qualify for a discount. This cross-check can be performed by each Provider themselves, or can be performed by the USPS when the log files are uploaded to the USPS each accounting period.

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- b. Yes, it could be modified to record the substrate used.
- c. Yes, it could be modified to record the weight.

USPS/E-STAMP-T1-14 On page 16 lines 7 through 9 you further state "[a]ll accounting functions will be performed in real time as the mail pieces are generated, thus saving the Service the costs associated with maintaining all of the postage accounts required by permit mailers."

- a. Please explain what is meant by "accounting functions".
- b. How are these functions performed in "real time"?
- c. What is the relationship between "accounting functions" and the costs associated with maintaining postage accounts of permit mailers? Confirm whether any of your PC Postage customers are prior permit mailers? If so, how many.

RESPONSE:

- a. By "accounting functions" I refer to setting up permit accounts, depositing funds into permit accounts, producing balance statements for permit accounts, filling out paperwork to document postage used per mailing, accepting and inspecting mailings, posting postage usage activity to permit accounts to deduct postage from balances, verifying that sufficient funds are on deposit in order to pay for a mailing and reconciling account balances to ensure proper accounting.
- b. These functions are either handled through the PC Postage software products during usage or are eliminated by the use of PC Postage. The postage account is set up through the software and all reporting is done from the Provider to the USPS in batch files sent at regular intervals. It is possible for an account to be established, funds to be deposited, postage to be

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deducted as mailpieces are printed while verifying sufficient funds are available, balances are reconciled on the E-Stamp server and by the USPS database, and always up to date reports are available for the customer to review their activity and balances, all within the same day and without any human intervention except by the user who is generating the activity. This is what I refer to as "real time".

- c. Whenever any of the "accounting functions" mentioned above require human intervention to perform, the costs to perform these functions are higher than if they were all automated. In the case of permit mailers, many if not all of these functions require some degree of human intervention, thereby increasing the costs associated with maintaining accounts for permit mailers.

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USPS/E-STAMP-T1-16

- a. Please confirm that E-Stamp currently advertises "\$50 free postage" on its web site: <http://www.estamp.com>. If not confirmed, please explain.
- b. Please list all such marketing programs (e.g., website promotions, magazine advertising, TV commercials, etc.) E-Stamp has used to offer customers free postage or total postage discounts. Include the date(s) and/or date ranges that these programs have been presented to the public.
- c. On page 11 lines 9-11 of your testimony you state, "Unless a discount is offered, PC postage will not be able to attract enough customers to convert in order to establish this form of postage evidencing as a mainstream postage solution." However, as stated above, E-Stamp currently does offer customers a discount in the form of free postage. Please describe the extent to which this free postage offer, or the other marketing programs described in your response to (b), have been successful in attracting new customers to E-Stamp.

RESPONSE:

- a. Confirmed.
- b. Since its earliest days, E-Stamp has offered a wide variety of product promotions to help introduce the nascent IBI technology to the marketplace. A number of mediums (channels) have been used for these promotions, including: television, radio, print (newspaper and magazine), and Internet web sites (banner ads and partner links). A wide variety of promotion types have been offered via these channels, including: "free" postage (E-Stamp purchased, on behalf of customer), supply discounts, "starter kits" (packets of envelopes and labels), companion product discounts (label printers, scales). As with many new product categories, promotions are typically used to "seed" the market to accept the technology as well as to quickly create a "brand image." This "branding" has been shown to be critical to a company's long

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term success. The brand must be created in a short time to be successful in the marketplace over the long term. While the promotions have a near-term cost impact, they are one of the most important marketing tools used to build an initial customer base.

E-Stamp's competitors in the IBI market, Stamps.com, Pitney Bowes and Neopost have likewise offered a number of product discounts, free postage, and rebate programs for customer acquisition and brand building purposes. Comparatively, the Postal Service has done very little by way of promotions to build up awareness for PC Postage which has caused the vendors to have to do even more to promote this new form of postage.

A great deal of time, money and effort have gone into these promotions. I assume you do not want me to list every single newspaper ad, website banner, radio spot or TV commercial that has run in the various markets across the country over the past year or more. Overall, promotions were run from the E-Stamp web site through the later stages of Beta testing beginning in December, 1998 to entice customers to perform all of the USPS mandated testing functions. Since the national launch of PC Postage in August, 1999, E-Stamp has offered a variety of promotions through multiple channels as we continue to build brand awareness.

- c. E-Stamp has conducted a number of free postage and other marketing promotions since product launch in August 1999. Without divulging company confidential information, we can say with confidence that a direct and proportional relationship exists between the type and value of a promotion,

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and the number of product orders. Judging by the number and type of promotions offered by other PC Postage vendors, it is obvious that promotions have proven valuable to their customer acquisition efforts.

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

3 There doesn't appear to be. That being the case,
4 that brings us to oral cross.

5 Two parties have requested oral cross
6 examination -- the American Bankers Association and National
7 Association of Presort Mailers together, and the United
8 States Postal Service.

9 Is there any other party that wishes to cross
10 examine?

11 If not, then Mr. Hart, when you are ready.

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

13 CROSS EXAMINATION

14 BY MR. HART:

15 Q For the record, I am Henry Hart, representing the
16 National Association of Presort Mailers.

17 Good morning, Mr. Jones.

18 Could you please turn to your response to
19 Interrogatory ABA and NAPM/E-Stamp-T1-2, and just let me
20 know when you have that in front of you.

21 A Yes.

22 Q Now in that interrogatory ABA and NAPM asked you
23 that if the Postal Service and not the shipper had to tray
24 and sleeve and label and strap the trays with mail prepared
25 with PC postage, how is it more efficient for the Postal

1 Service than when it is able to merely cross-dock automated
2 basic, automated three-digit and five-digit mail, work share
3 mail -- I am paraphrasing the question.

4 And your response, as you can see it there in the
5 last sentence, is "The mail will not be delivered to the
6 Postal Service in trays" and by that you were referring to
7 the IBI mail, is that correct?

8 A That's correct.

9 Q That the "Postal Service will not have to tray,
10 sleeve, label or strap trays since mail will not be
11 processed in this manner and will not be handled at a BMEU,
12 therefore I am unable to compare methods."

13 Now once the incoming sort by the Postal Service
14 has been completed of the IBI mail and any other barcoded
15 mail with which that IBI mail may be combined, isn't it
16 correct that the Postal Service will then ship that mail to
17 a destination AADC or other destination processing plant?

18 A I am uncertain if they would or not.

19 Q Well, if it is not destinating to the local Postal
20 Service where that incoming sort occurs it is eventually
21 going to be put in trays and shipped to the outgoing -- to
22 the destination distribution center, correct?

23 A Yes.

24 Q At that point in time won't that mail then, the
25 IBI mail and the other mail it has been combined with, have

1 to be trayed, sleeved, labelled and strapped in order to be
2 transported?

3 A If that is how they transport it, then it would.

4 Q Turn if you would to your Answer Number 3 to the
5 ABA and NAPM interrogatories.

6 A Okay.

7 Q There we asked you whether you would agree that
8 mail prepared with PC postage would have to be culled and
9 segregated from other collection box mail on an AFCS and
10 then sorted at least once and probably twice to achieve the
11 same level of sortation as automation mail which qualified
12 for basic automation, First Class letter mail.

13 Your response was not confirmed -- only one
14 sortation after culling and segregating as necessary in an
15 open system. Is that your response?

16 A That is correct.

17 Q Are you familiar with how automation basic First
18 Class letter mail is presented to the USPS?

19 A No, I am not.

20 Q Okay. If IBI mail is delivered to a collection
21 box the Postal Service will pick it up. Is it your
22 understanding that it will be placed on an automatic
23 facer/canceller which would cull that IBI mail and any other
24 barcoded mail such as CEM and Qualified BRM from the
25 non-barcoded mail?

1 A Yes, that's correct.

2 Q And do you understand that automated basic mail
3 does not have to be placed on an AFC when it is delivered to
4 the Postal Service?

5 A No, but I understand what you are saying.

6 Q And then is it your response in Number 3 that once
7 the IBI mail has been placed on that AFC, that and the other
8 barcoded mail has been culled out from the non-barcoded
9 mail, that it will only take one additional sort to get that
10 IBI mail to the same degree of presortation as automated
11 basic First Class letter mail?

12 A As it has been explained to me, yes.

13 Q Are you familiar with Postal Service operations
14 and how they process barcoded mail?

15 A I am familiar with how it has been described by
16 the Postal Technology Management Office to the vendors of
17 how IBI mail is supposed to be handled.

18 Q In your response again to Number 3 suggesting that
19 it will only take one additional sort to get that mail, that
20 IBI mail, once it is off the AFC or through the AFC, to get
21 it in a condition where it is the same as automated basic
22 First Class letter mail, how many bins are you assuming are
23 on that Postal Service barcode sorter?

24 A Two, I believe, depending on which way it was
25 faced.

1 Q The -- let me rephrase that. Okay. Won't the
2 number of sorts that's required depend on the number of bins
3 that the barcode sorter has?

4 A Not that I am familiar with, no.

5 Q Will it depend on the volume of IBI mail that is
6 delivered to the Postal Service, the number of sorts that it
7 takes?

8 A I don't know why volume would make a difference.

9 Q Could you please turn to your response to ABA and
10 NAPM Interrogatory Number 4, and in particular (b) as in
11 "boy" and little (d) as in "dog."

12 A Okay.

13 Q And there we ask you -- we refer to your statement
14 in your testimony, to page 8, line 16, where you state that
15 inspections are not necessary because the software has
16 ensured compliance.

17 Of course, you are talking about IBI mail, and we
18 ask you why it wouldn't be necessary for the USPS to inspect
19 the IBI mail to assure that the postage has not been
20 underpaid, and indeed we ask you to explain why it would not
21 be necessary for the USPS to inspect the IBI mail to assure
22 that it is of the proper size, shape and dimension.

23 And I believe that your response is not that there
24 aren't any inspections, but, rather, that there will be no
25 more inspections than there would be of other pieces of

1 First Class letter mail, is that correct?

2 A That's correct.

3 Q So, in your testimony, at page 8, line 16, where
4 you say inspections are not necessary because the software
5 has assured compliance, that is a bit of hyperbole, isn't
6 it?

7 A What I meant in that statement was a receiving
8 process where another form of discounted mail would be
9 brought in, and someone would actually have to inspect what
10 was brought in manually, would not be necessary, it would
11 just be brought in with all the other collection mail box
12 pieces and just put through the automated equipment.

13 Q But you do understand that there has to be some
14 inspection of the mail before it is placed on the automated
15 equipment? Do you think they just throw mail on the
16 automated equipment without any inspection to see whether it
17 is the proper size or legible meters, cancelled stamps?

18 A I supposed they would. Not that this would be
19 cancelled stamps or meter mail.

20 Q If a presort bureau delivers, in bulk, 100,000
21 pieces of Automated Basic, First Class letter mail, does the
22 USPS inspect every piece for short postage or for oversize?

23 A Not that I know of.

24 Q In which situation do you think there would be
25 more USPS pieces inspected? Take 100,000 pieces of

1 Automated Basic, First Class letter mail that are delivered
2 by a presort bureau, and the Postal Service will presumably
3 check a random number of that for underpaid mail or oversize
4 mail. Take that number of pieces and compare it to 100,000
5 pieces of IBI mail that have been delivered in collection
6 boxes and ultimately make their way to the Postal Service.
7 In which group of mail, do you think the Postal Service will
8 inspect more pieces, the Automated Basic or the IBI?

9 A Is there a percentage that the USPS intends to
10 inspect on the automation mail in their random inspection?

11 Q I believe there is, yes.

12 A I don't know what that percentage is, but I think
13 if I knew that percentage, I would have a better chance of
14 answering, although I don't know that I can come up with an
15 exact number for how many pieces out of 100,000 of the IBI
16 mail that they would need to inspect.

17 Q In your response to the same interrogatory that I
18 mentioned, 4(d), speaking to oversize mail, you state in the
19 second sentence, "PC Postage open system mail pieces bearing
20 a FIM D have been printed on an envelope whose dimensions
21 have been defined by the software." What do you mean by
22 defined by the software?

23 A In the software, you are required to select what
24 substrate your printing to, and in the case where you are
25 printing a FIM D, you are printing onto an envelope. And if

1 you are printing onto an envelope, it is a defined envelope,
2 a Number 10, a Number 9. Some vendors have various sizes.
3 I can only speak of what size we have, which is only 9 and
4 10 at this point.

5 Q But that is an instruction in the software, is
6 that correct? The software tells you to use such-and-such
7 an envelope.

8 A No, it is more than an instruction. The
9 dimensions are critical to align the FIM and the indicia and
10 other elements that are printed onto the envelope. And,
11 similarly, if you took a Number 9 envelope when you have
12 told the software you will be printing on a Number 10, not
13 only is the software looking to print in specific areas, but
14 the printer itself is looking to feed a certain type of
15 envelope. So you will have a mismatch and things won't
16 print correctly.

17 Q So you get a -- does the printer just refuse to
18 print it?

19 A I guess it would depend what it is you are trying
20 to enter in there. If you were to enter a Number 9 into --
21 I can't speak for all printers, but let's say
22 Hewlett-Packard, a pretty common, generally, it would take
23 it, but things would print off the edges. So you wouldn't
24 have a usable mail piece anyway. The customer would have
25 lost postage.

1 Q Unless they just picked it up with a pile of other
2 mail and put it in the collection box?

3 A The same could be true for automation mail, I
4 suppose.

5 Q Are you aware that the presort bureaus have filed
6 any evidence in this case suggesting that it is impossible
7 to have an Automated Basic piece of mail come in with
8 improper postage, or oversize?

9 A No.

10 Q So the instruction, the define by the software,
11 the software is created to encourage proper size mail, but
12 it is not an absolute bar to improper size mail?

13 A Especially not when you are getting into labels,
14 like you mentioned in part (d) here.

15 Q Okay. Please turn to your response to Number 5,
16 ABA & NAPM Number 5.

17 A Okay.

18 Q I'm sorry. To USPS/E-Stamp-T1-5. That was their
19 first set, filed on June 27. I am not sure how you have
20 organized them.

21 A USPS-T1-5.

22 Q Right. Do you have it?

23 A Yes. One moment, please.

24 [Pause.]

25 THE WITNESS: Okay.

1 BY MR. HART:

2 Q In that question, in number -- subsection (b), we
3 asked you how PC Postage products ensure that First Class
4 mail pieces weighing over one ounce are assessed the
5 additional ounce rate. And you say, "The weight is
6 automatically entered when the integrated scale is used or
7 the customer is responsible for entering the weight when a
8 stand-alone scale is used. The rate is automatically
9 calculated based on weight." And then you do acknowledge,
10 "Mistakes or cheating is possible." And you go on to say,
11 "But there is no reason there would be a greater incidence
12 than is currently the case with single piece First Class
13 mail."

14 I'm sorry. So, it is clear from this response
15 then that the postage on Postage PC mail is applied before
16 the contents is inserted in the envelope, is that correct?

17 A That is correct.

18 Q So this can lead to an overweight piece, is that
19 correct?

20 A Yes.

21 Q And if a stand-alone scale is used, the customer
22 enters the weight. There is certainly an opportunity there
23 for either a mistake or perhaps even cheating, is that
24 correct?

25 A Yes.

1 Q So, again, the statement at page 15 -- well, turn,
2 if you would, to page 15, line 6 of your testimony.

3 A Actually, I don't have my testimony in front of
4 me. I have interrogatory responses in front of me.

5 Q Okay. Maybe your counsel will give you -- I am
6 just going to quote from one sentence, so this won't be
7 lengthy. And there you say, at page 15, line 6, "A PC
8 Postage customer will have the postage amount determined
9 automatically by the product, and the customer will not be
10 able to override the calculated value." Again, isn't that
11 an overstatement?

12 A What is meant here is when you are using a postage
13 meter, you can input the amount of postage that you want to
14 print any amount, whether it is one cent, \$99, a fraction.
15 PC Postage doesn't allow that by regulation.

16 Q But it doesn't prohibit you from putting on
17 postage for -- for putting on not enough postage?

18 A Right. What they have built into the regulations
19 for that is some special indicia, one being an additional
20 postage indicia for these cases where, let's say you printed
21 a stamp for one ounce, filled your envelope, realized this
22 needed to be two ounces, then you can do the additional
23 postage indicia which goes onto the back of the envelope.

24 Q But you can also weigh an envelope and have it say
25 1-1/2 ounces and just put on postage for an ounce?

1 A You could.

2 Q Could you turn, please, to -- well, while you have
3 the USPS response there, turn to your response to USPS
4 Number 13, if you would, which was, I think, in the second
5 set. That was June 27 as well.

6 A Okay.

7 [Pause.]

8 Q It's a question about log files. We asked you
9 about your testimony that all mail pieces at a discount will
10 be recorded in the log file kept for each device.

11 Who keeps the log?

12 A It depends on what type of system we're talking
13 about, if you have an offline system or an online system.

14 If you have an offline system, the log is kept on
15 the client; it is a protected document within the client
16 that the user cannot access, and then it is uploaded to the
17 vendor server and then uploaded to the USPS.

18 If it's an online product, then it is kept on the
19 vendor server, and the uploaded to the USPS.

20 Q Who enters the information?

21 A It's entered automatically as you've gone through
22 the software to select what postage you're going to be
23 printing. When that print occurs, the information is put
24 into the log file.

25 Q So, take, for example, where there is a 1.5 ounce

1 piece and the user, through good faith mistake or something
2 more sinister, has indicated into his system that the piece
3 weighs an ounce and has put on an ounce of postage; what
4 will the log say in that situation?

5 A It would say one ounce postage.

6 Q So it's sort of "garbage in-garbage out" as far as
7 the logs are concerned?

8 A It depends on what you do with them.

9 Q Could you please turn to ABA and NAPM
10 Interrogatory Number 4(3)?

11 [Pause.]

12 I had asked you about (b) and (d) before, so we've
13 had that one out.

14 A Yes.

15 Q In 4(e) we asked you to explain why the USPS would
16 not have inspect IBI First Class letter mail to ensure that
17 the indicia is not counterfeit and that it has been printed
18 from an authorized software package which will result in
19 appropriate compensation to the USPS.

20 And in your response to 4(e), you say, among other
21 things, since every indicium is unique, any duplication will
22 be detected.

23 Is the system foolproof?

24 A I would say that if the USPS installed all the
25 equipment and databases that they need, then if we're

1 talking along the lines of scanning and detecting
2 counterfeits, to the best of my knowledge, the system would
3 be foolproof.

4 Q Did you ever see the movie, Fail Safe?

5 A No.

6 Q You should. To summarize, Mr. Jones, there are a
7 few more questions:

8 The PC Postage software product does not prohibit
9 oversized mail; is that correct?

10 A Not if you're using labels, no.

11 Q And it does not prohibit -- well, I thought we had
12 an example, even if you were not using labels where you
13 might get a Number 9 in there instead of a Number 10 and it
14 would still go through.

15 A Or another example is, perhaps there could be an
16 envelope size programmed in that is known to be an oversized
17 piece, but it could be programmed in whereby that type of
18 piece would not qualify for a discount, or that type of
19 piece would require a surcharge.

20 Q And the PC Postage system does not prohibit
21 overweight, underpaid mail?

22 A Not if there is a mistake like that, no.

23 Q Or fraud?

24 A Or fraud.

25 Q And the PC Postage log system doesn't prevent

1 fraudulent or negligent inaccurate log entries?

2 A No.

3 Q And the USPS will, in fact, have to inspect some
4 IBI mail?

5 A If they put the scanning equipment in place, they
6 would, in effect, inspect every piece of mail. And if they
7 could correspond what they've scanned to log files to any
8 type of normal inspection such as, hey, I happen to notice
9 that this one isn't correct, then they can tie everything
10 back.

11 MR. HART: I have no more questions. Thank you,
12 Mr. Jones.

13 CHAIRMAN GLEIMAN: Mr. Moore?

14 CROSS EXAMINATION

15 BY MR. MOORE:

16 Q Good morning, Mr. Jones. I'm Joseph Moore and I
17 represent the Postal Service.

18 If you would, would you please turn to your
19 response to USPS-T1-5?

20 [Pause.]

21 A I have it.

22 Q In particular, Subparagraph (d) where you state
23 that if users indicate that a one-ounce mail piece is either
24 flat shape or parcel shaped, the system automatically
25 includes a non-standard surcharge in the rate; is that

1 correct?

2 A That's correct in the EStamp product. I don't
3 want to speak for all vendors on how they implement it, but
4 as I understand the regulation by the USPS, that is how it's
5 supposed to be.

6 Q Okay. So how does the EStamp system assess the
7 surcharge for letter-shape non-standard pieces that do not
8 meet the aspect ratio requirement for one-ounce, First Class
9 Mail pieces?

10 A I would think that there would be no way to do
11 that, unless you have some sort of device that at the end of
12 putting your postage together and the mail piece, has
13 another way to measure an aspect ratio.

14 Q So that is that a non-standard First Class Mail
15 piece would the same postage as a standard size First Class
16 Mail Piece?

17 A I would believe so, yes.

18 Q Okay, now, could I have you now turn to your
19 response to USPS-T1-6?

20 A I have that.

21 Q Okay, in Subparagraph (b) you state that the
22 preferred business model would consist of a net cost of zero
23 to the PC Postage user; is that correct?

24 A That's correct.

25 Q In other words, the postage discount would offset

1 the postage fees charged by PC Postage vendors; is that
2 correct?

3 A That's correct. If I may, I can't really speak to
4 other people's business models. This is how EStamp had
5 thought of things.

6 Q Okay. Given EStamp's current fee structure, have
7 you conducted any quantitative studies to determine how the
8 proposed four-cent discount would affect PC Postage mail
9 volume generated by EStamp customers?

10 A No, and we have not done it, and even more
11 specifically, we haven't done it to a four-cent discount.

12 Q Okay. Could I have you now turn to your response
13 to OCA-T1-4?

14 A Okay.

15 Q In that interrogatory, you were asked what is the
16 average amount of postage purchased by an EStamp customer
17 each month; is that correct?

18 A That's correct.

19 Q And you responded that the maximum postage amount
20 is \$500.

21 A Yes.

22 Q But you didn't answer the question.

23 A No, I did not answer that question.

24 Q Do you know, on average, what the monthly amount
25 of postage that is purchased by an EStamp customer is?

1 A I, myself, no, I don't.

2 Q Okay. Is there any way that you can find out and
3 report those results to the Postal Service?

4 A I can find out, but we will not report those
5 results. But the USPS has that information in the log
6 files.

7 MR. MAY: Excuse me, Mr. Chairman. Now that I
8 think the witness understands what the Postal Service is
9 after, the witness is saying that -- I believe that he's
10 saying, and I will interpose the argument on his behalf,
11 that this is highly sensitive information, and therefore
12 we'd object to its production.

13 And as you have ruled previously in other cases,
14 the Postal Service should put this in the form of a motion.

15 CHAIRMAN GLEIMAN: If you do want to pursue that
16 specific information and make it a matter of record in these
17 proceedings, I would respectfully request that you do make
18 the request of the witness in writing.

19 I suspect you'd elicit an objection of some sort
20 of another, but I also understood the witness to say that
21 the Postal Service might have knowledge of this in some
22 other venue, in any event.

23 MR. MOORE: Well, that is subject to the fact that
24 the Postal Service does not currently have the information.
25 But we will pursue that in the form of a motion.

1 BY MR. MOORE:

2 Q I understand that you don't have your testimony in
3 front of you, so I have some questions about --

4 A I do now.

5 Q Oh, you do now. Would you turn to pages 13 and
6 14?

7 A Okay.

8 Q There you discuss the categories of PC Postage
9 mail; is that correct?

10 A Categories -- let's just point out, as defined by
11 me, so this is not defined by the United States Postal
12 Service. Any official category of PC Postage would have to
13 be defined by them.

14 Q Okay, for the open PC Postage system, of which
15 Stamps.com and EStamp utilize, how many categories are
16 there?

17 A For open systems?

18 Q For open systems.

19 A At this point, really we're looking at these two
20 categories.

21 Q Okay, and EStamp is seeking a four-cent discount
22 for Category II PC Postage Mail; is that correct?

23 A That's correct.

24 Q Now, IBIP mail, where the address is placed on a
25 label, would fall in Category I, I believe.

1 A As I defined it, yes.

2 Q Okay, and EStamp is not seeking a discount for
3 Category I IBIP mail; is that correct?

4 A Not at this time.

5 Q Why is that?

6 A I have a slight understanding of how your process
7 works, and I did not believe that at this point I could put
8 together enough data to make my case for Category Number I.

9 As opposed to what we could do for Category Number
10 II, where we already have -- we have defined it down to the
11 point of a mail piece that, as far as I understand it,
12 should be meeting all of these automation compatibility
13 characteristics.

14 Q And what sort of data would you need in order to
15 put forth the proposal for Category I PC Postage Mail?

16 A I'm assuming that you would ask me information
17 such as how many mail pieces have been sorted, what are
18 percentages that sorted in this manner -- you know, how much
19 cost can we calculate from all of that information.

20 MR. MOORE: I have no further questions?

21 CHAIRMAN GLEIMAN: Is there any followup?

22 [No response.]

23 CHAIRMAN GLEIMAN: Are there questions from the
24 Bench?

25 COMMISSIONER LeBLANC: Mr. Jones, I'm just a

1 little confused here. If you can possibly straighten me
2 out, we've got an industry that's been with us for awhile;
3 we've got the presorting industry here.

4 Now, you're coming in trying to address, as I
5 appreciate it, the SOHO market, and that's the basic intent
6 of it.

7 THE WITNESS: That's correct.

8 COMMISSIONER LeBLANC: Then when I go back -- and
9 what I'm trying to address here is the savings and how you
10 afford to pay for this.

11 Now, if I understand it properly, you're saying
12 that the cost avoided will pay for the discount that's
13 already there.

14 But you start with, if I understood it properly --
15 and correct me if I'm wrong -- but you say that the Postal
16 Service, in effect, has no base year cost for this,
17 therefore no test year cost.

18 I'm just a little bit concerned, and maybe you can
19 clarify for me, how you are so sure that these costs avoided
20 will pay for the discount? In effect, you're saying four
21 cents, and that's a pretty substantial discount.

22 THE WITNESS: And let me start by saying that it's
23 four cents from what we've understood PC Postage to be
24 designed for and the goals of the United States Postal
25 Service and what we've tried to explain here in this

1 four-cent discount, which is really only through cost
2 savings within the sorting center.

3 This is only a fraction of the actual savings
4 being represented by PC Postage. The United States Postal
5 Service, as they have put together the specifications for PC
6 Postage, did so in light of trying to create savings,
7 maximize revenue in every facet of this type of postage.

8 Things such as how the refund policy is handled,
9 whereby if you were using a postage meter and you had a
10 refund scenario for unused postage, something you printed
11 and you're not going to use, you would go to a Post Office.

12 And there's forms that you can fill out while in
13 line. You have to work with somebody at the counter.

14 Forms have to be processed through the Postal
15 Service, and ultimately they may process a check and send it
16 off to you. They've eliminated all of that.

17 COMMISSIONER LeBLANC: Excuse me for interrupting
18 you. I apologize, but I just want to make sure I'm with you
19 here.

20 But those are extra costs and that's what I'm
21 talking about. Aren't those extra costs that the Postal
22 Service will be picking up?

23 THE WITNESS: No, avoiding.

24 COMMISSIONER LeBLANC: Well, but --

25 THE WITNESS: Those are costs that they will be

1 avoiding with PC Postage.

2 COMMISSIONER LeBLANC: Maybe, but then the cost to
3 the Postal Service on the other side -- maybe I'm like the
4 Chairman. Maybe it's Monday and I'm having trouble, but
5 then as the Postal Service is picking up these costs, some
6 of which I think you alluded to with Mr. Hart, that may or
7 may not be part of what you actually figured in your costs,
8 isn't that an extra cost to the Postal Service itself?

9 THE WITNESS: Which is an extra cost?

10 COMMISSIONER LeBLANC: Filling out these forms and
11 stuff like that? Has all that been taken into
12 consideration? I'm just trying -- I might have missed it.

13 THE WITNESS: Yes, you missed it. That's a cost
14 savings. None of that is done with the Postal Service when
15 you use a PC Postage product. That's what occurs if you're
16 using a meter.

17 COMMISSIONER LeBLANC: So the Postal Service would
18 never have to go back and check any of those forms or --

19 THE WITNESS: They've said that they would do a --
20 those forms are filled out. Those forms are sent to the
21 vendor. The vendor then processes a refund. The vendor
22 does this for all customers in culmination over an
23 accounting period, and then sends a report to the USPS, and
24 upon their inspection of that and approval, they cut one
25 check.

1 COMMISSIONER LeBLANC: Now, is that report done
2 quarterly? Is it done monthly?

3 THE WITNESS: By accounting --

4 COMMISSIONER LeBLANC: By accounting period?

5 THE WITNESS: By USPS accounting period.

6 CHAIRMAN GLEIMAN: By USPS APs?

7 THE WITNESS: Yes. And in the meantime, the
8 vendors have given the refund to the customers, so the
9 vendors are even losing float at that moment.

10 So the vendors are processing refunds for all
11 customers, nationwide. The United States Postal Service is
12 cutting one check per vendor per accounting period. That's
13 how much cost they have avoided there.

14 COMMISSIONER LeBLANC: I apologize that I
15 interrupted your trend of thought. So maybe if you can kind
16 of go back, I was talking about the four cents still now.
17 If you can clarify that for me a little bit further?

18 THE WITNESS: So what we've done is -- and I'm not
19 the cost calculation person in this side of it -- but what
20 we've done is just looked at --

21 COMMISSIONER LeBLANC: Excuse me, who is the cost
22 calculation person?

23 THE WITNESS: Roger Prescott.

24 COMMISSIONER LeBLANC: Okay, thank you.

25 THE WITNESS: We've looked at similar benchmarks

1 that we could use that seem like a type of mail going
2 through a similar process and calculated from there.

3 COMMISSIONER LeBLANC: Okay, I read that part.
4 Thank you very much. Thank you, Mr. Chairman.

5 CHAIRMAN GLEIMAN: Commissioner Omas?

6 COMMISSIONER OMAS: Mr. Jones, I just have one
7 very simple question: In your testimony, you make the
8 statement that the discount that you're advocating for PC
9 Postage, that you need this discount in order to attract and
10 to make the program successful.

11 Are you telling us that without a discount, PC
12 Postage is not going to be successful?

13 THE WITNESS: There's a strong possibility of
14 that. To date, the United States Postal Service really has
15 not put any advertising to this. They haven't done much to
16 grow the marketplace.

17 It's contingent upon the vendors to spend all
18 their money, and yet the specifications for these products
19 have made them somewhat customer unfriendly, compared to
20 other products that customers could use if they are paying
21 full rate.

22 And so what we're looking at is a product that
23 sometimes stops someone from creating postage, doesn't allow
24 something to be printed, shuts itself off and won't let you
25 use it until you get some sort of update.

1 Whereas if somebody was just using a stamp or just
2 using a meter, they could just mail their letter. That's
3 what these SOHO customers want to do. They want to get
4 their mail done.

5 And they'd like to do it in some sort of
6 convenient fashion, something that fits in well with how
7 they already conduct their businesses with a lot of
8 software.

9 But if we start adding on all these extra
10 regulations, and requiring them to pay the full rate, when
11 you have other alternatives to pay the full rate without all
12 those regulations, people won't be that enticed to use it.

13 COMMISSIONER OMAS: All right, just one followup.
14 You mentioned advertising. Are you advocating that the
15 Postal Service advertises PC Postage?

16 THE WITNESS: Yes.

17 COMMISSIONER OMAS: What about the PC Postage
18 community? Shouldn't they do their own advertising?

19 THE WITNESS: We do advertising for ourselves.
20 Obviously, EStamp advertises for EStamp, but the United
21 States Postal Service to date really has not done much to
22 grow this marketplace.

23 They have asked for these types of products to be
24 developed, the technology to be brought in to enhance the
25 United States Postal Service, and instead of doing some sort

1 of marketing campaign to make public awareness, et cetera,
2 they've started putting money into EBillpay, Stamps Online.

3 It's tough. We're basically footing the bill to
4 grow a business that helps the United States Postal Service,
5 without the commitment on their part to chip in.

6 COMMISSIONER OMAS: Well, has the community given
7 any thought to -- you're proposing this, but when you're
8 asked if you've done research on, you know, why should it be
9 four cents, and what is the cost savings to the Postal
10 Service, have you all made any decision to try and gather
11 this information in order to be able to specifically say to
12 the Postal Service, we are saving you X-number of dollars?

13 THE WITNESS: To start with, when I mention four
14 cents within the industry, the standard remark I hear back
15 is that's incredibly low. Why are you only asking for four
16 cents?

17 Considering other revenue situations that are
18 offsprings of PC Postage such as paying four times the going
19 rate for a digital certificate, paying really an unheard of
20 price for the addressing matching CD, paying licensing fees,
21 paying bounties on customers required, the United States
22 Postal Service has built in quite a lot of revenue
23 generation around this.

24 So, besides where they are adding on to where
25 they're making revenue, and all the places where they have

1 put the onus on the vendors to do the work, such as the
2 refund policy, the four cents seems pretty minimal.

3 But as I understood your processes, that seemed
4 like a harder argument to make within this first year
5 without having --

6 COMMISSIONER OMAS: The data.

7 THE WITNESS: -- more data behind me.

8 COMMISSIONER OMAS: All right, thank you very
9 much, Mr. Jones.

10 CHAIRMAN GLEIMAN: Commissioner Covington?

11 COMMISSIONER COVINGTON: Thank you, Mr. Chairman.
12 Good morning, Mr. Jones.

13 I would like to, first of all possibly not so much
14 follow up on a question that Mr. Moore from USPS posed to
15 you, but I would like to know, if at all possible, how often
16 do EStamp report postal activity to USPS?

17 THE WITNESS: Once per accounting period.

18 COMMISSIONER COVINGTON: And how long is an
19 accounting period?

20 THE WITNESS: I believe it's four weeks. I think
21 you have 13 accounting periods a year, so I believe it's
22 every four weeks.

23 COMMISSIONER COVINGTON: So every four weeks?

24 THE WITNESS: Yes.

25 COMMISSIONER COVINGTON: Okay, now, another

1 question: How often do EStamp, do your corporation, or how
2 much time do you all actually have to spend controlling or
3 monitoring those SOHOs or those customers' printers that's
4 actually online benefitting from your services?

5 THE WITNESS: By saying monitoring, are you
6 inferring technical support, customer services?

7 COMMISSIONER COVINGTON: I would probably say a
8 mixture of all of it, Mr. Jones. Just say, for instance,
9 I'm running Covington Enterprises, and I call up and, quite
10 naturally, I won't get Mr. Jones, but I'm having something
11 that could be as minute or as minimal as getting my margin
12 or my spacing right on my particular personal computer.

13 How often -- I mean, is that an ongoing thing, or
14 have you all broken it down, technical, or, you know, as the
15 Chairman tells around here a lot of the times with our PCs,
16 most of it is customer-related? I mean, you know, it's the
17 user's fault.

18 THE WITNESS: User's fault? I don't want -- let's
19 not point blame, but the impetus is on the user to decide
20 their course of action.

21 I mean, obviously, I'm not at Covington, Inc.
22 You're using the product, and based on the information we've
23 given you and the user guides, the help files, different
24 screens within the product, you've been able to determine
25 this isn't printing correctly.

1 So I have an issue here in this case that sounds
2 technical, so you would probably contact our technical
3 support, and we would work with you. It may be that you
4 have an outdated driver for that type of printer; that's
5 very common.

6 You know, we would work with you to resolve that
7 situation.

8 COMMISSIONER COVINGTON: Okay, next question, Mr.
9 Jones: Now, your personal preference, open or closed
10 system?

11 THE WITNESS: Getting to be closed, the way more
12 and more is being piled on an open system. Lately I have
13 been looking at international rates and what these products
14 are being asked to do.

15 A closed system has been able to print mail that
16 can be used for international destinating mail from day one.
17 Open system, they're talking about possibly having to update
18 software weekly to account for every single in every country
19 supported globally.

20 It's a monumental task which adds that much more
21 complexity to a product that the USPS has said themselves,
22 the simpler it is, the more people will use it.

23 Well, a closed system is very simple; people can
24 just do what they want.

25 COMMISSIONER COVINGTON: Okay, I think that

1 earlier, in response to a question from Commission Omas, as
2 he was talking about, you know, your proposal or your intent
3 to seek or be granted, I would imagine in this case, a
4 four-cent limited discount, I think you stated that Mr.
5 Prescott provided the analysis for that?

6 THE WITNESS: Yes.

7 COMMISSIONER COVINGTON: But I would imagine that
8 all of that should or does run hand-in-hand with what it is
9 that you consider to be cost avoidance that you're keeping
10 USPS from incurring?

11 THE WITNESS: Yes.

12 COMMISSIONER COVINGTON: Okay, in your testimony,
13 you stated that PC Postage Mail could be considered to be
14 more efficient than regular, automation-compatible presort
15 mail?

16 THE WITNESS: Yes.

17 COMMISSIONER COVINGTON: Okay, now, you went on to
18 give, I guess, a couple of reasons why. With the industry
19 as it is and with what's going on with presort, you know,
20 and worksharing and so forth, what would lead me to be
21 convinced that use of PC Postage is better than some other
22 conventional means?

23 THE WITNESS: I think the greatest benefit of PC
24 Postage to the United States Postal Service hasn't even
25 fully been taken advantage of at this point, and that is the

1 indicia itself. You had a two dimensional bar code that is
2 filled with information about the mailer, the mail piece,
3 the destination.

4 Log files would really be unnecessary because the
5 United States Postal Service would be able to capture a
6 plethora of information on every single mail piece that runs
7 through their mailstream.

8 They can start figuring out, we ran an ad on
9 Priority Mail last week, next week we can see directly, hey,
10 these users watched that commercial and they are using more
11 Priority Mail this week. That was a success. You could see
12 that, you know, we are seeing some real patterns that mail
13 is flowing more frequently between San Francisco and Los
14 Angeles as opposed to Phoenix and Santa Fe, let's change
15 some of our equipment around and take better advantage of
16 this and get the most out of our utilization there.

17 They can do so much more. They can start tracking
18 special services by service, by combination of services,
19 delivery performances. The one that the United States
20 Postal Service really doesn't have the ability to do right
21 now that some of its competitors do is track and trace.
22 Yes, you can verify that something has been delivered. That
23 doesn't help the recipient very much because they know it
24 hasn't been delivered yet, that is why they are asking.

25 If you have a system where every mail piece has

1 this bar code in place already, and you are just scanning
2 these through, all through your steps, you know exactly
3 where that mail piece is.

4 COMMISSIONER COVINGTON: Okay. Another question,
5 Mr. Jones. I was noticing in your autobiographical sketch,
6 you know, you have been kind of around, not so much in the
7 sense of -- I mean since you left Lehigh University, but I
8 am saying you are back and forth between, you know, dealing
9 with USPS postal technology, you know, Technology Management
10 Group and so forth, and I find it interesting to go from a
11 trader in jewelry actually over to information technology,
12 so to speak. But have you, in your dealings with USPS on an
13 ongoing basis, have you put forth some of the same proposals
14 that you submitted to the PRC by way of your testimony in
15 this particular case?

16 THE WITNESS: In terms of a discount?

17 COMMISSIONER COVINGTON: Well, I know you weren't
18 going and asking for a discount. I wouldn't think that that
19 would be the right arena.

20 THE WITNESS: Yes, that is not the proper one to
21 go to.

22 COMMISSIONER COVINGTON: Right. In which to do
23 it. But I am saying as far as some of the ideas that you
24 are seeing, as far as cost avoidances and so forth is
25 concerned, have you laid any of that thing on the table, or

1 did you just save everything to reveal to us in this forum?

2 THE WITNESS: No, it is an ongoing romance that we
3 have. Our product was the first product to go through the
4 beta process. At one point we were the only vendor, so it
5 was all of, at the time, Postage Technology Management and
6 me. So I have helped to craft a fair amount of this. Of
7 course, if I was to write specific regulation, there would
8 be a few differences in there. But I am still working with
9 them on an ongoing basis, regular meetings.

10 I am currently involved in a special interest
11 group that has been formed amongst all vendors, just so that
12 we make sure that we all handle the rate change properly
13 coming up.

14 I go to all the industry meetings and am in
15 contact with that, and submitting proposals for different
16 things that products can do, different ways they can be
17 done, on an ongoing basis.

18 COMMISSIONER COVINGTON: Okay. Well, let me ask
19 you this then. Mr. Jones, if there were to be rate change,
20 how much lead time would you say you would need to deal with
21 your small office, home office clientele as far as them
22 getting themselves online to be able to place the adequate
23 amount of postage?

24 THE WITNESS: Right. Right. And that is part of
25 what the special interest group is dealing with right now.

1 One of the perceptions of PC Postage is that
2 customers, without even needing a lot of knowledge, will
3 always be producing mail pieces correctly, and to go hand in
4 hand with that, what is being looked for in the industry is
5 to have all customers using the correct rates the day of the
6 rate change. And it is a year long process, just like this
7 rate case is a year long process.

8 But as we go into this second half of the year,
9 now this is where the efforts are intensifying where we have
10 implementation plans, contingency plans, different schedules
11 for bringing product in. The Postage Technology Management
12 Office, they are going to have to approve all rate change
13 applications. And it is a matter of, you know, let's say at
14 the last minute, the USPS does decide to throw a curveball
15 in there on December 28th, there is that contingency plan of
16 how we are going to stop customers from using the rate
17 change which has already been implemented to them at that
18 point, it just hasn't been activated because of the dates,
19 and get them that update.

20 COMMISSIONER COVINGTON: Okay. One final area I
21 wanted to touch on, Mr. Jones. In reading your testimony, I
22 have been trying to get clear in my mind just exactly -- I
23 can understand that address cleansing plays a profound
24 impact in what it is that you do. So, whose primary
25 responsibility is address cleansing as far as your product

1 is concerned? Is it E-Stamp Corp. or is it Covington
2 Enterprises.

3 THE WITNESS: It is Covington Enterprises. You
4 will input an address to the product to attempt to print a
5 stamp. If an exact match is found, the stamp can be
6 printed. If a close match is found, you may be given a list
7 of choices of exact matches to select from. If you are not
8 close enough, you will have to either make corrections to
9 have the correct address, or you will be prevented from
10 sending mail to that address.

11 COMMISSIONER COVINGTON: Okay. Now, so, in other
12 words, what you are saying is that -- in any way, shape,
13 form or fashion, does address cleansing tie in to USPS AMS,
14 you know, Address Management System, I mean do they go hand
15 in hand?

16 THE WITNESS: It is the Address Management System.

17 COMMISSIONER COVINGTON: Okay.

18 THE WITNESS: We purchase AMS CDs from --

19 COMMISSIONER COVINGTON: USPS.

20 THE WITNESS: -- the National Customer Support
21 Center in Memphis.

22 COMMISSIONER COVINGTON: Okay.

23 THE WITNESS: And that is what we supply to the
24 customer. So every single stamp they produce, that address
25 is being checked against the AMS CD.

1 COMMISSIONER COVINGTON: So that would be the same
2 shop that Mr. Murphy used to be in?

3 THE WITNESS: Mike Murphy.

4 COMMISSIONER COVINGTON: Right.

5 THE WITNESS: Yes.

6 COMMISSIONER COVINGTON: Okay. Thanks a lot, Mr.
7 Jones.

8 That is all I have, Mr. Chairman.

9 CHAIRMAN GLEIMAN: Commissioner Goldway.

10 COMMISSIONER GOLDWAY: Yes, thank you. I am not
11 sure if you are the correct witness or Mr. Boggs, but let me
12 ask you this and see whether it works.

13 I understand the interest in developing a discount
14 to make the product more attractive to potential users. It
15 strikes me that the aspect of this product that would be the
16 most attractive is the one you were just discussing with
17 Commissioner Covington, and that is the ability to track
18 this product. At the moment, the Postal Service doesn't
19 provide delivery confirmation with First Class.

20 THE WITNESS: That's correct.

21 COMMISSIONER GOLDWAY: Have you discussed or
22 thought about whether it would be possible to provide
23 delivery confirmation to your IBIP pieces, and whether that
24 is the way to go, rather a discount, but some better service
25 that you could offer?

1 THE WITNESS: The service would really be what the
2 United States Postal Service is offering. So although we
3 talk to them on an ongoing basis, really trying to dissuade
4 them from implementing bar code after bar code after bar
5 code for delivery confirmation for all their different
6 special services for a few other things they want to do,
7 leverage it all off of the one bar code that we are already
8 doing, which is chock full of information, and they can add
9 so much more. They could do everything with one bar code
10 instead of almost what they are suggesting is covering your
11 mail piece with bar codes, each one having its own different
12 database, different scanners, and then to build that into
13 our products additionally.

14 You know, we have had to build this bar code to
15 intense specifications. The security devices themselves are
16 Phipps 141 certified, which is -- and that is Level 3, Level
17 4, which is an unbelievably high level for something like
18 this. We understand the concerns and why they want to do
19 that. Printing postage is equivalent to printing money.
20 But then to build all that and not leverage it, but,
21 instead, worry about how you are going to print your
22 delivery bar code, delivery confirmation bar code, or your
23 certified mail bar code, doesn't make that much sense to us.

24 But there is a lot of different groups in the
25 United States Postal Service, and they seem to have

1 different agendas. And to get them all to listen in unison
2 of how they could leverage just one is not always that easy.
3 We try.

4 COMMISSIONER GOLDWAY: So the delivery bar code
5 system is -- the delivery confirmation bar code system is
6 entirely separate from the bar code information that you are
7 developing for postage?

8 THE WITNESS: It is at this point. They could be
9 combined, but --

10 COMMISSIONER GOLDWAY: Okay. Well, thanks for
11 that information.

12 THE WITNESS: Yes.

13 CHAIRMAN GLEIMAN: Follow-up questions from the
14 bench?

15 [No response.]

16 CHAIRMAN GLEIMAN: Mr. May, would you like some
17 time with your witness? It is time for -- I'm sorry.

18 MR. HART: Mr. Chairman, you said from the bench.
19 I had a couple of follow-up in response to the questions of
20 the bench. Is that fair game?

21 CHAIRMAN GLEIMAN: Yes. Sure.

22 MR. HART: I will do it now, or if you want to
23 take a break.

24 CHAIRMAN GLEIMAN: No, no. Let's get your
25 questions out of the way, and then we will take a break.

1 And during the break -- well, the Postal Service has some
2 also. I must be moving too fast this morning, or you guys
3 are moving too slow. I am not sure which it is.

4 MR. HART: I haven't ascended to the bench yet,
5 so.

6 FURTHER CROSS-EXAMINATION

7 BY MR. HART:

8 Q Mr. Jones, one thing that I have been interested
9 in, in the responses to the interrogatories, I have seen
10 sort of two sides of an issue, and I want to make sure I
11 understand which side E-Stamp is on. On the one hand, I
12 have heard references to claims of potential savings as a
13 result of complying with address cleansing. On the other
14 hand, I have witnessed, in the response to the
15 interrogatories, and I understand it because our clients
16 have the same problem sometimes, but a lot of frustration
17 with the requirements of the address cleansing.

18 I guess you can't have it both ways. Are you -- I
19 mean is E-Stamp making a concerted effort to eliminate the
20 address cleansing requirements, and, if so, why should this
21 Commission consider savings from address cleansing if you
22 are trying to undo it?

23 A We are looking at both ways. Right now, a
24 customer has to perform address cleansing. And what we are
25 saying is, if you have to do this, and you have to create

1 your mail piece to have all these characteristics, that
2 should be worthy of a discount. We would prefer that it be
3 an option. If you want to create your mail pieces to meet
4 all of these characteristics, just like someone who is a
5 bulk mailer, they will go through all of the steps to be in
6 compliance to achieve their discount, but they choose to do
7 that. If they don't want to go through all those steps,
8 they could pay full rates.

9 Our customers have to pay full rate, and have to
10 go through all those steps. And the way I have crafted this
11 Category 2, and I have surmised how it could work for other
12 vendors, but as I understand their products, this could work
13 for all vendors, or it could be implemented, where,
14 basically, you are choosing the characteristics as you step
15 through the software. And if you have made all the correct
16 selections, that should incorporate all of this automation
17 compatibility, then you could look at a discount rate. If
18 you don't do all of those, then you are looking at a full
19 rate. But give customers that choice.

20 And when you talk about address cleansing, I mean,
21 obviously, you are familiar with the frustrations. But
22 these are professionals that are familiar, you know, they
23 are mail professionals. Now, we have someone who yesterday
24 they were buying regular stamps, sending mail to everyone
25 they wanted to send to. Today, they use our product and the

1 product says, no, you can't send to there because I don't
2 know that address. And I know that your sister lives there,
3 and I know that you visited the house, and I know that she
4 gets mail, but it is not in my database so you can't send
5 something there. The frustration.

6 Q But the discount that you are requesting the
7 Commission to recommend would of course entail a
8 classification schedule entry presumably and you could --
9 your request is that that discount that you recommended have
10 as a requirement the address cleansing?

11 A Yes.

12 Q One more area, if I may, in follow up to the
13 discussion on revenue and costs.

14 Is it correct that your testimony does not address
15 in any fashion the impact of your proposal on the revenue
16 requirement of the USPS?

17 A That's correct.

18 Q And on the cost side, IBI mail is there today, is
19 that correct, and that people are putting it into the Postal
20 system?

21 A Yes, that's correct.

22 Q And although the Postal Service has not
23 specifically isolated the costs of IBI mail, it is part of
24 First Class mail, so if you look into the test year costs
25 that the Postal Service has filed in this case, if in fact

1 that current IBI mail is being delivered is costing less,
2 those lowered costs are already in the Postal Service costs
3 in this case, correct?

4 A That is correct.

5 MR. HART: I have no further questions. Thank
6 you.

7 CHAIRMAN GLEIMAN: Mr. Moore.

8 MR. MOORE: Thank you.

9 FURTHER CROSS EXAMINATION

10 BY MR. MOORE:

11 Q Mr. Jones, in response to Commissioner Omas's
12 question, do you recall suggesting that the Postal Service
13 assist in advertising PC Postage products?

14 A PC Postage as an industry -- as a method of
15 evidencing postage. I am not suggesting that they should
16 specifically endorse E-Stamp or specifically endorse
17 Stamps.com -- just try PC Postage, this is how it works --
18 and if they want to list vendors make sure they do them all
19 equally.

20 Q So do you think the Postal Service should also
21 pick up the costs of advertising for the availability of
22 traditional Pitney Bowes products?

23 A In some respects, if -- when you look at the
24 cost -- the cost-savings that comes about just from the
25 United States Postal Service not having to print and

1 transport and distribute stamps, there is a tremendous
2 benefit right there.

3 Q Okay. In response to Commissioner Covington's
4 question you indicated that there was an ongoing romance
5 between E-Stamps and the Postal Service. Do you remember
6 that?

7 A Yes.

8 Q And did I hear you to say that prior to your
9 testimony in this proceeding E-Stamp as a part of that
10 romance discussed a PC Postage discount with the Postal
11 Service?

12 A No. This is the correct forum to discuss it.

13 I mean we have informally said, you know, these
14 things should get discounts, but that is not who you would
15 talk to to get a discount, so we haven't put any formal
16 presentation to them saying you should give us a discount
17 because they are not the ones that would do it in this case.
18 We have to go through the Postal Rate Commission.

19 Q Well, these informal discussions you have had, can
20 you identify exactly who within the Postal Service you have
21 spoken with?

22 A I, myself, personally?

23 Q Yes.

24 A Roy Gordon, Wayne Wilkerson, and people of the PTM
25 office.

1 Q Okay.

2 A Of course they have no real comment on it, so --

3 Q And do you know how much the Postal Service spends
4 or has spent, rather, on the development of PC Postage and
5 IBIP technology?

6 A No, I have no idea how much they have spent.

7 MR. MOORE: Okay. I have no further questions.

8 CHAIRMAN GLEIMAN: Anyone else? If not, then I
9 think we'll take our "a little later than midmorning" break
10 right now.

11 Mr. May, would 10 minutes suit your purposes?

12 MR. MAY: It shouldn't be any more than that.

13 CHAIRMAN GLEIMAN: Okay. Well, we will come back
14 at twenty after the hour. Thank you.

15 [Recess.]

16 CHAIRMAN GLEIMAN: Mr. May, do you have redirect?

17 MR. MAY: We do.

18 REDIRECT EXAMINATION

19 BY MR. MAY:

20 Q Mr. Jones, you were asked about the ability of the
21 system to bar the use of oversize envelopes, nonstandard
22 size envelopes, and tell us just how would that work?

23 If someone had a 6 x 6 envelope and wanted to use
24 it, what would happen?

25 A Speaking from how our product works, first they

1 would have to select what media they are printing to and
2 they wouldn't find any choices for 6 x 6. They would have
3 to select something like a Number 9 or a Number 10 envelope
4 and the printer that they are using would probably have a
5 specific setting that is looking for how a Number 9 or
6 Number 10 envelope is fed into it.

7 Of course, something that is 6 x 6 wouldn't really
8 fit that, but if it's the type of printer that would still
9 allow it to flow through I am still not sure that it would
10 even print in the correct area.

11 It could be done but it is not something that the
12 software allows to happen if somebody clearly is trying to
13 feed in something completely different than what they
14 specified they are going to print to -- almost no chance
15 that it is going to print correctly.

16 Q If -- the software displays the dimensions of
17 these various envelopes that are allowed?

18 A Yes. The way we have it programmed you have the
19 common names, such as a Number 9 or Number 10 and we also
20 display all the dimensions.

21 Q It shows the dimensions?

22 A Yes.

23 Q So that if someone were to --

24 A Yes. We also show a picture of the envelope and
25 what -- how it will look when you print it, so we have that

1 third step.

2 Q So if someone were to put a 6 x 6 envelope into
3 the computer to print on, then that would be a deliberate
4 fraud, would it not?

5 A Or incredible stupidity, yes, it would be.

6 Q Because they would -- it's the case that they
7 would know that they are using an envelope that is not
8 allowed?

9 A That is correct.

10 Q And you have not testified, have you, that your
11 system bars cheating, for example, if someone wants to cheat
12 and put only one ounce postage when they know it's two
13 ounces? You have no way of preventing that, do you?

14 A No, I don't.

15 Q Is there any way to prevent that you know of that
16 same person from putting only a one ounce stamp on a two
17 ounce envelope if he is not using your system?

18 A No.

19 Q Now Commissioner LeBlanc was asking you about
20 capturing the savings.

21 You are not talking about, are you, any savings
22 from presorting that you are including?

23 A No.

24 Q And Mr. Prescott, I believe you have said, is the
25 witness who identified exactly how much cost would be

1 avoided?

2 A That is correct.

3 Q But you have I believe in your testimony generally
4 described the kinds of things that PC Postage does that
5 result in these savings?

6 A That is correct.

7 Q And now if the Commission were to recommend a four
8 cent discount, let us say, Mr. Hart asked you whether or not
9 this would have an impact on the revenue requirement in the
10 test year costs, and he asked you whether or not these lower
11 costs from PC Postage Mail, which you are undergoing right
12 now -- there's already lower cost you would say because of
13 your mail -- he asked you whether those lower costs are
14 already reflected in the Postal Service's costs for First
15 Class mail.

16 I believe you answered yes.

17 A Yes, but I misspoke.

18 It should have been no, the United States Postal
19 Service has not factored that in.

20 Q Has the Postal Service so testified in this case?

21 A That they have not factored it in?

22 Q Yes.

23 A I don't remember.

24 Q But then how do you know that they have not
25 factored them in?

1 A No, you asked did they testify today to that --

2 Q Not today. I mean -- no, no. No.

3 A From what we have seen of how they have
4 calculated, they have not factored that in.

5 Q If the Postal Service has not factored in savings
6 from PC Postage mail in their estimate of First Class costs
7 in the test year, does that mean that they have overstated
8 First Class costs?

9 A That would be correct.

10 MR. MAY: That's all, Mr. Chairman.

11 CHAIRMAN GLEIMAN: Is there any recross? Mr.
12 Hart.

13 MR. HART: Thank you.

14 RECROSS EXAMINATION

15 BY MR. HART:

16 Q Just a moment ago Mr. May asked you about the
17 potential for fraud with the PC Postage mail on the
18 underweight -- overweight, underpaid, and I believe he made
19 a comment -- I think you said yes, there could be fraud and
20 then he made the comment but the same could happen with
21 single piece mail. Someone might put on not enough postage.

22 But in this case you are asking for a discount on
23 the basis that you have less costs than single piece mail,
24 is that right?

25 A That is correct.

1 Q So you should avoid costs having to do with fraud,
2 whereas single piece mail does not?

3 A And let me take a further step of what the Postal
4 Service could do with this type of product. If someone was
5 using stamps and underposting their mail, they suspected
6 this, they would have to pull specific pieces of mail from
7 the mailstream from that mailer, prove that that person is
8 the mailer, and build a case on it.

9 In a situation of PC Postage, they could audit all
10 of the log file activity of that customer. They could
11 program their scanners to look for that specific customer
12 and every piece that that specific customer put through the
13 mail system could be tagged and checked, and they would be
14 able to build a case on something like that right away.

15 Q I think Mr. May also suggested you have not
16 testified that there is any need -- that there could not be
17 any fraud, but you did testify, didn't you, at page 8, line
18 16, of your testimony that inspections are not necessary
19 because the software has ensured compliance?

20 A Yes.

21 Q But it doesn't, does it?

22 A It does in certain regards.

23 Q But there is no assurance against fraud, is there?

24 A It depends on what type of fraud. If we are
25 talking the type of fraud where you are trying to get

1 postage into your security device without paying for it, to
2 the best of my knowledge that can happen.

3 Q Underpaid postage?

4 A Underpaid postage. Someone could do it by mistake
5 or by fraud, but there's also methods built in of how that
6 could be caught.

7 Q But it's not absolute, is it?

8 A I don't know that anything is.

9 Q One more question, if I may. I believe you
10 responded to a question that I had that the costs of IBI
11 mail were not in the Postal Service case.

12 In response to Mr. May's question you said you
13 were mistaken, that they -- I'm sorry. I'm getting
14 confused --

15 A I know -- it's confusing --

16 Q You told me that they were in the case and then
17 you told Mr. May you were mistaken, that they were not in
18 the case.

19 Again, my understanding is that there is nothing
20 in the case that specifically focuses on the cost of IBI
21 mail in isolation but wouldn't you agree that IBI mail is
22 part of First Class single piece mail and that it along with
23 other First Class single piece mail, the costs of that mail
24 are projected in the test year in this case by the Postal
25 Service?

1 A The cost of First Class mail? That makes sense,
2 yes.

3 Q Which includes, among other items, PC Postage mail
4 or IBI mail, correct?

5 A Yes.

6 MR. HART: That's all I have. Thank you.

7 CHAIRMAN GLEIMAN: Mr. May?

8 FURTHER REDIRECT EXAMINATION

9 BY MR. MAY:

10 Q You have just told Mr. Hart that the costs of IBI
11 and PC Postage mail would be included in those projections,
12 did you not?

13 A Yes.

14 Q Those costs would be what? -- would those costs
15 assume any cost savings from the cost avoidance of PC
16 Postage?

17 A No.

18 MR. MAY: That's all, Mr. Chairman.

19 CHAIRMAN GLEIMAN: Is there anything else?

20 [No response.]

21 CHAIRMAN GLEIMAN: If there is nothing else, Mr.
22 Jones, that completes your testimony here today.

23 We appreciate your appearance, your contributions
24 to the record. We thank you and you are excused.

25 [Witness excused.]

1 CHAIRMAN GLEIMAN: Mr. May, would you like to call
2 your next witness?

3 MR. MAY: Would Witness Roger Prescott please take
4 the stand.
5 Whereupon,

6 ROGER C. PRESCOTT,
7 a witness, having been called for examination, and, having
8 been first duly sworn, was examined and testified as
9 follows:

10 DIRECT EXAMINATION

11 BY MR. MAY:

12 Q You are Roger Prescott, and you are Executive Vice
13 President of the economic consulting firm of L. E. Peabody
14 and Associates?

15 A Yes, I am.

16 Q And I'm going to hand you two copies of a document
17 captioned the Direct Testimony of Roger Prescott on Behalf
18 of EStamp Corporation, EStamp-T-2, and ask if you will
19 examine this and see if this is the testimony you have
20 prepared.

21 [Pause.]

22 A Yes, this is my testimony.

23 Q If you were to testify today, would that be the
24 testimony you would present?

25 A Yes.

1 Q And you do adopt that as your testimony?

2 A Yes, I do.

3 MR. MAY: Mr. Chairman, I'm going to hand these to
4 the Reporter, and ask that they be transcribed into the
5 record and admitted into evidence.

6 CHAIRMAN GLEIMAN: Is there an objection?

7 [No response.]

8 CHAIRMAN GLEIMAN: Hearing none it is so ordered,
9 and the materials will also be transcribed.

10 [Written Direct Testimony of Roger
11 C. Prescott, EStamp-T-2, was
12 received into evidence and
13 transcribed into the record.]
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E-STAMP-T-2

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

RECEIVED
MAY 22 1 52 PM '00
POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

POSTAL RATE AND FEE CHANGES, 2000

Docket No. R2000-1

**DIRECT TESTIMONY
OF
ROGER C. PRESCOTT**

**On Behalf Of
E-STAMP CORPORATION**

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Due Date: May 22, 2000

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LIST OF EXHIBITS

<u>ITEM</u>	<u>TITLE</u>
(1)	(2)
Appendix A	Statement of Qualifications

E-STAMP-T-2

DIRECT TESTIMONY**OF****ROGER C. PRESCOTT**

My name is Roger C. Prescott. I am Executive Vice President of the economic consulting firm of L. E. Peabody & Associates, Inc. The firm's offices are located at 1501 Duke Street, Suite 200, Alexandria, Virginia 22314. I presented testimony before the Postal Rate Commission ("PRC") regarding Third Class Bulk Regular ("TCBRR") or Standard (A) commercial mail rates in Docket No. R90-1, Postal Rate and Fee Changes, 1990 ("R90-1"), Docket No. MC95-1, Mail Classification Schedule, 1995 Classification Reform I ("MC95-1") and Docket No. R97-1, Postal Rate and Fee Changes, 1997 ("R97-1"). I also presented testimony before the PRC regarding the impact of the proposed mail service in Docket No. MC98-1, Mailing Online Service ("MC98-1"). In addition, I have on numerous prior occasions presented evidence before the Surface Transportation Board (formerly the Interstate Commerce Commission) on economic ratemaking and cost finding principles. My qualifications and experience are described in Appendix A to this statement.

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I. PURPOSE OF TESTIMONY

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In this current proceeding, Docket No. R2000-1, Postal Rate and Fee Changes, 2000 ("R2000-1), the United States Postal Service ("USPS") has submitted proposed changes to the rates for First Class Mail. However, the rates proposed by the USPS do not consider the efficiencies and cost savings related to First Class Mail where the address, Facing Identification Mark ("FIM"), barcode and postage are printed using computerized data, i.e., Information Based Indicia("IBI").

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12

I have been requested by E-Stamp Corporation to review the USPS' direct testimony and underlying workpapers to determine the cost savings related to the users of E-Stamp's software that prints automation-compatible barcodes on First Class mail pieces. I have also been asked to determine the passthrough percentage of the cost savings realized by the USPS for IBI mail if E-Stamp's proposed discount of four (4) cents per piece is accepted.

13

The results of my analyses are summarized under the following topics:

14

II. Summary and Conclusions

15

III. Reasons for Discounts for IBI Mail

16

IV. IBI Cost Savings for First Class Mail

17

V. Passthrough Percentage for Proposed Discount

1

II. SUMMARY AND CONCLUSIONS

2

Based on my review and analysis of the USPS' proposed rates in this proceeding and the

3

underlying support for those proposed rates, I conclude the following:

4

1. IBI mail offers the USPS a new, low cost First Class mail product;

5

2. When compared to non-automation-compatible mail, automation-compatible IBI letter mail decreases the USPS' costs between 5.0 cents per piece and 6.2 cents per piece;

6

7

8

3. Automation-compatible IBI flat mail decreases mail processing costs by 5.1 cents per piece; and,

9

10

4. E-Stamp has proposed a 4.0 cent per piece discount for qualifying IBI letter mail. This proposed discount reflects a passthrough of the USPS' cost savings ranging between 65 percent and 80 percent.

11

12

III. REASONS FOR DISCOUNTS FOR IBI MAIL

In the past, the PRC has acknowledged that discounts should be given to recognize the cost savings attributable to the mailer's preparation of automation-compatible mail. For example, in R97-1 the PRC recognized that the USPS' "development of First Class worksharing proposals is influenced by its interest in promoting automation."^{1/}

The development of IBI mail, such as presented by E-Stamp, is new and not included in the costs that are developed as part of the USPS' Test Year After Rates ("TYAR") analysis. USPS' Witness Fronk stated that the TYAR costs and volumes "do not make any assumption about mail pieces using IBI indicia" (E-Stamp/ USPS-T33-2). Thus, the cost savings to the USPS for mail prepared by the purchaser of E-Stamp's software are savings not in the current USPS analysis of rates and costs for this proceeding. The passthrough of all of the cost savings for IBI mail as a discount would not reduce this mail's contribution to the USPS' institutional costs. Further, E-Stamp's proposal to passthrough only a portion of these savings as a discount will increase the proposed rates' contribution to institutional costs for automation-compatible IBI mail.

Envelopes using the E-Stamp process of addressing mail include:

1. The postage based on IBI;
2. The Facing Identification Mark ("FIM");
3. Current address of the mail recipient; and,
4. 9-digit barcode.

^{1/} PRC's R97-1 decision dated May 11, 1998, page 291.

-5-

E-STAMP-T-2

1 The E-Stamp addressed envelop presents a First Class mail piece that already reflects a
2 great deal of mail preparation and is automation-compatible. Thus, the type of cost savings as
3 developed by the USPS' Witnesses Michael W. Miller^{2/} and David G. Yacobucci^{3/} are relevant to
4 the cost savings inherent in the E-Stamp addressed envelope.

^{2/} USPS-T-24.

^{3/} USPS-T-25.

1 **IV. IBI COST SAVINGS FOR FIRST CLASS MAIL**

2 The USPS has not "prepare[d] a cost study that would indicate what the cost savings
3 associated with this mail [IBI] might be..."^{4/}. The USPS' Witness Fronk admitted that the cost
4 data and underlying volume data presented by the USPS in this proceeding "do not make any
5 assumption about mail pieces using IBI indicia"^{5/}. However, because the USPS has developed
6 analyses of other First Class Mail to determine the cost savings related to automation-compatible
7 mail, these studies can be used as a surrogate for the cost savings related to IBI mail. The USPS
8 has developed the automation-related cost savings for First Class letters in Library Reference LR-
9 I-81 ("LR-I-81") and in the testimony of USPS' Witness Miller. The cost savings for First Class
10 flats are developed in the testimony of USPS' Witness Yacobucci. My analysis of the cost savings
11 related to IBI mail is addressed under the following topics:

- 12 A. Cost Savings for Letters from LR-I-81
13 B. Cost Savings for Letters from Witness Miller
14 C. Cost Savings for Flats

15 A. **COST SAVINGS FOR**
16 **LETTERS FROM LR-I-81**

17 The USPS' LR-I-81 developed the mail processing costs related to First Class letters. This
18 Library Reference calculated the cost differences for letters related to metered mail and Bulk
19 Metered Mail ("BMM"). For automation-compatible mail, LR-I-81 calculated the mail processing

^{4/} Stamps.com/USPS-T-33-2.

^{5/} E-Stamp/USPS-T-33-2.

-7-

E-STAMP-T-2

1 costs for presorted letters. Because E-Stamp's IBI mail will be single piece, the savings related
2 to presortation are not applicable.^{6/} The determination of the automation-related cost savings
3 applicable to IBI letter mail was calculated in two (2) steps. First, I compared the mail processing
4 costs developed in LR-I-81 for presorted automation BMM with the costs for presorted non-
5 automation BMM. Next, because the BMM in LR-I-81 is subject to the economies due to
6 presortation, I excluded any cost differential related to the presortation by deducting the difference
7 in the mail processing costs between the presorted non-automated BMM and the single piece (non-
8 presorted) BMM. My analysis is summarized in Table 1 below.

^{6/} To qualify for presortation discounts under the USPS' proposal, the mailer must have 500 pieces of presorted mail.

Table 1 Summary of Automation Cost Savings for Letters Based on LR-I-81		
Item (1)	Source (2)	Cost Per Piece (cents) (3)
<u>Presorted BMM</u>		
1. Non-automated	1/	10.34
2. Automated	1/	4.06
3. Cost Savings for Presorted Automation BMM	Line 1 - Line 2	6.28
<u>Cost Savings For Presortation</u>		
4. Single Piece BMM	1/	10.47
5. Presorted Non-Automation BMM	1/	10.34
6. Cost Difference Related to Presortation	Line 4 - Line 5	0.13
<u>Cost Savings For Single Piece Automation</u>		
7. Cost Savings for Automation	Line 3 - Line 6	6.15
1/ LR-I-81, sheet "TY letters (4)", page 4 of 4.		

As shown in Table 1 above, the cost savings related to automation-compatible BMM equals 6.28 cents (Table 1, Line 3). The cost differential related to the presortation element of BMM equal 0.13 cents per piece (Table 1, Line 6). The net cost savings for an automation-compatible First Class single piece equal 6.15 cents per piece (Table 1, Line 7).

**B. COST SAVINGS FOR LETTERS
FROM WITNESS MILLER**

As an alternative, I have reviewed the differences in mail processing and delivery costs for First Class letters as developed by Witness Miller. In Table 1 of Witness Miller's testimony he

1 identifies the worksharing related cost differentials between non-automation metered letters and
 2 automation BMM letters. Witness Miller's worksharing-related cost savings reflect "operations
 3 that are directly affected by the presorting and/or prebarcoding activities performed by mailers...."
 4 and "...other activities that are also affected by worksharing"^{1/}. However, like LR-I-81, Witness
 5 Miller's analysis must be adjusted to eliminate the cost savings related to single piece versus
 6 BMM. Table 2 below develops an alternative cost savings for automation-compatible letters using
 7 Witness Miller's calculation of worksharing related costs:

8
 9

Table 2
Automation Cost Savings for Letters Based on Witness Miller

	Item (1)	Source (2)	Cost Per Piece (cents) (3)
10	1. Worksharing Related Costs Related to:		
11			
12	a. Non-automation Presort Letters	Miller, App. I-1	13.718
13	b. Automation Basic Presort Letters	Miller, App. I-1	<u>8.603</u>
14	c. Cost Savings Due to Automation of Presort Letters	Line 1 - Line 2	5.115
15		^{1/}	
16	2. Cost Difference Related to Presortation		<u>0.091</u>
17	3. Worksharing Related Cost Savings Related to Automation	Line 1c - Line 2	5.024
18	^{1/} Miller, App. I-1, nonpresorted BMM of 13.809 cents less nonautomation presort BMM of 13.718		
19	cents.		
20			

21 Based on Witness Miller's analysis, adjusted to reflect the cost differences related to
 22 presortation, the worksharing-related cost savings equal 5.024 cents per piece (Table 2, Line 3).

^{1/} USPS-T-24, page 4.

1 **C. COST SAVINGS FOR FLATS**

2 The USPS' Witness Yacobucci develops the volume variable mail processing costs of First-
 3 Class flat shaped mail. Witness Yacobucci's analysis in Table II-1 of his testimony summarizes
 4 the "cost averages-normalized auto-related savings" which reflect the "weighted average mail
 5 processing costs that isolate barcode-related savings." ^{8/} He states that:

6 "This approach recognizes the expected barcode-related cost
 7 savings from barcoded flats and the potential barcode-related cost
 8 savings from nonbarcoded flats. The differences of the cost
 9 averages, therefore, include cost-based signals of the costs avoided
 10 by barcoded flats due to their barcodes and the costs that would be
 11 avoided by nonbarcoded flats if they had barcodes."^{9/}

12 His analysis is summarized in Table 3 below:

13
14
15
16

Table 3 Mail Processing Cost Savings for Automated Flats Developed by Witness Yacobucci		
Item	Source	Cost Per Piece (cents)
(1)	(2)	(3)
1. Basic Non-automation Flats	^{1/}	55.041
2. Basic Automation Flats	^{1/}	49.940
3. Cost Savings	Line 1 - Line 2	5.101
^{1/} USPS-T-25, Table II-1.		

17
18
19
20
21
22
23

^{8/} USPS-T-25, page 2.

^{9/} USPS-T-25, page 28.

-11-

E-STAMP-T-2

- 1 Based on Witness Yacobucci's analysis the mail processing cost savings for automation
- 2 (barcoding) of a flat is 5.101 cents per piece.

V. PASSTHROUGH PERCENTAGE FOR PROPOSED DISCOUNT

The accompanying testimony of E-Stamp's Witness Michael Jones (E-Stamp-T-1) proposes a discount for IBI First Class letters of four (4) cents per piece. This discount is only applicable to letter size mail with the address and postage printed directly on the envelope. Based on the cost savings developed in Table 1 and Table 2 above, I have calculated the passthrough percentage for a 4 cent per piece discount.

Table 4
Summary of Passthrough Percentage
for Proposed IBI Discount-Letters

Item (1)	Amount Per Piece (cents)		Passthrough Percentage ^{3/} (4)
	Cost Savings ^{1/} (2)	Proposed Discount ^{2/} (3)	
1. Based on LR-I-81	6.2	4.0	65%
2. Based on Witness Miller	5.0	4.0	80%

^{1/} Line 1 = Table 1, Line 7; Line 2 = Table 2, Line 5.
^{2/} E-Stamp Witness Jones.
^{3/} Column (3) divided by Column (2).

Based on the cost savings for IBI letter mail, a discount of 4 cents per piece would reflect a passthrough percentage ranging from 65 percent to 80 percent.

Appendix A

Page 1 of 3

STATEMENT OF QUALIFICATIONS

My name is Roger C. Prescott, I am Executive Vice President and an economist with the economic consulting firm of L. E. Peabody & Associates, Inc. The firm's offices are located at 1501 Duke Street, Suite 200, Alexandria, Virginia 22314.

I am a graduate of the University of Maine from which I obtained a Bachelor's degree in Economics. Since June 1978 I have been employed by L. E. Peabody & Associates, Inc.

I have previously participated in various Postal Rate Commission ("PRC") proceedings. In Docket No. R90-1, Postal Rate And Fee Changes, 1990, I developed and presented evidence to the PRC which critiqued and restated the direct testimony of the United States Postal Service ("USPS") as it related to the development of the proposed rate structure on behalf of third class business mailers. I submitted rebuttal testimony in PRC Docket No. MC95-1, Mail Classification Schedule, 1995 Classification Reform I, regarding recommendations of intervenors in response to the USPS' proposed reclassification of Third Class Bulk Rate Regular ("TCBRR") rate structure. I also submitted rebuttal testimony in Docket No. 97-1, Postal Rate and Fee Changes, 1997 regarding the development of rates for Standard (A) mail. In Docket No. MC98-1, Mailing Online Service, I submitted testimony regarding the USPS' proposed service and the impact of that service on competition.

The firm of L. E. Peabody & Associates, Inc., specializes in solving economic, marketing and transportation problems. As an economic consultant, I have participated in the direction and organization of economic studies and prepared reports for railroads, shippers, for shipper

Appendix A
Page 2 of 3

associations and for state governments and other public bodies dealing with transportation and related economic problems. Examples of studies which I have participated in organizing and directing include traffic, operational and cost analyses in connection with the transcontinental movement of major commodity groups. I have also been involved with analyzing multiple car movements, unit train operations, divisions of through rail rates and switching operations throughout the United States. The nature of these studies enabled me to become familiar with the operating and accounting procedures utilized by railroads in the normal course of business.

In the course of my work, I have become familiar with the various formulas employed by the the Surface Transportation Board ("STB"), which was formerly known as Interstate Commerce Commission ("ICC"), in the development of variable costs for common carriers with particular emphasis on the basis and use of Rail Form A and its successor, the Uniform Railroad Costing System ("URCS"). In addition, I have participated in the development and analysis of costs for various short-line railroads.

Over the course of the past twenty-two (22) years, I have participated in the development of cost of service analyses for the movement of coal over the major eastern, southern and western coal-hauling railroads. I have conducted on-site studies of switching, detention and line-haul activities relating to the handling of coal. I developed the carrier's variable cost of handling various commodities, including coal, in numerous proceedings before the ICC/STB. As part of the variable cost evidence I have developed and presented to the ICC/STB, I have calculated line specific maintenance of way costs based on the Speed Factored Gross Ton ("SFGT") formula.

Appendix A

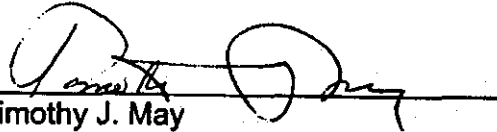
Page 3 of 3

I have developed and presented evidence to the ICC/STB related to maximum rates, and "Long-Cannon" factors in several proceedings. I have also submitted evidence on numerous occasions in Ex Parte No. 290 (Sub-No. 2), Railroad Cost Recovery Procedures related to the proper determination of the Rail Cost Adjustment Factor.

In the two recent Western rail mergers, Finance Docket No. 32549, Burlington Northern, et al. -- Control and Merger -- Santa Fe Pacific Corporation, et al. and Finance Docket No. 32760, Union Pacific Corporation, et al. -- Control and Merger -- Southern Pacific Rail Corporation et al., I reviewed the railroads' applications including their supporting traffic, cost and operating data and provided detailed evidence supporting requests for conditions designed to maintain the competitive rail environment that existed before the proposed mergers.

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 CHAIRMAN GLEIMAN: Mr. Prescott, 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.

6 CHAIRMAN GLEIMAN: Those are the questions that
7 you had answered in writing earlier on.

8 THE WITNESS: Yes, I have.

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

12 THE WITNESS: Yes, they would.

13 CHAIRMAN GLEIMAN: No additions or corrections?

14 THE WITNESS: No, sir.

15 CHAIRMAN GLEIMAN: That being the case, counsel,
16 if I could impose on you to provide two copies to the Court
17 Reporter, I'll direct that the materials in question be
18 transcribed into the record and entered into evidence.

19 [Designated Written Cross
20 Examination of Roger C. Prescott
21 was 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 E-STAMP CORPORATION
WITNESS ROGER C. PRESCOTT
(E-STAMP-T-2)

Party

American Bankers Association and
National Association of Presort
Mailers


United States Postal Service

Interrogatories

ABA&NAPM/E-Stamp-T2-1-10, 12

ABA&NAPM/E-Stamp-T2-2-6, 8-10, 12
USPS/E-Stamp-T2-1-4

Respectfully submitted,



Margaret P. Crenshaw
Secretary

INTERROGATORY RESPONSES OF
E-STAMP CORPORATION
WITNESS ROGER C. PRESCOTT (T-2)
DESIGNATED AS WRITTEN CROSS-EXAMINATION

<u>Interrogatory</u>	<u>Designating Parties</u>
ABA&NAPM/E-Stamp-T2-1	ABA&NAPM
ABA&NAPM/E-Stamp-T2-2	ABA&NAPM, USPS
ABA&NAPM/E-Stamp-T2-3	ABA&NAPM, USPS
ABA&NAPM/E-Stamp-T2-4	ABA&NAPM, USPS
ABA&NAPM/E-Stamp-T2-5	ABA&NAPM, USPS
ABA&NAPM/E-Stamp-T2-6	ABA&NAPM, USPS
ABA&NAPM/E-Stamp-T2-7	ABA&NAPM
ABA&NAPM/E-Stamp-T2-8	ABA&NAPM, USPS
ABA&NAPM/E-Stamp-T2-9	ABA&NAPM, USPS
ABA&NAPM/E-Stamp-T2-10	ABA&NAPM, USPS
ABA&NAPM/E-Stamp-T2-12	ABA&NAPM, USPS
USPS/E-Stamp-T2-1	USPS
USPS/E-Stamp-T2-2	USPS
USPS/E-Stamp-T2-3	USPS
USPS/E-Stamp-T2-4	USPS

**RESPONSE OF E-STAMP WITNESS PRESCOTT TO INTERROGATORIES OF
AMERICAN BANKERS ASSOCIATION AND NATIONAL ASSOCIATION OF
PRESORT MAILERS**

ABA&NAPM/E-STAMP-T2-1

Please refer to Tables 1 and 2 of your testimony wherein you calculate cost savings for IBI First Class Letter Mail ("FCLM").

- a. Please confirm that your calculation of cost savings in your Table 1 assumes that IBI FCLM has all of the cost savings of presort automated FCLM, except for the basic presortation feature. If you cannot confirm, please explain why not.
- b. Please confirm that your calculation of cost savings in your Table 2 assumes that IBI FCLM has all of the cost savings of automated basic FCLM, except for the basic presortation feature. If you cannot confirm, please explain why not.

RESPONSE:

a.- b. If the term "basic presortation feature" in the question means "removal of the difference in cost attributable to presortation", then the statement is confirmed.

**RESPONSE OF E-STAMP WITNESS PRESCOTT TO INTERROGATORIES OF
AMERICAN BANKERS ASSOCIATION AND NATIONAL ASSOCIATION OF
PRESORT MAILERS**

ABA&NAPM/E-STAMP-T2-2

Please confirm that IBI FCLM is delivered to the USPS collection system as single piece mail, and that non-automated presort FCLM is delivered to the USPS as bulk mail. If you cannot confirm, please explain why not.

RESPONSE:

Not confirmed. Some of the IBI FCLM may have sufficient volume to be delivered to the USPS in trays.

**RESPONSE OF E-STAMP WITNESS PRESCOTT TO INTERROGATORIES OF
AMERICAN BANKERS ASSOCIATION AND NATIONAL ASSOCIATION OF
PRESORT MAILERS**

ABA&NAPM/E-STAMP-T2-3

Please confirm that the USPS will have to perform sorting functions to separate the IBI FCLM which it receives, from non-automated mail. If you cannot confirm, please explain why not.

RESPONSE:

Not confirmed. The first sort of incoming mail will identify and sort the IBI FCLM. No multiple sorts will be required to get IBI FCLM into the automated mail stream.

**RESPONSE OF E-STAMP WITNESS PRESCOTT TO INTERROGATORIES OF
AMERICAN BANKERS ASSOCIATION AND NATIONAL ASSOCIATION OF
PRESORT MAILERS**

ABA&NAPM/E-STAMP-T2-4

Please confirm that in your calculation of cost savings for IBI FCLM, you have assumed the following (and in each instance if you cannot so confirm, explain why not):

- a. That the indicia on IBI FCLM will be legible.
- b. That all IBI FCLM will have been produced from authorized software and will entail no fraud or other unauthorized use of the indicia.
- c. That the USPS will not inspect IBI FCLM to assure that the envelopes are sealed.
- d. That the USPS will not inspect IBI FCLM to assure that it has not been short paid, and that it has been honestly and accurately weighed.
- e. That the USPS will not inspect IBI FCLM to assure that it is the proper size, shape and dimensions, even if the IBI FCLM has been placed on such mail by means of a label.

RESPONSE:

a.- d. Not confirmed. I make the assumption that these events will occur at the same rate as occurring with other automated mail presented by USPS's witness Miller and LR-I-81.

e. Not confirmed. Mail with labels will not be eligible for the discount I have proposed. As stated at page 12 of my testimony, only letter envelopes with the IBI and address printed directly on the envelopes will be eligible for the discount.

**RESPONSE OF E-STAMP WITNESS PRESCOTT TO INTERROGATORIES OF
AMERICAN BANKERS ASSOCIATION AND NATIONAL ASSOCIATION OF
PRESORT MAILERS**

ABA&NAPM/E-STAMP-T2-5

Please confirm that IBI FCLM is not delivered to the postal service in banded and sleeved trays.

RESPONSE:

Not confirmed. Some of the IBI FCLM may have sufficient volume to be delivered to the USPS in banded and sleeved trays.

**RESPONSE OF E-STAMP WITNESS PRESCOTT TO INTERROGATORIES OF
AMERICAN BANKERS ASSOCIATION AND NATIONAL ASSOCIATION OF
PRESORT MAILERS**

ABA&NAPM/E-STAMP-T2-6

Please confirm that your calculation of cost savings of IBI FCLM in your Tables 1 and 2 assumes that the value of the average degree of presortation of all presorted automated FCLM (in the case of your Table 1) and of automated basic presorted FCLM (in the case of your Table 2) is identical to the value of the presortation provided with presort non-automated FCLM. If you cannot confirm this fact, please explain why not.

RESPONSE:

Not confirmed. The terms "value of the average degree of presortation" and "value of the presortation" are unclear. The degree of presortation in the unit costs is inherent in each of the sources cited in my tables.

**RESPONSE OF E-STAMP WITNESS PRESCOTT TO INTERROGATORIES OF
AMERICAN BANKERS ASSOCIATION AND NATIONAL ASSOCIATION OF
PRESORT MAILERS**

ABA&NAPM/E-STAMP-T2-7

Assume that the USPS can receive FCLM in three possible forms: 1) barcoded but not presorted, 2) presorted but not barcoded, or 3) presorted and barcoded. If the USPS recognizes savings of one unit where it receives Category 1 mail (barcoded but not presorted), and savings of one unit where it receives Category 2 mail (presorted but not barcoded), is it not possible that the USPS would recognize savings of more than two units where it receives Category 3 mail (presorted and barcoded) due to the efficiencies in the sortation schemes which can be utilized by the USPS when it receives such Category 3 mail? Did you consider this possibility in your cost savings measurements in your Tables 1 and 2?

RESPONSE:

It is possible to have positive interaction between automation and presorting giving a greater cost savings for the two together than the sum of the individual cost savings. It is also possible to have negative interaction where some of the individual cost savings are lost when the mail is both presorted and automation compatible. Data was not available to consider either of these cases.

**RESPONSE OF E-STAMP WITNESS PRESCOTT TO INTERROGATORIES OF
AMERICAN BANKERS ASSOCIATION AND NATIONAL ASSOCIATION OF
PRESORT MAILERS**

ABA&NAPM/E-STAMP-T2-8

Please confirm that nowhere in LR-I-81 or in USPS witness Miller's testimony is there a cost category for the following classifications used in your testimony:

- a. "presorted automation BMM", p. 7 and p. 8, Table 1
- b. "presorted non-automation BMM", p. 7 and p. 8, Table 1
- c. "presorted BMM", p. 8, Table 1

RESPONSE:

Confirmed. LR-I-81, which pages 7-8 and Table 1 rely upon, refers to "presort automation letters" and "presort non-automated letters."

**RESPONSE OF E-STAMP WITNESS PRESCOTT TO INTERROGATORIES OF
AMERICAN BANKERS ASSOCIATION AND NATIONAL ASSOCIATION OF
PRESORT MAILERS**

ABA&NAPM/E-STAMP-T2-9

Please confirm that in Table 1, the calculated "cost savings for presorted automation" in line 3 is based on subtracting a 3 rate category aggregate (automation presort) from a single rate category aggregate (non-automation presort).

RESPONSE:

Confirmed.

**RESPONSE OF E-STAMP WITNESS PRESCOTT TO INTERROGATORIES OF
AMERICAN BANKERS ASSOCIATION AND NATIONAL ASSOCIATION OF
PRESORT MAILERS**

ABA&NAPM/E-STAMP-T2-10

- a. Please confirm that the 3 rate category aggregate you use in Table 1 includes letters subject to 3 digit presortation and 5 digit presortation, for which USPS witness Miller estimated cost avoidance due to presortation of 0.986 cents and 1.239 cents, respectively.
- b. Please confirm in light of your answer to a. that cost savings you measure in line 3 of Table 1 do not measure the cost avoidance associated with automation alone, but include substantial savings for 3 digit and 5 digit presortation.
- c. Please confirm that the cost savings you measure in line 7 of Table 1 do not measure the cost avoidance associated with automation alone, but include substantial savings for 3 digit and 5 digit presortation.

RESPONSE:

a. Not confirmed. USPS witness Miller's revision dated March 31, 2000 shows 3 digit presortation savings of 1.013 cents per piece and 5 digit savings of 1.284 cents per piece.

b.- c. Table 1 of my testimony is based on accounting data from LR-I-81 and Table 2 of my testimony is based on witness Miller's modelling approach presented in his Appendix I. I would not use Miller's intermediate results to make adjustments to LR-I-81 as suggested by the premise of this interrogatory. However, as shown by witness Miller's analysis of non-automated First-Class letters in Appendix I-38 and the Domestic Mail Manual (sections E130.3.1d and M130) there is mail in the non-automated category that is delivered to the USPS prepared at the 5-digit and 3-digit sort categories. The difference in my two approaches can be summarized by comparing the net savings for automation from Table 1, line 7 (6.15 cents per piece) with Table 2, line 3 (5.024 cents per piece).

**RESPONSE OF E-STAMP WITNESS PRESCOTT TO INTERROGATORIES OF
AMERICAN BANKERS ASSOCIATION AND NATIONAL ASSOCIATION OF
PRESORT MAILERS**

ABA&NAPM/E-STAMP-T2-12

On page 9 of your testimony you state that "witness Miller's analysis must be adjusted to eliminate the cost savings related to single piece versus BMM."

- a. Please confirm that nowhere in your testimony, including Table 2, do you make such an adjustment to calculate the cost savings associated with a single piece automation letter.
- b. Please confirm that all the worksharing cost categories you use in Table 2 are for bulk entered mail, and not single piece entered mail.

RESPONSE:

a. Not confirmed. The cost savings associated with single piece automation letters are developed on pages 6 to 9 of my testimony.

b. Not confirmed. Line 1 of Table 2 reflects bulk entered mail. The savings for single piece automation mail are shown on Line 3 of Table 2.

**RESPONSE OF E-STAMP CORPORATION WITNESS PRESCOTT TO
INTERROGATORIES OF UNITED STATES POSTAL SERVICE**

USPS/E-STAMP-T2-1

On page 4 line 19 of your testimony you state that E-Stamp envelopes include 9-digit barcodes. Please confirm that these envelopes actually contain 11-digit Delivery Point Barcodes. If not confirmed, please explain.

RESPONSE:

Confirmed.

USPS/E-STAMP-T2-2

There appears to be a problem in your testimony concerning the use of the term "BMM". Please confirm the following. If not confirmed, please explain the usage of each specified phrase.

- a. On page 7 line 4 the phrase "presorted automation BMM" should be changed to "presorted automation letters."
- b. On page 7 lines 4-5 the phrase "presorted non-automation BMM" should be changed to "presorted non-automation letters."
- c. On page 7 line 5 the phrase "BMM in LR-I-81 is" should be changed to "presort letters in LR-I-81 are."
- d. On page 7 line 7 the phrase "presorted non-automated BMM" should be changed to "presorted non-automated letters."
- e. In Table 1, the phrase "Presorted BMM" should be changed to "Presorted Letters."
- f. In Table 1, the phrase "3. Cost Savings for Presorted Automation BMM" should be changed to "3. Cost Savings for Presorted Automation Letters."

**RESPONSE OF E-STAMP CORPORATION WITNESS PRESCOTT TO
INTERROGATORIES OF UNITED STATES POSTAL SERVICE**

- g. In Table 1, the phrase "5. Presorted Non-Automation BMM" should be changed to "5. Presorted Non-Automation Letters."
- h. On page 8 line 17 the phrase "automation-compatible BMM" should be changed to "automation-compatible presort letters."
- i. On page 8 line 18 the phrase "presortation element of BMM equal" should be changed to "presortation element equals."
- j. On page 9 lines 1-2 the phrase "between non-automation metered letters and automation BMM letters" should be changed to "between BMM letters and non-automation and automation presort letters."
- k. In Table 2 footnote 1 the phrase "nonautomation presort BMM" should be changed to "nonautomation presort letters."

RESPONSE:

a-k. Not confirmed. In all instances in my testimony the phrase Bulk Metered Mail ("BMM" refers to letters; therefore, no further delination is required in the text.

USPS/E-STAMP-T2-3

In Table 1 of your testimony, you calculate a "Cost Difference Related to Presortation" of 0.13 cents by comparing a BMM letter to a non-automation presort letter.

- a. Please confirm that in his response to E-STAMP/USPS-T24-1a (Tr. 7/3086-87), witness Miller explained why the cost difference between Bulk Metered Mail Letters and nonautomation presort letters is not completely attributable to the fact that the latter mail pieces are presorted. If not confirmed, please explain.
- b. Given witness Miller's comments, please explain why you feel this cost difference is fully attributable to presortation.

**RESPONSE OF E-STAMP CORPORATION WITNESS PRESCOTT TO
INTERROGATORIES OF UNITED STATES POSTAL SERVICE**

RESPONSE:

- a. Not Confirmed. Witness Miller stated that "there may, however, be other cost causing characteristics...that affect the work sharing related savings results to some extent." (Tr. 7/3087) (emphasis added)
2. My analysis utilizes the total cost difference between a single piece BMM and pre-sorted non-automation BMM because, absent the quantification of any specific factors related to presortation, the values presented in Library Reference LR-I-81 are the best surrogate for the cost difference related to presortation.

USPS/E-STAMP-T2-4

In Table 1 of your testimony you calculate a "Cost Savings for Presorted Automation" of 6.28 cents by comparing a nonautomation presort letter piece to an average automation non-carrier route presort letter.

- a. Please confirm that nonautomation presort letters can weigh up to 13 ounces while automation non-carrier route presort letters are limited to 3.3103 ounces. If not confirmed, please explain.
- b. Please confirm that the average automation non-carrier route presort letter mail processing unit costs upon which you rely in Table 1 (4.06 cents) include the costs for automation basic presort letters, automation 3-digit presort letters, and automation 5-digit presort letters. If not confirmed, please explain.
- c. Given that these two mail types exhibit different mail piece characteristics and include varying levels of presortation, how does your calculation isolate the savings due to presortation?
- d. Does this calculation attempt to isolate the savings associated with a specific presort level? If so, to which presort level are you referring?
- e. Please confirm that PC postage users will not be presorting mail pieces. If not confirmed, please explain.

**RESPONSE OF E-STAMP CORPORATION WITNESS PRESCOTT TO
INTERROGATORIES OF UNITED STATES POSTAL SERVICE**

- f. Given that PC postage users will not be presorting mail pieces to which they apply postage using E-Stamp products, please justify the total cost savings of 6.15 cents in Table 1 that is so heavily dependent upon cost differences associated with mail piece presortation.

RESPONSE:

1. Confirmed.
2. Confirmed.
3. See my response to USPS/E-Stamp-T2-3b.
4. No.
5. Confirmed.
6. The purpose of my analysis was to determine the cost savings related to the presortation of automation compatible mail. Based on the data available, it was necessary to eliminate the cost difference related to presortation.

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

3 [No response.]

4 CHAIRMAN GLEIMAN: There doesn't appear to be any.
5 That being the case, that brings us to oral cross
6 examination.

7 The same two parties have requested oral cross
8 examination of this witness, American Bankers Association,
9 National Association of Presort Mailers, and the Postal
10 Service.

11 Is there any other party that wishes to cross
12 examine?

13 [No response.]

14 CHAIRMAN GLEIMAN: If not, Mr. Hart, you may
15 proceed when you're ready.

16 MR. HART: Thank you, Mr. Chairman.

17 CROSS EXAMINATION

18 BY MR. HART:

19 Q Good morning, Mr. Prescott.

20 A Good morning.

21 Q I'd ask you to turn to your response to
22 Interrogatory ABA/NAPM/ESTamp-T2-2, and just let me know
23 when you have that in front of you, please?

24 A Yes, I have that.

25 Q Okay. In that question, we asked you to confirm

1 that IBI First Class letter mail is delivered to the USPS
2 collection system as single-piece mail.

3 And your response was not confirmed; some IBI FCLM
4 may have sufficient volume to be delivered to the USPS in
5 trays. Was that your response?

6 A Yes.

7 Q Did you confer with EStamp Witness Jones in
8 preparing your testimony and responding to these
9 interrogatories?

10 A Not directly.

11 Q Are you aware of the fact that in response to
12 ABA/NAPM Number 1 to Mr. Jones, he confirmed the fact that
13 IBI First Class letter mail is delivered to the USPS
14 collection system as single-piece mail and not presented in
15 trays, bundles, sleeves, and his answer is confirmed?

16 A I'm not aware of that. But in my opinion, that's
17 not an absolute. It could be presented as something other
18 than single-piece, and I interpreted the question put to me
19 as an absolute.

20 Q Do you have any evidence whatsoever to believe
21 that there is an appreciable amount of IBI mail delivered in
22 trays to the USPS?

23 A I have not studied that.

24 Q Why don't you just confirm the question in Number
25 2, which is that IBI FCLM is delivered to the USPS

1 collection system as single-piece mail?

2 A Because I don't know that in all cases it will be.

3 Q But you have no evidence to suggest or support the
4 fact that it might be delivered in trays?

5 A I have not studied that.

6 Q In your calculation of cost savings for IBI First
7 Class Letter Mail, in your Table 1 and in your Table 2, has
8 that calculation been based on the assumption that such mail
9 will be delivered to the USPS in bulk?

10 A No, it is not.

11 Q Could you please turn to your response to
12 ABA/NAPM/ESTamp-T2-12?

13 [Pause.]

14 A I have that.

15 Q Okay, in particular, in response to (a) of 12, you
16 state that the cost savings associated with -- and you use
17 the terms, single-piece automation letters -- are developed
18 on pages 6 to 9 of my testimony; is that right?

19 A Yes.

20 Q Single-piece automation letters. You don't use
21 the word, bulk, do you?

22 A No.

23 Q You say single-piece automation letters.

24 At page 8 of your testimony, you set forth your
25 Table 1, which is part of the pages 6 to 9 of your

1 testimony, correct?

2 A Yes.

3 Q And Table 1 is based upon USPS Library Reference
4 I-81?

5 A That's correct.

6 Q I'd like to show you an excerpt from that Library
7 Reference and ask you if you recognize it, fine; if you
8 don't, ask you to accept it, subject to check afterwards.

9 And it's not complicated. I think it's pretty
10 simple, and I think you'll recognize it.

11 [Pause.]

12 That's page 1 of 4 from USPS Library Reference
13 I-81, and the title of the page is Test Year Letter Mail
14 Processing Unit Costs by Shape.

15 Do you recognize that page and those cost
16 descriptions?

17 A Yes.

18 Q Okay. I'd like you to put that in front of you
19 and then go to your Table 1, if you would, at page 8 of your
20 testimony.

21 [Pause.]

22 A Yes?

23 Q Is it correct that at lines 4 and 5 of Table 1,
24 you try to account for the fact that IBI mail is not
25 presorted, and so you compare -- in order to arrive at the

1 value of presortation, which you then subtract from your
2 cost savings -- you compare presorted non-automated letters
3 in line 5 to single-piece BMM in line 4, right?

4 A Yes.

5 Q And single-piece BMM, if you go over -- you get a
6 cost of 10.47. Now if you go to this Library Reference
7 excerpt, do you see at the top line there, the unit cost of
8 10.47?

9 A Yes.

10 Q And would you read what that is for?

11 A Single-piece bulk entered metered letters.

12 Q Son of a gun, we've got that word bulk that's in
13 there; isn't it?

14 Would you look one line below that, and you see a
15 higher unit cost of 10.77. And what is that for, if you
16 would read that on the left?

17 A Single-piece metered letters.

18 Q Ah, no bulk. So, now, if we go to your response
19 to Number 12 -- I know we're flipping around a lot of
20 documents, and I'm sorry, but bear with me and take your
21 time.

22 Number 12 to ABA and NAPM/ESTamp-T2-12, and you've
23 stated that the cost savings associated with single-piece
24 automation letters are developed on pages 6 to 9 of my
25 testimony, correct?

1 A Yes.

2 Q But really shouldn't you have said single-piece
3 metered letters, not single-piece bulk entered metered
4 letters?

5 A No, because what I'm taking out on line 6 is those
6 costs that are related to presortation, so you have to have
7 an apples-to-apples comparison.

8 Q But what you are comparing, you're saying, okay,
9 let's figure out how much is the value of this sortation
10 that we don't have, that IBI doesn't have, because everyone
11 agrees it's not presorted.

12 So, let's compare a presorted piece,
13 non-automated, to a non-presorted piece, right?

14 But you didn't take single-piece metered mail,
15 which is non-presorted; you took single-piece bulk metered
16 mail.

17 A That's right, to have apples and apples.

18 Q But single-piece bulk metered mail is not
19 presorted; is it?

20 A No, it is not. That the characteristic that is
21 different. Between lines 4 and 5 of my testimony, the
22 difference in the mail characteristics is the presortation.

23 Q Right. Couldn't you say the same thing if you
24 were to compare presorted, non-automated letters to the more
25 costly single-piece metered letters?

1 A You'd be accounting for more than one factor then.

2 Q What else would you be accounting for?

3 A You'd be accounting for whatever costs are related
4 to the fact that it was entered in bulk.

5 Q No. If you compare it to the -- well, let me ask
6 the question again:

7 If you compare -- if you're looking for the value
8 of presortation, and the reason why you're doing this is
9 you're trying to compare -- you're trying to get cost
10 avoidance for IBI mail.

11 And the first step you take in lines 1 through 3
12 is to compare non-automated presort to all automated
13 letters.

14 You get that difference, and you say, okay, but
15 that's not quite fair because IBI mail is not presorted.
16 So, let's figure out what the presortation value is that I
17 have to take away.

18 And I'm still -- I'm going to ask you again, why
19 didn't you compare in lines 4 and 5, or really in line 4,
20 why didn't you use single-piece metered letters at 10.77
21 cents instead of single-piece bulk metered mail?

22 A Because it reflects more than the cost difference
23 related to just presortation.

24 Q And you still think it is accurate in line 12 for
25 you to say that the cost savings that you have measured are

1 those associated with single piece automation letters
2 instead of with single piece bulk automation letters?

3 A Are you referring to --

4 Q I'm sorry. Your response to 12(a).

5 A Yes, I believe that is accurate.

6 Q On this same sheet that I showed you from the
7 Library Reference 10.77 for the single piece metered letters
8 and 10.47 for the single piece bulk entered metered letters,
9 do you recall from the same Library Reference what the unit
10 cost was of single piece non-metered, just single piece?

11 A No, I do not.

12 Q Would you accept, subject to check, that it is
13 12.3 cents? Does it sound right?

14 A No.

15 Q Let me, if I may. I am going to show you one more
16 excerpt from the Library Reference and ask you to go to page
17 3 of 3 on that. This is also an excerpt from Library
18 Reference Roman numeral 181, USPS Library Reference. If you
19 look at page 3 of 3, in the bottom half of the page, and
20 this is all subject to check, because I realize you are
21 seeing this document now on short notice, but do you see the
22 same figures there as I showed you in the previous sheet
23 from the Library Reference, the 10.47 for single piece bulk
24 entered metered and the 10.77 for single piece metered
25 letters?

1 A Yes. Yes.

2 Q Okay. If you go up to the very top of that page 3
3 of 3, do you see the entry for letters single piece in
4 column number 1?

5 A Are you referring to line 7 of the table?

6 Q Yes. I'm sorry, yes.

7 A Yes.

8 Q And do you see the calculated total of that single
9 piece letters is what in that column? Over to the right.

10 A The column BC --

11 Q Yes.

12 A -- has a value of 12.30.

13 Q Yes. And again, this is totally subject to check,
14 but would you agree that if, in that same Library Reference,
15 the single piece letters had a unit cost of 12.3 cents, and
16 that had you used that in line 4 of Table 8, instead of the
17 single piece Bulk Metered Mail, which was 10.47 cents, that
18 that difference between 12.3 cents and 10.47 cents would
19 shrink your cost savings by about 1.8 cents?

20 A If you substitute in a different number on line 4,
21 you get a different answer, yes.

22 Q Okay. If you would turn to your testimony at page
23 9 in Table 2. And again, correct me if I am wrong, but in
24 this table, instead of using Library Reference 181 of the
25 USPS, you use Miller's, USPS Witness Miller's cost figures

1 from his appendices and from his Table 1. And you go
2 through a similar measurement of cost avoidance, whereas,
3 the first step in line 1 is to measure the difference
4 between nonautomation presort letters and then the first
5 rate category of automation, First Class letters, which is
6 Automation Basic presort letters, is that correct, you get
7 that cost difference, the difference between 13.718 and
8 8.603?

9 A Yes.

10 Q And then somewhat similar to Table 1, you try to
11 quantify the value of the presort which the IBI mail does
12 not have. And to find that calculation, you do it down in
13 footnote 1, and you compare the nonautomation presort BMM of
14 13.718 to the non-presorted Bulk Metered Mail of 13.809, and
15 you get a cost difference of zero -- of .091?

16 A That's correct.

17 Q So, and, again, the main difference, as I
18 understand it, the difference between these figures in Table
19 2 and that footnote 1 and Table 1 is that these figures also
20 have delivery costs included in them as well as mail
21 processing costs?

22 A But the mail processing costs are calculated
23 differently based on Witness Miller's classification of
24 worksharing savings.

25 Q But, for example, -- well, okay. That's correct.

1 But if you look at the non-presorted Bulk Metered Mail unit
2 cost in your footnote 1 at Table 2 of 13.809 cents, and you
3 compare it to the -- well, if you take the Library Reference
4 page I showed you and you compare it to the Bulk Metered --
5 well, no, you compare it to the single piece Bulk Metered
6 Mail at line 4 of Table 1, of 10.47 cents, a large part of
7 the difference is the delivery costs are included in the
8 figure in footnote 1, is that right?

9 A No. It is a different process.

10 Q Okay. In Table 2, in your footnote 1, to try to
11 calculate the value of the presort, which IBI does not have,
12 as you did in Table 1, you have taken as one cost, the cost
13 of non-bar coded or nonautomation presort, right? That is
14 your 13.718 cents? Is that right?

15 A I'm sorry. Could you repeat that?

16 Q In order, in your Table 2, to attempt to quantify
17 the value of the presortation, which the IBI is lacking, you
18 have compared two figures. The first figure you take is the
19 same rate category of mail that you used in Table 1 in line
20 5, which is presorted nonautomation BMM, right? It has got
21 a different cost, it has got a different cost methodology,
22 but it is the same rate category of mail.

23 A I am not sure it is a rate category, but I would
24 agree that it is intending to recognize the same type of
25 issue, which is what is the presortation cost.

1 Q Right. It is mail that gets a worksharing
2 discount because it is presorted, but it doesn't have a bar
3 code, so it is nonautomated presort, right?

4 A Yes.

5 Q Okay. Then in footnote 1 of Table 2, what you
6 compare to that to is non-presorted Bulk Metered Mail. And
7 the point is, again, you are comparing that to Bulk Metered
8 Mail, not to single piece, is that correct? In footnote 1
9 of Table 2.

10 A Yes, that's correct.

11 Q Do you understand that the USPS has in this case
12 proposed to use, as a benchmark for measuring cost avoidance
13 of automated First Class Letter Mail, that is Automated
14 Basic FCLM, that they have used a benchmark of bulk metered
15 letters, Bulk Metered Mail?

16 A Yes, that's the benchmark.

17 Q And when the USPS does this, is it correct that it
18 does not assume that Basic Automated First Class Letter Mail
19 has the same presortation features as BMM, but rather it
20 compares Automated Basic to Bulk Metered Mail?

21 A If you could --

22 Q I will restate it if you want.

23 A -- could please.

24 Q Yes. The USPS when it uses this Bulk Metered Mail
25 benchmark, it does so in the following fashion. It does so

1 for purposes of comparing costs of Automated Basic FCLM to
2 Bulk Metered Mail, correct?

3 A No. I don't think so. If you look at what
4 Witness Miller is doing, he compares -- he has a benchmark
5 of Bulk Metered Mail letters and then from that he
6 calculates the presortation worksharing savings and he
7 calculates the presortation and automation worksharing
8 savings.

9 Q If you look at his Table 1, and I know Miller's
10 testimony is not before us now, but doesn't he get his cost
11 avoidance increments by coming up with a figure for
12 Automated Basic and then subtracting from that the cost
13 figure that he gets for Bulk Metered Mail, his benchmark?

14 A No, I don't believe so.

15 Q Does he use the Bulk Metered benchmark in any way
16 to suggest that the workshare mail that he measures against,
17 let's say Automated Basic, is he trying to say that
18 Automated Basic has the same presortation features as the
19 Bulk Metered Mail benchmark?

20 A Yes, I believe so.

21 Q Let me repeat the question. Do you think that the
22 USPS in measuring cost avoidance for automated basic FCLM is
23 asking the Commission to assume that Automated Basic FCLM
24 has the same presortation features as Bulk Metered Mail?

25 A Well, maybe I misunderstood your question, but in

1 order to get the savings for Automation Basic letters, what
2 Mr. Miller does is he compares the costs for Bulk Metered
3 Mail to Automation Basic Mail. That gives him a difference
4 that is related to automation.

5 Q Right, so he is comparing the two and measuring
6 the differences between Bulk Metered Mail and Automation
7 Basic, is that correct?

8 A To get his worksharing savings for Automation
9 Basic, yes.

10 Q Right. He is not asking that they be treated the
11 same, that Automation Basic be treated the same as Bulk
12 Metered benchmark, would be assumed to have the same
13 presortation characteristics?

14 A Well, I don't think they have -- it's not
15 presorted mail.

16 Q Thank you, okay. If you look at your Table 1 and
17 the cost savings that you have measured for IBI mail using
18 USPS Library Reference I-81, you come up with a total cost
19 savings of 6.15 cents, is that correct?

20 A On line 7 of Table 1, yes.

21 Q Yes. Now if you were to compare that, if I wanted
22 to get the cost savings of all automated mail, all Automated
23 First Class Letter Mail, which would be the basic, the three
24 digit and the five digit, using your same table I would take
25 the 4.06 cents across from line 2 and compare it to the

1 single piece Bulk Metered Mail of 10.47 in line 4, and I
2 could come up with a cost of -- you see what I have done
3 there?

4 This is not a trick. If you were to compare the
5 automated mail costs that you have in your Table 1 in line 2
6 of 4.06, if you were to compare that to the single piece
7 Bulk Metered benchmark of 10.47, you would get a cost
8 savings, a difference of 6.41 cents.

9 Would you accept that subject to check?

10 A Yes.

11 Q Which -- that compares -- so if I were to argue
12 that that difference is the difference in cost between the
13 single piece Bulk Metered Mail benchmark and all of
14 Automated First Class Letter Mail and I come up with 6.41
15 cents and the cost savings that you are measuring for IBI is
16 6.15 cents, over 90 percent of the 6.41 cents, is that
17 correct?

18 I mean your cost measurement for IBI mail comes up
19 pretty close to the cost measurement of the savings for all
20 of Automated First Class Letter Mail?

21 A The cost savings for automation are much greater
22 than the cost savings for presortation, yes.

23 Q Similarly, in your Table 2, if we go through a
24 similar exercise, and we were to use your Table 2, which is
25 USPS Witness Miller's figures, and if you were to compare

1 Automated Basic in line 1(b) of 8.603 cents and subtract it
2 from the Bulk Metered Mail benchmark that you have in your
3 Footnote 1 of Table 2 of 13.809 cents, subtract 8.603 from
4 13.809, would you accept subject to check that you get 5.206
5 cents as the cost savings that that chart would suggest is
6 the cost difference between non-presorted BMM and Automation
7 Basic presort letters?

8 A Subject to check if you subtracted those numbers,
9 yes.

10 Q Which -- that 5.206 cents is compared to the 5.024
11 cent measurement that your Table 2 says is the cost savings
12 of IBI mail, correct?

13 A All right.

14 Q Okay. I would ask you to turn now to your
15 response to ABA and NAPM E-Stamp-T2-3.

16 Do you have it?

17 A Yes, I do.

18 Q And we asked you to confirm that the USPS would
19 have to perform sorting functions to separate the IBI First
20 Class Letter Mail which it receives from the nonautomated
21 mail, and your response was that the first sort, you said
22 not confirmed -- the first sort of incoming mail will
23 identify and sort the IBI FCLM; no multiple source will be
24 required to get IBI FCLM into the automated mail stream.

25 Is that correct?

1 A Yes.

2 Q I'll ask you now, in the last part of our
3 exercise, would you agree that the extent of cost savings
4 provided by workshared mail, the extent of cost savings
5 recognized by the Postal Service from workshared mail
6 depends upon the extent to which the Postal Service can work
7 such mail into its mail processing operations?

8 A The cost savings depend on the ability to reduce
9 functions and reduce costs, yes.

10 Q And would that not in part, if not -- well, at
11 least in part depend on the ability of the Postal Service to
12 dovetail its handling of the IBI mail with its handling of
13 the rest of the mail which it is processing?

14 A It has to process all the mail. I mean all the
15 mail has to be coordinated in a gathering, sorting and
16 delivery function.

17 Q I would ask you to look for a moment at Automated
18 Basic First Class Letter Mail as it flows through the USPS
19 mail processing system, and if you don't know the answer
20 just say so, but would you agree that Automated Basic First
21 Class Letter Mail is delivered to the USPS docks faced by
22 the presort mailer submitting it?

23 A It is supposed to be.

24 Q And is it your understanding that since Automated
25 First Class Presorted Letter Mail consists of either metered

1 mail or PERMIT imprinted mail there is no need for it to be
2 cancelled?

3 A Yes.

4 Q And did you understand that when the Automated
5 First Class Letter Mail arrives at the USPS in trays, those
6 trays are sleeved and strapped?

7 A I believe that they are supposed to be, yes.

8 Q And the trays include a label that identifies the
9 postal city to which the mail will be transported before
10 being worked?

11 A That one I don't know.

12 Q A couple more. To the extent that the Automated
13 First Class presorted mail is sorted to the AADC or the
14 three digit or the five digit level prior to its being
15 submitted to the USPS, is it your understanding that such
16 Automated First Class Letter Mail skips the incoming sort?

17 A At least to some extent, yes.

18 Q In which case it would be merely cross-docked to a
19 USPS vehicle for transportation to the next appropriate USPS
20 facility?

21 A I am not sure.

22 Q Let's compare that to the flow of IBI First Class
23 Letter Mail through the USPS mail processing system.

24 Would you agree that that IBI First Class Letter
25 Mail has to be picked up by the USPS from the USPS

1 collection boxes and taken to the local post office where it
2 is collected and then transported to a processing and
3 distribution center?

4 A Not necessarily.

5 Q Until it gets to the automatic facing cancellation
6 equipment, what is your understanding of the process that
7 the IBI First Class Letter Mail would take from the
8 collection box to being placed on the AFC?

9 A Well, in general terms if you look at Witness
10 Miller's appendices and you look at the Postal Service's
11 Witness Kingsley's flow of and description of the machines
12 that are used to process First Class mail you can see that
13 there are various steps that a automated piece can avoid,
14 whether it is in bulk or in single piece.

15 Q Do you know what steps the IBI First Class Letter
16 Mail goes through in going from the collection box to being
17 placed on the automatic facer canceller at the Postal
18 Service plant?

19 A Well, it doesn't necessarily have to start at the
20 facing box, and I don't believe that it has to go through
21 the cancelling machine because the IBI mail is not
22 cancelled.

23 Q Do you realize that an automatic facer canceller
24 separates out barcoded mail from nonbarcoded mail?

25 A Yes.

1 Q Wouldn't you think that the first thing the Postal
2 Service would do when the IBI mail gets into the plant would
3 be to take all its collection box mail and put it on the AFC
4 to separate out the IBI, the CEM, the Qualified BRM from the
5 nonbarcoded mail?

6 A It may and may not. I would want to go back and
7 review Ms. Kingsley's testimony in more detail.

8 Q If the -- accept for the moment that if the USPS
9 were to do that with the IBI mail and the collection box
10 mail, put it on the AFC, cull out the barcoded mail, would
11 you agree that the USPS would then take the collection box
12 mail which was not prebarcoded and run it through an MLOCR
13 to place a barcode on it?

14 A It would not do that for IBI mail.

15 Q Correct. The IBI mail already has the barcode on
16 it. I'm sorry, but I am asking you to assume that the first
17 step would be to put the collection box mail on the AFC and
18 that would cull out the barcoded mail including the IBI.

19 It then has the nonbarcoded mail that went through
20 the AFC, so that is the mail that doesn't have the barcode.

21 Is it your understanding that that mail would then
22 be put on an MLOCR to get a barcode put on it?

23 A Or some other machine like that, yes.

24 Q Then wouldn't the next logical step in order to
25 get the depth of sort be, once you have gotten the barcodes

1 and the mail that didn't have the barcode, you would then
2 combine that with the IBI mail and the other barcoded mail
3 which you have culled out and put it through a barcode
4 sorter?

5 A Well, I think where we are heading is the specific
6 cost savings due to automation for First Class mail we don't
7 have the specific cost savings because the Postal Service
8 hasn't done a study.

9 What we had to do is we had to find a surrogate
10 for those costs which reflect costs due to automation and
11 that is what I have done.

12 Q Do you recognize that the flow that I have
13 suggested to you, which you have not, I don't believe,
14 concurred with all of it, but the flow which I have
15 suggested to you would have the IBI mail going through the
16 ASC being culled out, the nonbarcoded mail then being placed
17 in an MLOCR to have a barcode placed on it, and then all the
18 resulting collection box mail that now all has a barcode
19 being placed in the barcode sorter and being sorted.

20 If that is the flow that occurs, do you agree that
21 the only cost savings recognized by the IBI is the avoidance
22 of that one run through the MLOCR?

23 A If you assume only the steps that you have given,
24 and if you assume the gathering of the mail from the
25 collection, yes, I would agree with the steps that you have

1 proposed.

2 Q But you don't have an intricate knowledge of the
3 USPS mail processing operations and how they would handle
4 IBI?

5 A No, I have not done a study of the flow for the
6 IBI mail.

7 Q Would you agree that that flow is relevant to the
8 actual cost avoidance that is recognized by the USPS in
9 handling IBI mail?

10 A It is relevant but it is not available, so we had
11 to find a surrogate.

12 MR. HART: That's all I have. Thank you.

13 CHAIRMAN GLEIMAN: Mr. Moore?

14 MR. MOORE: Mr. Chairman, the Postal Service has
15 no questions.

16 CHAIRMAN GLEIMAN: Questions from the bench?

17 There are no questions from the bench.

18 Mr. May, would you like some time with your
19 witness?

20 MR. MAY: Just a minute.

21 CHAIRMAN GLEIMAN: Certainly.

22 [Recess.]

23 CHAIRMAN GLEIMAN: Mr. May?

24 MR. MAY: We have no redirect.

25 CHAIRMAN GLEIMAN: If there is no redirect, then,

1 Mr. Prescott, that completes your testimony here today. We
2 appreciate your appearance, your contributions to the
3 record. We thank you, and you are excused.

4 [Witness Prescott excused.]

5 CHAIRMAN GLEIMAN: May I ask, the next witness is
6 a joint EStamps/Stamps.com witness, Mr. Boggs. The Postal
7 Service is the only party that has indicated that it has
8 cross examination for this witness. Do you intend to cross
9 the witness?

10 MR. MOORE: Yes, Mr. Chairman, but it should be a
11 very short cross.

12 CHAIRMAN GLEIMAN: If that is the case, I think
13 I'd like to plow ahead with the next witness, and then we'll
14 break for lunch after that witness.

15 Mr. May, you can call the next witness when you're
16 ready.

17 MR. MAY: Would Witness Raymond Boggs please take
18 the stand?

19 Whereupon,

20 RAYMOND BOGGS,
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. MAY:

1 Q Now, Mr. Boggs, you are the Vice President of
2 Small Business and Home Office Research Programs at
3 International Data Corporation?

4 A That's correct.

5 Q And in that capacity you have prepared testimony
6 in this case. I'm going to hand you two copies of a
7 document captioned the Direct Testimony of Raymond Boggs on
8 Behalf of EStamp Corporation and Stamps.com.

9 And I ask you to examine this and see if this is
10 the testimony you have prepared for this proceeding?

11 [Pause.]

12 A Yes, that's correct.

13 Q Do you have adopt this as your testimony today?

14 A I do. I have one alteration.

15 Q Yes, would you please explain what that is? I
16 believe it's on page 39.

17 A It is on page 39. It's a change in line 13, which
18 originally said the solution was of greatest interest to
19 small firms, regardless of company size, as Table 14
20 indicates.

21 I would amend that to say the solution was of
22 greatest interest to small firms with five to 99 employees.

23 Q And with that change, do you adopt this as your
24 testimony today?

25 A I do.

1 MR. MAY: Mr. Chairman, I am going to hand two
2 copies of the document, which includes the errata that Mr.
3 Boggs has just provided, to the Reporter, and ask that it be
4 transcribed into the record, and admitted into evidence.

5 CHAIRMAN GLEIMAN: Is there any objection?

6 [No response.]

7 CHAIRMAN GLEIMAN: Hearing none, it is so ordered.

8 [Written Testimony of Raymond
9 Boggs, EStamp/Stamps.com-T-1, was
10 received into evidence and
11 transcribed into the record.]
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E-Stamp Corporation/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

RAYMOND BOGGS

ON BEHALF OF

E-STAMP CORPORATION AND STAMPS.COM

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1 Direct Testimony of Raymond L. Boggs

2

3 My name is Raymond L. Boggs. I am vice president of Small Business and Home Office
4 Research Programs at International Data Corporation (IDC) in Framingham,
5 Massachusetts. I have a diverse background in the communications, computer, and
6 office automation industries as well as consumer and channel research. At IDC I
7 manage the Small Business Research Program, the Home Office Program, and the
8 Small and Medium Business ePanel. I supervise the Education Market Research
9 Program and also co-direct the Small Business Telecommunications program with the
10 IDC Telecommunications Group.

11

12 As part of my work, I direct survey research, forecasting, and market analysis for
13 advanced telecommunications, personal computing, and office automation products and
14 services designed for small businesses and home offices. Research includes
15 identifying key product requirements of different market segments, tracking changing
16 customer channel preferences, and evaluating alternative strategies in response to
17 competitive developments. I have consulted extensively on changing distribution trends
18 for advanced technology products and the emerging communications and networking
19 needs of small and home-based enterprises.

20

21 Prior to joining IDC I directed consumer and business research in the technology
22 practice area of Response Analysis Corporation in Princeton, NJ.

23

1 I managed research activity to support the firm's Electronic Access program and
2 provided qualitative and quantitative primary research to a wide range of clients. I
3 previously established and managed the Small Business/Home Office (SOHO)
4 Research Program and the Small Business Market Strategy Service at BIS Strategic
5 Decisions in Norwell, MA. where I was among the first to identify and examine the
6 growing SOHO market.

7

8 I have written articles for major trade and general business publications and am
9 regularly quoted in Business Week, The Wall Street Journal, and The New York Times.
10 I have been a featured speaker at COMDEX/Fall, the Consumer Electronics Show, and
11 other industry trade shows. I served as a guest lecturer at the Anderson Graduate
12 School of Business at UCLA. I completed my undergraduate work at Hamilton College
13 and have earned graduate degrees from Brown University and the Boston College
14 Carroll School of Management.

15

16 My testimony examines the current use of different postal solutions by small businesses
17 and the opportunity associated with new PC and Internet postage products and
18 services. My testimony looks at the size and scope of small business mailing activity, at
19 the use of different mail products, at small business interest in new technology
20 solutions, and presents market forecasts for the use of PC postage solutions.

1 I. Executive Summary

2 In this section of my testimony, I outline the basic PC postage technology, provide
3 summary market forecasts, and present an overview of small business postage use.

4

5 A. New Indicia Program, Background and Basics

6 The U.S. Postal Service (USPS) has approved a standard way to encode postage and
7 address information that makes it possible to generate PC postage. In my testimony, the
8 term "PC Postage" is used essentially as the USPS uses it — to describe postage that is
9 printed by the customer using the customer's own printer. There are a variety of PC-
10 based mail applications that help businesses prepare mailings that can be printed and
11 mailed by others, including some that support online refilling of postage meters. These
12 and related applications are not examined here. Although different approaches can be
13 used to implement PC postage, the Internet plays a key role as a conduit that delivers the
14 postage to the customer for printing.

15

16 The enhanced barcode used to display postage information on a letter or package was
17 developed through the USPS Information Based Indicia Program (IBIP), where digital
18 postage is indicated by an Information-Based Indicum (IBI). The program plays a
19 regulatory role in evaluating and qualifying commercial products and services used for
20 computer-based postage printing, which enable consumers to purchase and print postage
21 using their computers. Program goals primarily involve security, although effectiveness
22 and convenience are also performance and evaluation criteria for IBI and PC postage

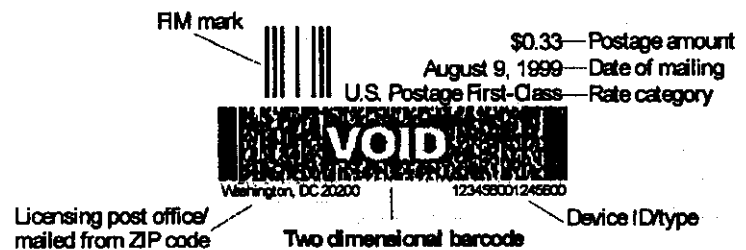
1 products. Different approaches using PC postage must be fully tested in a multistage beta
 2 process before formal approval can be given.

3

4 IBIP introduced PC postage in March, 1998. PC postage products print the IBI two-
 5 dimensional barcode that contains information important for revenue protection, such as
 6 the postage amount, a unique identifier, and mail processing information about the mail
 7 piece (see Figure 1).

8

Figure 1
IBI Two-Dimensional Barcode



Source: U.S. Postal Service, 1999

1 The IBI have the same information that is contained in the traditional postage meter
2 indicia, including:

- 3 • Licensing ZIP code
- 4 • Destination delivery point
- 5 • Software ID
- 6 • Ascending register/descending register
- 7 • Algorithm ID
- 8 • Device ID
- 9 • Date of mailing
- 10 • Postage
- 11 • Digital signature
- 12 • Rate category
- 13 • Reserve field
- 14 • Indicia version number
- 15 • Certificate serial number

16 The IBI is printed on the envelope in the upper right-hand corner or on a label for
17 placement on an envelope or package. The software in the PC postage product will
18 verify the address information and deduct the postage amount from the customer's
19 account. Mail pieces with the new IBI are introduced into the regular mail stream and

1 are processed in the same manner as metered mail, with no restrictions on destination
2 addresses.

3

4 **B. PC Postage Benefits to the U.S. Postal Service**

5 PC postage has a number of benefits to the USPS:

- 6 • Reduced fraud, given the security of the technology
- 7 • Greater accuracy of postal addresses, since automatic inclusion of
8 ZIP+4 postal codes occurs as part of the address validation process,
9 whether via online or CD-ROM based approaches
- 10 • Reduced need for "bricks and mortar" post offices to accommodate
11 increasing small business mail volume
- 12 • Support for PC-based mail applications that will contribute to significant
13 growth in small business use of the mail for promotional purposes

14

15 The efficiencies of mail handling made possible with PC postage will be the biggest
16 single benefit to the post office. In effect, the USPS is making postage partners of small
17 businesses just as it is already subcontracting some of its sorting work to large mailers
18 by offering discounts to those mailing large numbers of presorted letters.

19

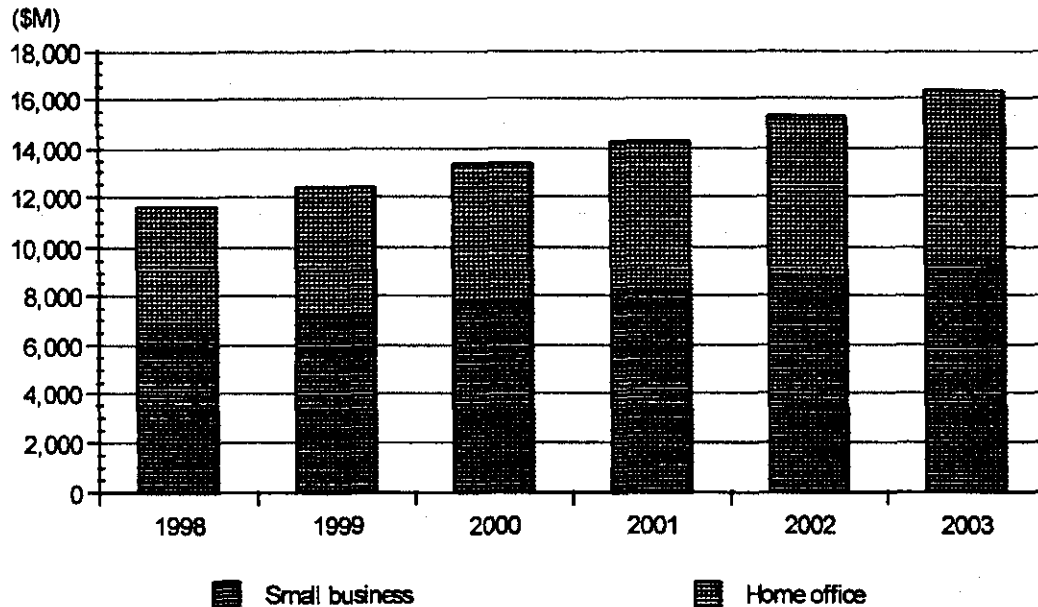
20 While the USPS is not offering discounts for using PC postage or the ZIP+4 code that
21 directs mail to individual carrier routes, the convenience associated with the new
22 technology seems sufficiently compelling. Rather than print stamps, the USPS is now

1 letting customers use their own printers, ink, and paper to print the postage themselves.
2 We are moving from a 19th century technology to a 21st century technology.

3

4 **C. Small Business and Home Office Postage Forecast**

5 Figure 2 shows the annual volume of postage associated with small businesses (firms
6 with under 100 employees) and income-generating home offices — specifically
7 households where at least one person is working full time at a home-based business.
8 Total postage spending for both segments combined will be growing at 7.1% annually
9 from almost \$11.6 billion in 1998 to \$16.3 billion in 2003. Small businesses will continue
10 to account for the largest share of postage spending throughout the planning period,
11 although the percentage will decline slightly from 58.2% in 1998 to 57.7% in 2003 (see
12 Figure 3).

Figure 2**U.S. Small Business and Income-Generating Home Office Spending on First Class Postage, 1998-2003****Key Assumptions:**

- U.S. economic growth rates will not change significantly.
- Small business and home office spending on postage will continue to track closely with spending on other communications technologies.

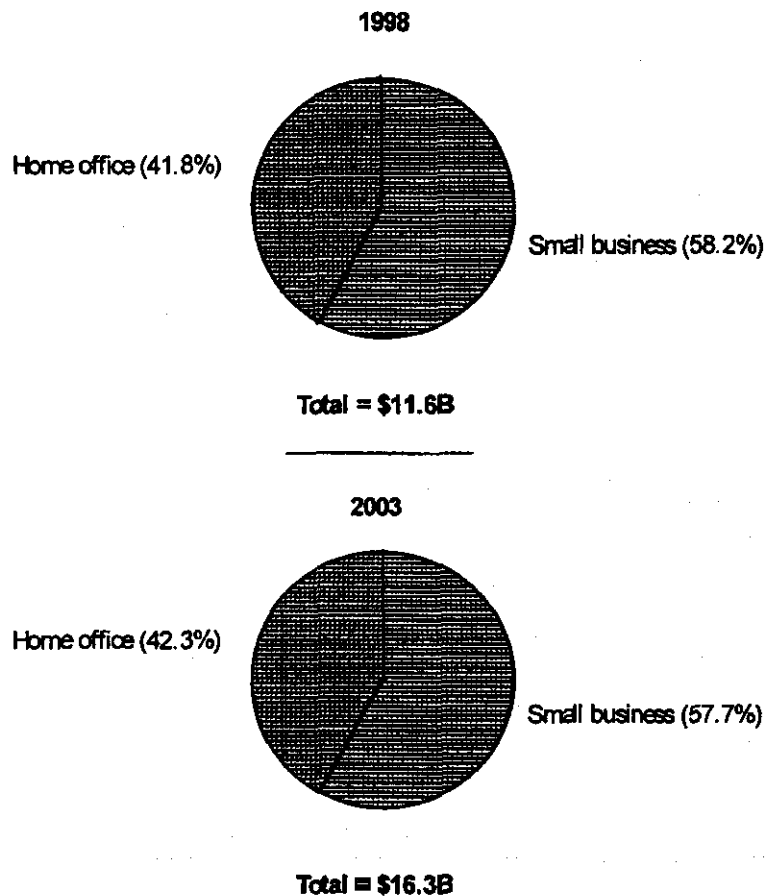
Messages in the Data:

- Small business postage spending is relatively consistent across company size categories. Less variation by industry than in PC and network spending exists.
- While PC postage users will have above-average spending on postage, the impact of the technology on total postage spending will not be felt during the planning period.

Source: International Data Corporation, 1999

Figure 3

U.S. Small Business and Income-Generating Home Office Percentage of First Class Postage Spending, 1998 and 2003



Key Assumptions:

- U.S. economic growth rates will not change significantly.
- Small business and home office spending on postage will continue to track closely with spending on other communications technologies.

Messages in the Data:

- Small business postage spending is relatively consistent across company size categories. Less variation by industry than in PC and network spending exists.
- While PC postage users will have above-average spending on postage, the impact of the technology on total postage spending will not be felt during the planning period.

Source: International Data Corporation, 1999

1
2
3

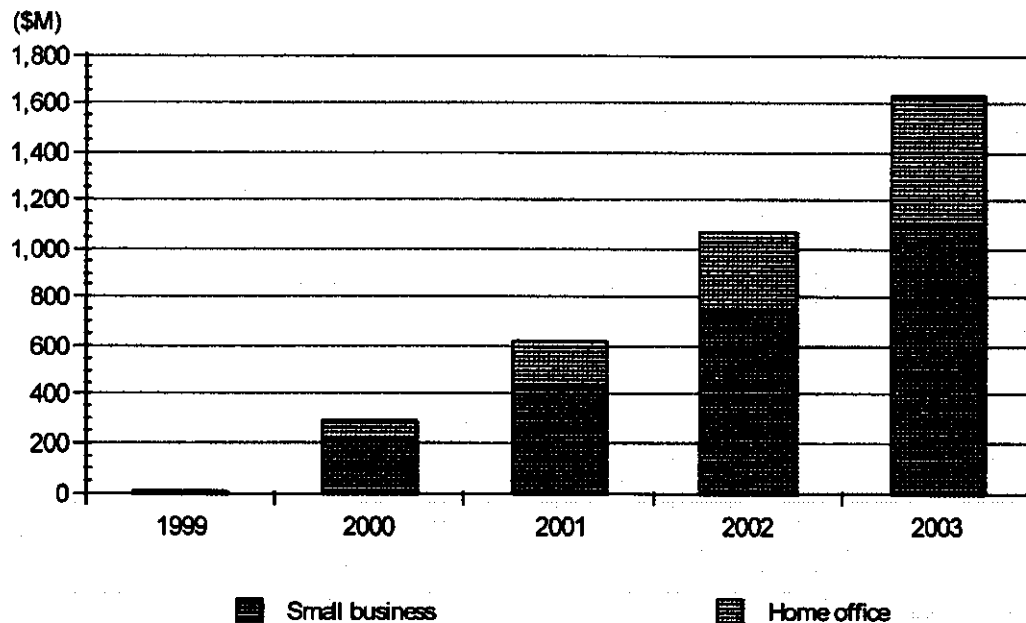
4 Total spending on PC postage will be growing by 275.6% annually, as Figure 4
5 indicates. From the start-up year of 1999, when total PC postage spending (equipment

1 plus postage) will reach \$8.2 million, annual spending will grow by a factor of roughly
 2 200 to reach \$1,632.3 million in 2003. IDC believes that PC postage will come to
 3 represent over 10% of total postage spending by small businesses and income-
 4 generating home offices. Revenue related to ground and overnight package delivery
 5 (specifically priority mail) will represent an additional opportunity for industry
 6 participants.

7

Figure 4

U.S. Small Business and Income-Generating Home Office PC Postage Spending, 1999–2003

**Key Assumptions:**

- U.S. economic growth rates will not change significantly.
- 1999 is the first year when PC postage is commercially available, beginning in August.
- PC postage estimates include spending of first class postage only. Overnight and parcel post package delivery are not included.

Messages in the Data:

- Starting at one-half of a percent in 1999, the share of home office first class postage represented by PC postage will grow to almost 8% in 2003.
- The growth of home office PC postage spending will be similar to that of small business PC spending, roughly doubling each year throughout the planning period.

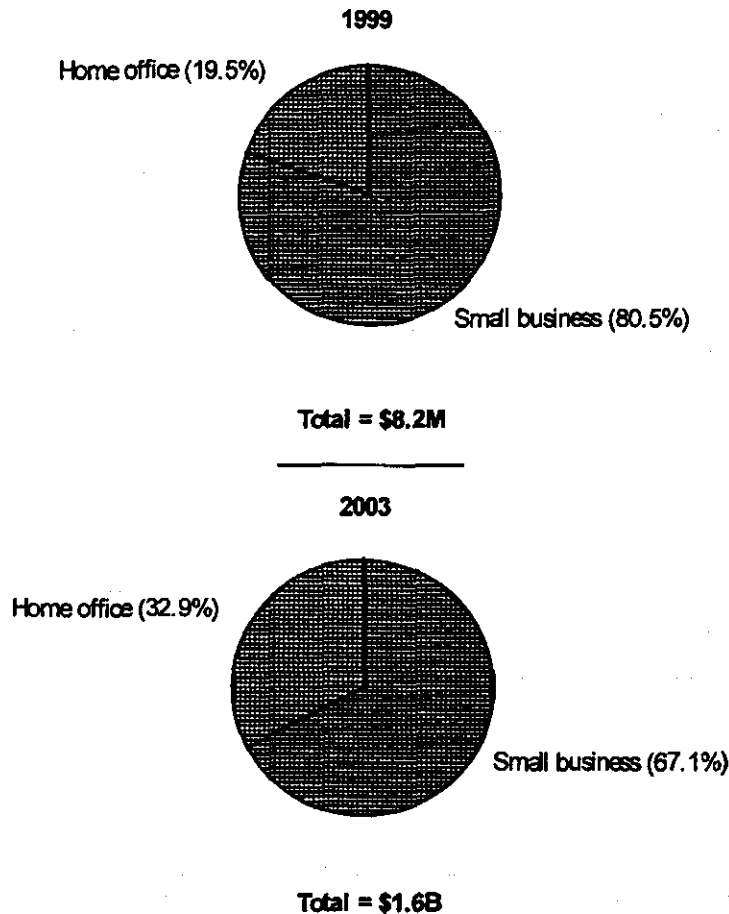
Source: International Data Corporation, 1999

1 I believe that the largest share of PC postage revenue will come from small businesses,
2 compared with home-based businesses, although the small business share will decline
3 from about four-fifths initially to about two-thirds at the end of the planning period (see
4 Figure 5). Although income-generating home offices are far more numerous (12.2
5 million versus 7.4 for small businesses), both the number of small businesses moving to
6 PC postage and the average spending per company will be greater than that seen
7 among home-based businesses.

8

Figure 5

**U.S. Percentage of Spending on PC Postage, Small Business and Income-Generating Home Office,
1999 and 2003**

**Key Assumptions:**

- U.S. economic growth rates will not change significantly.
- 1999 is the first year when PC postage is commercially available, beginning in August.
- PC postage estimates include spending of first class postage only. Overnight and parcel post package delivery are not included.

Messages in the Data:

- Spending by both small businesses and home offices on PC postage will roughly double each year through 2003.
- Because of lower initial sales, the relative share of home office PC postage spending will increase compared with small business PC spending over the planning period.

Source: International Data Corporation, 1999

1 D. Small Business Attitudes Towards PC Postage

2 Small businesses are interested in the idea of PC postage, with more than one PC
3 owner in 10 very or somewhat interested in the concept. Small businesses indicate the
4 greatest interest in traditional postage solutions using the telephone to download
5 postage to a meter. Using the Internet to download into a traditional postage meter is
6 not cited as often as printing postage that had previously been downloaded from the
7 Internet.

8

9 It should be noted that these interest measures were collected in what was essentially a
10 concept test rather than as a precise comparison. Pricing was not associated with any
11 of the solutions; just the general interest levels in the different concepts were measured.
12 These baseline measures found that each of the different PC postage solutions
13 generated relatively high interest. In other IDC survey work, new advanced technology
14 solutions only generate interest from about 5% of respondents. Basic interest in PC
15 postage, independent of the significant advertising investments already underway in
16 4Q99 and expected to increase in 1Q00, indicated a strong potential market for PC
17 postage solutions.

18

19 Although PC postage represents an alternative to traditional postage meters, it is
20 interesting to note that current meter users are more interested in PC postage than are
21 users of any other technology, with a single exception — home page users are more
22 likely than meter owners to be very interested in PC postage. These attitudes suggest

- 1 an opportunity for PC postage proponents to attract small businesses of all types –
- 2 postage “novices” as well as those already using traditional mail systems.

1 II. The U.S. Small Business Survey of Current and Future 2 Uses of PC Postage and Products

3 A. Highlights of the Methodology

4 The methodology used in the 1999 U.S. Small Business Survey can be summarized as
5 follows:

- 6 • IDC contacted a representative sample of more than 3,500 small businesses
7 by telephone using Dun & Bradstreet's database of U.S. small businesses as
8 the sampling frame.
- 9 • IDC set proportions by five different size categories (based on total number of
10 employees), geographic regions, and Standard Industrial Classification (SIC)
11 codes to ensure that the sample was representative of the U.S. small business
12 population. After a telephone screening, we mailed a color-coded 24-page
13 questionnaire concerning current and future utilization of a variety of
14 information technology products, services, and issues to the primary
15 business/head-office location of small businesses that agreed to participate in
16 the study. As an incentive, we mailed a gift catalog along with the
17 questionnaire.
- 18 • IDC sought to obtain 1,000 completed questionnaires and exceeded this
19 objective. Almost 56% of small businesses that were invited to respond to the
20 questionnaire agreed to do so. Among those that agreed to respond, 30%
21 returned the completed questionnaires.

- 1 • IDC weighted overall survey findings to reflect the representation of various
- 2 size categories in the population. The weighting factor was based on each
- 3 size category's proportion of the population.

4 **B. Sampling Frame**

5 Initially, IDC purchased a list of 10,000 small businesses from Dun & Bradstreet. We
6 sorted the list to meet the following criteria:

- 7 • All listed small businesses had fewer than 100 full-time employees.
- 8 • All listed small businesses were within specified SIC codes.
- 9 • The data was nationally representative. We ensured representation by
- 10 establishing sample quotas that corresponded to the proportion of small
- 11 businesses in the general population by state, size, and SIC codes.
- 12 • The primary business/head-office location for each listing was included.

13 **C. Data Collection/Incentives**

14 IDC contacted more than 3,000 potential respondents by telephone during the 4Q98
15 and 1Q99. Each potential respondent was screened to confirm the following:

- 16 • The company employed fewer than 100 people.
- 17 • The company was not operated out of a home. (IDC tracks home-based
- 18 businesses in its annual work-at-home survey.)
- 19 • Only the company's primary location/head office was used for data collection.

- 1 • The office manager, owner/president, or the individual who makes the
2 decision to acquire telecommunications and other advanced technology was
3 the primary respondent for the survey.

4
5 All qualified small businesses were invited to participate in the study and 55.6% agreed.
6 We mailed questionnaires and incentive gift catalogs to these small businesses and
7 asked small business executives to fill out the questionnaires, make their gift selections,
8 and return both in the return envelopes. We sent a total of 3,500 questionnaire packets
9 during this period.

10
11 After a period of three to five days, we made follow-up calls to confirm receipt of the
12 questionnaire packets and encourage participation. We made up to three subsequent
13 reminder calls if small businesses did not return the completed questionnaires within
14 three weeks of the initial mailing.

15
16 We received a total of 1,043 questionnaires by the cutoff date. The response rate
17 among small businesses that agreed to participate was 29.7%. Overall, the survey
18 response rate was 16.5% (29.7% x 55.6%).

19 **D. Weighting Factors**

20 IDC weighted overall findings to reflect the actual distribution of small business size
21 categories in the entire U.S. small business population. IDC used disproportionate
22 sampling techniques in the survey so that the largest segment of small businesses,
23 those with fewer than 10 employees, did not dominate the sample frame. By

1 oversampling larger firms, IDC was able to ensure that an analysis of results by
 2 company size would retain statistical validity. For example, IDC interviewed a total of
 3 130 firms with 50–99 employees, rather than just 30 firms, which would have been the
 4 appropriate number if the sample was strictly proportional to the way companies are
 5 distributed by size.

6

7 Table 1 shows the percentage of small businesses in the total population and the
 8 percentages in IDC's sample. In order to correctly calculate survey results for the total
 9 population and for different subgroups, like vertical markets and PC owners,
 10 respondents were weighted in accordance with their relative number in the total
 11 population.

12

Table 1
U.S. Small Business Survey Sample Size, Relative Share,
and Survey Weights by Company Size, 1999

	Number of Respondents	Relative Share (%)	Population Share (%)	Respondent Weighting
Under 5	426	40.8	56.3	1.3781
5–9	178	17.1	20.3	1.1914
10–19	138	13.2	12.6	0.9552
20–49	171	16.4	7.9	0.4801
50–99	130	12.5	2.9	0.2304
Total	1,043	100.0	100.0	NA

Note: Oversampling of firms with 10+ employees permits greater reliability in breakouts by company size.

Source: International Data Corporation, 1999

13

1 E. Margin of Error

- 2 Given the sample size of 1,043 small businesses, the margin of error for IDC's 1999
3 U.S. Small Business Survey was $\pm 3.0\%$ at a 95% confidence level. Note that some
4 numbers in the tables and figures in this report may not be exact due to rounding.

1 **III. Small Business PC Postage Forecast**

2 IDC's forecast for PC postage is built on two key building blocks:

- 3 • The number of small businesses with personal computers and Internet
4 access, and how that will be growing over time
- 5 • Annual small business spending on postage and the percentage of postage
6 that will be associated with new Internet-based solutions

7 Other market opportunities for PC postage are discussed in this section. Home office
8 operators will likely be interested in PC postage, and the size and nature of the home
9 office market is examined. In addition to first class postage, which will be associated
10 with the largest share of PC postage revenue, there will also be revenue from overnight
11 delivery and ground delivery services. Additional service revenue related to supplies
12 and other services will represent other sources of income for firms providing PC
13 postage capabilities.

14 **A. Small Business and Home Office PC and Internet Forecast**

15 Three sets of forecasts serve as a foundation for estimating the potential size of the PC
16 postage market: the total number of small businesses, the number of firms with
17 personal computers, and the number of firms on the Internet. While all small businesses
18 can potentially be interested in PC postage, only those with Internet access will be able
19 to act on their interests.

20

1 Table 2 presents the forecast of the total number of small businesses through 2003. The
2 total number of small firms, those with under 100 employees, will be growing by 2.0%
3 annually, from almost 7.4 million in 1998 to almost 8.2 million in 2003.

4 The number of small businesses with PCs will be growing even faster by 3.6% annually
5 from almost 6.3 million in 1998 to just under 7.5 million in 2003 (see Table 3). PC
6 penetration of small businesses will grow from the already high level of 85.1% at the
7 end of 1998 to 91.7% in 2003, as Table 4 indicates. Although lower PC prices have
8 certainly encouraged small businesses to add more PCs in recent years, IDC believes
9 that new applications have been the key to expanding small business PC penetration.
10 The use of the Internet for both communications and expanding prospect and customer
11 interaction have both been of interest to small businesses that had previously chosen
12 not to make use of personal computers.

13

14 Related to this Internet interest is the significant growth in the number of small
15 businesses going online. The percentage of small business PC owners with Internet
16 access was about 25% in 1996, but at the end of 1998 had reached 61.5%. By the end
17 of 2003, the percentage is expected to reach 79.3% (see Table 5 and Table 6). This
18 change means that the number of online small businesses will have grown from less
19 than 3.9 million in 1998 to over 5.9 million in 2003, an annual increase of 9.0%. This
20 group will be the primary market for PC postage.

Table 2
U.S. Small Business Universe by Company Size, 1998–2003 (000)

	1998	1999	2000	2001	2002	2003	1998– 2003 CAGR (%)
Under 5	4,155	4,229	4,305	4,382	4,465	4,556	1.9
5–9	1,501	1,545	1,591	1,638	1,686	1,720	2.8
10–19	933	952	971	992	1,011	1,032	2.0
20–49	581	592	603	615	627	640	2.0
50–99	212	213	214	215	216	217	0.5
Total	7,382	7,531	7,684	7,842	8,005	8,165	2.0

Key Assumptions:

- Small business formation continues at the present rate as U.S. economic growth continues with only minor fluctuation.
- Population growth will be greatest among firms with 5–9 employees.

Messages in the Data:

- Small business formation continues to exceed total business growth throughout the forecast period.
- The net number of smaller businesses will grow at a faster rate than the number of firms with 50–99 employees despite higher mortality rates.

Source: International Data Corporation, 1999

Table 3
U.S. Small Businesses with PCs by Company Size, 1998–2003 (000)

	1998	1999	2000	2001	2002	2003	1998– 2003 CAGR (%)
Under 5	3,356	3,523	3,651	3,777	3,911	4,050	3.8
5–9	1,320	1,389	1,451	1,514	1,575	1,617	4.1
10–19	856	882	908	935	961	989	2.9
20–49	548	562	576	590	604	618	2.4
50–99	202	204	206	207	209	211	0.9
Total	6,282	6,559	6,791	7,024	7,260	7,485	3.6

Key Assumptions:

- Small business formation will continue at the present rate, and the largest share of new businesses will add PCs.
- The smallest of small firms, with under 5 employees, will continue to lag behind other firms in using PCs.
- Growth in PC penetration will be fueled by lower prices, increasing ease of use, and perceived benefits of the Internet.

Messages In the Data:

- Year-to-year growth in PC penetration is slowing as firms approach saturation.
- Nine out of 10 small businesses will have at least one PC by the end of the planning period.

Source: International Data Corporation, 1999

Table 4
U.S. Small Business PC Penetration by Company Size, 1998–2003 (%)

	1998	1999	2000	2001	2002	2003
Under 5	80.8	83.3	84.8	86.2	87.6	88.9
5–9	87.9	89.9	91.2	92.4	93.4	94.0
10–19	91.7	92.6	93.5	94.3	95.1	95.8
20–49	94.4	95.0	95.5	95.9	96.3	96.6
50–99	95.1	95.6	96.1	96.5	96.8	97.1
Total	85.1	87.1	88.4	89.6	90.7	91.7

Key Assumptions:

- Small business formation will continue at the present rate, and the largest share of new businesses will add PCs.
- The smallest of small firms, with under 5 employees, will continue to lag behind other firms in using PCs.
- Growth in PC penetration will be fueled by lower prices, increasing ease of use, and perceived benefits of the Internet.

Messages in the Data:

- Year-to-year growth in PC penetration is slowing as firms approach saturation.
- Nine out of 10 small businesses will have at least one PC by the end of the planning period.

Source: International Data Corporation, 1999

Table 5
U.S. Small Business Internet Penetration by Company Size, 1998–2003 (% of PC Establishments)

	1998	1999	2000	2001	2002	2003
Under 5	58.6	62.4	65.8	69.7	73.3	76.9
5–9	61.0	64.8	68.7	71.0	75.8	78.6
10–19	65.2	70.1	73.1	76.8	79.1	82.3
20–49	69.8	73.5	78.6	82.5	85.2	88.2
50–99	74.8	78.9	82.4	85.6	88.9	90.1
Total	61.5	65.4	69.0	72.5	76.0	79.3

Key Assumptions:

- Small business interest in using the Internet will increase for a variety of applications.
- More retailers, traditionally the slowest to adopt new technology, will be interested in using PCs and the Internet.
- Lower cost of broadband access will increase small business interest in the Internet for different applications.

Messages in the Data:

- The rapid ramp-up of Internet adoption will slow as almost all who can benefit from the Internet sign on.
- Like fax machines, the Internet is becoming a standard business communications tool for even the smallest firms.

Source: International Data Corporation, 1999

Table 6
U.S. Small Business Internet Establishments by Company Size, 1998–2003 (000)

	1998	1999	2000	2001	2002	2003	1998– 2003 CAGR (%)
Under 5	1,967	2,198	2,402	2,633	2,867	3,115	9.6
5–9	805	900	997	1,075	1,194	1,271	9.6
10–19	558	618	664	718	761	814	7.8
20–49	383	413	453	487	514	545	7.3
50–99	151	161	169	178	186	190	4.7
Total	3,863	4,290	4,685	5,090	5,521	5,934	9.0

Key Assumptions:

- Small business interest in using the Internet will increase for a variety of applications.
- More retailers, traditionally the slowest to adopt new technology, will be interested in using PCs and the Internet.
- Lower cost of broadband access will increase small business interest in the Internet for different applications.

Messages in the Data:

- The rapid ramp-up of Internet adoption will slow as almost all who can benefit from the Internet sign on.
- Like fax machines, the Internet is becoming a standard business communications tool for even the smallest firms.

Source: International Data Corporation, 1999

1 Table 7 summarizes the growth in primary-income-generating home office households,
2 the other major target market for PC postage. The total number of households with an
3 income-generating home office, where at least one person works full time, is growing by
4 8.9% annually, from 14.3 million in 1998 to 21.9 million in 2003.

5

6 The number of these households with at least one PC is growing by 12.3% annually,
7 from 10.0 million in 1998 to 17.8 million in 2003. PC penetration in these home office
8 households follows just behind that seen for the smallest small businesses.

9

10 Home office Internet adoption follows a pattern similar to the one seen among small
11 businesses. While only about one-quarter of home office PC households had Internet
12 access two years ago, the percentage is now approaching 60%, with more than three-
13 fourths of PC owners forecast to have Internet access at the end of the planning period.
14 The number of primary-income-generating home office households on the Internet will
15 be growing by 19.5% annually from 5.6 million in 1998 to 13.7 million in 2003. When
16 combined with 5.9 million small business Internet users expected in 2003, this means
17 the potential small office/home office (SOHO) prospect pool for PC postage will reach
18 19.6 million.

19

Table 7
U.S. Primary-Income-Generating Home Office Households, PC Households,
and Internet Households, 1998–2003 (000)

	1998	1999	2000	2001	2002	2003	1998– 2003 CAGR (%)
Home office households	14.3	15.5	16.7	18.1	20.6	21.9	8.9
PC households	10.0	11.1	12.3	13.8	16.3	17.8	12.3
Internet households	5.6	6.5	7.7	9.5	11.8	13.7	19.5

Key Assumptions:

- U.S. economic growth rates will not change significantly.
- Economic conditions and tax law changes will foster home-based business establishment.

Messages in the Data:

- Growth in primary self-employment will exceed that of any small business size segment.
- By 2002, the number of primary-income-generating home offices will have grown 53% over 1998. Almost one household in five will include a full-time worker in a home-based business and will be important prospects for PC postage.

Source: International Data Corporation, 1999

1 B. Annual Small Business and Home Office Postage Spending

2 In preparing forecasts for the PC postage market, IDC has focused on small businesses
3 as the most important customer segment. It is also useful to examine the home office
4 market as well. Although home-based businesses will not represent the majority of PC
5 postage customers and will not account for the largest share of PC postage spending,
6 they still represent an important source of revenue for industry participants and are
7 therefore included in IDC's market estimates. In addition, spending on package delivery
8 through the USPS — such as Priority Mail or Express Mail — will provide additional
9 revenue to providers of PC postage. IDC believes that private carriers like UPS, FedEx,
10 Airborne, DHL, and others will be interested in integrating their own solutions with those
11 provided through PC postage. Such approaches will be part of integrated delivery
12 programs, although the revenue associated with these programs are not included in the
13 forecasts provided in this report, especially since the heart of PC postage, the IBIP
14 standard previously discussed, is not presently a part of private-carrier overnight
15 solutions.

16
17 As Table 8 indicates, small business spending on first class postage will grow by 6.9%
18 annually from \$6.7 billion in 1998 and \$7.2 billion in 1999 to over \$9.4 billion in 2003. At
19 the same time, spending on first class postage by primary-income-generating home
20 office households will increase by 7.4% annually, from \$4.8 billion in 1998 and \$5.2
21 billion in 1999 to \$6.9 billion in 2003 (see Table 9).

Table 8

U.S. Small Business Spending on PC Postage, 1999–2003

	1999	2000	2001	2002	2003	1999– 2003 CAGR (%)
Total (\$M)	6.6	212.0	435.9	741.9	1,095.3	258.9
Share of total first class spending (%)	0.1	2.8	5.3	8.4	11.6	NA

Key Assumptions:

- U.S. economic growth rates will not change significantly.
- 1999 is the first year when PC postage is commercially available, beginning in August.
- PC postage estimates include spending of first class postage only; overnight and parcel post package delivery are not included.

Messages in the Data:

- The share of small business first class postage represented by PC postage, starting at one-tenth of a percent in 1999, will grow to almost 12% in 2003.
- Spending on first class PC postage will roughly double each year throughout the planning period, although this growth will begin to decrease after 2002.

Source: International Data Corporation, 1999

Table 9

U.S. Income-Generating Home Office Spending on PC Postage, 1999–2003

	1999	2000	2001	2002	2003	1999– 2003 CAGR (%)
Total (\$M)	1.6	80.8	178.0	327.1	537.0	28.0
Share of total first class spending (%)	0.0	1.4	3.0	5.1	7.8	NA

Key Assumptions:

- U.S. economic growth rates will not change significantly.
- 1999 is the first year when PC postage is commercially available, beginning in August.
- PC postage estimates include spending of first class postage only; overnight and parcel post package delivery are not included.

Messages in the Data:

- Starting at one-half of a percent in 1999, the share of home office first class postage represented by PC postage will grow to almost 8% in 2003.
- The growth of home office PC postage spending will be similar to that of small business PC spending, roughly doubling each year throughout the planning period.

Source: International Data Corporation, 1999

1 **C. PC Postage Revenue**

2 The USPS gave the official start to PC postage in August, 1999, with approval for
3 national rollout given to E-Stamp and Stamps.com after an extensive period of testing.
4 Postage revenue for 1999 represents acquisition of PC postage hardware and postage.
5 Not all the postage sold will be used in the quarter, although IDC's estimates are based
6 on the postage sold, rather than the postage used (essentially the way postage meter
7 revenue and stamp revenue can also be considered).

8

9 Total spending on PC postage will be growing by 275.6% annually, as Table 10
10 indicates. From the start-up year of 1999, when total PC postage spending (equipment
11 plus postage) will reach \$8.2 million, annual spending will grow by a factor of roughly
12 200 to reach \$1.6 billion in 2003. IDC believes that PC postage will come to represent
13 over 10% of total postage spending by small businesses and income-generating home
14 offices. Revenue related to ground and overnight package delivery (specifically priority
15 mail) will represent an additional opportunity for industry participants.

16

17 IDC believes that the largest share of PC postage revenue will come from small
18 businesses, compared with home-based businesses, although the small business share
19 will decline from about four-fifths initially to about two-thirds at the end of the planning
20 period. Small business spending on PC postage will increase by 258.9% annually from
21 \$6.6 million in 1999 to \$1,095.3 million in 2003. Spending by primary-income-generating

1 home offices will increase even more rapidly, by 328.0% annually, from \$1.6 million in
 2 1999 to \$537.0 million in 2003

3

Table 10

U.S. Small Business and Income-Generating Home Office Spending on PC Postage, 1999–2003 (\$M)

	1999	2000	2001	2002	2003	1999– 2003 CAGR (%)
Small business PC postage spending	6.6	212.0	435.9	741.9	1,095.3	258.9
Home office PC postage spending	1.6	80.8	178.0	327.1	537.0	328.0
Total	8.2	292.8	613.9	1,069.0	1,632.3	275.6
Share of total first class spending (%)	0.1	2.2	4.3	7.0	10.0	NA

Key Assumptions:

- U.S. economic growth rates will not change significantly.
- 1999 is the first year when PC postage is commercially available, beginning in August.
- PC postage estimates include spending of first class postage only; overnight and parcel post package delivery are not included.

Messages in the Data:

- Starting at one-half of a percent in 1999, the share of home office first class postage represented by PC postage will grow to almost 8% in 2003.
- The growth of home office PC postage spending will be similar to that of small business PC spending, roughly doubling each year throughout the planning period.

Source: International Data Corporation, 1999

4

5 The growth rates in PC postage spending are especially high because the base year of
 6 1999 represented less than four months of sales and the beginning of active promotion.
 7 While first class postage will represent the heart of PC postage spending, it should also
 8 be noted that USPS spending for overnight express mail, second day, and parcel-post
 9 packages will represent additional revenue opportunities.

1 IV. Small Business Use of Postage and Mail 2 Equipment

3 A. Postage Equipment Use and Acquisition Plans

4 Small businesses vary in their use of basic postage equipment — postage meters and
5 scales. Because the largest share of meters is leased rather than owned, the up-front
6 costs of ownership are not prohibitive. However, with lease costs of \$20–40 per month
7 in addition to postage, refilling, and ink supplies, the continuing expense of postage
8 equipment can be prohibitive to small businesses.

9
10 As Table 11 indicates, just over one-quarter of all small businesses have a postage
11 meter and scale. Meter use grows dramatically with company size, from less than 15%
12 of firms with under five employees to 77.7% of firms with 50–99 employees. The use of
13 scales tracks very closely with the use of meters, although actually falls below meter
14 use in larger firms — most likely, the result of scales being incorporated in more
15 advanced postage equipment.

Table 11
U.S. Small Business Use of Postage Meters and Scales by Company Size, 1999
(%)

	Total	Number of Employees				
		Under 5	5–9	10–19	20–49	50–99
Have postage meter	28.3	14.8	35.4	44.2	62.6	77.7
Have postage scale	26.5	15.0	34.3	39.1	51.5	70.8

N = 1,043

Source: IDC's *Small Business Survey*, 1999

16

1 The use of postage meters is associated with the use of more advanced technology in
 2 general, as Table 12 indicates. The majority of those with LANs (55.7%) and almost half
 3 of those with a home page (48.8%) use postage meters, which would be in keeping with
 4 the higher level of mail volume associated with these firms. Table 13 describes plans to
 5 add different postage equipment by small businesses of different sizes.

6

Table 12

U.S. Small Business Use of Postage Meters and Scales by Technology Users, 1999 (%)

	Total	PC Users	LAN Uses	Internet Users	Have Home Page
Have postage meter	28.3	30.4	55.7	33.6	48.8
Have postage scale	26.5	28.7	55.1	33.1	49.0

N = 1,043

Source: IDC's *Small Business Survey*, 1999

7

Table 13

U.S. Small Business Plans to Add Postage Meters by Company Size, 1999 (%)

	Total	Number of Employees				
		Under 5	5-9	10-19	20-49	50-99
Current meter user	1.7	1.6	1.6	1.6	1.9	2.0
Current meter non-user	5.1	4.7	5.2	6.5	4.7	20.7
Total	4.1	4.2	3.9	4.3	2.9	6.2

N = 1,043

Source: IDC's *Small Business Survey*, 1999

8

1 **B. Interest in Different Meter and PC Postage Solutions**

2 ***PC Postage Interest by Company Size***

3 IDC tested a variety of traditional and PC postage concepts to assess general interest in
 4 different approaches. Only the most basic descriptions of different approaches were
 5 provided, with the goal of developing an assessment of the general appeal of alternative
 6 solutions. As specific program details are refined, interest will increase or decrease
 7 depending on how effectively issues like cost and implementation are addressed. The
 8 use of a four-point scale of interest (very interested, somewhat interested, slightly
 9 interested, or not at all interested) provides a basic measure of technology appeal that
 10 can be compared across different small business segments.

11

12 The first postage solution tested was the traditional postage meter that is refilled by
 13 telephone. This solution was of greatest interest to small firms ^{with 5-99 employees,} ~~regardless of company~~
 14 ~~size~~, as Table 14 indicates. Interest is greatest among larger firms, and smallest among
 15 smaller ones. Refilling the meter by phone was stronger than via the Internet, although
 16 interest increased with company size. Connecting by phone and implicitly by PC and
 17 modem was generally more appealing than using the Internet. For some small
 18 businesses, Internet-based postage solutions will not automatically be perceived as
 19 superior.

Table 14
U.S. Small Business Interest in Different PC Postage Alternatives by Company Size, 1999 (%)

	Total	Number of Employees				
		Under 5	5-9	10-19	20-49	50-99
Traditional meter, refill by phone						
Very interested	12.8	8.5	15.2	19.7	17.9	26.8
Somewhat interested	10.9	6.6	13.4	15.2	17.3	32.5
Total	23.7	15.1	28.6	34.9	35.2	59.3
Traditional meter, refill by Internet						
Very interested	6.4	3.8	6.7	9.1	14.8	14.6
Somewhat interested	10.8	5.5	15.2	18.2	16.7	25.2
Total	17.2	9.3	21.9	27.3	31.5	39.8
PC postage – any type						
Very interested	9.5	8.0	9.8	12.1	14.8	8.1
Somewhat interested	15.7	13.7	17.7	15.9	19.1	25.2
Total	25.2	21.7	27.5	28.0	33.9	33.3

N (PC owners) = 949

Source: IDC's *Small Business Survey*, 1999

1 PC Postage solutions, which involve postage delivered over the Internet to a PC and
2 printer, is more appealing to firms with under 50 employees than refilling meters over
3 the Internet. As firms increase in size PC postage solutions become less attractive,
4 although interest remains competitive with other approaches in firms with under 50
5 employees, Firms with 50-99 employees are more interested in traditional meters filled
6 via telephone and in traditional meters refilled over the Internet.

7

8 Small firms with postage meters generally prefer refilling their meters via the Internet
9 than using PC postage, as Table 15 indicates. This preference is greatest among firms
10 with under 5 employees and with 50-99 employees. The percentages of firms with 5-49
11 employees very interested in either technology were similar, suggesting a willingness to
12 consider alternative postage solutions despite having already invested in traditional
13 meters.

Table 15
U.S. Small Business Interest in PC Postage,
Postage Meter User Versus Non-User, 1999 (% of PC Owners)

	Total	Number of Employees				
		Under 5	5-9	10-19	20-49	50-99
Postage meter users (N = 283)						
Traditional meter, refill by Internet						
Very interested	16.2	15.0	15.0	15.3	20.2	17.5
Somewhat interested	19.5	11.7	20.0	23.7	23.1	27.8
Total	35.7	26.7	35.0	39.0	43.3	45.3
PC postage – any type						
Very interested	14.6	10.0	18.3	15.3	19.2	8.2
Somewhat interested	22.4	16.7	28.3	20.3	25.0	23.7
Total	37.0	26.7	46.6	35.6	44.2	31.9
Postage meter non-users (N = 661)						
Traditional meter, refill by Internet						
Very interested	2.1	1.6	1.9	4.1	5.2	3.8
Somewhat interested	7.0	4.3	12.5	13.7	5.2	15.4
Total	9.1	5.9	14.4	17.8	10.4	19.2
PC postage – any type						
Very interested	7.2	7.6	4.8	9.6	6.9	7.7
Somewhat interested	12.7	13.2	11.5	12.3	8.6	30.8
Total	19.9	20.8	16.3	21.9	15.5	38.5

Source: IDC's *Small Business Survey*, 1999

1 **PC Postage Interest by Technology Use**

2 Interest in PC postage solutions also varies by the use of other technologies, as Table
3 16 indicates. Small businesses with LANs show the highest interest in using a traditional
4 meter refilled by phone. Both small business Internet users and home-page users also
5 prefer traditional meters refilled by phone, although the balance shifts in favor of PC
6 postage solutions when the percentages include those both very and somewhat
7 interested. Small business Internet users will be the prime prospects for PC postage,
8 and home page users will also be key, given the large percentage of small businesses
9 with home pages that are very interested in PC postage.

10

Table 16

U.S. Small Business Interest PC Postage by Technology Use, 1999 (%)

	PC Users	LAN Users	Internet Users	Have Page	Home
Traditional meter, refill by phone					
Very interested	12.8	22.1	12.9	18.9	
Somewhat interested	10.9	14.7	12.6	14.6	
Total	23.7	36.8	25.5	33.5	
Traditional meter, refill by Internet					
Very interested	6.4	14.3	8.7	13.9	
Somewhat interested	10.8	14.1	12.7	14.6	
Total	17.2	28.4	21.4	28.5	
PC postage – any type					
Very interested	9.5	13.8	12.8	16.1	
Somewhat interested	15.7	22.5	18.2	21.2	
Total	25.2	36.3	31.0	37.3	

N (PC owners) = 949

Notes:

Home page users are generally more interested in any technology alternative.

Internet users are generally more interested than total PC owners in any of the Internet-related postage solutions, but phone refill of meter still cited most often.

Source: IDC's *Small Business Survey*, 1999

1 **V. The U.S. Postal Service's Role as Regulator and Advocate**

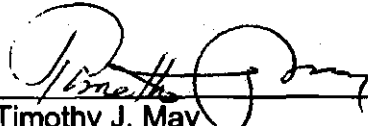
2 A unique attribute associated with this market is the role of the USPS. The careful
3 deliberation and testing of new technology is unlike anything to be found elsewhere in
4 the high-technology community (with the possible exception of the pharmaceutical
5 industry). The lengthy beta testing associated with E-Stamp's and Stamps.com's
6 programs is simply not a part of the thinking in Internet companies. In addition to being
7 something of a gatekeeper and umpire in fully vetting new technology, the USPS also
8 serves as a cheerleader, actively encouraging new technology. Sometimes these two
9 missions can be in conflict — the more cautious side of the house is generally
10 triumphant, although the role of industry supporter will continue to be important.

11

12 Internet postage can play an important part in helping the Postal Service to move more
13 mail more efficiently. IDC believes that this factor has been important in the relatively fast
14 (for the Post Office) approval time for PC postage. PC postage also benefits the USPS by
15 bringing advanced mailing capabilities to smaller firms, which can be expected to make
16 greater use of the mail. The USPS also benefits from the ZIP code checking capability
17 that PC postage provides. (While large mailers receive discounts by helping the USPS
18 sort the mail, so far the same is not true for small businesses that, individually, may not
19 qualify for discounted mailing rates.)

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 CHAIRMAN GLEIMAN: Mr. Boggs, 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: They would be.

9 CHAIRMAN GLEIMAN: That being the case, counsel,
10 if I could impose on you one more time to please provide the
11 copies of the Designated Written Cross Examination to the
12 Court Reporter, I'll direct that that material be included
13 as evidence in the record and transcribed into the record.

14 [Designated Written Cross
15 Examination of Raymond Boggs was
16 received into evidence and
17 transcribed into the record.]

18
19
20
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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 E-STAMP & STAMPS.COM
WITNESS RAYMOND BOGGS
(E&S-T-1)

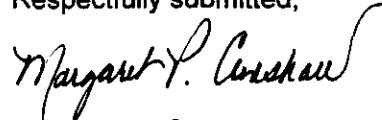
Party

United States Postal Service

Interrogatories

USPS/E&S-T1-1-3, 5-6, 8-13, 15-18, 20

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Margaret P. Crenshaw". The signature is fluid and cursive, with a large, sweeping flourish at the end.

Margaret P. Crenshaw
Secretary

INTERROGATORY RESPONSES OF
E-STAMP & STAMPS.COM
WITNESS RAYMOND BOGGS (T-1)
DESIGNATED AS WRITTEN CROSS-EXAMINATION

<u>Interrogatory</u>	<u>Designating Parties</u>
USPS/E&S-T1-1	USPS
USPS/E&S-T1-2	USPS
USPS/E&S-T1-3	USPS
USPS/E&S-T1-5	USPS
USPS/E&S-T1-6	USPS
USPS/E&S-T1-8	USPS
USPS/E&S-T1-9	USPS
USPS/E&S-T1-10	USPS
USPS/E&S-T1-11	USPS
USPS/E&S-T1-12	USPS
USPS/E&S-T1-13	USPS
USPS/E&S-T1-15	USPS
USPS/E&S-T1-16	USPS
USPS/E&S-T1-17	USPS
USPS/E&S-T1-18	USPS
USPS/E&S-T1-20	USPS

**RESPONSE OF E-STAMP CORPORATION AND STAMPS.COM WITNESS RAY
BOGGS TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE**

USPS/E&S-T1-1 On page 17 lines 2-3 of your testimony you state "[s]mall businesses are interested in the idea of PC postage, with more than one PC owner in 10 very or somewhat interested in the concept." Does this not suggest an overwhelming majority of small business PC owners are neither "very" nor "somewhat" interested in the concept?

RESPONSE:

Yes, the majority of small businesses are neither "very" nor "somewhat" interested in any form of PC postage

USPS/E&S-T1-2 On page 17 lines 10-11 of your testimony you state "[p]ricing was not associated with any of the solutions; just the general interest levels in the different concepts were measured."

- a. In your market research experience, have the specific prices associated with products had a direct influence on the level of interest in that product? If your response is affirmative to any degree, please explain why specific pricing information was not included in the research that supports your testimony.
- b. Did your research gauge the interest level of small businesses and other PC postage users were a discounted rate to be offered? If not, why not?

RESPONSE:

- a. Yes, in my experience price most definitely has an influence on interest in a product. Pricing was not included as part of the survey research because of time and cost constraints.
- b. No assessment was made of interest in PC postage if a discounted postal rate were to be offered. This was because of time and cost constraints.

USPS/E&S-T1-3 On page 25 lines 19-20 of your testimony you state that small businesses "will be the primary market for PC postage." Did you conduct any market research as to what types of mailers currently use PC postage products? If so, please provide copies of all documents generated in connection with such research.

**RESPONSE OF E-STAMP CORPORATION AND STAMPS.COM WITNESS RAY
BOGGS TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE**

RESPONSE:

No research was conducted on what types of mailers currently use PC products.

**RESPONSE OF E-STAMP CORPORATION AND STAMPS.COM WITNESS RAY
BOGGS TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE**

USPS/E&S-T1-5 On page 10 lines 10 and 11, you state that a potential benefit of PC Postage to the USPS is to "[r]educed the need for 'bricks and mortar' post offices to accommodate increasing small business volume." Please provide any research or studies that support this statement.

RESPONSE:

No research or studies were conducted to support this assertion.

USPS/E&S-T1-6 On page 10 lines 12 and 13 you state that a potential benefit of PC Postage to the USPS is "[s]upport for PC-based mail applications that will contribute to significant growth in small business use of the mail for promotional purposes." On page 11 lines 8 and 9 you further state "[t]otal postage spending for both segments [small businesses and income-generating home offices] combined will be growing at 7.1% annually." Please confirm that this growth in postage spending was determined independently of the support for PC-based mail applications.

RESPONSE:

Yes. The growth of postage spending was determined independently of support or PC-based mail applications.

**RESPONSE OF E-STAMP CORPORATION AND STAMPS.COM WITNESS RAY
BOGGS TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE**

USPS/E&S-T1-8 On page 36 you include a chart of the "U.S. Small Business and Income-Generating Home Office PC Postage Spending, 1999-2003." This chart projects PC Postage spending on First Class Mail to be \$292.8 million in calendar year 2000.

- a. When was the study that led to these projections conducted?
- b. Have the results of the study been compared to actual PC Postage spending by small businesses and income-generating home offices? If so, what were the results?
- c. Confirm that the projected spending for year 2000 approximates the actual PC Postage spending to date? If not, provide justification for the disparity.

RESPONSE:

- a. Forecasts were completed as part of the PC Postage report, and were completed in November, 1999

**RESPONSE OF E-STAMP CORPORATION AND STAMPS.COM WITNESS RAY
BOGGS TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE**

- b. Study forecasts have not been compared to actual PC postage spending by small businesses and home offices.
- c. We have not estimated total PC postage spending to date to compare to year 2000 forecasts.

**RESPONSE OF E-STAMP CORPORATION AND STAMPS.COM WITNESS BOGGS
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE**

USPS/E&S-T1-9 On page 19 you discuss the 1999 U.S. Small Business Survey.

- a. Please confirm that this survey is the source for all of the small business data presented in your testimony. If not confirmed, please explain.
- b. Please provide a copy of the small business questionnaire referenced on the bottom of page 19.
- c. Was the 1999 Small business Survey conducted solely for the purpose of determining the market for PC postage, or did International Data Corporation conduct the survey as part of an ongoing research project? Please explain.
- d. Please confirm that the 1999 Small Business Survey was conducted during the 4Q98 and 1Q99. If you are unable to confirm, please explain.
- e. Please provide a copy of your workpapers underlying the tabulations of small business data presented in your testimony; for example, those presented at Tables 8 and 10 of your testimony.

RESPONSE:

- a. The 1999 U.S. Small Business Survey is the source of small business survey data presented in the testimony with the exception of all forecasts, which are also based on IDC judgement.
- b. Small Business Survey questions that related to PC postage are provided in Library Reference E&S-LR-I-1:
- c. The 1999 Small Business Survey was conducted as part of the Small Business Markets continuing information service, a multi-client research program.
- d. The 1999 Small Business Survey was conducted in 4Q 98 and 1Q 99.
- e. Workpapers associated with the development of forecasts in Tables 8, 9, and 10 are presented in Library Reference E&S-LR-I-2.

**RESPONSE OF E-STAMP CORPORATION AND STAMPS.COM WITNESS BOGGS
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE**

USPS/E&S-T1-10 On page 20, you parenthetically state, "IDC tracks home-based businesses in its annual work-at-home-survey."

- a. Please confirm that this survey is the source for all of the home office data presented in your testimony. If not confirmed, please explain.
- b. Please provide a copy of this home office survey.
- c. Was this survey conducted solely the purpose of determining the market for PC postage, or did International Data Corporation conduct the survey as part of an ongoing research project? Please explain.
- d. Please confirm that this annual work-at-home survey was conducted during the 4Q98 and 1Q99. If you are unable to confirm, please explain.
- e. Please provide a copy of your workpapers underlying the tabulations of home office data presented in your testimony; for example, those presented at Tables 9 and 10 of your testimony.

RESPONSE:

- a. IDC's annual Work-at-Home survey was not used in preparation of the home office data presented in this testimony, except for estimates of the number of home office households
- b. IDC Work-at-Home Survey questions used to develop estimates of home office households are provided in Library Reference E&S-LR-I-3.
- c. The 1999 Work-at-Home survey was conducted as part of the Home Office continuing information service, a multi-client research program.
- d. The 1999 Work-at-Home survey was conducted in September, 1999
- e. Workpapers associated with the development of forecasts in Tables 8, 9, and 10 are presented in Library Reference E&S-LR-I-2.

**RESPONSE OF E-STAMP CORPORATION AND STAMPS.COM WITNESS BOGGS
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE**

USPS/E&S-T1-11 Two key assumptions are listed on the bottom of Figures 2-3 in your testimony.

- a. Please provide the basis for each of the two assumptions, and how each assumption is used in the development of the data presented in the figures.
- b. On page 11 of your testimony, you state, "[t]otal postage spending for both segments [small offices and income-generating home offices] will be growing at 7.1% annually...." Is the basis for this growth rate the assumption that such spending will continue to track closely with spending on other communications technologies? If not, please explain.
- c. Please reproduce Figure 2 in your testimony assuming a 3.5% annual growth rate, which is approximately one-half the assumed level.

RESPONSE:

- a. The basis for both assumptions is the anticipated absence of factors that would have significant positive or negative impact. In preparing the data, the assumptions meant that no major change in annual growth was anticipated over the planning period.
- b. Yes, the assumption is that total postage spending will track closely with spending on other communications technologies.
- c. Figure 2, assuming a 3.5% annual growth rate, in Table form:

**RESPONSE OF E-STAMP CORPORATION AND STAMPS.COM WITNESS BOGGS
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE**

Small Business and Income-Generating Home Office Annual Spending on First Class

Postage (\$M) Assuming 3.5% CAGR

		1998	1999	2000	2001	2002	2003	CAGR
Small Business		6731	6966	7210	7462	7724	7994	3.5%
Home Office		4839	5008	5184	5365	5553	5747	3.5%
Total		11570	11975	12394	12828	13276	13741	3.5%

**RESPONSE OF E-STAMP CORPORATION AND STAMPS.COM WITNESS BOGGS
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE**

USPS/E&S-T1-12 On page 17 of your testimony, you discuss small business attitudes towards PC postage and state, "[i]t should be noted that these interest measures were collected in what was essentially a concept test rather than as a precise comparison."

a. Please describe in detail what you mean by the term "concept test" and provide a description of the concept(s) tested.

b. From the standpoint of statistical precision, what is the implication of conducting a "concept test" rather than a "precise comparison?"

RESPONSE:

a. A "concept test" examines general interest in a product idea presented in general form. Specific, detailed product elements are not included. The general idea of PC postage was evaluated through the use of basic descriptions:

A number of companies are introducing ways to use PCs and printers as alternatives to traditional postage meter. Some products require connection to the Internet while postage is printed, others provide a "vault" the size of a small paper clip box that connects to the PC and stores the postage which can be printed at any time. How interested would you be in different types "PC Postage?"

b. The results of a concept test are the same as "precise comparisons" in terms of statistical precision. The results of both types of research can be projected reliably to the total population based on the sample size being surveyed. A more precise examination of new product ideas would yield results less likely to change as respondents learn more about new technology than would a concept test.

**RESPONSE OF E-STAMP CORPORATION AND STAMPS.COM WITNESS BOGGS
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE**

USPS/E&S-T1-13 Page 23 of your testimony presents the margin of error for IDC's 1999 U.S. Small Business Survey. What is the comparable margin of error for the survey used in developing the home office data presented in your testimony?

RESPONSE:

The home office survey of 776 households has an error of $\pm 3.51\%$.

**RESPONSE OF E-STAMP CORPORATION AND STAMPS.COM WITNESS BOGGS
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE**

USPS/E&S-T1-15 Listed at the bottom of Tables 2-10 are "key assumptions."
Please provide the basis for each key assumption listed.

RESPONSE:

"Small business formation continues at the present rate as U.S. economic growth continues with only minor fluctuation"

BASIS: IDC judgement, past history

"Population growth will be greatest among firms with 5-9 employees"

BASIS: IDC judgement, past history

"Small business formation will continue at the present rate and the largest share of new businesses will add PCs."

BASIS: IDC judgement, past history

"The smallest of small firms, with under 5 employees, will continue to lag behind other firms in using PCs."

BASIS: IDC judgement, past history

"Growth in PC penetration will be fueled by lower prices, increasing ease of use, and perceived benefits of the Internet."

BASIS: IDC judgement

"Small business interest in using the Internet will increase for a variety of applications."

BASIS: IDC judgement

"More retailers, traditionally the slowest to adopt new technology, will be interested in using PCs and the Internet."

BASIS: IDC judgement, past history

**RESPONSE OF E-STAMP CORPORATION AND STAMPS.COM WITNESS BOGGS
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE**

"Lower cost of broadband access will increase small business interest in the Internet for different applications."

BASIS: IDC judgement

"U.S. economic conditions will not change significantly."

BASIS: IDC judgement

"Economic conditions and tax law changes will foster home-based business formation."

BASIS: IDC judgement

"1999 is the first year when PC postage is commercially available beginning in August."

BASIS: Past history

"PC postage estimates include estimates of first class postage only; overnight and parcel post package delivery are not included."

BASIS: IDC market definition

**RESPONSE OF E-STAMP CORPORATION AND STAMPS.COM WITNESS BOGGS
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE**

USPS/E&S-T1-16 On Page 35, at lines 12-14, you state, "IDC believes that PC postage will come to represent over 10% of total postage spending by small businesses and income-generating home offices." Is this "belief" a direct quantitative finding of your survey work, or does it represent an opinion? Please explain.

RESPONSE:

This represents an opinion that it will take until 2003 for the preliminary interest in PC postage expressed by roughly 10% of small businesses to translate into PC postage spending.

**RESPONSE OF E-STAMP CORPORATION AND STAMPS.COM WITNESS BOGGS
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE**

USPS/E&S-T1-17 Table 10 of your testimony presents projected small office and home office spending on PC Postage from 1999-2003. Please provide the volumes of First-Class Mail and the numbers of small businesses or home offices associated with each revenue cell presented in Table 10.

RESPONSE:

IDC did not prepare mail volume nor number of forecasted customers as part of its research.

**RESPONSE OF E-STAMP CORPORATION AND STAMPS.COM WITNESS BOGGS
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE**

USPS/E&S-T1-18 Please confirm that Tables 8 and 9 are not the tables to which intended reference is made on page 33, lines 17-21. If unable to confirm, please explain.

RESPONSE:

Tables 8 and 9 are the correct tables for the text reference, but the total PC spending for both small businesses and home offices were omitted from the table. These totals could be calculated from the tables by dividing the total PC postage figure by the percentage PC represented of total first class spending. These totals are also presented in Figure 2 and are included below:

**Small Business and Income-Generating Home Office Annual Spending on First Class
Postage (\$M)**

	1998	1999	2000	2001	2002	2003	CAGR
Small Business	6731	7196	7707	8254	8815	9415	6.9%
Home Office	4839	5197	5603	6023	6456	6908	7.4%
Total	11570	12393	13309	14277	15272	16323	7.1%

**RESPONSE OF E-STAMP CORPORATION AND STAMPS.COM WITNESS BOGGS
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE**

USPS/E&S-T1-20 On page 41, lines 8-9 you state "[s]mall firms with postage meters generally prefer refilling their meters via the Internet than using PC postage, as Table 15 indicates." Please explain why Table 15 shows more postage meter users interested in PC Postage (37.0% "very interested" or "somewhat interested") than in a traditional meter refilled by telephone (35.7% "very interested" or "somewhat interested").

RESPONSE:

The combined interest in either PC postage solution was greater than using the Internet to refill meters, as confirmed by the table, but not indicated in the text. The combined percentage of 37.0% is composed of 32.2% of meter users very/somewhat interested in PC postage previously downloaded from the Internet and 23.2% very/somewhat interested in printing PC postage directly from the Internet. (Many cited interest in both). While more small firms with postage meters cited interest in PC postage solutions in general than in refilling their meters over the Internet, no individual PC postage solution (print postage while online or print postage previously downloaded) generated higher interest than refilling meters via the Internet.

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

3 [No response.]

4 CHAIRMAN GLEIMAN: If not, that brings us to oral
5 cross examination. I think we've established that the
6 Postal Service is the only party that has requested oral
7 cross examination, but lest I leave anyone out, is there
8 anyone else?

9 [No response.]

10 CHAIRMAN GLEIMAN: If not, then, Mr. Moore, you
11 may begin.

12 MR. MOORE: Thank you.

13 CROSS EXAMINATION

14 BY MR. MOORE:

15 Q Good afternoon, Mr. Boggs.

16 A Good afternoon.

17 Q Would you please turn to your response to
18 USPS-T1-2?

19 A Actually I don't have the interrogatories before
20 me. I know them fairly well, if you could give me a quick
21 summary, I could probably respond to them.

22 Q Okay, in that response you --

23 A Oh, thank you. Could I have that number again,
24 please?

25 Q USPS-T1-2. Okay, there you describe a generic PC

1 Postage product; is that correct?

2 A That's right.

3 Q It doesn't indicate or describe the specific fee
4 structure and postage application methods used by EStamp or
5 Stamps.com; is that correct?

6 A That's correct.

7 Q Would you agree that a survey seeking to measure
8 the level of customer interest in a specific service is more
9 likely to give a reliable estimate of consumer interest if
10 the survey specifically describes the service and informs
11 respondents about the real or potential costs of obtaining
12 the service?

13 A Absolutely. The more detail you provide on any
14 product, the more accurate the information you get.

15 Q And in putting together your survey, did you ever
16 consider including information about EStamp or Stamps.com
17 fees?

18 A We did, but because of space limitations, did not
19 include that information.

20 Q Okay. Do EStamps and Stamps.com periodically,
21 and, let's say, on a quarterly basis, prepare internal
22 assessments of yearly 2000 small business home office
23 spending on PC Postage?

24 A I'm not aware of that.

25 Q Is there any way that you could find out and

1 provide that information to the Postal Service?

2 A Well, I guess the Postal Service would have the
3 same opportunity that I would, which would simply be by
4 asking them.

5 Q Asking?

6 A EStamp and Stamps.com, what their estimates are.

7 Q And you represent EStamps and Stamps.com?

8 A IDC is a market research firm specializing in the
9 electronics industry. EStamps and Stamps.com are clients of
10 research programs that we have on a multiclient basis.

11 Q I'll come back to that.

12 MR. MOORE: Just one moment.

13 [Pause.]

14 MR. MOORE: Mr. Chairman, we have, I guess, a
15 procedural question. We've posed a question to the witness,
16 asking for information.

17 He's responded that that information is in the
18 hands of EStamps and Stamps.com. He's here representing
19 both of those companies today, and we would ask that the
20 witness should be asked to provide the information to the
21 Postal Service since he is representing both companies.

22 MR. MAY: Well, Mr. Chairman, it does not happen
23 to be a matter that he's testified about. And consequently
24 -- and he isn't an employee of EStamp Corporation.

25 We're not at this point arguing that the

1 information requested is not relevant; it's simply that he's
2 asking the wrong individual for this information.

3 They had the opportunity for some time now to
4 address that inquiry to EStamp Corporation, either as an
5 institutional question, probably most likely. I don't know
6 what the Company's response may or may not have been,
7 depending upon the sensitivity of the information.

8 But I suggest that this is not the appropriate
9 person to ask to gather that information.

10 CHAIRMAN GLEIMAN: My metal is going to be tested
11 again today. Mr. Moore, what information were you asking
12 for again?

13 MR. MOORE: We had asked for an assessment of
14 yearly -- for the year 2000, small business and home office
15 spending on PC Postage.

16 Specifically what we're trying to do is compare a
17 forecast that they have made for the year 2000 against what
18 their actual experiences are, just to see how accurate they
19 are in the forecasts.

20 CHAIRMAN GLEIMAN: It seems to me that you should
21 have asked the two companies individually for this
22 information previously.

23 And I think if you want to pursue the matter, I'm
24 going to ask you to put the request in writing, and then
25 we'll take it under consideration.

1 At this point, I'd like to proceed with the cross
2 examination.

3 MR. MOORE: Well, with that, we have no further
4 questions.

5 CHAIRMAN GLEIMAN: Is there any followup?

6 [No response.]

7 CHAIRMAN GLEIMAN: Any questions from the bench?

8 COMMISSIONER OMAS: Mr. Chairman, I have one real
9 quick on.

10 CHAIRMAN GLEIMAN: Commissioner Omas? Mr. Boggs,
11 in your testimony, you claim that the rapid growth in PC
12 Postage spending will roughly double annually, and that it
13 will represent about 10 percent of postage spending by SOHOS
14 by 2003.

15 Earlier, I talked with Mr. Jones, and how do you
16 reconcile this rapid growth with the response Mr. Jones gave
17 me earlier that lacking a discount, the growth of PC mail
18 may be in jeopardy?

19 THE WITNESS: Not to put words into Mr. Jones's
20 mouth, but my sense from his testimony was that the
21 incentive of a lower price would certainly foster more rapid
22 growth than might be present if there was no price
23 incentive.

24 In fact, our estimates were based on market
25 assessment, independent of a price incentive.

1 COMMISSIONER OMAS: So you're saying then that a
2 discount is not going to do anything one way or the other
3 for the PC Postage?

4 THE WITNESS: Oh, no, quite the contrary; that a
5 discount would, indeed, have an impact on both the pace of
6 adoption and the spending per company, but that, you know,
7 even absent that discount, there is still going to be a
8 strong interest in the technology.

9 COMMISSIONER OMAS: Thank you.

10 CHAIRMAN GLEIMAN: Followup to Bench questions?

11 [No response.]

12 CHAIRMAN GLEIMAN: Time for redirect, Mr. May.

13 REDIRECT EXAMINATION

14 BY MR. MAY:

15 Q Just one question: In your surveys -- first of
16 all, you are familiar with the difference between an open
17 system and a closed system PC postage product?

18 A Correct.

19 Q And in your survey, did you include both open and
20 closed systems?

21 A Not from the standpoint of what the respondent
22 would be able to make a decision on.

23 Q All right, so it wasn't -- so the respondents were
24 not given a detailed distinction between the two when they
25 were asked to respond?

1 A Correct, they were not.

2 Q So the respondents were or were not aware of the
3 burdens of the open system?

4 A Oh, they were not aware of any burdens.

5 MR. MAY: Thank you.

6 CHAIRMAN GLEIMAN: Is there any recross?

7 [No response.]

8 CHAIRMAN GLEIMAN: If not, Mr. Boggs, that
9 completes your testimony here today. We appreciate your
10 appearance and contributions to the record.

11 We thank you, and you're excused. We're going to
12 break for lunch and come back at quarter after the hour,
13 quarter after 1:00.

14 [Whereupon, at 12:25 p.m., the hearing was
15 recessed for luncheon, to be reconvened this same day at
16 1:15 p.m.]

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1 A F T E R N O O N S E S S I O N

2 [1:17 p.m.]

3 CHAIRMAN GLEIMAN: Mr. Volner, would you introduce
4 your next witness?

5 MR. VOLNER: Mr. Chairman, on behalf of Pitney
6 Bowes, I call John Haldi.

7 CHAIRMAN GLEIMAN: Dr. Haldi really didn't need an
8 introduction, and my recollection is that he is already
9 under oath several times over in this proceeding.
10 Whereupon,

11 JOHN HALDI,
12 a witness, having been recalled for examination and, having
13 been previously duly sworn, was examined and testified
14 further as follows:

15 CHAIRMAN GLEIMAN: So, if you would move his
16 testimony.

17 MR. VOLNER: I will do so, Mr. Chairman.

18 DIRECT EXAMINATION

19 BY MR. VOLNER:

20 Q Dr. Haldi, you have in front of you, I believe,
21 two copies of your pre-filed testimony in this case,
22 designated as PB-T-2, is that correct?

23 A That is correct.

24 Q Was that testimony prepared by you or under your
25 supervision and control?

1 A Yes, it was.

2 Q And if you were to give that testimony orally
3 today, would it be the same?

4 A Yes, it would be.

5 Q And that includes the corrections and the errata
6 that we filed on Friday?

7 A That is correct.

8 MR. VOLNER: Mr. Chairman, I am going to supply
9 the reporter with two copies of PB-T-2, with the request
10 that it be moved into evidence.

11 CHAIRMAN GLEIMAN: Is there an objection?

12 [No response.]

13 CHAIRMAN GLEIMAN: Without any, the testimony of
14 Dr. Haldi will be moved into evidence and transcribed into
15 the record.

16 [Direct Testimony of John Haldi,
17 PB-T-2, was received into evidence
18 and transcribed into the record.]
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PB-T-2

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

POSTAL RATES AND FEE CHANGES, 2000

Docket No. R2000-1

Direct Testimony of

Dr. John Haldi

Concerning

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

On Behalf of

PITNEY BOWES INC.

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May 22, 2000

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1 **Autobiographical Sketch**

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

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

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

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

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

1 **I. Purpose and Conclusions**

2 The purpose of my testimony is to propose the establishment of a
3 new worksharing discount for single-piece First-Class metered mail, both
4 letters and private post cards, in the amount of 1.0 cent per piece.
5 Throughout this testimony the term metered mail should be understood
6 to include mail that is metered both through stand-alone dedicated
7 postage evidencing devices and PC Postage meter devices, and the term
8 First-Class "letters" should be understood to include flats and IPPs.

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

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

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

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

II. Introduction

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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Table 1

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

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

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

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

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

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

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.⁶

IV. Rationale for Proposed Discount

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

IV. Rationale for Proposed Discount

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

13 *Id.*

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

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

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

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

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

3
4 This is not the first proposal to recognize cost differences within
5 single piece First-Class Mail. Qualified Business Reply Mail ("QBRM")
6 receives a lower rate in recognition of its lower mail processing and
7 delivery cost, but pays an additional fee that explicitly recognizes the
8 high transaction cost involved in counting pieces and collecting revenue.
9 For QBRM the Postal Service charges 30 cents postage plus a fee of 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 The problems which the Governors have cited with respect to
2 CRM do not arise under the discount proposed here. The mailing public
3 would not need to maintain any inventory of stamps of any
4 denomination. In fact, an important purpose of the discount is to induce
5 people to quit using stamps altogether, in favor of more cost-effective
6 metering technology.

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

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

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

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

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

* * *

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

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

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

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

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

9
10 **A. Decrease in Revenues**

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

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

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

4

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

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

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

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

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

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

12

13 **C. Net Revenue Effect**

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

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

1 **Appendix A**

2 **COST OF STAMPS**

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

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

13 **Costs Attributed to Stamps**

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

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

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

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

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

4

5 **Institutional Cost of Stamps**

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

Table A-1

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

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

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

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

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

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

1 stamp stock. Charging the stamp program with the same registry fees 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.

Table A-2

Postal Service Institutional Costs
Associated with Stamps
FY1998

Row	Cost Segment	Item	Amount
1a	3	Non-variable window service cost	\$ 417,930,000
1b		Piggyback	188,068,500
2	2, 3, 15, 20	USPS stamp vending machines	82,859,143
3	10	Rural carrier stamp sales	24,853,491
4	13	Stamp sales at contract stations	24,943,100
5a		Cost of stamps by mail	36,000,000
5b		Management of Consignment Program	3,123,414
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	
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. 21/9255-9257	
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.	

1		Sources for Table A-2 (con't)
2	<u>Row</u>	
3		
4	8.	Artist costs, response to PB/USPS-T11-5 (revised 3/21/00) and 23, Tr. 6/2615, 2629-
5		2630.
6		
7	9.	Costs for the Stamp Advisory Committee, response to PB/USPS-T11-5 (revised 3/21/00)
8		and 23, Tr. 6/2613, 2629-2630.
9		
10	10.	Costs for stamp distribution network personnel, PB/USPS-T11-5 (revised 3/21/00) and 23,
11		Tr. 6/2613.
12		
13	11.	Surface transportation is used to distribute stamps; response to PB/USPS-T11-22, Tr.
14		6/2628.
15		
16	12.	Stamps are distributed to (and returned from) 35,411 outlets via registered mail; response
17		to PB/USPS-T11-21, Tr. 6/2627.

1 **Outlook for the Cost of Stamps**

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

11				
12				
13	Table A-3			
14				
15	Cost Segment 3, Window Service Costs			
16	(Selected Years, 000)			
17				
18		(1)	(2)	(3)
19				
20	Fiscal			Percent
21	Year	Total	Attributable	Attributable
22				
23	1980	\$ 626,049	\$ 296,675	47.4%
24	1986	1,150,209	554,667	48.2
25	1990	1,462,003	829,372	56.7
26	1995	2,041,047	1,173,979	57.5
27	1998	2,040,353	958,225.*	47.0
28	2001	2,308,118	1,089,001.**	47.2

30 * Volume variable (actual)

31 ** Volume variable (projected)

1 **Cost of Sales by Marketing Channel**

2
3 The cost of selling stamps and stamped paper sold via the various
4 channels used to market stamps is shown in Table A-4. In this table, the
5 attributable and institutional costs shown in Tables A-1 and A-2,
6 respectively, have been distributed to the appropriate marketing channel.
7 Costs of creating and manufacturing stamps, as well as the stamp
8 distribution network, are distributed according to revenues of each
9 marketing channel.

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

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

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

²³ LR-1-231, Attachment 4.

Table A-4

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

	(1)	(2)	(3)	(4)	(5)
	Stamps & Stamped Paper Sales	Attribu- table Cost	Institu- tional Cost	Total Cost	Total Cost as % of Sales
Source of Sales:					
Counters (includes rural carriers)	8,857,771	697,478	649,535	1,345,343	15.2%
Contract stations	586,210	10,281	26,069	36,350 ¹	6.2
Vending machines	630,876	11,064	84,071	95,835	15.1
By mail	325,312	8,958	36,625	45,583	14.0
Consignment:					
Local	172,971	3,034	332	3,366	1.9
Amplex contract	608,129	15,312	4,291	19,603	3.2
TOTAL	11,181,269	746,128	799,252	1,545,380	13.8%

Source: W/S A.4.1

1 **Appendix B**

2 **Cost of Revenues from Metered Mail**

3 **Costs Attributed to Meters**

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

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

²⁴ See USPS-T-30, pp. 15-17.

1			
2			
3		Table B-1	
4			
5		Costs Attributed to Meters	
6		Fiscal Year 1998	
7		(millions)	
8			
9		--- Cost Segment ---	
10	No.	Description	Meters
11			
12	3.	Clerks/window service	\$ 5.287
13			
14		Indirect costs, at 0.45 x clerk/	
15		window service costs	<u>2.379</u>
16			
17		Subtotal	7.666
18			
19	2 & 3	On-site meter resetting and	
20		examination cost	<u>7.455</u>
21			
22		GROSS ATTRIBUTABLE COSTS	15.121
23			
24	2 & 3	Less: fees paid by meter users (includes	
25		\$853,918 for check in/check out service)	<u>- 8.835</u>
26			
27		NET ATTRIBUTABLE COSTS	\$ 6.286
28			
29			
30	Source:	W-S B.1.1	
31			

1 **Institutional Costs of Meters**

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

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

Table B-2

**USPS Institutional Costs Associated with Meters
FY 1998**

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

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

Cost of Obtaining Revenues From Meters

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

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

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

3

4 **Outlook for Meter Costs**

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

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

²⁶ USPS-T-30, Page 15, ll. 9-16.

²⁷ *Id.* Pages 15-16.

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

1 **Appendix C**

2 **Revenues From Stamps and Meters**

3 **USPS Revenues By Source**

4 Postal Service revenues by source are shown in Table C-1.

5 Column 1 contains summary data for Postal Fiscal Year ("PFY") 1998.

6 The Postal Fiscal Year does not coincide with the Government Fiscal Year

7 ("GFY"), and operating revenues in PFY 1998 were slightly less than

8 operating revenues in GFY 1998. Column 2 adjusts the PFY 1998

9 revenues to correspond with GFY 1998 total revenues.

10
11 **Mailer-Applied Meter Postage**

12 The revenues for metered mail shown in Table C-1 do not

13 distinguish between mail that is metered by mailers and mail that has

14 meter strips generated by Postal Service window clerks. This is an

15 important distinction, since the analysis here seeks to compare revenues

16 from different forms of evidencing with the cost of obtaining those

17 revenues.

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

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

8

9 **Stamp Revenues By Source**

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

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

Table C-1

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

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

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

Table C-2

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

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

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

1 **Appendix D**

2 **Revenue Effect of Proposed Discount**

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

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

²⁹ USPS-T-6, Table 1, page 5.

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

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

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

³¹ See W.S.D.1, Part B.

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

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

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

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

Table D-1

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

A. Tolley Forecast

	Distribution (%)	Volume TYBR (000)	TYAR (000)	Reduction in Volume (000)
Stamped	48.5	25,808,707	25,645,664	163,042
Metered	44.8	23,839,795	23,689,191	150,604
Other	6.7	3,565,326	3,542,803	22,523
TOTAL	100.0	53,213.828	52,877,658	336.170

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

	Distribution (%)	Volume TYBR (000)	TYAR (000)	Reduction in Volume (000)
Stamped				
Not likely to change	39.5	20,988,434	20,855,843	132,591
Likely to change:				
With 1-cent discount	8.4	4,486,531	4,486,531	0
With no discount	0.6	333,741	333,741	0
Subtotal	48.5	25,808,707	25,676,115	132,591
Metered ^{Toll} 44.8 →	23,839,795 →	23,839,795 →	0 →	
Other [✓]	6.7	3,565,326	3,542,803	22,523
TOTAL	100.0	53,213.828	53,058,713	155,115

C. Volume Saved by Virtue of Discount

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

1	D. Contribution to Institutional Costs from Single Piece Letters		
2			
3	Unit TYAR revenue after 1-cent discount, first ounce		0.330
4	Less: unit TY cost of first ounce, USPS-T-27, Table 1, page 11		-0.202
5	FY 2001 Contribution per letter		0.128
6	Total FY 2001 Contribution from letters not lost (\$, 000)		23.175.1

Table D-2

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

A. Tolley Forecast

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

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

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

C. Volume Saved by Virtue of Discount

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

D. Contribution to Institutional Costs from Single Piece Cards

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

0.064
0.053333
883.7

1 CHAIRMAN GLEIMAN: Dr. Haldi, 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 be.

9 CHAIRMAN GLEIMAN: That being the case, if I could
10 impose on counsel to provide two copies to the reporter, I
11 will direct that the material be received into evidence and
12 transcribed into the record.

13 [Designated Written
14 Cross-Examination of John Haldi,
15 PB-T-2, was received into evidence
16 and transcribed into the record.]
17
18
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 PITNEY BOWES INC.
WITNESS JOHN HALDI
(PB-T-2)

Party

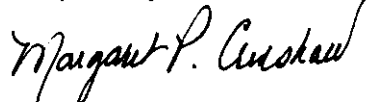
United States Postal Service

Interrogatories

DFC/PB-T2-2-3

USPS/PB-T2-3, 6-14, 17

Respectfully submitted,



Margaret P. Crenshaw
Secretary

INTERROGATORY RESPONSES OF
PITNEY BOWES INC.
WITNESS JOHN HALDI (T-2)
DESIGNATED AS WRITTEN CROSS-EXAMINATION

<u>Interrogatory</u>	<u>Designating Parties</u>
DFC/PB-T2-2	USPS
DFC/PB-T2-3	USPS
USPS/PB-T2-3	USPS
USPS/PB-T2-6	USPS
USPS/PB-T2-7	USPS
USPS/PB-T2-8	USPS
USPS/PB-T2-9	USPS
USPS/PB-T2-10	USPS
USPS/PB-T2-11	USPS
USPS/PB-T2-12	USPS
USPS/PB-T2-13	USPS
USPS/PB-T2-14	USPS
USPS/PB-T2-17	USPS

**PITNEY BOWES WITNESS HALDI RESPONSE TO INTERROGATORY OF
DOUGLAS F. CARLSON**

DFC/PB-T2-2. Please confirm that, even though some postage meters may still be reset at post offices, the vast majority of meters are no longer eligible for resetting at post offices. Please provide any available statistics as well.

Response:

Confirmed; my understanding is that the vast majority of meters now in use are no longer eligible for resetting at post offices.

Your request for available statistics has been referred to Witness Martin.

**PITNEY BOWES WITNESS HALDI RESPONSE TO INTERROGATORY OF
DOUGLAS F. CARLSON**

DFC/PB-T2-3. Please discuss any cost savings associated with processing properly dated and bundled metered mail compared to loose stamped or loose metered mail. To the extent that the Commission should consider the cost savings associated with processing properly dated and bundled metered mail in evaluating Pitney Bowes' proposal for a one-cent discount for metered mail, please discuss the reasons.

Response:

My testimony relies totally on the savings that arise from avoiding the use of stamps, and the transactions cost that the Postal Service incurs when stamps are used as the medium for collecting revenues and evidencing payment of postage. It is my position that the Commission, when determining its recommendation with respect to a discount for metered mail, should focus on the savings and avoidance of transactions cost that this form of worksharing enables. Consequently, I did not study any savings in processing cost that may be associated with metered mail.

PB Witness John Haldi Response to Interrogatory of
United States Postal Service

USPS/PB-T2-3. To your knowledge, has the Postal Rate Commission formally addressed the issue whether to include stamp production, procurement or distribution costs as part of the basis for defining "cost avoidance" or "worksharing" for ratemaking purposes?

Response:

The Commission and the Postal Service classify certain stamp production, procurement and distribution costs as attributable – i.e., volume variable and hence avoidable – which is the generally accepted basis for worksharing discounts. However, to my knowledge the Commission has not heretofore formally addressed the issue of whether avoidance of these attributable costs should be basis of a worksharing discount.

PB Witness John Haldi Response to Interrogatory of
United States Postal Service

USPS/PB-T2-6. Please identify and describe all mail processing differences between two properly posted single-piece First-Class Mail letters which are identical in every respect, except that one is metered and the other has a stamp affixed.

Response:

I am not aware of any mail processing differences between two such letters of the type described in the question, which is why my testimony focuses entirely upon the transactions costs associated with the cost of using stamps to collect revenues and evidence the payment of postage.

PB Witness John Haldi Response to Interrogatory of
United States Postal Service

USPS/PB-T2-7. Please confirm that postage meters allow presort bureaus to increase their flexibility in affixing postage to different First-Class Mail letters (within a bulk mailing) which can qualify for different rate category discounts, based upon the characteristics of particular letters within the mailing.

Response:

Confirmed.

PB Witness John Haldi Response to Interrogatory of
United States Postal Service

USPS/PB-T2-8. At pages 16-17 of your testimony, you state that "[n]o additional discount is proposed here" for "mailings above a minimum size that are barcoded and or presorted." Explain the basis for your proposal to limit your proposed discount to single-piece metered mail. Why do [you] exclude metered mail entered in bulk?

Response:

First, let me clarify terminology. It should be understood that the intent of my proposal is to extend the proposed discount to all metered First-Class mail that pays the single piece rate for the first ounce, regardless of whether such pieces are dropped individually into collection boxes or are banded and entered "in bulk." The exclusion of "metered mail entered in bulk" is intended to apply to First-Class mail that does not pay the full single-piece rate because it qualifies for presort or automation discounts.

The rationale for the distinction is that (i) much of the attributable transaction costs of collecting revenue from stamps is distributed to non-discounted First-Class Mail, and (ii) a substantial portion of "bulk" First-Class Mail (*i.e.*, mail that qualifies for presort or automation discounts) is either metered or has a preprinted permit. Consequently, little of the attributable transaction cost of collecting revenue from bulk First-Class Mail is distributed to bulk First-Class Mail.

PB Witness John Haldi Response to Interrogatory of
United States Postal Service

USPS/PB-T2-9. In your testimony at page 8, lines 16-17, you state that "*stamps are now the most expensive method* that a postal administration has for collecting revenues and enabling customers to evidence payment of postage." (Emphasis in original.)

- (a) Is it your testimony that the collection of postage and enabling customers to evidence payment of postage on Business Reply Mail and Qualified Business Reply Mail is less expensive on a unit basis than it is for stamped First-Class Mail letters [?] If so, please quantify that difference and provide all calculations and documentation supporting such calculations.
- (b) In reference to your testimony at page 9, lines 9-10, please confirm that, in addition to postage, the current QBRM per-piece fee is 5 cents, not 3 cents.

Response:

- (a) No. With the benefit of hindsight, It would have been better if my testimony at the place you cite had added to it the few bold-faced words indicated below:

As a result of further technological developments since they were first introduced, *stamps are now the most expensive method* that a postal administration has for collecting revenues **from the general public** and enabling **those** customers to evidence payment of postage.

QBRM is a special subset of First-Class Mail that is available to the general public only to the extent that business firms elect to provide it.

- (b) Confirmed; the rate for QBRM is 3 cents less than the rate for single-piece First-Class Mail.

USPS/PB-T2-10. In your testimony at pages 20-21, you compare your proposal for a single-piece metered mail discount with the Courtesy Reply Mail proposals which have been ejected by the Governors.

- (a) Please confirm that your discussion refers to the Courtesy Envelope Mail (CEM) proposals of the Office of the Consumer Advocate which have been recommended by the Commission, but rejected by the Governors.
- (b) Please refer to footnote 15 on page 21 of your testimony. If the Commission recommends the Postal Service's Docket No. R2000-1 34-cent basic First-Class Mail rate and the OCA's Docket No. R2000-1 CEM proposal (OCA-T-7), establishing a 3-cent discount (and a 31-cent rate) for that category of stamped single-piece mail, what rate should the Commission recommend for metered CEM pieces?

Response:

- (a) Confirmed.
- (b) My understanding of the OCA's CEM proposal is that it is based on savings in processing costs because of its automation compatibility. My proposed discount is based on savings in postage evidencing transaction costs, which is different. For a metered CEM piece, the processing costs avoided and the transaction costs avoided would thus be cumulative. Focusing solely on costs avoided, it could be argued that both discounts should apply. However, for single-piece First-Class Mail the Commission must give serious consideration to the Simplicity criterion in 3622(b)(7).

**Response of Pitney Bowes witness John Haldi to Interrogatory of
U. S. Postal Service**

USPS/PB-T2-11. In footnote 9 on page 16, you mention Bulk Metered Mail (BMM) letters that are already faced and trayed.

(a) Have you ever studied BMM letter mail processing? If so, please state the date, approximate time of day, and location of those studies and provide copies of any records crated in conjunction with such studies.

(b) Please describe the methods that a large volume meter mail user would undertake from the point that they begin to prepare mail pieces to the point that those mail pieces are "entered" at the Postal Service.

(c) Is it your understanding or opinion that BMM letters exist in today's mail processing environment?

Response:

Before responding to the subparts of this question, let me begin by saying that my use of the term "Bulk Metered Mail" is intended to be the same as used by witness Fronk, USPS-T-33, who gives the following description of bulk metered mail in footnote 2 of his testimony, at page 18:

Bulk metered mail refers to meter belt bypass mail. This is metered letter mail which is trayed by the maller, so it does not require the preparation that bundled metered letters would. Similarly, bulk metered mail does not require facing and canceling.

(a) No.

(b) It is my understanding that mailers who "enter" BMM as defined above may prepare the mail in a number of different ways. Essentially, the contents of the envelopes are prepared, then inserted into the envelopes (which are either window envelopes or have had the address printed on them), after which the envelopes are sealed and then run through a postage meter.

**Response of Pitney Bowes witness John Haldi to Interrogatory of
U. S. Postal Service**

- (c) **Yes. Otherwise, it would not make sense to use BMM as the First-Class benchmark in conjunction with mail processing and delivery costs to measure costs avoided, as the Postal Service is proposing in this case.**

Response of Pitney Bowes witness John Haldi to Interrogatory of
U. S. Postal Service

USPS/PB-T2-12. On page 24 [23] line[s 14-]16 you state, "For existing metered mail, the revenue reduction from implementation of the proposed discount will amount to approximately \$245 million.[]" Assuming this were the only revenue loss associated with your proposal (i.e., an increase in meter usage or meter mail volume would not materialize), how should this revenue loss be funded in order for the Postal Service to meet its revenue requirement?

Response:

I would like to preface my answer to this hypothetical by noting that the net revenue reduction from the proposed discount for metered mail is estimated at \$156.5 million at page 26 of my testimony. In general, as the Commission itself has noted, it faces a situation often described as a "zero sum game." That is, any downward adjustment in revenue from any one source needs to be offset through increases in some other rates and fees.

**Response of Pitney Bowes witness John Haldi to Interrogatory of
U. S. Postal Service**

USPS/PB-T2-13. On page 22 lines 20-23 of your testimony you state that "The proposed discount will help the Postal Service to promote and retain its core product, single piece First-Class Mail. Not only is this mail highly profitable, it also is increasingly subject to electronic diversion." Have you conducted any market research or other studies that sought to determine the extent to which First-Class single-piece mail would divert to other alternatives (e.g., electronic) if your discount were not approved? If not, upon what evidence do you base your assertion that this discount will help retain this mail volume?

Response:

If the discount proposed in my testimony is approved, market research conducted by Opinion Research Corporation (see PB-T-3) indicates that a significant number of mailers will adopt and use metering technology. Once that technology is adopted, postage will be slightly less expensive. As an economist, I believe that (i) it is important to start somewhere to bring down the rate for such mail, and (ii) each little bit helps. My answer would be less than candid if I failed to add that I view the proposed discount as but an initial start. To preserve single-piece mail as an important medium in the next century, the Postal Service needs to move quickly and decisively to drive far more costs out of its system, and reduce the rate even further.

Other than the study conducted by ORC to support the discount proposed in my testimony, I have not conducted any market research or other studies that sought to determine the extent to which First-Class single-piece mail would divert to other alternatives (e.g., electronic) if my discount were approved.

Response of Pitney Bowes witness John Haldi to Interrogatory of
U. S. Postal Service

USPS/PB-T2-14.

(a) Please confirm that other single-piece mailers save the Postal Service costs as a result of the method that they use to pay postage. For example, if a mailer that used to buy postage stamps from a Postal Service window clerk decides to buy postage stamps at a local supermarket, he/she would save the Postal Service costs. If not confirmed, please explain.

(b) Assuming that other single-piece mailers also save the Postal Service costs based on the method they use to purchase stamps, please explain how your proposal would be fair and equitable, given that meter mail users would be singled out for such a discount.

Response:

- (a) I confirm that, based on the data in my Appendix A, Table A-4 (page 39),
- (i) the cost of the different marketing channels used by the Postal Service to sell stamps have varying costs, and (ii) consignment sales through supermarkets is the lowest cost Postal Service channel of distribution for stamps. It should be noted that (i) although consignment sales is the second-most efficient marketing channel in comparison to the metering alternative, it is still somewhat more costly, (ii) after many years of operation, the Postal Service sells only 7 percent of all stamps through the consignment channel, and (iii) to the best of my knowledge, the Postal Service does not devote any advertising or other effort to persuade the public to utilize this channel (despite what would appear to be an obvious advantage to the Postal Service).

**Response of Pitney Bowes witness John Haldi to Interrogatory of
U. S. Postal Service**

- (b) If the discount for single-piece metered mail is approved, that will create separate rate categories for single-piece stamped mail and single-piece metered mail. As noted in preceding part a, the cost to the Postal Service of the different channels used to distribute stamps varies somewhat; *i.e.*, it is less than homogeneous. As is the case with all rate categories, there would be rate averaging within the stamped single-piece mail category.¹ It also happens that the cost to the Postal Service of collecting revenue for single-piece metered mail will be extremely homogeneous, in that this technology has almost no costs to the Postal Service.

¹ If the Postal Service felt that it were really taking unfair advantage of those customers who purchase stamps through consignment outlets, it could offer a slight discount from face value for books of stamps purchased at those outlets.

**Response of Pitney Bowes witness John Haldi to Interrogatory of
U. S. Postal Service**

USPS/PB-T2-17. On page 23, lines 18-22 you cite witness Heisler's testimony (PB-T-3) that an estimated 4.954 billion mailpieces annually C composed of 3.518 billion from small businesses and 1.436 billion from households C will switch from stamps to postage meters or PC Postage if a one-cent discount is adopted.

- a. Please confirm that you have not incorporated witness Heisler's estimate of 2.6 billion small business mailpieces switching from stamps to PC Postage because it is not mutually exclusive from the estimate of 3.158 billion small business mailpieces switching from stamps to postage meters and therefore could lead to double-counting. If you cannot confirm, please explain.
- b. Please confirm that 342.8 million of the 4.954 billion will convert from stamps to postage meters or PC Postage without the inducement of a one-cent discount, and that therefore the volume response to a one-cent discount should be measured as 4.611 billion mailpieces annually. If you cannot confirm, please explain.
- c. If the correct volume response is 4.611 billion mailpieces annually, please confirm that the net revenue effect in section V.C. of your testimony would be calculated as -\$161.6 million. If you cannot confirm, please explain.

Response:

- a. Confirmed. As stated in PB-T-3, pages 9-10, "The concept estimates are not additive, they are independent."
- b. Confirmed that this is the volume considered likely to convert without any discount. If such conversion does indeed take place, I would expect the savings from such conversion to materialize as projected and, to the best of my knowledge, those savings have not been factored into the roll-forward model.
- c. Confirmed.

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

3 [No response.]

4 CHAIRMAN GLEIMAN: If not, that brings us to oral
5 cross. One party has requested oral cross-examination of
6 Witness Haldi, the Postal Service.

7 Is there anyone else who wishes to cross-examine?
8 Please identify.

9 MR. HALL: Yes. Thank you, Mr. Chairman. Mike
10 Hall for Major Mailers Association.

11 CROSS-EXAMINATION

12 BY MR. HALL:

13 Q Mr. Haldi, I have just one or two short questions
14 for you. If you could please turn to your response to
15 USPS/PB-T2-11, and, specifically, to your responses to parts
16 (a) and (c) thereof. In (a) you are confirming that you
17 have never studied BMM letter mail processing, is that
18 correct?

19 A That is correct.

20 Q And in part (c), you state that it is your
21 understanding or opinion that BMM letters exist in today's
22 mail processing environment, and your answer to that is yes,
23 and then you continue on. Would it be a fair understanding
24 of your response to that question that your affirmative
25 answer is based on an assumption that the Postal Service had

1 determined that BMM exists in today's mail processing
2 environment and, otherwise, it would not have suggested
3 using that as the benchmark?

4 A That's correct. I can't testify as to what comes
5 across the loading docks at Postal Service facilities.

6 MR. HALL: Thank you very much. Those are the
7 questions I have.

8 CHAIRMAN GLEIMAN: Mr. Ro.

9 MR. RO: Thank you, Mr. Chairman.

10 CROSS-EXAMINATION

11 BY MR. RO:

12 Q Good afternoon, Dr. Haldi.

13 A Good afternoon.

14 Q Could you please return to your response to USPS
15 Number 13?

16 A I have it here, yes.

17 Q Okay. In your response, you indicate that with
18 the exception of the market research study conducted by Dr.
19 Heisler and reflected in his testimony, that you have not
20 conducted any market research or other studies that sought
21 to determine the extent to which First Class single piece
22 mail would divert to other alternatives such as electronic
23 delivery if your proposed discount were approved. Is this a
24 correct statement?

25 A That is what I said, yes.

1 Q In preparing your testimony, did you have a chance
2 to review a document entitled "The Benefits of Metered Mail
3 to Non-Users of Postage Meters" which was filed in this
4 proceeding by Pitney Bowes, Library Reference Number 7?

5 A No, I did not review that prior to doing my
6 testimony.

7 Q Okay. Were you aware of its existence?

8 A Vaguely, I believe.

9 Q Okay. All right. Thank you. Could you please
10 return to your response to USPS/PB-T2-17(c)?

11 A Yes.

12 Q There you confirm that, based upon the corrected
13 the volume response of 4.611 billion mail pieces annually,
14 the net revenue effect in Section 5(c) of your testimony
15 would now be calculated as negative \$161.6 million, is that
16 correct?

17 A That is correct.

18 Q Okay. If you could now turn to page 23 of your
19 testimony. On lines 14 through 16, you admit that if
20 implementation of the proposed one cent discount for metered
21 mail does not result in an increase in metered mail volume,
22 the revenue reduction from implementation of your proposed
23 discount would amount to approximately \$245 million, is that
24 correct?

25 A That is correct. Now, you understand, this, what

1 I did here, this is the immediate gross reduction, not the
2 net reduction.

3 Q Yes. Now, if we could return to your response to
4 USPS Number 12.

5 A Yes.

6 Q In this interrogatory, the Postal Service asked
7 you how this revenue loss should be funded in order for the
8 Postal Service to meet its revenue requirement. And the
9 response as any downward adjustment in revenue from any one
10 source needs to be offset through increases in some other
11 rates and fees. Are you referring to rates and fees
12 associated with First Class mail only?

13 A No.

14 Q Only mail classes and services other than First
15 Class?

16 A All mail services from the -- all --

17 Q All rates and fees?

18 A All rates and fees, yes.

19 Q Okay. Now, if we could turn -- we are flipping
20 back, sorry. Flip back to page 6 of your testimony. On
21 line 17, you estimate the cost difference between stamped
22 and metered mail to exceed two cents, but propose what you
23 call a conservative 44 percent passthrough only which
24 equates to a one cent discount for metered mail, and the
25 reason being to avoid a push-up effect on the stamped mail

1 rate, is that correct?

2 A At which page and line are you on?

3 Q Page 6, line 17.

4 A Oh, yeah, right. Yes, that is what I said.

5 Q Okay. Because if the Commission were to
6 passthrough all the cost difference that you measure, it
7 might have to recommend a 35 cent First Class mail rate in
8 this case, as opposed to a 34 cent rate, is that correct?

9 A That would be correct, yes. A one cent increase,
10 if everything else remains the same, produces, I think it is
11 about a billion dollars. And a one cent increase for --
12 that would be with the discounts off of the one cent rate
13 staying the same, and if you just increase the rate for
14 single piece First Class mail, it would produce about a
15 little over half a billion dollars.

16 Q If a revenue loss of \$161.6 million does not
17 provide sufficient "pressure" to increase the basic First
18 Class mail rate from 34 to 35 cents, in your opinion, would
19 a revenue loss of \$175 million be enough pressure to
20 increase it to 35 cents?

21 A Of how much?

22 Q To 35 cents.

23 A Of how many million?

24 Q A \$175 million loss.

25 A Well, if you increase the First Class rate by one

1 penny, another penny, you get an extra billion. I don't
2 think you need to get an extra billion just to offset \$175
3 million, no.

4 Q How about a loss of \$225 million?

5 A You are talking about a gross loss now, or a net
6 loss?

7 Q It would be gross loss, revenue loss.

8 A Well, in the first place, the only thing you have
9 to worry about is the net loss figure, not the gross loss
10 figure.

11 Q In preparing your testimony, did you examine the
12 impact of different passthroughs to determine how big a
13 passthrough you could propose?

14 A Yes, I considered alternative passthroughs of half
15 a cent, a cent, and a penny-and-a-half, and even toyed with
16 two cents.

17 Q Well, did you feel constrained to set the discount
18 at a whole cent?

19 A Yes, I thought for simplicity, a whole cent was a
20 better choice. Metering technology permits fractional cents
21 quite easily, but I thought for a public rate, a whole cent
22 makes a lot more sense to explain to the public.

23 Q Okay. In your calculations, what percentage of
24 passthrough for metered discount in this case would push the
25 basic First Class rate to 35 cents?

1 A I don't know that even 100 percent would
2 necessarily push it to -- if you push it up to 35 cents and
3 gave 100 percent passthrough, you would have excess monies
4 left over.

5 Q Okay, if you can now turn to page 9 of your
6 testimony, specifically lines 10 and 11?

7 MR. VOLNER: I'm sorry, could you repeat that?

8 MR. RO: Page 9, lines 10 and 11.

9 BY MR. RO:

10 Q There you testify that postage meters continue to
11 be increasingly affordable for the average household.

12 Is it your testimony that the use of a meter
13 reduces the average household costs associated with mailing?

14 A I'm including a metering technology, the new --
15 all the approved PC postage metering devices, and any that
16 might be approved in the future as well.

17 Q So, taking that into account, is that your
18 testimony, that the use of these technologies reduces the
19 average household costs?

20 A I didn't say reduces the costs; I said it's
21 increasing affordable. And to the extent that people put
22 any value on their time at all, I think the convenience of
23 being able to sit at your home computer -- and just millions
24 and millions of people have home computers now -- to offset
25 the time and effort to go down to the Post Office or the

1 grocery store or wherever you buy your stamps, makes it --
2 you know, you've got to offset the cost with the
3 convenience.

4 And when the cost gets down to as little as a
5 dollar or a dollar-fifty a month, that alone makes it
6 enticing.

7 And if you get discounts, it's even more enticing.

8 Q Okay. So, the reason people would use it is
9 mainly a convenience factor, versus a discount factor?

10 A Well, there are a lot of factors, but convenience
11 -- you know, it's a new technology.

12 The first thing you get is, whenever you get a new
13 technology, there is something called early adopters.

14 Some people buy new technology just to be on the,
15 quote, forefront or cutting edge, almost regardless of price
16 or cost.

17 Beyond that, though, as you reach out to an
18 increasingly large mass of people, they weigh the cost more
19 against the various other factors that are involved,
20 including the net cost, which would be the cost, the gross
21 cost to them, minus any savings they might get from a
22 discount, as well as the convenience factor.

23 Q Thank you. If we could turn to your response to
24 Number 10, USPS Number 10.

25 A Right. Yes, I have it here.

1 Q In the final sentence of your response, you
2 testify that the Commission should consider relying on the
3 simplicity criterion in Section 3622(b)(7) to limit metered
4 courtesy envelope mail to either a metered discount or a CEM
5 discount, but not a cumulative discount.

6 Is this because the presence of a CEM discount, a
7 meter discount, as well as a metered CEM discount in a
8 single-piece, First Class Mail Rate Schedule could prove
9 confusing and difficult for mailers to keep straight?

10 A Could you repeat the question, please?

11 Q In your response, you said to limit metered
12 courtesy envelop mail to either a metered discount or a CEM
13 discount, but not both.

14 A I said that?

15 Q Well, in the final sentence of your response to
16 Number 10, you testify that the Commission should consider
17 relying on the simplicity criterion in Section 3622(b)(7).

18 A Right.

19 Q To limit metered courtesy envelope mail to either
20 a meter discount or a CEM discount, but not a cumulative
21 discount.

22 A Well, I believe my testimony here is that they
23 would want to weigh the two. I said also that the savings
24 which the OCA's proposal is predicated on, is a savings in
25 processing costs.

1 The savings which my proposal is based on is a
2 savings in transactions costs, and those two are cumulative,
3 as I said.

4 So, it can very well be argued that both discounts
5 should be applicable. But I said that the one argument I
6 could think of that you might want to consider is the
7 simplicity criterion.

8 There have been a number of proposals before the
9 Commission, both in this case and prior cases, to what I have
10 described in previous testimony of my own, to balkanize
11 First Class, single-piece mail into subcategories.

12 There have been proposals for special discounts
13 for the second and third ounce of First Class Mail, but not
14 the fourth and fifth and so on ounces, not in this case, I
15 don't believe, but in other cases.

16 And this particular proposal -- there's been
17 proposals for CEM that carves out a subset of First Class
18 Mail that is only as big as the business firms that supply
19 the courtesy envelopes can make it.

20 This particular proposal of mine, I view as a --
21 first of all, it starts off with almost half of all
22 single-piece First Class Mail as metered today, not quite.

23 And if this discount were adopted, the market
24 research survey indicates that over half of the First Class
25 Mail would be metered in the first year, and I view this as

1 a step towards inducing the whole public to switch to a much
2 more cost effective technology so that when I'm long gone
3 from this planet, people will look back and stamps will be
4 almost an anachronism; that First Class, single-piece mail
5 will be metered mail or some even better technology.

6 Now, if you want to take both steps at once, you
7 could. I didn't say you couldn't. That's not my testimony;
8 that the two are antagonistic to one another.

9 What I'm implying here is that I think that
10 anytime you want to balkanize the main class of mail used by
11 the mailing public, you have to weigh the simplicity
12 criterion against the proposals.

13 Q Is that because the presence of having three
14 different discounts, the CEM discount, a meter discount, as
15 well as the metered CEM discount could confuse potential
16 customers?

17 A There's a potential, always a potential when you
18 have more than one. I mean, you have a second digressive
19 rate right now for the second and third, fourth, and fifth
20 ounces of First Class Mail.

21 And I think the public is pretty well educated to
22 that, but it took a little bit of education for awhile for
23 people to get used even to the fact that the second ounce,
24 the rate for the second ounce was less than the rate for the
25 first ounce.

1 And then you have surcharges. Even to this day,
2 you have a surcharge for flimsies, as they are called, flats
3 weighing less than one ounce.

4 I looked with some amusement at my incoming mail.
5 Some days when the mail is kind of light here, I open it
6 myself, and I notice a lot of the law firms engage heavily
7 in litigation before this Commission don't even know what
8 the proper rate is for a flimsy.

9 More often than not, they seem to put 55 cents on,
10 instead of 44 cents. It's a one-page, and they're giving
11 their designations, so it's obviously a flimsy.

12 And if the law firms that engage in litigation
13 before this Commission don't know what the rate is, I wonder
14 what happens to the law firms that don't engage in postal
15 litigation know.

16 So, yes, you have these problems of educating the
17 public to what the proper rate is.

18 Q Did you also consider that having three different
19 rates in the single-piece First Class Mail schedule could
20 prove difficult for the Postal Service to administer and
21 enforce?

22 A That's always a consideration. I think one of the
23 factors you have to be aware of is that the Postal Service
24 does precious little to educate the public, generally, too.
25 Their public outreach programs could be described as de

1 minimis.

2 Q Okay, well, do you feel that, in your opinion,
3 should the same consideration be applied to limit any
4 discount of IBIP mail with certified bar codes and
5 automation-compatible addresses to either a meter discount
6 or mail processing discount, but not both?

7 MR. VOLNER: Mr. Chairman, I'm going to object to
8 that question. It does not pertain to the testimony, and it
9 does not pertain to Pitney Bowes's metering technology
10 discount.

11 CHAIRMAN GLEIMAN: Mr. Ro, if you want to make a
12 counter argument, my inclination is to go along with
13 counsel's view of the question.

14 Unless you can explain how it relates --

15 MR. RO: We're trying to see how the argument for
16 simplicity's sake, you know, having -- in Dr. Haldi's
17 testimony, he said that different cost factors are involved,
18 and that he wasn't objecting to having a cumulative discount
19 and using the same type of, I guess, analogy.

20 We were wondering if, in his opinion, the same
21 factors should be applied to IBIP.

22 CHAIRMAN GLEIMAN: I don't think he is testifying
23 on IBIP or IBI or information-based indicia or whatever it
24 is, so I think we should move along to the next question,
25 please.

1 MR. RO: We have no further questions, Mr.
2 Chairman.

3 CHAIRMAN GLEIMAN: Is there any followup?

4 [No response.]

5 CHAIRMAN GLEIMAN: Questions from the Bench?

6 [No response.]

7 CHAIRMAN GLEIMAN: Just a comment from the Bench
8 so that all the attorneys out there who practice before the
9 Commission don't feel as though they're alone on this, I
10 know a certain Chairman of the Commission who at one point
11 had some large envelopes to mail out.

12 They weren't flimsies and they weren't flats, but
13 they were oversized and over an ounce, and he had difficulty
14 sorting out whether he had to pay both the extra ounce and
15 the surcharge for them being oversized.

16 [Laughter.]

17 MR. VOLNER: Just a comment that the law firm that
18 Mr. Haldi has been engaged in this matter does know the
19 difference, and doesn't use the mail to communicate with
20 him.

21 [Laughter.]

22 CHAIRMAN GLEIMAN: Well, if there's -- I guess
23 that was followup to a comment. But there are no questions
24 from the bench, and there can't be any followup. Would you
25 like some time with your witness?

1 MR. VOLNER: I need about 30 seconds.

2 CHAIRMAN GLEIMAN: Certainly.

3 [Pause.]

4 MR. VOLNER: Mr. Chairman, we have no redirect.

5 CHAIRMAN GLEIMAN: That being the case, Dr. Haldi,
6 that completes your testimony here today. We appreciate
7 your appearance, your contributions to the record. You're
8 reminding us of being careful about how much postage we put
9 on envelopes, and we thank you for all of that, and you are
10 excused.

11 [Witness Haldi excused.]

12 CHAIRMAN GLEIMAN: Mr. Hall, I believe you have
13 the next witness.

14 MR. HALL: Yes.

15 [Pause.]

16 CHAIRMAN GLEIMAN: As soon as your witness is
17 ready, you can proceed.

18 MR. HALL: I think he's almost there. Mr.
19 Chairman, let me just clarify that I have switched hats, and
20 it's now Mike Hall appearing for KeySpan Energy, and we'd
21 like to call our one and only witness, Richard E. Bentley at
22 this time.

23 CHAIRMAN GLEIMAN: Mr. Bentley is already under
24 oath in the proceeding, so you may proceed to introduce his
25 testimony.

1 Whereupon,

2 RICHARD E. BENTLEY,
3 a witness, having been previously called for examination,
4 and, having been previously duly sworn, was recalled,
5 continued to be examined and continued to testify as
6 follows:

7 DIRECT EXAMINATION

8 BY MR. HALL:

9 Q Mr. Bentley, do you have a copy of a document that
10 has been marked Exhibit KE-T-1 and is entitled "Testimony of
11 Richard E. Bentley on behalf of Keyspan Energy"?

12 A Yes, I have that.

13 Q Okay, and let me say for the record that this
14 document contains errata that were filed on July 3.

15 Should there be any additional changes or
16 corrections to that testimony?

17 A I do have one correction and it is in the footnote
18 that is on page 5. I actually corrected it in some
19 interrogatory answers but those answers were not designated.

20 In that footnote there was a number, 287 million
21 pieces, which should be changed to 333.7 million pieces.

22 Q And have you made that change on the copies that I
23 am going to be handing to the reporter?

24 A Yes, I have.

25 Q Do you also have before you copies of exhibits

1 that have been marked KE-1A through KE-1G?

2 A Yes.

3 Q And with respect to Exhibit KE-1E, does that also
4 include errata that were filed on July 3?

5 A Yes, it does.

6 Q Should there be any additional changes or
7 corrections in that exhibit?

8 A Yes. I have one minor change and it is on page 4,
9 the second paragraph. There should be a word "not" that was
10 omitted between the word "does" and "apply".

11 Q And you have interlined that additional word in
12 the copies that I am going to be handing to the reporter?

13 A Yes, I have.

14 Q With respect to Exhibit KE-T-1, do you adopt that
15 as your sworn testimony in this proceeding?

16 A Yes, I do.

17 Q And with respect to the other exhibits that I have
18 identified, were they prepared by you or under your
19 direction and supervision?

20 A Yes.

21 Q Now, finally, have you also prepared or caused to
22 have prepared under your direction and supervision Library
23 References that have been filed by Keyspan Energy in this
24 case and have been marked as KE-LR-1 and KE-LR-2?

25 A Yes, that's correct.

1 Q And are there any changes or corrections that need
2 to be made in those Library References at this time?

3 A No.

4 MR. HALL: At this time, Mr. Chairman, I would
5 hand the reporter two copies of the testimony and exhibits
6 that Mr. Bentley has adopted as his sworn testimony and
7 exhibits in this proceeding and I think, consistent with
8 your prior rulings, we will not to provide the reporter with
9 copies of the Library References that I have identified.

10 CHAIRMAN GLEIMAN: Is there any objection to
11 moving the testimony with the exhibits and the Library
12 References into evidence?

13 [No response.]

14 CHAIRMAN GLEIMAN: If there is none, then all of
15 that material will be received into evidence and all but the
16 Library References will be transcribed into the record.

17 [Direct Testimony of Richard E.
18 Bentley, KE-T-1, along with
19 Exhibits KE-T-1A through KE-T-1G,
20 inclusive, were received into
21 evidence and transcribed into the
22 record.]

23

24

25

Exhibit KE-T-1

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

Postal Rate and Fee Changes

Docket No. R2000-1

**TESTIMONY OF
RICHARD E. BENTLEY
ON BEHALF OF
KEYSPAN ENERGY**

May 22, 2000

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**Direct Testimony of Richard E. Bentley
On Behalf of
KeySpan Energy**

I. INTRODUCTION

A. Statement Of Qualifications

My name is Richard E. Bentley. I am President of Marketing Designs, Inc., a marketing and consulting firm. My business address is 9133 Ermantrude Court, Vienna VA 22182.

I began my career as a market research analyst for the Postal Rate Commission in 1973 and remained there until 1979. As a member of the Officer of the Commission's technical staff (now the Office of Consumer Advocate), I testified before the Postal Rate Commission in four separate proceedings. Since leaving the Commission, I have testified before the Commission as a private consultant in every major rate case, most recently in Docket No. R97-1, and the most recent major reclassification case, Docket No. MC95-1. A more detailed account of my 20-plus years of experience as an expert witness on postal ratemaking and classification is provided as Attachment I to this testimony.

I have been President of Marketing Designs, Inc. since 1982. Marketing Designs provides specialized marketing services to retail, commercial, and industrial concerns, as well as consulting services to a select group of private clients.

I received a Bachelor of Science degree in Industrial Engineering/Operations Research from Cornell University in 1972. The following year I was awarded a Master's degree in Business Administration from Cornell's Graduate School of Business and Public Administration. I am a member of Tau Beta Pi and Alpha Pi Mu engineering honor societies.

B. Purpose and Summary Of Testimony

The purpose of my testimony on behalf of KeySpan Energy ("KeySpan") is to analyze and critique the Postal Service's proposal to disaggregate the costs of counting, rating, and billing for Qualified Business Reply Mail ("QBRM") received in high volumes,

1 to develop independent costs of QBRM received in high and low volumes, and to
2 present KeySpan's alternative rate proposals for those services. In addition, I develop
3 the appropriate rate for the First-Class delivery service that QBRM recipients receive.

4 This is the third time in as many cases that the Postal Service has come to the
5 Commission with a proposal to establish fair and equitable fees for business reply mail
6 (BRM). In Docket Nos. R94-1 and R97-1, the Postal Service's proposals were either ill
7 prepared, improperly supported, or untenable. The results in both those cases have
8 caused some well-deserved embarrassment to the Postal Service. First, its proposal in
9 Docket No. R94-1 to triple the BRM per piece fee, from 2 to 6 cents, was thrown out by
10 the Commission because the underlying cost study was so tenuous that it was stricken
11 from the record. In R97-1, the Board of Governors ultimately rejected the Postal
12 Service's own Prepaid Reply Mail (PRM) proposal after the Commission had
13 recommended approval of PRM *exactly as the Service had proposed it*. As a result of
14 the Governors' action, the per piece fee paid by potential high volume PRM recipients
15 such as KeySpan was increased from zero to 5 cents.

16 Unfortunately, the Postal Service's Qualified Business Reply Mail (QBRM) fee
17 presentation in this case continues its recent pattern. In June 1998, when the Board of
18 Governors rejected PRM, the Governors directed the Postal Service to "explore further
19 such matters as the extent to which reply mail volume should influence fees charged to
20 different recipients."¹ The Service had some 18-months before its filing in this case
21 during which to study and deliberate the issues raised by the Governors' directive.
22 While the Service has presented an appropriate *framework* for a rate structure that is
23 unquestionably fairer to high volume QBRM recipients, the 3-cent per piece fee
24 proposed by the Service is much higher than this very efficient, low cost QBRM reply
25 mail should pay.

26 Despite knowing that it was necessary to find out how volume levels affected
27 QBRM counting costs, USPS witness Campbell "was unable to conduct" such a study.
28 See TR 14/6014-15. Without the benefit of reliable, relevant data on the cost of
29 counting QBRM received in high volumes, he made unreasonable assumptions about

¹ Decision of the Governors Of The United States Postal Service On The Recommended Decisions Of The Postal Rate Commission On Prepaid Reply Mail And Courtesy Envelope Mail, Docket No. R97-1, issued June 29, 1998, at 3.

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1 the counting methods for QBRM received in high versus low volumes. These
2 unsupported assumptions led him to calculate a high volume per piece fee cost which,
3 simply put, makes no sense. For example, the Postal Service's cost presentation here
4 suggests that it costs almost four *times* as much to count uniform, prebarcoded
5 automation-compatible letters, as it does to count non-uniform, bulky, small packages. I
6 submit that such a result is illogical on its face and should not be accepted by the
7 Commission.¹

8 USPS witness Campbell's basic idea of establishing separate QBRM fee
9 structures for high and low volume recipients is an excellent starting point for improving
10 the relationship between the fees charged and the costs incurred for high and low
11 volume QBRM recipients. This rate structure is very similar to the rate structure
12 recently approved by the Commission for nonletter-size BRM.

13 Using Mr. Campbell's basic rate structure, I have developed fees for high and low
14 volume QBRM that make more sense and are based on highly relevant new information
15 about the QBRM market and QBRM counting methods that witnesses Campbell and
16 Mayo apparently did not consider at the time their testimonies were prepared.

17 In this case, the Postal Service proposes per piece fees of 3 cents for high
18 volume QBRM and 6 cents for low volume QBRM. In my opinion, these fees are much
19 too high because they are based on a flawed cost analysis. My cost analyses indicate
20 that the high volume and low volume QBRM per piece fees should be .5 cents and 4.5
21 cents, respectively.

22 I also examined the Postal Service's analysis of the cost savings attributable to
23 the prebarcode feature of QBRM letters. USPS witness Fronk recommends a 1-ounce
24 First-Class rate of 31 cents for QBRM based on Mr. Campbell's reported cost savings of
25 3.4 cents. My derived 5.2-cent QBRM unit cost savings is significantly higher. As a
26 result, I propose a slightly lower QBRM First-Class rate of 30.5 cents.

² I also find it remarkable that such a result did not "concern" Ms. Mayo, the Postal Service's pricing witness. See TR 14/5566-68, 5653.

1 Table 1 compares KeySpan's recommended QBRM fees with those proposed by
2 the Postal Service.

3 Table 1
4
5 Comparison Of USPS And KeySpan Proposed QBRM Fees
6 (Cents)
7

Fee Category	USPS	KeySpan
QBRM First-Class Rate	31.0	30.5
QBRM High Volume Per Piece Fee	3.0	0.5
Annual Fixed Fee	\$3,400	\$12,000
QBRM Low Volume Per Piece Fee	6.0	4.5

8
9 I should note that the Postal Service's fixed accounting fee for high volume
10 recipients would be collected in quarterly installments of \$850. In contrast, KeySpan
11 proposes to collect the accounting fee in monthly installments of \$1,000.

12 The final section of my testimony focuses upon the Postal Service's QBRM
13 volume estimates as well as its projection for the total number of QBRM recipients likely
14 to take advantage of the newly proposed QBRM fee category. The Postal Service failed
15 to perform any market studies. However, data available to, but not used by, USPS
16 witness Mayo clearly indicates that she has significantly understated QBRM volumes
17 that are likely to be received by high volume recipients, and artificially overstated the
18 potential number of high volume QBRM recipients.

19 II. THE CURRENT QBRM FEE NEEDS TO BE OVERHAULED

20 QBRM recipients pay for the processing of QBRM through distribution,
21 transportation and final delivery in the QBRM First-Class rate. The additional QBRM
22 fees are intended to recover the costs associated with counting, rating, and billing this
23 mail. Currently, the 5-cent QBRM per piece fee recovers the cost of all these functions,
24 even though these costs generally do not vary with volume.

A. QBRM Received In High Volumes Deserves A Rate That Better Reflects Relevant Costs

There no longer is any serious question whether the current, one-rate-fits-all approach to QBRM per piece fee is inequitable and needs fixing. In Docket No. R97-1, the Service attempted, through its PRM proposal, to eliminate the per piece fee for high volume Business Reply Mail Accounting System (BRMAS) BRM recipients who could perform their own counting, rating and billing functions efficiently, subject to appropriate audit procedures. Although the Governors took the unprecedented step of rejecting the Postal Service's own PRM proposal after the Commission approved it,³ they recognized that a single QBRM rate was not equitable and directed the Service to study the matter further. The final result of the Governors' rejection of PRM was very damaging to QBRM mailers who would have qualified for the PRM service.⁴

In sum, the time for reform of the BRM fee structure is long overdue.

B. The Basic QBRM Fee Structure Proposed By The Postal Service Provides An Appropriate Framework For Revising QBRM Rates

The functions of counting, rating, and billing QBRM can be performed using various manual and automated processing techniques. The current QBRM fee structure lumps all of these functions together and recoups the costs by means of a per piece fee that is the same regardless of the volume of QBRM recipients receive. Such a fee structure implies that all QBRM processing costs are variable in nature, a notion that USPS witness Campbell convincingly rejects. For example, while the costs of counting QBRM *can* be variable in nature, the costs for performing the accounting functions of rating and billing are not. Once a final count is completed, the QBRM accounting costs, largely clerical in nature, are essentially the same whether an account receives 1 piece, 1,000 pieces, or 10,000 pieces at a time. See USPS-T-29 at 14.

³ When the Governors took this extraordinary step, they also accepted the Commission's 5-cent QBRM fee for BRM recipients who did not want to avail themselves of PRM service. The 5-cent fee was based on a cost analysis that immediately became outdated as soon as PRM was rejected. That is, the underlying 4.5-cent cost upon which the 5-cent fee was based excluded the low-cost ~~267~~ ^{333,7} million pieces that the Commission assumed would shift to the PRM category. As a result, the 4.5-Cent unit cost is overstated, notwithstanding USPS witness Fronk's misinformed testimony to the contrary. See TR 12/4837-40.

⁴ Instead of paying 30 cents for each QBRM reply letter received plus a fixed monthly fee, companies like KeySpan were forced to pay 35 cents, a full 5 cents more. The additional 5-cent fee amounts to well over half a million dollars of additional postage per year for KeySpan.

1 Counting QBRM is necessary to accommodate the rating and billing function, but
2 the procedures employed and resulting costs vary depending on volumes of reply
3 pieces counted. When volumes received by a particular recipient are low, postal clerks
4 might simply hand count each piece in order to obtain the count. When a recipient
5 receives high volumes, however, there are several other methods of counting QBRM
6 that can significantly reduce the cost of counting. These other methods include use of
7 weight conversion techniques, special counting machines, BRMAS⁵ counts, and end-of-
8 run (EOR) counts from barcode sorters.

9 Recognizing that there are differences between processing QBRM received in
10 high and low volumes,⁶ USPS witness Campbell correctly concluded that the key to
11 developing an equitable rate structure lay in establishing separate per piece charges for
12 high volume and low volume recipients. For recipients who receive smaller volumes,
13 he proposed to retain the current QBRM per piece fee structure that recovers costs,
14 both variable and fixed, associated with all the counting, rating, and billing functions in
15 one fee. For recipients who receive high volumes, he proposed to establish two fees.
16 The first, a fixed quarterly fee, is intended to recover the fixed costs associated with the
17 rating and billing functions. The second, separate per piece fee should be established
18 to recover the variable costs of counting QBRM in high volumes.

19 The fee structure for high volume QBRM enables the Postal Service to meet two
20 important goals. First, it allows the Postal Service to offer a per piece fee that better
21 reflects the more efficient methodologies for counting QBRM. Second, the new fee
22 structure allows total fee revenues to track more closely the costs that are incurred.
23 Such a rate structure is inherently more equitable because it reduces the forced cross
24 subsidization of low volume recipients by high volume recipients that occurs under the
25 current one-fee-fits-all structure.

26 I fully agree with this proposal and urge the Commission to provide high volume
27 QBRM recipients the option of paying a fixed fee to cover the non-volume variable costs

⁵ The Business Reply Mail Accounting System (BRMAS) also automates all of the QBRM functions, i.e., counting, rating and billing.

⁶ Mr. Campbell proposes two separate per piece fees for "high" volume and "low" volume QBRM, but then did not attempt to study the possible differences in the manner in which each is counted. The absurdity of this shortcoming is discussed in further detail in Section IV of my testimony, as well as Exhibit KE-1E.

1 of rating and billing. Variable counting costs can then be collected through a QBRM per
2 piece fee that reflects the efficient operating characteristics of high volume recipients.

3 **C. The Per Piece Fee For High Volume QBRM Should Reflect Only The**
4 **Function Of Counting**

5 Once the accounting costs of rating and billing are recovered through a periodic
6 fixed fee, the only remaining special QBRM function is counting. All other upstream and
7 downstream operations, up to final distribution to the recipient and delivery, are included
8 in the First-Class QBRM postage rate paid.⁷

9 But the Postal Service's costing analysis for high volume QBRM includes more
10 than just the cost of counting. The Service's cost presentation does so because USPS
11 witness Campbell used a 951 pieces per hour ("PPH") productivity factor from R90-1 to
12 derive his costs for manual counting. That productivity factor combined both manual
13 counting and manual sortation costs. To avoid double counting of sortation costs,
14 witness Campbell attempted to subtract out the sorting costs of an automated operation
15 for a portion of those pieces. See TR 14/5959-60, USPS-T-29 at 16. What he is left
16 with is not a cost for counting, but the cost for "counting and sorting above and beyond"
17 that which is required for First-Class Basic Automation letters. In sum, using the old
18 951 PPH productivity factor unnecessarily overcomplicates what should have been a
19 simple disaggregation of functions.

20 The Postal Service's Commission-approved rate structure for nonletter-sized
21 BRM provides guidance on the proper design of the rates for high volume QBRM. As
22 the Postal Service has proposed here for high volume QBRM, there are two fees for
23 high volume nonletter-size BRM. The first fee recovers the fixed costs of rating and
24 billing. The second fee, 1 cent per piece, reflects only the cost of *counting* pieces. See
25 TR 14/5973, TR 14/6149. Thus, in determining the appropriate per piece fee for QBRM
26 received in high volumes, the Commission need only look to the newly established
27 category for nonletter-size BRM for guidance. The per piece fee should recover just the
28 costs for counting (and not sorting) high volume QBRM.

⁷ Past PRC opinions consistently maintain that BRM service includes counting, rating and billing. There is no mention of any sorting that is included as part of this service. See TR 14/6124, 6128.

**D. The Monthly Fixed Fees Should Recover Relevant Accounting Costs
And Establish An Appropriate "Breakeven" Volume.**

USPS Witness Campbell provides witness Mayo with a \$232 per month per account cost estimate for performing QBRM accounting functions. USPS witness Mayo applies a 2.5% contingency factor and marks up this cost figure by \$45 to arrive at a quarterly fixed fee of \$850. See TR 14/5569-70.

The relationship between the per piece fee for low volume QBRM and the per piece fee and the fixed quarterly accounting fee for high volume QBRM establishes the implicit breakeven volume. In the Postal Service's proposal, that volume is 113,000 pieces per year. Ideally, the breakeven volume should be set at a level where the Postal Service is reasonably confident that anticipated cost savings will in fact be achieved.

I accept witness Campbell's analysis of the accounting costs associated with high volume QBRM. However, for reasons stated below, I disagree with the quarterly fee proposed by witness Mayo.

III. KEYSpan's PROPOSED QBRM FEES

A. Per Piece Fee for QBRM Received in High Volumes

USPS witness Campbell identifies five methods that are used for counting QBRM:

- BRMAS
- end-of-run (EOR)
- special counting machines (SCM)
- weighing techniques
- manual counts

Mr. Campbell correctly excludes costs associated with obtaining BRMAS and EOR counts because QBRM pieces are counted automatically as part of the sortation process, the cost of which is recovered by the First-Class rate. However, he inexplicably lumps together the percentages of QBRM letters counted by special counting machines (10.4%) and weight conversion techniques (8.9%) with the percentage he believes are counted by hand (47.2%). For manual counts, Mr. Campbell does not know the productivity. See TR 14/5971-72. Therefore, he resorts to

1 use of the 951 PPH manual combined productivity for counting **and sorting** BRM
 2 developed in connection with the Docket No. R90-1 BRMAS BRM study. Utilizing the
 3 951 PPH, he then computes the unit cost for counting **and sorting** QBRM but subtracts
 4 out only a portion of those sorting costs. The result is a unit cost for counting and
 5 "premium sorting" QBRM.⁸

6 In contrast to Mr. Campbell's cost presentation, my method for deriving the unit
 7 cost for high volume QBRM is much more straightforward. First, I derived an estimated
 8 cost for hand counting QBRM by performing my own study with the assistance of some
 9 KeySpan employees. See Exhibit KE-1C. I derived a productivity factor for counting
 10 QBRM by weighing techniques in the same manner. Finally, since the volume counted
 11 by special counting machines (SCM) is so small (about 1%), I combined SCM volumes
 12 with the volumes counted using weighing techniques.

13 The second step for deriving the unit counting cost for high volume QBRM is to
 14 estimate the percent of volumes that are counted by each of the five methods used.
 15 The Postal Service provided me with the necessary information for the highest volume
 16 accounts. Using that data, I projected the volumes and percentages that would be
 17 counted by each of the five counting methods for all high volume QBRM pieces.⁹ See
 18 Exhibit KE-1B. The unit cost to count high volume QBRM is only .17 cents per piece as
 19 shown in Table 2.

20 Table 2

21
 22 Derivation Of Unit Counting Cost
 23 For High Volume QBRM
 24 (Cents)
 25

Counting Method	Percent	Unit Cost
BRMAS	51.6%	0.00
EOR	28.1%	0.00
Manual	11.2%	1.50
Weighing/SCM	9.2%	0.06
Total	100%	0.17

⁸ See TR 14/6132. As discussed above, the concept of premium sortation is contrary to previous Commission statements regarding the appropriate design of the BRM per piece fee.

⁹ The percentages I derive for high volume QBRM are very different from those assumed by USPS witness Campbell.

1 As a check for reasonableness, I have compared my .17 cents unit cost for
 2 counting high volume QBRM to that derived by USPS witness Campbell for nonletter-
 3 size BRM also received in high volumes (.57 cents). The QBRM unit cost of .17 cents
 4 implies that QBRM letters can be counted for approximately 1/3 the unit cost of counting
 5 non letter-size BRM packages. QBRM letters are much more uniform and compact
 6 than nonletter-size packages. 10,000 letters take up 20 small trays while 10,000 small
 7 parcels occupy about 90 sacks. See TR 14/6200-01. Therefore, the counting cost ratio
 8 of 1 to 3 is high if anything, but certainly acceptable.

9 **B. Monthly Fixed Fee For QBRM Received in High Volumes**

10 For the fixed cost, I have accepted USPS witness Campbell's monthly cost
 11 estimate of \$232. However, in order to establish a reasonably high breakeven volume,
 12 I recommend that the monthly fee be \$1,000, an amount that far exceeds the relevant
 13 costs. Such a fee is also much greater than any markup that might be reasonably
 14 justified from application of the statutory criteria of the Act.

15 The reasons for my proposed \$1,000 monthly fee are two-fold. First, the \$1,000
 16 per month establishes an annual breakeven volume of 300,000 pieces.¹⁰ A reasonably
 17 high breakeven volume serves to maximize the opportunity for the Postal Service to
 18 realize cost savings from counting QBRM returned in high volumes. In this regard, my
 19 breakeven volume compares well with the proposed 200,000 minimum for PRM in
 20 Docket No. R97-1. Second, a relatively high fixed monthly accounting fee provides
 21 additional revenues for which QBRM recipients are credited. This will tend to raise the
 22 cost coverage for QBRM letters.

23 I also recommend a monthly fee, rather than a quarterly fee as proposed by the
 24 Postal Service, to be consistent with the fee structure already in place for nonletter-size
 25 BRM.

26
¹⁰ The 4.5-cent QBRM alternative unit fee less the .5 proposed fee is 4.0 cents. 4.0 divided into the \$12,000 annual fee is 300,000 pieces.

C. Per Piece Fee For QBRM Received in Low Volumes

For QBRM received in low volume, I have derived a unit cost 3.43 cents as shown in Exhibit KE-1B. This analysis accepts USPS witness Campbell's productivities and costs insofar as they relate to the accounting functions (i.e. rating and billing). However, for counting QBRM received in low quantities, I assumed the same productivities for counting by hand and by weighing techniques that were obtained from the special study I conducted for high volume QBRM.

The next step is to estimate the percent of volumes that are processed by each of the two accounting methods and each of the two counting methods. For accounting, I have generally accepted the results from Mr. Campbell's special study. For counting, I derived volume and percentage estimates for low volume QBRM, as provided in Exhibit KE-1B.

The results of this analysis are shown in Table 3. Based on this unit cost, I recommend a per piece fee of 4.5 cents for low volume QBRM, which results in a cost coverage of 131, slightly higher than the 125 proposed by USPS witness Mayo.

Table 3

Derivation Of Unit Cost
For Low Volume QBRM
(Cents)

QBRM Processing	Percent	Unit Cost
PERMITS Rating & Billing	46.0%	0.55
Manual Rating & Billing	44.4%	5.52
Manual Counting	48.0%	1.50
Weight/SCM Counting	7.6%	0.06
Total		3.43

1 IV. THE POSTAL SERVICE'S QBRM PER PIECE COST ANALYSIS SHOULD BE
2 REJECTED

3 A. Study Design

4 As discussed above, the only extra QBRM function that needs to be recovered
5 by the per piece fee is the cost for counting QBRM letters. All sorting costs, whether
6 they occur in the incoming secondary or postage due unit, are included as part of the
7 First-Class QBRM postage rate paid. Notwithstanding USPS witness Campbell's
8 concession that "QBRM recipients pay for sortation down to the customer level as part
9 of First-Class Postage" (TR 14/5972, TR 14/6140), he disagrees with that premise.

10 In his study design, Mr. Campbell overcomplicates a seemingly simple
11 disaggregation of functions by incorporating more than just counting costs into the per
12 piece cost derivation. His explanation: "The Postal Service's proposed per piece fee
13 for QBRM letters reflects counting and sorting that occurs above and beyond that which
14 is required for an 'Automation Basic Presort First-Class' letter. See TR 14/5971,73. I
15 do not understand what sorting could possibly be relevant to QBRM processing,
16 especially sorting that would occur "above and beyond" that which is required for basic
17 automation letters. While USPS witness Campbell believes that "QBRM has to pay
18 something in addition to the First-Class mail rate" in order to have it sorted to the end
19 user (TR 14/6130), he provides no logical explanation in his testimony or interrogatory
20 responses. See TR 14/6168-70. Instead, he testified, it is "implicit through" his
21 "presentation of costs." (Id.)

22 Because of the similarities between his high volume QBRM proposal and the
23 current category for nonletter-size BRM, Mr. Campbell should have measured the costs
24 for counting (and only counting) to support his per piece fee. The underlying reasons
25 for creating the two categories, based on the efficiency of processing and delivering
26 large volumes to a single customer, are identical. The fee structures as well as the cost
27 analyses underlying those fees should be similar as well.

28 Rather than using the straightforward method for determining per piece costs for
29 nonletter-size BRM, Mr. Campbell utilizes a convoluted methodology that first adds in
30 sortation costs, and subsequently removes only a portion of those costs. Given an
31 opportunity to explain why he has proposed unit fees for QBRM and nonletter-size BRM

1 that are so inconsistent, Mr. Campbell leaves the record bare. His answer is simply,
 2 "The Postal Service's proposed per piece fee for QBRM letters reflects counting and
 3 sorting that occurs above and beyond that which is required for an 'Automation Basic
 4 Presort First-Class' letter." See TR 14/5973. The Commission should not accept this
 5 circular reasoning by USPS witness Campbell.

6 As a consequence, I urge the Commission to reject the Postal Service's
 7 methodology for supporting the high volume QBRM per piece fee.

8 **B. Unreasonable Assumptions**

9 The Postal Service has proposed to reduce the current 5-cent per piece fee now
 10 being charged for QBRM that is received in high volumes, while raising the fee for
 11 QBRM that is received in low volumes. The obvious reason to offer such a proposal
 12 presumably is that there are (1) different methods used to process high and low
 13 volumes, and (2) the different processing techniques result in lower costs for processing
 14 QBRM in high volumes. For example, QBRM received in high volumes is much more
 15 likely to be counted by one of several cost effective techniques, whereas QBRM
 16 received in low volumes is not.¹¹

17 Remarkably, USPS witness Campbell rejects the above propositions and.
 18 makes the following revelations (TR 14/5931, 5963-66, 6014-17) concerning the
 19 processing of QBRM.

- 20 • He does not know the productivity or unit cost to count QBRM received in
 21 high quantities
- 22 • He does not know the productivity or unit cost to count QBRM received in low
 23 quantities
- 24 • He did not specifically study whether high volume QBRM cost less to count
 25 than low volume QBRM.
- 26 • He did not know whether high volume QBRM cost less to count than low
 27 volume QBRM.

¹¹ QBRM received in low volumes on any given day is counted primarily by hand, but also may be counted by EOR counts and by BRMAS. In contrast, QBRM received in high volumes on any day is counted primarily by BRMAS and EOR counts, by weight conversion, and by SCMs. There is no justification for Postal Service personnel to consistently hand count QBRM received in high volumes. If they do, QBRM recipients should not have to pay for such inefficiencies.

- 1 • He wanted to know whether high volume QBRM cost less to count than low
2 volume QBRM, but could not perform a study because of time constraints.¹²
- 3 • He assumes that the costs for counting high and low QBRM letters are not
4 dependent on volume and are identical.¹³

5
6 The last item is particularly troublesome. Not only does USPS witness Campbell
7 concede that his assumption is unsupported¹⁴, it is intuitively illogical to assume that (1)
8 low and high volume QBRM are counted in the same manner, and (2) the unit costs for
9 counting low and high volume QBRM are the same. Certainly, unit costs can be
10 reduced when postal operations are performed for bulk volumes rather than individual
11 pieces. The same concept is true for counting QBRM received in high volumes. If not
12 counted by automation, it is far less expensive to weigh one or more trays of letters and
13 estimate the total quantity through use of a weight conversion factor, rather than to hand
14 count the letters.¹⁵ In my own study, it took about 25 *times* longer to hand count 5,357
15 letters than to count those same letters by weighing them. See Exhibit KE-1C.

16 USPS witness Campbell's unsupported assumption has additional implications
17 as well. He was asked to compare the costs of counting QBRM, which is prebarcoded,
18 uniform and automation-compatible, to the costs of counting nonletter-size BRM, which
19 is irregular, non-uniform, non-machinable and of varying weights and sizes. His first
20 answer was that without a study, he did not know how shape might affect the costs for

¹² USPS witness Campbell fails to meet his own objective in this regard. Although he wanted to know if high volume QBRM costs less to count than low volume QBRM, he was "unable to conduct a study" (see TR 14/6015), thereby failing to achieve his objective to "come up with new and updated data" that he felt was "appropriate". See TR 14/6078.

¹³ USPS witness Campbell effectively contradicted this assumption under cross examination. He provided percentages of volumes by counting method for several offices. For these high volume accounts, he specifically noted that the percentages provided for the office as a whole would not apply to the largest accounts shown, and that in every case where he checked with the specific office, manual counting methods were not used for the high volume accounts. See TR 14/6189.

¹⁴ See TR 14/6014, 16. It is difficult to understand why USPS witness Campbell failed to study possible counting method differences between high and low volume QBRM. After all, he proposes separate per piece fees for such mail and was specifically directed to study QBRM processing activities in the field. See TR 14/6071-72.

¹⁵ At first, Mr. Campbell would not agree that it makes operational sense to count four trays of QBRM for one recipient by weighing techniques. See TR 14/6179. He later changed his mind when he was shown 3 trays of actual QBRM letters. See TR 14/6180. I suggest that if a scale is available, it could never make operational sense to hand count such letters. A videotape made as part my QBRM counting study is provided as KE-LR-2. This videotape shows why hand counting of QBRM letters is an inefficient and exceedingly boring operation. Moreover, there is no guarantee of accuracy by hand counting letters compared to using a weight conversion technique.

1 counting BRM.¹⁶ See TR 14/5933-34, 5994-96. He later modified his answer noting
 2 that he did not know *by how much* shape would affect counting costs. *Id.* Finally, when
 3 confronted, with an actual sack full of nonletter-size BRM and trays of QBRM letters, he
 4 agreed that weighing the QBRM letters would be more efficient and cost effective.
 5 (TR14/6202)

6 Aside from USPS witness Campbell's unsupported assumption that QBRM
 7 counting costs are unrelated to the volume received by a customer, there are several
 8 other problems with his derived costs for QBRM received in high and low volumes. A
 9 comprehensive discussion of these deficiencies is provided in Exhibit KE-1E.

10 **C. Newly Discovered Data**

11 The data Mr. Campbell relied upon to develop the unit cost for high volume
 12 QBRM generally characterizes QBRM processing as very inefficient.

13 When asked to explain why the Service manually sorts 41.6% of QBRM at a cost
 14 of 2.2 cents more than for an average Basic Automated letter, he stated that "BRM
 15 processing sites do not necessarily use the least costly method to process QBRM
 16 pieces received in high volumes. See TR 14/5964. When asked why the Service would
 17 adopt strict procedures for requiring QBRM to be prebarcoded, but then choose to sort
 18 41.6% manually, he has no answer, other than "In some cases...it makes more
 19 operational sense to process QBRM using manual methods." *Id.* It is difficult, to say
 20 the least, to establish cost-based fees when the underlying premise is that the Postal
 21 Service chooses to be less efficient than it could be.

22 But the Postal Service may not, in fact, be quite as inefficient as USPS witness
 23 Campbell originally thought it was. Although Mr. Campbell originally claimed that he
 24 used the "best available data in my possession to project costs into the test year" (TR
 25 14/6111), subsequently he provided more current data that indicates otherwise.

¹⁶ Mr. Campbell's apparent reluctance to form a judgment on such an obvious matter as this should be contrasted against eagerness to conclude, without a study, that counting costs for QBRM would be the same regardless of volume. Such inconsistent application of expert judgment is troublesome.

In response to KeySpan interrogatories, Mr. Campbell provided very current volume data for the top 77 QBRM recipients. In addition, he conducted a telephone survey to ascertain the method by which these very high volume accounts are counted. Mr. Campbell is to be commended for his diligence in obtaining this important information at such a late stage in this proceeding.

The data provided by Mr. Campbell is shown on Page 2 of Exhibit KE-1D. The total volumes shown there constitute more than 50% of all QBRM volumes. Utilizing this data, I estimated the percentages by counting method for all high volume QBRM pieces. I also estimated comparable percentages for low volume QBRM using the method described in Exhibit KE-1G.

USPS witness Campbell relied on the 1997 BRM Practices Study and simply assumed that the percentages for all QBRM would apply equally to high and low volume QBRM recipients. However, the CBCIS data indicate that the picture of QBRM processing inefficiency painted by USPS witness Campbell has changed considerably. Table 4 compares the percentages of QBRM pieces that are counted by the various counting methods.

Table 4

Comparison of Percentages of QBRM Letters Counted By
Various Methods From Two Data Sources

		% Of QBRM COUNTED BY:					Total
QBRM Category	Data Source	BRMAS	EOR	SCM	Weight	Manual	
High Volume QBRM	BRM Practices Study	14%	19%	10%	9%	47%	100%
	CBCIS Data System	52%	28%	1%	8%	11%	100%
Low Volume QBRM	BRM Practices Study	14%	19%	10%	9%	47%	100%
	CBCIS Data System	21%	23%	1%	7%	48%	100%
All QBRM	BRM Practices Study	14%	19%	10%	9%	47%	100%
	CBCIS Data System	44%	27%	1%	8%	20%	100%

1 This up-to-date QBRM customer specific information shows that for high volume
 2 QBRM recipients, (1) the very efficient BRMAS counting, rating, and billing system is
 3 much more widely used (52%) than assumed by Mr. Campbell (14%); and (2) hand
 4 counting is used much less frequently (only 11%) than the 1997 BRM Practices Study
 5 showed (47%).¹⁷

6 The CBCIS data provided by Mr. Campbell demonstrates that the 1997 BRM
 7 Practices Study data are not representative at all for high volume QBRM accounts. For
 8 this reason, the 2.0 cent unit cost derived by USPS witness Campbell for high volume
 9 QBRM is unreliable and should be rejected.

10 **V. THE QBRM FIRST-CLASS RATE**

11 In Docket No. R97-1 the QBRM First-Class rate of 30 cents was established.
 12 This rate is currently paid by QBRM in addition to the 5-cent QBRM per piece fee.
 13 Thus, the total charge for a QBRM letter is 35 cents.

14 The Postal Service measures QBRM cost savings as the difference between
 15 processing a postage prepaid handwritten addressed reply envelope and a prebarcoded
 16 QBRM letter. These savings generally reflect the additional costs incurred by
 17 handwritten addressed envelopes that must be processed through the RBCS operation
 18 that reads the address and sprays on a barcode. In this proceeding, I also recommend
 19 that the Commission reflect window service cost savings as part of overall QBRM
 20 savings. Window service cost savings stem from a unique BRM feature, namely that
 21 postage is paid when the mail is delivered rather than when sent.

22 My detailed analysis of the QBRM cost savings is provided in Exhibit KE-1A and
 23 Table 5 summarizes my proposed QBRM unit cost savings.

¹⁷ Mr. Campbell's derived unit cost for high volume QBRM is based on a 67% manual counting percentage since he combined the percentages for SCM and weighing with manual counting.

Table 5

QBRM Cost Savings
(Cents)

Type of Mail	Mail Processing Unit Cost	Window Service Unit Cost	Total Unit Cost
Handwritten Addressed	9.0	1.6	10.6
Less: QBRM	5.5	-	5.5
QBRM Savings	3.6	1.6	5.2

A. Prebarcode Cost Savings

USPS witness Campbell estimates that QBRM cost savings will be reduced from 4.0 cents, estimated in Docket No. R97-1, to 3.4 cents. Apparently, the cost reductions anticipated by more efficient RBCS operations more than offset the 11% increase in labor rates between the test years in Docket No. R97-1 and this case. My analogous unit derived cost savings is 3.6 cents. I have adopted USPS witness Campbell's methodology except for two modifications. First, I use the Commission's cost methodology for attributing costs, rather than the Postal Service's proposed methodology.

Second, I use a much more stable Cost and Revenue Analysis (CRA) proportional adjustment factor than USPS witness Campbell does. To "tie" the cost model-derived unit costs to the CRA cost data system, Mr. Campbell uses a CRA proportional adjustment factor derived for non-automation presort costs. His reasoning is that the mail flow for non-automation presort letters closely resembles that of single piece, and that QBRM and handwritten letters are both part of the single piece mailstream. See TR 14/6004. While I don't necessarily agree with USPS witness Campbell's premise, the choice of the CRA proportional adjustment factor is not all that relevant to the specific type of mail being studied.

The CRA proportional adjustment factor measures how well the mail flow model simulates the true cost. If the models are reliable and consistent, then the CRA proportional adjustment factors for the various categories of letters should be somewhat similar. For example, if a model consistently omits certain real-world costs, then the

1 mail flow model-derived unit costs should be consistently low. In Library Reference
 2 MMA-LR-1, I have computed several CRA proportional adjustment factors for First-
 3 Class presorted mail categories that vary from 1.143 to 1.190. I believe the most
 4 reliable CRA proportional adjustment factor, which reflects the overall accuracy of the
 5 mail flow cost models, is the one computed for all presort letters. Therefore, I have
 6 used 1.19 as the CRA proportional adjustment factor in my derivation of QBRM cost
 7 savings resulting from prebarcoding.

8 **B. Window Service Cost Savings**

9 The Postal Service presently spends hundreds of millions of dollars to offer
 10 window service to First-Class mailers. Per originating First-Class letter, this works out
 11 to be 1.6 cents. Window service is necessary to allow customers to purchase stamps
 12 and to serve as an outlet for mailing letters and packages. While mailers of handwritten
 13 addressed reply envelopes have a genuine reason to stand in line in order to talk to a
 14 postal window clerk, mailers of QBRM do not. See TR 14/6038. Therefore, I have
 15 credited QBRM letters with additional savings due solely because of the non-prepaid
 16 nature of this mail.

17 **VI. PROJECTED QBRM HIGH VOLUME RECIPIENTS AND PIECES**

18 USPS witness Mayo projected total letters qualifying for the QBRM high volume
 19 fee by using a very imprecise method. Her methodology assumes that every high
 20 volume QBRM recipient will receive exactly the "breakeven" volume of 113,000 pieces
 21 per year. Such an assumption is not reasonable since certainly there will be recipients
 22 that will receive much higher volumes than the "breakeven" volume. Moreover, rational
 23 QBRM recipients will not pay a fixed quarterly fee unless they are fairly confident that
 24 they will receive significantly more pieces than the "breakeven" volume. Accordingly,
 25 the Commission should find that her recommended number of 1,358 qualifying QBRM
 26 recipients is much too high.¹⁸

¹⁸ According to the recent data provided by USPS witness Campbell, the two largest QBRM recipients account for 95 million pieces. This information alone reduces Ms. Mayo's projected high volume QBRM estimate from 154 to 59 million pieces. Therefore, using her methodology, the maximum number of remaining high volume recipients can be no higher than 522 (59 million pieces divided by 113,000 pieces = 522 potential high volume QBRM recipients). Ms. Mayo's unrealistic estimate of 1,358 qualifying high volume recipients must be rejected.

1 Ms. Mayo's methodology for estimating the number of QBRM pieces likely to pay
2 the high volume per piece fee is flawed for similar reasons. She simply assumed that
3 one-third of total volumes would qualify, which is similar to the figure the Postal Service
4 proposed for PRM in Docket No. R97-1. While such an assumption might be adequate
5 when no other data is available, this is not the situation here. It simply lacks support.
6 Therefore, I recommend that the Commission similarly reject USPS witness Mayo's
7 QBRM total volume estimate of 154 million pieces.

8 Library Reference KE-LR-1 provides current QBRM data by account for almost
9 all of the large accounts. As shown, there are 288 recipients who have either received
10 more than 300,000 pieces in the past 12 months, or in FY 99. Since this might not
11 include every single account, I have rounded this figure up to 300.¹⁹ This is a much
12 more reasonable estimate than USPS witness Mayo's guess. Using the CBCIS data,
13 the average volume received by the 1300th largest recipient is less than 50,000 per
14 year. Such recipients would never pay the \$850 quarterly fee under the Postal
15 Service's proposal.

16 A similar situation occurs with total high volume QBRM pieces received. During
17 oral cross examination, USPS witness Mayo was shown that just the top 75 accounts
18 received 183 million pieces. This is already 29 million more pieces than her 154-million
19 piece estimate, yet she felt no compunction to modify her proposal. See TR 14/5643.
20 Library Reference KE-LR-1 shows that the top 288 accounts received 342 million pieces
21 during a recent 12-month period. Therefore, I have rounded this figure up to 345 million
22 pieces as an estimate for the test year.

23 As shown in Exhibit KE-1F, my QBRM proposal will result in a reduced
24 contribution to institutional costs compared to the Postal Service's proposal. But this
25 difference is only \$922,000. I view this as inconsequential.

26 VII. CONCLUSION

27 In this proceeding, the Postal Service has made an innovative proposal to
28 disaggregate the fees for high and low volume QBRM recipients and to create a well
29 thought out two part rate structure for QBRM received in high volumes. Unfortunately,

¹⁹ The CBCIS system accounts for over 90% of the QBRM universe. See TR 14/5620.

1 however, the Service's cost and fee presentations for QBRM continues an all too
2 familiar pattern of proposals that are based largely on incomplete or out-of-date
3 information and resort to unreasonable assumptions regarding real world operations
4 and costs for processing QBRM. In this case, that unfortunate situation is compounded
5 by the Service's suggestion that the Commission should establish QBRM per piece fees
6 under an assumption that the majority of all QBRM, low and high volumes alike, will be
7 processed using obviously inefficient manual methods. The Commission should refuse
8 to reward the Service's inefficiency with higher QBRM fees. The Commission should
9 reject the Postal Service's presentations outright and take this opportunity to send a
10 strong message that inefficient operations will not be tolerated.

11 Fortunately, in this case the Commission can disregard the Postal Service's
12 unreliable cost presentation and set more reasonable QBRM fees based on newly
13 discovered QBRM volume data and up-to-date information that USPS witness Campbell
14 obtained. That new information shows that high volume QBRM provides significant cost
15 savings to the Postal Service and supports the establishment of a separate fee structure
16 for high volume QBRM. In addition, it shows that the Postal Service has significantly
17 overstated the unit costs for counting high volume QBRM.

18 For these reasons, I urge the Commission to adopt a monthly fee of \$1,000 and
19 a per piece fee of .5 cents for high volume QBRM. Because the new data also indicates
20 that the Service has overstated the cost of processing low volume QBRM, I recommend
21 a 4.5-cent per piece fee for such pieces. Given these fee levels, the minimum
22 breakeven volume for high volume QBRM will be at 300,000 pieces per year and I
23 project approximately 300 recipients will switch to the new QBRM fee category.

QUALIFICATIONS OF RICHARD BENTLEY

Richard Bentley is president of Marketing Designs, Inc., a marketing and consulting firm.

Mr. Bentley began his career as a market research analyst for the Postal Rate Commission in 1973 and remained until 1979. As a member of the Officer of the Commission's technical staff (now Office of the Consumer Advocate) his responsibilities included analysis of USPS costs, volumes, rates and operations. As a witness on behalf of the Officer of the Commission, Mr. Bentley testified before the Postal Rate Commission in five separate proceedings. In Docket No. MC73-1, Mr. Bentley filed rebuttal testimony concerning the Postal Service's bound printed matter proposal.

In Docket Nos. MC76-1 and MC76-3, Mr. Bentley testified on changes proposed by the Officer of the Commission to the Domestic Mail Classification Schedule. Those changes concerned proposals to establish local First-Class rates and to eliminate third-class single piece as a separate subclass. With regard to the latter, it is interesting to note that 20 years later, the Commission has eliminated this subclass as one of its recommendations in Docket No. R97-1.

In Docket No. R77-1, Mr. Bentley presented proposed rates for all classes of mail and services, including the projected volumes that would result from those rates. He also analyzed the rates proposed by the Postal Service and critiqued the volume projections presented in support of its proposals.

In Docket No. MC78-1, the Postal Service proposed to restructure parcel post rates by asking the Commission to establish new rates for parcel post mailed in bulk and for a parcel post nonmachinable surcharge. Mr. Bentley presented two pieces of testimony in that docket--one concerned with the rate aspects of the Postal Service's proposal and one concerned with the parcel post volume projections.

In 1979, Mr. Bentley left the Postal Rate Commission to become a senior program engineer for Systems Consultants, Inc. (which became Syscon Corporation and is not part of Logicon), a national consulting firm. There, Mr. Bentley's responsibilities included the analysis and estimation of life cycle costs required to research, develop, manufacture, and maintain various weapon system programs for the Department of Defense. He developed cost estimating relationships and completed a computerized model for estimating future weapon system program costs.

In addition, Mr. Bentley testified before the Postal rate Commission in Docket No. R80-1 concerning presorted First-Class mail rates and second-class within county rates.

After leaving Syscon in 1981, Mr. Bentley started his own company, Marketing Designs, Inc., which provides specialized marketing services to various retail, commercial, and industrial concerns as well as consulting services to a select group of clients.

In Docket No. R84-1, Mr. Bentley testified on behalf of the Council of Public Utility Mailers and the American Retail Federation in favor of an increased

First-Class presort discount. At that time Mr. Bentley presented a methodology for estimating cost differences between processing First-Class single piece and presorted letters that eventually become the foundation for the Commission's "Appendix F" methodology for supporting First-Class presorted discounts.

In Docket No. C86-3, Mr. Bentley testified on behalf of Roadway Package System concerning a proposed special rate increase for parcel post. In Docket Nos. R87-1 and R90-1, Mr. Bentley testified on behalf of the Council of Public Utility Mailers, the National Retail Federation, Brooklyn Union Gas, and other First-Class mailers. Mr. Bentley recommended and supported various rate discount proposals for presorted First-Class mail, and a lower fee for "BRMAS" business reply mail.

In Docket No. R94-1, Mr. Bentley testified on behalf of Major Mailers Association with respect to several issues that concerned First-Class rates. These included the relationship between the proposed cost coverages for First and third class, the rates for First-Class incremental ounces, prior year losses, and the Postal Service's changes to the Commission's city delivery carrier out-of-office cost methodology. In addition, Mr. Bentley worked on behalf of Brooklyn Union Gas to have the Postal Service's proposed tripling of the "BRMAS" BRM fee rejected, although he did not file any formal testimony.

In Docket Nos. MC95-1 and MC96-3, Mr. Bentley again represented Major Mailers Association. In Docket No. MC95-1 he endorsed the overall classification concept proposed by the Postal Service for First-Class Mail and suggested that the First-Class second and third ounce rate be reduced for letter-

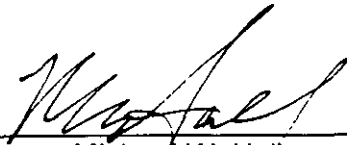
shaped pieces. In Docket No. MC96-3, Mr. Bentley compared the attributable costing approaches between the Postal Service and Commission and asked that the Commission require the Postal Service to provide the impact of proposed changes utilizing established attributable cost methodologies. This testimony was the impetus for Docket No. RM97-1 and resulted in the Commission amending Rule 54(a)(1) to require the Postal Service to make such a cost presentation.

In the last omnibus rate case, Mr. Bentley represented both Major Mailers Association and the Brooklyn Union Gas Company with two separate pieces of testimony. For Major Mailers, he recommended that the Commission reject the Postal Service's newly proposed cost attribution methodology, increase First-Class discounts and offer a reduced rate for 2-ounce First-Class letters. For Brooklyn Union, he endorsed the Postal Service's Prepaid Reply Mail concept, but asked the Commission to alter it slightly with two modifications.

In 1972, Mr. Bentley received a Bachelor of Science degree in Industrial Engineering/Operations Research from Cornell University. The following year Mr. Bentley was awarded a Master's degree in Business Administration from Cornell's graduate School of Business and Public Administration (now the Johnson Graduate School of Management). Mr. Bentley is a member of Tau Beta Pi and Alpha Pi Mu Engineering Honor Societies.

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document, by First-Class Mail, upon the participants in this proceeding.



Michael W. Hall

Round Hill, VA
May 22, 2000

Exhibit KE-1A**Derivation of the
Unit Cost Savings
For QBRM Letters**

EXHIBIT KE-1A

Page 1 of 15

Revised 7/3/00

**Cost Avoidance Calculation for QBRM Discount
(Cents)**

CRA Proportional Adjustment		1.190 [1]
	Model Cost	Total Worksharing Related Unit Cost
HANDWRITTEN	7.595 [2]	9.039 [3]
QBRM	4.587 [4]	5.459 [5]
Processing Cost Avoidance		3.580 [6]
Window Service Savings		1.619 [7]
Stamp Printing Costs (\$000)	\$ 209,827 [8]	
TY First-Class Volume (000)	52,877,658 [9]	
Avoided Unit Stamp Printing Cost		0.004 [10]
Total QBRM Savings		<div style="border: 1px solid black; display: inline-block; padding: 2px;">5.203</div> [11]

[1] See LR-MMA-1A, CRA PROP ADJ (ALL PRESORT) spreadsheet (page 8)

[2] See L-2 (handwritten cost sheet)

[3] [1] * [2]

[4] See L-3 (QBRM cost sheet)

[5] [1] * [4]

[6] [3] - [5]

[7] TR 21/8909

[8] TR 14/6038

[9] Exhibit MMA-1B at 1A

[10] [8] / [9]

[11] [6] + [7] + [10]

EXHIBIT KE-1A
Page 2 of 15HANDWRITTEN
COST SHEET

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Entry Activities	TPH	Pieces Per Hour	Wage Rate	Direct Cents Per Piece	Piggyback Factor	Premium Pay Factor	Premium Pay Adjust	Total Cents Per Piece	Weighted Cents Per Piece
Bundle Sorting	10,000	---	---	---	---	---	---	0.0000	0.0000
Outgoing RBCS									
ISS	375	6,854	\$28.25	0.4121	2.001	1.0219	0.0090	0.8337	0.0313
RCR	10,375							0.4860	0.5042
REC	3,213	676	\$17.79	2.6297	1.563	1.0219	0.0576	4.1679	1.3392
OSS	10,612	8,994	\$28.25	0.3141	1.794	1.0219	0.0069	0.5703	0.6052
LMLM	1,020	3,890	\$28.25	0.7260	2.722	1.0219	0.0159	1.9922	0.2033
Outgoing Primary									
Automation	186	5,740	\$28.25	0.4920	2.301	1.0219	0.0108	1.1429	0.0212
Manual	599	488	\$28.25	5.7829	1.360	1.0219	0.1268	7.9915	0.4788
Outgoing Secondary									
Automation	2,081	8,340	\$28.25	0.3387	2.274	1.0219	0.0074	0.7775	0.1618
Manual	198	479	\$28.25	5.8920	1.360	1.0219	0.1292	8.1423	0.1610
Incoming RBCS									
ISS	0	4,374	\$28.25	0.6457	2.001	1.0219	0.0142	1.3062	0.0000
RCR	0							0.4860	0.0000
REC	0	676	\$17.79	2.6297	1.563	1.0219	0.0576	4.1679	0.0000
OSS	0	8,134	\$28.25	0.3472	1.658	1.0219	0.0076	0.5832	0.0000
LMLM	0	3,890	\$28.25	0.7260	2.722	1.0219	0.0159	1.9922	0.0000
Incoming MMP									
Automation AADC	1,929	5,576	\$28.25	0.5066	2.189	1.0219	0.0111	1.1200	0.2160
Manual ADC	345	604	\$28.25	4.6763	1.360	1.0219	0.1025	6.4623	0.2229
Incoming SCF/Primary									
Automation	4,567	5,908	\$28.25	0.4781	2.062	1.0219	0.0105	0.9963	0.4550
Manual	452	641	\$28.25	4.4051	1.360	1.0219	0.0966	6.0875	0.2750
5-Digit Barcode Sort	585	5,908	\$28.25	0.4781	2.062	1.0219	0.0105	0.9963	0.0583
Incoming Secondaries									
Auto Carrier Route	2,548	5,224	\$28.25	0.5407	2.101	1.0219	0.0119	1.1476	0.2924
Auto 3-Pass DPS	3,471	13,361	\$28.25	0.2114	1.915	1.0219	0.0046	0.4095	0.1421
Auto 2-Pass DPS	11,308	8,755	\$28.25	0.3226	2.328	1.0219	0.0071	0.7582	0.8574
Man Inc Sec Final At Plant	1,584	523	\$28.25	5.4005	1.360	1.0219	0.1184	7.4630	1.1824
Man Inc Sec Final At DU	562	1,155	\$28.25	2.4465	1.360	1.0219	0.0536	3.3809	0.1900
Box Section Sort, DPS	585	2,365	\$28.25	1.1945	1.360	1.0219	0.0262	1.6507	0.0966
Box Section Sort, Other	305	1,179	\$28.25	2.3952	1.360	1.0219	0.0525	3.3100	0.1009

Source: LR-I-146

(10)
MODEL COST = **7.5952**

15%

- (1) Values From Handwritten Mail Flow Spreadsheet (L-4)
 (2) Values From Productivities Spreadsheet (L-12)
 (3) Values From Wage Rates Spreadsheet (L-13)
 (4) $[(3) * (100 \text{ cents/dollar})] / (2)$
 (5) Values From Piggybacks Spreadsheet (L-15)
 (6) Values From Wage Rates Spreadsheet (L-13)

- (7) $[(6) - 1] * (4)$
 (8) $(4) * (5) + (7)$
 (9) $(1) * (8) / 10,000 \text{ Pieces}$
 (10) Sum (9)

EXHIBIT KE-1A

Page 3 of 15

**QBRM
COST SHEET**

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Entry Activities	TPH	Pieces Per Hour	Wage Rate	Direct Cents Per Piece	Piggyback Factor	Premium Pay Factor	Premium Pay Adjust	Total Cents Per Piece	Weighted Cents Per Piece
Bundle Sorting	10,000	---	---	---	---	---	---	0.0000	0.0000
Outgoing RBGS									
ISS	0	6,854	\$28.25	0.4121	2.001	1.0219	0.0090	0.8337	0.0000
RCR	0							0.4860	0.0000
REC	0	676	\$17.79	2.6297	1.563	1.0219	0.0576	4.1679	0.0000
OSS	0	8,994	\$28.25	0.3141	1.794	1.0219	0.0069	0.5703	0.0000
LMLM	0	3,890	\$28.25	0.7260	2.722	1.0219	0.0159	1.9922	0.0000
Outgoing Primary									
Automation	10,005	5,740	\$28.25	0.4920	2.301	1.0219	0.0108	1.1429	1.1435
Manual	480	488	\$28.25	5.7829	1.360	1.0219	0.1268	7.9915	0.3836
Outgoing Secondary									
Automation	715	8,340	\$28.25	0.3387	2.274	1.0219	0.0074	0.7775	0.0556
Manual	120	479	\$28.25	5.8920	1.360	1.0219	0.1292	8.1423	0.0974
Incoming RBGS									
ISS	0	4,374	\$28.25	0.6457	2.001	1.0219	0.0142	1.3062	0.0000
RCR	0							0.4860	0.0000
REC	0	676	\$17.79	2.6297	1.563	1.0219	0.0576	4.1679	0.0000
OSS	0	8,134	\$28.25	0.3472	1.658	1.0219	0.0076	0.5832	0.0000
LMLM	0	3,890	\$28.25	0.7260	2.722	1.0219	0.0159	1.9922	0.0000
Incoming MMP									
Automation AADC	3,745	5,576	\$28.25	0.5066	2.189	1.0219	0.0111	1.1200	0.4195
Manual ADC	331	604	\$28.25	4.6763	1.360	1.0219	0.1025	6.4623	0.2140
Incoming SCF/Primary									
Automation	8,675	5,908	\$28.25	0.4781	2.062	1.0219	0.0105	0.9963	0.8643
Manual	559	641	\$28.25	4.4051	1.360	1.0219	0.0966	6.0875	0.3402
5-Digit Barcode Sort	0	5,908	\$28.25	0.4781	2.062	1.0219	0.0105	0.9963	0.0000
Incoming Secondaries									
Auto Carrier Route	0	5,224	\$28.25	0.5407	2.101	1.0219	0.0119	1.1476	0.0000
Auto 3-Pass DPS	0	13,361	\$28.25	0.2114	1.915	1.0219	0.0046	0.4095	0.0000
Auto 2-Pass DPS	1,303	8,755	\$28.25	0.3226	2.328	1.0219	0.0071	0.7582	0.0988
Man Inc Sec Final At Plant	790	523	\$28.25	5.4005	1.360	1.0219	0.1184	7.4630	0.5899
Man Inc Ser: Final At DU	280	1,155	\$28.25	2.4465	1.360	1.0219	0.0536	3.3809	0.0948
Box Section Sort, DPS	56	2,365	\$28.25	1.1945	1.360	1.0219	0.0262	1.6507	0.0092
Box Section Sort, Other	834	1,179	\$28.25	2.3952	1.360	1.0219	0.0525	3.3100	0.2761

(10)
MODEL COST = **4.5868**

Source: LR-I-146

19%

- (1) Values From QBRM FLOW MODEL Spreadsheet (L-5)
 (2) Values From Productivities Spreadsheet (L-12)
 (3) Values From Wage Rates Spreadsheet (L-13)
 (4) $[(3) * (100 \text{ cents/dollar})] / (2)$
 (5) Values From Piggybacks Spreadsheet (L-15)
 (6) Values From Wage Rates Spreadsheet (L-13)

- (7) $[(6) - 1] * (4)$
 (8) $(4) * (5) + (7)$
 (9) $(1) * (8) / 10,000 \text{ Pieces}$
 (10) Sum (9)

HANDWRITTEN MAIL FLOW MODEL

ENTRY POINTS: ENTERED = 1000 PROCESSED = 1000

ENTRY POINTS	ENTERED	PROCESSED
Out Mail	1000	1000
Out Mail	1000	1000
Out Mail	1000	1000
Out Mail	1000	1000
Out Mail	1000	1000
Out Mail	1000	1000
Out Mail	1000	1000
Out Mail	1000	1000
Out Mail	1000	1000
Out Mail	1000	1000

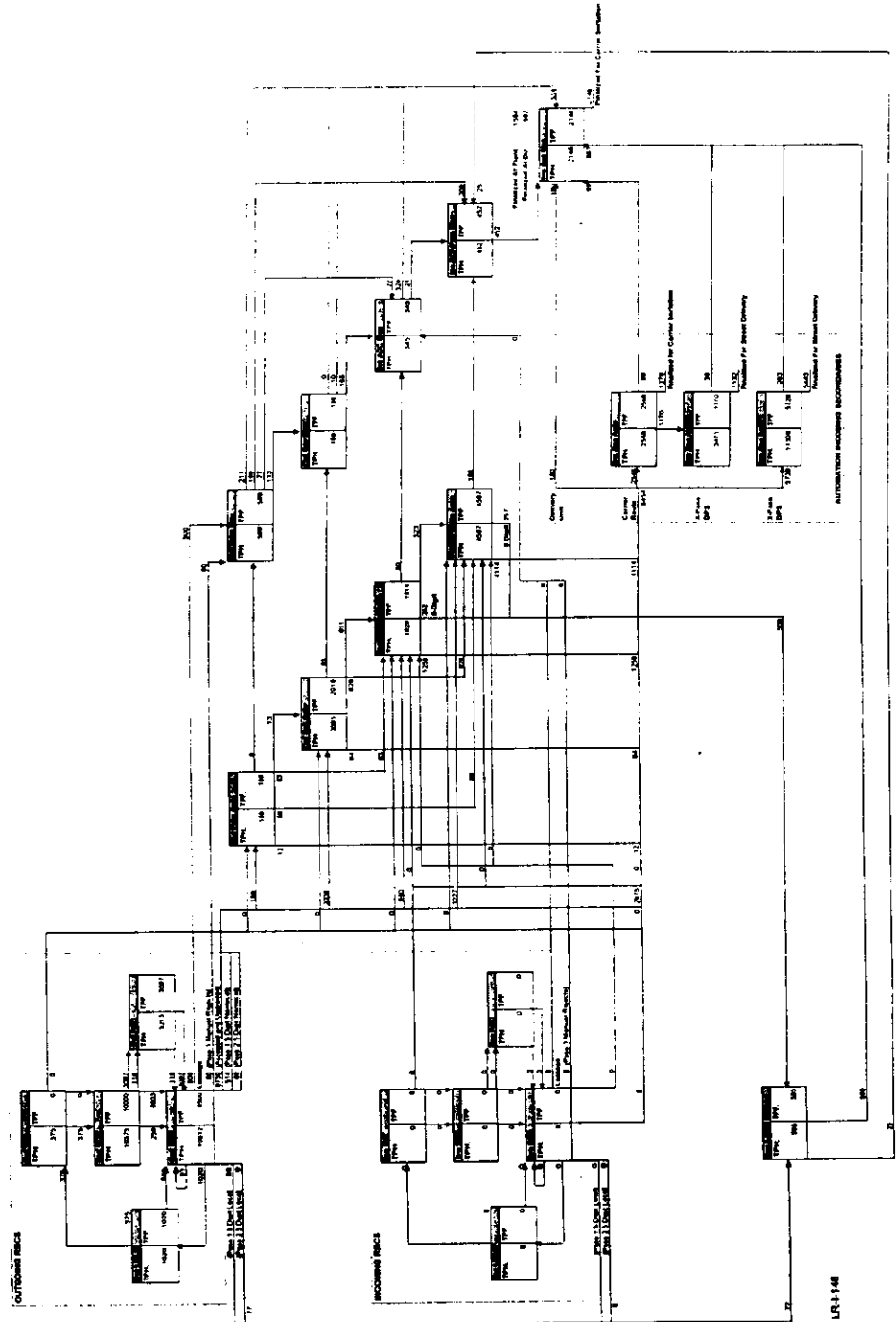


EXHIBIT KE-1A

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ACCEPT/UPGRADE RATES

Description	Source	FCM Sing Pc Hand
MLOCR Accept	Docket No. R97-1, USPS LR-H-130	8.36%
MLOCR Upgrade	Docket No. R97-1, USPS LR-H-130	57.42%
MPBCS OSS Accept	Docket No. R97-1, USPS LR-H-130	87.35%
MPBCS OSS Upgrade	Docket No. R97-1, USPS LR-H-130	92.99%
MPBCS OSS Errors:		
OSS Refeeds	Docket No. R97-1, USPS LR-H-130	0.96%
LMLM - ID Tag	Docket No. R97-1, USPS LR-H-130	3.95%
LMLM - Postnet Barcode	Docket No. R97-1, USPS LR-H-130	6.79%
Manual	Docket No. R97-1, USPS LR-H-130	0.95%

Other Accept Rates

Outgoing BCS Primary	USPS LR-I-107	95.20%
Outgoing BCS Secondary	USPS LR-I-107	95.80%
Incoming BCS MMP	USPS LR-I-107	95.80%
Incoming BCS SCF/Primary	USPS LR-I-107	95.70%
Incoming BCS Secondary Carrier Route	USPS LR-I-107	96.10%
Incoming BCS Secondary DPS Pass 1	USPS LR-I-107	97.50%
Incoming BCS Secondary DPS Pass 2	USPS LR-I-107	97.50%
Incoming CSBCS Secondary Pass1	USPS LR-I-107	98.90%
Incoming CSBCS Secondary Pass2,3	USPS LR-I-107	98.90%

Source: LR-I-146

**HANDWRITTEN
MAIL FLOW DENSITIES**

		-----OUTGOING-----		-----INCOMING-----			
<u>From Operation</u>	<u>Refeeds</u>	<u>Primary</u>	<u>Secondary</u>	<u>Mgd Mail Program</u>	<u>SCF/ Primary</u>	<u>Inc Sec</u>	<u>Total</u>
Out ISS Auto		3.22%	28.61%	3.86%	37.94%	26.36%	100.00%
Out OSS Auto		2.12%	16.26%	10.74%	36.88%	34.00%	100.00%
Out Prim Auto	0.05%		7.29%	35.74%	50.38%	6.59%	100.00%
Out Sec Auto	3.08%			47.12%	48.01%	4.87%	100.00%
Inc ISS Auto				2.41%	32.39%	65.19%	100.00%
Inc OSS Auto				0.92%	20.28%	78.81%	100.00%
Inc MMP Auto	0.79%				20.43%	79.57%	100.00%
Out Prim Man			18.86%	12.81%	33.18%	35.15%	100.00%
Out Sec Man				94.94%	5.06%	0.00%	100.00%
Inc ADC Man					6.18%	93.82%	100.00%

Source: LR-I-146

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**QBRM
MAIL FLOW DENSITIES**

<u>From Operation</u>	<u>Refeeds</u>	<u>-----OUTGOING-----</u>		<u>-----INCOMING-----</u>			<u>Total</u>
		<u>Primary</u>	<u>Secondary</u>	<u>Mgd Mail Program</u>	<u>SCF/ Primary</u>	<u>Inc Sec</u>	
Out ISS Auto		3.22%	28.61%	3.86%	37.94%	26.36%	100.00%
Out OSS Auto		2.12%	16.26%	10.74%	36.88%	34.00%	100.00%
Out Prim Auto	0.05%		7.29%	35.74%	50.38%	6.59%	100.00%
Out Sec Auto	3.08%			47.12%	48.01%	4.87%	100.00%
Inc ISS Auto				2.41%	32.39%	65.19%	100.00%
Inc OSS Auto				0.92%	20.28%	78.81%	100.00%
Inc MMP Auto	0.79%				100.00%	0.00%	100.00%
Out Prim Man			18.86%	12.81%	33.18%	35.15%	100.00%
Out Sec Man				94.94%	5.06%	0.00%	100.00%
Inc ADC Man					6.18%	93.82%	100.00%

Source: LR-I-146

FY 99 REMOTE BAR CODE SYSTEM (RBCS) STATISTICS

Source: Corporate Information System (CIS)

AP	LEAKAGE PERCENT	RCR FINAL PERCENT
1	5.7%	39.0%
2	5.8%	41.1%
3	5.7%	44.1%
4	4.9%	47.5%
5	5.8%	49.9%
6	5.6%	50.3%
7	5.5%	50.4%
8	5.5%	50.9%
9	5.5%	51.3%
10	5.7%	51.4%
11	6.1%	50.3%
12	6.2%	50.0%

Source: LR-I-146

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**HANDWRITTEN
MISCELLANEOUS FACTORS**

<u>Description</u>	<u>Source</u>	<u>Value</u>
AADC Trays Entered At MMP Operation	Docket No. R97-1, LR-H-128	79.60%
Local Originating	FY 98 ODIS	11.65%
RCR Finalization Rate	RCR 2000 D.A.R.	69.03%
RBCS Leakage Rate	Operations Leakage Target	5.00%
Automation Incoming Secondaries		
Delivery Unit (ZIP Code)	F.A.S.T. (AP 8 FY 99)	2.13%
Carrier Route	F.A.S.T. (AP 8 FY 99)	15.74%
3-Pass DPS (CSBCS)	F.A.S.T. (AP 8 FY 99)	14.40%
2-Pass DPS (DBCS)	F.A.S.T. (AP 8 FY 99)	<u>67.73%</u>
		100.00%
Finalized At Least To Carrier Route At Plant	F.A.S.T. (AP 8 FY 99)	73.81%
Post Office Box Destination	MC95-1, USPS-T-10I	8.90%
Source: LR-I-146		

**QBRM
MISCELLANEOUS FACTORS**

Description	Source	Value
AADC Trays Entered At MMP Operation	Docket No. R97-1, LR-H-128	79.60%
Local Originating	FY 98 ODIS	11.65%
RCR Finalization Rate	RCR 2000 D.A.R.	69.03%
RBCS Leakage Rate	Operations Leakage Target	5.00%
Automation Incoming Secondaries		
Delivery Unit (ZIP Code)	F.A.S.T. (AP 8 FY 99)	0.00%
Carrier Route	F.A.S.T. (AP 8 FY 99)	0.00%
3-Pass DPS (CSBCS)	F.A.S.T. (AP 8 FY 99)	0.00%
2-Pass DPS (DBCS)	F.A.S.T. (AP 8 FY 99)	<u>100.00%</u>
		100.00%
Finalized At Least To Carrier Route At Plant	F.A.S.T. (AP 8 FY 99)	73.81%
Post Office Box Destination	MC95-1, USPS-T-101	8.90%

Source: LR-I-146

MARGINAL PRODUCTIVITIES

Description	Source	(A)	(B)	(B) / (A)	Cents/ Piece
		Variability Factor	MODS Productivity	Marginal Productivity	
Outgoing ISS	USPS LR-I-107	0.999	6,847	6,854	0.486
Incoming ISS	USPS LR-I-107	0.999	4,370	4,374	
RCR		---	---	---	
REC	USPS LR-I-107	0.995	673	676	0.486
LMLM	USPS LR-I-107	0.995	3,871	3,890	
Outgoing OSS	USPS LR-I-107	0.998	8,976	8,994	
Incoming OSS	USPS LR-I-107	0.998	8,118	8,134	
Outgoing BCS Primary	USPS LR-I-107	0.998	5,729	5,740	
Outgoing BCS Secondary	USPS LR-I-107	0.998	8,323	8,340	
Incoming BCS MMP	USPS LR-I-107	0.998	5,565	5,576	
Incoming BCS SCF/Primary	USPS LR-I-107	0.998	5,896	5,908	
Incoming BCS Secondary Carrier Route	USPS LR-I-107	0.998	5,214	5,224	
Incoming BCS Secondary DPS (2 Pass)	USPS LR-I-107	0.998	8,737	8,755	
Incoming CSBCS Secondary DPS (3 Pass)	USPS LR-I-107	0.998	13,334	13,361	
Manual Outgoing Primary	USPS LR-I-107	0.995	486	488	
Manual Outgoing Secondary	USPS LR-I-107	0.995	477	479	
Manual MMP	USPS LR-I-107	0.995	601	604	
Manual Incoming SCF/Primary	USPS LR-I-107	0.995	638	641	
Manual Incoming Secondary, MODS Site	USPS LR-I-107	0.977	511	523	
Manual Incoming Secondary Non MODS Sites	USPS LR-I-107	0.990	1,143	1,155	
P.O. Box Sort DPS	USPS LR-I-107	0.990	2,341	2,365	
P.O. Box Sort Other	USPS LR-I-107	0.993	1,171	1,179	

Source: LR-I-146

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TEST YEAR WAGE RATES

<u>Description</u>	<u>Source</u>	<u>Wage Rate</u>
Remote Encoding Centers (REC)	USPS LR-I-106, Part VIII, Table VIII, p. VIII-2	\$17.787
Other Mail Processing	USPS LR-I-106, Part VIII, Table VIII, p. VIII-2	\$28.246
Premium Pay Adjustment Factor	USPS-T-21, Attachment 15	1.022

Source: LR-I-146

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FY 99 AP 11 MODS VOLUMES

OPER NO.	DESCRIPTION	MODS VOLUME	% VOL	
971	Outgoing Primary OSS - MPBCS	1,165,065,900	66.64%	74.35%
972	Outgoing Secondary OSS - MPBCS	134,827,300	7.71%	
271	Outgoing Primary OSS - DBCS	10,881,900	0.62%	25.65%
272	Outgoing Secondary OSS - DBCS	<u>437,523,900</u>	25.03%	
		1,748,299,000	100.00%	
871	Outgoing Primary - MPBCS	44,560,100	3.79%	
891	Outgoing Primary - DBCS	<u>1,132,472,500</u>	96.21%	
		1,177,032,600	100.00%	
872	Outgoing Secondary - MPBCS	78,226,000	7.57%	
892	Outgoing Secondary - DBCS	<u>954,707,700</u>	92.43%	
		1,032,933,700	100.00%	
973	Incoming MMP OSS - MPBCS	214,099,200	49.72%	93.36%
974	Incoming SCF OSS - MPBCS	108,182,800	25.12%	
975	Incoming Primary OSS - MPBCS	79,754,100	18.52%	6.64%
273	Incoming MMP OSS - DBCS	11,669,200	2.71%	
274	Incoming SCF OSS - DBCS	14,820,100	3.44%	
275	Incoming Primary OSS - DBCS	<u>2,109,100</u>	0.49%	
		430,634,500	100.00%	
873	Incoming MMP - MPBCS	401,941,100	19.34%	
893	Incoming MMP - DBCS	<u>1,675,940,800</u>	80.66%	
		2,077,881,900	100.00%	
874	Incoming SCF - MPBCS	878,379,200	25.56%	37.06%
875	Incoming Primary - MPBCS	395,607,400	11.51%	62.94%
894	Incoming SCF - DBCS	1,411,489,600	41.07%	
895	Incoming Primary DBCS	<u>751,728,200</u>	21.87%	
		3,437,204,400	100.00%	
876	Incoming Secondary Carrier Route - MPBCS	562,735,000	31.65%	
896	Incoming Secondary Carrier Route - DBCS	<u>1,215,011,900</u>	68.35%	
		1,777,746,900	100.00%	

Source: LR-I-146

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PIGGYBACK FACTORS

<u>EQUIPMENT</u> <u>DESCRIPTION</u>	<u>SOURCE</u>	<u>VALUE</u>
MLOCR	USPS LR-I-136	2.001
REC	USPS LR-I-136	1.563
LMLM	USPS LR-I-136	2.722
MPBCS	USPS LR-I-136	1.610
DBCS	USPS LR-I-136	2.328
CSBCS	USPS LR-I-136	1.915
Manual	USPS LR-I-136	1.360
Manual P.O. Box	USPS LR-I-136	1.360

<u>OPERATION</u> <u>DESCRIPTION</u>	<u>VALUE</u>
Outgoing ISS	2.001
Outgoing REC	1.563
Outgoing OSS	1.794
Outgoing LMLM	2.722
Outgoing Prim Auto	2.301
Outgoing Prim Man	1.360
Outgoing Sec Auto	2.274
Outgoing State Dist Man	1.360
Incoming ISS	2.001
Incoming REC	1.563
Incoming OSS	1.658
Incoming LMLM	2.722
Incoming MMP Auto	2.189
Incoming ADC Man	1.360
Incoming SCF/Prim Auto	2.062
Incoming SCF/Prim Man	1.360
Incoming 5-Digit Barcode Sort	2.062
Incoming Sec Auto Carrier Route	2.101
Incoming Sec Auto 3-Pass DPS	1.915
Incoming Sec Auto 2-Pass DPS	2.328
Man Inc Sec Final At Plant	1.360
Man Inc Sec Final At DU	1.360
Box Section Sort, DPS	1.360
Box Section Sort, Other	1.360

Source: LR-I-146

Exhibit KE-1B

**Derivation of High Volume
And Low Volume QBRM
Per Piece Costs**

Determination of Per-Piece Costs for QBRM (high-volume)

Counting Activities

TY01

Method of final piece count:

BRMAS software report

EOR report

Manual

Weight Averaging/Counting Machines

% Volume

51.6% [1]

28.1% [1]

11.2% [1]

9.2% [1]

Hourly wage rate, Postage Due Clerk

\$28.24 [2]

Piggyback factor, Business Reply

1.456 [3]

	(1)	(2)	(3)	(4)
	Pieces	Direct	Direct &	% of
	<u>Per Hour</u>	<u>Cost/Piece</u>	<u>Cost/Piece</u>	<u>Pieces</u>
QBRM Counting				
Manual Hand Counting, Postage Due Unit	2,746	\$0.0103	\$0.0150	11.2%
Manual Counting by Weight Averaging, Postage Due Unit	68,078	\$0.0004	\$0.0006	9.2%
Weighted cost per piece (direct & indirect)			\$0.0017	[4]

Footnotes:

- [1] Counting % (High Vol) spreadsheet (page 4)
- [2] USPS-LR-I-106, Part VIII, Table VIII, p. VIII-2
- [3] MODS 18 piggyback, USPS-T-21, Attachment 14
- [4] Sum [(3) * (4)]
- (1) Exhibit KE-1C at 3
- (2) [2] / (1)
- (3) [3] * (2)
- (4) [1] as appropriate

Determination of Volume Variable Costs of QBRM (Low Volume)Counting, Rating and Billing Activities
TY01**Method of final piece count:**

BRMAS software report

EOR report

Manual

Weight Averaging/Counting Machines

% Volume

14.2% [1]

19.3% [1]

47.2% [1]

19.3% [1]

Adj % Volume

21.0% [2]

23.3% [2]

48.0% [2]

7.6% [2]

Method of Postage Due Activities:

BRMAS

PERMITS/other software

Manual Other

% Volume

6.5% [3]

47.6% [3]

45.9% [3]

Adj % Volume

9.6% [4]

46.0% [5]

44.4% [5]

Hourly wage rate, Postage Due Clerk

\$28.24 [6]

Piggyback factor, Business Reply

1.456 [7]

	(1)	(2)	(3)	(4)
	Pieces	Direct	Direct &	% of
	per hour	Cost/Piece	Indirect	Pieces
QBRM Processing			Cost/Piece	
PERMITS Rating and Bill Generation Productivity, Postage Due Unit	7,461 [8]	\$0.0038	\$0.0055	46.0%
Manual Rating/Billing Productivity, Postage Due Unit	745 [8]	\$0.0379	\$0.0552	44.4%
Manual Hand Counting, Postage Due Unit	2,746 [9]	\$0.0103	\$0.0150	48.0%
Counting by Weight Averaging & SCM's, Postage Due Unit	68,078 [9]	\$0.0004	\$0.0006	7.6%
Weighted cost per piece (direct & indirect)			\$0.0343 [10]	

Footnotes

[1] BRM Practices Survey for all QBRM

[2] Counting % (Low Vol) spreadsheet (page 5)

[3] 1999 Survey, see Appendix 1, Table 2

[4] [3] adjusted to reflect % of pieces (rated by BRMAS/counted by BRMAS)

[5] Based on [3] for remaining percentage

[6] MODS 18 piggyback, USPS-T-21, Attachment 14

[7] Sum [(3) * (4)]

[8] USPS-LR-I-160, Section B at 3 (Revised 3/2/00)

[9] Exhibit KE-1C at 3

[10] Sum [(3) * (4)]

(2) [6] / (1)

(3) [7] * (2)

(4) [2], [4] or [5] as appropriate

Determination of Per-Piece Costs for All QBRM

Counting, Rating and Billing Activities

TY01

	(1) Annual Volume (000)	(2) Number of Accounts	(3) Direct & Indirect Cost/Piece	(4) Direct & Indirect Cost/Acc't	(5) Total Annual Cost (000)
<u>QBRM Processing</u>					
High Volume Counting	345,000 [1]		\$0.0017 [5]		\$596
High Volume Rating and Billing		300 [4]		\$ 2,785 [7]	\$836
Low Volume Counting, Rating and Billing	116,610 [2]		\$0.0343 [6]		\$3,995
Total	461,610 [3]				\$5,426 [8]
Unit Cost					\$0.0118 [9]

Footnotes:

[1] Counting % (High Vol) spreadsheet (page 4)

[2] Counting % (Low Vol) spreadsheet (page 5)

[3] [1] + [2]

[4] KE-LR-1 at 1

[5] High Volume QBRM spreadsheet (page 1)

[6] Low Volume QBRM spreadsheet (page 2)

[7] USPS-LR-I-160, Section B at 1

[8] Sum (Col 5)

[9] [8] / [3]

(5) (1) x (3) and (2) x (4)

Derivation of Counting Method %'s for QBRM
High Volume (300,000+ Pieces)

		Volumes By Counting Method					Total Volume
Customer Category		Manual	EOR	BRMAS	Counting Machine	Weight Averaging	
[1]	Top 77 %	24,419,257 10%	56,759,319 24%	141,653,407 59%	2,129,276 1%	16,441,663 7%	241,402,921 100%
[2]	Top 77 less #1,2 %	19,914,150 14%	56,759,319 39%	51,161,793 35%	2,129,276 1%	16,441,663 11%	146,406,200 100%
[3]	Total Volume						345,000,000
[4]	Remaining Vol	14,091,259	40,162,914	36,202,103	1,506,676	11,634,126	103,597,079
[5]	Total High Vol %	38,510,516 11%	96,922,233 28%	177,855,511 52%	3,635,952 1%	28,075,789 8%	345,000,000 100%

[1] Exhibit KE-1D at 1

[2] Id.

[3] LR-KE-1 at 1

[4] [3] - [1] for total, counting methods based on [2]

[5] [1] + [4]

Derivation of Counting Method %'s for QBRM
Low Volume (Less than 300,000 Pieces Per Account)

		Volumes By Counting Method					Total Volume
Customer Category		Manual	EOR	BRMAS	Counting Machine	Weight Averaging	
[1]	Total High Vol %	38,510,516 11%	96,922,233 28%	177,855,511 52%	3,635,952 1%	28,075,789 8%	345,000,000 100%
[2]	Vol 100,000+ Pcs/Acc't						415,167,825
[3]	Top 77 less #1,2 %	19,914,150 14%	56,759,319 39%	51,161,793 35%	2,129,276 1%	16,441,663 11%	146,406,200 100%
[4]	Vol Small but 100,000+	9,544,217	27,202,932	24,520,217	1,020,494	7,879,965	70,167,825
[5]	Total TY QBRM Vol						461,610,000
[6]	Remaining Small Vol	46,442,175					46,442,175
[7]	Total Low Volume %	55,986,392 48%	27,202,932 23%	24,520,217 21%	1,020,494 1%	7,879,965 7%	116,610,000 100%

[1] Counting % (High Vol) spreadsheet (p. 4)

[2] KE-LR-1 at 2

[3] Exhibit KE-1D at 1

[4] [3] - [1] for total, counting methods based on [3]

[5] USPS-LR-I-168 (total TY QBRM Volume)

[6] Assume remaining volume is manually counted

[7] [4] + [6]

Derivation of Counting Method %'s for QBRM

All QBRM

		Volumes By Counting Method					Total Volume
Customer Category		Manual	EOR	BRMAS	Counting Machine	Weight Averaging	
[1]	Low Volume	55,986,392	27,202,932	24,520,217	1,020,494	7,879,965	116,610,000
[2]	High Volume	38,510,516	96,922,233	177,855,511	3,635,952	23,075,789	345,000,000
[3]	Total Volume	94,496,908	124,125,165	202,375,727	4,656,446	35,955,754	461,610,000
	%	20%	27%	44%	1%	8%	100%

[1] Counting % (Low Volume) spreadsheet (page 5)

[2] Counting % (High Volume) spreadsheet (page 4)

[3] [1] + [2]

Exhibit KE-1C

**QBRM Counting
Productivity Study**

EXHIBIT KE-1C
Page 1 of 3

Study To Derive The Productivity To Count QBRM Letters

Purpose

The purpose of this study is to estimate the productivity in pieces per hour (PPH) for counting QBRM letters by hand and by a weight conversion technique.

Background

Currently, the costs for providing QBRM service, including counting, rating, billing and collecting postage, are all lumped into the 5-cent QBRM per-piece fee. KeySpan is considering a recommendation similar to that proposed by the Postal Service to split the costs into two fee categories for QBRM received by individual customers in high quantities. A per-piece fee would recover the cost for counting the QBRM letters, and a fixed, monthly fee would recover cost of the remaining accounting functions.

According to a Postal Service witness there are no studies that measure counting productivities. The results from this study will provide input data for deriving the unit cost to count QBRM letters. These unit costs will be used to support two separate proposed unit fees for QBRM, one for customers who receive high volumes and a second for those who receive low volumes.

Sample Design

The study design calls for several respondents to count QBRM letters using two different methods: hand-counting and weighing.

Hand-Counting: The manual hand-counting method would generally apply to QBRM that is received in small volumes. Each of the respondents is asked to be timed as they hand-count approximately two full trays of QBRM letters using any method available. For example, I found it fastest to count out small stacks of 20, by eyeballing three and two letters at a time, and then combining 5 small stacks to form a pile of 100. Then the piles of 100 could be quickly identified and counted to reach a total. Practicing different counting methods to obtain the fastest method is permitted.

Weighing: The weight conversion method for counting QBRM letters requires at least one respondent to be timed. This time the respondent will weigh 100 letters to obtain an average weight per letter. All of the letters are then weighed. Finally, the total weight of all letters is divided by the final average weight of one letter to obtain a total count.

EXHIBIT KE-1C

Page 2 of 3

Data Collection

The data collection sheet provided should be filled out in its entirety and returned via fax to Rich Bentley at 703-281-0677.

Questions

If there are any questions about the procedures for this study, please feel free to call Rich Bentley at 703-255-3888.

[illegible]

EXHIBIT KE-1C
Page 3 of 3

Data Collection Results for the QBRM Counting Productivity Study						
	(1)	(2)	(3)	(4)	(5)	(6)
	<u>Hand-Counting</u>		<u>Weight Conversion</u>			
	Total	Total	Total	Total	Timed	Effective
<u>Clerk #</u>	<u>Time</u>	<u>Count</u>	<u>Time</u>	<u>Count</u>	<u>PPH</u>	<u>PPH</u>
	(min)	(pieces)	(min/sec)	(pieces)	pcs/hour	pcs/hour
Clerk #1	13.50	1,356		1,344	6,027	3,616
Clerk #2	17.92	1,369		1,335	4,585	2,751
Clerk #3	15.12	1,313		1,346	5,211	3,127
Clerk #4	23.70	1,319		1,334	3,339	2,004
Total	70.23	5,357		5,359	4,576	2,746
Clerk #5			2.83	5,359	113,485	68,091
(1)	5/2/00 data collection					
(2)	Id.					
(3)	Id.					
(4)	Id.					
(5)	(2) / (1) * 60 or (4) / (3) * 60					
(6)	(5) *.6					

Exhibit KE-1D

**QBRM Volume and Counting
Method Used For the Top
74 of 77 QBRM Accounts
Obtained From The
CBCIS Data System**

74 OF THE TOP 77 QBRM CBCIS ACCOUNT VOLUMES
FY99 (AP6) THROUGH FY2000 (AP5)

		ACTUAL VOLUMES BY COUNTING METHOD						
74 of Top 77 QBRM Accounts*		Manual	EOR	BRMAS	Special Counting Machine	Weight Averaging	Weighing of Identical Pieces	Total Pieces
[1]	2000 Data	14,829,379 8%	27,877,073 15%	127,046,174 70%	0 0%	11,789,369 6%	0 0%	181,541,995 100%
[2]	1996 Data	9,589,878 16%	28,882,246 48%	14,607,233 24%	2,129,276 4%	1,003,337 2%	3,648,957 6%	59,860,926 100%
[3]	All Accounts	24,419,257 10%	56,759,319 24%	141,653,407 59%	2,129,276 1%	12,792,706 5%	3,648,957 2%	241,402,921 100%
[4]	All Accounts Excluding #'s 1&2	19,914,150 14%	56,759,319 39%	51,161,793 35%	2,129,276 1%	12,792,706 9%	3,648,957 2%	146,406,200 100%

*Counting method missing for 3 offices

[1] From "2000 Data" spreadsheet (page 5)

[2] From "1996 Data" spreadsheet (page 6)

[3] [1] + [2]

[4] [3] minus #1 and #2 account volumes from Volumes spreadsheet (page 4)

ATTACHMENT 2 OF RESPONSE TO KE/USPS-T29-49 (TR 14/6029-30)

QBRM ACCOUNT VOLUMES

FY99 (AP6) THROUGH FY2000 (AP6)

EXHIBIT KE-1D

Page 2 of 7

FY99 (AP6) THROUGH FY2000 (AP6)					COUNTING METHOD (customer method shaded)					
Customer	Post Office	Acct volume	1996 Practices Study data	FY2000 Data	Manual	EOR	BRMAS	Special Counting Machine	Weight Averaging	Weighting of Identical Pieces
2	17	38,382,839		X						
82	6	9,433,164	X		23.5%	76.5%				
86	41	8,310,062		X	2.0%	1.0%				
49	21	6,936,441		X	6.0%				6.0%	
9	23	4,226,212		X			100.0%			
66	42	4,138,339	X		1.2%		98.8%			
39	8	3,718,409		X			100.0%			
81	16	3,644,859		X	40.0%	54.0%			6.0%	
78	35	3,527,732		X						
57	15	3,507,447		X	30.0%	70.0%				
86	41	3,204,907		X	2.0%	1.0%	97.0%			
84	47	2,953,486		X	20.0%					
64	41	2,812,312		X	2.0%	1.0%				
7	17	2,712,699		X						
41	34	2,710,945		X	10.0%	90.0%				
40	6	2,634,921	X		23.5%	76.5%				
10	3	2,468,908	X		52.4%	44.3%				3.3%
77	35	2,400,709		X	100.0%					
14	7	2,136,743	X		10.0%	90.0%				
72	1	2,109,074	X		10.0%	4.7%	80.5%	4.7%		
37	48	2,074,582	X		98.4%		1.6%			
54	27	2,061,932		X			100.0%			
37	48	2,041,846	X		98.4%		1.6%			
44	33	2,031,984	X		36.5%		63.5%			
9	23	1,948,174		X			100.0%			
67	12	1,944,311	X		26.4%	1.5%	60.7%	7.6%		3.8%
89	39	1,868,356	X		19.6%	76.5%				3.9%
19	38	1,860,129	X		10.0%	90.0%				
63	24	1,818,455	X		50.0%	50.0%				
44	33	1,808,286	X		36.5%		63.5%			
38	13	1,774,401	X		80.0%					20.0%
45	45	1,672,203		X	1.0%					
50	18	1,509,851								
32	48	1,503,213	X		98.4%		1.6%			
4	28	1,487,313		X	100.0%					
41	34	1,487,567		X	10.0%					
79	20	1,484,742		X	15.0%				5.0%	
24	11	1,487,578		X	25.0%					
60	40	1,327,965	X		45.0%	55.0%				
6	48	1,297,976	X		98.4%		1.6%			
46	17	1,288,330		X						
33	38	1,231,997	X		10.0%	90.0%				
67	12	1,223,703	X		26.4%	1.5%	60.7%	7.6%		3.8%
13	2	1,216,770	X		50.0%					50.0%
28	23	1,200,441		X			100.0%			
15	3	1,199,208	X		52.4%	44.3%				3.3%
12	29	1,184,575		X			100.0%			
80	45	1,178,905		X	1.0%					
5	36	1,163,613								
25	29	1,161,241		X			100.0%			
27	15	1,147,115		X	30.0%	70.0%				
20	5	1,127,114	X		10.0%	90.0%				
1	45	1,107,286	X		1.0%		99.0%			
74	44	1,100,260		X	15.0%				5.0%	
67	41	1,093,074		X	2.0%	1.0%				
8	39	1,067,593	X		19.6%	76.5%				3.9%
76	35	1,046,871		X						
51	22	1,003,337	X		20.0%				80.0%	
68	41	1,002,077		X	2.0%	1.0%				
35	25	968,135	X		100.0%					
83	32	969,750		X	10.0%					
53	31	964,959		X	10.0%					
36	30	948,133	X		35.9%	5.1%		59.0%		
30	4	940,355								
23	46	930,710		X	100.0%					
48	19	921,137		X	100.0%					
71	10	920,323	X		100.0%					
52	42	912,083	X		1.2%		98.8%			
90	9	908,877		X	5.0%					
61	29	905,657		X			100.0%			
91	37	901,387		X	70.0%					
42	30	888,165	X		35.9%	5.1%		59.0%		
88	26	881,182	X		10.0%	80.0%				10.0%
73	14	875,224	X		100.0%					
39	8	874,379		X			100.0%			

182,902,858

74 OF THE TOP 77 OBRM CBCIS ACCOUNT VOLUMES
FY99 (AP5) THROUGH FY2000 (AP5)

EXHIBIT KE-1D
Page 3 of 7

			1996 Practices		MODIFIED % VOLUME BY COUNTING METHOD					
Customer	Post Office	Acct volume	Study data	FY2000 Data	Manual	EOR	BRMAS	Special Counting Machine	Weight Averaging	Weighing of Identical Pieces
NA	NA	56 613 882		X	8%		92%			
2	17	36 362 839		X			100.0%			
82	5	9 433 164	X		0.0%	100.0%				
86	41	8 310 062		X			100.0%			
49	21	6 936 441		X		100.0%				
NA	NA	5 500 000		X					100.0%	
9	23	4 226 212		X			100.0%			
66	42	4 138 339	X		0.0%		100.0%			
39	8	3 718 409		X						
61	16	3 644 859		X	0.0%	90.0%			10.0%	
78	35	3 527 732		X	100.0%					
57	15	3 507 447		X		100.0%				
86	41	3 204 907		X			100.0%			
84	47	2 953 486		X					100.0%	
64	41	2 812 312		X			100.0%			
7	17	2 712 699		X			100.0%			
41	34	2 710 945		X			100.0%			
40	5	2 634 921	X		0.0%	100.0%				
10	3	2 488 908	X		0.0%	93.1%				6.9%
77	35	2 400 709		X	100.0%					
14	7	2 136 743	X		0.0%	100.0%				
72	1	2 109 074	X		0.0%	5.3%	89.5%	5.3%		
37	48	2 074 582	X		98.4%		1.6%			
54	27	2 061 932		X			100.0%			
37	48	2 041 846	X		98.4%		1.6%			
44	33	2 031 984	X		0.0%		100.0%			
9	23	1 948 174		X			100.0%			
67	12	1 944 311	X		0.0%	2.0%	82.5%	10.3%		5.2%
89	39	1 888 356	X		0.0%	95.1%				4.9%
19	38	1 860 129	X		0.0%	100.0%				
63	24	1 818 455	X		0.0%	100.0%				
44	33	1 808 280	X		0.0%		100.0%			
36	13	1 774 401	X		0.0%					100.0%
45	45	1 672 203		X			100.0%			
50	18	1 509 851								
32	48	1 503 213	X		98.4%		1.6%			
4	28	1 487 313		X						
41	34	1 487 567		X						
79	20	1 484 742		X						
24	11	1 487 578		X	0.0%					
60	40	1 327 965	X		0.0%	100.0%				
6	48	1 297 976	X		98.4%		1.6%			
46	17	1 268 330		X						
33	38	1 231 997	X		0.0%	100.0%				
67	12	1 223 703	X		0.0%	2.1%	82.5%	10.3%		5.2%
13	2	1 216 770	X		0.0%					100.0%
28	23	1 200 441		X			100.0%			
15	3	1 199 208	X		0.0%	93.1%				6.9%
12	28	1 184 575		X						
80	45	1 178 905		X						
5	36	1 163 613					100.0%			
25	29	1 161 241		X			100.0%			
27	15	1 147 115		X			100.0%			
20	5	1 127 114	X		0.0%	100.0%				
1	45	1 107 286	X		0.0%		100.0%			
74	44	1 100 260		X						100.0%
67	41	1 093 074		X			100.0%			
8	39	1 067 593	X		0.0%	95.1%				4.9%
76	35	1 046 871		X	100.0%					
51	22	1 003 337	X		0.0%				100.0%	
68	41	1 002 077		X			100.0%			
35	25	988 135	X		100.0%					
83	32	969 750		X						100.0%
53	31	964 959		X			100.0%			
36	30	948 133	X		0.0%	7.9%		92.1%		
30	4	940 355								
73	46	930 710		X						
48	19	921 137		X			100.0%			
71	10	920 323	X		100.0%					
52	42	912 043	X		0.0%		100.0%			
80	9	908 877		X						
61	29	905 657		X			100.0%			
91	37	901 347		X						100.0%
42	30	886 185	X		0.0%	7.9%		92.1%		
88	26	881 182	X		0.0%	88.9%		0.0%		11.1%
73	14	875 224	X		100.0%					
39	8	874 379		X			100.0%			
Total		245,016,740			10%	24%	59%	1%	5%	2%

Percentage without 2 largest accounts

14% 39% 35% 1% 9% 2%

Added to data base since these two offices are not included in the CBCIS data base

Assumed to be 100% of the process used in that office other than manual

Manual pieces distributed to the other methods in the same ratio as originally provided

Sources: TR 14/6029-30 and "Data for #1" spreadsheet (page 7)

EXHIBIT KE-1D

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74 OF THE TOP 77 QBRM CBCIS ACCOUNT VOLUMES
FY99 (AP6) THROUGH FY2000 (AP5)

ACTUAL VOLUMES BY COUNTING METHOD

Customer	Post Office	Manual	EOR	BRMAS	Special Counting Machine	Weight Averaging	Weighing of Identical Pieces	Total Pieces	1996 Practices Study data	FY2000 Data
NA	NA	4,505,107		52,108,775				56,613,882		X
2	17			38,382,839				38,382,839		X
82	6		9,433,164					9,433,164	X	
86	41			8,310,062				8,310,062		X
49	21		6,936,441					6,936,441		X
NA	NA					5,500,000		5,500,000		X
9	23			4,226,212				4,226,212		X
66	42			4,138,339				4,138,339	X	
39	8			3,718,409				3,718,409		X
81	16		3,280,373			364,486		3,644,859		X
78	35	3,527,732						3,527,732		X
57	15		3,507,447					3,507,447		X
86	41			3,204,907				3,204,907		X
84	47					2,953,486		2,953,486		X
64	41			2,812,312				2,812,312		X
7	17		2,712,699					2,712,699		X
41	34		2,710,945					2,710,945		X
40	6		2,634,921					2,634,921	X	
10	3		2,297,744				171,164	2,468,908	X	
77	35	2,400,709						2,400,709		X
14	7		2,136,743					2,136,743	X	
72	1		111,004	1,887,066	111,004			2,109,074	X	
37	48	2,041,767		32,815				2,074,582	X	
54	27			2,061,932				2,061,932		X
37	48	2,009,549		32,297				2,041,846	X	
44	33			2,031,984				2,031,984	X	
9	23			1,948,174				1,948,174		X
67	12		39,626	1,603,528	200,771		100,386	1,944,311	X	
89	39		1,777,727				90,629	1,868,356	X	
19	38		1,860,129					1,860,129	X	
63	24		1,818,455					1,818,455	X	
44	33			1,808,286				1,808,286	X	
38	13						1,774,401	1,774,401	X	
45	45			1,672,203				1,672,203		X
50	18									
32	48	1,479,436		23,777				1,503,213	X	
4	28	1,497,313						1,497,313		X
41	34		1,487,567					1,487,567		X
79	20		1,484,742					1,484,742		X
24	11		1,467,578					1,467,578		X
60	40		1,327,965					1,327,965	X	
6	48	1,277,445		20,531				1,297,976	X	
48	17		1,268,330					1,268,330		X
33	38		1,231,997					1,231,997	X	
67	12		25,231	1,009,240	126,155		63,077	1,223,703	X	
13	2						1,216,770	1,216,770	X	
28	23			1,200,441				1,200,441		X
15	3		1,116,374				82,834	1,199,208	X	
12	29			1,184,575				1,184,575		X
80	15			1,178,905				1,178,905		X
5	36									
25	29			1,161,241				1,161,241		X
27	15		1,147,115					1,147,115		X
20	5		1,127,114					1,127,114	X	
1	45			1,107,286				1,107,286	X	
74	44					1,100,260		1,100,260		X
67	41			1,093,074				1,093,074		X
8	39		1,015,807				51,786	1,067,593	X	
76	35	1,046,671						1,046,671		X
51	22					1,003,337		1,003,337	X	
68	41			1,002,077				1,002,077		X
35	25	988,135						988,135	X	
83	32					969,750		969,750		X
53	31		964,959					964,959		X
36	30		74,853		873,280			948,133	X	
30	4									
23	46	930,710						930,710		X
48	19	921,137						921,137		X
71	10	920,323						920,323	X	
52	42			912,083				912,083	X	
90	9		908,877					908,877		X
61	29			905,657				905,657		X
91	37					901,387		901,387		X
42	30		70,120		818,065			888,185	X	
86	26		783,273				97,909	881,182	X	
73	14	875,224						875,224	X	
39	8			874,379				874,379		X
		24,419,257	56,759,319	141,653,407	2,129,276	12,792,706	3,648,957	241,402,921		
		10%	24%	59%	1%	5%	2%	100%		

w/o #18 & #2 Acc'ts 19,914,150 56,759,319 51,161,793 2,129,276 ***** 3,648,957 146,406,200
14% 39% 35% 1% 9% 2% 100%

Source: Total volumes multiplied by the percentages by method from "Modified %s" spreadsheet (page 3)

EXHIBIT KE-1D

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74 OF THE TOP 77 QBRM CBCIS ACCOUNT VOLUMES (2000 DATA)
FY99 (AP6) THROUGH FY2000 (AP6)

2000 ACTUAL VOLUMES BY COUNTING METHOD								
Customer	Post Office	Manual	EOR	BRMAS	Special Counting Machine	Weight Averaging	Weighing of Identical Pieces	Total Pieces
NA	NA	4 505 107	-	52 108 775	-	-	-	56 613 882
2	17	-	-	38 382 839	-	-	-	38 382 839
82	6	-	-	8 310 062	-	-	-	8 310 062
86	41	-	-	6 936 441	-	-	-	6 936 441
49	21	-	6 936 441	-	-	5 500 000	-	5 500 000
NA	NA	-	-	4 226 212	-	-	-	4 226 212
9	23	-	-	-	-	-	-	-
88	42	-	-	3 718 409	-	-	-	3 718 409
39	8	-	-	3 280 373	-	364 486	-	3 644 859
81	16	-	3 280 373	-	-	-	-	3 280 373
78	35	3 527 732	-	-	-	-	-	3 527 732
57	15	-	3 507 447	-	-	-	-	3 507 447
86	41	-	-	3 204 907	-	-	-	3 204 907
84	47	-	-	-	-	2 953 486	-	2 953 486
84	41	-	-	2 812 312	-	-	-	2 812 312
7	17	-	2 712 699	-	-	-	-	2 712 699
41	34	-	2 710 945	-	-	-	-	2 710 945
40	6	-	-	-	-	-	-	-
10	3	-	-	-	-	-	-	-
77	15	2 400 709	-	-	-	-	-	2 400 709
14	7	-	-	-	-	-	-	-
72	1	-	-	-	-	-	-	-
37	48	-	-	-	-	-	-	-
54	27	-	-	2 061 932	-	-	-	2 061 932
37	48	-	-	-	-	-	-	-
44	33	-	-	-	-	-	-	-
9	23	-	-	1 948 174	-	-	-	1 948 174
67	12	-	-	-	-	-	-	-
89	39	-	-	-	-	-	-	-
19	38	-	-	-	-	-	-	-
63	24	-	-	-	-	-	-	-
44	33	-	-	-	-	-	-	-
38	13	-	-	-	-	-	-	-
45	45	-	-	1 672 203	-	-	-	1 672 203
50	18	-	-	-	-	-	-	-
32	48	-	-	-	-	-	-	-
4	26	1 497 313	-	-	-	-	-	1 497 313
41	34	-	1 487 567	-	-	-	-	1 487 567
78	20	-	1 484 742	-	-	-	-	1 484 742
24	11	-	1 467 578	-	-	-	-	1 467 578
60	40	-	-	-	-	-	-	-
6	48	-	-	-	-	-	-	-
46	17	-	1 268 330	-	-	-	-	1 268 330
33	38	-	-	-	-	-	-	-
87	12	-	-	-	-	-	-	-
13	2	-	-	-	-	-	-	-
28	23	-	-	1 200 441	-	-	-	1 200 441
15	3	-	-	-	-	-	-	-
12	29	-	-	1 184 575	-	-	-	1 184 575
80	45	-	-	1 178 905	-	-	-	1 178 905
5	36	-	-	-	-	-	-	-
25	29	-	-	1 161 241	-	-	-	1 161 241
27	15	-	1 147 115	-	-	-	-	1 147 115
20	5	-	-	-	-	-	-	-
1	45	-	-	-	-	-	-	-
74	44	-	-	-	-	1 100 260	-	1 100 260
87	41	-	-	1 093 074	-	-	-	1 093 074
8	35	-	-	-	-	-	-	-
76	35	1 046 671	-	-	-	-	-	1 046 671
51	22	-	-	-	-	-	-	-
68	41	-	-	1 002 077	-	-	-	1 002 077
35	25	-	-	-	-	-	-	-
63	32	-	-	-	-	969 750	-	969 750
53	31	-	964 959	-	-	-	-	964 959
36	30	-	-	-	-	-	-	-
30	4	-	-	-	-	-	-	-
23	48	930 710	-	-	-	-	-	930 710
48	19	921 137	-	-	-	-	-	921 137
71	10	-	-	-	-	-	-	-
52	42	-	-	-	-	-	-	-
90	9	-	908 877	-	-	-	-	908 877
81	29	-	-	905 657	-	-	-	905 657
81	37	-	-	-	-	901 387	-	901 387
42	30	-	-	-	-	-	-	-
88	26	-	-	-	-	-	-	-
73	14	-	-	-	-	-	-	-
39	8	-	-	874 379	-	-	-	874 379
Total Pieces		14,829,379	27,877,073	*****	-	11,789,369	-	181,541,995
Total %		8%	15%	70%	-	6%	-	100%

Source: Total volumes for 2000 data from "Volumes" spreadsheet (page 4)

EXHIBIT KE-1D
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74 OF THE TOP 77 QBRM CBCIS ACCOUNT VOLUMES (1996 DATA)
FY99 (AP8) THROUGH FY2000 (AP5)

		1996 ACTUAL VOLUMES BY COUNTING METHOD						Total Pieces
Customer	Post Office	Manual	EOR	BRMAS	Special Counting Machine	Weight Averaging	Weighing of Identical Pieces	
2	17	-	9,433,164	-	-	-	-	9,433,164
82	6	-	-	-	-	-	-	-
86	41	-	-	-	-	-	-	-
49	21	-	-	-	-	-	-	-
9	23	-	-	4,138,339	-	-	-	4,138,339
66	42	-	-	-	-	-	-	-
39	8	-	-	-	-	-	-	-
81	16	-	-	-	-	-	-	-
78	35	-	-	-	-	-	-	-
57	15	-	-	-	-	-	-	-
86	41	-	-	-	-	-	-	-
84	47	-	-	-	-	-	-	-
64	41	-	-	-	-	-	-	-
7	17	-	-	-	-	-	-	-
41	34	-	-	-	-	-	-	-
40	6	-	2,634,921	-	-	-	-	2,634,921
10	3	-	2,297,744	-	-	-	171,164	2,468,908
77	35	-	-	-	-	-	-	-
14	7	-	2,136,743	-	-	-	-	2,136,743
72	1	-	111,004	1,887,066	111,004	-	-	2,109,074
37	48	2,041,767	-	32,815	-	-	-	2,074,582
54	27	-	-	-	-	-	-	-
37	48	2,009,549	-	32,297	-	-	-	2,041,846
44	33	-	-	2,031,984	-	-	-	2,031,984
9	23	-	-	-	-	-	-	-
87	12	-	39,626	1,603,528	200,771	-	100,386	1,944,311
89	39	-	1,777,727	-	-	-	90,629	1,868,356
18	38	-	1,860,129	-	-	-	-	1,860,129
63	24	-	1,818,455	-	-	-	-	1,818,455
44	33	-	-	1,808,286	-	-	-	1,808,286
38	13	-	-	-	-	-	1,774,401	1,774,401
45	45	-	-	-	-	-	-	-
50	18	-	-	-	-	-	-	-
32	48	1,479,436	-	23,777	-	-	-	1,503,213
4	28	-	-	-	-	-	-	-
41	34	-	-	-	-	-	-	-
79	20	-	-	-	-	-	-	-
24	11	-	-	-	-	-	-	-
80	40	-	1,327,965	-	-	-	-	1,327,965
6	48	1,277,445	-	20,531	-	-	-	1,297,976
46	17	-	-	-	-	-	-	-
33	38	-	1,231,997	-	-	-	-	1,231,997
67	12	-	25,231	1,009,240	126,155	-	63,077	1,223,703
13	2	-	-	-	-	-	1,216,770	1,216,770
26	23	-	-	-	-	-	-	-
15	3	-	1,116,374	-	-	-	82,834	1,199,208
12	29	-	-	-	-	-	-	-
80	45	-	-	-	-	-	-	-
5	36	-	-	-	-	-	-	-
25	29	-	-	-	-	-	-	-
27	15	-	-	-	-	-	-	-
20	5	-	1,127,114	-	-	-	-	1,127,114
1	45	-	-	1,107,286	-	-	-	1,107,286
74	44	-	-	-	-	-	-	-
67	41	-	-	-	-	-	-	-
2	39	-	1,015,807	-	-	-	51,786	1,067,593
78	35	-	-	-	-	-	-	-
51	22	-	-	-	-	1,003,337	-	1,003,337
68	41	-	-	-	-	-	-	-
35	25	986,135	-	-	-	-	-	986,135
83	32	-	-	-	-	-	-	-
53	31	-	-	-	-	-	-	-
36	30	-	74,853	-	873,280	-	-	948,133
30	4	-	-	-	-	-	-	-
23	46	-	-	-	-	-	-	-
48	19	-	-	-	-	-	-	-
71	10	920,323	-	-	-	-	-	920,323
52	42	-	-	912,083	-	-	-	912,083
90	9	-	-	-	-	-	-	-
61	29	-	-	-	-	-	-	-
91	37	-	-	-	-	-	-	-
42	30	-	70,120	-	818,065	-	-	888,185
88	26	-	783,273	-	-	-	97,909	881,182
73	14	875,224	-	-	-	-	-	875,224
39	8	-	-	-	-	-	-	-
Total Pieces		9,589,878	28,882,246	14,607,333	2,129,276	1,003,337	3,648,537	59,860,926
Total %		16%	48%	24%	4%	2%	6%	100%

Source: Total volumes for 1996 data from "Volumes" spreadsheet (page 5)

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Volumes for Highest QBRM Recipient (Not Included in CBCIS)

<u>Year/AP</u>	<u>Manual</u>		<u>Automation</u>		<u>Total</u>
	<u>Cards</u>	<u>Letters</u>	<u>Cards</u>	<u>Letters</u>	
1998/1	289,113	389,609	1,617,626	2,941,505	5,237,853
1998/2	220,694	138,099	1,467,970	2,785,669	4,612,432
1998/3	267,803	403,226	1,130,961	2,621,494	4,423,484
1998/4	201,268	247,416	1,377,375	2,671,590	4,497,649
1998/5	487,859	520,920	2,596,920	4,090,587	7,696,286
1998/6	242,221	236,369	1,409,848	2,816,066	4,704,504
1998/7	193,370	173,846	1,334,641	2,744,806	4,446,663
1998/8	172,191	206,532	1,354,768	2,537,293	4,270,784
1998/9	187,020	305,927	1,226,599	2,181,384	3,900,930
1998/10	191,306	169,857	1,276,901	2,479,647	4,117,711
1998/11	242,213	296,405	1,645,780	3,046,572	5,230,970
1998/12	267,081	370,479	1,144,748	2,916,878	4,699,186
FY 1998	2,962,139	3,458,685	17,584,137	33,833,491	57,838,452
1999/1	218,170	405,946	1,420,062	2,821,088	4,865,266
1999/2	196,352	273,125	1,448,258	2,833,391	4,751,126
1999/3	226,006	290,337	1,201,446	2,444,471	4,162,260
1999/4	146,202	113,217	1,282,591	2,638,561	4,180,571
1999/5	431,445	489,713	2,202,492	4,217,141	7,340,791
1999/6	316,848	425,357	1,467,934	2,391,940	4,602,079
1999/7	195,755	209,555	1,450,084	2,574,950	4,430,344
1999/8	257,668	401,069	1,178,000	2,262,974	4,099,711
1999/9	181,640	166,695	1,230,694	2,352,370	3,931,399
1999/10	151,324	130,608	1,339,055	2,398,187	4,019,174
1999/11	173,254	153,215	1,682,620	2,810,203	4,819,292
1999/12	165,889	163,992	1,494,790	2,526,972	4,351,643
1999/13	111,392	63,954	1,289,844	2,326,261	3,791,451
FY 1999	2,771,945	3,286,783	18,687,870	34,598,509	59,345,107
2000/1	178,006	220,810	1,359,500	2,742,526	4,500,842
2000/2	133,444	112,088	1,378,950	2,634,280	4,258,762
2000/3	105,551	56,368	1,145,560	2,596,141	3,903,620
2000/4	106,796	113,951	1,044,445	2,083,761	3,348,953
2000/5	127,505	82,373	2,236,777	4,109,957	6,556,612
2000/6	153,786	114,870	1,795,059	2,636,111	4,699,826
2000/7	116,450	94,185	1,488,674	2,438,646	4,137,955
2000/8	86,243	65,248	1,264,155	2,587,905	4,003,551
1999/5-2000/6	2,205,072	2,300,035	18,298,253	33,810,522	56,613,882
		4,505,107		52,108,775	
Grand Total	6,741,865	7,605,361	47,985,127	90,261,327	152,593,680

Source: 5/5/00 fax from USPS Attorney Michael Tidwell

Exhibit KE-1E

**Technical Deficiencies of
USPS Witness Campbell's
QBRM Unit Cost Derivations**

Technical Deficiencies of USPS Witness Campbell's QBRM Cost Analysis

There are several technical deficiencies in the two per piece cost analyses USPS witness Campbell presents in support of his proposals for (1) separate fixed accounting and per piece fees for QBRM received in high volumes and (2) a single per piece fee for QBRM received in low volumes. These deficiencies all tend to overstate the true costs for providing QBRM service. While the specific problems discussed below refer to high volume QBRM, most apply to low volume QBRM as well.

1. The Postal Service's Derived Unit Cost Includes More Than The Costs Of The Extra QBRM Processing Functions Of Counting, Rating And Billing

In case after case, the Commission notes that the BRM per piece fee is intended to recover only the costs of counting, rating and billing, and nothing more. The costs of all other sorting and delivery services are not included in the QBRM fee because the recipient pays for them in the First-Class rate. Even Mr. Campbell agrees that QBRM "is entitled to have it sorted to the addressee for whatever First Class rate he pays." See TR 14/6140. I agree with the Commission that the additional QBRM per piece fee (or fees in the case of high volume QBRM) should only include the costs for counting, rating and billing the reply mail pieces.

Under the Postal Service's proposal for the new high volume QBRM service, rating and billing costs are recovered by a separate, fixed quarterly fee. Therefore, the per piece fee should reflect *only* the cost of counting. Unfortunately, USPS witness Campbell's study design does not accurately follow the conceptual framework described above. Instead of limiting the QBRM per piece fee to counting costs, he has included sortation costs.

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Since Mr. Campbell's per piece fee reflects both counting and sorting, his costing approach improperly charges high volume QBRM recipients **twice** for the same sortation costs, once in the QBRM First-Class rate and again in the QBRM per piece fee.¹

2. The Study Design Is Inappropriate

Even though USPS witness Campbell proposes to revamp the high volume QBRM fee structure, he uses the same basic study design that the Postal Service has used since USPS witness Pham first presented it in Docket No. R90-1. Those cost studies were designed to develop **one** per piece fee that recovers costs associated with all three of the BRM functions (counting, rating and billing) and applies to all BRM recipients regardless of the volumes they receive.

In the instant proceeding, the Postal Service has proposed to develop different rate structures and fees for high and low volume QBRM recipients. For high volume QBRM, it proposes to institute **two separate** fees, one fixed fee to recover billing and rating costs and a separate per piece fee to recover counting costs. There was no reason to follow the old study design.

For the high volume fixed quarterly fee, USPS witness Campbell followed proper procedures by developing a separate cost for rating and billing. However, he has not, but could just as easily have, developed a separate counting cost by conducting a relatively simple study, as I have done. See Exhibit KE-1C. Certainly, such a study is not beyond the capability of an organization as large as the Postal Service.

¹ This error also affects low volume QBRM recipients.

For these reasons, the principal problem with USPS witness Campbell's methodology is that he continued to employ an outmoded methodology for a one-fee-fits-all per piece fee when he was proposing an entirely new fee structure.

3. The Assumption That A High Percentage Of QBRM Will Be Sorted And Counted Manually Is Unfair

In Docket No. R90-1, USPS witness Pham focused primarily on automated BRMAS operations in his study of BRMAS BRM costs. He also assumed that BRMAS processing would expand rapidly throughout postal facilities and estimated that 85% of BRMAS BRM volumes would be processed on the automated equipment in the test year of that case.

In contrast, when USPS witness Campbell's derives his unit cost for QBRM, he assumes that 66.5% of the pieces are sorted and counted manually at a cost of 4.32 cents per piece. Such an assumption is extremely unfair to QBRM recipients for two reasons. First, QBRM letters are prebarcoded and automation-compatible by regulation. Consequently, QBRM letters are more susceptible to being processed on automated equipment than other First-Class letters. Whether or not these pieces are processed by automation is a purely management decision. This is well beyond the control of the QBRM recipient

Second, the Postal Service claims that QBRM is processed manually because automated incoming secondary equipment is already at full capacity. See TR 14/6088-89. If the equipment is being used to sort other First-Class mail, it unfair to penalize a subset of First-Class letters when other First-Class letters are receiving the benefit of automation. The rate for First Class is based on an average of all processing methods

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available for that mail.² Since QBRM is part of that subclass, the Postal Service cannot justify charging QBRM for the alleged extremely high probability that QBRM will receive manual processing.

4. Mr. Campbell Does Not Apply The Pham Method Correctly

In Docket No. R90-1, USPS witness Mr. Pham noted that his study results included certain automated and manual sorting costs.³ Recognizing this fact, Mr. Pham adjusted his unit per piece fee cost by subtracting out a weighted incoming sortation cost for such pieces. *Id.* at 9. More specifically, the sortation costs he removed generally reflected the same sorting processes (i.e., manual vs. automated) as the BRM sorting costs he originally added into his model. Accordingly, when Mr. Pham subtracted out the relevant sorting costs, his derived unit cost represented just the cost for the BRM functions of counting, rating and billing.

Although witness Campbell used the Pham methodology, he does ^{not} apply it correctly.

a. Inconsistent Assumptions Regarding How High Volume QBRM Letters Are Processed

In Docket No. R90-1, Mr. Pham developed a BRM unit cost based on the separate costs for various automated and manual processing methods.⁴ Then he

² According to the Postal Service, 42% of QBRM (TR 14/6096) is processed manually in the incoming secondary whereas only 6% of all other letters (TR 14/6091) is processed manually in that same operation.

³ For example, Mr. Pham recognized that the BRMAS system performed not only the counting, rating and billing functions (for which recipients properly should pay the BRMAS BRM fee) but also the final sort to the end user as well. See Docket No. R90-1, USPS-T-23 at 3. In other words, the BRMAS operation combined all four of these functions into one.

⁴ As mentioned above, Mr. Pham projected that a majority of BRMAS qualified BRM would receive automated processing.

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subtracted out a **weighted** incoming secondary cost that reflected proportionately the same percentages of processing methods used to develop the unit cost in the first place. For example, when deriving both the BRMAS unit cost and the avoided incoming secondary cost, Mr. Pham made similar assumptions regarding the processing methods for these pieces.

Mr. Campbell fails to apply this method consistently. Unlike Mr. Pham, Mr. Campbell derives his QBRM unit cost under the assumption that 66.5% of QBRM pieces will be sorted manually. But when determining the unit incoming secondary cost to subtract in order to avoid double counting sorting costs, he assumes that only 10% of QBRM will be sorted manually. See TR 14/5963-64. Thus, he is inconsistent in his attempt to avoid double counting of incoming secondary sort costs. Since automated costs are so much lower than manual costs, his derived QBRM net unit cost, adjusted for avoided incoming secondary sort costs, is overstated. He defines these costs, which he fails to remove, as "premium" sortation costs. As stated in my testimony, there no legitimate reason to include any sortation costs in the per piece fee.

b. Sorting Costs For 25% Of The QBRM Volumes Were Never Removed

When deriving his QBRM unit cost, USPS witness Campbell assumes that 66.5% of the letters are hand counted. See LR-I-160, Schedule B at 2. Thus, he applies his 4.32-cent sorting and counting manual unit cost to 66.5% of the pieces. But when subtracting out the incoming secondary sort cost, he applies the 2.11-cent First-Class Basic Automated unit cost to only 41.6% of the pieces. Thus, for 24.9% of the pieces he made no adjustment for the avoided sorting costs.

Such pieces represent letters that were sorted by automation but counted manually. See TR 14/5928. By including these pieces in the derivation of the QBRM

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unit cost before the adjustment, Mr. Campbell already has included the cost of hand-sorting these pieces. Thus he errs twice. First, he assumes a manual sorting and counting PPH of 951 for these pieces, which are really sorted by automation. Second, he never subtracts out any avoided sorting costs for these pieces. Thus, the resulting QBRM net unit cost not only double counts sorting costs, but assumes a manual sortation and counting cost for pieces that are presumed to be sorted by automation.

5. Use Of The 10-Year-Old 951 PPH For Manually Sorting And Counting QBRM Letters Is Inappropriate

a. Incoming Secondary automation has increased considerably

The 951 PPH productivity factor Mr. Campbell used for manually sorting and counting QBRM letters within the postage due unit is taken from USPS witness Pham's 10-year old study. Although USPS Mr. Campbell concludes that field observations confirm that this operation has not changed in ten years, the manner in which BRM letters is provided to the postage due unit has. After spending billions of dollars on automation equipment, it seems reasonable that a far greater percent of QBRM is sorted to the final customer prior to being sent to the postage due unit now than compared to 10 years ago. Such mail would not need any sorting, certainly impacting the amount of sortation that would need to take place in the postage due unit. USPS witness Campbell's field observations do not address this situation.

Moreover, the CBCIS data provided by Mr. Campbell shows that most high volume counts (80%) are performed by BRMAS or EOR outside the postage due unit. Thus, his assumption that 66.5% of high volume QBRM would be counted and sorted manually with a 951 PPH is way off base.

b. The 951 PPH relies too heavily on data from one very inefficient and unrepresentative office

The derivation of the 951 PPH for manual sorting and counting BRM letters in the postage due unit relies upon data that is highly dependent upon the operation of one office with almost 10,000 separate accounts. USPS witness Campbell could not verify the identity of that office, whether that office still has 10,000 separate accounts, or whether the operations of that office are still manually conducted. He simply assumed the 951 would be representative of the current environment for counting QBRM received in both high and low volumes for the test year. Further, had he removed this one office from the derivation of the 951 PPH, the PPH would have become 1,097, reducing his unit cost from 2.0 cents to 1.61 cents. See TR 14/6033-35.

c. The Assumption That The 951 PPH For Manually Processed QBRM Can Be Used To Derive The Cost Of QBRM Counted By Weight Conversion Techniques And Special Counting Machines Is Neither Supportable Nor Reasonable

Of the 66.5% of QBRM that USPS witness Campbell claims is counted manually, 19.3% is counted by special counting machines or by weighing techniques. Because he had no further data on the productivities for special counting machines or weighing techniques, he simply assumed that the 951 PPH productivity factor applies to such pieces as well. See TR 14/5916-17, 5957, 6033-35, 6112. Since the productivity for counting by special counting machines or weighing techniques is so much higher than for hand counting, Mr. Campbell's derived cost estimate for manually counting QBRM is overstated.

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6. The changed assumption that postage due costs vary 100% with volume, when USPS witness Schenk assumed such costs were 79.7% variable with volume, is not explained

USPS witness Campbell assumed that the 951 manual productivity for counting and sorting QBRM was 100% variable with volume, in contrast to USPS witness Schenk's PPH that was 79.7% variable with volume in Docket No. R97-1. His explanation for this change is that it was an "institutional decision". See TR 14/5961. Had he assumed the same 79.7% variability as USPS witness Schenk, his derived unit cost for high volume QBRM would have been reduced to 1.41 cents.

7. Additional data ignored by USPS witness Campbell casts serious doubt on how representative the data from the BRM Practices Study will be for the test year.

a. Manual processing in the incoming secondary

USPS witness Campbell's acceptance of the BRM Practices Study is questionable to say the least. That study indicates that 41.6% of prebarcoded, automation-compatible QBRM letters is sorted to the customer through manual distribution methods. See TR 14/5915. Such processing increases unit costs by more than two cents. See TR 14/5963-64. One cannot help but ask how such a result is reasonable when the Postal Service also reports that 94% of all barcoded letters will be finalized by automated incoming secondary operations in the test year. See TR 5/1675. Although Mr. Campbell was unaware of this (TR 14/6092), it did not seem to bother him that under his assumption, QBRM processing is 7 times more likely to be manually sorted than an average barcoded letter. (41.6% vs. 6%) There can be no logical explanation for this.⁵

⁵ Nor, in my view is this particularly relevant since sorting costs should not enter into the cost derivation of QBRM processing costs.

Moreover, USPS witness Campbell ignores the sharp increased capacity for automating mail that will occur between 1996 and the test year, as indicated by the DBCS Machine Deployment Schedule. (USPS LR-I-271)

b. Counting by weight conversion techniques

A USPS study performed in 1987 indicated that at least half of all BRM was counted by use of weight conversion factors. If such a practice was so widely used in 1987, it casts doubt on USPS witness Campbell's conclusion that only 8.9% of QBRM was being counted by weighing techniques in 1996. Mr. Campbell was unaware of this study (TR 14/6074, 6171) and could not explain why counting by weight conversion techniques might have declined so drastically during the 1987 – 1996 time period.

c. Data from high volume recipients indicate significant differences

USPS witness Campbell could have utilized data from the CBCIS system, which tracks QBRM data for almost all recipients. But he failed to update or compare the data taken from the BRM Practices Study with this additional data source. Such data indicates that, at least for high volume recipients, BRMAS processing is *much more* prevalent than he was led to believe. According to the data provided by Mr. Campbell, 59% is processed by BRMAS equipment. This is more than four times the 14% he assumed in his derivation of the QBRM per piece cost.⁶

In addition, manual counting is performed much less often than he assumed. As Mr. Campbell confirmed, even though some offices counted QBRM by various methods, the counting method for the largest accounts is never manual. See TR 14/6189. This

⁶ The volume of QBRM pieces found to be counted by BRMAS equipment for 74 of the top 77 QBRM accounts is *more* than twice the total number of QBRM pieces that USPS witness Campbell estimates. For example, he assumed that 14.2% of total pieces would be counted by BRMAS. For the test year, this is or 65.5 million pieces (14.2% of 461.6 million pieces). As I show in Exhibit KE-1D, the new data from just 74 accounts indicates that 142 million pieces are counted by BRMAS!

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certainly contradicts his own unsupported assumption that the counting method is unrelated the volume per account. In any event, the CBCIS data indicates that only 8% of high volume QBRM from is counted manually, whereas Mr. Campbell's data indicated that eight times that amount, 66.5%, would be counted manually.

From my analysis of the CBCIS data, I also estimate that for all QBRM, only 20% of the pieces are counted manually. This is less than one third of the 66.5% that Mr. Campbell obtained from the BRM Practices Study. This casts serious doubt on how well that study represents the QBRM universe and further indicates why USPS witness Campbell has overstated the QBRM unit costs for high and low volume QBRM.

Exhibit KE-1F

**Comparison of QBRM
Net Revenue Contribution
To Institutional Costs for
USPS and KE Proposals**

EXHIBIT KE-1F

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Comparison of Contributions to Institutional Costs Under the
KE and USPS QBRM High Volume Fee Proposals

<u>KE PROPOSAL</u>	<u>Fee Per Account</u>	<u>Total Accounts</u>	<u>Fee Per Piece (Cents)</u>	<u>Total Volume (000)</u>	<u>Total (\$000)</u>
<u>Annual Fee:</u>					
Revenues	\$ 12,000	300 [1]			\$ 3,600
Vol Variable Costs	\$ 2,785	300			\$ 836
Contribution to Inst Costs	\$ 9,215	300			\$ 2,764
<u>Unit Fee (High Volume)</u>					
Revenues			0.50	345,000 [4]	\$ 1,725
Vol Variable Costs			0.17 [2]	345,000	\$ 596
Contribution to Inst Costs			0.33	345,000	\$ 1,129
<u>Unit Fee (Low Volume)</u>					
Revenues			4.50	116,610 [5]	\$ 5,247
Vol Variable Costs			3.43 [3]	116,610	\$ 3,995
Contribution to Inst Costs			1.07	116,610	\$ 1,253
Total Contrib to Inst Costs					\$ 5,146
<u>USPS PROPOSAL</u>					
<u>Annual Fee:</u>					
Revenues	\$ 3,400	1,358			\$ 4,617
Vol Variable Costs	\$ 2,784	1,358			\$ 3,781
Contribution to Inst Costs	\$ 616	1,358			\$ 837
<u>Unit Fee (High Volume)</u>					
Revenues			3.00	153,870	\$ 4,616
Vol Variable Costs			2.00	153,870	\$ 3,077
Contribution to Inst Costs			1.00	153,870	\$ 1,539
<u>Unit Fee (Low Volume)</u>					
Revenues			6.00	307,740	\$ 18,464
Vol Variable Costs			4.80	307,740	\$ 14,772
Contribution to Inst Costs			1.20	307,740	\$ 3,693
Total Contrib to Inst Costs					\$ 6,068
Change in Contribution					\$ (922)

[1] KE-LR-1 at 1

[2] Exhibit KE-1B at 1

[3] Exhibit KE-1B at 2

[4] KE-LR-1 at 1

[5] 461,610 - [4]

Exhibit KE-1G

**Derivation of QBRM
Volumes Counted By
The Various Methods Available**

Derivation Of QBRM Volumes Counted By The Various Methods Available

QBRM can be counted by manual, end-of-run (EOR), BRMAS, special machines, and weighing techniques. Since these methods exhibit various productivities, it is important to know the volumes counted by each method in order to derive the unit costs for counting. To accomplish this, I have utilized data from the CBCIS data system supplied by the Postal Service to which I have made some adjustments based on reasonable assumptions regarding the manner in which postal clerks count mail.

In order to estimate the volumes for the entire QBRM universe, I divided QBRM accounts into high and low, depending upon the number of pieces returned. The following steps describe how I was able to accomplish this.

1. QBRM Volumes By Counting Method For 74 Of The Top 77 Offices

USPS witness Campbell provided the percentage of QBRM pieces that were counted by each of the five methods for 74 of the top 77 offices. For each account he indicated the percentage of QBRM applicable to all of the pieces counted within that office. During oral cross-examination he indicated that, at least for the most current data he had recently retrieved, the method of counting for the particular account was not the same as the percentages shown for the office as a whole, but would be one of the non-manual methods that he had specified. Therefore, where he so indicated, I have assumed that 100% of the pieces were counted using the method that Mr. Campbell suggested was appropriate.

EXHIBIT KE-1G

Page 2 of 4

For the older data, collected in 1996, there was a similar problem. The percentages shown were applicable to all QBRM counted by an office, and not necessarily for the large account shown. Because high volume accounts would tend to exhibit different counting methods from low volume accounts, I have made a similar adjustment to the 1996 data. I therefore constrained the manual counting percentage to be zero in those offices that exhibited more than one counting method and re-allocated that volume to the other methods utilized by the office in the same relative amounts.

The analysis that performs these adjustments is shown on pages 2 and 3 of Exhibit KE-1D.

2. Compute Volumes From Percentages

The next step is to convert the percentages to volumes. This is shown separately for the 1996 and 2000 data on pages 5 and 6 of Exhibit KE-1D. In addition, I received separate data for one very large account and for Brooklyn Union Gas, neither of which are part of the CBCIS data system. The very large account's information is shown on page 7 of that same exhibit. All of the volumes are added together, as shown on page 4, and summarized on page 1.

3. Estimate The High Volume Universe

As proposed, the breakeven volume in order to take advantage of the high-volume per-piece fee is 300,000 per year. Accordingly, I have estimated that 300 separate accounts could potentially switch to the new fee category. The total volume from these high volume accounts is estimated to be 345 million pieces. This information is obtained from the CBCIS data provided by the Postal

EXHIBIT KE-1G
Page 3 of 4

Service and reported in KE-LR-1. As shown, there are three sources of QBRM volumes: 1-ounce letters, 2-ounce letters and cards. Page 1 of KE-LR-1 summarizes this information for accounts that potentially receive at least 300,000 QBRM pieces.

4. Estimate the Volumes by Counting Method For High Volume Recipients

The 74 offices for which I have the volumes by counting method represent 241 million pieces out of the 345 million that comprise the high-volume universe. However, within my sample there were two very large accounts that may not be representative of any other account. Therefore, I re-computed the percentages by counting method for the sample, excluding the input from those two accounts. This reduced the total volume in my sample to 146 million and is shown on page 1 of Exhibit KE-1D.

The volumes by counting method for the remaining 104 million pieces were estimated by applying the recomputed percentages from my new sample. The entire high-volume QBRM market can then be derived by adding up the volumes from the initial sample, plus the remaining 104 million pieces. This part of the analysis is shown on page 4 of Exhibit KE-1B.

5. Estimate The Volumes by Counting Method For Low Volume Recipients

Focusing on small volume accounts, I estimated that the percentages by counting method derived for the higher volumes would be applicable so long as the volume received was 100,000 piece or more. This implied an average of about 400 pieces received per day, which is near the breakpoint above which

EXHIBIT KE-1G

Page 4 of 4

hand counting is no longer efficient. Thus, I assumed that the percentages by counting method derived for my high volume sample would also be applicable to accounts receiving at least 100,000 pieces per year. As shown on page 2 of Library Reference KE-LR-1, over 700 accounts, representing 415 million pieces would qualify. Subtracting out the high-volume QBRM recipients resulted in a total of 70 million. The volumes by counting method for these 70 million pieces were computed using the same percentages for the high volume recipients, as shown on page 5 of Exhibit KE-1B. Since the Postal Service estimates that total QBRM volumes will reach 461 million pieces in the test year, the remaining QBRM volumes can be computed. Thus, the low volume QBRM market consists of the 70 million pieces received in quantities of between 100,000 and 300,000 per year, and the remaining 46 million pieces. For the latter, I have assumed that 100% of the QBRM pieces are counted by hand. This analysis is provided on page 5 of Exhibit 1B.

6. Summary Of Volumes By Counting Method For All QBRM

The volumes by counting method for all QBRM are derived simply by adding the volumes for the low and high volume accounts. This is shown on page 6 of Exhibit 1B.

1 [Library References KE-LR-1 and
2 KE-LR-2 were received into
3 evidence.]

4 CHAIRMAN GLEIMAN: Mr. Bentley, have you had an
5 opportunity to review the packet of designated written cross
6 examination that was made available earlier today?

7 THE WITNESS: Yes, I have.

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

11 THE WITNESS: Yes, they would be.

12 CHAIRMAN GLEIMAN: If that is the case, if I could
13 request that counsel please assist us and provide two copies
14 to the court reporter, I will direct that the designated
15 written cross examination of Witness Bentley be received
16 into evidence and transcribed into the record.

17 [Designated Written
18 Cross-Examination of Richard E.
19 Bentley, KE-T-1, was received into
20 evidence and transcribed into the
21 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 KEYSPAN ENERGY
WITNESS RICHARD E. BENTLEY
(KE-T-1)

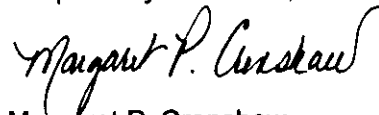
Party

United States Postal Service

Interrogatories

USPS/KE-T1-2-4, 9-10, 21-22, 24

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Margaret P. Crenshaw". The signature is fluid and cursive, with a large initial "M" and a stylized "P".

Margaret P. Crenshaw
Secretary

INTERROGATORY RESPONSES OF
KEYSPAN ENERGY
WITNESS RICHARD E. BENTLEY (T-1)
DESIGNATED AS WRITTEN CROSS-EXAMINATION

Interrogatory

USPS/KE-T1-2

USPS/KE-T1-3

USPS/KE-T1-4

USPS/KE-T1-9

USPS/KE-T1-10

USPS/KE-T1-21

USPS/KE-T1-22

USPS/KE-T1-24

Designating Parties

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USPS/KE-T1-2

Please list all postal facilities where you studied BRM processing. For each site, include the date of the visit, the approximate time of day of the visit, the specific operations observed, the volumes of customer accounts observed. Provide and all notes taken during or in connection with each visit.

RESPONSE:

Since I began as an employee at the Postal Rate Commission I have toured at least the following Postal sectional center facilities: Prince Georges, Merrifield, Baltimore, Washington, DC, and Philadelphia. In addition I have also visited the Largo BMC, the downtown Manhattan, NY post office and the 21st street station in Washington, DC. Most of these trips took place during the 1970's so I do not recall all of the trips or the dates when they took place. However, OCA witness Collins was probably with me on at least a few of these trips. I no longer have any notes taken in connection with those visits.

My most recent trip was to the downtown Manhattan, NY post office in the early morning hours specifically to view a BRMAS and the postage due operations. This trip took place in the mid 1990's and lasted several hours. I no longer have any notes that I may have made at the time of that visit.

As part of an informal resolution of a discovery dispute involving KeySpan Energy Interrogatory KE/USPS-T29-23(j), KeySpan counsel and I had a trip planned for the specific purpose of viewing QBRM operations at Carol Stream, IL, Palatine, IL and Grand Rapids, MI late in March. However, due to Postal Service counsel's heavy workload schedule and a miscommunication about the timing of that trip, the trip has not yet taken place.

USPS/KE-T1-3

On page 20 of your testimony, you estimate that 300 QBRM customer accounts receive more than 300,000 pieces per year, your "breakeven" volume between high and low-volume QBRM recipients. On page 16, you state that you rely on the provided CBCIS data consisting of the top 77 customer accounts to estimate the percentages by counting method for all high-volume QBRM accounts (the remaining 223 accounts). Please explain how the counting method percentages for the top 77 customer accounts (less #1 and #2) are representative of all "high-volume" QBRM accounts.

RESPONSE:

The derivation of the volume by counting method for all high volume QBRM recipients is a four-step process. First, I received data for 74 of the top 77 accounts from the Postal Service that provided the volume breakdown for each of the five methods for counting QBRM. As shown in Exhibit KE-1D, these 74 accounts received 241.4 million pieces.

The second step involves estimating how many pieces will be received by all large volume accounts. This is estimated to be 345 million pieces, received by 300 accounts, as developed in KeySpan Library Reference LR-KE-1. Therefore, the objective is to find the volume breakdown by counting method for the remaining 103.6 million pieces, that are received by 226 (300 less 74) accounts.

It is important to note that I am using annual volume as a proxy for daily volume. At a general matter, it is the daily volume that determines the method of counting, particularly between manual counts and one of the other methods.

The third step is to make some assumptions regarding the sample for which I have data, and the universe for which I am trying to project. Of the 241.4

million pieces included in my sample, the annual volume received per account ranged from 874,000 to 56.6 million pieces. A total of 95 million originated from just two accounts. Because these two accounts received so much more volume than the others, the operations at those two offices might not be representative of offices that processed smaller amounts of QBRM. Therefore, I decided to exclude the information from these two accounts from my sample. The new range of annual volumes received for my reduced sample became 874,000 to 9.4 million. I note, parenthetically that this assumption is consistent with my criticism of USPS witness Campbell's decision not to remove one, very large and unrepresentative office from his 1989 sample data relied upon to derive the 951 PPH for manually counting and sorting BRM. See Exhibit KE-1E at 7.

Finally, I assumed that the breakdown of the volumes by counting method for the reduced sample would be representative for all accounts that received at least 300,000 pieces per year. Alternatively, the volume breakdown by counting method for the 146.4 million pieces in my sample was assumed to approximate the remaining 103.6 million pieces for which I had no specific information. All of these accounts are similar in that they receive very large volumes of automation-compatible QBRM of similar weight. Moreover, I have determined from the CBCIS data that accounts that receive 300,000 to 875,000 pieces are often processed in the same offices where the 74 accounts comprising my sample are processed. Accordingly, 57% of the pieces that were received by accounts in quantities of over 300,000 pieces, but were not included in the top 74 account sample, were processed in those very same offices for which I know the method

used for counting. Consequently, I feel that the extrapolation of my sample to the universe is very reasonable.

It is important to add that the Postal Service is in possession of all of this data but made no attempt to use it. Instead, USPS witness Campbell simply assumed that the results of the 1997 BRM Practices study would accurately reflect all QBRM processing in the test year. The CBCIS data and Mr. Campbell's endeavor to obtain specific information on the counting methods employed for the largest accounts indicate that the BRM Practices Study results are not representative of the entire QBRM universe.

For example, the BRM Business Practices Study purported to show that only 14.2% of the 527.7 QBRM total, or 74.9 million pieces were processed on BRMAS equipment. In contrast, the CBCIS data that Mr. Campbell was able to gather indicates that, **for just the 74 highest volume recipients alone**, almost twice as many pieces, 141.7 million, were processed on BRMAS equipment.

Similarly, Mr. Campbell assumed that 66.5% of all QBRM, or 350.9 million pieces, would be counted manually. $(.665 \times 527.7)$ Again, the CBCIS data Mr. Campbell provided for **just 74 accounts** indicate that only 24.4 million of 241.4 million were counted manually. Even if all of the remaining QBRM letters not received by the 74 accounts included in Mr. Campbell's sample were counted by hand, a highly unlikely scenario, the number of hand counted QBRM could only be 310.7 million pieces. $(527.7 - 241.4 + 24.4)$ Therefore, Mr. Campbell's use of the BRM Practices Study results is simply unreasonable given the CBCIS data that he provided in response to KeySpan Energy's interrogatories.

USPS/KE-T1-4

Please refer to Exhibit KE-1C entitled "Study to Derive the Productivity to Count QBRM Letters."

(a) Please confirm that the above-reference study does not capture any of the following work elements associated with counting QBRM pieces manually:

- (1) a clerk traveling across a postage due unit to retrieve a QBRM-filled tray from a container;
- (2) a clerk returning to a designated counting area with a QBRM-filled tray;
- (3) a clerk returning the QBRM-filled tray to its designated area after all pieces have been counted.

(b) Please confirm that the above-referenced study assumes that all QBRM pieces in a tray correspond to a single customer account.

RESPONSE:

(a) Confirmed. The objective of my study is simply to provide an estimate of the productivity (PPH) to count QBRM manually. Such a study is necessary since the Postal Service could not provide a productivity factor for counting QBRM manually.

It should be pointed out that the work elements you describe, carrying perhaps hundreds or thousands of letters at once, concern bulk operations that are very efficient in terms of the cost per piece. For example, in Docket No. R87-1 the Postal Service proposed that it cost 3.92 cents per piece for "calls by carriers and Box Section clerks to the postage due unit to pick up BRM for delivery to patrons." See Docket No. R87-1, TR 10/6947. At that time, I testified that such a cost, for moving combined pieces, was "not supported by the record" and "totally

unreasonable". See Docket No. R87-1, CPUM/ARF-T-1 at 27. I noted that "the Postal Service's own cost estimates showed that the Postal Service can carrier sequence and/or physically deliver to an address regular first-class mail for an average unit cost of 3.53 cents. *Id.* at 28. Fortunately, the Postal Service has not proposed a similar cost since.

Moreover, I have adjusted the counting productivity obtained from my study to reflect unproductive time, which can include obtaining QBRM pieces from a separate location. My productivity factor of 2,746 PPH assumes that a clerk is productive for only 36 minutes during each hour worked. This adjustment is shown in footnote 6 on page 3 of Exhibit-1C.

- (b) Not confirmed. I make no assumptions regarding the make-up of a tray prior to the pieces being hand counted. For accounts that receive high volumes on any given day, the trays will usually consist of letters addressed to the same recipient. For accounts that receive small volumes on any given day, the trays could consist of letters addressed to more than one account. In the latter case, some sorting might be necessary. If sorting is necessary, the associated cost is covered by the First-Class QBRM rate and is not relevant to the separate functions of counting, rating, and billing QBRM.

USPS/KE-T1-9.

Please refer Exhibit KE-1C, page 1. Please confirm that the "sample design" or "study design" referred to in this exhibit simply involved five KeySpan clerks.

RESPONSE:

Confirmed. The counting of mail by hand or by weight averaging is not a difficult task. Since the Postal Service apparently has not studied counting productivities, I developed my own.

I further note that at TR 14/5973, USPS witness Campbell testifies that given the 1989 data he decided to use, "which inextricably integrates the manual sorting and counting activities...it is not possible to provide the unit cost that reflects only counting BRM pieces." If the Commission accepts the proposal for a reduced per piece fee for high volume QBRM, as it did for high volume nonletter-size BRM, I recommend that the Postal Service try to study the productivity for hand counting QBRM letters in the future.

USPS/KE-T1-10.

Please refer to Exhibit KE-1G, pages 3-4.

- (a) Please explain the basis for your statement that hand counting is no longer efficient above 400 pieces received per day.
- (b) Please explain the basis for your assumption that the percentages by counting method derived for the higher volumes would be applicable so long as the volume received was 100,000 pieces or more.

RESPONSE:

- (a) I developed the estimate of 400 pieces as the break point above which hand counting is no longer cost effective by experimenting with QBRM letters. I counted QBRM sample letters several times by hand and by weight averaging, using the same QBRM letters that were shown to USPS witness Campbell during his oral cross examination. At low volume levels, of 100 or less, hand counting was more effective. As the quantity began to fill a tray, however, counting by weighing clearly was more efficient. If anything, the 400 pieces per day figure is probably high. However, I felt it was better to be conservative by assuming 400 as the breakpoint rather than utilizing a lower number.

My experiments convinced me that either USPS witness Campbell's assumption that 66.5% of QBRM letters were counted by hand was simply incorrect or the Postal Service QBRM processing was terribly inefficient.

- (b) Please see Exhibit KE-1G at 3-4, response to part (a) of this interrogatory, and my responses to Interrogatories USPS/KE-T1-3, 6(a)

and (b), and 7. I believe accounts that receive approximately 100,000 or more pieces per year would exhibit daily volumes that would make it cost efficient for the Postal Service to count letters by means other than manual counts. Using a five-day week, such accounts would average 400 pieces per day even though I suspect some days would be much higher.

I note that the current breakeven volume for nonletter-size BRM is 103,000 pieces per year, which is expected to decrease to 80,000 pieces per year if the Service's proposed fees are accepted. Also, the breakeven volume under the Service's high volume QBRM proposal is 113,000 pieces per year.

USPS/KE-T1-21

Please confirm that the table below accurately summarizes the changes in revenue from the USPS proposal to your proposal presented in Exhibit KE-1F. If not, please make any changes required to accurately reflect your proposal as compared to the USPS's revenue projection. If there are any other revenue differences between the two proposals, please identify them.

	<u>USPS</u> (\$000)	<u>Keyspan</u> (\$000)	<u>Difference</u> <u>(USPS-Keyspan)</u> (\$000)
High Volume Accounts			
Quarterly/Monthly Fee	\$4,617	\$3,600	\$1,017
QBRM Per Piece Fee	\$4,616	\$1,725	\$2,891
Low Volume Accounts			
Per Piece Fee	<u>\$18,464</u>	<u>\$5,247</u>	<u>\$13,217</u>
Total	\$27,697	\$10,572	\$17,125

RESPONSE:

Confirmed. Please also note that for purposes of illustration, my computations shown here accept USPS witness Mayo's estimate that 1,358 accounts will pay the \$3,400 annual fee and that 153.870 million pieces will pay the lower 3-cent per piece fee. As I discuss in my prepared testimony, the estimate of 1,358 potential High Volume QBRM recipients is much too high and the 153.870 million is much too low.

USPS/KE-T1-22

Please refer to Exhibit KE-1F, Page 1 of 1.

- (a) Please confirm that the total contribution to institutional costs resulting from your proposal is \$5,146,000. If you cannot confirm, please provide the total amount of contribution that results from your proposal.
- (b) Please confirm that of the total contribution to institutional costs, \$2,764,000 is generated from the quarterly QBRM fee. If you cannot confirm, please provide the correct amount of contribution resulting from the Quarterly QBRM fee.
- (c) Please confirm that 54.7% of the contribution to institutional costs is generated from the Quarterly QBRM fee. If you cannot confirm, please provide the correct percentage.
- (d) Does the Keyspan volume variable cost of \$2,785 for the annual fee include a contingency? If yes, what is the contingency percentage? If not, why was a contingency not incorporated?
- (e) Does your "USPS proposal" volume variable cost of \$2,784 for the annual fee include a contingency? If yes, what is the contingency percentage? If not, why was a contingency not incorporated?
- (f) Why is there a difference in the Keyspan volume variable cost for the annual fee and your "USPS proposal" volume variable cost for the annual fee?

RESPONSE:

- (a) Confirmed.
- (b) Confirmed.
- (c) Not confirmed. I do not propose a "Quarterly QBRM fee". I propose a \$12,000 annual QBRM fee that is payable in monthly installments of \$1,000. I also compute the percent of the institutional cost contribution derived from the fixed QBRM fee to be 53.7%. The computation is as follows: $2,764 / 5,146 = .537$. This computation includes no contingency.

As discussed in my response to Interrogatory USPS/MMA-T1-16(a), my proposed \$12,000 annual fee is "much greater than any markup that might be reasonably justified from application of the statutory criteria of the Act." Consequently, the fixed fee contribution to institutional costs is extremely high and explains why 53.7% of the contribution derives from the fix fee portion of the fee structure.

- (d), (e) No. For my purposes of this comparison, I decided it was not necessary to include a contingency in either figure. The 2.5% contingency proposed by the Postal Service in this case is controversial and it was not necessary to include a contingency amount for my purposes of comparing the respective institutional cost contributions under the Postal Service and KeySpan proposals.
- (f) KeySpan's total volume variable cost for the annual fee is based on the Postal Service's annual cost per account and an estimate that the Postal Service will incur those costs for 300 high volume recipients. The Postal Service's total volume variable cost for the annual fee is based on the same annual cost per account and an estimate that the Postal Service will incur those costs for 1,358 high volume recipients. Therefore, the total volume variable costs are different.

USPS/KE-T1-24

Please refer to page 10, lines 18-20 of your testimony where you state that your "breakeven volume compares well with the proposed 200,000 minimum for PRM in Docket No. R97-1."

- (a) Please confirm that your breakeven volume is 300,000 pieces. If not confirmed, please explain.
- (b) Please confirm that the Postal Service's proposed breakeven in this docket is volume is 113,000 pieces. If not confirmed, please explain.
- (c) Please confirm that the USPS breakeven volume of 113,000 is closer to the proposed PRM breakeven volume than your breakeven volume of 300,000. If not confirmed, please explain.
- (d) Please explain what you mean when you say that your breakeven volume "compares well with the proposed 200,000 minimum for PRM."

RESPONSE:

- (a) Confirmed.
- (b) Confirmed. The Postal Service's breakeven volume is 113,000 pieces per year.
- (c) Confirmed. My proposed breakeven volume is higher by 100,000 pieces. The Postal Service's proposed breakeven volume is lower by 87,000 pieces. As discussed in my response to interrogatory USPS/KE-T1-23, a higher breakeven volume is more conservative and better insures that cost savings for counting QBRM will accrue.
- (d) My proposed breakeven volume of 300,000 is the same order of magnitude as the breakeven volume the Postal Service proposed for PRM service in Docket No. R97-1. Moreover, because my proposed breakeven volume is higher, the odds of a particular recipient receiving higher daily volumes, resulting in more opportunities for the Postal

Service to use highly efficient counting methods, is greater. Therefore, my proposed breakeven volume compares well with the PRM breakeven volume.

1 CHAIRMAN GLEIMAN: Is there additional designation
2 of cross examination, written cross examination?

3 [No response.]

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

7 Mr. Tidwell?

8 MR. TIDWELL: Good afternoon, Mr. Chairman. Good
9 afternoon, Mr. Bentley.

10 The Postal Service has no questions.

11 CHAIRMAN GLEIMAN: Are there questions from the
12 bench? There are no questions from the bench.

13 That being the case, Mr. Bentley, that completes
14 your appearance here today. We appreciate your appearance
15 and your contributions to the record.

16 It is pretty clear that everybody's frightened to
17 ask questions when they see you plug your laptop in up
18 there. We know how well-prepared you are.

19 We thank you and you are excused, sir.

20 THE WITNESS: Thank you, sir.

21 [Witness excused.]

22 CHAIRMAN GLEIMAN: Our next witness will be a
23 PostCom witness. Mr. Wiggins, do you want to call your
24 witness?

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

1 CHAIRMAN GLEIMAN: We will give the witnesses a
2 moment to shuffle around here and get their materials ready.

3 [Pause.]

4 The Association for Postal Commerce calls Joe
5 Lubenow.

6 CHAIRMAN GLEIMAN: Mr. Lubenow, before you get too
7 comfortable, if I could get you to raise your right hand.
8 Whereupon,

9 JOE LUBENOW,
10 a witness, was called for examination by counsel on behalf
11 of the Association for Postal Commerce and, having been
12 first duly sworn was examined and testified as follows:

13 CHAIRMAN GLEIMAN: Please be seated. Counsel, you
14 may proceed.

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

16 DIRECT EXAMINATION

17 BY MR. WIGGINS:

18 Q Mr. Lubenow, I handed you before you took the
19 stand two copies of a document styled Direct Testimony of
20 Joe Lubenow on behalf of the Association for Postal Commerce
21 and Mail Advertising Service Association, which is
22 designated POSTCOM, et al.-T-3.

23 Do you have those documents?

24 A Yes, I do.

25 Q And were they prepared by you or under your

1 direction?

2 A Yes, they were.

3 Q And do you adopt them as your sworn testimony in
4 the proceeding?

5 A Yes.

6 MR. WIGGINS: Mr. Chairman, I would like to
7 provide those documents to the reporter, ask that they be
8 transcribed into the record and admitted into evidence.

9 CHAIRMAN GLEIMAN: Is there any objection?

10 Hearing none, it is so ordered.

11 [Direct Testimony of Joe Lubenow,
12 POSTCOM, et al.-T-3, was received
13 into evidence and transcribed into
14 the record.]

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Postcom, et al.-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 JOE LUBENOW
ON BEHALF OF THE ASSOCIATION FOR POSTAL COMMERCE
AND
MAIL ADVERTISING SERVICE ASSOCIATION

Communications regarding this document should be served on

Ian D. Volner
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Dated: May 22, 2000

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AUTOBIOGRAPHICAL SKETCH

My name is Joe Lubenow. I am Vice President of Postal Affairs for Experian, a information services company headquartered in Orange, CA, which is a subsidiary of The Great Universal Stores, P.L.C. (GUS) of Nottingham in the United Kingdom. Since 1995, I held a similar position at Metromail, which was at that time part of R. R. Donnelley and Sons, later an independent company, and was purchased by GUS in 1998.

During the last fifteen years, I have been involved in pioneering the use by the mailing industry of each of the major USPS licensed address quality tools. These include the National Change of Address (NCOA) in 1986, Delivery Sequence File (DSF) in 1991, Locatable Address Conversion System (LACS) in 1994, and Address Element Correction (AEC) in 1996. Experian is currently the only company offering all of these USPS licensed services to its customers. In addition, my involvement has encompassed the use of proprietary name and address files as an adjunct to improving address hygiene.

I was elected in 1998 as industry vice-chair of the Mailers Technical Advisory Committee (MTAC) and will chair that body in 2001-2002. I am industry chair of the Universal Postal Union (UPU) Direct Mail Advisory Board's task force on Address Management. Also, since 1997, I have chaired the Addressing/Distribution Committee of the Graphic Communications Association (GCA). Currently, I lead the GCA Address Data Interchange Specification (ADIS) project which aims at developing a unified address format for international use.

In Docket No. MC95-1, I testified on behalf of the USPS regarding its addressing proposals with respect to classification reform.

I have a Bachelors Degree from Lawrence University and a Masters Degree in Philosophy from the University of Chicago.

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

2 The effect of the USPS rate case proposals is to undermine two of the three pillars of the
3 concept of work sharing that has helped the USPS to restrain costs and increase productivity over
4 the last two decades. Work sharing discounts are earned from density of mailings, from mailer
5 participation in postal automation, and from drop shipping to enter mail closer to its destination.
6 Address quality is a prerequisite for automation discounts and for the carrier route discounts that
7 occupy the top layers of the pyramid of density discounts.

8

9 The current rate case proposal has the following effects:

10 It reduces the automation discounts.

11 It reduces carrier route presorting discounts in many cases.

12 It increases the basic rates less than it increases the rates that include more work sharing.

13 It reduces the incentives for address quality, defined in terms of relative sizes of the discounts.

14

15 The goals of this testimony are as follows:

16 To document the effects listed above.

17 To describe the address quality cost curve for mailers.

18 To examine some ways in which defective address quality increases USPS costs.

19 To provide specific recommendations on how the negative consequences above can be
20 circumvented in this rate case and avoided in future rate designs.

1

2 II. WORK SHARING DISCOUNTS AND ADDRESS QUALITY

3

4 GENERAL CONSIDERATIONS

5

6 The USPS admits that if the universe of automation mail is compared to the universe of
7 nonautomation mail, the cost savings are greater than just the direct savings in operations from
8 mailer prebarcoding that the USPS identifies. In its testimony in this rate case and previous
9 cases, it argues that isolating the direct and immediate operational savings from mailer
10 prebarcoding is the proper basis for determining barcoding discounts. Further, it claims that
11 many of the benefits of the “clean” mail streams of business mailers are only contingently related
12 to prebarcoding, and should not be taken into account in compensating mailers for this
13 worksharing activity.

13

14 However, the significance of mailer prebarcoding is more than just applying a barcode to
15 a mailpiece. The issue is not just a matter of whether the mailer or the USPS adds an automatic
16 identification capability to the mailpiece that enables it to be sorted into one output bin rather
17 than another. If that was all there was to it, indeed the USPS could claim that adding Optical
18 Character Recognition (OCR) capability to barcode sorters lessened the need for and the value of
19 mailer prebarcoding.

19

20 On the contrary, discounts are only available for barcodes determined by certified
21 processes, based on matching addresses with few or no deficiencies to postal databases. This is
22 an essential rather than a contingent relationship, since with deficient address data, not enough
23 significant digits can be generated, and below a certain threshold of significance, no barcode
24 discount can be claimed. Not only is the mailer unable to qualify for the discount, but as a
25 general rule, when the address quality is deficient, the USPS will also be unable to do that which
26 the mailer has been unable to do.

26

27 The consequences of poor address hygiene are strongly negative for all parties. Poor
28 address hygiene has a number of causes and can be improved through a number of remedies,
29 requiring the combined efforts of mailers and the USPS. But at the end of the day, once the
30 mailpiece has been tendered to the USPS without complete and correct address information,

1 additional costs are unavoidable. Our contention is that the issue of mailer prebarcoding should
2 not, and indeed cannot, be separated from the issue of address quality.

3 It could be argued that mailers ought to take all reasonable measures to provide complete
4 and correct addresses to maximize the prospects of prompt and accurate delivery even without
5 the additional incentives of barcoding discounts. The record shows that mailers have been
6 motivated by regulations, by educational efforts, and by their own experiences to move only part
7 of the way up the "address quality cost curve" that this testimony will describe. This leaves the
8 industry and the Postal Service several crucial percentage points, or billions of mailpieces, short
9 of what is possible with existing address technology.

10 By constraining the value of prebarcoding narrowly, as an almost superfluous activity on
11 the part of mailers to do something which the USPS can just as well do by itself, the USPS has
12 overlooked a fundamental point: the information value of the barcode depends upon the extent to
13 which the underlying address hygiene disciplines have been rigorously pursued. It would be
14 difficult for the USPS to systematically account for the myriad wasteful activities engendered by
15 defective addresses found on mailpieces that of necessity are concentrated in the rate categories
16 which reflect the least work sharing. But if this is not done, barcoding and carrier route
17 discounts will necessarily be set too low to provide mailers with sufficient incentives to pursue
18 advanced address quality, to the detriment of all parties.

19

20 ADDRESS QUALITY INCENTIVES

21 The methodology used by the Postal Service to determine rates for each presort category
22 does not directly take into account the impact of the relationships between the rates on the
23 incentives for address quality. Mailpieces can only be eligible for carrier route or automation
24 rates if the address is sufficiently complete and correct to allow a match to USPS databases using
25 certified software. Matching rates around 95% are quite typical. Although getting a carrier route
26 discount requires presort density, mailpieces eligible for automation rates must only meet bulk
27 mailing minimum quantities. Therefore, for mailing jobs including an automation component,
28 the percentage of pieces that fall to regular rates will generally be in single digits. Included in
29 this category will be all the pieces with addresses deficient to a degree that prevents matching.

1 To illustrate the incentives for address quality, we compare the basic carrier route rates
 2 and 5-digit automation rates to the basic nonautomation rates. The point is not just to show the
 3 absolute difference in these rates, but instead to show whether these differences will increase or
 4 decrease under the USPS proposal.

5						
6						
7		Basic	5-Digit	Difference	Carrier	Difference
8		Non-Auto	Auto		Route	
9	Standard Letters					
10	Current	23.5	16.0	7.5	16.2	7.3
11	Proposed	24.2	17.2	7.0	17.5	6.7
12	Incentive Difference			-0.5 (-6.7%)		-0.6 (-8.2%)
13						
14	Standard Flats					
15	Current	30.4	20.3	10.1	16.2	14.2
16	Proposed	31.1	23.1	8.0	17.5	13.6
17	Incentive Difference			-2.1 (-20.8%)		-0.6 (-4.2%)
18						
19	Standard Nonprofit Letters					
20	Current	16.9	9.3	7.6	9.9	7.0
21	Proposed	15.9	10.1	5.8	11.3	4.6
22	Incentive Difference			-1.6 (-23.7%)		-2.4 (-34.3%)
23						
24	Standard Nonprofit Flats					
25	Current	23.3	14.4	8.9	9.9	13.4
26	Proposed	21.9	15.8	6.1	11.3	10.6
27	Incentive Difference			-2.8 (-31.5%)		-2.8 (-20.9%)
28						
29	Outside-County Periodicals Flats					
30	Current	29.4	16.8	12.6	12.2	17.2
31	Proposed	31.8	19.4	12.4	14.1	17.7
32	Incentive Difference			-0.2 (-1.6%)		+0.5 (+2.9%)
33						

1 These comparisons show that the USPS rate case proposal would significantly decrease address
2 quality incentives for Standard Mail, while leaving them more or less unchanged for Periodicals.
3 For a number of years, we have published these comparisons in guides to postal rate cases that
4 have been circulated widely to customers and in the industry. In this rate case, unfortunately,
5 customers seeking advice on rate case "signals" can see for themselves that investments in
6 advanced address hygiene are either not being encouraged or are actually being discouraged by
7 the USPS. We can only imagine that this is an unintended side effect of the narrow basis on
8 which the USPS seeks to determine the worksharing discounts. In our view, the USPS rate
9 proposals do not promote the best interests of the Postal Service itself. Rather than decrease the
10 incentives for address quality, or even leave them unchanged, there should be encouragement for
11 more rigorous efforts by mailers to provide complete and correct postal addresses.

III. COSTS TO MAILERS OF IMPROVING ADDRESS QUALITY

CARRIER ROUTE CODES, ZIP+4 CODES, AND DELIVERY POINT BAR CODES

As a preliminary to this discussion, it may be helpful to explain some of the prerequisites for certain postal discounts.

Carrier route codes most typically denote by number which mail carrier will deliver a mailpiece, though the term also encompasses sections of post office boxes and other similar processing concepts that subdivide a five-digit ZIP code. They are a prerequisite for carrier route discounts, though in all cases such discounts involve a density requirement, namely that some minimum number of pieces be presented at the same time. Therefore, without sufficient density, the mailer may have the carrier route code for the address, but not qualify for any discounts from the basic bulk rates. In some cases, walk sequencing or line of travel information is also required to obtain carrier route discounts. Since the USPS reorganizes carrier routes from time to time, carrier route codes must be updated within 90 days prior to the mailing date. Rather than keep track of the expiration date for the carrier route codes on an address by address basis, mailers generally update carrier route codes on an entire file prior to each mailing.

ZIP+4 codes are a prerequisite for automation discounts for flats. To obtain such discounts, mailers are not subject to density requirements, other than the minimum quantities to qualify for bulk mailing. Therefore in most cases, once the ZIP+4 code has been found, the mailer can expect to qualify for some automation rate, presuming the mailpiece is eligible, even though density is still a factor in determining the size of the discount. Unlike carrier route codes, there can be several valid ZIP+4 codes for a given address. For example, in a high-rise building, there could be a ZIP+4 code reflecting knowledge of the apartment or suite number, a second that could be obtained based upon a firm name, and a third that is based only on the building address. Any of these is sufficient to obtain an automation discount. Generally, ZIP+4 codes must have been updated within 180 days prior to the mailing date.

Delivery Point Bar Codes (DPBC Codes) are composed of ZIP+4 codes with two additional digits that may represent part of a primary house number, box number, apartment or suite number, so as to enable postal equipment to place the mail in close approximation to carrier walk sequence. DPBC codes are a prerequisite for letter automation rates. To obtain these discounts, mailers must meet minimum quantities for bulk mail, and then based on density, may qualify for deeper discounts. Nevertheless, once

1 the DPBC has been found, the mailer can expect to qualify for some automation rate, presuming the
2 mailpiece is eligible.

3

4 CODING ACCURACY SUPPORT SYSTEM (CASS) AND CASS CERTIFIED SOFTWARE

5 The Coding Accuracy Support System (CASS) is used by the USPS to ensure the accuracy of the
6 above coding processes. The software vendor normally obtains this certification by passing complex tests
7 provided by the USPS on an annual basis, and then issues periodic database updates to users during the
8 year so that changes and new additions can be reflected in the results of coding. Although this process
9 results in a high degree of coding accuracy, it is not perfect. For example, 98% accuracy on the test file
10 may be needed for certification, but two software packages may achieve this threshold despite differing o
11 a few of the test addresses. In actual practice, there may be as much as 1% difference in the coding
12 obtained from CASS certified software packages, though this number has gradually declined as the testin
13 has become more sophisticated. Nevertheless, it is a common practice for direct marketing services
14 companies to offer enhanced coding rates based on the use of multiple CASS certified coding packages.
15 In a file of one million addresses, if there is a "lift" of 1% from this practice, it means that 10,000
16 additional pieces would qualify for automation or carrier route discounts. This is not harmful, since the
17 additional codes obtained will generally withstand scrutiny. Instances of "collisions", in which two CAS
18 certified packages obtain different carrier route codes or ZIP+4 codes, are increasingly rare. More likely,
19 there is a difference, one CASS certified package will return a carrier route code when another does not, c
20 return a ZIP+4 code when another can only return a five-digit ZIP code.

21 Why does this happen at all? One reason has to do with the overlap of databases. When a new
22 database is released, there is a period during which both the old and new database can legitimately be
23 used, and this can lead to discrepancies. A second reason has to do with matching the database. If a stree
24 name, for example, is spelled almost correctly, one package may accept the match, another decline. But
25 the most common reason has to do with the "parsing" of data, or the decision as to which element in an
26 address line is to be compared to which element in the database. There are many addresses that have som
27 ambiguity that can lead to parsing differences. "North" can be a directional or a street name, for example
28 and "Circle" can be a street name or a street type. If "108-A" is encountered, it could be a primary
29 number, an apartment number, or a combination of a primary number and an apartment number. Some

1 addresses have extraneous words in them. These words may match elements in the database, while
 2 perhaps interfering with the effort to make the correct match.

3 The CASS certified software described above utilizes a ZIP+4 level database which is widely
 4 available and is incorporated in the databases provided by the vendors to their users. It is based on
 5 “range” data, which means that, for example, a ZIP+4 code is assigned to a range of addresses, such as al
 6 the odd numbers between 101 and 199 on North Main Street in a certain five-digit ZIP code. This means
 7 that if an address such as “179 N Main Street” is submitted, it is within the range, and the carrier route ar
 8 ZIP+4 codes will be returned. This will be the case, even though there may not actually be a dwelling ur
 9 with that number. The database is organized in this way to save space and to make the matching process
 10 efficient, while taking advantage of the fact that all the houses on one side of a residential block generally
 11 share the same ZIP+4 code. The address “179 N Main Street” may be deliverable, for example, if it is ju
 12 an error in keying “177 N Main Street” which does exist. On the other hand, it may be undeliverable,
 13 notwithstanding the fact that it qualifies for carrier route and automation discounts.

14

15 DELIVERY SEQUENCE FILE

16 The USPS Delivery Sequence File (DSF) database contains over 135 million records
 17 including addresses for every delivery point within the Postal Service delivery system. DSF is
 18 delivery-point specific, listing each actually existing house number within a range, while the
 19 ZIP+4 file is a set of address ranges. Each delivery point defined within the DSF is standardized
 20 to USPS specifications and includes carrier route and ZIP+4 codes as well as additional useful
 21 information such as dwelling type, seasonal occupancy and vacancy indicators, and an address
 22 type indicator. The DSF can not be used to append apartment numbers or to provide missing
 23 addresses for a specific carrier route.

24 DSF processing is only available through licensees. The USPS requires the licensees to
 25 maintain a high level of security so that this database is protected from misuse. The licensees as
 26 a rule offer DSF matching as a value-added service at an additional charge. Most commonly, the
 27 DSF is used to obtain detailed footnotes as part of an address quality improvement project. It is
 28 also one of several methods that can be used to place mailings in true walk sequence to qualify
 29 for discounts depending on high density or saturation quantities that exceed basic carrier route
 30 discounts.

1 In some cases, the DSF can resolve address ambiguities that cannot be resolved by lesser
2 tools. For example, the DSF could confirm that "179 N Main St" does not exist, which could
3 cause the mailer to avoid mailing to that address, or to seek a correction in various ways.

4 In other cases, the DSF can allow for coding an address that otherwise could not be
5 coded. For example, given an incomplete address such as "104 Main St", if there is a range for
6 "100-198 N Main St" and also for "100-198 S Main St", the basic CASS certified software
7 packages are not allowed to make a guess between two equally likely alternatives. But the DSF
8 might contain the information that while there is no delivery point at "104 S Main St", there is a
9 delivery point at "104 N Main St". In this case the inference is allowed that "104 Main St" most
10 likely refers to "104 N Main St", and the address is coded.

11 Because of the limited availability of the DSF, many mailers use only basic CASS
12 certified software to qualify for discounts. Even among customers of the DSF licensees, many
13 rely primarily or exclusively on basic CASS certified software, rather than electing to go through
14 an additional process of matching to the larger database. This situation may change in the future,
15 but for now it is an unfortunate fact that the most comprehensive database the USPS offers,
16 which provides the best address quality diagnostics, is relatively underutilized.

17

18 PROPRIETARY ADDRESS FILES

19 In recent years, direct marketing service companies with access to national consumer
20 databases that include names as well as addresses have learned that certain otherwise recalcitrant
21 addresses can be resolved by use of name based tie breaking procedures. For example, if all we
22 have is "John Jones" at "101 Peachtree", there may be a number of possible resolutions,
23 involving directionals such as "N" or "S" and street types such as "Street", "Lane" and "Court".
24 If there are multiple address elements missing, and if even the DSF contains more than one
25 alternative resolution, the address cannot on that basis be coded unambiguously. However, if we
26 have external knowledge of a "John Jones" at "101 S Peachtree Lane", then the reasonable
27 inference may be made that this is the same "John Jones". If we then enhance the address before
28 using the CASS certified software, the address will be coded and qualify for discounts.

29

30 ADDRESS ELEMENT CORRECTION

1 The Address Element Correction (AEC) system was introduced by the Postal Service in
2 early 1994 and corrects incomplete or inaccurate domestic and Puerto Rico addresses. The
3 service is offered by the USPS directly and through licensees.

4 Address resolution rates consistently average between 30 - 50% of the non-coded input
5 received. The core AEC service focuses only on those addresses that cannot be ZIP+4 coded
6 using CASS certified coding software. The system makes no reference to personal name
7 information. However, it is able to manipulate and enhance commercial business names and
8 addresses, government addresses, and those of educational institutions. The primary objective of
9 the AEC system is to test and transform address elements to produce a valid ZIP+4 coded record.

10 AEC has the capacity to present over 160 different element tests per address in order to
11 try and resolve inconsistencies. These tests can include rearranging address elements, combining
12 or separating elements, and generating variations of addresses that might compensate for known
13 causes of errors. For example, "123A Main Street" might not be codable, but rearranging it to
14 "123 Main Street Apt A" might produce a match.

15 The AEC system requires users to be sophisticated and willing to evaluate the output to
16 decide if it meets the appropriate acceptance criteria. For example, the address returned may
17 have diverged sufficiently from the input address that there is a chance that it is a valid address
18 belonging to someone other than the original customer. For a Periodicals publisher, the
19 acceptance criteria may need to be conservative.

20

21 NATIONAL CHANGE OF ADDRESS

22 The USPS National Change of Address (NCOA) program permits licensees to provide
23 updated addresses for customers and subscribers. The result is standardized and deliverable
24 addresses, suitable for mailings and internal database updates. The NCOA file is a database of
25 more than 115 million permanent address changes, updated weekly and covering a rolling 36-
26 month period of move information. NCOA identifies moves at the individual, family and
27 business level. The NCOA file also links multiple moves of the same family or individual over
28 the 36-month time frame. This allows mailers to stay in touch with individuals, families and
29 businesses who have filed multiple change of address notices with the USPS over this period,

1 thus ensuring prompt receipt of mail. In order to maintain the highest confidence levels for
2 NCOA processing, strict postal matching requirements are specified.

3 When a change of address form is completed and submitted to the USPS for processing,
4 the information is transmitted nightly to the National Customer Support facility in Memphis,
5 Tennessee. The information is processed and made available to the COA licensees for the most
6 current weekly update schedule.

7 All NCOA input addresses are standardized to USPS deliverability specifications.
8 Whether the mailer chooses to use standardized address information provided via the NCOA
9 process is optional. Therefore, the mailer is returned the original input data along with the
10 standardized data when a match is made to the USPS ZIP+4 file.

11 The average annual mobility rate in the United States has been estimated at 18%.
12 According to studies by the United States Postal Service, an estimated 84% of the address
13 changes on the NCOA file include forwarding address information. Another 16% do not provide
14 a forwarding address. Many of the change of address records that result from the postal customer
15 moving out and leaving no forwarding address are supplied by the Postal Service letter carrier.

16 The NCOA NIXIE Elimination System (NES) will identify close matches on a mail file
17 when the name and address information presented could not match closely enough to meet the
18 USPS threshold for sharing the actual change of address. NES provides the mailer with reason
19 codes indicating why a match could not be achieved.

20

21 LOCATABLE ADDRESS CONVERSION SYSTEM

22 An address conversion is quite different from an address change. With a conversion, no
23 move has taken place. Rather, an address has been altered, i.e. the name of the delivery point has
24 changed. A majority of these changes are rural addresses that are being converted to street style
25 addresses (e.g., RR 1 BOX 123 becomes 1234 S APPLE BLOSSOM LANE). The Locatable
26 Address Conversion System (LACS) is a database maintained by the USPS of four million
27 addresses that have been converted from an old, usually rural-style format to a new, usually city-
28 style format. Grid type (600N 435 W) and combination addresses (16500 W N700) are also
29 quite common formats. This type of conversion activity is initiated and implemented at the local,
30 municipal or county level, and the address conversions are then given to the local Post Office.

1 When gathered, the USPS compiles the converted address information into a database that is the
 2 basis for LACS. There are also cases in which the local government chooses to rename or
 3 renumber streets. These types of conversions are also available on the LACS database. All of
 4 this additional information significantly improves the accuracy of delivery.

5 LACS is available through most NCOA licensees as an additional option. To offer the
 6 service, the licensees must have qualified through testing that is separate from the NCOA process
 7 itself.

8

9 SERVICE ENDORSEMENTS

10 Due to the strict matching logic required to ensure the quality of the NCOA database,
 11 there is still a significant portion of address changes that are not identified through these
 12 computerized systems. As a result, the use of ancillary Service Endorsements by mailers on a
 13 periodic basis is widely recommended.

14 Service Endorsements are mail piece endorsements which prompt the letter carrier to
 15 specific actions, including providing changes of address after the fact. This provides for
 16 improved delivery on future mailings, whereas NCOA updates move information prior to a
 17 mailing event. Address change information can be returned either manually (currently at 50
 18 cents per return and proposed to increase to 60 cents) or electronically (through Address Change
 19 Service at 20 cents per return). There are four endorsements available for most classes of mail,
 20 though Periodicals can only use one of the four:

21

- 22 • **Change Service Requested:** Provides address change information or reason for non-
 23 delivery. Mail piece is not returned.
- 24 • **Address Service Requested:** Address change information is provided, mail piece is
 25 forwarded, unless a time limit has expired, and undeliverables are returned. Allowed for
 26 Periodicals.
- 27 • **Forwarding Service Requested:** Mail piece is forwarded, unless a time limit has expired, in
 28 which case piece is returned with new address.
- 29 • **Return Service Requested:** Mail piece is returned with address change information
 30 provided, if address change detail on file.

1

2 APARTMENT AND SUITE NUMBERS

3 Apartment and suite numbers, particularly for high rise buildings, are very helpful in
4 increasing the efficiency of postal mail sorting, both automated and manual, and in ensuring
5 prompt and accurate delivery. Nonetheless, mailing files vary widely in the extent to which they
6 include the appropriate apartment and suite numbers. Some recipients choose not to disclose
7 their apartment numbers for a variety of reasons, including considerations of privacy and
8 prestige. Others do so selectively. With suite numbers, privacy concerns are less important,
9 though prestige still plays a role. Further, the sources of address information for compiled
10 mailing lists, which often are part of the ancestry of individual addresses in a mailing file, due to
11 successful attempts at prospecting and solicitation, may not include all the relevant detail. As a
12 result, mailing files vary widely in the extent to which apartment and suite numbers are present.
13 USPS systems and programs such as the DSF and the National Deliverability Index (NDI) which
14 is provided as an output of NCOA processing provide ways to measure this factor. Experience
15 shows that the presence of apartment and suite numbers often ranges from 20% to 80% of what
16 is needed for a complete and correct address file. However, there is at present no single method
17 available, either from the USPS or from industry, by which all or most of the missing apartment
18 numbers can be added. This means that there continues to be a twofold problem concerning the
19 presence in mailing files of apartment and suite numbers. The first pertains to distribution,
20 namely that some are found on some lists but not others, and the second pertains to the lack of
21 availability at all of other apartment and suite numbers. Later we will discuss some implications
22 of this persistent deficiency.

23

24 THE ADDRESS QUALITY COST CURVE FOR THE MAILER

25 All mailers encounter certain well known costs in preparing a mailing. These generally
26 include mailpiece design, printing, and processing costs. For bulk mailings prepared in advance
27 on a computer, processing costs can be incurred for deduplication of lists, CASS certified coding,
28 presorting, and preparation of labels or ink jet tapes. Though prices for these services vary based
29 on quantities and contractual arrangements, for purposes of this discussion, these are fixed costs.

1 The variable costs of address quality are the result of efforts by the mailer to drive the
2 coding rates higher while trying to ensure that the recipient is actually at the intended mailing
3 address. For each additional process used, what is involved is generally passing the file against a
4 data base while performing certain computer tests. Most of the additional processes discussed
5 above require separate file passes, and most are charged at a rate per thousand addresses that
6 varies from as low as \$0.25 to as high as \$4.00. CASS certified coding using multiple software
7 systems is an exception to this, in that as a rule only the records which do not code using the first
8 system are sent to the second system. Therefore, only a single file pass is needed to attempt
9 coding with two or more systems. DSF, NCOA or FastForward, LACS, proprietary address
10 element correction and AEC normally involve separate file passes. LACS is an exception since
11 the database is sparse, with charges in some cases based on several cents per match rather than a
12 file pass, or a hybrid of these two types of charges, to encourage use of the service. AEC is
13 extremely intensive computationally and costs \$15 per thousand addresses from the USPS, and
14 even more than that from licensees due to additional file passes for validity checking.

15 Each of these processes has an appropriate frequency of occurrence which is determined
16 by the mailer in conjunction with the service provider. Normally, postal coding is repeated for
17 each mailing due to the relatively short shelf life of carrier route and ZIP+4 codes discussed
18 above. NCOA and LACS are run as often as each mailing event, which maximizes accuracy
19 while increasing processing costs, or as little as twice a year, and sometimes LACS is foregone
20 after a few trials. DSF processing is still the exception rather than the rule. When done, it may
21 be performed infrequently to gather information about the file, particularly the "house list" as
22 opposed to rentals for catalogers, and the subscriber list for Periodical publishers. Only for a few
23 mailers is it worthwhile to run DSF or use another approved method to obtain sequencing
24 information for high density and walk sequencing discounts. Proprietary address element
25 correction is incorporated regularly in processing by some mailers, while USPS AEC generally
26 requires a commitment to an offline process of working on the remaining noncodable records in
27 a file. Beyond USPS AEC, mailers can only resort to computerized or manual research on
28 individual addresses, attempts to contact local postal personnel, or attempts to contact the
29 recipient in an effort to pursue the elusive goal of 100% address quality.

1 For the advanced levels of address quality, additional expenses are incurred by the mailer
2 in deciding whether to use the matches or updates determined by a particular process. For
3 example, some mailers will examine the results of proprietary address element correction or
4 USPS AEC and decide for themselves whether to incorporate the changes into their own lists. If
5 this is not done, the alternative is simply to repeat the process for subsequent mailings, without
6 changing the original file. For certain mailers, a similar decision process occurs for move
7 updates.

8 It is difficult to make generalizations about the long term costs and achievable goals of
9 advanced address hygiene that apply across the board. The commitments of mailers vary widely
10 with respect to use of the various components, and the prices are hard to pin down because of
11 contractual agreements which may result in the bundling of services, as well as sizable volume
12 discounts offered by service providers. However, some general statements can be made. First
13 and most important, address files with very high quality levels are made by hard work, not born,
14 and additional hard work is needed to preserve quality levels. There remain many addresses that
15 are deliverable though not codable, such as mailing to "4th and Main" in a small town. Mailers
16 do want to hold on to customers and subscribers that are profitable even if the postal costs of
17 reaching these customers and subscribers are greater than average. List providers do want to rent
18 names and addresses that have commercial potential even if the address quality is variable.
19 Complete and correct address information is in some cases just not available from any accessible
20 source. Local government efforts change the addresses themselves, and postal reorganizations
21 change the codes associated with them. Some street addresses are not deliverable by the USPS at
22 all, in situations in which customers go to the local post office to get their mail. These street
23 addresses are not included in USPS databases, but are essential for mailers to maintain the option
24 to use non-USPS delivery services. In addition to the above considerations, computer
25 processing, particularly the truncation of address lines to generate labels and ink jet images,
26 continually recreates quality problems.

27 Second, the costs of address quality increase steeply as the list gets closer to 100%.
28 Because of the independent economic value of house lists and subscriber lists, it is generally not
29 possible to simply drop recalcitrant addresses to artificially reach perfection. Most address lists
30 code today at close to 95% by using CASS certified software, with some categories such as

1 compiled lists significantly lower. Each additional process, costing a few tenths of a cent per
2 piece, brings the percentage up by half a point to a full point. The most intensive processes cost
3 several cents per piece, plus additional costs for mailer evaluation of results, and are used by only
4 a small minority of mailers. However, as we will discuss below, any portion of the address list
5 that is not coded inevitably leads to additional costs in production, distribution and mailing, and
6 then to significant inefficiencies in USPS processing.

7 With respect to move updates, only NCOA can be considered to be so often used that it
8 has become a de facto standard. Proprietary COA services using industry databases can be a
9 helpful supplement. LACS is destined to decline in use as local governments complete address
10 conversions from rural to city style addressing. FastForward shows promise as an NCOA
11 alternative, particularly for the First-Class mailers who must meet move update requirements.
12 The use of USPS tools to gather further move updates after the fact of mailing, such as Service
13 Endorsements and the Address Change Service (ACS), is also widely recommended.

1

2 **IV. HOW ADDRESS QUALITY DEFICIENCIES HARM THE POSTAL SERVICE**

3

4 **INDUSTRY MAIL PRODUCTION INEFFICIENCIES**

5 There is a direct connection between certain types of inefficiencies in mail production
6 that are an outgrowth of deficiencies in address quality and increased costs for USPS. For
7 example, flats lacking a carrier route code or ZIP+4 code must be separately packaged. Since
8 they normally represent only a small portion of the mailing, these packages often must be placed
9 on ADC pallets, in the case of Periodicals, or BMC pallets, in the case of Standard Mail, or in
10 ADC and Mixed ADC sacks. This results in a pattern of containerization that is much less
11 efficient than is the case for the flats that qualify for carrier route or automation rates. With
12 respect to sacks, large mailers often do not drop ship sacks along with the corresponding pallets
13 to the same destinations, but instead enter this mail locally. This creates delivery inconsistencies
14 and increased opportunities for bundle breakage.

15 Some of the remedies for this kind of situation do not get to the root cause of deficient
16 address quality. For example, the USPS may consider reverting in processing Periodicals and
17 Standard Mail flats to the former practice of combining barcoded and noncoded pieces in the
18 same packages, since the OCR capability has been added to the flat sorters.

19 What percentage of these pieces which the industry could not code will be codable by the
20 OCR process? This percentage will be small, though not zero. Different coding systems do
21 produce slightly different results. The USPS may in some cases have an updated database by the
22 time they try to code the piece. Also, there may be local street name aliases that the USPS may
23 use to code a previously uncoded record. In any event, most of the coding improvement that the
24 OCR capability will provide will come from mailpieces that the mailer did not even attempt to
25 barcode for one reason or another. In a recent symposium on flats automation, a USPS
26 representative stated that excluding carrier route flats, 38% of the flats that were eligible to be
27 barcoded had not been prebarcoded by the mailer.

28

29 **MISSING APARTMENT AND SUITE NUMBERS**

1 A key example of increased postal costs resulting from address quality deficiencies has to
2 do with the issue of missing apartment and suite numbers. In 1998 these numbers were
3 incorporated, where appropriate, into the Delivery Point Bar Code, which increased the precision
4 of the DPBC but created a situation in which deficient addresses hinder mail distribution in urban
5 high-rise areas, often with erratic consequences. Without an apartment or suite number, the
6 postal automation equipment cannot sort the mail into sequence with mailpieces to the same
7 address that do include this information. Most of the time, the mailpiece can be delivered with
8 additional effort on the part of the letter carrier, though this does incur additional costs. Among
9 the more unfortunate possible other outcomes is that the mailpiece could be directed to the wrong
10 recipient, left on the floor to an uncertain fate, or returned with a notice of an unknown addressee
11 or an insufficient address. If the latter occurs, and the address is left on the file, subsequent
12 mailings to the same deficient address may fare better by chance.

13

14 INCOMPLETE ADDRESSES

15 Addresses with other missing elements can produce additional kinds of undesirable
16 consequences. A missing directional can result in a mailpiece being sent to the opposite side of
17 town and delivered to the wrong recipient. In some cases, the mailpiece will be discarded. If it is
18 returned to the carrier or placed in the corner mailbox with a handwritten notation, it will take a
19 second delivery effort before it reaches the intended recipient. Similar consequences can result
20 from the widespread practice of leaving off a street type, such as "Street" or "Place", which may
21 be innocuous or cause a significant ambiguity.

22 Even leaving off a carrier route code on an otherwise complete and correct address,
23 though all USPS regulations are followed, may cause additional work when the mailpieces are
24 sorted manually. Five digit packages do not require carrier route codes to be present on the
25 mailpieces. For every ten pieces, there may be nine for which the carrier route is known, but was
26 not required to be placed on the mailpiece, and a tenth for which the carrier route is unknown. A
27 postal worker assigned to sort these pieces may lack the necessary scheme knowledge, causing a
28 minor delay and an additional handling. The tenth piece may have an address deficiency that
29 interferes with proper delivery. All ten pieces qualify for the same rate.

1 All of the small and subtle costs that occur during the processing of address information,
2 such as internal handoffs among carriers, additional clerical labor that depends on scheme
3 knowledge, delayed processing of incomplete addresses, dealing with move updates, rerouting
4 missorted mail pieces, and many other situations add up to an impressive total, though difficult
5 to quantify. The industry can help by developing address formats which isolate individual
6 address elements, and can identify completeness and incompleteness of addresses and mark
7 missing components. However, there is no single system that can correct missing apartment and
8 suite numbers, and privacy concerns would arise if the USPS were to propose such a system.
9 The only other solution, to take away barcode discounts for incomplete addresses, would create a
10 mountain of noncoded, nonautomation mail and just relocate the problem. This is a genuine
11 dilemma which the USPS and industry can whittle down but not eliminate in the near future.

12

13 THE ADDRESS QUALITY COST CURVE FOR THE USPS

14 We have claimed that the industry has a cost curve for address quality which has the
15 characteristic that costs increase steeply as the file approaches closer to 100% and as the less
16 expensive approaches have been exhausted. What is the corresponding cost pattern for the USPS
17 when mailers do not utilize advanced address quality techniques? We believe that the cost curve
18 for the USPS for the portions of a mailing with address quality deficiencies does not show the
19 steep ascent that applies to the industry cost curve. There is a limit on the USPS costs that is
20 reached in some cases when a mailpiece has been redirected, in other cases when an endorsement
21 is processed, and in cases such as unendorsed Standard Mail when the piece is discarded.
22 However, the USPS does begin to incur higher costs earlier on the curve, because of the
23 additional expenses of processing incomplete addresses that may have legitimately qualified for
24 carrier route or automation discounts under current regulations. The USPS curve does turn
25 upward for the last few percentage points, because of the expenses associated with handling
26 noncoded addresses. Despite these differences between the industry cost curve and the USPS
27 cost curve, they both share the characteristics that as address quality becomes more deficient,
28 costs continue to increase. If there are ways to attain address quality levels much closer to 100%,
29 then all parties, including mailers, service providers, and the USPS, are potential beneficiaries.

1 **V. INCORPORATING ADDRESS QUALITY INCENTIVES IN RATE DESIGN**

2

3 What can be done to incorporate address quality incentives more effectively in rate
4 design? Several remedies are possible, though each has its own set of benefits and potential
5 difficulties.

6 As to carrier route discounts, they have always been density based, while at the same
7 time, they have address quality as a prerequisite. A significant portion of this address quality
8 investment is thrown away when pieces with known carrier route codes do not qualify for
9 discounts because of lack of mailing density. One way to more fully recognize this address
10 quality investment while reducing USPS costs would be to recognize the value in
11 certain situations of five digit mixed carrier route packages. These packages would qualify for a
12 smaller discount than basic carrier route packages, but are worth more than the current five digit
13 packages, since only pieces which have addresses of sufficient quality to allow the carrier route
14 code to be identified would be included in them. A particular situation that would benefit from
15 the use of five digit mixed carrier route packages is mail drop shipped to the DDU and processed
16 manually in that environment. If these packages were allowed, almost all the mail to a particular
17 DDU could be included in the DDU drop shipment, qualify for discounts for address quality and
18 for drop shipping to the final destination, and be processed efficiently.

19 In this testimony, I have argued that automation discounts should be increased, rather
20 than decreased or only maintained, in consideration of the costs to the mailer of attaining high
21 address quality and maintaining it through regular certifications. Although this testimony has not
22 provided an economic analysis of how much these discounts should be increased, the relevant
23 standard of comparison is the depth of these discounts in the current rates. Other things being
24 equal, the behavior of mailers in considering investments in address hygiene will be driven by
25 the relative magnitude of the discounts over time.

26 It is important to note that the relative magnitude of the discounts can be affected in either
27 of two ways. Either the automation rates can be lowered, or the rates that must be used by
28 mailpieces with defective addresses can be increased. In the case of Standard Mail, these are the
29 basic and 3/5 digit presorted rates, while for Periodicals, the basic, three digit and five digit
30 presorted rates are all potentially relevant. Depending on the percentage of defective addresses

1 and the size of the mailing, these are the possible alternatives. Through an appropriate
2 combination of increases and decreases from what the USPS has proposed, the amount of
3 revenue that will be realized can be adjusted to whatever it needs to be.

4 Beyond that, the USPS should give serious consideration to one or more ways to create
5 incentives in the rate structure for greater depth of coding. One way to do this would be to
6 provide deeper discounts for complete and correct addresses and lesser discounts for addresses
7 with missing elements that can still produce a ZIP+4 code, but with other than the maximum
8 depth of code. In other words, the automation discounts should be de-averaged with respect to
9 the depth of the ZIP+4 code underlying them. This would add complexity to the rate structure,
10 but would provide direct incentives for obtaining apartment and suite numbers and for various
11 methods of address element correction. Industry would respond to these rate signals in various
12 ways, such as by developing methods to improve the distribution of known apartment and suite
13 numbers among mailers.

14 Another method would be to certify addresses that exactly match a DSF delivery point as
15 eligible for an address quality discount, over and above the barcode and carrier route discounts.
16 If this were as little as a few tenths of a cent, to offset the costs of obtaining the information, it
17 would have a major effect on mailer behavior. To make this approach viable, the USPS would
18 have to find ways to make the DSF more readily available to mailers.

19 A third way to accomplish this goal, which I would not recommend, would be to
20 withdraw automation discount eligibility for addresses that are not complete and correct. This
21 solution is draconian, in that it would create excessive amounts of residual mail, to the detriment
22 of USPS operations.

23 Any of these techniques could be further strengthened by requiring move update
24 processing through NCOA, FastForward, or other acceptable means, to have been carried out
25 recently, as a further condition for rate eligibility. This is already the case for First-Class mailers
26 qualifying for automation and presorted rates, but questions have been raised about compliance,
27 and whether mailers are following through with updates to their own databases.

28 One other approach would be to provide additional incentives to mailers who make a
29 commitment to 100% address quality for their entire mailing program. This would mean that
30 every single address must be complete and correct, and perhaps that move update procedures must

1 have been performed prior to mailing. There would be some difficulties with such a program in
2 situations where the USPS had a database error, or in which a new address was not yet reflected in
3 the files. If these issues could be worked around using a list of allowable exceptions, the basic
4 concept could be workable for Periodicals. In Standard Mail, it would be difficult to prevent
5 mailers from diverting their defective but still potentially deliverable addresses to a separate
6 mailing.

7 Finally, in order to reduce costs, limit manual procedures, improve delivery performance,
8 and increase delivery consistency by cutting back on the “tail of the mail”, the USPS needs to
9 improve its rate design methodology with respect to address quality incentives. The USPS should
10 adopt procedures that guarantee that it evaluates its own rate case proposals, and makes the Postal
11 Rate Commission and the mailing community aware of the effects of its proposals, with respect to
12 incentives for address quality.

13

1 CHAIRMAN GLEIMAN: Mr. Lubenow, 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: They would.

9 CHAIRMAN GLEIMAN: That being the case, counsel,
10 if I could ask your assistance if you would please provide
11 the court reporter with two copies of that material, I will
12 direct that it be entered into evidence and transcribed into
13 the record.

14 [Designated Written
15 Cross-Examination of Joe Lubenow,
16 POSTCOM et al.-T-3, was received
17 into evidence and transcribed into
18 the record.]
19
20
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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 ASSOCIATION FOR POSTAL COMMERCE
WITNESS JOE LUBENOW
(POSTCOM-T-3)

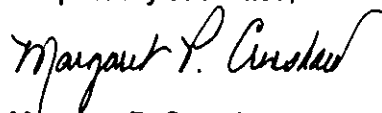
Party

United States Postal Service

Interrogatories

USPS/PostCom-T3-3-10

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Margaret P. Crenshaw". The signature is fluid and cursive, with a long horizontal flourish extending to the right.

Margaret P. Crenshaw
Secretary

INTERROGATORY RESPONSES OF
ASSOCIATION FOR POSTAL COMMERCE
WITNESS JOE LUBENOW (T-3)
DESIGNATED AS WRITTEN CROSS-EXAMINATION

Interrogatory

USPS/PostCom-T3-3

USPS/PostCom-T3-4

USPS/PostCom-T3-5

USPS/PostCom-T3-6

USPS/PostCom-T3-7

USPS/PostCom-T3-8

USPS/PostCom-T3-9

USPS/PostCom-T3-10

Designating Parties

USPS

USPS

USPS

USPS

USPS

USPS

USPS

USPS

Response of Association for Postal Commerce witness Joe Lubenow to
interrogatory of U.S. Postal Service

USPS/PostCom-T3-3. What is the typical percentage of letter-shaped mail that, before undergoing certified address quality processes, has deficient address data or poor address hygiene? Please provide any data or studies that support your response.

RESPONSE:

Though I lack specialized data or studies with which to contribute toward an answer to this question, there are some ways to approach this question. Mailing lists vary widely in their initial address quality due to differences in the methods of data capture and whether there was any attention paid to address hygiene at the time of acquisition. For example, compiled lists are gathered from public sources, including telephone listings. In this situation, street names are abbreviated, suffixes dropped, and apartment numbers are generally nonexistent. As another example, mailing list input forms may be cramped, without enough room to enter all the relevant information, or opportunity to identify distinct address elements. Over the Internet, there is a chance to edit addresses on input, but for the most part such editing is minimal on most current Web sites. Over the phone, there is the possibility of misspellings and transposition errors. Even when lists are rented, the motivation of the list provider is to maximize revenue, so addresses that may be deliverable and productive but which contain imperfections are not stripped from the list unless this is specified by the customer.

**Response of Association for Postal Commerce witness Joe Lubenow to
interrogatory of U.S. Postal Service**

USPS/PostCom-T3-4. What is the typical percentage of letter-shaped mail that, after undergoing certified address quality processes, has deficient address data or poor address hygiene? Please provide any data or studies that support your response.

RESPONSE

There is an implicit assumption in the question that is not necessarily correct. As a general rule, certified USPS processes lead to matching addresses to data bases, deriving ZIP+4, DBPC, and carrier route codes, and providing a standardized address. But mailers are not required to use the standardized address on the mailpiece, and many choose not to do so. The main reason for this is that the standardized address occasionally will reflect a match to an address that is not the one at which the addressee actually can be found. For example, a street name on an input file may closely resemble two street names on the data base, with some grounds for selecting either, but no complete assurance that the selection is correct. The mailer may prefer to leave the street name as it was on the input record, since the carrier may be able to comprehend the name and address in its entirety better than the software, particularly if the software is only looking at the address. After all, the barcodes and carrier route codes only serve to get the mail piece into the hands of the carrier, at which point the human factor determines the final outcome.

**Response of Association for Postal Commerce witness Joe Lubenow to
interrogatory of U.S. Postal Service**

USPS/PostCom-T3-5. What is the typical percentage of flat-shaped mail that, before undergoing certified address quality processes, has deficient address data or poor address hygiene? Please provide any data or studies that support your response.

RESPONSE

I do not have formal data or studies on this question.

In my experience, Periodicals are generally flat-shaped and, whether sent to subscribers or requesters, are likely to have better than typical address quality. This is reasonable, because the recipients of the Periodicals have paid for or asked to receive the publication, and can be expected to communicate with the publisher if it does not show up.

Catalog mailers do not have as much communication with the recipients of the catalogs, and also use rented lists for prospecting. Since the mailpiece is often more expensive to produce and the postage may be higher, the return on investment for address hygiene processes is better. In practice, this is not always fully recognized or acted upon. Besides, some catalogs are letter-shaped.

Many mailers of flat-shaped mail also mail letter-shaped pieces to the same lists, such as a renewal solicitation or a bill. This places limits on the differences in address quality based on the shape of the mailpiece.

Response of Association for Postal Commerce witness Joe Lubenow to
interrogatory of U.S. Postal Service

USPS/PostCom-T3-6. What is the typical percentage of flat-shaped mail that, after undergoing certified address quality processes, has deficient address data or poor address hygiene? Please provide any data or studies that support your response.

RESPONSE

Please see my response to interrogatory 4.

Response of Association for Postal Commerce witness Joe Lubenow to
interrogatory of U.S. Postal Service

USPS/PostCom-T3-7. Please assume that mail piece A is nonbarcoded and has perfect address quality and that mail piece B is nonbarcoded and has poor address quality. Further, assume that mail piece C is mail piece A after successful completion of the barcoding and certified address quality processes and that mail piece D is mail piece B after successful completion of the barcoding and certified address quality processes.

Please confirm that the mail processing cost difference (i.e., barcode-related savings) of handling mail piece A versus handling mail piece C is less than the mail processing cost difference (i.e., barcode-related cost savings) of handling mail piece B versus handling mail piece D? If you do not confirm, please explain.

RESPONSE

It is true that adding a barcode to a complete and correct address has less value than adding a barcode to an incomplete and incorrect address.

But the term "barcode-related savings" is rather narrow, in the same way that the USPS rate case proposals reflect a narrow view of the overall benefits of barcoding and address quality. To see this, consider that although mailpiece D has a barcode, the address is not required to be and often is not presented in a complete and correct manner. Therefore, mail piece D may still have address quality deficiencies. This means that D and C may not have the same value. It also means that the difference in cost between B and D is not necessarily as great as the question implies it is. Finally, it shows that either barcoding discounts should be increased to encompass the address quality dimension of the cost savings, or separate address quality discounts should be instituted.

There is another way to make the same point, without utilizing the fact the mail piece D may not present the complete and correct address, despite having the barcode. A may have an apartment number, while B needs one, but does not have it. After "successful completion of the barcoding and certified address quality processes", B may have a barcode, but the apartment number very likely still will not be known. This is not just a matter of the mail piece not containing all the available information. Once again, D has the same rate as C, but D has address quality deficiencies, in this case of a more intractable type. In this case,

Response of Association for Postal Commerce witness Joe Lubenow to
interrogatory of U.S. Postal Service

there may be difficulty in delivering mail piece D. This example shows that
barcoding discounts should be de-averaged, or that separate discounts for
complete and correct addresses, for example, those matching the USPS Delivery
Sequence File (DSF), should be instituted.

**Response of Association for Postal Commerce witness Joe Lubenow to
interrogatory of U.S. Postal Service**

USPS/PostCom-T3-8. Please confirm that barcode-related mail processing savings increase as address quality of the "pre-barcoded and pre-address quality processed" mail base decreases. If you do not confirm, please explain.

RESPONSE

Confirmed, subject to the qualifications in the previous answer.

Response of Association for Postal Commerce witness Joe Lubenow to
interrogatory of U.S. Postal Service

USPS/PostCom-T3-9. Please refer to your testimony at page 16 where you discuss the address quality cost curve for the mailer. Please confirm that it is less expensive for a mailer to barcode a mail piece that begins with perfect address quality than to barcode a mail piece that begins with poor address quality. If you do not confirm, please explain.

RESPONSE

Confirmed.

Response of Association for Postal Commerce witness Joe Lubenow to
interrogatory of U.S. Postal Service

USPS/PostCom-T3-10. Please refer to your testimony at page 23 at 19-21 where you state that "in this testimony, I have argued that automation discounts should be increased...in consideration of the costs to the mailer of attaining high address quality and maintaining it through regular certifications." Please discuss how your statement relates to efficient-component pricing.

RESPONSE

If "efficient-component pricing" implies that among the participants in a mailing process, the one who should perform a particular activity which reduces costs is the one who can do so most efficiently, then in my view, the mailer or service provider is better positioned than is the USPS to perform the barcoding and address quality functions. The earlier in the mailing process that these activities can be performed, the more efficient is the process. In fact, address quality is best done at the time the address is captured. Everything else is remedial work. Barcoding is best done before the mailpiece reaches the USPS, since the USPS then needs only to read the code and sort the piece. The USPS has to process a diversity of shapes and sizes, which makes it somewhat harder to apply a barcode, and also has to read the physical address presented on the mailpiece, while the mailer or service provider can work with the digital representation of the address. Further, if the complete and correct address including all applicable postal codes is available at the time the mail is presorted, it leads to a more efficient presorting process.

1 CHAIRMAN GLEIMAN: Is there additional designation
2 of written cross examination?

3 [No response.]

4 CHAIRMAN GLEIMAN: There doesn't appear to be any.

5 That brings us to oral cross. Again one party,
6 the Postal Service, has requested oral cross examination of
7 this witness.

8 Is there anyone else who wishes to cross examine
9 the witness?

10 If not, Mr. Tidwell?

11 MR. TIDWELL: Mr. Chairman, the Postal Service is
12 going to keep the momentum going and we have no questions
13 for Mr. Lubenow.

14 CHAIRMAN GLEIMAN: I hope we can count on the
15 Postal Service to continue to want to keep the momentum
16 going.

17 MR. TIDWELL: Well, you know we are going to bring
18 things to a screeching halt sometime soon but not now.

19 [Laughter.]

20 CHAIRMAN GLEIMAN: If you don't, we will.

21 That being the case, Mr. Lubenow, we appreciate
22 your contributions to the record and your appearance here
23 today and you are excused. We thank you.

24 THE WITNESS: Thank you.

25 [Witness excused.]

1 CHAIRMAN GLEIMAN: We are going to go for a
2 "three-fer." Mr. May?

3 MR. MAY: Parcel Shippers calls Mr. Win Zimmerman
4 to the stand.

5 CHAIRMAN GLEIMAN: Mr. Zimmerman, before you
6 settle in, if I could get you to raise your right hand.
7 Whereupon,

8 WIN ZIMMERMAN,
9 a witness was called for examination by counsel on behalf of
10 the Parcel Shippers Association and, having been first duly
11 sworn, was examined and testified as follows:

12 CHAIRMAN GLEIMAN: Please be seated.

13 DIRECT EXAMINATION

14 BY MR. MAY:

15 Q You are Win Zimmerman, employed by Swiss Colony,
16 Inc. and are the Executive Director of Operations for Swiss
17 Colony and are the head of the Parcel Shippers Association,
18 is that correct?

19 A I am.

20 Q I am going to hand you two copies of documents
21 captioned, "The Direct Testimony of Win Zimmerman on behalf
22 of Parcel Shippers Association," PSA-T-1, and I would ask
23 you to examine this and see if this is the testimony you
24 prepared.

25 A It is.

1 Q If you were to testify fully today, would this be
2 the testimony you would give?

3 A Yes.

4 Q And you do adopt this as your testimony?

5 A Yes, I do.

6 MR. MAY: Mr. Chairman, I am going to hand these
7 two copies of the testimony to the reporter and ask that
8 they be transcribed in the record and admitted into
9 evidence.

10 CHAIRMAN GLEIMAN: It is so ordered.

11 [Direct Testimony of Win Zimmerman,
12 PSA-T-1, was received into evidence
13 and transcribed into the record.]
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PSA-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

WIN ZIMMERMANN

ON BEHALF OF

PARCEL SHIPPERS ASSOCIATION

RECEIVED
MAY 22 1 58 PM '00
POSTAL RATE COMMISSION
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May 22, 2000

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AUTOBIOGRAPHICAL SKETCH

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My name is Winfried (Win) Zimmermann and I'm employed with the Swiss Colony, Inc. of Monroe, Wisconsin as Executive Director of Operations. The Swiss Colony is the oldest specialty mail order food company in the country. But in recent years our product line has diversified to include a variety of other consumer goods as well.

For thirty-eight years, since college and the military, I have been employed by businesses that require a residential delivery. Most of this time has been with Encyclopedia Britannica and the Swiss Colony managing their distribution, mailing, and production operations. During this time I've seen common carrier deregulation, the demise of REA, the inception of FedEx, the tremendous growth of UPS and the commensurate decline of parcel post volume.

Since 1975 I have been affiliated with the Parcel Shippers Association (PSA) and am currently serving as Chair. The Swiss Colony is also a founding member of the National Association of Perishable Shippers (NAPS) and I'm privileged to serve on its board as well. I have represented PSA on MATC and am currently serving as a representative for NAPS.

In addition to service to national trade groups, I'm past secretary/treasurer of the Wisconsin Gift Cheese Association.

1 **PARCEL SHIPPERS ASSOCIATION**

2 The Parcel Shippers Association was founded in 1953 with its primary mission to
3 foster competition in the parcel delivery market by promoting the most efficient service
4 at the lowest possible cost. It has more than 80 members, most of whom advertise their
5 products through the U.S. mails, as well as other media, and who ship their products
6 using the Standard (A), Standard (B), Priority Mail and Express Mail Package Services
7 of the Postal Service, as well as the services of UPS and Fed Ex/RPS. Our members
8 are also greatly dependent on the Postal Service to deliver to them mail orders for the
9 merchandise they advertise and to send bills and receive payment for that merchandise.

1 **INTRODUCTION.**

2 The common need our members share, from the origins of the Association, has
3 been the need for cost efficient carriage of their small parcels both to business and
4 residential customers. We have worked consistently with the carriers, urging
5 technological advance, innovation, arguing for rate structures that encourage us to do
6 work sharing where we can more efficiently perform functions than can our carriers.

7 We have found there is more effective innovation and competition in the
8 expedited delivery market, where there are more than a few providers of service. And,
9 recently, there has been some competition in the business-to-business market.
10 However, for almost half a century the small parcel residential delivery market has been
11 dominated by two carriers, USPS and United Parcel Service, with UPS being the
12 dominant, de facto, monopoly supplier of service for most of the last twenty-five years.
13 For the last decade our Association has done everything it can to encourage the Postal
14 Service, and those that regulate that service and its rates, to become a meaningful
15 competitor to UPS for residential delivery. Frankly, we would like to see more than two
16 carriers in this market but, it is clear to us, in the short run only USPS is in a position to
17 provide the competition to UPS that is essential to ensure fair prices and good service.

18 My testimony will explain why our membership believes that the Postal Service's
19 rates and classifications are crucial to their interests, not only in the ground parcel
20 delivery market, but also in the expedited delivery market.

21 As my testimony will develop, while it may appear that the overall Standard (B)
22 Parcel Post increase of 1.3% is moderate, when added to the excessively large
23 increase that went into effect just a year and a half ago, Parcel Post rates are right now,

1 and will be even more so, excessive and anticompetitive. As my testimony will further
2 develop, our members are also users of Priority Mail, Bound Printed Matter, and
3 Standard (A) Parcel Service. The rates proposed in this case for those services are
4 excessive and inconsistent with the rate criteria of the Act.

5 The innovative change in Docket No. R97-1 to allow the Postal Service to carry
6 parcels between 108" and 130" in length and girth combined had great promise to meet
7 a serious service problem. However, the oversized rates recommended then and
8 proposed in this proceeding have, for all practical purposes, killed the usage of this
9 service. These oversized rates should be substantially moderated from those
10 proposed.

11 Another innovation introduced in Docket No. R97-1, which held much promise, is
12 delivery confirmation for Standard (B) Parcels. However, the price imposed on that
13 service is such as to inhibit its usage and, as our testimony will develop, is neither in the
14 interests of the Postal Service or the users.

15 We very much support the Postal Service's increased emphasis on destination
16 discounts for Standard (B) Parcels. We also applaud the Postal Service proposal to
17 extend the bar code discount to Standard (A) Parcels, as it did to Standard (B) Parcels
18 in the last proceeding. That, coupled with the lower pound rate for Standard (A), does
19 have the effect of mitigating the otherwise ridiculously large increase in the Standard (A)
20 Parcel Surcharge, an 80% increase in that rate element.

21 And finally, as we are sure most other parties to this proceeding will agree, the
22 Postal Service's revenue requirement is grossly exaggerated and cannot be justified on
23 any basis other than the Postal Service's desire to have a large cushion in case they fail

1 to implement the programmed productivity improvements, and fail to achieve the
2 savings from automation, savings that will only come from very hard-headed
3 implementation and management of those changes to ensure that the postal labor force
4 is efficiently deployed and not engaged in manual activities which automation has made
5 obsolete. Because the revenue requirement is such a central element to every aspect
6 of the Postal Service's proposals, my testimony will begin its specific treatment with that
7 issue.

8 **I. THE REVENUE REQUIREMENT**

9 The Postal Service has requested an overall 6.4% increase to cover an
10 anticipated \$3.68 billion deficit, a deficit which includes a 2-1/2% contingency and a
11 prior loss recovery of \$268 million. In fact, subtracting the contingency and prior loss
12 recovery reveals that the actual anticipated deficit is only \$1.7 billion, \$2 billion less than
13 requested. (Exhibit USPS-32B) Perhaps coincidentally, the actual projected deficit of
14 \$1.7 billion is about the same amount of revenue increase that the Commission allowed
15 the Postal Service in Docket R97-1. It is also noteworthy that the Postal Service, using
16 the reduced \$1.6 billion increase from Docket R97-1, has been able to operate in the
17 black to date, even though that increase was not placed into effect until some three
18 months after the close of the Test Year, FY 1998.

19 What is very significant is that the last two rate proceedings, Docket R94-1 and
20 Docket R97-1, were cases in which the Postal Service requested and the Commission
21 recommended overall rate increases that were less than the rate of inflation in the
22 general economy. It is undeniable that the Postal Service has prospered under a
23 regime of moderate to small rate increases, producing a string of "profits" that is

1 unprecedented since Postal Reform. One must ask why would the Postal Service
2 jeopardize this very successful formula of small to moderate increases, and why would
3 they think the Commission would want to risk a return to the era in which very large
4 postal rate increases had the predictable effect of killing volume, thereby spreading non-
5 variable institutional costs over a smaller base, with resultant adverse revenue effects
6 and an almost unbroken string of deficits?

7 The Postal Service agrees that its estimated increased costs of 3.6% for FY 2000
8 and 3.8% for FY 2001 (Exhibit USPS-9M) are greater than the estimated changes in the
9 CPI-W of 2.7% for FY 2000 and 2.0% for FY 2001 (Table 14 of USPS-T-9.) The
10 Service's explanation of why they are estimating cost increases for 2000 and 2001 that
11 exceed cumulatively the CPI by 2.7% is that the increases over the previous two rate
12 cycles were 5% below inflation. Such an explanation of course is nonsense. Rather
13 than explaining why the Postal Service is entitled to assume an excess inflation in its
14 own costs, its ability to operate profitably in the previous two rate cycles with rate
15 increases 5% below inflation is proof that they do not need to assume costs in excess of
16 the inflation rate. The Postal Service's proven ability to operate at a less than inflation
17 rate over the previous six years argues against a departure from a pattern of rate
18 increases less than inflation.

19 If the overall 6.4% increase were reduced by 2.7%, the amount by which their
20 assumed inflation cumulatively exceeds the CPI-W estimated inflation rate, it would
21 have the effect of reducing the overall increase by \$1.5 billion. Quite apart from any
22 other specific overstatements that the Commission may find, the contingency should be
23 reduced by at least \$1 billion; that would be much more in alignment with the expected

1 rate of inflation, an inflation rate which the Postal Service has bested for six years
2 running.

3 **II. COMPETITION IN THE PARCEL SHIPMENT MARKET.**

4 While the Postal Service is often characterized as a monopoly, it must be
5 remembered that everything the Postal Service does, except for the "letter mail"
6 monopoly, is open to competition. Moreover, in those competitive markets only one
7 competitor, the USPS, is tightly regulated. On the other hand, all users of services in
8 this market, even those who only use non-regulated carriers other than the Postal
9 Service, are nevertheless affected by the regulation of USPS.

10 The package market is an increasingly important market, and significantly
11 important to the United States where this country is the fastest growing participant in the
12 fastest growing freight transportation market.

13 Dr. Tolley has provided the 1998 shares of the package/parcel market by
14 segregating it into the overnight, the two to three day, and the ground shipment market.
15 (Tr. Vol. 9, pp. 3651-2) The data for overnight shows that UPS has 21% of that market,
16 Fed Ex and RPS 43.4%, and USPS 11%. The Postal Service is not doing well despite
17 the fact that it invented overnight service with Express Mail.

18 In the two to three day market, the Postal Service has the dominant share of the
19 market, with its Priority Mail Service capturing 68-1/2% of the market, the remainder
20 being roughly divided between UPS and Fed Ex.

21 In these two markets, the product is not the conventional parcel; rather, these
22 markets consist in substantial part of letters and flats.

1 The more conventional package, or parcel, is in the ground transportation
2 category. Dr. Tolley divides this market primarily among UPS, Fed Ex/RPS, and the
3 Postal Service. Dr. Tolley estimates the size of this market at 4,138,000,000 parcels.
4 The market share of Standard (B) Parcel Post in 1998 Dr. Tolley estimates to have
5 been around 322 million, or roughly 7.8% of the market.¹ The Postal Service also had
6 868 million Standard (A) Parcels, or roughly 21% of the market; and it had another 706
7 million pieces of Bound Printed Matter and Books, which equates to 17% of the market.

8 Neither United Parcel Service nor Fed Ex/RPS makes any distinction between
9 Standard (A) and B Parcels, nor Bound Printed Matter, nor Books and Records. So far
10 as UPS is concerned they are simply parcels. However, because of the very distinct
11 classifications between Standard (B) Parcel Post and other kinds of packages, those
12 very rigid classifications with separate rate and service structures do define a separate
13 market, and, in that market, the Postal Service's 322 million parcels in 1998 were an
14 insignificant portion. If one excludes the other separate subclasses of Bound Printed
15 Matter Books, and under 1 pound parcels, the remaining market consists of
16 3,108,000,000 parcels, with UPS' share 78.4%, Fed Ex/RPS' share 11.2%, and Parcel
17 Post's share 10.4%.

18 All domestic ground parcel rates will be affected by the Commission's
19 recommendation in this proceeding, including UPS' 78% share of that market as well as
20 Roadway's 11% share.

21 If there is to be competition in the growing ground parcel delivery market the
22 Postal Service must grow its 10% share. However, given its costs and labor structure

¹ Dr. Tolley elsewhere estimates the 1998 volume to have been around 320 million. (USPS-T-6, chart 4, p. 154)

1 the only way it can do this is by utilizing competitive drop ship rates and improving the
2 level and consistency of its service.

3 As the Commission we are sure is well aware, it is not possible simply to
4 compare the published tariff of United Parcel Service and that of the Postal Service to
5 determine whether Parcel Post rates are higher or lower than UPS rates. A very
6 substantial number of major parcel shippers who utilize UPS have secret contract rates
7 that are unrelated to whatever published tariff UPS may have at any given moment. A
8 number of our members have those secret arrangements.

9 The reality is that the Postal Service may not approach a major shipper of
10 packages and parcels of varying content descriptions and weights, both under and over
11 1 pound, and negotiate a blended rate against certain guaranteed volumes and
12 somewhat exclusive patronage. That is exactly what the major shipper does with both
13 Fed Ex and UPS. So, for Fed Ex and UPS there are three markets, all determined by
14 level of service: Overnight, Two to Three day service, and Deferred or Ground
15 transportation service. Moreover, UPS will make deals that combine all three services
16 under one umbrella. Because of the statutorily imposed artificial constraints under
17 which the Postal Service must operate, it is not possible to view the package market as
18 one large market; rather both postal competitors and customers have to view these as
19 very distinct and separate markets so far as Parcel Post competition is concerned, and
20 for that reason the Commission should treat them as distinct markets.

21 Even where the Postal Service does have a rate advantage in their Parcel Post
22 rates compared to UPS residential delivery rates, because the customer does not have
23 a separate contractual deal with UPS, there are a number of other disadvantages to

1 using the Parcel Post Service that often erase whatever actual rate advantage there
2 may have been. Many of these real costs are imposed by inferior service. Thus,
3 merely maintaining equality in the rate levels will not in any way guarantee that there will
4 be effective competition in the residential delivery market.

5 We hope the Commission, when applying Criterion 4, the effect of its
6 recommended rates on competition, will continue to apply that criterion in a manner that
7 encourages competition in the several markets, and not view that criterion as a shield to
8 a single competitor to continue its dominant position. The parcel competition that the
9 Postal Service has been able to provide to United Parcel Service due to the competitive
10 rates that the Postal Rate Commission has recommended in the last ten years is good
11 for consumer and competition alike. The fact is that UPS has just posted record
12 quarterly profits.

13 The Reuters News Service has reported that UPS beat analysts' forecasts.
14 Reuters quotes the Company as saying it would use up to \$1.2 billion in proceeds from
15 last year's IPO to buy back Class A and B common stock; that UPS is aiming for
16 revenue growth of about 10% and earnings growth of about 15% in 2000. Reuters
17 quoted Robert Clanin, UPS Chief Financial Officer, as saying that UPS recorded solid
18 growth with improving yields in its core U.S. market where total average daily domestic
19 package volumes grew 5.3% over the previous quarter in 1999. Reuters said that Mr.
20 Clanin attributed these strong results to its aggressive bid to carve out new markets in
21 e-commerce and business-to-business services.

1 In fact, the last twenty-five years have been a demonstration of how UPS has
2 benefited from regulation – not regulation of UPS, but regulation of the United States
3 Postal Service in its rates and services.

4 **III. PRIORITY MAIL AND BOUND PRINTED MATTER MAIL.**

5 A number of our members are significant users of Priority Mail, and, it would
6 appear, this will be an increasingly used service by our membership. The Postal
7 Service is proposing an overall 15% increase for Priority Mail. This is an astoundingly
8 large increase, given the high cost coverage of this subclass, in a rate proceeding
9 where the overall increase is only 6.4%, which, as I have elsewhere pointed out, we
10 believe is excessive. It seems to us that there is absolutely no justification for such a
11 high increase other than the Postal Service's naïve belief that this is what the traffic will
12 bear. We think the Postal Service underestimates its competition and their willingness
13 to slash prices in order to gain market share. The Postal Service can ill afford to lose its
14 strong position as a leader in this particular service. These overall increases should be
15 cut in half. We feel no need to suggest where the lost revenue would come from
16 because, as we have already testified, the Postal Service overall rate increase is
17 excessive and should be cut by at least \$1 billion, and this is one of the specific cuts
18 that should be applied.

19 In fact the 15% increase may be understated ; it would appear to be larger for
20 much of the Priority Mail Service that our membership might use. For example, the
21 Postal-Provided Envelope Priority Mail increases from \$3.20 to \$3.85, a 20% increase.
22 And increases for Priority Mail up to 5 pounds appear to be more on the order of 18%
23 than 15%.

1 Bound Printed Matter is proposed to rise 18.15%. While the Postal Service
2 forecasts substantially increased costs for this rate category, this increase should be
3 tempered in view of Criterion 4 of the Act, which requires consideration of the impact of
4 an increase on the users of that service. We support the first time introduction of SCF
5 and DDU rates for Bound Printed Matter, but, at the same time, note that many BPM
6 users will not have sufficient volumes and therefore will be left to pay an extremely high
7 18.15% rate increase. Likewise, the ECSI value under Criterion 8 of the Act also
8 argues against a percentage increase of these dimensions, particularly when increases
9 in so many other rate categories were constrained so that they would not exceed 10%.

10 **IV. MISCELLANEOUS PROPOSALS.**

11 We also endorse several minor proposals of the Postal Service which we think
12 would be helpful to postal customers. The proposal to allow parcels under 1 pound to
13 be commingled with and rated as Parcel Post is good business for the Postal Service
14 and should be helpful to our members since it will help them to meet make up
15 requirements for some of the discounted Parcel Post categories.

16 Also, the Service has proposed to eliminate the Merchandise Return Service Fee
17 which, of course, is long overdue and makes a great deal of sense.

18 We also note with approval the proposed reduction in the Bulk Parcel Return
19 Service rate, although we hope that the Governors will, at their June Board Meeting,
20 approve the Commission's recommended rate reduction without awaiting a further
21 action by the Commission in this proceeding.

22 We are also pleased that Standard (A) Parcels will be eligible for the Service's
23 delivery confirmation service that is presently offered to Standard (B) Parcels.

1 However, as our testimony elsewhere points out we believe there is a fundamental
2 problem with charging for a service which should be an automatic feature of all package
3 handling by the Postal Service.

4 **V. PROPOSALS FOR STANDARD (A) PARCELS.**

5 Our members are very substantial users of the Standard (A) Parcel service. Of
6 course, the Postal Service has not segregated Standard (A) Parcels into a subclass; nor
7 have they even segregated those parcels into a rate category. Standard (A) Parcels are
8 simply one component of four different rate categories of non-letter size Standard (A)
9 Mail. Notwithstanding the fact that this kind of mail is neither a subclass nor a rate
10 category, the Postal Service has once again singled it out for exceptional treatment by
11 increasing the surcharge on it by 80% over the initial surcharge imposed in
12 Docket R97-1.

13 The Service, however, proposes several things that do make some sense with
14 respect to Standard (A) Parcels: they propose that they be eligible for the same 3¢
15 discount Standard (B) Parcels get if a bar code is applied; they propose that, for a fee
16 that will greatly increase the cost of the service, delivery confirmation will be available;
17 and they propose that these parcels can be commingled with Standard (B) Parcels, and
18 pay the Standard (B) rate.

19 Having said that, however, we object once again to the fact that the Postal
20 Service has blended into one category, both for surcharge purposes and for cost
21 purposes, four separate subclasses of mail: Bulk Regular Standard (A) Irregular
22 Shapes; Bulk Non-Profit Irregular Shapes; ECR Standard (A) Irregular Shapes; and
23 Non-Profit ECR Standard (A) Irregular Shapes. What we find particularly troubling is

1 that the Postal Service has taken a tiny piece of four different subclasses of mail, put
2 them together, and proposes to affix a rate affect upon them as if they were one
3 singular, recognized category of mail. Taken separately, none of these are either a
4 separately recognized rate subclass or rate category, being merely a part of a rate
5 category of a subclass. Why has the Postal Service done this? Have the users of the
6 four various subclasses to which these pieces of mail belong complained that within
7 their subclass there are irregular shaped pieces that cause disproportionate incurrence
8 of costs? Absolutely not. The USPS has produced no evidence in this proceeding nor
9 in any prior proceeding of complaints by postal customers who felt they were adversely
10 impacted by the failure to separately rate this kind of mail.

11 Presumably the revenues collected from the surcharge on this type of mail mean
12 that mailers in the various four Standard (A) subclasses who send flat shape mail will
13 benefit by having a lower rate for their Standard (A) pieces. The members of our
14 Association are those mailers. We are both the mailers of Standard (A) Regular flat
15 pieces as well as the Irregular Shape pieces. Our members do not believe that this
16 surcharge has helped them. Nor have they ever complained about the supposedly
17 higher parcel costs either to the Postal Service or in a rate proceeding. We strongly
18 disapprove of what we regard as a subversion of the Postal Reorganization Act and its
19 classification structure. The Act did not contemplate that the Postal Service would skim
20 through a very elaborate structure of classes, subclasses and rate categories to pick out
21 isolated pieces of these variegated categories and put them together for purposes of a
22 rate action, without ever having gone through the statutory steps of creating a separate
23 rate category, let alone a separate subclass.

1 Another aspect of the obfuscation practiced by the Postal Service with respect to
2 these parcels, parcels that belong to four different subclasses, and four different rate
3 categories within those subclasses, is the deliberate avoidance of comparing the
4 amount of revenue per piece contributed by these pieces versus flat shaped pieces, but
5 constantly emphasizing the cost differences between parcel shaped pieces and non-
6 parcel shaped pieces.

7 USPS witness Crum (page 10) combined all four subclasses of Standard Mail A
8 to find that parcels cost 78¢ per piece versus 12.2¢ per piece for flats, or a 65.8¢
9 difference. To extrapolate to the Test Year he multiplied the wage adjustment factor of
10 1.124, producing a Test Year parcel cost of 87.67¢. Allowing for the deeper drop-
11 shipment of Standard (A) flats and their finer presortation, he then reduced the cost by
12 8.5¢, to a cost of 79.17¢ for parcels versus a cost of 13.712¢ for flats, yielding a cost
13 difference for the two categories of 65.5¢ in the Test Year. The revenue for a regular
14 parcel-shaped piece in FY 1998 was 47.8¢. (Tr. Vol. 8, p. 3425) The Postal Service
15 was unable to produce parcel revenues and costs for the regular subclass in the Test
16 Year After Rates because they stated that the data were not available. (Tr. Vol. 10, p.
17 3936) If one applies the Standard (A) regular proposed increase of 9.4%, that would
18 produce an additional revenue per piece of 4.5¢ for a total revenue per piece in the Test
19 Year of 52.3¢. If the 18¢ proposed surcharge is added to the 52.3¢, it will be seen that
20 the Standard (A) Regular Parcel revenue per piece would be 70.8¢.

21 The regular flat revenue in 1998 was 23.4¢ per piece. If we apply the same 9.4%
22 increase to flats, that averages an additional 2.12¢ per piece for a total of 25.6¢ per
23 piece. Thus, while the Postal Service may wish to emphasize the fact that, as they say,

1 a parcel will cost 65¢ more than a flat to process in the Test Year, a reasonable
2 estimate (since the Postal Service says they do not have the data to produce a real
3 one) of revenue per piece in the Test Year for a parcel will be 70.8¢, 45.2¢ more than a
4 Standard (A) flat. Thus, while there is a 65.46¢ cost difference, there is also in the
5 opposite direction a 45.2¢ (est.) revenue difference. While this does not put parcels and
6 flats in Standard (A) on an exactly even keel, it certainly dispels the impression the
7 Service's testimony seeks to create that there is this huge difference between parcels
8 and flats; the difference is small and the remedy, an 80% increase in the surcharge, is
9 large.

10 We point out the fragility of the Postal Service's cost estimates. The Postal
11 Service cannot reconcile the absurd finding that a non-profit ECR parcel costs three
12 times as much as a regular parcel to process. (Tr. Vol. 8, p. 3425) Manifestly, the
13 smaller the sample size the less reliable and credible the data. The Postal Service
14 counters by claiming that the data on parcels and flats has been consistent from year to
15 year, and yet the Table that the Postal Service supplied to support that contention
16 shows the exact opposite to be the case. That data shows that Standard (A) parcels
17 cost 52¢ per piece in FY 1993, 57¢ in 1994, 54¢ in 1995 and back to 52¢ in 1996.
18 While there is some suspicion to numbers which go up and then go down as inflation
19 increases, there is some relative constancy of these parcel costs. However, in the Base
20 Year 1998, the parcel costs go from 51.6¢ in Base Year 1996 to 78¢ in Base Year 1998,
21 a 26.4¢ increase, an increase of over 51% in two years. USPS witness Crum was
22 unable to reconcile why the Standard (A) parcel regular costs had jumped 50%. (Tr.

1 Vol. 8, pp. 3501-4) That is hardly calculated to instill confidence in the Postal Service's
2 cost numbers for Standard (A) parcels.

3 USPS witness Moeller pointed out that, for FY 1998, since the cost of a parcel is
4 77¢, and the revenue without a surcharge is 48¢, the parcel fails to cover its costs by
5 29¢, and even with an 18¢ surcharge still fails to cover its costs by 9¢. Stated
6 differently, if it were a subclass it would have, with the 18¢ surcharge, cost coverage of
7 83% [$64¢ + 77¢ = .83$]. Of course, that means that it is still not covering its costs;
8 however, Standard (A) parcels is not a subclass; it is not even a rate category. There is
9 no requirement that it covers its costs, even if the Postal Service's cost numbers had
10 greater credibility. It puts the matter much more in perspective to point out that Standard
11 (A) parcels would have 83% cost coverage as opposed to the false image created by
12 the Postal Service when it insists on emphasizing that it is passing through only 27.5%
13 of the cost differences between flats and parcels, implying that there is a failure to cover
14 costs by that margin. (Tr. Vol. 10, p. 3935)

15 **VI. DELIVERY CONFIRMATION.**

16 The Postal Service proposes to continue the delivery confirmation charge of 25¢
17 per transaction for an electronic manifest mailer using Parcel Select, and also to extend
18 that service, at 25¢ per transaction, to Standard (A) parcels. This is a greatly
19 underutilized service by our members and, based on the numbers, by all Standard (B)
20 parcel mailers.

21 For Priority Mail users with electronic manifest, the cost of delivery confirmation
22 is free, implying that the costs, such as they are, are baked into the Priority Mail costs.
23 Since this is a standard service for Priority Mail, presumably the equipment costs have

1 already been incurred and we are simply talking about a question of utilization of that
2 equipment plus whatever added variable labor costs that may be involved in order to
3 scan and transmit.

4 As reported in the Federal Times, USPS Manager of Information Systems and
5 Expedited Package Services, Julie Rios, briefed the Postal Board of Governors on the
6 delivery confirmation service. According to her it generated \$170 million in new revenue
7 in its first year of use. However, only \$30 million of that was generated by the fees that
8 were charged. The other \$140 million was generated because the Service estimates
9 that it attracted that much new Priority Mail business by offering the service, a service
10 which is free for Priority Mail users. (Federal Times, May 15, 2000) Perhaps it might
11 occur to the Postal Service that, if they offered this confirmation service free to Standard
12 (B) parcel shippers, it might also attract additional volume and revenue from that
13 source.

14 There should be no charge to an electronic manifest Parcel Select mailer. That
15 mailer's reduced rates are predicated on the work sharing performed by that mailer. It
16 is very short-sighted for the Postal Service to selectively decide what kind of parcels
17 they will maintain information about. Moreover, there is a real question whether this
18 should be standard operating procedure for the Postal Service internally to know what is
19 going on, as well as a service to its customers. The competition, specifically UPS,
20 tracks every parcel; knows where it is at every stage of its processing; and is able and
21 to so inform its customers upon inquiry. The Postal Service, by failing to match this
22 level of service, is simply further handicapping itself in its losing battle with its
23 competitors.

1 **VII. DROP SHIP DISCOUNTS – DBMC, DSCF AND DDU.**

2 The Postal Service effectively proposes no increases for the Parcel Select,
3 DSCF and DDU rate categories. Because these new rates were not introduced until the
4 second quarter of Fiscal Year 1999, there is too little data to make a judgment as to
5 whether the discounts, which are not proposed to be increased, are adequate to create
6 the necessary incentives for mailers to do the considerable work and/or consolidating
7 necessary to meet the volume and preparation requirements to be eligible for these
8 discounts.

9 For most of the DBMC rate cells there are increases of some dimension, ranging
10 from pennies up to 8%. Generally, heavier parcels, those over 20 pounds, or parcels
11 going to the further zones are proposed to have 8% increases.

12 As my testimony will later develop, it is our position that the Postal Service
13 proposed coverage for the Parcel Post subclass is excessive, and, because the
14 increases in Docket R97-1 were premised upon incorrect data, resulting in much higher
15 increases than would have occurred were the true data available, the base from which
16 rate adjustments in this case are made is much higher than would have been the case
17 otherwise. Consequently, we urge the Commission to reject all increases for DBMC,
18 and recommend larger increases in the DSCF and DDU discounts. It is in these drop
19 ship categories that the Postal Service has experienced growth and for which there is
20 the greatest promise to make the Postal Service a competitive factor in the parcel
21 delivery business.

22 The Postal Service hourly wage rates for clerks and mail handlers for Fiscal
23 Years 1998 through the Test Year Before and After Rates show an increase of 4.09% in

1 FY 1999, 4.07% in FY 2000, and an estimate of about 3.8% Before and After Rates in
2 the Test Year. (LR-127, Chapter VIII, pp. 440-1) These wage increases, well in
3 excess of the rate of inflation in the general economy, demonstrate the importance of
4 avoiding labor intensive postal operations through drop ship rate categories such as
5 DBMC, DSCF, and DDU.

6 It is also our position that the Postal Service has understated the amount of cost
7 avoidance in DSCF and DDU because USPS witness Eggleston failed to apply the
8 normal CRA adjustment factor for Parcel Post, even though as she elsewhere testified:
9 "Not using some sort of CRA adjustment factors in the estimated mail processing costs
10 would severely underestimate costs." (Tr. Vol. 13, pp. 5109-10) It seems obvious to us
11 that, just as failing to make the CRA adjustment would understate parcel costs, it will
12 also have the effect of understating the amount of costs that are avoided through drop
13 shipping. The Postal Service's position is that the CRA adjustment should not be made
14 to modeled costs for a new subclass of mail but only be applied to well-established
15 subclasses. Apparently the justification is that, with a new subclass, the data is
16 sufficiently sparse so that it creates the possibility of error or rather the possibility of
17 overstating the amount of cost avoidance. While that may be true it seems to us that to
18 fail to make the adjustment far more likely guarantees that the amount of cost
19 avoidance will be underestimated.

20 USPS witness Daniel, who used Ms. Eggleston's cost models for DDU and
21 DSCF realized that she did have to make a CRA adjustment to witness Eggleston's cost
22 model in order to get the correct total of Parcel Post costs. (LR-I-98, p. 15) Had not
23 witness Daniel applied the CRA adjustment to Ms. Eggleston's modeled costs for DSCF

1 and DDU, the costs for those rate categories would have been overstated due to an
2 understatement of the cost avoidance, and that, in turn, would have led to an
3 overstatement of Parcel Post costs.

4 The same reasons that led witness Daniel to apply the CRA adjustment to Ms.
5 Eggleston's modeled cost avoidances for DSCF and DDU should have also led Ms.
6 Eggleston herself to make that adjustment. While USPS witness Daniel effectively did
7 incorporate the CRA adjustment factors in her analysis of Parcel Post costs, including
8 DSCF and DDU costs, witness Eggleston did not make the adjustments to her cost
9 models for the purpose of rate design. Consequently, when witness Plunkett designed
10 the rates for DSCF and DDU he was using a pass through of cost avoidance that had
11 not been adjusted by the CRA adjustment factor, potentially resulting in an
12 understatement of the cost avoidance. To compound the matter, witness Plunkett
13 testified that he, presumably in an exercise of conservatism, constrained the DSCF and
14 DDU rates so that the effective pass through of witness Eggleston's modeled cost
15 avoidances was 80%. The correct method to employ conservatism for a new rate
16 category is to do exactly what witness Plunkett did, that is, exercise conservatism in the
17 rate design. However, witness Plunkett's conservatism was improperly employed
18 because he was making a conservative calculation on numbers that had already been
19 understated because of witness Eggleston's conservatism. The net result of this
20 doubling is that the Postal Service is proposing DSCF and DDU rates that fail by as
21 much as 25% to fully reflect the amount of costs avoided by those two rate categories.
22 (Tr. Vol. 13, p. 5009)

1 **VIII. PARCEL POST COST COVERAGE.**

2 As the Commission is well aware, the Postal Service revised its data collection
3 methodology for Parcel Post subsequent to Docket R97-1. It is important to review just
4 how staggering the Postal Service's data errors were. In Docket R97-1 the FY 1997
5 CRA reported there were 236 million parcels; whereas, the restated FY 1997, using the
6 RPW methodology, is shown to be 291.65 million pieces. (USPST-6, Chart H, p. 153)

7 More importantly, the FY 1998 Test Year in Docket R97-1 projected total parcels
8 of 266.5 million and revenues of \$823.6 million. In fact, using the new RPW system the
9 pieces were 316,148,000, almost 50 million pieces more than were projected in the
10 case; and revenues were \$947.9 million, \$124.3 million more than projected. The costs
11 as reported were correct, \$862,300,000. (WitnessTolley revised the number in his
12 testimony to show that 1998 pieces were actually 319.99 million (USPS-T-6, Chart 4, p.
13 154).)

14 Using the Postal Service's data the Postal Rate Commission found that Parcel
15 Post, Before Rates, utilizing Postal Service costing methodology had a 96.8% coverage,
16 whereas utilizing its own costing methodology, which excluded Alaska costs, parcel
17 coverage was 98%. In fact, using the corrected data from the RPW system, the Before
18 Rates coverage for Parcel Post in the Test Year 1998 was 122%, using Postal Service
19 methodology excluding Alaska costs, and 112.4% coverage utilizing Postal Rate
20 Commission costing methodology. Thus, with no rate increase whatsoever Parcel Post
21 had 3.4% higher coverage than the Postal Rate Commission, utilizing its costing
22 methodology, recommended for Parcel Post. Thus, the Postal Rate Commission could
23 have recommended zero increases for Parcel Post in Docket R97-1 and still have

1 exceeded their recommended coverage by 3.4%. (Tr. Vol. 11, pp. 4380-81) Moreover,
2 had the Postal Rate Commission's 12.3% rate increase been implemented during the
3 Test Year, the cost coverage for Parcel Post would have been 126.2%. (Tr. Vol. 11, p.
4 4380)

5 The Postal Service proposal for a 115.1% cost coverage, produced by a 1.3%
6 overall price increase, is a coverage the Postal Service would never have proposed had
7 they not erred so colossaly in Docket R97-1 in underestimating both revenues and
8 volume for Parcel Post, producing a rate increase that was five times the system-wide
9 average increase. The math is quite simple: had the Postal Service provided the
10 correct data for Parcel Post in the last rate case, the cost coverages sought by both the
11 Postal Service and the Postal Rate Commission would have been met with no rate
12 increase whatsoever. Assuming, however, that the Commission would have
13 recommended at least the system-wide average increase for Parcel Post, 2.5%, which
14 would have still produced higher cost coverage than in fact the Commission
15 recommended, then in this proceeding, a system-wide average price increase of 6.4%
16 for Parcel Post (the second most price sensitive of all categories of mail according to
17 the Postal Service) would produce cumulative increases from Docket R97-1 and the
18 current Docket of 2-1/2% plus 6.4%, which would be an 8.9% increase. Because Parcel
19 Post was increased on the basis of false estimates in Docket R97-1, thereby incurring a
20 12.5% increase, it would require a 4% reduction in Parcel Post rates across-the-board
21 in order to produce the rate levels that would obtain if Parcel Post, the second most
22 price sensitive class of mail, were to have received the average system-wide rate
23 increase in Docket R97-1 and as proposed by the Postal Service in the current Docket.

1 (As we have elsewhere noted, the Postal Rate Commission should not recommend
2 increases that will total 6.4% because that is at least \$1 billion more than the Postal
3 Service can justify.)

4 Had the true facts been known it is most certainly the case that the Postal
5 Service would not have proposed increases larger than the system-wide average for a
6 subclass of mail that USPS witness Mayes categorizes as; "low intrinsic value of
7 service; lower delivery priority; not good security and delivery; lack of free service such
8 as insurance, tracking, etc.; and an-own-price elasticity above 1.0, indicating a low
9 economic value of service." (T32 pp. 40-41)

10 It is a historical fact, although not necessarily a cause and effect relationship, that
11 the highest cost coverages for Parcel Post, since the first rate case, Docket R71-1,
12 coincided with the very steep decline in Parcel Post volume, a decline of over two-thirds
13 of its volume. It is also historically the fact that the rejuvenation of Parcel Post and the
14 increase in its volumes, by almost 100%, occurred since the Docket R90-1 rate case
15 when the cost coverages in Dockets R94-1 and R97-1 were the lowest.

16 Library Reference H-117 describes the history of Parcel Post volume declines,
17 and it shows that volume declined steadily between 1970 and 1990, and at its low point
18 Parcel Post volume in 1989 was only 21% of the 1970 volume.

19 It should not be surprising that volume decreases and increases very much track
20 high and low cost coverages for Parcel Post since Parcel Post is the second most price
21 elastic category of mail. (USPS T-32, p. 40)

22 It is painfully evident that the Postal Service's recommended coverage of 115.1%
23 is a mere accident of how the rates came out. USPS witness Mayes' initial

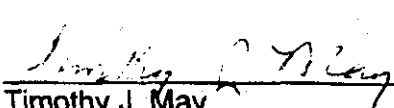
1 recommendation was for 114% cost coverage, because she thought that was what
2 witness Plunkett's rates produced. When informed that she was mistaken about that,
3 and that in fact witness Plunkett's rates produced a 115.1% cost coverage, witness
4 Mayes promptly changed her testimony to say that she was recommending 115.1%,
5 rather than 114%. In other words, her coverage recommendation was whatever the
6 rates happened to be.

7 **IX. CONCLUSION.**

8 The Postal Service has not in any way justified or explained why it is
9 recommending 115.1% coverage. It is perfectly obvious that the coverage is a function
10 of two things: it happens to fit the rates that witness Plunkett designed; and, more
11 importantly, a more appropriate cost coverage would have required the Postal Service
12 to request a reduction in Parcel Post rates. That is exactly what the Postal Service
13 should have proposed in this case. The fact is that the Test Year Before Rates cost
14 coverage for Parcel Post is estimated to be greater than the Postal Rate Commission
15 proposed in Docket R97-1, using the PRC cost methodology. The PRC should
16 recommend what USPS should have proposed: no increases across-the-board, and
17 increased discounts for Drop Ship rate categories.

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 CHAIRMAN GLEIMAN: Mr. Zimmerman, 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: 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: They would.

9 CHAIRMAN GLEIMAN: That being the case, counsel,
10 if I could get your assistance, if you would please provide
11 two copies to the court reporter I will direct that the
12 designated written cross examination of Witness Zimmerman be
13 transcribed into the record and entered into evidence.

14 [Designated Written
15 Cross-Examination of Win Zimmerman,
16 PSA-T-1, was received into evidence
17 and transcribed into the record.]
18
19
20
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22
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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 WIN ZIMMERMAN
(PSA-T-1)

Party

United Parcel Service

United States Postal Service

Interrogatories

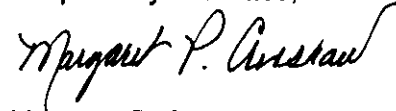
UPS/PSA-T1-2-3, 5-6

USPS/PSA-T1-2-3, 5

UPS/PSA-T1-1-6

USPS/PSA-T1-1-3, 5

Respectfully submitted,



Margaret P. Crenshaw
Secretary

INTERROGATORY RESPONSES OF
PARCEL SHIPPERS ASSOCIATION
WITNESS WIN ZIMMERMAN (T-1)
DESIGNATED AS WRITTEN CROSS-EXAMINATION

<u>Interrogatory</u>	<u>Designating Parties</u>
UPS/PSA-T1-1	USPS
UPS/PSA-T1-2	UPS, USPS
UPS/PSA-T1-3	UPS, USPS
UPS/PSA-T1-4	USPS
UPS/PSA-T1-5	UPS, USPS
UPS/PSA-T1-6	UPS, USPS
USPS/PSA-T1-1	USPS
USPS/PSA-T1-2	UPS, USPS
USPS/PSA-T1-3	UPS, USPS
USPS/PSA-T1-5	UPS, USPS

**RESPONSE OF PARCEL SHIPPERS ASSOCIATION WITNESS ZIMMERMANN
TO INTERROGATORIES OF UNITED PARCEL SERVICE**

UPS/PSA-TI-1. Refer to page 5 of your testimony, where you state, "in the short run only USPS is in a position to provide the competition to UPS that is essential to ensure fair prices and good service." Define the term "fair prices" as you use the term in this statement.

RESPONSE:

As a general proposition, a "fair price" is one that reflects the pressures of numerous competitors to provide a service, thereby precluding monopoly prices, or "what the traffic will bear" prices. More specifically, in my lexicon a "fair price" is one that does not include a residential surcharge where there is no objective definition of "residential," nor a strict cost justification to the surcharge. Again, more specifically, a "fair price" is also one that encourages the shipper to do as much of the work itself where that work is lower cost to the shipper, and to thereby complete delivery at the lowest combined cost, such as one finds inherent in the USPS DBMC rate structure. A more subjective judgment of a consumer as to what a "fair price" is would be a price that does not exceed a threshold that is unreasonably disproportionate to the price of the goods.

**RESPONSE OF PARCEL SHIPPERS ASSOCIATION WITNESS ZIMMERMANN
TO INTERROGATORIES OF UNITED PARCEL SERVICE**

UPS/PSA-TI -2. Refer to pages 5-6 of your testimony, where you state that "Parcel Post rates are right now, and will be even more so, excessive and anticompetitive." Define the terms "excessive" and "anticompetitive" as you use them in this statement.

RESPONSE:

Parcel Post rates have been and will be "excessive" in the sense that the current Parcel Post rates, and we believe the proposed rates, are based upon erroneous volume and revenue data employed by the Postal Service in R97-1. This false data caused Parcel Post rates to appear below cost, when that was not, in fact, the case, resulting in rates requested and rates recommended that I believe would never have been recommended were the true revenues and volumes known. Because this erroneous data resulted in much higher Parcel Post rates than would otherwise be the case, these higher rates made Parcel Post less competitive with its only real competitor, United Parcel Service; in that sense, rates that disabled Parcel Post from competing with the UPS *de facto* monopoly constituted anticompetitive rates.

**RESPONSE OF PARCEL SHIPPERS ASSOCIATION WITNESS ZIMMERMANN
TO INTERROGATORIES OF UNITED PARCEL SERVICE**

UPS/PSA-T1-3. Refer to page 9 of your testimony, where you state that the United States "is the fastest growing participant in the fastest growing freight transportation market." Define the "freight transportation market" to which you refer.

RESPONSE:

The "freight transportation market" to which I refer in my testimony is the small package market.

**RESPONSE OF PARCEL SHIPPERS ASSOCIATION WITNESS ZIMMERMANN
TO INTERROGATORIES OF UNITED PARCEL SERVICE**

UPS/PSA-T1-4. Refer to page 10 of your testimony, where you state, "if there is to be competition in the growing ground parcel delivery market the Postal Service must grow its 10% share." Explain why the degree of competition in a market is necessarily linked to the market share of one of a number of firms that operate in that market.

RESPONSE:

You have asked me to explain why competition in the ground parcel delivery market is "necessarily linked to the market share of one of a number of firms that operate in that market." I deny the premise of your question. USPS is not one of a number of firms that operate in this market. They are only one of two firms that have historically operated in this market, particularly, in more recent times, in the residential delivery market. It seems to me axiomatic that, if there are only two providers of ground parcel delivery service to a market, and one has only a 10% share, then there will not be competition in that market unless the 10% share can be grown.

**RESPONSE OF PARCEL SHIPPERS ASSOCIATION WITNESS ZIMMERMANN
TO INTERROGATORIES OF UNITED PARCEL SERVICE**

UPS/PSA-T1-5. Refer to page 11 of your testimony, where you state, "A very substantial number of major parcel shippers who utilize UPS have secret contract rates that are unrelated to whatever published tariff UPS may have at any given moment." Provide all references, reports, studies, and other documents that support your claim that UPS's contract rates are "unrelated" to published tariffs.

RESPONSE:

I am unable to provide documentation that UPS has secret contract rates that deviate greatly from their published tariffs. As I point out these are "secret" contracts and therefore the information is confidential and there is no documentation available because of the secrecy. Nor would I disclose any specific information, if I had any specifics, since to do so might jeopardize carrier/shipper relationships. I do, however, believe, based on various inputs, that there are contracts, some of which have flat rates, sometimes uncoupled from liability and possibly other cost elements, which makes the word "unrelated" to their published tariff a fair usage of that word. My Company is a significant shipper of parcels and, because of my position, I know a number of other persons in similar capacities with other mail order companies. My testimony is based on information that they have given me. Other than the fact that these deals do exist, however, I have not been given the specific details of these "secret" arrangements. Efforts made by PSA in past proceedings to compel United Parcel Service to disclose the existence or details of such secret contract arrangements have been resisted by United Parcel Service, and the Postal Rate Commission has refused to compel such disclosures. I would also point out that United Parcel Service has never, in any proceedings before the Postal Rate Commission, or in any other forum, denied the existence of special contract rate deals with major shippers. The question asked to me

**RESPONSE OF PARCEL SHIPPERS ASSOCIATION WITNESS ZIMMERMANN
TO INTERROGATORIES OF UNITED PARCEL SERVICE**

does not deny it either. The question rather asks why I have characterized these contract rates as being "unrelated" to published UPS tariffs.

**RESPONSE OF PARCEL SHIPPERS ASSOCIATION WITNESS ZIMMERMANN
TO INTERROGATORIES OF UNITED PARCEL SERVICE**

UPS/PSA-T1-6. Refer to page 12 of your testimony, where you state that "the competitive rates that the Postal Rate Commission has recommended in the last ten years is [sic] good for consumer and competition alike."

(a) Define the term "competitive rates" as you use the term in this statement. In doing so, indicate whether rates that generate revenues below incremental costs are "competitive rates."

(b) Identify precisely the "consumer" (or consumers) for whom these competitive rates have been "good."

(c) Identify all consumers who do not benefit from rates that are below costs.

RESPONSE:

(a) My definition of a competitive rate is one offered by more than one provider of a service, so that the prices that these competitors charge, taking into account the differences in service provided by the competitors, means that a consumer of these services has a meaningful choice to make. When that condition occurs, competition is fostered and the consumers of those services are the beneficiaries. I have not in my testimony, nor in any other place, stated that below cost rates are "competitive." While below cost rates may temporarily create competition between providers of service, in the long run they are anticompetitive because they will decrease not increase competition.

(b) The consumers who have benefited from the more competitive Parcel Post rates over the last decade are both the immediate consumers of parcel delivery services, that is the shippers, and the end users, that is the consumers of the merchandise being shipped by the shippers, consumers that are primarily the consumers of lower end price merchandise.

(c) Since my testimony does not talk about "below cost rates," I am not prepared to talk about the benefits of such rates.

**RESPONSE OF PARCEL SHIPPERS ASSOCIATION WITNESS ZIMMERMANN
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE**

USPS/PSA-T1-1 Please see your testimony at page 11, lines 21-22 where you acknowledge that in some instances, Parcel Post rates are advantageous to UPS residential rates. Is it your belief that the proposed Standard Mail (A) rates are usually always more advantageous than UPS residential rates?

RESPONSE:

My testimony acknowledged that the Postal Service did have an occasional rate advantage in residential delivery rates "because the customer does not have a separate contractual deal with UPS...." I premise my answer to your question by saying that, if the customer does not have a separate contractual deal with UPS, then the proposed Standard Mail (A) rates would usually be more advantageous than UPS residential rates.

**RESPONSE OF PARCEL SHIPPERS ASSOCIATION WITNESS ZIMMERMANN
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE**

USPS/PSA-T1-2 Please see your testimony at page 15, lines 5-6. If Standard A parcels were a subclass, would the rates have to cover the costs?

RESPONSE:

I have been informed by counsel that legally the answer to this question is yes.

**RESPONSE OF PARCEL SHIPPERS ASSOCIATION WITNESS ZIMMERMANN
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE**

USPS/PSA-T1-3 Please see your testimony at page 16, lines 8-10. Is it your position that rates only fail to be fair and equitable if someone complains about them?

RESPONSE:

No that is not my position. My position is that rates can only be unfair or inequitable if either the rate for the rate category, or the rate for the sub-class to which a mail piece belongs, is itself an unfair and inequitable rate. Standard (A) parcels is neither a rate category nor a sub-class. For example, I do not ask whether it is fair and equitable to charge the same First-Class single piece rate to a piece of handwritten non-zip coded mail destined to Alaska as for a single piece typewritten zip coded letter mailed to a destination within the same city. Rather, the question I ask is whether single piece First-Class letters, as a rate category, are covering their costs.

**RESPONSE OF PARCEL SHIPPERS ASSOCIATION WITNESS ZIMMERMANN
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE**

USPS/PSA-T1-5 Please see your testimony at page 17, line 21, through page 18, line 9. Is it your testimony that the revenues for Regular parcels will exceed the cost of parcels in the test year? If so, please provide your estimate of the unit revenue and unit cost for these parcels.

RESPONSE:

If your question refers to Standard (A) parcels, then it is not my testimony "that the revenues for regular parcels will exceed the cost of parcels in the Test Year...."

My testimony on the cited pages made it very clear that, while the revenues for Standard (A) parcels would not exceed their cost in the Test Year, the cost revenue gap was relatively minor, and, moreover, that the Postal Reorganization Act does not require that each piece of mail within a rate category fully cover its attributable costs.

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

3 If not, that brings us to oral cross examination.

4 We know that Postal Service has no oral cross of
5 this witness -- or at least they didn't request any in
6 advance, but there is one party that has requested oral
7 cross, United Parcel Service.

8 Is there any other party that wishes to cross this
9 witness?

10 If not, Mr. Wilson, you may proceed.

11 MR. WILSON: Thank you, Mr. Chairman.

12 CROSS EXAMINATION

13 BY MR. WILSON:

14 Q Good afternoon, Mr. Zimmerman.

15 A Good afternoon.

16 Q Would you please refer to pages 9 and 10 of your
17 testimony, where you discuss competition in the market for
18 package delivery services.

19 A I am on page 9.

20 Q Thank you, and in that portion of your testimony
21 you calculate and compare market shares of UPS, FedEx, RPS,
22 the Postal Service and others with respect to different
23 types of services and levels of service, is that correct?

24 A Yes.

25 Q And in order to perform your comparison of market

1 shares, you refer to Postal Service Witness Tolley's
2 testimony, correct?

3 A Correct.

4 Q And specifically you refer to Dr. Tolley's
5 response to an interrogatory served by PSA, PSA/USPS-T6-1A,
6 is that correct?

7 A That is correct.

8 Q And you provide a transcript cite for that
9 interrogatory response, which is in Volume 9, pages 3651
10 through -52, correct?

11 A Correct.

12 Q In that interrogatory response, Dr. Tolley
13 presents volume estimates for 1998 for the different
14 services for each delivery company and for the Postal
15 Service, correct?

16 A Correct.

17 Q And you use Dr. Tolley's volume estimates to reach
18 your conclusions regarding the Postal Service's share of the
19 package delivery market, correct?

20 A Correct.

21 Q In particular you focus on the ground
22 transportation category in Dr. Tolley's interrogatory
23 response, correct?

24 A Yes.

25 Q Now if you would refer to page 10 of your

1 testimony, please, and there you state, "Dr. Tolley
2 estimates the size of this market at 4,138,000,000 parcels,
3 is that correct? That is at line 3.

4 A I see that. Correct.

5 Q Okay -- and that is the number that appears in the
6 interrogatory response that Dr. Tolley provided, is that
7 correct?

8 A That is correct.

9 Q Do you have a copy of that interrogatory response
10 with you?

11 If not, I do have copies.

12 A I don't have Dr. Tolley's, no.

13 MR. WILSON: Mr. Chairman, may I approach the
14 witness?

15 CHAIRMAN GLEIMAN: Certainly.

16 [Pause.]

17 BY MR. WILSON:

18 Q Mr. Zimmerman, I have just handed you a copy of
19 Dr. Tolley's response to interrogatory PSA/USPS-T6-1. And
20 you testified that you used Dr. Tolley's volume estimates to
21 do your calculations, is that correct?

22 A That's correct.

23 Q And, specifically, you used this table, which is
24 in Section -- in 1(a), Interrogatory 1(a), in the Ground,
25 the column labeled "Ground," is that correct?

1 A Correct.

2 Q Did you add the volume estimates that Dr. Tolley
3 provides in this table independently of the calculation that
4 he did?

5 A No. Apparently it is -- this is what, in
6 millions? That is 4,138,000,000, which agrees with page 10.
7 Is there an addition mistake?

8 THE REPORTER: Did you say 4,138,000,000?

9 THE WITNESS: Yes.

10 BY MR. WILSON:

11 Q Well, when I add the column, actually, I get a
12 total of 4,809,000,000, as opposed to the 4,138,000,000 that
13 Dr. Tolley gets.

14 A I will take your word for it that that is the
15 correct math.

16 Q I have a calculator if you would like to verify
17 that.

18 A Sure, it is four what -- four eight?

19 Q 4,809,000,000.

20 A Okay.

21 Q And that is for the Ground category, the total for
22 the Ground category.

23 A Third column.

24 Q That's right. So that is an increase in the
25 Ground category of roughly seven --

1 A Hundred million.

2 Q 700,000,000 pieces. Okay. Now, if you could
3 please refer to your testimony, still on -- we are on page
4 10, lines 8 through 17, which is the second full paragraph
5 on that page.

6 A Okay.

7 Q And in that paragraph, you change the composition
8 of the ground transportation category that Dr. Tolley had
9 defined by pulling out Postal Service volumes of Standard A
10 parcels, Bound Printed Matters, books, parcels under one
11 pound, and Standard B parcels, except for Parcel Post, is
12 that correct?

13 A That is correct.

14 Q So, all that is left for the Postal Service volume
15 is Standard B Parcel Post, correct?

16 A That's correct.

17 Q And that is a reduction in the total package
18 volume in that category of roughly 1,574,000,000 pieces,
19 correct?

20 A Is that the total of the four services that you
21 just mentioned?

22 Q Yes, it is.

23 A If it is, that is correct.

24 Q Okay. And a result of reducing that, the volume,
25 the Postal Service's volume -- the Postal Service's market

1 share goes from roughly 40 percent down to about 10 percent,
2 that's right? Is that right?

3 A From 40 percent?

4 Q Roughly 40 percent.

5 A Again, you have got the calculator.

6 Q Okay. Well, that is included the correction to
7 Dr. Tolley's addition.

8 A So you have added another 800 million?

9 Q Right.

10 A Okay.

11 Q And you also, in that paragraph, recalculate the
12 market shares for the private firms, is that correct?

13 A Yes.

14 Q But you didn't make any changes to the volumes of
15 the private firms, did you, just the Postal Service's volume
16 change?

17 A That's correct.

18 Q Okay. So, as a result, the respective market
19 shares of the private firms increased because you reduced
20 the total, the total market, right?

21 A That's right.

22 Q Without changing the volumes of any private firms?

23 A That's correct.

24 Q And you calculated UPS's market share to increase
25 to roughly 78 percent?

1 A That's right.

2 Q Now, you stated that you had pulled out all the
3 Postal Service package volume except for Standard B Parcel
4 Post, correct?

5 A That's right.

6 Q And you didn't reduce the volumes at all for any
7 of the private services, correct?

8 A We did not.

9 Q So, really, the comparison you are doing is
10 between Standard B Parcel Post and, for the private firms,
11 all of their ground volume, is that correct?

12 A That's correct.

13 Q Okay. Now, is it your testimony that the private
14 firms do not carry any packages that might qualify for
15 Standard A rates if presented to the Postal Service?

16 A I did say that.

17 Q But you haven't included --

18 A A private firm doesn't distinguish in terms of
19 weight. A package is a package is a package for carriers
20 like UPS.

21 Q I understand. Is it your testimony that private
22 firms do not carry packages that would qualify for Book Rate
23 or Bound Printed Matter rates?

24 A No, it isn't.

25 Q Is it your testimony that Dr. Tolley's volume

1 estimates for the private firms do not include those types
2 of packages?

3 A No.

4 Q So when you did your market share comparison, you
5 pulled out a number of types of packages that the Postal
6 Service -- that you pulled out a number of types of packages
7 when you did the Postal Service's volume, but you left those
8 types of packages in for the private firms' volumes?

9 A That is correct. That's correct.

10 Q Does Dr. Tolley's estimate of the Postal Service's
11 volume in the ground transportation category include parcels
12 that were sent as First Class mail?

13 A I would assume so.

14 Q Does Dr. Tolley specifically mention First Class
15 parcels in his discussion of the ground transportation
16 category?

17 A I would have to review his testimony.

18 Q We have -- can you refer to the interrogatory
19 response that I have provided you?

20 A Yes.

21 Q And, again, this is Dr. Tolley's response to
22 PSA/USPS-T6-1(a), and it is Transcript Volume 9, page 3651.

23 A Okay. Take me to the part of the page.

24 Q Well, at the bottom of the page, there is a full
25 paragraph that starts out with the 1902 figure

1 A Okay. Yes.

2 Q And Dr. Tolley specifically mentions, in the
3 second line of that paragraph, Parcel Post and Standard A
4 parcels, and Standard B parcels.

5 A Yes.

6 Q And he says that that makes up the 1,902,000,000
7 pieces for the Postal Service, correct?

8 A Yes.

9 Q So, from reading this interrogatory response, it
10 appears that Dr. Tolley's ground volume for the Postal
11 Service consists of Parcel Post, Standard A and Standard B
12 parcels, do you agree with that?

13 A That is what this says, yes.

14 Q Okay. Does it appear to you that Dr. Tolley
15 included First Class parcels?

16 A It does not.

17 Q Are you aware that the Postal Service carried
18 approximately 550 million parcels as First Class in 1998?

19 A No.

20 Q But if we were to included First Class parcels in
21 the total volume for the ground transportation category, the
22 Postal Service's total volume for that category would
23 increase, correct?

24 A It would, yes.

25 Q And the Postal Service's share of the ground

1 transportation category would, therefore, increase, correct?

2 A That's correct.

3 MR. WILSON: Mr. Chairman, I'd like to approach
4 the witness with what has been labeled UPS-XE-Zimmerman-1.

5 CHAIRMAN GLEIMAN: Certainly.

6 [Exhibit Number UPS-XE-Zimmerman-1
7 was marked for identification.]

8 MR. WILSON: This is a one-page document which
9 contains market share calculations using Mr. Zimmerman's
10 methodology, but including -- but without the exclusions
11 that he did, and adding First Class parcel volume.

12 MR. MAY: Mr. Chairman, is this a cross
13 examination exhibit?

14 CHAIRMAN GLEIMAN: That's how it was identified
15 just now.

16 MR. MAY: Well, then I object to its use since we
17 were given no advance notice or opportunity to examine it,
18 nor to examine some of the other numbers that are being
19 bandied around about so many First Class parcels that are
20 carried by ground.

21 I didn't object at the time, but what is the
22 foundation for this?

23 CHAIRMAN GLEIMAN: Counsel?

24 MR. WILSON: The foundation for the approximately
25 550 million First Class parcels is ODIS quarterly reports

1 for Postal Fiscal Year 1998, based on average daily volumes.

2 I have prepared a table which shows the
3 calculation, and I also have the supporting pages from the
4 ODIS reports for those quarters.

5 If Mr. May would like to review those, I'm more
6 than happy to provide the foundation.

7 MR. MAY: Well, Mr. Chairman, that begs the
8 question of what a parcel is, and then there is no
9 enlightenment of that. And it appears as though Mr. Tolley
10 did not include it in his numbers.

11 CHAIRMAN GLEIMAN: Well, we're by the board on
12 that one already. But we do have the issue of the cross
13 examination exhibit that Mr. Wilson has spoken to. I think
14 that before we rule on your objection, I'd like him to
15 provide copies to you, to the witness, and to the Bench, so
16 that we can all see what it is we're looking at and what's
17 in dispute.

18 MR. WILSON: I'd be happy to oblige, Mr. Chairman.

19 CHAIRMAN GLEIMAN: The general rule is that if you
20 are going to use cross examination exhibits that require
21 calculations, that have complex numbers, that you are
22 supposed to provide them in advance of the cross
23 examination, but let's see just what we've got here and
24 whether it does involve anything that's particularly
25 complicated.

1 MR. WILSON: Mr. Chairman, I would suggest that
2 this is not a complex calculation. It basically started
3 with -- just to give some background on what's on the
4 exhibit --

5 CHAIRMAN GLEIMAN: Well, let's take a look at the
6 exhibit so that we can understand when you're telling us
7 what's on there.

8 MR. WILSON: Okay.

9 [Pause.]

10 CHAIRMAN GLEIMAN: Well, it appears -- I don't
11 know what line Mr. Wilson is going to be proceeding down on
12 this, but it appears to me that the bulk of the numbers on
13 this cross examination exhibit are out of the response of
14 Dr. Tolley to the Parcel Shippers Association interrogatory
15 that's been discussed.

16 And my recollection is that it is in the
17 transcript, and I'm going to assume, for the sake of
18 discussion, unless I'm advised otherwise, that it was part
19 of cross examination, designated written cross examination
20 and it's in evidence.

21 MR. MAY: But, Mr. Chairman, this is the
22 attorney's testimony claiming that there is a ground market
23 that includes First Class parcels. I would argue to you
24 that that is the same as saying that the market of First
25 Class letters and Third Class letters is one market. There

1 is no evidence; there is no testimony that they are
2 comparable markets.

3 Nor did Dr. Tolley, who has testified, include
4 those in his statement of what the total parcel market was.

5 CHAIRMAN GLEIMAN: I don't disagree with you on
6 that point, but, quite frankly, I don't know where counsel
7 is going to go with this questions on this, and I think that
8 inasmuch as the other numbers appear to come largely out of
9 Dr. Tolley's response to PSA, that the numbers are in
10 evidence already.

11 So I'd like to let him proceed and you can object
12 to specific questions if he gets into the issue of points
13 that you've raised that aren't in evidence that Dr. Tolley
14 hasn't spoken to.

15 And if he tries to bootstrap them into Dr.
16 Tolley's testimony in some way, then you can object.

17 MR. MAY: That's my point, Mr. Chairman. Dr.
18 Tolley did not testify that First Class parcels were a part
19 of the total ground market. There is no evidence to support
20 the caption for this cross examination exhibit.

21 What witness is there to support this statement?
22 I know of none, and therefore I would object to its
23 admission into evidence, unless it has a sponsor to say that
24 that's part of the -- First Class parcels are part of the
25 total ground parcel market.

1 CHAIRMAN GLEIMAN: I have to assume that the
2 number in question for First Class parcels, which has been
3 identified as coming out of ODIS reports, does, indeed, come
4 out of ODIS reports.

5 ODIS reports are regularly filed with the Rate
6 Commission, and therefore I think that for the purposes of
7 the cross examination that we're going to go ahead.

8 Mr. Wilson?

9 BY MR. WILSON:

10 Q Mr. Zimmerman, if you would refer to the document
11 that's been identified as UPS-XE-Zimmerman-1?

12 A All right.

13 Q This document reflects the inclusion of First
14 Class parcels in the total market for ground transportation.

15 A I see that.

16 Q And in your testimony on page 9, lines 5-6, you
17 state that everything the Postal Service does, except for
18 the letter mail monopoly, is open to competition.

19 A That's correct.

20 Q Okay. Now, going back to Cross Examination
21 Exhibit 1, when First Class parcels are included in the
22 total market, the Postal Service's share of that market
23 becomes 45.8 percent.

24 A If the math is right; that's correct.

25 Q And the share for UPS is 45.5 percent?

1 A Right. I have to editorialize, too. We're mixing
2 apples and oranges. First Class parcels is something that
3 isn't --

4 COURT REPORTER: Can you speak into the
5 microphone, please?

6 THE WITNESS: I'm sorry. Something that isn't
7 part of ground transportation. I'm a practitioner in this
8 business, and they are not the same.

9 BY MR. WILSON:

10 Q I understand your position. Referring back to Dr.
11 Tolley's interrogatory response, he divided the market into
12 overnight, 2-3 day, and ground; is that correct?

13 A Yes.

14 MR. WILSON: Can I have a moment, Mr. Chairman?

15 CHAIRMAN GLEIMAN: Certainly.

16 [Pause.]

17 MR. WILSON: Mr. Chairman, I have no further
18 questions.

19 CHAIRMAN GLEIMAN: Are there questions from the
20 bench?

21 [No response.]

22 CHAIRMAN GLEIMAN: Would you like some time with
23 your witness for redirect?

24 MR. MAY: No, Mr. Chairman.

25 CHAIRMAN GLEIMAN: That being the case, Mr.

1 Zimmerman, that completes your testimony here today. We
2 appreciate your appearance and your contribution to the
3 record. We thank you and you're excused.

4 THE WITNESS: Witness excused.

5 [Witness excused.]

6 CHAIRMAN GLEIMAN: I think at that point, I would
7 like to take about a ten-minute break and then we'll come
8 back in and finish up with what I believe is our last
9 witness for today.

10 [Recess.]

11 CHAIRMAN GLEIMAN: Ms. Dreifuss, would you like to
12 introduce your witness, please?

13 MS. DREIFUSS: Yes, sir. The OCA has Sheryda
14 Collins on the stand at this time.
15 Whereupon,

16 SHERYDA C. COLLINS,
17 a witness, was called for examination for counsel on behalf
18 of the OCA and, having been first duly sworn, was examined
19 and testified as follows:

20 DIRECT EXAMINATION

21 BY MS. DREIFUSS:

22 Q Ms. Collins, do you have before you two copies of
23 a document titled Direct Testimony of Sheryda C. Collins on
24 Behalf of the Office of the Consumer Advocate, OCA-T-8?

25 A Yes, I do.

1 Q Did you prepare this testimony or was it prepared
2 under your direction?

3 A Yes.

4 Q Do you adopt this as your testimony today?

5 A I do.

6 MS. DREIFUSS: Mr. Chairman, I ask that these two
7 copies be transcribed into the record and received into
8 evidence.

9 In addition, I would like to make mention of the
10 fact that the designated packet of interrogatory responses
11 that I know you'll be asking Ms. Collins about in just a
12 moment does have a final answer that she filed on Friday.
13 It's Number 28. The Postal Service asked that we include
14 that in the packet of designated responses today, and we
15 have done so.

16 CHAIRMAN GLEIMAN: Thank you.

17 Is there an objection to moving the testimony?

18 [No response.]

19 CHAIRMAN GLEIMAN: If not, then if you would
20 please provide the two copies to the court reporter, I'll
21 direct that the testimony be transcribed into the record and
22 received into evidence.

23 [Direct Testimony of Sheryda C.
24 Collins, OCA-T-8 was received into
25 evidence and transcribed into the

record.]

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OCA-T-8
Docket No. R2000-1

DIRECT TESTIMONY
OF
SHERYDA C. COLLINS
ON BEHALF OF
THE OFFICE OF THE CONSUMER ADVOCATE

MAY 22, 2000

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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
SHERYDA C. COLLINS

1 I. STATEMENT OF QUALIFICATIONS

2 My name is Sheryda C. Collins. I have been employed by the Postal Rate
3 Commission since January 1972. I was first assigned to the Office of the Special
4 Assistant, and later to the Office of the Technical Staff, Officer of the Commission
5 (Litigation Staff), and the Office of Technical Analysis and Planning. As a Rate Analyst
6 and a Rate and Classification Analyst on the Commission's advisory staff, I prepared
7 technical analyses and designed rates and classifications. My work product was
8 incorporated within the Commission's Decisions in Docket Nos. R74-1, R87-1, R90-1
9 and R94-1, and in numerous classification dockets.

10 As a Rate and Classification Analyst on the Litigation Staff, I assisted in
11 preparing testimony and exhibits on pricing and rate design in Docket Nos. R76-1 and
12 R77-1. I performed technical analyses in connection with Docket Nos. MC76-5 and
13 R78-1. I was a witness in Docket Nos. MC98-1, MC76-4 and MC79-2. In Docket No.
14 R80-1, as a major rate design witness, I proposed rates for First-Class Mail, Priority
15 Mail, Express Mail, fourth-class mail and special services. I also proposed a new rate

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1 category for First-Class Mail. In Docket No. MC95-1, I testified about pricing and
2 relative cost coverage levels. In the Special Services Classification case, Docket No.
3 MC96-3, I testified about and made proposals regarding Certified Mail, Return Receipts,
4 Insured Mail and Express Mail Insurance, and Postal Cards. As an Office of the
5 Consumer Advocate (OCA) witness in Docket No. R97-1, my testimony supported a
6 different level of rates for Standard B Library Rate mail than those proposed by the
7 Postal Service.

8 I am a graduate of the University of Massachusetts and have taken credits
9 toward an MBA degree at George Washington University. I have taken courses in
10 economics, public utility regulation, statistics, accounting, data processing, and
11 programming.

12 II. PURPOSE OF TESTIMONY

13 The purpose of this testimony is to demonstrate why the fee for money orders
14 should not be increased but, in fact, should be decreased by five cents from the current
15 fees. The testimony also proposes that the Postal Service investigate providing online
16 electronic money orders. The testimony demonstrates a total lack of support for the
17 incremental fee for insured mail. Finally, I propose that the Postal Service provide
18 electronic delivery confirmation service (over the Internet), to individual mailers, at no
19 charge.

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1 **III. MONEY ORDERS**2 **A. Money Order Fees Should Be Decreased Not Increased**

3 In this docket, Postal Service witness Mayo proposes a 13 percent increase in
4 the domestic money order fee. The current fee is \$0.80; the proposed fee is \$0.90.
5 She also proposes to increase the inquiry fee to \$3.00 from \$2.75. The volume variable
6 cost coverage is 198 percent based on total money order revenue, which includes both
7 fee and non-fee revenue.¹ USPS-T-39 at 73. If the Postal Service's calculated
8 incremental costs are included with the volume variable costs, the cost coverage ratio is
9 142 percent. *Id.*

10 Historically, the Commission has sought to mitigate fee increases for money
11 orders since a large proportion of users of money orders are people with lower
12 incomes, who lack a bank account, and/or live in rural areas. Also, the Commission
13 has generally considered total money order revenue when setting fees and cost
14 coverages.² In Docket No. R90-1, the Commission recommended that money order
15 fees not be increased from the current 75 cent fee, stating:

16 Retention of the 75 cents fee is proposed because the Service has been
17 able to control costs and because substantial revenue is generated from
18 the investment of the float from money orders and unredeemed money
19 orders.

20 PRC Op. R90-1, ¶ 6570.

¹ Non-fee revenue consists of the float from money orders until they are redeemed, revenue from money orders not redeemed and the commission on international money orders.

² The Postal Service also has used this methodology.

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1 The recommended cost coverage in that proceeding, including non-fee revenue, was
2 104.8 percent. Appendix G, Schedule 1.

3 In Docket No. R94-1, the Commission recommended a fee increase to 85 cents.
4 However, the recommended cost coverage, again including non-fee revenue, was only
5 111.3 percent. PRC Op. R94-1, Appendix G. In the last rate case, Docket No. R97-1,
6 the Commission actually recommended a decrease in the money order fee to 80 cents.
7 Even with this decrease, the recommended cost coverage was 147 percent. The
8 Commission explained this result by stating, "Due to a change in costing methodology,
9 cost attributed to money orders has declined substantially leading to a higher cost
10 coverage." PRC Op. R97-1, ¶ 6007. In that docket, the Commission calculated the
11 cost coverage for money orders in a slightly different manner than in the past. Money
12 order "float" was excluded from the calculation. However, other non-fee revenue was
13 included in the calculation.

14 In this docket, there is still no need for an increase in the fees for money orders.
15 Indeed, the fee should be reduced by at least five cents again. As noted above, in
16 Docket No. R97-1, the Commission recommended a five cent decrease in the money
17 order fee to \$0.80, stating that, "At the current [then \$0.85] fees, cost coverage for
18 money orders is 203 percent, which includes revenue earned by 'float.'" *Id.*³

19 The Postal Service's proposed volume variable cost coverage in this docket is
20 198 percent. This figure includes the float and other non-fee revenue also. It is very

³ The 203 percent cost coverage cited is calculated using total money order revenue, including non-fee revenue. See Exhibit USPS-30C.

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1 close to the 203 percent cost coverage that the Commission found unacceptable in
2 Docket No. R97-1.

3 The Commission also stated in Docket No. R97-1 that "A low cost coverage is
4 appropriate for a service relied upon by consumers with modest incomes." *Id.* In this
5 docket, Witness Mayo seems to concur, at least in part. She testifies that money orders
6 can be purchased at any post office and from rural carriers and that "[p]ostal money
7 orders are popular in rural areas where other money orders are generally not readily
8 available." USPS-T-39 at 74.

9 However, in discussing the criteria in section 3622(b) of the Postal
10 Reorganization Act, she seems to use Criterion 5 (available alternatives) to justify
11 increasing the fees. Witness Mayo says that "[c]onsidering the fact that the domestic
12 money order fee was decreased as a result of Docket No. R97-1, and was last
13 increased in Docket No. R94-1, the effect of the proposed fees on money order
14 customers should be negligible (Criterion 4). There are many widely available
15 alternatives to postal money orders (Criterion 5)." USPS-T-39 at 78.

16 In discussing her awareness of competitors, witness Mayo states "[c]ompetitors
17 offer money orders for various fees, and it is my understanding that these fees are
18 based on the dollar value of the money order." Tr. 14/5599 (witness Mayo's response
19 to interrogatory OCA/USPS-T39-13). Also, in answer to interrogatory OCA/USPS-T39-
20 23 (Tr. 14/5610-11) she states:

21 [T]he fees for the alternatives to postal money orders vary widely, with
22 some priced higher and some priced lower than postal money orders. I
23 believe that the proposed fees will not hurt the Postal Service's ability to
24 attract Internet users to postal money orders. . . . The Postal Service

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1 faces competition from many companies that charge lower fees and rates
2 than we do.

3 However, she is not aware of competitors who charge fees less than one-half of the
4 current fee, let alone the proposed fee. Tr. 14/5608-09 (witness Mayo's response to
5 interrogatories OCA/USPS-T39-21-22).

6 The upper denomination limit for postal money orders is \$700. Many
7 competitors' money orders have a \$500 limit. When queried whether a person could
8 purchase two of a competitor's money orders totaling \$700 for less than a postal money
9 order, Witness Mayo indicated that customers might not be willing to spend extra time
10 buying two money orders for one payment over \$500, even if it saved them quite a bit
11 of money. Tr. 14/5609 (witness Mayo's response to interrogatory OCA/USPS-T39-22).
12 She states that she has "found competitors charging prices of from \$0.50 to \$6.00 for
13 \$700 in money orders." Tr. 14/5608 (witness Mayo's response to interrogatory
14 OCA/USPS-T39-21). However, data she supplied in answer to interrogatory
15 OCA/USPS-T39-24 (Tr. 14/5613) shows that 96.5 percent of money orders sold in 1999
16 were in denominations \$500 and under. She also states that the average face value for
17 a domestic money order in 1999 was \$129.05. Thus, competitors who restrict their
18 money orders to \$500 are not at a competitive disadvantage.

19 In order to view the Postal Service's proposed money order fees with the
20 perspective of the fees charged by some of its competitors, the OCA conducted a
21 limited survey of retail money order outlets in the Washington, D.C. area. As witness
22 Mayo testified, there are some competitors with fees higher than those she proposes.

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- 1 However, money orders are available at many outlets for much less than the fee
 2 charged, or the fee proposed by the Postal Service.⁴ Some examples are shown below.

<u>Outlet</u>	<u>Denomination Available</u>	<u>Fee</u>
CVS Drugstore	\$0.01-\$500	39¢
Western Union	\$0.01-\$500	59¢
7-11	\$0.01-\$500	\$1.00
American Cash Express	\$0.01-\$200	49¢
	\$200.01-\$500	69¢
Paradise Liquor Store	\$0.01-\$500	29¢
13 th St. Variety	\$0.01-\$500	28¢
Penn Mar Liquors	\$0.01-\$500	59¢

3 USPS-LR-I-254 gives examples of the types of advertising that the Postal
 4 Service is using to promote postal money order availability in general. The Postal
 5 Service spent \$8.9 million for advertising money orders in FY 1998. Tr. 21/9245-46
 6 (Postal Service response to interrogatory OCA/USPS-T39-10). The Postal Service vies
 7 with formidable competitors, such as Travelers Express and Western Union. Tr.
 8 14/5598 (witness Mayo's response to interrogatory OCA/USPS-T39-12). In light of the
 9 competition, if the Postal Service wants to be a major competitor in the future for money
 10 orders, it should be aware of the challenges the competitors pose.

11 In this docket, the Postal Service has proposed refinements in its approach to
 12 incremental costing. The testimony of witness Kay, USPS-T-23, demonstrates that the

⁴ Exhibit OCA-T-8D consists of photocopies of three money orders purchased in the course of this research.

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1 Postal Service's concept of incremental costs has a large effect on money order costs.

2 At page 17 of her testimony, she states:

3 This section will highlight the two special services that show a large
4 difference between volume variable and incremental cost—Certified and
5 Money Orders. Incremental cost for Certified mail is 18.9% higher than
6 volume variable cost, while incremental cost for Money Orders is 41.2%
7 *higher than volume variable cost.* (Emphasis added.)

8 For the purpose of this testimony, the assumption has been made that witness Kay's
9 costs are the attributable costs for money orders.

10 As discussed above, the Postal Service's proposed fees will yield a volume
11 variable cost coverage of 198%—a level of cost coverage the Commission found to be
12 unreasonable in the last docket. With incremental costs—the Postal Service's product-
13 specific costs added to the volume variable costs—the Postal Service's proposed
14 money order cost coverage is 142 percent. Witness Mayo's testimony contains a
15 footnote in which she discusses the level of cost coverage using only the fee revenue.
16 USPS-T-39 at 73. However, it is more reasonable to use total money order revenue for
17 determining cost coverage. If it is appropriate to use incremental costs in determining
18 the markup for money orders, it should also be appropriate to add incremental
19 revenues (*i.e.*, the non-fee revenues that would disappear if money orders ceased to be
20 a special service).

21 The Commission, in the past, has tried to mitigate increases in fees for money
22 orders to the extent possible while still covering costs. Clearly, the current fees
23 adequately cover costs. See Exhibit OCA-T-8A attached. Other than in Docket No.
24 R97-1, where even after recommending a reduced fee there still was a robust cost
25 coverage, the Commission has consistently recommended fees for money orders that

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1 have much lower than average cost coverages, calculated on the basis of fee and of
2 non-fee revenue.

3 I believe that the Postal Service's proposed fee level and resulting cost coverage
4 is too high in relation to past cases. I recommend that the Commission again lower the
5 fee by five cents. The resulting cost coverage at a 75 cents fee level (total revenues
6 divided by volume variable and incremental costs) would be approximately 123 percent.
7 See Exhibit OCA T-8B attached. Additionally, money orders that are subsequently
8 mailed will help provide contribution to institutional costs through the application of First-
9 Class postage.

10 My proposed cost coverage, while still high by past Commission decisions,
11 comports with the pricing criteria of the Act much more closely than that proposed by
12 the Postal Service. The money order fees I propose adequately cover costs and
13 provide a contribution to the institutional costs of the Postal Service, thereby satisfying
14 Criterion 3. Lowering the fee should make this special service more attractive to
15 customers, especially low income customers. The fee is still higher than money orders
16 of many competitors, so a fee reduction would not adversely affect private sector
17 competitors (Criterion 4). As shown above, there are numerous alternatives available
18 at reasonable prices (Criterion 5). The proposed fees are simple and easy to
19 understand (Criterion 7).

20 B. Military Money Orders

21 The Postal Service also offers a military money order. This service provides
22 money orders for military personnel at APOs and FPOs at nominal fees. The history of

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1 money orders shows that this service was instituted to benefit soldiers in the Civil War
2 by allowing them to send their families money without the risk of mailing cash. USPS-
3 T-39 at 74. They continue to serve this function today. Witness Mayo proposes to
4 increase this fee by 17%, from 30 cents to 35 cents.

5 Under no circumstances should this fee be increased in this docket. Rather, a
6 reduction of the current 30-cent fee to 25 cents is warranted. APO/FPO money order
7 sales are made by military personnel. Money orders redeemed at APO/FPOs are
8 handled by military personnel. OCA/USPS-T-39-16. Therefore, the retail transaction
9 costs associated with these money orders are borne by the military, not the Postal
10 Service.

11 Men and women in service to their country should pay the lowest possible fee for
12 money orders. This is especially important because access to normal banking may be
13 limited and other options unavailable when military personnel are serving at duty
14 stations outside of the United States.

15 C. Electronic Money Orders

16 The Postal Service should consider offering a new service that would be
17 valuable to consumers and small businesses—electronic money orders. The Postal
18 Service is well placed to become a major player in the new market for money orders
19 driven by Internet sales activities. As witness Mayo notes at page 78 of her testimony,
20 Internet activity is a source of potential increased demand for money orders. Total
21 sales over the Internet are increasing rapidly. The Postal Service should aggressively
22 seek these new customers.

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1 An electronic money order could be offered in a number of different ways. One
2 possibility is for the Postal Service to partner with Internet firms to provide a special link
3 to a Postal Service Money Order site. An example of such a link to the Postal Service
4 from eBay is attached. See Exhibit OCA-T-8C. Another option could be to go to a post
5 office, pay for the money order, give the clerk the recipient's email address and have
6 the Postal Service transmit the money order via the Internet. People who use money
7 orders frequently could establish advance deposit accounts so that money orders could
8 be purchased and sent electronically without use of credit cards.

9 The availability of secure websites, secure transmission of data, and two
10 dimensional barcodes should make an electronic money order quite feasible. Indeed,
11 technology today permits mailers and consumers to purchase and print postage from
12 the Web with a standard color inkjet printer—secure, traceable, and unique to the
13 envelope it is printed upon. One vendor of such technology has noted the potential to
14 extend the technology to money orders:

15 In addition to postage, the indicia technology can be applied to a variety of
16 value-bearing documents, including *money orders*, passports, tax
17 documents, bill payment validation and tickets. (Emphasis added.)⁵

18 In fact, a method of payment such as this might be preferable to merchants, auction
19 and other sellers, as well as buyers. Merchants and sellers would have ready and
20 convenient access to cash from any post office or bank. Some type of key or coding
21 could be devised so that a physical money order might not be needed to redeem the

⁵ Escher Group In the News, December 16, 1999. <http://www.eschergroup.com/press/Dec1699.HTML>

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1 cash. Also, buyers could ensure that credit card numbers and other personal
2 information were not subject to theft by unscrupulous people on the Internet.

3 Trade press reports indicate that the Postal Service is investigating the potential
4 for extending money orders to ATM, the Internet, and non-postal locations. I encourage
5 the Postal Service to pursue ways of making money orders more flexible and more
6 readily available to the public.

7 IV. INSURED MAIL

8 The Postal Service proposes to increase the current \$0.95 incremental (per
9 \$100) fee for insurance to \$1.00. No credible justification has been provided for this
10 proposed increase.

11 As a result of Docket No. MC96-3, Special Services, the indemnity limit for
12 insurance was increased from \$600 to \$5,000. This was amply supported by market
13 surveys and participants' testimony. However, the application of the per \$100
14 incremental fee was not:

15 The \$.90 incremental fee for each \$100 value level was chosen because it
16 merely extends the current incremental insured mail fee of \$.90 per \$100
17 in value recommended by the Commission in Docket No. R94-1. No
18 indemnity analyses were performed to arrive at this fee. No other fees
19 were considered. . . .

20 Docket No. MC96-3, Tr. 4/1107 (witness Needham's response to interrogatory
21 OCA/USPS-T8-30).

22 The principal interest of the participants (including the OCA) was that the Postal
23 Service be required to collect data to support future adjustments in the incremental fee.
24 PRC Op. MC96-3 at 119. The Commission agreed that the lack of support for the

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1 incremental fee was a concern but that the \$.90 fee would be appropriate for purposes
2 of the MC96-3 decision. The Commission recommended that the Postal Service
3 attempt to accurately determine all cost changes that were related to the change in
4 indemnity limits. PRC Op. MC96-3 at 122.

5 In Docket No. R97-1, in order to moderate the impact on consumers, the
6 Commission recommended a 10 percent increase for insurance instead of the 17
7 percent increase proposed by the Postal Service. The Commission stated:

8 With registry receiving a 25 percent increase, the smaller increase for
9 insurance reduces the discrepancy between insurance and registry fees
10 when items are insured for more than \$1000. At these higher values,
11 insurance costs more than registry even though registered mail receives a
12 higher level of service.

13 PRC Op. R97-1 at 573.

14 Thus, the Commission was cognizant of the problem of high insurance fees for higher-
15 value items, due to the extension of the per \$100 incremental fee, and attempted to
16 mitigate it.

17 The Postal Service provided no cost justification in Docket No. MC96-3; neither
18 was there cost justification in Docket No. R97-1; and there is no cost justification in
19 Docket No. R2000-1. When asked for the justification, witness Mayo's interrogatory
20 OCA/USPS-T39-18(a) was redirected to witness Davis. The question was specific.
21 The answer was not.

22 QUESTION:

23 Has the Postal Service studied the costs as they relate to the incremental
24 fee as instructed by the Commission? If so, provide the studies and
25 describe how the studies were utilized in this case. If not, explain in detail
26 why not.

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1 RESPONSE:

2 a. While I am not aware of cost studies regarding the processing of
3 claims, the Postal Service has collected data on insurance indemnity
4 costs by value increment. The analysis from FY 1998 was provided by
5 witness Mayo in response to OCA/USPS-T39-5. I understand that
6 witness Mayo used this analysis to aid in the setting of insurance fees.

7 Evidently the real answer is "no" and the Postal Service will not explain why. In answer
8 to part (b) of the same interrogatory (which asked witness Mayo to explain exactly what
9 the cost basis is absent any studies on the issue), witness Mayo explains why the
10 indemnity cost analysis (which witness Davis refers to in answer to part (a)) cannot be
11 used "as the sole basis for the proposed incremental fee." She never explains how it is
12 used even on a partial basis.⁶

13 Witness Davis replied to OCA/USPS-T39-4 (redirected from witness Mayo). He
14 said that one explanation for the large increase in costs for insurance might "be that the
15 decentralization of claims processing has resulted in higher volume variable costs for
16 insurance." When queried again about how decentralization causes higher costs,
17 witness Davis responded that "I do not have specific information on the cost impact of
18 decentralization of claims processing and am not aware that such information exists."
19 OCA/USPS-T30-5 (b). Also, the cost of processing claims should be more similar than
20 dissimilar for items of different value. Keeping the fee the same per \$100 as the value
21 climbs over \$1000 does not seem reasonable. Perhaps the increments over \$1000
22 should be for every \$250 or \$500 of insurance.

⁶ The per transaction indemnity cost analysis does vary considerably across value increments. However, the average indemnity per transaction across the total of all value increments is 42 cents.

Docket No. R2000-1

OCA-T-8

1 In answer to OCA/USPS-T39-18(c), witness Mayo states that she does not "have
2 costs for each incremental value level. . ." and proceeds to emphasize the low overall
3 cost coverage for insurance compared to the systemwide average. None of these
4 discussions provides the Commission with a proper basis to set insurance fees. I
5 recommend that there be no increase in the per \$100 increment fee, and that there be
6 a modification of the interval to \$250 or \$500 for insured value over \$100, with a
7 corresponding adjustment in the per increment fee.

8 V. DELIVERY CONFIRMATION

9 Delivery confirmation is a new special service that was proposed by the Postal
10 Service and recommended by the Commission in Docket No. R97-1. It provides the
11 sender with confirmation of delivery of Priority Mail and Standard Mail (B)
12 pieces/parcels.

13 Individual customers may purchase delivery confirmation at a post office window.
14 Delivery is confirmed by telephone or on the Internet. Bulk mailers, who meet certain
15 requirements, upload information about the mailing, including delivery confirmation
16 numbers, but may only receive delivery information electronically over the Internet.
17 Bulk mailers of Priority Mail receive electronic delivery confirmation at no additional
18 charge. Individual Priority Mail users pay a 35 cent fee. Individual and bulk mailers of
19 Standard Mail (B) mail pay larger fees. Priority Mail fees are lower because certain
20 costs related to delivery scanning are included in the Priority Mail rate.

21 In Docket No. R97-1, the OCA argued on brief that individual mailers should also
22 be able to use delivery confirmation service at no additional charge if they only use the

Docket No. R2000-1

OCA-T-8

1 Internet to access delivery information. This was not recommended to the Governors,
2 in part because the service was new. Data needed to be gathered about the service
3 and its use. Also, use of the Internet was believed not to be widespread among
4 members of the general public.

5 Internet use, including sales in e-commerce, has exploded since the
6 Commission's Decision in Docket No. R97-1. Delivery confirmation service apparently
7 has been successful and is well-regarded by the public. The Postal Service has
8 entered into partnerships with a number of Internet companies that are providing the
9 public with various packaging, mailing and rate comparison services. Among these are

10 approximately 20 participants in a beta test of a web-based application
11 program interface (API). This API allows individuals and small volume
12 shippers with Internet access to generate a Delivery Confirmation
13 barcoded label for Priority Mail and Standard Mail (B) shipments, and
14 qualify for electronic Delivery Confirmation service.⁷

15
16 A number of these Internet companies are offering electronic delivery
17 confirmation service through their web sites to individual shippers at no charge. One of
18 these is SmartShip.com. By logging on to the Smartship Internet site, individuals may
19 form an address book, compare shipping prices and services, choose a service and
20 download a label. Delivery confirmation from the U.S. Postal Service is one of these
21 service options.

22 An example of a label downloaded and printed is attached to this testimony as
23 Exhibits OCA-T-8E. This consists of a shipping label that contains a delivery
24 confirmation barcode and number and a shipment receipt. The label provides a clear

⁷ Response of witness Mayo to Hearing Question 3 of the OCA at Tr. 14/5707, filed May 5, 2000.

Docket No. R2000-1

OCA-T-8

1 and barcoded address as well as necessary information for the Postal Service to scan
2 and capture confirmation of delivery. It is superior to a handwritten address.

3 Once an individual has mailed a Priority Mail letter or package, the individual can
4 obtain confirmation of delivery, together with any intervening scan in transit, by visiting
5 the Postal Service's website or the website from which the label was downloaded.

6 Electronic delivery confirmation service has matured sufficiently to be effectively
7 provided over the Internet. The OCA recommends that the Postal Service join its
8 Internet partners in offering electronic delivery confirmation service for Priority Mail to
9 individuals on the Postal Service website at no charge.

10 VI. CONCLUSION

11 I conclude my testimony by summarizing the set of proposals I make.

- 12 • The current money order fee of 80 cents should be decreased to 75 cents,
13 which makes this service more affordable for the low-income and rural
14 customers who depend upon it.
15
- 16 • Likewise, military money order fees should be reduced by 5 cents, from 30
17 cents to 25 cents. Sales of military money orders are effected by military
18 personnel, thereby saving the Postal Service the retail costs normally
19 associated with this service.
20
- 21 • I propose that the Postal Service initiate an electronic money order service
22 that will dovetail with the explosive increase in sales of goods over the
23 Internet. Electronic money orders can provide a convenient, secure means of
24 payment by individuals and businesses.
25
- 26 • Owing to the Postal Service's failure to provide documentary and analytical
27 evidence justifying even the current 95-cents per \$100 incremental insurance
28 fee, I urge the Commission not to increase this fee as proposed by witness
29 Mayo.
30
- 31 • My final proposal is that the Commission recommend that the no-charge
32 status for provision of electronic delivery confirmation service to bulk Priority
33 Mail users be extended to individuals.

**CURRENT FEES
MONEY ORDERS
TEST YEAR 2001**

TRANSACTIONS (000s)				REVENUES (000)	
VALUE	FY 1998	TEST YEAR BEFORE RATES	FEES (\$) CURRENT	BEFORE RATES VOLUME CURRENT FEE (Col. 2 x Col. 3) (4)	
APO-FPO	(1)	(2)	(3)		
\$ 0 - 700	860	969	\$0.30		\$291
DOMESTIC					
\$ 0 - 700	205,353	231,338	\$0.80		\$185,071
INTERNATIONAL					
\$ 0 - 700	2,383	2,685	\$3.00		\$8,055
TOTAL (APO, DOM, INT)	208,597	234,992			\$193,417
INQUIRY FEE	780	878	\$2.75		\$2,415
MO COMM REDEEM INTERNATIONAL FOR ISSUE					\$618
MONEY ORDER FLOAT					\$56,893
OUTSTANDING MONEY ORDERS TAKEN INTO REVENUE					\$35,123
GRAND TOTAL					\$288,465
SOURCE: USPS-T-39, WP-16, LR-I-168					
		193,417 + 618			\$194,034
		193,417 + 618 + 35,123			\$229,157
Vol. Var. cost TYBR USPS-T23 p.22, I.45 = 15		193,417 / 159,605	Cost Coverage		121.2
		194,034 / 159,605	Cost Coverage		121.6
		229,157 / 159,605	Cost Coverage		143.6
		288,465 / 159,605	Cost Coverage		180.7
Vol. Var. cost TYBR USPS-T23 p.22, I.45 = 15		288,465 / 224,831	Cost Coverage		128.3

**OCA PROPOSED
MONEY ORDERS
TEST YEAR 2001**

OCA-T-8B

TRANSACTIONS (000s)			FEES (\$)		REVENUES (000)		
VALUE	FY 1998	TEST YEAR BEFORE RATES	CURRENT	PROPOSED	BEFORE RATES VOLUME CURRENT FEE	BEFORE RATES VOLUME PROPOSED FEE	PERCENT CHANGE 1/
					Col. 2 x Col. 3	Col. 2 x Col.4	(Col. 4 - Col. 3) / Col.
APO-FPO	(1)	(2)	(3)	(4)	(5)	(6)	(7)
\$ 0 - 700	860	969	\$0.30	\$0.25	\$291	\$242	-16.7%
DOMESTIC							
\$ 0 - 700	205,353	231,338	\$0.80	\$0.75	\$185,071	\$173,504	-6.3%
INTERNATIONAL							
\$ 0 - 700	2,383	2,685	\$3.00	\$3.00	\$8,055	\$8,055	0.0%
TOTAL (APO, DOM, INT)	208,597	234,992			\$193,417	\$181,801	
INQUIRY FEE	780	878	\$2.75	\$2.75	\$2,415	\$2,415	0.0%
MO COMM REDEEM INTERNATIONAL FOR ISSUE					\$618	\$618	
MONEY ORDER FLOAT					\$56,893	\$56,893	
OUTSTANDING MONEY ORDERS TAKEN INTO REVENUE					\$35,123	\$35,123	
GRAND TOTAL					\$288,465	\$276,849	
SOURCE: USPS-T-39, WP-16, LR-I-168.							
			181,801 + 618			\$182,419	
			181,801 + 618 + 35,123			\$217,541	
Vol. Var. cost TYBR USPS-T23 p.22, l. 45 = 159,605			181,801 / 159,605		Cost Coverage	113.9	
			182,419 / 159,605		Cost Coverage	114.3	
			217,541 / 159,605		Cost Coverage	136.3	
			276,849 / 159,605		Cost Coverage	173.5	
Incremental cost TYBR USPS-T23, p. 22, l. 45 = 224,831			276,849 / 224,831		Cost Coverage	123.1	

EXHIBIT OCA-8C

Mister Lister(tm)

wysiwyg://105/http://pages.ebay.com/services/buyandsell/shipping.ht

EXHIBIT OCA-8C, page 1 of 2


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overview	registration	buying & selling	my eBay	about me	feedback forum	safe harbor



WIN a trip to the
Sydney 2000 Olympic Games!

[Search](#) [Smart Search](#)
☐ Search titles and descriptions

Shipping

USPS Postage

E-Stamp Internet Postage — eBay users get 50% off the E-Stamp Starter Kit and \$25 in FREE postage! Avoid trips to the Post Office or waiting in line to ship your packages. E-Stamp's USPS-approved Internet postage service allows you to print your own postage, right from your PC. Use E-Stamp for First Class, Priority, Express Mail and Parcel Post.

Shipping Estimates

iShip.com — Do your prospective buyers constantly inquire what the shipping charges will be if they buy your item? If you want to save time and give your prospective buyers a FREE shipping estimate, give this new service a try!

Looking for Packaging and Shipping Help?

If you've sold your item on eBay and need to pack, ship and trace your item, considering using one of the following services and get fast, reliable service!

United States Postal Service — Visit the eBay/USPS page!

Mail Boxes Etc. — Take advantage of special MBE discounts for eBay users!

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USPS on eBay

<http://pages.ebay.com/USPS/index.htm>

EXHIBIT OCA-8C, page 2 of 2

- Track/Confirm Delivery
- Postage Rate Calculator
- Shipping Supplies Online
- Shipping Tips & Tricks



**Ship with us and
Turn a Good Buy into
a Great Bargain.**



Part of the fun of shopping at eBay is finding an unbeatable deal. Here's one for you: shipping with the United States Postal Service® can save you up to 70%*. Choose Priority Mail™ and you'll get fast, reliable delivery and still have cash to spare for your next bid.

*Savings based on rates for Priority Mail™ starting at \$3.20 for up to 2 lbs. vs. 2-lb. published rates for FedEx2Day® from \$7.50 to \$11.00 and UPS 2nd Day Air® from \$7.50 to \$11.50. Priority Mail™ average delivery of 2-3 days. ©1999 United States Postal Service®

EXHIBIT OCA-8D

EXHIBIT 8D, page 1 of 6

Money Order Sample #1 (front)

MONEY ORDER

Check Changers (ISSUING AGENCY) **02-203740420**

AGENCY 05180-DALL 050500
TIME 1:00
C203740420S LOCATION 000000

PAY EXACTLY ONE HUNDRED AND NO CENTS *****
PAY TO THE ORDER OF

PURCHASER'S ADDRESS
PURCHASER'S SIGNATURE
PURCHASER'S SIGNATURE TO THE
THEM TO THE REVERSE SIDE

Issued by Integrated Payment Systems Inc. / Payable at Integrated Bank Branch Junction - Downtown, N.A. Grand Junction, Colorado

102100400: 400203740420511

EXHIBIT 8D, page 2 of 6 Money Order Sample #1 (back)

NOTICE: Do not cash this Money Order for any person from whom you are not able to recover your payment. Should this item bear any unauthorized signature, be stolen, improperly completed, or altered, issuer will either stop payment hereon or charge back against any endorsement.

WARNING - DO NOT CASH CHECK WITHOUT NOTING SECURITY MARK ON BACK. HOLD AT ANGLE TO LIGHT TO VERIFY MARK. THE CHECK NUMBER SHOULD APPEAR RED FROM THIS SIDE.

ENDORSE ABOVE THIS LINE

SERVICE CHARGE

If this Money Order is not used or cashed (presented for payment) within three (3) years of the purchase date, there will be a non-refundable service charge where permitted by law. The service charge will be deducted from the amount shown on the Money Order. The service charge is twenty-five (25) cents per month from the date of purchase, but not more than twenty-one (21) dollars.

Instructions:

- The Money Order is to be completed by the purchaser only. It is not to be cashed or altered.
- The purchaser's name and address must be printed on the original Money Order when it is made to purchase.
- The purchaser's name and address must be printed on the original Money Order when it is made to purchase.
- The purchaser's name and address must be printed on the original Money Order when it is made to purchase.
- Please allow 30 days for processing. All requests for refunds and substitutions must be in writing.

SEND REQUEST TO: Integrated Payment Systems Inc. PO Box 700 Englewood, CO 80155-7000 Money Order only purchased at (Area 1, 605595)

Reason for Request:

DATE PURCHASED: MONTH DAY YEAR

DATE: MONTH DAY YEAR

PHONE NUMBER: _____

PURCHASER SIGN HERE (IN INK): _____

BEFORE MAILING, BE SURE THAT THIS FORM HAS BEEN SIGNED BY INK.

PLEASE SEE TERMS ON REVERSE SIDE

610 (298) 5005000

DATE/AMOUNT	
7306049130	05/09/00
103 NN	1.00
27249133491334	07

KEEP THIS STUB
FOR YOUR RECORDS

73060491306

DETACH HERE

CVS pharmacy For the location nearest you 1-800-Shop CVS 7306049130	05/09/00 15:32 919	7306049130 MONEY ORDER
	PAY TO THE ORDER OF ONE DOLLAR 00 CENTS 27249133491334 1324507130103130	
PURCHASER SIGNER FOR DRAWN BY ENDORSEMENT SIGNING YOU AGREE TO THE TERMS OF THE CARD		
MONEY ORDER ADDRESS / CMT CERTIFICATE, RECEIPT		

EXHIBIT 8D, page 4 of 6 Money Order Sample #2 (back)

LIMITED RECOURSE
 This instrument, whether a Money Order or a GCM Certificate, is governed by the following terms, which apply to the Purchaser and all others who later take an interest in it. This item will not be paid if it has been forged, altered or stolen, and recourse is only against your presenter. Purchaser agrees to immediately complete this instrument by signing and filling in the blanks on the front side. If this is a GCM Certificate, the named Payee agrees to exchange it for merchandise only.

Payee's Endorsement
CUSTOMER SERVICE
 GCM Certificates: Merchant on the
PAY TO THE ORDER
 line
 Money Orders: Travelers Express Co., Inc.
 P.O. Box 9476
 Minneapolis, MN 55480
 1-800-542-3590

DO NOT CASH UNLESS THE MACHINE PRINTED DOLLARS LOOK LIKE THIS

XXXXX 1234

EXAMPLE ONLY. YOUR DOLLAR AMOUNT MAY DIFFER.

SERVICE CHARGE:
 If this is a Money Order and it is not used or cashed within three (3) years of the purchase date, there will be a non-refundable service charge where permitted by law. The service charge will be deducted from the amount of payment shown on the Money Order. The service charge is twenty-five (25) cents per month from the date of purchase, but not more than twenty-one (21) dollars.

OTHER RESTRICTIONS ON USE:
 The business or person selling this instrument cannot use it to pay personal or business obligations.

CUSTOMER SERVICE
 GCM Certificates: Merchant on the
PAY TO THE ORDER
 line
 Money Orders: Travelers Express Co., Inc.
 P.O. Box 9476
 Minneapolis, MN 55480
 1-800-542-3590

SERVICE CHARGE:
 If this is a Money Order and it is not used or cashed within three (3) years of the purchase date, there will be a non-refundable service charge where permitted by law. The service charge will be deducted from the amount of payment shown on the Money Order. The service charge is twenty-five (25) cents per month from the date of purchase, but not more than twenty-one (21) dollars.


FOR INFORMATION CONTACT
GLOBAL EXPRESS MONEY ORDERS, INC.
P.O. BOX 3508
SILVER SPRING MARYLAND 20907

EXHIBIT OCA-8E

EXHIBIT OCA-8E

Save Time & Money with SmartShip.com!

<https://nt2.smartship.com/cgi-ezship/shipLabel.exe>

PRIORITY MAIL SHERYDA COLLINS 5603 SUTHERLAND CT. BURKE VA 22015	Affix \$3.20 Postage here
	TO : SHERYDA C. COLLINS POSTAL RATE COMMISSION 1393 H ST. N.W. STE 300 WASHINGTON DC 20268
USPS DELIVERY CONFIRMATION	
	
0180 5213 9070 2134 0189	
Authorized for Delivery Confirmation Electronic option. Electronic file transmitted via USPS shipping online.	
© SmartShip.com	

Fold and Cut here

Instructions:

- 1) Print this alrbill by pressing your browser's "Print" button.
- 2) Fold alrbill in half or cut along above line.
- 3) Securely affix alrbill to package with tape or other adhesive.
- 4) Affix the indicated postage in the space provided.
- 5) Drop off the package at any USPS drop box or Post office.
- 6) Press the "Continue" button on the bottom of this page.

Thank you for using SmartShip.com!

DO NOT PHOTOCOPY


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

4 THE WITNESS: Yes, sir.

5 CHAIRMAN GLEIMAN: And aside from the one change
6 that has been made to update the response, is there any
7 other change?

8 THE WITNESS: No.

9 CHAIRMAN GLEIMAN: And that change, as has been
10 noted by counsel, has been taken care of in the package. If
11 you would please provide the two packages to the court
12 reporter, counsel, I'll direct that the material be
13 transcribed into the record and entered into evidence.

14 [Designated written cross
15 examination of Sheryda C. Collins
16 was received in evidence and
17 transcribed into the record.]
18
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 OFFICE OF THE CONSUMER ADVOCATE
WITNESS SHERYDA C. COLLINS
(OCA-T-8)

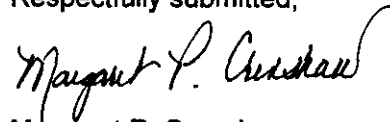
Party

United States Postal Service

Interrogatories

USPS/OCA-T8-1-21, 23-27

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Margaret P. Crenshaw". The signature is fluid and cursive, with a long, sweeping flourish at the end.

Margaret P. Crenshaw
Secretary

INTERROGATORY RESPONSES OF
OFFICE OF THE CONSUMER ADVOCATE
WITNESS SHERYDA C. COLLINS (T-8)
DESIGNATED AS WRITTEN CROSS-EXAMINATION

<u>Interrogatory</u>	<u>Designating Parties</u>
USPS/OCA-T8-1	USPS
USPS/OCA-T8-2	USPS
USPS/OCA-T8-3	USPS
USPS/OCA-T8-4	USPS
USPS/OCA-T8-5	USPS
USPS/OCA-T8-6	USPS
USPS/OCA-T8-7	USPS
USPS/OCA-T8-8	USPS
USPS/OCA-T8-9	USPS
USPS/OCA-T8-10	USPS
USPS/OCA-T8-11	USPS
USPS/OCA-T8-12	USPS
USPS/OCA-T8-13	USPS
USPS/OCA-T8-14	USPS
USPS/OCA-T8-15	USPS
USPS/OCA-T8-16	USPS
USPS/OCA-T8-17	USPS
USPS/OCA-T8-18	USPS
USPS/OCA-T8-19	USPS
USPS/OCA-T8-20	USPS
USPS/OCA-T8-21	USPS
USPS/OCA-T8-23	USPS
USPS/OCA-T8-24	USPS
USPS/OCA-T8-25	USPS
USPS/OCA-T8-26	USPS
USPS/OCA-T8-27	USPS
<i>USPS/OCA-T8-28</i>	<i>USPS</i>

ANSWERS OF OCA WITNESS SHERYDA C. COLLINS
TO INTERROGATORIES USPS/OCA-T8-1-5

USPS/OCA-T8-1. Please refer to your Exhibits OCA-T8A and 8B. Why do you use TYBR numbers to calculate cost coverages?

RESPONSE TO USPS/OCA-T8-1

I had no way to project after rate volumes with my proposed fee reduction. Therefore, I believe that the use of before rate volumes, which were predicated on the current rate, would be closer to the appropriate volumes than using the Postal Service's after rate volumes with a fee increase.

ANSWERS OF OCA WITNESS SHERYDA C. COLLINS
TO INTERROGATORIES USPS/OCA-T8-1-5

USPS/OCA-T8-2. Please refer to your Exhibit OCA-T-8B. Please confirm that the cost coverage calculated using money order fee revenues only (that is, excluding money order float and outstanding money orders taken into revenue) and incremental costs is 81.1 percent (182,419/224,831). If you do not confirm, please explain.

RESPONSE TO USPS/OCA-T8-2

Confirmed. However, as I discuss in my testimony on page 8, the appropriate cost coverage calculation includes these non-fee revenues. Also, the Commission uses non-fee revenues when calculating the cost coverage of money orders.

ANSWERS OF OCA WITNESS SHERYDA C. COLLINS
TO INTERROGATORIES USPS/OCA-T8-1-5

USPS/OCA-T8-3. Please refer to pages 10 to 12, in which you discuss "electronic money orders."

- (a) Do you propose that the Commission make any recommendation in this proceeding for changes to the DMCS or rate/fee schedules, with respect to electronic money orders? If so, please describe the changes you are proposing.
- (b) On page 10 you state that "Internet activity is a source of potential increased demand for money orders." Would new customers using money orders for Internet transactions tend to be low-income individuals, to the same extent as customers using money orders for non-Internet transactions? Please explain the basis for your response.

RESPONSE TO USPS/OCA-T8-3

- a. No.
- b. I do not know. However, I can speculate that customers who access the Internet from their own home computers are likely to be wealthier on average than current money order customers and use credit cards for Internet transactions. The Internet is also accessible from public libraries, kiosks, work places, and other locations. Thus, virtually anyone can access the Internet without owning a home computer and subscribing to an ISP. If an electronic money order service were available, anyone could purchase goods over the Internet.

I also note that the demise of many large catalogs (such as Sears) over the years may have decreased shopping options for rural and lower income people. The Internet provides new options for mail ordering. For example, Wal Mart and J.C. Penney both have extensive websites.

ANSWERS OF OCA WITNESS SHERYDA C. COLLINS
TO INTERROGATORIES USPS/OCA-T8-1-5

USPS/OCA-T8-4. On page 15 of your testimony, you recommend that "there be no increase in the \$100 increment fee, and that there be a modification of the interval to \$250 or \$500 for insured value over \$100, with a corresponding adjustment in the per increment fee."

- (a) Do you support the Postal Service's proposal for a 138.4 percent cost coverage for insurance service? If not, please present your alternative cost coverage proposal.
- (b) Do you support an increase in the Postal Service's proposed insurance fees for the up to \$50, and \$50-100 value levels, in order to make up for revenue losses that would result from reducing the proposed incremental fees from \$1.00 to \$0.95? Please explain your response.
- (c) Please explain what you mean by a "corresponding adjustment" in the per increment fees for insured value over \$100. For example, would the per increment fee be five times as large for a \$500 value interval as for a \$100 value?

RESPONSE TO USPS/OCA-T8-4

- a. No. I do not propose an alternative cost coverage.
- b. No. I do not support an increase in the incremental fee for any value of insurance because there has been no demonstration of a cost basis for any of the fees. See my testimony at pages 12-15.
- c. By a "corresponding adjustment" I do not mean that the increment would be five times as large for a \$500 value interval as for a \$100 value interval which is the example given in the question. I would expect that the adjustment would fall somewhere in between, for example, between a \$1.00 fee and the \$5.00 fee posed the question. My point is that it is impossible to know what the appropriate "corresponding adjustment" should be because there are no data on the costs by value increment.

ANSWERS OF OCA WITNESS SHERYDA C. COLLINS
TO INTERROGATORIES USPS/OCA-T8-1-5

USPS/OCA-T8-5. Please refer to page 17, lines 31 to 33, in which you ask the Commission to "recommend that the no-charge status for provision of electronic delivery confirmation service to bulk Priority Mail users be extended to individuals."

- (a) Please reconcile this request with your statement on page 16, lines 16 to 17, that "[a] number of these Internet companies are offering electronic delivery confirmation service through their web sites to individual shippers at no charge."
- (b) Do you believe that individuals are not currently eligible for the electronic Delivery Confirmation service option? If so, please explain the basis for your belief.
- (c) Do you propose that the Commission make any recommendation in this proceeding for changes to the DMCS or rate/fee schedules, with respect to Delivery Confirmation service? If so, please describe the changes you are proposing.

RESPONSE TO USPS/OCA-T8-5

- a. There is nothing to reconcile. Please refer to my testimony at page 17, lines 7-9. I "recommend that the Postal Service join its Internet partners." (Emphasis added.)
- b. No.
- c. Yes. Individual customers who print Delivery Confirmation labels and access Delivery Confirmation service from the Postal Service's web site or a certified vendor's web site should not pay a fee for Priority Mail delivery confirmation. The Priority Mail fee should only be assessed for window service Delivery Confirmation in conjunction with the use of PS form 152.

ANSWERS OF OCA WITNESS SHERYDA C. COLLINS
TO INTERROGATORIES USPS/OCA-T8-6-9

USPS/OCA-T8-6. Please refer to your testimony on page 5, lines 3 to 8. Please explain the relationship between the quote from witness Mayo's testimony and her views on the reliance upon money order service by consumers with modest incomes.

RESPONSE TO USPS/OCA/T8-6

I am not sure that I understand the question. However, I believe that the quotation is indicative of her views that money orders are indeed relied upon by consumers with modest incomes.

ANSWERS OF OCA WITNESS SHERYDA C. COLLINS
TO INTERROGATORIES USPS/OCA-T8-6-9

USPS/OCA-T8-7. Please refer to your testimony on page 6, lines 3 to 5.

- (a) Please confirm that witness Mayo's interrogatory responses (OCA/USPS-T39-21 and 22) did not demonstrate any lack of awareness of competitors charging less than half of the Postal Service's proposed fee. If you do not confirm, please explain.
- (b) Please confirm that witness Mayo reported a price of 50 cents for a \$700 money order, in response to OCA/USPS-T39-21. If you do not confirm, please explain.
- (c) Please confirm that this 50 cent price might reflect the purchase of two money orders of not more than \$500, each at a price of 25 cents. (Compare OCA/USPS-T39-22(c)). If you do not confirm, please explain.

RESPONSE TO USPS/OCA/T8-7

- a. Not confirmed. The responses to the cited interrogatories do not demonstrate any awareness on witness Mayo's part of competitors charging less than half of the Postal Service's proposed fee. If she was aware of any, I do not believe that these responses indicate such awareness.
- b. Confirmed.
- c. This could be possible but it seems highly unlikely given witness Mayo's negative response to OCA/USPS-T-39-22(b). That question asked if she knew of competitors who offered money orders for a single fee of 28 cents up to \$500. I would expect that if she knew of a money order selling for 25 cents that she would mention that fact in this context.

ANSWERS OF OCA WITNESS SHERYDA C. COLLINS
TO INTERROGATORIES USPS/OCA-T8-6-9

USPS/OCA-T8-8. Please refer to the money order fee examples provided on page 7 of your testimony.

- (a) Please provide the address of the CVS drug store that charges 39 cents for a money order.
- (b) Do all CVS drug stores in the Washington, D.C. metropolitan area charge the same price for money orders? If not, please provide your knowledge of other fees charged by CVS stores.
- (c) How much would a money order valued at \$700 cost at American Cash Express?
- (d) Does the Paradise Liquor Store also provide check cashing services?
- (e) Do you believe that the money orders sold at the Paradise Liquor Store and 13th Street Variety are priced to cover money order costs, or are they instead priced to attract customers into the store so that they will make other purchases? Please explain your response.
- (f) Do any of these seven money order vendors charge a different money order fee for military personnel?
- (g) If your answer to part (f) is yes, please provide the fee(s) with the corresponding establishment(s). If your answer to part (f) is no, are you aware of any vendors other than the Postal Service that charge a different money order fee for military personnel?

RESPONSE TO USPS/OCA/T8-8

- a. Several months ago, I called the CVS drug store at 717 14th St., N.W., Washington, D.C., (202) 737-5034 to inquire about money orders. I was told that they sold money orders up to \$500 for 39 cents. Subsequent to this, I went to the store and purchased a money order. I was charged 75 cents. After receiving this interrogatory, I called again and was told that money orders up to \$500 cost 79 cents.

ANSWERS OF OCA WITNESS SHERYDA C. COLLINS
TO INTERROGATORIES USPS/OCA-T8-6-9

- b. No. I called CVS drug stores in Washington, D.C., Maryland and Virginia. All of the stores contacted in Virginia charged 69 cents for any money order up to \$500. The rest charged 79 cents.
- c. The upper limit for one money order at American Cash Express in Oxon Hill, MD is \$500 and that would cost 69 cents. However, if one needed money orders in the amount of \$700, the cost for one \$500 and one \$200 would be \$1.18 (49¢ + 69¢).
- d. I do not know. However, I would not be surprised it did.
- e. I have no knowledge of the way money orders are priced at the Paradise Liquor Store and the 13th Street Variety. It seems reasonable that the owners of these stores would offer inexpensive money orders for a variety of good business reasons. These may include: profit from the float; increased business for money orders if they cash checks on the side; increased revenues from check cashing fees collected from customers who need to buy a money order; increased good will and extra service features to better serve their customers; and increased traffic and business for the store.
- f. I do not know. However, I seriously doubt that they would.
- g. Not applicable.

ANSWERS OF OCA WITNESS SHERYDA C. COLLINS
TO INTERROGATORIES USPS/OCA-T8-6-9

USPS/OCA-T8-9. Please refer to your testimony on page 10, line 15 to page 12, line 6.

- (a) Are you aware of private companies offering money orders over the Internet?
- (b) If so, please identify these companies (including a website address if available). Also provide the dollar amounts and corresponding prices for these money orders.

RESPONSE TO USPS/OCA/T8-9

- a. Yes.
- b. The company I was aware of is the one witness Mayo provided in her response to OCA/USPS-T-39-23, www.BidPay.com/pricing.html. Other research has produced several additional:

www.sendmoneyorder.com Please see attachment for service description and pricing information. Also, please note the language on the first page: **"Pay for an Auction Item, Instantly** Don't go waiting in a long line at the post office! Let us do that for you! Use our easy money order service to pay for items you bid on in an auction. If you're a seller, tell your bidders to pay you using our handy service."

www.moneyordernow.com Please see attached for service description and pricing information. Also please note the language on the first page: **"Order from the convenience of work or home! Pay Bills easily here with a money order! No more long lines at the bank or post office!"** When a search engine reports this site it touts the brand of money order, i.e., "moneyorder.com BUY A WESTERN UNION MONEY ORDER ONLINE!!!"

ANSWERS OF OCA WITNESS SHERYDA C. COLLINS
TO INTERROGATORIES USPS/OCA-T8-6-9

www.paypal.com While this site does not offer money orders, it offers a simple payment service for free. "PayPal makes your auction payments quicker, easier and more secure than ever before. Buyers can now make instant payments and sellers can now accept payments from anyone with a credit card." "You can now send money to anyone with an email address!" Please see attached.

www.turbocheck.com This site offers to provide a service similar to PayPal but instead of a credit card it debits your checking account. Please see attached.

ANSWERS OF OCA WITNESS SHERYDA C. COLLINS
TO INTERROGATORIES USPS/OCA-T8-6-9

ATTACHMENT

Attachment to Response to USPS/OCA-T8-9b.



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If you're a seller, tell your bidders to pay you using our handy service.

Already a User? Click here to log in first!

There are different "levels" of being a user of this system.

Click here for more information about user levels. If you are already a Power User or Super User, please log in and you will be allowed to send a higher amount.

Bookmark
this page!



Just Hit
Control+D

1 Step One Enter your auction number here, and push search, to verify you have the correct auction item.

eBay*	Item Number <input type="text"/>	Search
-------	----------------------------------	--------

- OR -

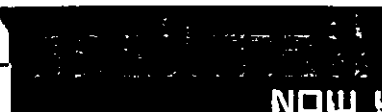
Yahoo!*	Item Number <input type="text"/>	Search
---------	----------------------------------	--------

- OR -

Amazon.com*	Item Number <input type="text"/>	Search
-------------	----------------------------------	--------

If you are using a different Auction service, just enter the Item Number below, in the Memo of the Check.

2 Step Two Enter the seller's mailing address here.



Seller's Address

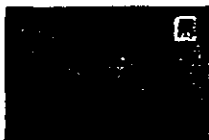
Enter EITHER an Individual's Name, or a Company Name, or BOTH.

First Name	Middle Initial	Last Name
Company Name		
Street Address, Line 1		
Street Address, Line 2 [optional]		
City	State / Province	ZIP / Postal Code
United States <input type="checkbox"/>		
Country		

Please use care when entering any addresses into this web site. The addresses are printed on your mail exactly as you enter them. Energy Flow Inc. is not responsible for address entry errors.

Choose a delivery method:

This is the way that your check or money order payment is delivered to the seller.



- ☒ 1st Class Mail (Normal Postage - delivery in 3-10 business days)



- ☐ Priority Mail (Cost: \$3.95 - delivery in 2-3 business days)
(available only for US recipients)

3 Step Three Fill out this check or Money Order. We recommend that you enter the auction item number as the check/money order's memo field.

- ☐ International Money Order ([info](#))
- ☒ Unbounce-Able Internet Check ([info](#))



For Beginners, the maximum amount for a Money Order is \$25.00 and the maximum amount for a UIC is \$50.00. How do I send a higher amount?

Date: June 6, 2000

Pay to
the
order
of:Enter the name of the person who
will be cashing this check

Amount:

\$ 0.00

Item No.

Note: When sending checks and Money Orders to an International recipient, make sure the recipient can accept US Dollars.

- 4** Step Four Include a message if you like. If you want to change the font, paper, or color, you can do so in the next step.



- 5** Step Five If you would like e-mail notification sent out when this mail is taken to the Post Office, enter any e-mail addresses here. We recommend entering your own e-mail address, and the e-mail address of the seller, so everybody knows exactly when the mail is sent. Some sellers will even put your item in the mail upon receiving the e-mail notification.

NOTE Separate multiple e-mail addresses with a comma.
Send Email Notification to:

[optional]

- 6** Step Six **Pay for the Auction Item**
Push this button to enter the Energy Flow document system to make any adjustments you wish and to pay for the mail.

Payment methods accepted: Visa, MasterCard, Discover, and American Express for your convenience

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The Unbounce-Able Internet Check

What is The Unbounce-able Internet Check?

It's a check that is drawn from Energy Flow's Business Bank Account at Bank of America.

How come it doesn't bounce?

Every UIC (Unbounce-Able Internet Check) is backed by YOUR credit card. You pay for it first! When you send mail using the Energy Flow Network you pay for documents with our secure payment gateway using your credit card before the check is printed and put in the mail.



Unbounce-able

Has any so-called "Unbounce-able" Internet Check ever bounced?

Not a single one.

So they're about as good as cash?

Yes. Unbounce-able Internet Checks are accepted anywhere a normal check is accepted. If you want to be absolutely sure, try our Money Order service. International Money Orders are commonly accepted just like cash.

How much can I write one for?

That depends on what kind of a user you are. A detailed description of the various user levels can be found here. Beginners have a lower limit than Power Users. Super Users have the highest dollar amount allowed for Unbounce-able Internet Checks.

What kind of money is it?

United States Dollars. Please **check with the recipient** to make sure they can accept payment or money in **United States Dollars**. Energy Flow Inc. is not responsible for international recipients who can't convert US Dollars to their native currency. Please be sure to inquire first if the recipient has a handy way to convert US Dollars.

How do I pay for it?

You use your credit card on our secure server. We accept Visa, MasterCard, Discover, and American Express for your convenience.



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Does an Unbounce-Able Internet Check ever expire?

Yes. They have a valid lifetime of 60 days. After that they are void. A message to that effect is printed on every single UIC (Unbounce-able Internet Check).

How long does it take to get there?

It varies. Within the United States our mail takes 3-10 days, excluding Sundays. International mail can take anywhere from a week to 6 weeks, depending upon the country. Please keep your eye on this site for other delivery methods that will expedite delivery, such as Federal Express and UPS.

What can I use one for?

Lots of things: Use it to pay items you buy in an online auction. Any mail order can be simplified with UIC. Send someone special a check for their birthday. Pay your rent or other bills using your credit card as funds. Pay your credit card bill with it! Establish automatically recurring payments for things like mortgage, car payment, cable bill, ISP payment, etc. There is real power in combining the payment functionality with the scheduling. Forget about your bills, let us pay them!

So how much does it cost?

When you send an Unbounce-able Internet Check you will be charged \$1.49 plus 4.0% of the check amount. There is also a 50¢ charge for all mailings sent by the Energy Flow system, for scheduling and handling, in addition to a postage charge for First class Mail delivery of the document. In addition, a transaction charge of 79¢ applies to any orders less than \$10.00. You can pay more than the amount of the mail and retain an account in the Energy Flow system.

Huh?

For example: If you write a UIC for \$10.00, you would be charged 4.0% of that which is 40¢ plus \$1.49, in addition to the amount of the check. The total would be \$11.89.

For a \$50.00 check you would be charged $(4.0\% = 2.00) + (1.49) + 50.00 = \53.49

For a \$100.00 check you would be charged $(4.0\% = 4.00) + (1.49) + 100.00 = \105.49

For each mailing there would be an additional 50¢ charge for scheduling and handling and normal postage would apply. Domestic postage is 33¢ and International Postage varies. The document system will correctly compute the postage for the document at checkout time.

Where can I get one?

Go to www.writechecks.com. And don't forget to tell all your friends about UIC!

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International Money Orders

What is a Money Order?

A Money Order is an order for payment issued by Traveler's Express*. They are typically accepted as cash and are good anywhere in the world.

How much can I write one for?

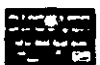
That depends on what kind of a user you are. A detailed description of the various user levels can be found [here](#). Beginners have a lower limit than Power Users. Super Users have the highest dollar amount allowed for Money Orders.

What kind of money is it?

United States Dollars. Please **check with the recipient** to make sure they can accept money orders. People in other countries must be able to take the money order somewhere to exchange it for their own currency. Energy Flow Inc. is not responsible for international recipients who can't convert US Dollars to their native currency. Please be sure to inquire first if the recipient has a handy way to convert US Dollars.

How do I pay for it?

You use your credit card on our secure server. We accept Visa, MasterCard, Discover, and American Express for your convenience.



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POSTAL SERVICE.**

Does a Money Order ever expire?

Traveler's Express money orders are valid for 3 years. After 3 years they can still be cashed but there will be a service charge.

How long does it take to get there?

It varies. Within the United States our mail takes 3-10 days, excluding Sundays and holidays. International mail can take anywhere from a week to 6 weeks, depending upon the country. We now offer United States Priority Mail which will expedite your mail to taking 2-3 business days. Priority Mail is only available for recipients in the United States. Please keep your eye on this site for other delivery methods that will expedite delivery, such as Federal Express, UPS, and Global Priority Mail for International Recipients.

What can I use one for?

Lots of things: Use it to pay items you buy in an online auction. Any mail order can be simplified with money orders. Send someone special a money order for their birthday. Pay your rent or other bills using your credit card as funds. Pay your credit card bill with it! Establish automatically recurring payments for things like mortgage, car payment, cable bill, ISP payment, etc. There is real power in combining the payment functionality with the scheduling. Forget

about your bills, let us pay them!

So how much does it cost?

When you send a Money Order you will be charged \$2.99 plus 5.0% of the money order's amount. There is also a 50¢ charge for all mailings sent by the Energy Flow system, for scheduling and handling, in addition to a postage charge for delivery of the document. In addition, a transaction charge of 79¢ applies to any orders less than \$10.00. You can pay more than the amount of the mail and retain an account in the Energy Flow system.

Huh?

For example: If you write a money order for \$10.00, you would be charged 5.0% of that which is 50¢ plus \$2.99, in addition to the amount of the check. The total would be \$13.49.

For a \$50.00 money order you would be charged $(5.0\% = 2.50) + (2.99) + 50.00 = \55.49

For a \$75.00 money order you would be charged $(5.0\% = 3.75) + (2.99) + 75.00 = \81.74

For each mailing there would be an additional 50¢ charge for scheduling and handling and normal postage would apply. Domestic postage is 33¢ and International Postage varies. The document system will correctly compute the postage for the document at checkout time.

Where can I get one?

Go to www.sendmoneyorder.com. And don't forget to tell all your friends about our unique Money Order service!

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You can also use this site to send a money order anywhere in the United States/Canada for any reason. (you must have a USA Checking Acct)

Please tell your friends about this site!

Questions or Suggestions may be mailed to: moneyordernow@aol.com

*First Class Mail will usually take 3-8 working days to arrive. In some cases, from coast to coast it may take up to 10 working days to arrive with the recipient. At this time we are only able to process orders from within the USA and orders that are going to a USA or Canada Address. International orders will be processed within the next month or so, please check back. Please read our "Terms and Conditions" before ordering. Additional fee of .35c for first class stamp and envelope will be added. *2.99 refers to USA buyers who pay by Electronic Funds Transfer. **ALL SALES ARE FINAL!!***

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```
</p><BR><p><a href="http://www.cewebs.com/mon/money.html"> easy and inexpensive!" width="88" height="33"></a></p><BR><BR><BR>
```

Please make sure to place it all on one line.

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Thanks!

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You can now send money to anyone with an email address!

PayPal is Easy

Sending money is as easy as sending email. Just log in to your PayPal account and choose Send Money. Enter your friend's email address and the dollar amount. She will receive an email informing her of the payment and can register at PayPal.com to claim her money.

PayPal is Fast

The transaction takes only a few seconds to complete and the recipient is instantly credited with the money.

PayPal is Free

PayPal's electronic payment service is completely free.

PayPal is Secure

All transactions are conducted through our secure servers, which are protected behind state-of-the-art firewalls.

PayPal is Private

Your financial information, such as credit card and bank account numbers, is kept private and the only personal information the recipient sees is your name and email address.

Sending money is fast, free and secure!

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How it Works

PayPal allows you to securely send money to any email user in the U.S. After signing up, you simply enter the recipient's email address and a dollar amount. The money is charged to your credit card, and sent to the recipient. The transaction takes seconds to complete.

There's no problem if the recipient is not yet a PayPal user. He or she simply registers at PayPal after receiving an email notification, and is immediately credited with the amount in the new account. You may use a credit card, bank account or check to fund your account. Funds may be withdrawn at any time by direct deposit to a bank account or a personal check from PayPal. Users may also opt to send the money on to others.

A Real-World Example

Let's take a real-world example. Andy owes Betty \$50. Andy has a credit card. He decides to pay Betty using PayPal. Here's how each step of the transaction would work:

Action	Information entered
1. Andy logs on to PayPal.com and registers.	<ul style="list-style-type: none"> • Andy's name • Andy's street address • Andy's email
2. Andy sends \$50 to Betty by registering his credit card and entering Betty's email address and the amount (\$50).	<ul style="list-style-type: none"> • Andy's credit card information • Betty's email • Transaction amount
3. Andy's credit card is charged \$50 and a new account in Betty's name is created and credited with the \$50.	
4. Betty receives an email notification ("You've got cash!") and clicks on a link which takes her to her new account.	
5. Betty registers with PayPal.	<ul style="list-style-type: none"> • Betty's name • Betty's street address • Betty's email
6. Betty can withdraw her money by direct deposit to her bank account or by personal check from PayPal. Betty also has the option of sending the money on to others.	<ul style="list-style-type: none"> • Betty's bank account (if withdrawing by direct deposit)

TurboCheck

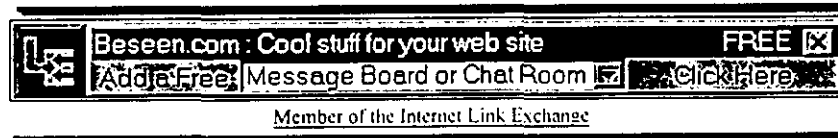
What is TurboCheck?

TurboCheck is an essential business development tool for all businesses that transact long distance sales. Previously, small or home enterprises were limited in offering customers credit card payments by phone, fax and more recently online. But even this was dependent on whether they were able to afford or qualify for a Merchant Account.


A few years back some innovative entrepreneurs began taking advantage of regulations and laws that allowed a business to accept voice authorization for check or paper-draft payments. Because the few software packages at the time cost in the high hundreds, almost all businesses wanting to add this payment option for customers, utilized a service bureau. The costs and fees were outrageous and remain so to date!

With the introduction of TurboCheck, each and every small business that owns a computer and preferably a laser printer is now able to accept checks by phone, fax or even online! The software is simple to learn and downright inexpensive to buy.

When your customer is ready to order your product or service, close the sale just like you would with a credit card! Instead of asking them to get their credit card, you ask them to get their checkbook and have them read the information printed on their check. It's that simple!



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TurboCheck

Checks By Phone/Fax/Online Go Big Time!

The National Credit Card Bureau said it best when they stated "recent technology allows the holders of over 200 million personal and business checking accounts, which contain \$1.5 trillion, to now read the bottom of the check... to any direct marketer, telemarketers, or service bureau as payment when they make purchases or payments by phone, computer, fax or interactive TV." Are you going to beat your competitors by offering this service first... or are they going beat you?

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Product Pricing... and What You Get

TurboCheck's Registration retail price is **\$99.00!** You get the following:

1. The premier Phone/Fax/Internet Check Payment System today!
2. A registration code, allowing you to designate **TWO** Payee Names for which the check drafts will be printed for deposit
3. The ability to print checks for pennies to pay your own bills
4. Unlimited Online Customer Care & Support - like you've never seen before!
5. 50 Blank Checks, shipped by priority mail for \$6.00 or 100 Blank Checks for \$10.00. Re-order rates beat any competitor!
6. Sample Phone Script to use with your customers - get the correct information the first time!
7. Sample HTML Order Pages for a 2 Step WWW Order Process
8. Sample Email Order Form for a 2 Step Email Order Process

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**ANSWERS OF OCA WITNESS SHERYDA C. COLLINS
TO INTERROGATORIES USPS/OCA-T8-10-17**

USPS/OCA-T8-10. Please refer to your testimony on insurance fees, at page 13, lines 17 to 19, where you state that "[t]he Postal Service provided no cost justification in Docket No. MC96-3; neither was there cost justification in Docket No. R97-1; and there is no cost justification in Docket No. R2000-1." Also, please refer to your response to USPS/OCA-T8-4, where you state that "there has been no demonstration of a cost basis for any of the fees."

- (a) Please confirm that in Docket No. R97-1, witness Plunkett (USPS-T-40, page 6) provided a table labeled "Table 1, 1996 Indemnity Costs" which provided data on the number and amount of claims by value increment for insured mail. If you do not confirm, please explain why not.
- (b) Was this table, and the other insurance-related information provided in Docket No. R97-1, an adequate cost basis for the Commission's recommendation to increase the incremental fee from 90 cents to 95 cents in Docket No. R97-1? If not, please explain why not.
- (c) Please confirm that in Docket No. R2000-1 witness Davis provides a cost basis for the unnumbered and numbered (\$50-100) fees in USPS-LR-I-108, page 43, as revised April 17, 2000. If you do not confirm, please explain.
- (d) Please confirm that in Docket No. R2000-1, the attachment to witness Mayo's response to OCA/USPS-T39-5 provides a table, "FY 1998 Insurance Indemnity Costs," which presents data on the number and amount of claims by value increment for insured mail. If you do not confirm, please explain why not.
- (e) Please describe any raw data, other than the data described in parts (c) and (d), that are needed as a basis to design insurance fees.
- (f) Other than your discussion of claims processing costs at page 14 of your testimony, do you have any cost basis to believe that the incremental indemnity cost per \$100 of value is less for items valued above \$1000 than for items valued up to \$1000? If so, please provide this cost basis.

RESPONSE TO USPS/OCA-T8-10

- a. Confirmed.
- b. Please see my testimony at pages 13 and 14. In Docket No. R97-1 the Commission stated "The Commission recommends an increase of 10 percent for retail insurance, which is more consistent with the overall rate increase in this

ANSWERS OF OCA WITNESS SHERYDA C. COLLINS
TO INTERROGATORIES USPS/OCA-T8-10-17

case than the Service's proposed 17 percent increase. This moderates the impact on consumers and produces a cost coverage of 145 percent, the second highest cost coverage among the special services." PRC Op. ¶ 5935. On its own initiative, the Commission recommended a decrease of five cents from the proposed incremental fee which still produced a high cost coverage. No parties addressed the issue of the appropriate level of the incremental fee in Docket No. R97-1. Had parties focused attention on the issue, as some had in Docket No. MC96-3, the Commission might well have recommended no increase in the incremental fee and have renewed its request for cost information regarding the incremental fee.

The important matter at hand is not that the Commission's Docket No. R97-1 insurance fees covered costs (i.e., that there was a cost basis), it is that at least 43 of the 50 increments for insured mail have no empirical justification. This is especially disconcerting when the Postal Service can not give reasonable explanations for large increases in the attributable costs for insured mail.

- c. Confirmed that witness Davis provides a workpaper that allocates costs for insured mail between numbered and unnumbered transactions.
- d. Confirmed.
- e. See answer to (b) above.
- f. The whole point of this part of my testimony is that there is no cost basis for the incremental fee, so how could I provide it.

ANSWERS OF OCA WITNESS SHERYDA C. COLLINS
TO INTERROGATORIES USPS/OCA-T8-10-17

USPS/OCA-T8-11. Please refer to USPS-LR-I-168, WP-32, which shows witness Mayo's proposed insurance fees of \$1.35 (unnumbered), \$2.10 (\$50-100) and a \$1.00 incremental fee per \$100 generating \$106,070,000 of test year revenue (including the international revenues at the bottom of column (4)). Assume that the revenue target for insurance remains at \$106,070,000. Also assume that the unnumbered insurance fee cannot exceed \$1.35, and that the fee for the \$50-\$100 level cannot exceed \$2.10. Please confirm that the average incremental fee must be more than \$0.95 per \$100 in order to generate the target revenue. If you do not confirm, please explain why.

RESPONSE TO USPS/OCA-T8-11

Confirmed, if the correct reference is to WP13. However, my point is not that the math is incorrect. It is that the incremental fee has not been studied and that the costs for insurance seem to be out of whack.

ANSWERS OF OCA WITNESS SHERYDA C. COLLINS
TO INTERROGATORIES USPS/OCA-T8-10-17

USPS/OCA-T8-12. Please refer to your response to USPS/OCA-T8-2, where you state that "the Commission uses non-fee revenues when calculating the cost coverage of money orders. Based on the most recent rate case (Docket No. R97-1), what non-fee revenues does the Commission use when calculating the cost coverage for money orders?

RESPONSE TO USPS/OCA-T8-12

Please see my testimony at page 3, footnote 1 and page 4, lines 10-13.

**ANSWERS OF OCA WITNESS SHERYDA C. COLLINS
TO INTERROGATORIES USPS/OCA-T8-10-17**

OCA/USPS-T8-13. Please explain the derivation of the number 224,831 in the last line of your exhibit OCA-8A.

RESPONSE TO USPS/OCA-T8-13

I did not derive this number. As stated in the exhibit, the source is USPS-T23, p. 22, Table 1A, revised.

**ANSWERS OF OCA WITNESS SHERYDA C. COLLINS
TO INTERROGATORIES USPS/OCA-T8-10-17**

USPS/OCA-T8-14. Please refer to page 2, lines 13 to 15, where you state the purpose of your testimony is to demonstrate why money order fees should be decreased five cents from the current fees. Does this statement apply to the money order inquiry fee? Please explain.

RESPONSE TO USPS/OCA-T8-14

No. The proposed money order inquiry fee is \$2.75 as shown in Exhibit 8B.

**ANSWERS OF OCA WITNESS SHERYDA C. COLLINS
TO INTERROGATORIES USPS/OCA-T8-10-17**

USPS/OCA-T8-15. Please refer to page 7 of your testimony, where you offer examples of money order providers and corresponding fees. Did you check the money order fees charged by any banks? If so, please provide your knowledge of the fees charged by banks. If not, why did you not check on fees charged by banks?

RESPONSE TO USPS/OCA-T8-15

No. I have no knowledge as to whether banks sell money orders and I did not inquire.

ANSWERS OF OCA WITNESS SHERYDA C. COLLINS
TO INTERROGATORIES USPS/OCA-T8-10-17

USPS/OCA-T8-16. Please refer to your exhibit OCA-8D.

- (a) Please provide the fee paid for each of the three \$1.00 money orders.
- (b) What would the fee be for a money order valued at \$700 at each of these three establishments?

RESPONSE TO USPS/OCA-T8-16

- a. The fees paid were 59¢, 75¢, and 49¢
- b. Two money orders would have to be purchased. The fees would be \$1.18, \$1.50, and \$0.98.

ANSWERS OF OCA WITNESS SHERYDA C. COLLINS
TO INTERROGATORIES USPS/OCA-T8-10-17

USPS/OCA-T8-17. Please refer to your response to USPS/OCA-T8-5. Would it be accurate to rephrase your testimony at page 17, lines 31 to 33, as asking the Commission to "recommend that the no-charge status for provision of electronic Delivery Confirmation service to bulk Priority Mail users be applied to individuals who access the service from the Postal Service's web site, just as electronic Delivery Confirmation service is currently applied to individuals who access the service from the websites of certified vendors?" If you do not agree that this phrase accurately summarizes your proposal, please explain why not.

RESPONSE TO USPS/OCA-T8-17

I do not believe that I would use the word "applied". "Available at no charge" would be preferable language.

**ANSWERS OF OCA WITNESS SHERYDA C. COLLINS
TO INTERROGATORIES USPS/OCA-T8-18-23**

USPS/OCA-T8-18. Please refer to your testimony on page 9, lines 3-4 and page 4, lines 1-10, where you compare money order fees and cost coverages in this case with those in prior rate cases.

- (a) Confirm that the costing methodology for money orders used by the Commission prior to Docket No. R97-1 is different from the costing methodology for money orders recommended by the Commission in Docket No. R97-1. If you do not confirm, please explain.**
- (b) Confirm that the new costing methodology lowered money order costs in Docket No. R97-1, and, if applied, likely would have lowered money order costs in prior dockets. If you do not confirm, please explain why.**
- (c) Please confirm that your proposed money order cost coverage is based on the new money order costing methodology, rather than the methodology used prior to Docket No. R97-1. If you do not confirm, please explain why.**
- (d) Please confirm that it would be more appropriate to compare your 123 percent proposed money order cost coverage with the cost coverage recommended by the Commission in Docket No. R97-1, rather than the cost coverages in prior dockets. If you do not confirm, please explain.**

RESPONSE TO USPS/OCA-T8-18

- a. Confirmed. Please see my testimony at page 4, lines 8-10.**
- b. Confirmed.**
- c. Confirmed.**
- d. Not confirmed. Please see my testimony at page 8, lines 21-25 and page 9, lines 1-2.**

ANSWERS OF OCA WITNESS SHERYDA C. COLLINS
TO INTERROGATORIES USPS/OCA-T8-18-23

USPS/OCA-T8-19.

- (a) Please explain the significance of each of the five cost coverages presented in your Exhibit OCA-T-8B.
- (b) Please confirm that the money order cost coverage in Docket No. R97-1, using total money order revenues comparable to the revenues used in the last two cost coverages you present in your Exhibit 8B (i.e., including float), would be $\$293,457/\$156,798 = 187.2$ percent. See PRC Op., R97-1, App. G, pages 1, 24. If you do not confirm, please explain why.

RESPONSE TO USPS/OCA-T8-19

- a. The first four calculations demonstrate that money orders cover volume variable costs under the stated scenarios. The last one demonstrates that total revenue exceeds volume variable and incremental costs (as presented by USPS witness Kay).
- b. Confirmed.

**ANSWERS OF OCA WITNESS SHERYDA C. COLLINS
TO INTERROGATORIES USPS/OCA-T8-18-23**

USPS/OCA-T8-20. Please refer to page 10, lines 8-10.

- (a) Confirm that cashing a money order at a postal facility would be considered a retail transaction. If you do not confirm, please explain.
- (b) Confirm that cashing a money order purchased at an APO/FPO at a domestic post office would be considered a retail transaction. If you do not confirm, please explain.
- (c) Confirm that there would be retail transaction costs for the Postal Service for cashing the money order in both (a) and (b) above. If you do not confirm, please explain.

RESPONSE TO USPS/OCA-T8-20

- a. Confirmed.
- b. Confirmed.
- c. Confirmed. However, please note that money orders can also be redeemed at any bank in the United States. See DMM § S020.2.2.

ANSWERS OF OCA WITNESS SHERYDA C. COLLINS
TO INTERROGATORIES USPS/OCA-T8-18-23

USPS/OCA-T8-21. Given your proposed cost coverage of 123 percent, and the fact that your proposed APO/FPO money order fee would be two-thirds less than your proposed domestic money order fee, do you believe that APO/FPO money orders would generate sufficient revenue to cover their related costs? If so, please explain the basis of your belief. If not, please justify your proposal to reduce the fee for APO/FPO money orders, with respect to pricing criterion 3.

RESPONSE TO USPS/OCA-T8-21

I have no information regarding the specific costs of APO/FPO money orders. My proposal covers all the reported costs of money order service and provides an appropriate contribution to institutional costs.

**ANSWERS OF OCA WITNESS SHERYDA C. COLLINS
TO INTERROGATORIES USPS/OCA-T8-18-23**

USPS/OCA-T8-23. Please refer to your testimony at page 17, lines 6-7. Describe how electronic Delivery Confirmation service has "matured sufficiently to be effectively provided over the Internet." Please furnish all materials you used to support your statement.

RESPONSE TO USPS/OCA-T8-23

I have used delivery confirmation service on the Internet and was satisfied with the transaction. Also, several of my colleagues have used delivery confirmation over the Internet.

ANSWERS OF OCA WITNESS SHERYDA C. COLLINS
TO INTERROGATORIES USPS/OCA-T8-24-27

USPS/OCA-T8-24.

Please refer to your response to USPS/OCA-T8-9, and the web sites you reference in that response. Confirm that the following table provides an accurate summary of fees charged for the purchase of \$130 and \$700 of money orders from various Internet sources. If you cannot confirm, please provide the necessary corrections.

<u>Name</u>	\$130 Money Order		\$700 Money Order	
	Number Required	Total Fees	Number Required	Total Fees
moneyordernow.com	1	\$2.99	2	\$ 5.98
BidPay.com	1	\$7.93	2	\$25.75
sendmoneyorder.com				
Unbounce-able Internet Check				
Beginner	3	\$9.67	14	\$48.86
Power User	2	\$8.18	7	\$38.43
Super User	1	\$6.69	3	\$32.47
Money Orders				
Beginner	6	\$25.44	28	\$118.72
Power User	3	\$16.47	14	\$76.86
Super User	2	\$13.48	10	\$67.40

RESPONSE TO USPS/OCA-T8-24.

Not confirmed. Under sendmoneyorder.com, for \$130 worth of money orders, I calculated: Beginner, 6, \$24.44; Power User, 3, \$15.47; and Super User, 2, \$12.48; and for \$700 worth of money orders for Super User, 10, \$64.90. I also note that with competitors' fees at such high levels, the Postal Service could be poised to capture much of the Internet money order market if it can offer an electronic money order service at a more reasonable price.

ANSWERS OF OCA WITNESS SHERYDA C. COLLINS
TO INTERROGATORIES USPS/OCA-T8-24-27

USPS/OCA-T8-25.

Refer to your response to USPS/OCA-T8-9.

- (a) Confirm that PayPal.com requires credit card payment before the transfer of money. If you cannot confirm, please specify the required payment method.
- (b) Confirm that PayPal.com charges businesses 1.9% of each transaction for use of the service. If you do not confirm, please identify any charges related to business use of this service
- (c) Please explain why a customer who does not want to provide their credit card information over the Internet to complete a purchase would provide the same information to PayPal.com.
- (d) Confirm that TurboCheck is a software package rather than a service offering. If you do not confirm, please provide a description of the service TurboCheck offers and any related fees or charges.

RESPONSE TO USPS/OCA-T8-25.

- a. Not confirmed. Please see PayPal Terms of Use and Wall Street Journal article, attached.
- b. Confirmed. PayPal recently has added two new features to its website. One of them is service for Business Accounts.
- c. A customer does not have to provide credit card information to use PayPal. See answer to (a) above.
- d. Confirmed.

Terms of Use

THE FOLLOWING ACCOUNT AGREEMENT DESCRIBES THE TERMS AND CONDITIONS IN WHICH CONFINITY, INC. OFFERS YOU ACCESS TO ITS PAYPAL SERVICES. THIS AGREEMENT AFFECTS YOUR RIGHTS AND YOU SHOULD READ IT CAREFULLY.

I. Description of the PayPal Service

PayPal provides a financial platform that facilitates person-to-person financial transactions ("Payments") for registered customers of PayPal™ ("Users") in the following ways:

1. Confinity, Inc. ("Confinity") will transfer a Payment from the PayPal account of a Payment sender ("Sender") to the PayPal account of a Payment recipient ("Recipient") (or to an unregistered account if Recipient is not yet a User) upon electronic notification of the transaction. A User may initiate a Payment by (i) using the PayPal web site to make a Payment to a Recipient ("Web Payment"), (ii) using the PayPal software on a hand-held device to make a Payment to a Recipient's email address ("Email Payment") or (iii) using the PayPal software to make a Payment to a Recipient's hand-held device ("Palm Payment").
2. Recipient will not be able to spend any money received until PayPal receives electronic notification of a Payment and transfers funds to the Recipient.
3. Electronic notification of a Payment occurs (i) immediately when a User initiates a Web Payment, (ii) when the Sender of an Email Payment connects with the PayPal server or (iii) when either the Sender or Recipient of a Palm Payment connects with the PayPal server.
4. Successful transfer of funds occurs (i) immediately upon electronic notification of a Payment, if the Sender's PayPal account balance is greater than or equal to the amount of a Payment or (ii) when a charge to the Sender's credit card is accepted during electronic authorization, if the Sender's PayPal account balance is less than the amount of a Payment and the Sender had elected to fund their account with a credit card.
5. **Once a Payment is made it is non-reversible and non-refundable.**
6. **A User may elect to withdraw all or part of the balance of his or her PayPal account by direct deposit into the User's bank account or by physical check sent to the User's street address.** Direct deposits to a User's bank account will only be processed after proper authorization has been received by PayPal. Such authorization will require verification of the User's email address, bank routing number and bank account number. Physical checks will only be issued upon verification of the User's email address.
7. **Each User who elects to pay with a credit card will be limited to \$500.00 for credit card charges, until verification of email and credit card billing addresses has been completed. Upon verification of both email and credit card billing addresses, the charge limit for each User will increase to \$2,000.00 over a 6-month period, subject to credit availability from the User's credit card company.**
8. The minimum transaction amount for payments between Users is \$0.01.
9. A User may add funds to a PayPal account by requesting an electronic funds transfer from the User's verified bank account or by mailing a physical check to Confinity at its

corporate offices. User agrees to allow Confinity to make two deposits of up to \$0.99 each, at Confinity's own expense, into User's bank account for the purpose of verifying User's bank account.

II. Responsibilities of Users

In order to become a User of PayPal you must register online. You must also read and agree to the terms and conditions of this agreement, including:

1. You must provide Confinity with valid and accurate information. You must be a resident of the United States and be at least 18 years of age. You will not open more than one PayPal account. Confinity reserves the right to terminate duplicate accounts or any account containing untruthful information.
2. If you provide credit card information, you agree that we may charge your credit card for all Payments initiated by you for amounts above your then-current PayPal account balance.
3. If you do not provide credit card information, you agree that you will not attempt to initiate any Payment for amounts above your then-current PayPal balance. If you breach the terms of this paragraph, Confinity reserves the right to reject your Payment and you will be solely responsible for the consequences of this rejection.
4. If you request an electronic funds transfer to your bank account, you will provide an initial authorization in accordance with our instructions. After an initial authorization is received, you agree that we may access your bank account at any time you instruct us to make a transfer to your bank account. If you request an electronic funds transfer from your bank account, you grant Confinity the right to validate the authenticity of your bank account by making a one-time deposit into your bank account at Confinity's own expense. After you have verified your bank account by correctly entering the amounts Confinity deposited on the website, you agree that we may access your bank account at any time you instruct us to make a transfer from your bank account to your PayPal account.
5. You agree not to engage in behavior that could reasonably be construed as providing yourself a cash advance from your credit card, and agree not to assist users who engage in behavior that could reasonably be construed as providing themselves a cash advance from their credit cards. Such behavior includes, but is not limited to, a User paying someone by charging a credit card, then receiving the funds back from the original Recipient and attempting to withdraw the funds from a PayPal account. Confinity reserves the right to reverse all such transactions and to terminate any accounts that are associated with such behavior.
6. You agree not to use unsolicited email, usenet, message board postings, or similar methods of mass messaging (spam) to gather referral bonuses. The use of spam to promote the PayPal service has strict negative consequences. We will immediately and permanently terminate the account of any user who has used unsolicited email to gain referrals. In addition, you may be subject to state and federal penalties and other legal consequences under applicable law if you send unsolicited email. Our Anti-Spam Policy is intended to protect our users, the Internet, and us.
7. You are responsible for confirming the identity of the other party in a payment.
8. You consent to have your name and email address made available as identification to anyone whom you have paid or who has paid you through PayPal.
9. In the event of the loss or malfunction of your handheld device, payments made since

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PayPal Sees Torrid Growth With Money-Sending Service

By JATHON SAPSFORD

Staff Reporter of THE WALL STREET JOURNAL

If your acquaintances are even slightly tech-savvy, it may not be long before somebody beams money into your e-mail in-box.

Don't delete it. The money's good.

It's all part of a new online payment system called PayPal.com (www.paypal.com), and it's growing by 9,000 new users a day just three months after its official launch. The system responds to many of the needs that led to the creation of virtual currencies with names like "beenz" and "Bippy dollars." But PayPal uses real dollars. And now, instead of just techno-nerds, the service is attracting mainstream users.

Driving PayPal's torrid growth is a simple joining of two proven technologies: e-mail and the credit-card network. Registered users can send a payment to anybody with an e-mail address just by writing a dollar amount into an online form. When the e-mail is sent, the payment is charged to the sender's credit card or bank account. Registration takes five minutes.

If the person on the other end isn't a registered PayPal user, that's OK. The receiver just fills out the form attached to the e-payment to tap the money, which is already waiting in a PayPal.com account in the receiver's name.

Completing the form also registers the receiver as a user. "This is what people in technology call a viral product," says Peter Thiel, the chief executive of PayPal.com. "It's easier than catching a cold. And it is spreading as fast as a virus."

Taking the money out of the system isn't as quick. PayPal will cut a check and send it to you through the regular mail, credit it to your credit card or transfer it into your bank account -- all of which can take up to a week. But the big fans of the system keep the money in their accounts to use again.

That last option is the key to how PayPal hopes to thrive. The PayPal account doesn't provide interest, so PayPal can invest any money left there until the user wants to spend it. If PayPal keeps growing at its current rate, the company hopes it will soon manage enough customer money to both make a profit and absorb all the fees involved in credit-card transactions. For now, the PayPal service is free, and Mr. Thiel says the company has no intention of ever charging its customers.

Among PayPal's most common uses is the cybersettling of accounts between family and friends. Andrew Brenner, for example, a 31-year-old tech-industry employee, recently threw a big barbecue party with friends. Afterward, he e-mailed \$83 to pay his buddy for his share of the burgers and beer.

A few weeks later, another friend was short the cash for his share of a fish dinner at a Palo Alto, Calif., restaurant. Mr. Brenner knew that his buddy did have a hand-held computer with e-mail capacity: So right there in the restaurant, over the remains of prawns and swordfish, Mr. Brenner asked his friend to send him an e-mail for \$20.

As the friend sent the e-payment over the red-checkered tablecloth, Mr. Brenner paid the bill knowing

his friend's share would be in his account at PayPal. "PayPal is replacing currency," says Mr. Brenner flatly. "This is becoming the payment service of the Internet."

Some heavy hitters in venture capital agree. Wall Street's Goldman Sachs Group Inc., together with a fund tied to the West Coast Web incubator idealab!, recently invested \$23 million in PayPal.com during its second round of venture financing. Its first round came from Nokia Corp., the Finnish mobile phone giant, and Deutsche Bank AG of Germany. Before that, the company was working with seed money from individuals and a hedge fund run by the current chief executive, Mr. Thiel.

Mr. Thiel, a blond 32-year-old who says "awesome" a lot, graduated from Stanford Law School in 1992 and soon joined the Wall Street law firm of Sullivan & Cromwell. A year later he joined CS First Boston, where he traded currencies for a few years. By 1996 he had moved back out to his native California to start up his own hedge fund. In 1998, he met PayPal's chief technology officer, Max Levchin, who wanted to launch a venture that provided encryption technology.

Mr. Thiel's hedge fund bought into the idea, and Mr. Thiel joined the new venture himself as CEO. Launched in December 1998 under the name Confinity, the company focused on providing financial institutions with the technology to make online and mobile transactions secure. But the start-up soon saw the huge demand for secure payment systems on the Web.

When the new company hit on combining the credit-card network with e-mail and launched the PayPal service, more investors started to take note. Now, Confinity is in the process of changing its corporate name to PayPal, and Mr. Thiel is giving a lot of the company's money away.

That's because PayPal provides a virtual \$10 coupon to any user who signs up a friend -- and gives the friend a \$10 coupon as well. In other words, it costs PayPal \$20 for each new user, or \$2 million for 100,000. Mr. Thiel says the approach is much more effective -- and a lot cheaper -- than buying a 30-second ad during the Super Bowl.

Other companies have also deployed or are working on online payment, including eBay Inc. and CheckFree Holdings Inc. Since PayPal's launch, 190,000 users have signed up, and 9,000 or more new users are signing up each day.

Some investors value Web-based financial-services companies at \$1,000 to \$10,000 a customer. Using the middle of that range, PayPal's franchise would now be valued at around \$500 million.

The product is a particular boon for online auction denizens because it cuts out the risks of being paid by check through the mail. Lisette McConnell, a 33-year-old graphic designer, sells custom-designed neckties on eBay. She has trusted buyers before, sending goods before checks cleared, only to find out the check wasn't any good. Other merchants spend thousands of dollars and per-transaction fees to be able to accept credit cards. But PayPal makes all that unnecessary. "It's like air money," Ms. McConnell says.

There are limitations on bigger transactions, in order to combat fraud and hackers. Cathy Rowekamp, 48 years old, of Winnsboro, S.C., sells antiques online. Once shipping charges are thrown in, her prices are in the thousands of dollars. Buyers of her chests, dressers and rockers must get a form from PayPal through the mail confirming their street address to conduct transactions larger than \$200.

That's supposed to take only a matter of days, but the turbo-charged growth at the company has caused delays, all of which Ms. Rowekamp is finding frustrating. "I want it to work so bad," she says.

One user, Jim Bruene, had his payments frozen when he tried to get around the limit. The publisher of a financial newsletter called Online Banking Report, he sent a freelance reporter several e-payments that totaled more than \$200. But the PayPal fraud alarms kicked off, and Mr. Bruene's money was tied up for weeks. "If you're a consumer and a couple thousand dollars disappeared for two weeks, you probably wouldn't want to use" the service again, Mr. Bruene says.

"Sometimes I worry that we're too obsessed with security," concedes Mr. Thiel. Other online payment systems have received bad press over lax security. But long before last week's hacking attacks, PayPal sought to keep its system secure by hiring a board of advisers staffed with heavyweights in encryption technology. One is Stanford University Prof. Martin Hellman, one of the brains behind the most commonly used form of encryption on the Internet. Another is Stanford Prof. Dan Boneh, who leads a team of researchers who specialize in code breaking.

To fire off payments for anything more than \$200, a consumer must wait for PayPal to send through the mail an address confirmation, which has a coded approval number. Only after keying in that number can consumers make larger payments online. "Fraud protection is a trade-off," says Mr. Thiel. "If you make it totally airtight, it becomes less user-friendly."

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ANSWERS OF OCA WITNESS SHERYDA C. COLLINS
TO INTERROGATORIES USPS/OCA-T8-24-27

USPS/OCA-T8-26.

Refer to your response to USPS/OCA-T8-6. Does the mere fact that a customer lives on a rural route or purchases money orders from a rural carrier imply that the customer has a "modest income"? Please explain.

RESPONSE TO USPS/OCA-T8-26.

No. I am aware of rural routes not far from my own home whose customers most certainly could not be described as having "a modest income." I have no knowledge as to whether these customers purchase money orders from their rural carriers. However, I would suspect that these customers have access to bank accounts and credit cards.

ANSWERS OF OCA WITNESS SHERYDA C. COLLINS
TO INTERROGATORIES USPS/OCA-T8-24-27

USPS/OCA-T8-27.

Refer to your response to USPS/OCA-T8-8.

- (a) Please identify any Postal Service money order competitors you are aware of, besides 13th Street Variety, that charge 28 cents for a money order.
- (b) Please confirm that the owners of the Paradise Liquor Store and 13th Street Variety are not required to charge a fee sufficient to recover their cost of selling a money order. If you do not confirm, please explain.

RESPONSE TO USPS/OCA-T8-27.

- a. I do not have specific knowledge of other competitors who charge 28 cents for a money order. However, I would not be surprised to find others.
- b. Not confirmed. I have no knowledge regarding any business requirements pertaining to the owners of Paradise Liquor Store.

ANSWER OF OCA WITNESS SHERYDA C. COLLINS
TO INTERROGATORY USPS/OCA-T8-28

USPS/OCA-T8-28. Please refer to your response to USPS/OCA-T8-10 (b), where you state that "at least 43 of the 50 increments for insured mail have no empirical justification." Also, please refer to your response to USPS/OCA-T8-10(d), where you confirm that witness Mayo provided data on the number and amount of claims by value increment for insured mail. Finally, please refer to your response to USPS/OCA-T8-10(f), where you state that "there is no cost basis for the incremental fee", and you ask rhetorically how you could provide such a cost basis.

- (a) Please confirm that you did not try to use the claims data provided by witness Mayo to develop a cost basis for an incremental fee. If you do not confirm, please explain why.
- (b) Do you believe that the claims data provided by witness Mayo could not be used to provide empirical justification for incremental insurance fees for each of the insurance value increments? Please explain your response.

RESPONSE TO USPS/OCA-T-8-28.

- a. Confirmed.
- b. I do not know. Please see witness Mayo's responses to OCA/USPS-T39-18-19 and my testimony at pages 13 and 14, including footnote 6.

**ANSWER OF OCA WITNESS SHERYDA C. COLLINS
TO INTERROGATORY USPS/OCA-T8-28**

USPS/OCA-T8-28. Please refer to your response to USPS/OCA-T8-10 (b), where you state that "at least 43 of the 50 increments for insured mail have no empirical justification." Also, please refer to your response to USPS/OCA-T8-10(d), where you confirm that witness Mayo provided data on the number and amount of claims by value increment for insured mail. Finally, please refer to your response to USPS/OCA-T8-10(f), where you state that "there is no cost basis for the incremental fee", and you ask rhetorically how you could provide such a cost basis.

- (a) Please confirm that you did not try to use the claims data provided by witness Mayo to develop a cost basis for an incremental fee. If you do not confirm, please explain why.
- (b) Do you believe that the claims data provided by witness Mayo could not be used to provide empirical justification for incremental insurance fees for each of the insurance value increments? Please explain your response.

RESPONSE TO USPS/OCA-T-8-28.

- a. Confirmed.
- b. I do not know. Please see witness Mayo's responses to OCA/USPS-T39-18-19 and my testimony at pages 13 and 14, including footnote 6.

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 examination. One party, the Postal Service, has
6 requested oral cross examination. Is there anyone else who
7 wishes to cross examine the witness?

8 [No response.]

9 CHAIRMAN GLEIMAN: If not, Mr. Rubin, you may
10 begin.

11 MR. RUBIN: Thank you.

12 CROSS EXAMINATION

13 BY MR. RUBIN:

14 Q Good afternoon, Ms. Collins.

15 A Good afternoon.

16 Q Would you refer to your response to Postal Service
17 interrogatory T8-10, and in particular, I'm interested in
18 the last paragraph of your response to part B.

19 A Yes.

20 Q You state that 43 of the 50 increments for insured
21 mail have no empirical justification. Just for
22 clarification, are you referring to the increments above the
23 \$600 value level up to \$5,000?

24 A I don't have the table that I prepared when I
25 prepared this question. I believe that's correct.

1 Q Thanks.

2 Let's turn to your testimony at page 7.

3 A Yes.

4 Q There you provided a comparison in money order
5 fees from various commercial outlets. In these comparisons,
6 did you consider any charges or services related to these
7 money orders other than the basic fee?

8 A No. Some of these have a fee they charge if
9 you've lost a money order and you want to redeem it. I
10 think some of them, it's up to \$8, I believe.

11 Q And did you consider options for cashing these
12 money orders compared to a Postal Service money order?

13 A A Postal Service money order ought to be the
14 easiest to cash.

15 Q So do you consider these money orders to provide
16 equivalent service as a Postal money order?

17 A Some people would think so. I personally think
18 that the Postal Service money order is a very good
19 instrument for the people to use.

20 Q Please refer to your Exhibit 8-D.

21 A Yes.

22 Q And there you present several sample money orders
23 from private sources. Did you try to cash any of these
24 money orders?

25 A No.

1 Q Please refer ^{to} ~~to~~ page 1 of exhibit. From whom did
2 you purchase this money order?

3 A I think I answered an interrogatory response on
4 that.

5 According to my response to USPS/OCA-T8-16, the
6 fees paid were 59 cents, 75 cents and 49 cents.

7 Q And do you remember where you bought this
8 particular one?

9 A This one on page 1?

10 Q Yes.

11 A I believe that was just downstairs at the Western
12 Union Quick Money Store.

13 Q Thanks.

14 Now look at the back of this money order on page ~~1~~ ²
15 of the exhibit.

16 A Yes.

17 Q Please look at the service charge statement at the
18 bottom left of the page. It states: If this money order is
19 not used or ^{cashed} ~~cash~~ presented for payment, within three years
20 of the purchase date, there will be a non-refundable service
21 charge where permitted by law. The service charge will be
22 deducted from the amount shown on the money order. The
23 service charge is 25 cents per month from the date of
24 purchase but not more than \$21.

25 Did you consider this charge when developing your

1 comparison of money order fees for your chart at page 7 of
2 your testimony?

3 A No.

4 Q Does the Postal Service have a similar charge for
5 redemption of three-year-old money orders?

6 A No.

7 Q Now, on the same page, look at item 3 under the
8 instructions for money order tracing refund request.

9 A Yes.

10 Q Would you agree it refers to an \$8 charge for
11 tracing and refund?

12 A Yes. I think I referred to that earlier.

13 Q Does the Postal Service charge for tracing a money
14 order?

15 A Yes, they do. I believe they do.

16 Q And what charge are they proposing for that?

17 A Three dollars.

18 Q And would that charge include checking if the
19 money order has been cashed by the recipient?

20 A I don't know what is involved in that, but I
21 assume that the Postal Service has some way of checking, and
22 I remember seeing in many Postal bulletins invalid money
23 order numbers listed.

24 Q And does the Postal Service charge for a refund of
25 a money order?

1 A I don't believe so, but I don't know.

2 Q Okay. Let's turn to the next sample in Exhibit
3 8D, pages 3 and 4.

4 A I have it.

5 Q Is this a money order purchased from CVS Pharmacy?

6 A Yes.

7 Q If you were to return to CVS today with this money
8 order completed with your name as payee, would CVS cash the
9 money order?

10 A I assume so.

11 Q If you lost or defaced this money order for any
12 reason, do you know what the procedure is for obtaining a
13 replacement?

14 A I believe there's some prose on the back of it
15 which goes to that subject.

16 Q And is that in the middle of page 4?

17 A I can barely read this.

18 Q It looks like it may be at the top.

19 A I think it may be the paragraph on top.

20 Q Let's turn to the last sample, pages 5 and 6 of
21 Exhibit 8D.

22 A Yes.

23 Q Where was this money order purchased?

24 A It was purchased at a small corner liquor store
25 that's next to my dentist's office. I can't remember the

1 name offhand. It's in Northwest, Washington, about 18th and
2 I.

3 Q Okay. So is it not -- is the fee for this not
4 included on page 7 of your testimony?

5 A No.

6 Q Did you purchase a money order for American Cash
7 Express?

8 A No. You're going back to page 7?

9 Q Yes.

10 In general, do you know if private companies
11 charge a fee for cashing their own money orders?

12 A No, I don't.

13 Q And does the Postal Service charge a fee for
14 cashing money orders?

15 A I don't believe they do.

16 Q Approximately how many post offices and rural
17 carriers are authorized to cash money orders?

18 A That's going to take some digging here. I think I
19 remember there was something like 35,000 postal routes. But
20 Postal Service money orders can also be cashed at any bank
21 in the United States. There's a very large number of places
22 where they can be negotiated.

23 Q So you would agree it's well above 25,000?

24 A Oh, yes. I think it's a superior product. That's
25 why I'm hoping you get in the business on the Internet.

1 Q Okay. One more clarification on the CVS money
2 order, --

3 A Yes.

4 Q -- which was Exhibit 8D, pages 3 and 4, do you
5 recall how much you paid for that money order?

6 A Seventy-five cents.

7 MR. RUBIN: That's all I have.

8 CHAIRMAN GLEIMAN: Is there any follow-up?
9 Questions from the bench?

10 Would you like some time with your witness for
11 redirect?

12 MS. DREIFUSS: We have no redirect, Mr. Chairman.

13 CHAIRMAN GLEIMAN: That being the case, Ms.
14 Collins, that completes your testimony here today. We
15 appreciate your appearance and your contributions to the
16 record. We thank you and you're excused.

17 [Witness excused.]

18 CHAIRMAN GLEIMAN: That concludes today's hearing.
19 We'll convene tomorrow, Tuesday the 18th of July, at 9:30
20 a.m., where we'll receive testimony from Witnesses Horton,
21 Stapert, Prescott, Smith, Baro, Siwek and Tye. Also my
22 recollection is that we have rescheduled Witness Ball for
23 tomorrow.

24 Have a good afternoon.

25 [Whereupon, at 2:40 p.m., the hearing recessed, to

1 reconvene the following day, Tuesday, July 18, 2000, at 9:30
2 a.m.]

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