USPS-RT-15

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

POSTAL RATE AND FEE CHANGES, 2000	**Docket No. R2000-1**

REBUTTAL TESTIMONY
OF
MICHAEL W. MILLER
ON BEHALF OF
UNITED STATES POSTAL SERVICE

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REBUTTAL TESTIMONY
OF
MICHAEL W. MILLER

AUTOBIOGRAPHICAL SKETCH

My name is Michael W. Miller. I am an Economist in Special Studies at the United States Postal Service. Special Studies is part of Cost and Rate Case Development at Headquarters.

In this docket, I testified as a direct witness (USPS-T-24) concerning the total mail processing unit costs and worksharing related savings for First-Class Mail presort letters, First-Class Mail presort cards, Standard Mail (A) Regular presort letters, and Standard Mail (A) Nonprofit presort letters. In addition, my testimony included the cost study supporting the First-Class Mail nonstandard surcharge.

I. PURPOSE AND SCOPE OF TESTIMONY

This testimony offers rebuttal evidence concerning several proposals submitted by First-Class Mail (FCM) intervenors.

Section II contests the First-Class presort worksharing related savings calculations submitted by the Major Mailers Association (MMA) and the American Bankers Association/National Association of Presort Mailers (ABA&NAPM). The Postal Service believes that their savings calculations are overstated.

Section III rebuts the many proposals that seek to further de-average First-Class Mail (FCM) single-piece rates beyond the discount currently offered for Qualified Business Reply Mail (QBRM). These proposals include: the Courtesy Envelope Mail (CEM) discount presented by the Office of the Consumer Advocate (OCA); the "P" rate discount recommended by ABA&NAPM; the metered mail discount offered by Pitney Bowes; and the Personal Computer (PC) Postage discounts suggested by E-Stamp and Stamps.com. The Postal Service believes that these discount proposals should be rejected.

Section IV disputes the OCA's recommendation that the nonstandard surcharge be eliminated for low aspect ratio First-Class nonstandard single-piece letters. The Postal Service believes that the nonstandard surcharge requirements should be maintained in their current form.

II. THE FIRST-CLASS PRESORT LETTER INTERVENOR PROPOSALS OVERSTATE THE WORKSHARING RELATED SAVINGS AND SHOULD BE REJECTED.

In this docket, two intervenors have submitted testimony concerning the First-Class Mail (FCM) presort letters worksharing discounts: the Major Mailers Association (MMA) and the American Bankers Association and National Association of Presort Mailers (ABA&NAPM). Both the MMA and ABA&NAPM proposals have revised the First-Class presort worksharing related savings estimates calculated in my direct testimony (USPS-T-24). As a consequence, they also suggest larger discounts than those proposed by witness Fronk (USPS-T-33). The worksharing related savings estimates and proposed discounts are summarized below in Table 1.

TABLE 1: FIRST-CLASS PRESORT LETTERS WORKSHARING RELATED SAVINGS AND PROPOSED DISCOUNTS

First-Class Presort Letters Rate Category	USPS Savings	USPS Discount	MMA Savings	MMA Discount	ABA& NAPM Savings	ABA& NAPM Discount
Nonauto	0.09	2.00	2.45	2.00	N/A	N/A
Auto Basic	5.18	6.00	6.91	6.20	6.58	6.60
Auto 3-Digit	6.19	6.90	8.43	7.40	7.66	7.80
Auto 5-Digit	8.48	8.70	10.30	9.20	9.03	9.50
Auto Carrier Route	8.82	9.20	10.77	9.70	N/A	N/A

A. THE MMA AND THE ABA&NAPM WORKSHARING RELATED SAVINGS ESTIMATES RELY ON A METERED MAIL LETTERS (MML) BENCHMARK

Witness Bentley (MMA-T-1) has testified on behalf of the MMA. He claims to have "simply followed the Commission's Docket No. R97-1 cost methodology to the extent possible"[1] when developing his worksharing related savings estimates. However, while he uses the Docket No. R97-1 "Commission approved" volume variability factors and "Commission approved" cost pool classifications, he rejects the

[1] Docket No. R2000-1. Tr. 26/12289 at 20-21.

"Commission approved" Bulk Metered Mail (BMM) letters benchmark in favor of his own Metered Mail Letters (MML) benchmark. In addition, his position that BMM letters do not exist has not been substantiated by any current field observations.[2]

Witness Clifton (ABA&NAPM-T-1) has testified on behalf of the ABA&NAPM. Unlike witness Bentley, witness Clifton's analysis utilizes the Postal Service volume variability cost methodology. However, he has also rejected the BMM letter benchmark in favor of the MML benchmark. While skeptical that BMM letters exist,[3] witness Clifton's position has not been substantiated by any current field observations.[4]

B. BULK METERED MAIL (BMM) DOES EXIST AND IS THE PROPER BENCHMARK

In Docket No. R97-1, Bulk Metered Mail (BMM) was used as the benchmark for the First-Class nonautomation and automation basic presort letters rate categories. This benchmark was subsequently supported and relied upon by the Commission.[5]

In the current docket, BMM letters is the benchmark I have used to support the worksharing related savings estimates for the First-Class nonautomation and automation basic presort letters rate categories.[6] Both witnesses Bentley and Clifton feel that this benchmark is no longer appropriate and have gone so far as to question the very existence of BMM letters.[7]

1. The "Meter Bypass" Volume Is Slightly Larger Than The "Meter Belt" Volume

The Management Operating Data System (MODS) data can be used to verify the existence of BMM letters. In addition, I have verified the existence of BMM letters with field personnel.

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[2] Docket No. R2000-1. Tr. 26/12365.
[3] Docket No. R2000-1. Tr. 26/12420 at 14-15.
[4] Docket No. R2000-1. Tr. 26/12597.
[5] PRC Op. R97-1, paragraph 5089.
[6] Docket No. R2000-1, USPS-T-24, page 12, lines 2-4.
[7] See Docket No. R2000-1, Tr. 26/12349 and Tr.26/12418 at 18-19, respectively.

The majority of the metered mail stream is weighed into two MODS operation numbers: 020 and 020B.[8] Operation 020 represents the mail processed on the "meter belt." The meter mail bundles that are culled out of the single-piece mail stream are typically processed in this operation. The bundles are sorted based on destination and/or are unbundled and placed into trays for further processing. The 020B operation is used to weigh the metered mail that enters postal facilities in trays. Since this mail enters postal facilities in trays, it "bypasses" meter belt processing and proceeds directly to automated letter sorting equipment. The Fiscal Year 1999 mail volumes for these two operations are shown below in Table 2.

TABLE 2: FY 1999 METERED LETTER VOLUMES

MODS OP. No.	Operation	Volume	Percent
020	Meter Belt	14,247,194,500	49.26%
020B	Meter Belt Bypass (BMM)	14,674,771,500	50.74%
		28,921,966,000	100.00%

2. The BMM Letters Cost Estimate Could Be Somewhat Overstated

The data in Table 2 clearly show that BMM letters exist. Roughly half of all metered letters are BMM letters weighed into the MODS system as 020 "bypass" mail, while the other half are metered bundles processed in the 020 meter belt operation. Given that nearly half of the metered letters are processed on the meter belt, it goes without saying that the costs related to bundle sorting would be imbedded in a metered letters cost estimate.

As I pointed out in my direct testimony,[9] the BMM letters cost estimate reflects the costs for all metered letters, with the exception that the "1Cancmmp" cost pool is set to zero. As a result, some cost pools that contain bundle sorting activities (e.g., "Pouching" and "1OpPref") are probably higher in magnitude than they would otherwise be, had it been possible to isolate a BMM letters cost estimate using the CRA. Given that these cost pools were classified as "worksharing related fixed," the net result could be that the worksharing related savings estimates calculated for the First-Class

[8] Some individual metered letters are processed by the Advanced Facer Canceler System (AFCS).
[9] Docket No. R2000-1, USPS-T-24, page 12, lines 16-27.

nonautomation and automation basic presort letters rate categories could be somewhat overstated. This point should be given due consideration when evaluating the worksharing related savings estimates calculated in this docket.

III. THE FIRST-CLASS SINGLE-PIECE DISCOUNT PROPOSALS SHOULD BE REJECTED

In the current docket, five intervenors have submitted discount proposals that affect the First-Class single-piece rate category: the Office of the Consumer Advocate (OCA), the American Bankers Association and National Association of Presort Mailers (ABA&NAPM), Pitney Bowes, E-Stamp, and Stamps.com.

In addition to my testimony, three other Postal Service witnesses are rebutting various elements of the proposals submitted by the First-Class single-piece intervenors. Witness O'Hara (USPS-RT-19) discusses the policy implications of de-averaging the First-Class single-piece rate category, witness Staisey (USPS-RT-16) critiques the market research studies submitted by the intervenors, and witness Gordon (USPS-RT-17) discusses issues concerning the Personal Computer (PC) Postage discount proposals.

The Postal Service believes that all five proposals should be rejected at this time.

A. THE OCA'S CEM RATE: HISTORY REPEATING ITSELF

Office of the Consumer Advocate witness Gerarden states that, "the CEM concept always has been a fairly modest concept of sharing the benefits of automation compatible mail with the public."[10] In fact, all First-Class Mail (FCM) users have directly benefited from the letter automation programs that have been implemented by the Postal Service. Automation has helped the Postal Service contain its processing and distribution costs, which has benefited First-Class Mailers in the form of lower rates. In addition, the CEM concept is anything but "modest." A two-stamp system would drastically complicate the way that the general public uses the nation's mail.

[10] Docket No. R2000-1. Tr. 29/13631 at 15-17.

The Office of the Consumer Advocate (OCA) has previously proposed a Courtesy Envelope Mail (CEM) discount on four separate occasions beginning with the initial proposal filed in Docket No. R87-1.

Docket No. R87-1: The OCA first proposed a 5-cent CEM discount[11] based on a calculated cost savings of 8.7 cents.[12] The Postal Service opposed CEM. After evaluating the OCA's proposal, the Commission did not recommend a specific CEM rate. It did, however, recommend a Domestic Mail Classification Schedule (DMCS) language change that would have created a CEM "shell" classification that would have afforded separate rate treatment in a subsequent proceeding.[13] The Governors of the Postal Service rejected that recommendation.[14]

Docket No. R90-1: In Docket No. R90-1, the OCA proposed a 3-cent CEM discount[15] based on a cost savings measurement of 11.4 cents.[16] Again, the Postal Service opposed this proposal. The Commission ultimately rejected the OCA's proposal in favor of its own Public Automation Rate (PAR) concept.[17]

Docket No. MC95-1: In Docket No. MC95-1, the OCA proposed a 12-cent CEM discount[18] based on a cost savings measurement of 13.4 cents.[19] For a third time, the Postal Service opposed this proposal. After evaluating the OCA's proposal, the Commission recommended a CEM shell classification, but did not recommend a specific rate.[20] The Governors rejected the PRC recommendation.[21]

Docket No. R97-1: In Docket No. R97-1, the OCA proposed a 3-cent discount[22] based on a calculated cost avoidance of 4.0 cents.[23] The Postal Service again rebutted

[11] Docket No. R87-1, Tr. 20/14968.
[12] Docket No. R87-1, Tr. 20/14792.
[13] PRC Op. R87-1, paragraph 5038.
[14] Decision of the Governors on Docket No. R87-1.
[15] Docket No. R90-1, Tr. 30/15638.
[16] Docket No. R90-1, Tr. 30/15638.
[17] PRC Op. R90-1, paragraph 5177.
[18] Docket No. MC95-1, Tr. 23/10425.
[19] Docket No. MC95-1, Tr. 23/10334.
[20] PRC Op. MC95-1, paragraph 5082.
[21] Decision of the Governors on Docket No. MC95-1.
[22] Docket No. R97-1, Tr. 21/10685.
[23] Docket No. R97-1, USPS-T-23, page 11, line 4.

that proposal. After evaluating the OCA's proposal, the Commission recommended a shell classification.[24] The Governors ultimately rejected that recommendation.[25]

Docket No. R97-1 was the fourth time that a CEM discount was proposed, and the fourth time that it was rejected. These proposals are summarized below in Table 3.

TABLE 3: CEM HISTORY

Docket No.	Cost Savings	Proposed Discount	PRC Op. & Rec.	Governor's Decision
R87-1	8.7 cents	5.0 cents	Shell Class.	Reject
R90-1	11.4 cents	3.0 cents	Reject	N/A
MC95-1	13.4 cents	12.0 cents	Shell Class.	Reject
R97-1	4.0 cents	3.0 cents	Shell Class.	Reject

Docket No. R2000-1: In the current docket, the OCA has again proposed a CEM discount - for the fifth time. Witness Willette testifies on behalf of the OCA. While witness Willette claims that the CEM proposals have "evolved" over time, I would submit that there is virtually no difference between the Docket No. R2000-1 proposal and the Docket No. R97-1 proposal. The one exception is the inclusion of understated education costs.

The Postal Service maintains the same position that it did in Docket Nos. R87-1, R90-1, MC95-1, and R97-1. The CEM proposal should be rejected.

1. CEM Would Complicate The Nation's Mail System

A second major First-Class single-piece letter stamp would complicate the nation's mail system for everyone, particularly households. These complications include:

[24] PRC Op. R97-1, paragraph 5168.
[25] Decision of the Governors on R97-1.

- The fact that it will be difficult to develop a standardized CEM mail piece design, given the variation that currently exists among CRM mail pieces.

- The fact that all mailers will probably not voluntarily modify their designs which, in turn, would segment the current CRM mail stream into two mail streams that exhibit the same cost characteristics.

- The fact that varied CEM mail piece designs and noncompliance on the part of some reply envelope providers will result in confusion for single-piece mailers.

- The fact that current stamp distribution methods, such as vending machines and consignment outlets, will not accommodate two stamps. The placement of multiple stamps in one booklet will not be a viable alternative because the Postal Service has no way to reliably forecast consumer demand for each stamp denomination. In addition, some parties will undoubtedly want to purchase only one of the two denominations. Therefore, it is possible that the Postal Service would have to manufacture and distribute three separate types of stamp booklets: regular stamps, CEM stamps, and a combination of regular/CEM stamps.

- The fact that it will be necessary to print a greater total number of stamps - in multiple denominations - than would otherwise have been required.

- The fact that some single-piece mail users will have to make more frequent trips to their preferred stamp distribution outlets and/or change their preferred outlet.

- The fact that it may someday be necessary to use multiple "make up" stamps during the time when new rates are implemented.

- The fact that it will be a difficult and costly proposition for the Postal Service to monitor and enforce the proper usage of both stamps.

Witness Willette fails to address these CEM "realities" in her testimony, despite the fact that the OCA has been aware of these issues for some time. Nevertheless, the implementation of this proposal will complicate the nation's mail system - for everyone.

2. The CEM Revenue Loss Would Have To Be Recovered

The CEM proposal would result in a revenue loss to the Postal Service. Witness Willette has stated that this loss could reach $300 million if every CRM mail piece

converted to CEM.[26] However, this estimate fails to address the fact that there will be revenue losses associated with non-CEM letters if consumers use the CEM stamp in error. Depending on the percentage of short paid mail, these revenue losses could range from $11 million to $76 million dollars.[27] While it is true that some overpaid mail pieces would offset these losses, the extent to which this might occur is unknown. Any CEM-related revenue losses would have to be recovered somewhere.

Despite the fact that this proposal has endured five rate cases and thirteen years, witness Willette has yet to develop a comprehensive plan as to how this discount should be funded.[28] No evidence has been offered which shows that a CEM discount would inhibit electronic diversion.[29] In addition, CEM would not create any new cost benefits that would, in any way, offset the corresponding revenue loss. In fact, the Postal Service would incur additional costs in order to implement and maintain a two-stamp system. These additional costs would also have to be recovered.

3. CEM Would Force The Postal Service To Incur Substantial Additional Costs

Were CEM to be implemented, the Postal Service would incur substantial additional costs that it would not normally incur. Some costs are easier to quantify than others. Additional costs would be incurred for education, window service, and revenue protection as shown below in Table 4.

TABLE 4:
QUANTIFIABLE CEM-RELATED COSTS (MILLIONS)

Description	Initial Costs	Annual Costs
Education	$ 33	
Window Service	----	$ 19
Revenue Protection	----	$ 70 - $248
Total	**$ 33**	**$ 89 - $267**

[26] Docket No. R2000-1, Tr. 23/10742 at 13-14.
[27] See Attachment USPS-RT-15B.
[28] Docket No. R2000-1, Tr. 23/10775.
[29] Docket No. R2000-1, Tr. 23/10769.

Education: Witness Willette underestimates education costs by including a figure that covers a direct mailing only.[30] Such an effort would not adequately reinforce consumer behavior; consumers do not always read the direct mail that they receive. A comprehensive education campaign would be required. The Postal Service estimates that it would be necessary to spend approximately $33 million to implement a multimedia campaign designed specifically to explain CEM to the general public.[31]

In Docket No. R90-1, OCA witness Thomas acknowledged that the Postal Service would have to educate the public about CEM.[32] The Postal Service agrees with that assessment. CEM would involve a radical change in the nature of heretofore routine postal transactions and would require each consumer to be acutely aware of when to, and when not to, apply CEM postage. The Postal Service would need to use television, radio, and newspaper advertisements ($21 million) to educate the public about CEM.[33] As a compliment to that campaign, at least one CEM-specific direct mailing ($9 million) would need to be sent to every household and business in the United States. Finally, CEM-specific brochures ($3 million) would need to be prominently displayed in postal retail lobbies. These costs would not be incurred in the absence of CEM.

The education process would also involve additional costs that cannot easily be quantified. For example, some time would have to be spent explaining CEM to the postal workforce. All employees would have to know how CEM works and be able to answer customer inquiries. It would be especially important for employees who maintain regular customer contact (e.g., carriers and window service clerks) to be able to answer CEM questions. In addition, employee training regarding the identification and treatment of short paid mail would need to be reinforced substantially. Informal training on the workroom floor is currently provided using "stand up talks" that supervisors sometimes give to employees at the beginning of their shifts. Initially, these established "information sharing" sessions would be used for training. If problems were

[30] Docket No. R2000-1, Tr. 23/10738 at 9-10.
[31] See Attachment USPS-RT-15A.
[32] Docket No. R90-1, Tr. 30/15355-15358.
[33] See Attachment USPS-RT-15A.

detected, however, a more intensive approach would have to be used and formal training would be required, generating additional system-wide expenses.

To some degree, the magnitude of internal training and all other education efforts would be directly related to the success of the implementation plan. First, an implementation date would have to be determined. Second, all qualifying CEM pieces would have to be marked properly by the implementation date. Any non-compliance would hamper education efforts.

As I indicated earlier, it is doubtful that all CRM would convert to CEM. In that case, it would always be difficult for carriers and/or window service clerks to explain to customers why a CEM stamp could be placed on a properly marked prebarcoded, FIM "A" mail piece, but could not be placed on a similar unmarked mail piece. The explanation that mail pieces must be properly marked would be the technically correct answer, but a technically correct answer may not undo the damage caused by negative customer perceptions.

Window Service: The addition of a second basic single-piece First-Class Mail stamp for letters would increase the number of stamp sales transactions performed by postal window clerks. Window service costs would subsequently increase. These costs are estimated to be $19 million.[34]

Past market research has indicated that household consumers would need to make additional trips to the post office in a CEM environment. In Docket No. MC95-1, Library Reference MCR-88, 42.6% of the survey respondents indicated that additional trips would be required. More trips to the Post Office would translate into increased window service costs.

In assessing the impact that CEM would have on window service operations, it is also necessary to discuss costs that cannot easily be quantified. One such cost would involve the possible diversion of stamps sales transactions from alternative sources such as consignment outlets and ATMs to postal retail outlets. Many households currently purchase stamps through these alternative sources and would have to make additional trips to the post office, to the extent their stamp demands were not satisfied alternatively. Additional work hours would be required to handle transactions that come

back to post offices. Each additional window service stamp transaction would cost the Postal Service 46 cents.[35]

In addition, some stamp sales transactions would be diverted back to postal service window clerks from vending machines. Approximately 24% of the Postal Service's total vending machines are Booklet Vending Machines (BVM).[36] These machines offer one item -- stamp booklets. They cannot hold more than one type of booklet. Some retail lobbies contain more than one BVM and could theoretically carry both stamps. Other lobbies could not. A booklet with a mix of both stamps would not solve this problem because different consumers have different stamp requirements.

Lobbies with one BVM could only offer one type of stamp. Therefore, some customers who might have purchased their stamps using vending machines would end up purchasing stamps through a window clerk. This system would become further complicated at times (e.g., the December holidays) when large volumes of greeting cards would be sent by household consumers. BVMs that usually stocked CEM stamps would probably be changed to stock the full-rated single-piece stamp during these seasonal periods. As a result, the planning associated with stamps sales would become more complicated under CEM.

Finally, window service costs would also be affected by customer inquiries related to CEM (i.e., "when do I use each stamp?"). This fact would be especially obvious during CEM implementation. Each independent CEM inquiry transaction would cost the Postal Service 79 cents.[37] Each CEM inquiry transaction that was part of another transaction (e.g., stamp sales) would cost the Postal Service 42 cents.[38]

Overall, the implementation of the CEM proposal would increase window service transaction costs. These costs would decrease somewhat in the long term. Initially, however, the CEM proposal could have a dramatic impact on window service operations as consumers adjusted to the new system.

Revenue Protection: With the current one-stamp system, it is uncommon for the public to underpay postage for one-ounce letters. If CEM were implemented, that

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[34] Docket No. R2000-1. Tr. 21/9122.
[35] Docket No. R2000-1. Tr. 21/9122.
[36] Docket No. R97-1, Tr. 33/17467 at 22-23.
[37] Docket No. R2000-1. Tr. 21/9123.

situation would change. The opportunity for confusion would be great and the percentage of short paid mail would increase substantially. The exact magnitude of that increase, however, is not known. As a result, I have calculated revenue protection costs (Attachment USPS-RT-15B) for various short paid mail percentage scenarios.[39] These costs would be significant. For example, if the short paid mail percentage increased from the current 1.13 percent to 2 percent, the Postal Service would incur costs on the order of $70 million annually. To minimize these costs, the Postal Service would concentrate its detection efforts at the point of entry to the postal system - the originating P&DC.

For purposes of CEM enforcement, this method would be preferred over the reliance on carriers to identify short paid mail. In today's Delivery Point Sequencing (DPS) environment, carriers would not have an opportunity to inspect many mail pieces until they are out on the street. At that point, they would be riffling through multiple bundles as they walked between delivery points, organizing the mail for the next address. Their attention would be primarily focused on the address, not on the stamp. This would be especially true for substitute carriers who are delivering mail for another carrier's permanent route.

By concentrating identification efforts at originating operations, the Postal Service could attempt to minimize the mail processing costs and service problems related to short paid mail. Therefore, the best place to detect short paid mail would be when it enters these facilities as "collection" mail.

Collection mail is "dumped" from hampers onto conveyor belts that cull mail and ultimately feed Advanced Facer Canceler Systems (AFCS). In an ideal environment, the AFCS would be used to trap short paid mail. However, no technical solution is possible, given the current equipment configurations.[40]

Since short paid mail cannot be captured using automation, it is estimated that two level 6 clerks would be required at each originating plant to sample and record mail after it has been sorted by the AFCS. This additional staffing would cost $40 million

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[38] Docket No. R2000-1. Tr. 21/9124.

[39] A short paid percentage of 7.35% was used as a ceiling in this analysis, as it was in Docket No. R97-1. This figure represented the percentage of additional ounce First-Class letters that were underpaid, since that situation also involved the usage of two different stamp denominations.

annually, regardless of the magnitude of the increase in the short paid mail percentage.[41]

The revenue protection clerks would perform two functions. First, they would identify the extent to which short paid mail was a problem in a CEM environment. They would sample mail from the different AFCS machines and record the volume of short paid mail. These data would be collected nationwide to determine the extent to which the public understands CEM. The Postal Service would evaluate the results, attempt to reinforce proper usage (e.g., send a second direct mailing to households and businesses), and develop an enforcement plan. If short paid mail proved to be a major problem, the revenue protection strategy might have to be re-evaluated and additional staffing could be required at the originating plants, as well as at other plants. If additional staffing were required, revenue protection costs would increase.

The revenue protection clerks would also perform a second function as an integral part of the enforcement plan. Depending on the scope of the problem, these clerks might be retained to isolate and identify mail that contained inadequate postage. They would be the most likely means for capturing short paid mail. As it would not be possible for these clerks to sample every canceled mail piece, this method would not result in all short paid mail being found. Only a portion of short paid mail would be captured. For the 2 percent short paid example, the annual costs for returning this mail would be $29 million.[42]

After being identified, short paid mail would be forwarded to a postage due unit. The postage due clerks would rate the mail piece and forward it to a manual outgoing primary operation (030). The 030 clerks would then sort the mail to the ZIP Code level before it would be sent back to the delivery unit.[43] At the delivery unit, accountable clerks would process the mail before the carrier picked it up for return to sender. Following delivery, the carrier would return the funds and clear the paperwork with the accountable clerk.

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[40] Docket No. R97-1. Tr. 33/17512-17514.
[41] See Attachment USPS-RT-15B.
[42] See Attachment USPS-RT-15B.
[43] For purposes of cost determination, it was assumed that the vast majority of mail being returned would fall within the local service area of the originating plant. In some cases, that might not be true and additional handlings would be required.

The summary table in Attachment USPS-RT-15B shows that the costs of identifying and returning short paid mail always outweigh the corresponding revenue losses. Accepting these revenue losses would not be an adequate solution. The Postal Service would have to spend the money to reinforce proper CEM usage.[44]

The great unknown in a "CEM world" is the extent to which the general public would correctly use two stamps. The OCA cites data that show the public tends to overpay postage as a means to infer that the same result would occur with CEM.[45] However, this is not necessarily the case.

In GFY 1999, 240 million mail pieces were short paid by 1 cent.[46] These short payments were likely due to the rate increase. It is surprising that so many pieces were short paid, given the fact that general public should be familiar with this process. In addition, the short payment problems associated with rate increases are temporary as consumers exhaust their stamp supplies. On the other hand, CEM short payment problems would likely be chronic. In the current system, with one basic rate and corresponding stamp denomination, underpayment of postage for First-Class single-piece letters weighing less than one ounce is uncommon. In a "two-stamp" CEM environment, misapplication of postage would occur with much greater frequency.

Other Costs: In addition to the costs related to education, window service, and revenue protection, the Postal Service would incur other costs which are not as easily quantified. As an example, households and businesses could use 34-cent stamps only, 31-cent stamps only, 34-/31-cent stamps, or 31-/3-cent stamps. The mix of stamps that the public would ultimately use is not known. The Postal Service would have to ensure that sufficient quantities of 34-, 31-, and 3-cent stamps were available at the time CEM were to be implemented. The amount of stamps produced in advance of CEM implementation would be greater than the amount normally produced. Therefore, additional costs related to inventories, planning, and distribution would be incurred.

It would be expected that these costs would eventually be eliminated as the Postal Service adjusted to stamp demand, but that might not necessarily be the case if

[44] OCA witness Thomas agreed that reinforcement was necessary (Docket No. R90-1, Tr. 30/15357-15358).
[45] Docket No. R2000-1. Tr. 23/10799 at 21-24.
[46] Docket No. R2000-1, Response to OCA/USPS-69.

a large percentage of consignment outlets chose to offer only one stamp. In that situation, the inventories in postal Stamp Distribution Centers (SDC) could ultimately increase. In addition, the average cost per stamp could increase if the Postal Service required smaller batches of more stamp types, as stamp costs are driven by production volumes.

In the past, the OCA has ignored the Postal Service's claims that CEM would result in additional education, window service, and revenue protection costs. The belief that a major change could be made to the current system with no impact on costs defies logic. Additional costs would be incurred. In order to implement and maintain CEM, I have shown that the Postal Service could spend in the range of $122 - $300 million. These costs would have to be recovered in addition to the revenue loss associated with CEM. It would not make financial sense for the Postal Service to spend that amount to realign a maximum of $300 million worth of postage costs.[47]

4. CEM Would Not Fairly And Equitable Distribute Postage Costs

As stated in past dockets, the CEM proposal is "distinctly one-sided."[48] *If the* OCA were truly interested in de-averaging First-Class single-piece rates, their proposal would include a rate for high cost mail pieces, such as handwritten letters, and a second rate for low cost mail pieces, such as CRM. No such proposal has been submitted. In fact, the single-piece mail stream seems to follow three distinct cost breakdowns for the following letter mail types: handwritten letters, machine printed/typewritten/metered letters, and prebarcoded letters.[49] Given this fact, the one-sided de-averaging that CEM represents is clearly not fair and equitable.

CEM would also create inequities that do not currently exist. In Docket No. R97-1, it was shown that if CEM were implemented 37- percent of the public were not likely

[47] In all likelihood, the amount of postage costs would be much lower because all CRM would not convert to CEM, and some consumers would choose to pay one average rate (Docket No. R2000-1, Tr. 23/10775).

[48] Decision of the Governors of the United States Postal Service on the Recommended Decisions of the Postal Rate Commission on Courtesy Envelope Mail and Bulk Parcel Post, Docket No. MC95-1 at 5 (March 4, 1996).

[49] Docket No. R97-1, Tr. 33/17479.

to purchase both the basic rate and CEM stamps.[50] CEM would therefore create a situation where these households could be perceived as paying more than their fair share of postage.

In addition, there would be revenue losses and CEM-related costs that must be recovered. If those costs were not recovered through the single-piece rates, other entities could end up paying to fund CEM. Ironically, it could end up being the same businesses that have provided the reply envelopes to households. It is assumed, however, that businesses would pass any additional costs they incur on to consumers in order to maintain their financial position.

5. The Postal Service Continues To Oppose The CEM Rate

The Postal Service opposes the CEM proposal presented in the current docket, just as it opposed the proposals submitted in Docket Nos. R87-1, R90-1, MC95-1, and R97-1. This proposal would unnecessarily complicate the nation's mail system, would result in a revenue loss that would have to be recovered, would result in additional costs to the Postal Service that would also have to be recovered, and would not fairly and equitably distribute postage costs.

B. THE ABA&NAPM'S "P" RATE: A "RISKY VENTURE"

A close relative of CEM can be found in witness Clifton's "P" rate proposal, which he himself describes as a "risky venture."[51] What the "P" rate proposal lacks in rate litigation history, it more than compensates for in terms of poor planning. In reviewing this proposal, the question is not so much how the presort industry would process letters and cards that contain "P" rate stamps. The real question is whether the presort industry could process this mail at all.

[50] Docket No. R97-1, Tr. 35/19058-19172.
[51] Docket No. R2000-1, Tr. 26/12684 at 20.

1. The "P" Rate Proposal Also Results In A "Two Stamp Problem"

The "P" rate proposal involves an alternative (lower) basic rate for single-piece First-Class Mail entered into postal facilities, for the sender, by an intermediary presort bureau or MLOCR-qualified mailer. Witness Clifton has recommended that the "P" stamp be offered at a 2-cent discounted rate. The CEM issues concerning revenue losses and additional education, window service, and revenue protection costs would therefore apply to the "P" rate proposal as well. In fact, these problems would be further complicated were both the CEM and "P" rate proposals implemented because the Postal Service would have to contend with three alternative basic rate First-Class Mail stamps.[52]

2. It Has Not Been Demonstrated That The Presort Industry Could Handle The Additional First-Class Single-Piece Mail Volume

NAPM witness MacHarg could not provide a system-wide presort industry equipment inventory.[53] As a result, there is no evidence demonstrating that the industry could handle the additional mail that could potentially migrate to the "P" rate, were this proposal approved.

In addition, presort bureaus/MLOCR qualified mailers do not currently house cancellation equipment, such as the AFCS.[54] Since "P" rate mail pieces contain stamps, they would have to be cancelled. Witness MacHarg feels that the MLOCRs that are currently used by the presort industry could be modified with a second printer to accomplish this task. It is not clear that presort industry equipment is equipped with this modification to any significant degree. Even if it were, a modified MLOCR could not automatically adjust the cancellation height, as does the AFCS, to accommodate the wide variety of mail piece heights that would be found in the single-piece mail stream. Witness MacHarg states that the mail pieces would have to be culled by height prior to

[51] Docket No. R2000-1, Tr. 26/12684 at 20.
[52] Witness Willette proposes a 3-cent CEM discount while witness Clifton proposes a 2-cent "P" rate discount. In addition, it is unclear precisely how both discounts would co-exist.
[53] Docket No. R2000-1, Tr. 26/12168-12170.
[54] Docket No. R2000-1, Tr. 26/12166.

being cancelled on a modified MLOCR.[55] This labor-intensive process seems unlikely to occur. As a result, it seems likely that many presort bureaus/MLOCR qualified mailers would have to choose between purchasing cancellation equipment, or not processing "P" rate mail at all.

Another issue that is unclear is the extent to which the presort industry has access to Remote Computer Read (RCR)/Remote Bar Code Sorter (RBCS) processing.[56] I am informed by postal engineers that roughly 50% of the presort bureaus/MLOCR qualified mailers use RCR technology. In contrast, the Postal Service has virtually 100% RCR/RBCS coverage. Despite the fact that the RCR coverage in the presort industry is much lower, witness Clifton attempts to use Postal Service RCR improvements to support the "P" rate.[57] Indeed, RCR has improved the amount of mail that can be finalized electronically, without keying. However, if large volumes of handwritten mail were to migrate to the presort industry, the Postal Service could still receive a large percentage of this mail with no "worksharing" having been performed.

As it is, postal mail processing plants occasionally divert handwritten mail to less efficient processing alternatives during the holiday mailing season when equipment capacity has been exceeded. Assuming widespread use of the "P" rate, the presort industry would likely have the same experiences and could end up "passing on" unresolved handwritten mail to the Postal Service. Again, the senders of these mail pieces would have received a discount, irrespective of whether "worksharing" activities were performed.

The ABA&NAPM has clearly not developed a formal plan demonstrating that the presort industry could process single-piece mail. There is no "P" rate volume forecast and the current equipment inventory is not known.

[55] Docket No. R2000-1, Tr. 26/12186 at 15-19.
[56] Docket No. R2000-1, Tr. 26/12169.
[57] Docket No. R2000-1, Tr. 26/12435 at 16-19.

3. The Discount Has No Cost Savings Basis

Witness Clifton's proposed 2-cent discount recommendation is not based on any cost savings estimate.[58] Instead, he has relied on informal discussions held with NAPM executives regarding the profit they "could withstand going into this risky venture."[59] Consequently, it is difficult to evaluate the specific discount suggested in this proposal.

4. The Postal Service Opposes The "P" Rate

The Postal Service opposes the "P" rate proposal just as it has opposed, and continues to oppose, other "two-stamp" proposals. Were the "P" rate proposal implemented, it would result in additional costs and revenue losses to the Postal Service. These additional costs and revenue losses would have to be recovered somewhere. However, it is difficult to estimate the Test Year (TY) financial impact that this proposal would have on the Postal Service because there is no volume estimate for "P" rate mail. In fact, witness Clifton has stated that he doesn't think his "P" rate proposal could be implemented by the Test Year.[60] To say the least, the "P" rate proposal appears premature at this time.

C. THE PITNEY BOWES METERED MAIL RATE: DE-AVERAGING THAT CROSSES "THE LINE"

On behalf of Pitney Bowes, witness Haldi has has proposed a 1-cent discount for "metered" cards, letters, flats and Irregular Parcels and Pieces (IPPs).[61] The term "metered" is defined to include stand-alone dedicated postage evidencing devices, like traditional postage meters, as well as Personal Computer (PC) postage application methods, like Pitney Bowes "ClickStamp."[62] The 1-cent discount is based on an estimated 2.3-cent cost savings that reflects avoided stamp manufacturing and distribution costs.[63]

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[58] Docket No. R2000-1, Tr. 26/12603.
[59] Docket No. R2000-1, Tr. 26/12684.
[60] Docket No. R2000-1, Tr. 26/12682 at 19-20.
[61] Docket No. R2000-1, Tr. 29/13893 at 9-10.
[62] Docket No. R2000-1, Tr. 29/13893.
[63] Docket No. R2000-1, Tr. 29/13901 at 23.

1. Postage Meters Were Developed To Save Mail Clerk Costs - For Postal Service Customers

In his testimony, witness Haldi describes postage meters as "the earliest form of organized worksharing."[64] It is true that postage meters were invented as a means to save mail clerk costs. However, the postage meter was originally designed to save mail clerk costs for Postal Service customers, not for the Postal Service itself.

At the turn of the century, Arthur Pitney had already begun experimenting with a variety of ways to apply postage stamps to letters using machines. His idea was primarily based on his observations that mail operations at the wallpapering firm at which he worked were quite slow. Mail clerks laboriously applied postage stamps to hundreds of mail pieces every day. In addition, store employees often pilfered these stamps. In his search for a workable solution, Mr. Pitney felt that the idea of a postage meter had merit. His goal then became one of eliminating the time consuming activities associated with buying, licking, and sticking stamps.[65]

Several Congressmen initially resisted the application of postage meter/permit technology to First-Class Mail. They were primarily concerned about the danger of fraud.[66] However, Mr. Pitney's new business partner, Walter Bowes, ultimately overcame this resistance. Congress enacted a law on April 24, 1920 stating that:

> Under such regulations as the Postmaster General may establish for the collection of the lawful revenue and for facilitating the handling of such matter in the mails, it shall be lawful to accept for transmission in the mails, without postage stamps affixed, any first-class matter, provided the postage has been fully prepaid thereon at the rate required by law.[67]

On November 16, 1920, the first metered mail was dispatched through the Stamford, Connecticut Post Office by the representatives of the Pitney-Bowes Postage Meter Company.[68]

Since the early years of postage meters, the Postal Service has continued to implement new stamp manufacturing, application, and distribution methods. Today,

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[64] Docket No. R2000-1, Tr. 29/13896-13897.
[65] Cahn, William. The Story of Pitney-Bowes. Harper and Brothers, 1961, pages 4-5.
[66] Id. at 47.
[67] Id. at 50.

customers can purchase regular or self-adhesive stamps at Postal Service retail outlets, in vending machines, in ATM's, at consignment outlets, through Stamps On-Line, and through Stamps-By-Mail. Some customers also have the option to apply postage using alternative means. Postage meters, permit indicia, and PC postage products can all be used to apply postage without using stamps. The Postal Service offers these many options in order to make access to the nation's mail system simple and convenient. Each of these methods has different costs and benefits to the Postal Service and the customers who use them. Some might argue that each is a form of "worksharing" which should be reflected in the rate schedule.

2. Witness Haldi Presents No Compelling Basis For Redefining Worksharing Cost Avoidance

In Docket No. R77-1, the Postal Service cost avoidance estimate for First-Class presort mail included costs related to stamp procurement. In response to this methodology, the Commission stated:

> Finally, to include stamp procurement and mail collection costs not incurred by presorted mail in an estimate of avoided costs, as witness Eden has done, is not consistent with the cost avoidance concept. If presorted first-class mail were not presorted, it would still be metered or imprinted and deposited in bulk. Therefore, these cost effects are present regardless of presorting and are not properly included as avoided costs.[69]

Similarly, if a metered mail discount were not implemented, these mail pieces would still continue to be metered because this is the most convenient and cost-effective postage application method for some mailers. Witness Haldi has provided no compelling basis for redefining "worksharing" so that it includes stamp-related costs.

3. It Is Unclear Where The Line Should Be Drawn

Witness Haldi proposes that this discount only extend to single-piece First-Class Mail on which postage is affixed by PC Postage applications or meters. His rationale is that this mail "avoids" stamp manufacturing and distribution costs. However, the same

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[68] Id. at 56.
[69] PRC Op. R77-1, page 258-259.

could be said of other mail that also uses stamp alternatives. Were these alternatives not available, stamps would likely be used. The following mail pieces could also be characterized as "avoiding" stamp manufacturing and distribution costs: Business Reply Mail (BRM), First-Class workshared mail, Periodicals, and Standard Mail (A) workshared mail.

If a meter discount were extended to other mail that "avoids" stamp manufacturing and distribution costs, the revenue loss could be substantial. The potential loss calculated below in Table 5 includes the Test Year (TY) revenue loss calculated for the current metered mail volume by witness Haldi.[70] In addition, it also includes revenue losses for PC Postage, Business Reply Mail (BRM), First-Class workshared mail, Periodicals, and Standard Mail (A) workshared mail. This potential $1.804 billion revenue loss can be thought of as a maximum because some of these mailers, such as Standard Mail (A) Non Profit mailers, also use stamps to some degree. The logical place to shift the burden of this loss would be to those mail pieces that use stamps to pay postage.

4. The Postal Service Opposes The Metered Mail Rate

Mailers currently apply postage using meters because this is the most convenient, cost-effective postage solution for them. The various methods that can be used to obtain and apply postage exhibit a wide variety of costs, whether these methods involve stamps or not. In addition, there are many other mail pieces, other than metered mail, that also avoid stamp manufacturing and distribution costs. If those mail pieces also qualified for this discount, the revenue loss would be substantial. This loss would likely have to be recovered from mailers that use stamps. As a result, the Postal Service opposes the metered mail rate proposed by Pitney Bowes.

[70] Docket No. R2000-1, Tr. 29/13910 at 16.

TABLE 5: POTENTIAL TY REVENUE LOSS FOR A 1-CENT "METERED MAIL" DISCOUNT

Product Description	Volume (Millions)	Revenue Loss (Millions)
1. Existing Metered Mail	24,501	$ 245
2. PC Postage Mail	4,000	40
3. Business Reply Mail	887	9
4. First-Class Presort Letters	47,049	470
5. First-Class Presort Cards	2,734	27
6. Periodicals In-County	872	9
7. Periodicals Non Profit	2,096	21
8. Periodicals Classroom	56	1
9. Periodicals Regular	7,410	74
10. Standard Mail (A) Regular	42,784	428
11. Standard Mail (A) ECR	33,631	336
12. Standard Mail (A) Non Profit	11,511	115
13. Standard Mail (A) NP ECR	2,907	29
Total	**180,438**	**$ 1,804**

Volume Source:

1. Docket No. R2000-1, Tr. 29/13937 at 19.
2. Docket No. R2000-1, Tr. 23/10584 at 20-23.
3. Docket No. R2000-1, LR-I-117.
4. Docket No. R2000-1, USPS-T-6, Table 3A.
5. Docket No. R2000-1, USPS-T-6, Table 5B.
6. Docket No. R2000-1, USPS-T-6, Table 7A.
7. Docket No. R2000-1, USPS-T-6, Table 8A.
8. Docket No. R2000-1, USPS-T-6, Table 9A.
9. Docket No. R2000-1, USPS-T-6, Table 10A.
10. Docket No. R2000-1, USPS-T-6, Table 11A.
11. Docket No. R2000-1, USPS-T-6, Table 12A.
12. Docket No. R2000-1, USPS-T-6, Table 13A.
13. Docket No. R2000-1, USPS-T-6, Table 14A.

D. THE ESTAMP AND STAMP.COM PC POSTAGE RATES: DISCOUNTS AHEAD OF THEIR TIME

In August 1999, the Postal Service permitted private vendors to begin selling postage on the internet, which could be accessed by Personal Computer (PC).

1. PC Postage Discounts Would Offset Usage Fees

One vendor, E-Stamp Incorporated, offers an "open system" PC Postage product.[71] E-Stamp customers must purchase a $49.99 "starter kit" that contains a software CD, an "electronic vault" that attaches to a computer port and printer,[72] an address matching CD, and sample labels. The address cleansing process requires the use of the address matching CD. Each postage purchase is subject to a 10% "convenience fee," with minimum and maximum fee charges of $4.99 and $24.99, respectively.

Another vendor, Stamps.com, also offers an "open system" PC Postage product. The required software can be downloaded over the internet. As a result, the address cleansing process is performed on-line. Stamps.com offers a "simple plan" and a "power plan." Under the simple plan, each postage purchase is subject to a 10% "service fee" with a minimum fee charge of $1.99. Under the power plan, subscribers are charged a flat monthly fee of $15.99 and can print an unlimited amount of postage.

In this docket, both E-Stamp and Stamps.com propose discounts for open system PC postage products. E-Stamp witness Jones proposes a 4-cent discount for letters when the address, barcode, and indicium are printed directly on the envelope.[73] Witness Jones states that "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."[74]

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[71] Docket No. R2000-1, Tr. 29/13646 at 6-8. "Open system" PC postage products are those that undergo an "address cleansing" procedure that results in an approved delivery address and POSTNET delivery point barcode.

[72] The electronic vault allows the user to print postage without being connected to the internet.

[73] Docket No. R2000-1, Tr. 29/13651 at 3-7. E-Stamp does not propose a discount for letters when the address, barcode, and indicium are printed on labels affixed to the envelope.

[74] Docket No. R2000-1, Tr. 29/13648 at 9-11.

Stamps.com witness Heselton proposes two separate discounts: a 4-cent discount for letters when the address, barcode, and indicium are printed directly on the envelope, and a 3-cent discount for letters when the address, barcode and indicium are printed on labels.[75] Unlike witness Jones, witness Heselton does not imply that the fate of PC Postage is dependent upon a discounted rate. In fact, for some mail pieces witness Heselton "doubts very much that most single-piece mailers would go through those steps, or even some portion of them, to save 4 cents on postage."[76]

The fact that both E-Stamp and Stamps.com propose 4-cent discounts may be coincidental. However, it does not appear to be coincidental that the proposed discounts would offset the 10% fees that both organizations charge their customers.[77] As witness Jones stated, "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.[78]

2. The Worksharing Related Savings Estimates Are Overstated

The discounts proposed by E-Stamp and Stamps.com are based on the worksharing related savings estimates calculated by witness Prescott (E-Stamp-T-2) and witness Heselton (Stamps.com-T-1), respectively. The methodologies used by both witnesses have overstated the savings for PC Postage letters.

E-Stamp: Witness Prescott's estimates are particularly problematic. He calculates two separate estimates using methodologies that are slightly different.

The first savings estimate of 6.15 cents uses mail processing unit cost data for the First-Class presort letters rate categories. This estimate is calculated to be the mail processing unit cost difference between "nonautomation presort letters" and "automation non-carrier route presort letters."[79] The first CRA category is a rate category in itself, while the latter category contains the aggregate costs for the automation basic presort, 3-digit presort, and 5-digit presort letters rate categories.

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[75] Docket No. R2000-1, Tr. 23/10482 at 5-9.
[76] Docket No. R2000-1, Tr. 23/10506.
[77] A 4-cent discount would offset the 10% fee of 3.3 cents that would be assessed against a First-Class single-piece first-ounce mail piece that required 33 cents in postage.
[78] Docket No. R2000-1, Tr. 29/13687.
[79] Docket No. R2000-1, Tr. 29/13762, Table 1.

Nonautomation presort mail pieces can weigh up to 13 ounces, while automation presort letters are limited to 3.3 ounces. In addition, the mail characteristics data show that roughly 25% of nonautomation presort letters are processed manually.[80] In contrast, automation presort letters must be machinable by definition. Finally, the level of presortation between these two categories is vastly different. Nonautomation presort letters are presorted to either 3 or 5 digits 70% of the time, while automation presort letters are presorted to either 3 or 5 digits 86% of the time.[81]

Witness Prescott attempts to adjust for these differences by further subtracting a "cost difference related to presort" from the savings measure described above. The "cost difference related to presort" is calculated to be the mail processing unit cost difference between "BMM letters" and "nonautomation presort letters."[82] Again, the mail characteristics for these two mail types are vastly different. Nearly 25% of nonautomation presort letters are processed manually while the vast majority of metered mail is machinable.

Witness Prescott's second savings estimate of 5.024 cents relies upon mail processing and delivery unit cost data found in my direct testimony (USPS-T-24). The estimate is calculated to be the mail processing and delivery unit cost difference between "nonautomation presort letters" and "automation basic presort letters."[83] Witness Prescott again attempts to adjust this figure for cost differences related to presortation. He calculates a "cost difference related to presortation" by subtracting the mail processing and delivery unit costs for nonautomation presort letters from the corresponding costs for Bulk Metered Mail (BMM) letters. For the reasons discussed above, the approach used to calculate the second savings estimate is just as flawed as the approach used to calculate the first.

A more appropriate approach would have been to determine a benchmark cost for the mail most likely to convert to PC Postage and then estimate the postal mail processing cost avoidance as a result of such conversion. Witness Prescott has not

[80] Docket No. R2000-1, USPS-T-24, Appendix I, page I-38.
[81] Docket No. R2000-1, USPS-T-24, Appendix I, page I-38.
[82] Docket No. R2000-1, Tr. 29/13672, Table 1.
[83] Docket No. R2000-1, Tr. 29/13763, Table 2.

completed such an analysis. As a result, he has improperly estimated the PC Postage worksharing related savings.

Stamps.com: Witness Heselton relies on a Qualified Business Reply Mail (QBRM) savings estimate of 2.99 cents[84] in developing his PC Postage worksharing related savings estimate.[85] He also includes a "return-to-sender" cost avoidance of 1.14 cents.[86] In total, he calculates a 4.13-cent worksharing related savings estimate.

The QBRM cost avoidance estimate was calculated using a handwritten letter as a benchmark. Witness Heselton claims that the same benchmark should apply to PC Postage letters, despite the fact that he estimates that 2/3 of the mail pieces converting to PC Postage previously had a machine printed/typewritten address.[87] He made no attempt to use a machine printed/typewritten mail piece as a benchmark, nor did he attempt to use a weighted benchmark reflecting a mix of both machine printed/typewritten mail pieces and handwritten mail pieces.[88]

The comparisons that witness Hesleton has made between QBRM and PC Postage mail pieces are somewhat erroneous. QBRM is largely used to make contact with individual household mailers. If QBRM recipients did not provide these mail pieces to their customers, those customers would likely have to address a mail piece by hand, or use some non-mail alternative.

In contrast, PC Postage appears to target small businesses and home office businesses.[89] The use of a handwritten letter benchmark to calculate the savings for PC Postage letters makes less sense because many businesses currently enter letters with machine printed/typewritten addresses. In addition, the prebarcoded reply mail piece that is used to calculate the QBRM cost avoidance is processed through different operations than a PC Postage mail piece.[90] As a result, the 2.99-cent figure that witness Heselton cites in his testimony overstates the PC Postage letter worksharing related savings.

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[84] Docket No. R2000-1, USPS Library Reference LR-I-146.
[85] Docket No. R2000-1, Tr. 2310458 at 14-19.
[86] Docket No. R2000-1, Tr. 23/10462 at 13-14.
[87] Docket No. R2000-1, Tr. 23/10460 at 11-13.
[88] Docket No. R2000-1, Tr. 23/10537-10539.
[89] Docket No. R2000-1, Tr. 29/13814-13857.
[90] PC Postage mail processing methods will be discussed in the next section.

The inclusion of Undeliverable As Addressed (UAA) costs in his savings estimates is also not appropriate. Any UAA-related cost differences that exist between a selected benchmark and a specific mail type or rate category have already been included in the mail processing unit costs. Since the savings estimates rely on CRA-adjusted costs, any UAA-related cost differences that might have existed between these mail pieces would have been included in the savings estimate.

3. Mail Processing Operations Are Not Currently Configured To Capture PC Postage Barcode Savings

A savings estimate that would have used a machine printed benchmark would have yielded little to no savings because postal mail processing operations are not currently configured to capture PC postage savings. This fact is not likely to change because the automation outgoing primary operation is used to process reply mail.

PC Postage letters contain a FIM "D" marking and are sorted to the "machine printed/imprint" bins (5 and 6) on the Advanced Facer Canceler System (AFCS). Stamps.com witness Kuhr has stated that 13% of the total QA envelopes received have FIM markings that do not fall within specification.[91] If a given FIM "D" marking does not meet DMM specifications, the PC Postage letter will still be sorted to bin 5 or 6 on the AFCS. This mail piece would ultimately pass through the AFCS "enricher" module and would be interpreted as having a "machine printed/imprint" address. Since machine printed mail is also sorted to bins 5 and 6, the FIM "D" marking has little impact on how the mail piece is sorted on the AFCS, as the operation is currently configured.

The mail from bins 5 and 6 is routed to a Multi Line Optical Character Reader Input Sub System (MLOCR-ISS) for subsequent processing. The MLOCR-ISS will either read the barcode (if present) or it will scan the address block in order to determine the proper barcode. In the latter case, the MLOCR-ISS will apply a barcode in the lower right hand corner of the mail piece if it is able to successfully "resolve" the mail piece. Given that PC Postage letter addresses are machine printed and have been "cleansed," it is likely that the MLOCR-ISS will either read the barcodes or

[91] Docket No. R2000-1, Tr. 23/10351.

successfully apply barcodes to the mail pieces so that Remote Computer Read (RCR)/Remote Bar Code System (RBCS) processing would not be required. The PC Postage letters would then likely be routed to the outgoing secondary operation.

Machine printed mail pieces would have also been processed on the MLOCR-ISS and would have likely been "resolved." Therefore, there would have been little to no savings had a machine printed benchmark been used. This fact would not change if PC Postage letters were routed directly from the AFCS to the outgoing primary operation. In that situation, the mail would still pass through an extra processing step. The PC Postage mail pieces would, in all likelihood, be sorted to a "residue" bin and routed to the outgoing secondary operation. This is the same result that would have occurred had the mail piece been processed on the MLOCR-ISS.

4. The Postal Service Opposes PC Postage Discounts At This Time

The first PC Postage vendors were approved in August 1999. The Postal Service is optimistic about the future development of PC Postage alternatives. However, there is a lot of uncertainty associated with these products at this time. The worksharing related savings for PC Postage letters is clearly not of the magnitude estimated by either witness Prescott or witness Heselton. In addition, mail processing operations are currently not set up to capture any savings that might occur as a result of PC Postage mail pieces being prebarcoded. As a result, the Postal Service feels that it is premature to consider a discount to PC Postage letters at this time.

IV. THE NONSTANDARD SURCHARGE SHOULD BE MAINTAINED FOR LOW ASPECT RATIO LETTERS

The nonstandard surcharge was first proposed by the Postal Service, and subsequently approved by the Commission, in Docket No. MC73-1. In that docket, a surcharge was proposed for First-Class Mail (FCM) pieces weighing less than one ounce with dimensions that had any of the following characteristics: (1) length greater than 11.500", (2) height greater than 6.125", (3) thickness greater than 0.250", (4) aspect ratio (length/height) that did not fall between 1:1.300 and 1:2.500. In his testimony, Postal Service witness Winston emphasized that:

The objectives of this surcharge proposal are to avoid the added costs incurred in handling certain nonstandard mail pieces (by encouraging the use of standard-size mail pieces) and to receive adequate compensation for the added costs of handling those items which remain nonstandard (through revenues from surcharges).

. . .

Though a surcharge on oversize mail has not been implemented in this country, it is fairly common in the postal systems of the world. Belgium, Germany, and Japan are among the nations which maintain a rate differential between standard-size mail and mail which does not meet prescribed standards.[92]

A. THE LINE MUST BE DRAWN SOMEWHERE

The nonstandard surcharge still exists today. Many countries continue to maintain length, height, and thickness standards for letter-shaped mail. In fact, the United States maintains relatively relaxed standards as shown below in Table 6.

TABLE 6: INTERNATIONAL POSTAL STANDARDS
MAXIMUM DIMENSIONS (INCHES)

Organization	Length	Height	Thickness
USPS (Standard Letter)	11.500	6.125	0.250
Canada Post (Standard Letter)	9.646	5.906	0.197
Australia Post (Small Letter)	9.449	5.118	0.197
New Zealand Post (Medium Letter)	9.252	4.724	0.197
Universal Postal Union (Standard Letter)	9.252	4.724	0.197

In my direct testimony (USPS-T-24) in this docket, I explained how the Postal Service's letter mail processing equipment has been designed around our standard size letter definition. I used the AFCS as an example. The AFCS can cull out mail pieces that exceed length, height, and thickness requirements. The AFCS cannot cull out mail pieces that do not meet aspect ratio requirements.

In Docket No. MC73-1, witness Winston also discussed the aspect ratio requirement as it related to the nonstandard surcharge proposal:

The aspect-ratio requirement is something the manufacturers can "design around," as they have in the past. The current standard of the Universal

[92] Docket No. MC73-1, Direct Testimony of Stuart J. Winston (no witness number used), page 48, lines 2-7 and 11-15.

Postal Union is more stringent than we propose (1:1.414 rather than 1:1.3).[93]

The Universal Postal Union (UPU) still maintains the same 1:1.414 aspect ratio standard today that it did 25 years ago.[94] Other postal administrations, such as Australia Post, have also adopted this standard.

In Docket No. MC73-1, the Postal Service conducted a field study to support its proposal, rather than simply adopting the UPU standard. The study was performed by Tracor Jitco, Inc., and was entitled "Standardization Recommendations: Development and Study of the Characteristics of Letter Mail."[95] This study analyzed the machinability of letters given various mail piece characteristics for various equipment types.[96] It also discussed the problems associated with standardization:

> From the outset, it is the general concensus of postal mechanization engineers and others in similar design fields that the problems of handling by the manufacturer or mailer are not those encountered by the Postal Service; the prime uniqueness with respect to Postal Service being the very wide variance in mail characteristics which are distributed more or less randomly throughout the mailstream. It simply is not economical to attempt to mechanize the handling of all mail; the line must be drawn somewhere.[97]

Indeed, the line must be drawn somewhere. In Docket No. MC73-1, Postal Service witness Faught addressed this issue in specific terms:

> As envelopes move away from a square configuration, or aspect ratio of 1:1, significant improvement in processing first occurs after about 1:1.4 to 1:1.5. However, because of the significant effect that a minimum ratio of 1 to 1.4 would have on our customers, the minimum aspect ratio has been judgmentally relaxed to 1 to 1.3.[98]

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[93] Docket No. MC73-1, Direct Testimony of Stuart J. Winston, page 51, lines 1-5.
[94] Universal Postal Union, Manual of the Universal Postal Convention, Berne, Switzerland, 1995, Article RE 902, "Standardized Items."
[95] Docket No. MC73-1, USPS Library References L-10 and L-10A.
[96] This equipment included Optical Character Readers (OCR), Multi Position Letters Sorting Machines (MPLSM), and MK II cancellation machines.
[97] Docket No. MC73-1, USPS Library Reference L-10, page 8.
[98] Docket No. MC73-1, Direct Testimony of Harold F. Faught (no witness number used), page 62, lines 14-21.

As a result, all Postal Service standard-size letter dimension requirements, including the aspect ratio, are currently more relaxed than the international standards maintained by the Universal Postal Union and other postal administrations.

B. THE NONSTANDARD SURCHARGE IS STILL WARRANTED FOR LOW ASPECT RATIO MAIL

In his testimony, OCA witness Callow claims that the nonstandard surcharge is no longer warranted for "low" aspect ratio letters.[99] He defines those mail pieces to have aspect ratios from 1:1 to 1:1.3. His assertion that the surcharge should be eliminated for these mail pieces relies on two primary arguments: (1) today's mail processing technology can successfully process low aspect ratio letters, and (2) there is no cost basis to support a surcharge for low aspect ratio mail pieces.

1. "Barcodability" Does Not Equal "Machinability."

Witness Callow states, "it might be fair to deduce that the Postal Service's automated mail processing equipment has some toleration for mailpieces that are nonstandard by virtue of their aspect ratio."[100] Indeed, this is true.

In fact, it was also true in the Tracor Jitco study that supported the Docket No. MC73-1 proposal. A graph that plots aspect ratio against the accept rate for a specific piece of equipment is not going to resemble a "step function." We should not expect to find accept rates for letters with aspect ratios of 1.299 equal to 0%, while finding accept rates for letters with aspect ratios of 1.300 equal to 100%. As the Tracor Jitco study stated, "the line must be drawn somewhere."

Witness Callow's reliance on the argument that improved letter mail processing technologies should support his proposal confuses the concept of "barcodability" with the concept of "machinability." The fact that today's equipment is better able to apply a barcode to a letter does not mean that it is better able to process a nonstandard letter.

[99] Docket No. R2000-1, Tr. 22/10147 at 12.
[100] Docket No. R2000-1, Tr.22/10211.

In fact, this assertion does not make logical sense. In a mechanized letter mail processing environment, the following tasks were performed. A postal employee loaded letters onto the Letter Sorting Machine (LSM) ledge, the vacuum arm retrieved a letter from the ledge and placed it in front of a keyer, and the keyer entered the appropriate data on an LSM keyboard at a machine-driven pace of 60 letters per minute. The machine then sorted that letter based on the data that were entered by the keyer. Finally, employees "swept" the letters into the proper trays.

In today's automated environment, letters receive much less attention from postal employees as they are processed through machines using throughputs significantly higher than those associated with the LSM. While an individual feeding mechanism for the LSM moved letters at a rate of 3,600 pieces per hour (60 pcs per min x 60 min per hr), today's equipment feeds letters at a much higher rate. While overseeing Delivery Bar Code Sorter (DBCS) acceptance tests in the field, I consistently observed machines that processed mail in the 40,000-45,000 pieces per hour range.[101] In addition, the DBCS contains three levels of belts that twist and turn in a manner not found on the LSM. If low aspect ratio letters were a problem in a low-speed mechanized environment, why would they possibly be easier to process in a high-speed automated environment? Witness Callow's unsupported claim defies all logic.

I will again draw upon my field experiences to make another point. These experiences occurred at a time when I was coordinating the deployment of automation equipment at the San Diego plant in the early 1990's. These equipment deployments occurred slowly over time. The Postal Service did not, and could not, simply shut down a plant for a few days, remove all equipment, and then completely automate its operations. It was a gradual process where each piece of equipment was deployed, accepted, and tested - one piece at a time. As a result, there was a wide variety of equipment types present in plants - all at once - during the transition from mechanization to automation.

This equipment was often used to process the same mail streams as the "flows" were changed over time. This was only possible because the Postal Service did

[101] Machine throughputs should not be confused with productivities.

maintain a consistent standard-size letter definition through the years. For example, many sites received the AFCS before the Remote Bar Code System (RBCS). That technology allowed handwritten mail to be isolated so that it could be sent directly to the LSM. As a result, it no longer had to be isolated as "rejects" on the Multi Line Optical Character Reader (MLOCR) before being routed to an LSM. Once the RBCS system was deployed, the handwritten letter mail flow was again changed so that it was routed back to the MLOCR for image lifting.

Incoming secondary processing can be used as another example. Letters for a given 5-digit ZIP Code were typically isolated on an incoming primary operation performed on a Mail Processing Bar Code Sorter (MPBCS). These letters were then sorted to carrier route in an incoming secondary operation performed on the same machine later during Tour I. Once a DBCS was deployed, tested, and accepted, these same letters could instead be routed to the DBCS for two-pass Delivery Point Sequencing (DPS).

At one time, the San Diego plant contained AFCSs, M-36 cancelers, Micromark Cancelers, MK II cancelers, MLOCRs, Single Line Optical Character Readers (SLOCR), Electrocom MPBCSs, Bell and Howell MPBCSs, DBCSs, and LSMs - all at once. These processing changes occurred gradually. Yet, as each change was made, the system did not break down due to variance among equipment specifications. Why? Because this equipment was designed to accommodate standard size letters as they are now defined, and have always been defined. In fact, the original Tracor Jitco study in Docket No. MC73-1 included LSMs, early versions of the OCR, and cancellation machines in its analysis. These machines were forerunners of our current equipment and undoubtedly existed simultaneously in plants with subsequent models over time.

There is no basis for witness Callow's statement that "Advances in the technology of mail processing...have made the surcharge obsolete with respect to low aspect ratio mail."[102]

[102] Docket No. R2000-1, Tr. 22/10147 at 13-14.

2. Additional Costs Are Incurred When The Cost Difference Is Greater Than Zero.

In my direct testimony, I discussed the many limitations associated with developing cost estimates for nonstandard mail pieces. Whenever possible, I used conservative inputs. The resulting cost estimates for First-Class single-piece and presort mail pieces were still significantly higher than the current surcharges, which witness Fronk (USPS-T-33) proposed should be maintained. The only input that I used which was not conservative was the assumption that nonstandard letters would be processed manually. Witness Callow attempts to use this fact as a means to justify his proposal in this case.

As stated previously, some nonstandard letters with low aspect ratios will be processed, at least partially, through the mail processing network without any problems. This was also the case in the original Tracor Jitco study that was used to support the Docket No. MC73-1 request, which the Commission approved. Once again, the issue is one of where the line should be drawn. What is an "acceptable" accept rate for low aspect ratio letters - 95%, 85%, 75%, something less?

In this docket, witness Callow chooses to revise the cost study using probabilities that he admits were not derived from a "real world" study.[103] In addition, I pointed out why the assumption that a mail piece would be successfully faced 50% of the time on the AFCS was overly simplistic.[104] Witness Callow ignores those remarks and uses a 50% probability as his starting point.

Witness Callow testifies that, "there is no cost basis to apply the nonstandard surcharge to low aspect ratio letter mail."[105] However, he admits that every single cost cell in his analysis found in Table 17 of his testimony contains costs that are greater than the average single-piece letter mail processing unit cost of 12.296 cents.[106] Additional costs are incurred when the cost difference is greater than zero.

In fact, when witness Callow's "adjusted" manual mail processing cost of 18.600 cents is entered into the nonstandard surcharge formula, the additional weighted costs

[103] Docket No. R2000-1. Tr. 22/10218.
[104] Docket No. R2000-1. Tr. 7/3131-3132.
[105] Docket No. R2000-1, Tr. 22/10153 at 1-2.
[106] Docket No. R2000-1. Tr. 22/10217.

by shape for nonstandard single-piece mail are 22.414 cents, a figure that is still substantially larger than the 11-cent rate that witness Fronk proposes should be maintained.[107]

Finally, if one assumes that witness Callow's proposal to eliminate the nonstandard surcharge also applies to "low" aspect ratio presort letters, it should be observed that he has provided no cost evidence specific to presort in his testimony.

C. THE NONSTANDARD SURCHARGE REQUIREMENTS SHOULD BE MAINTAINED IN THEIR CURRENT FORM

The Postal Service has deployed more complex letter mail processing equipment during the past decade. Contrary to witness Callow's claims, the current generation of letter sorting equipment has not made the nonstandard surcharge obsolete for low aspect ratio letters. If anything, these requirements may be more important now than they have ever been, due to complex equipment designs and high machine throughputs. In addition, witness Callow's cost analysis clearly shows that low aspect ratio nonstandard letters do, indeed, incur additional costs when compared to an average single-piece letter. As a result, the Postal Service feels that the nonstandard surcharge requirements should be maintained in their current form.

[107] See Attachment USPS-RT-15C.

ATTACHMENT USPS-RT-15A
CEM EDUCATION COSTS

			(1)
A. TELEVISION, RADIO, AND NEWSPAPER ADVERTISING			$20,585,260
Network Television		$12,730,130	
Prime/Prime News	$10,168,100		
Evening News	$1,475,630		
EMI	$1,086,400		
Network Radio		$3,363,730	
R.O.S.			
Newspapers		$4,491,400	
Top 25 Markets			

B. DIRECT MAILING

(2)	(3)	(4)	(5)
Number of Delivery Pts	Printing Cost Per Piece	Postage Cost Per Piece	Total Cost
132,152,177	$2,500,000	$0.051	$9,239,761

C. POINT-OF-PURCHASE BROCHURES

(6)	(7)	(8)	(9)
Number of P.O.'s, Stations and Branches	Printing Cost Per Brochure	Avg Qty Per Retail Unit	Total Cost
38,169	$0.04	2,000	$3,259,633

TOTAL EDUCATION COSTS **$33,084,654**

(1) 1997 Cohn and Wolfe Estimate Adjusted To 2000 Dollars Using Bureau of Labor and Statistics Inflation Calculator
(2) Tr. 21/9106
(3) Tr. 21/8988
(4) Tr. 21/9118
(5) [(2) * (4)] + (3)
(6) FY 1999 USPS Annual Report
(7) Young Rubican Estimate Adjusted to 2000 Dollars Using Bureau of Labor and Statistics Inflation Calculator
(8) USPS Estimate
(9) (6) * (7) * (8)

ATTACHMENT USPS-RT-15B
CEM REVENUE PROTECTION COST SUMMARY

(1)	(2)	(3)	(4)	(5)	(6)
% Short Paid	Revenue Clerk Costs	Postage Due Costs	Total Annual Costs	Total Possible Short Paid Volume	Maximum Revenue Loss
2.00%	$40,473,516	$29,051,630	**$69,525,146**	354,827,983	**$10,644,839**
3.00%	$40,473,516	$62,444,308	**$102,917,825**	762,676,240	**$22,880,287**
4.00%	$40,473,516	$95,836,986	**$136,310,503**	1,170,524,497	**$35,115,735**
5.00%	$40,473,516	$129,229,665	**$169,703,181**	1,578,372,753	**$47,351,183**
7.35%	$40,473,516	$207,702,458	**$248,175,975**	2,536,816,156	**$76,104,485**

(1) Estimated Percent Shortpaid. 7.35% = FY96 RPW % short paid for FCM weighing over 1 ounce.
(2) From Individual Cost Sheets
(3) From Individual Cost Sheets
(4) (2) + (3)
(5) From Individual Cost Sheets
(6) (5) * $0.03

ATTACHMENT USPS-RT-15B
CEM REVENUE PROTECTION COSTS

(1) 2.00% SHORT PAID

A. REVENUE PROTECTION CLERKS

(2) No. Of Plants	(3) Average Clerks/Plant	(4) Wage Rate	(5) Piggyback Factor	(6) Annual Cost
259	2	$28.24	1.33	$40,473,516

B. POSTAGE DUE COLLECTION

(7) FCSP Handwritten/Machine Printed Volume =	40,784,825,662
(8) GFY 1999 % Short Paid Letters (LR-I-312) =	1.13%
(9) Total Additional Short Paid Single Piece Mail Volume =	354,827,983
(10) Sampling Productivity =	2,241
(11) Amount Sampled=	2,414,543,040
(12) Additional Short Paid Mail Pieces Identified=	21,006,524

Operation Description		Pieces Per Hour	(17) Wage Rate	(18) Cents Per Piece	(19) Piggyback Factor	(20) Cents Per Piece	
Outgoing Postage Due Unit	(13)	244	$28.24	11.5800	1.33	15.4015	
Outgoing Primary (Operation 030)	(14)	661	$28.24	4.2729	1.33	5.6830	
Destinating Postage Due Unit	(15)	69	$28.24	40.6714	1.33	54.0929	
Carrier Costs	(16)	64	$29.56	46.4123	1.36	63.1208	
						$1.3830	(21)
					Annual Cost	$29,051,630	(22)

(1) Estimated Short Paid Percentage
(2) AFCS Plants
(3) 1 Clerk to sample handwritten mail (AFCS Stackers 3,4)
1 Clerk to sample machine printed mail (AFCS Stackers 5,6)
(4) LR-I-106
(5) LR-I-81
(6) (2) * (3) * (8 hrs/day) * (5 days/wk) * (52 wks/yr) * (4) * (5)
(7) Handwritten/Machine Printed Volume [item (7)] from page 9
(8) FY 1999 RPW
(9) (7) * [(1) - (8)]
(10) MODS FY 97 Op. 029 (Riffle) Productivity
(11) (2) * (3) * (8 hrs/day) * (5 days/wk) * (52 wks/yr) * (10)
(12) (11) * [(1) - (8)]
(13) Docket No. MC95-1, Library Reference MCR-76, page 5-30.
1/0.0041 hrs/pc = 244 pcs/hr (rating a letter postage due)
(14) USPS-T-24, Appendix I, page I-43
(15) Docket No. MC95-1, Library Reference MCR-76, page 5-37.
1/(0.0066+0.0078 hrs/pc) = 69 pcs/hr (prep, accept, and clear)
(16) Docket No. MC95-1, Library Reference MCR-76, page 5-39.
1/(0.0079+0.0078 hrs/pc) = 64 pcs/hr (deliver, collect, and clear)
(17) LR-I-106/LR-I-127
(18) (17) * 100 / (13-16)
(19) LR-I-81
(20) (18) * (19)
(21) SUM [(20)]
(22) (21) * (12)

ATTACHMENT USPS-RT-15B
CEM REVENUE PROTECTION COSTS

(1) 3.00% SHORT PAID

A. REVENUE PROTECTION CLERKS

(2) No. Of Plants	(3) Average Clerks/Plant	(4) Wage Rate	(5) Piggyback Factor	(6) Annual Cost
259	2	$28.24	1.33	$40,473,516

B. POSTAGE DUE COLLECTION

(7) FCSP Handwritten/Machine Printed Volume =	40,784,825,662
(8) GFY 1999 % Short Paid Letters (LR-I-312) =	1.13%
(9) Total Additional Short Paid Single Piece Mail Volume =	762,676,240
(10) Sampling Productivity =	2,241
(11) Amount Sampled=	2,414,543,040
(12) Additional Short Paid Mail Pieces Identified=	45,151,955

Operation Description		Pieces Per Hour	(17) Wage Rate	(18) Cents Per Piece	(19) Piggyback Factor	(20) Cents Per Piece	
Outgoing Postage Due Unit	(13)	244	$28.24	11.5800	1.33	15.4015	
Outgoing Primary (Operation 030)	(14)	661	$28.24	4.2729	1.33	5.6830	
Destinating Postage Due Unit	(15)	69	$28.24	40.6714	1.33	54.0929	
Carrier Costs	(16)	64	$29.56	46.4123	1.36	63.1208	
						$1.3830	(21)
					Annual Cost	$62,444,308	(22)

(1) Estimated Short Paid Percentage
(2) AFCS Plants
(3) 1 Clerk to sample handwritten mail (AFCS Stackers 3,4)
1 Clerk to sample machine printed mail (AFCS Stackers 5,6)
(4) LR-I-106
(5) LR-I-81
(6) (2) * (3) * (8 hrs/day) * (5 days/wk) * (52 wks/yr) * (4) * (5)
(7) Handwritten/Machine Printed Volume [item (7)] from page 9
(8) FY 1999 RPW
(9) (7) * [(1) - (8)]
(10) MODS FY 97 Op. 029 (Riffle) Productivity
(11) (2) * (3) * (8 hrs/day) * (5 days/wk) * (52 wks/yr) * (10)
(12) (11) * [(1) - (8)]

(13) Docket No. MC95-1, Library Reference MCR-76, page 5-30.
1/0.0041 hrs/pc = 244 pcs/hr (rating a letter postage due)
(14) USPS-T-24, Appendix I, page I-43
(15) Docket No. MC95-1, Library Reference MCR-76, page 5-37.
1/(0.0066+0.0078 hrs/pc) = 69 pcs/hr (prep, accept, and clear)
(16) Docket No. MC95-1, Library Reference MCR-76, page 5-39.
1/(0.0079+0.0078 hrs/pc) = 64 pcs/hr (deliver, collect, and clear)
(17) LR-I-106/LR-I-127
(18) (17) * 100 / (13-16)
(19) LR-I-81
(20) (18) * (19)
(21) SUM [(20)]
(22) (21) * (12)

ATTACHMENT USPS-RT-15B
CEM REVENUE PROTECTION COSTS

(1) 4.00% SHORT PAID

A. REVENUE PROTECTION CLERKS

(2) No. Of Plants	(3) Average Clerks/Plant	(4) Wage Rate	(5) Piggyback Factor	(6) Annual Cost
259	2	$28.24	1.33	$40,473,516

B. POSTAGE DUE COLLECTION

(7) FCSP Handwritten/Machine Printed Volume =	40,784,825,662
(8) GFY 1999 % Short Paid Letters (LR-I-312) =	1.13%
(9) Total Additional Short Paid Single Piece Mail Volume =	1,170,524,497
(10) Sampling Productivity =	2,241
(11) Amount Sampled=	2,414,543,040
(12) Additional Short Paid Mail Pieces Identified=	69,297,385

Operation Description		Pieces Per Hour	(17) Wage Rate	(18) Cents Per Piece	(19) Piggyback Factor	(20) Cents Per Piece	
Outgoing Postage Due Unit	(13)	244	$28.24	11.5800	1.33	15.4015	
Outgoing Primary (Operation 030)	(14)	661	$28.24	4.2729	1.33	5.6830	
Destinating Postage Due Unit	(15)	69	$28.24	40.6714	1.33	54.0929	
Carrier Costs	(16)	64	$29.56	46.4123	1.36	63.1208	
						$1.3830	(21)
					Annual Cost	$95,836,986	(22)

(1) Estimated Short Paid Percentage
(2) AFCS Plants
(3) 1 Clerk to sample handwritten mail (AFCS Stackers 3,4)
1 Clerk to sample machine printed mail (AFCS Stackers 5,6)
(4) LR-I-106
(5) LR-I-81
(6) (2) * (3) * (8 hrs/day) * (5 days/wk) * (52 wks/yr) * (4) * (5)
(7) Handwritten/Machine Printed Volume [item (7)] from page 9
(8) FY 1999 RPW
(9) (7) * [(1) - (8)]
(10) MODS FY 97 Op. 029 (Riffle) Productivity
(11) (2) * (3) * (8 hrs/day) * (5 days/wk) * (52 wks/yr) * (10)
(12) (11) * [(1) - (8)]

(13) Docket No. MC95-1, Library Reference MCR-76, page 5-30.
1/0.0041 hrs/pc = 244 pcs/hr (rating a letter postage due)
(14) USPS-T-24, Appendix I, page I-43
(15) Docket No. MC95-1, Library Reference MCR-76, page 5-37.
1/(0.0066+0.0078 hrs/pc) = 69 pcs/hr (prep, accept, and clear)
(16) Docket No. MC95-1, Library Reference MCR-76, page 5-39.
1/(0.0079+0.0078 hrs/pc) = 64 pcs/hr (deliver, collect, and clear)
(17) LR-I-106/LR-I-127
(18) (17) * 100 / (13-16)
(19) LR-I-81
(20) (18) * (19)
(21) SUM [(20)]
(22) (21) * (12)

ATTACHMENT USPS-RT-15B
CEM REVENUE PROTECTION COSTS

(1) 5.00% SHORT PAID

A. REVENUE PROTECTION CLERKS

(2) No. Of Plants	(3) Average Clerks/Plant	(4) Wage Rate	(5) Piggyback Factor	(6) Annual Cost
259	2	$28.24	1.33	$40,473,516

B. POSTAGE DUE COLLECTION

(7) FCSP Handwritten/Machine Printed Volume =	40,784,825,662
(8) GFY 1999 % Short Paid Letters (LR-I-312) =	1.13%
(9) Total Additional Short Paid Single Piece Mail Volume =	1,578,372,753
(10) Sampling Productivity =	2,241
(11) Amount Sampled=	2,414,543,040
(12) Additional Short Paid Mail Pieces Identified=	93,442,816

Operation Description		Pieces Per Hour	(17) Wage Rate	(18) Cents Per Piece	(19) Piggyback Factor	(20) Cents Per Piece	
Outgoing Postage Due Unit	(13)	244	$28.24	11.5800	1.33	15.4015	
Outgoing Primary (Operation 030)	(14)	661	$28.24	4.2729	1.33	5.6830	
Destinating Postage Due Unit	(15)	69	$28.24	40.6714	1.33	54.0929	
Carrier Costs	(16)	64	$29.56	46.4123	1.36	63.1208	
						$1.3830	(21)
					Annual Cost	$129,229,665	(22)

(1) Estimated Short Paid Percentage
(2) AFCS Plants
(3) 1 Clerk to sample handwritten mail (AFCS Stackers 3,4)
1 Clerk to sample machine printed mail (AFCS Stackers 5,6)
(4) LR-I-106
(5) LR-I-81
(6) (2) * (3) * (8 hrs/day) * (5 days/wk) * (52 wks/yr) * (4) * (5)
(7) Handwritten/Machine Printed Volume [item (7)] from page 9
(8) FY 1999 RPW
(9) (7) * [(1) - (8)]
(10) MODS FY 97 Op. 029 (Riffle) Productivity
(11) (2) * (3) * (8 hrs/day) * (5 days/wk) * (52 wks/yr) * (10)
(12) (11) * [(1) - (8)]

(13) Docket No. MC95-1, Library Reference MCR-76, page 5-30.
1/0.0041 hrs/pc = 244 pcs/hr (rating a letter postage due)
(14) USPS-T-24, Appendix I, page I-43
(15) Docket No. MC95-1, Library Reference MCR-76, page 5-37.
1/(0.0066+0.0078 hrs/pc) = 69 pcs/hr (prep, accept, and clear)
(16) Docket No. MC95-1, Library Reference MCR-76, page 5-39.
1/(0.0079+0.0078 hrs/pc) = 64 pcs/hr (deliver, collect, and clear)
(17) LR-I-106/LR-I-127
(18) (17) * 100 / (13-16)
(19) LR-I-81
(20) (18) * (19)
(21) SUM [(20)]
(22) (21) * (12)

ATTACHMENT USPS-RT-15B
CEM REVENUE PROTECTION COSTS

(1) 7.35% SHORT PAID

A. REVENUE PROTECTION CLERKS

(2) No. Of Plants	(3) Average Clerks/Plant	(4) Wage Rate	(5) Piggyback Factor	(6) Annual Cost
259	2	$28.24	1.33	$40,473,516

B. POSTAGE DUE COLLECTION

(7) FCSP Handwritten/Machine Printed Volume =	40,784,825,662
(8) GFY 1999 % Short Paid Letters (LR-I-312) =	1.13%
(9) Total Additional Short Paid Single Piece Mail Volume =	2,536,816,156
(10) Sampling Productivity =	2,241
(11) Amount Sampled=	2,414,543,040
(12) Additional Short Paid Mail Pieces Identified=	150,184,577

Operation Description		Pieces Per Hour	(17) Wage Rate	(18) Cents Per Piece	(19) Piggyback Factor	(20) Cents Per Piece	
Outgoing Postage Due Unit	(13)	244	$28.24	11.5800	1.33	15.4015	
Outgoing Primary (Operation 030)	(14)	661	$28.24	4.2729	1.33	5.6830	
Destinating Postage Due Unit	(15)	69	$28.24	40.6714	1.33	54.0929	
Carrier Costs	(16)	64	$29.56	46.4123	1.36	63.1208	
						$1.3830	(21)
					Annual Cost	$207,702,458	(22)

(1) Estimated Short Paid Percentage
(2) AFCS Plants
(3) 1 Clerk to sample handwritten mail (AFCS Stackers 3,4)
1 Clerk to sample machine printed mail (AFCS Stackers 5,6)
(4) LR-I-106
(5) LR-I-81
(6) (2) * (3) * (8 hrs/day) * (5 days/wk) * (52 wks/yr) * (4) * (5)
(7) Handwritten/Machine Printed Volume [item (7)] from page 9
(8) FY 1999 RPW
(9) (7) * [(1) - (8)]
(10) MODS FY 97 Op. 029 (Riffle) Productivity
(11) (2) * (3) * (8 hrs/day) * (5 days/wk) * (52 wks/yr) * (10)
(12) (11) * [(1) - (8)]

(13) Docket No. MC95-1, Library Reference MCR-76, page 5-30.
1/0.0041 hrs/pc = 244 pcs/hr (rating a letter postage due)
(14) USPS-T-24, Appendix I, page I-43
(15) Docket No. MC95-1, Library Reference MCR-76, page 5-37.
1/(0.0066+0.0078 hrs/pc) = 69 pcs/hr (prep, accept, and clear)
(16) Docket No. MC95-1, Library Reference MCR-76, page 5-39.
1/(0.0079+0.0078 hrs/pc) = 64 pcs/hr (deliver, collect, and clear)
(17) LR-I-106/LR-I-127
(18) (17) * 100 / (13-16)
(19) LR-I-81
(20) (18) * (19)
(21) SUM [(20)]
(22) (21) * (12)

ATTACHMENT USPS-RT-15B
FY 1997 FIRST-CLASS ODIS SINGLE-PIECE VOLUMES
(Source: Response to OCA/USPS-121)

Mail Type	% Total	(1) FY 1997 ODIS SUBTOTAL
CRM Letters	16.84%	8,419,096,000
Other Letters	57.30%	28,643,100,000
Handwritten Letters	25.86%	12,928,400,000
Total FC SP Letters	**100.00%**	**49,990,596,000**
Total FC SP Letters, Flats, IPPS		**54,240,238,000**
% Letters		**92.17%**

ATTACHMENT USPS-RT-15B

TY 2001 FIRST-CLASS SINGLE-PIECE VOLUME ESTIMATES

TY Letters, Flats, IPP's =
53,213,828,000 (1)

TY Letters =
49,044,603,697 (2)

Mail Type	(3) % Total	(4) TEST YR SUBTOTAL	
CRM	16.84%	8,259,778,035	
Other	57.30%	28,101,075,013	
Handwritten	25.86%	12,683,750,649	
TOTAL FC Single Piece	100.00%	49,044,603,697	(5)
Total Handwritten and Machine Printed Mail Volume		40,784,825,662	(7)

(1) USPS-T-6, Table 2A
(2) [FY 1997 % LETTERS (From Page 8) * (1)]
(3) (4) / (5)
(4) [FY 1997 Mail Type % (From Page 8)] x (2)
(5) Sum [(4)]
(6) Machine Printed Volume + Handwritten Volume

ATTACHMENT USPS-RT-15C
FIRST-CLASS NONSTANDARD SURCHARGE COSTS: SINGLE-PIECE

A. INPUTS

1. AVERAGE TEST YEAR MAIL PROCESSING UNIT COSTS (CRA)

Shape	First-Class Single Piece (Cents)
Letters	12.296
Flats	38.105

2. VOLUMES BY SHAPE

Shape	First-Class Single Piece FY 98 Volume	First-Class Single Piece FY 98 Percent
Letters	64,552,853	17.41%
Flats	287,299,988	77.47%
Parcels	18,994,784	5.12%
	370,847,625	100.00%

3. LETTER MAIL PROCESSING UNIT COST

Shape	First-Class Single Piece (Cents)
Letters	18.600

B. RESULTS

Formula:	First-Class Single Piece (Cents)	% Total Cost
(Manual Model SP Letters - CRA SP Letters) * (% SP Letters)	1.097	4.90%
+ (CRA SP Flats - CRA SP Letters) * (% SP Flats)	19.995	89.21%
+ (CRA SP Flats - CRA SP Letters) * (% SP Parcels)	1.322	5.90%
Additional Nonstandard Single Piece Letter Costs	**22.414**	100.00%